MINERALS COUNCIL
SOUTH AFRICA

MEDIA STATEMENT

MEDIUM-TERM BUDGET BOOSTS INFRASTRUCTURE SPEND OUTLOOK, WITH MINING SET TO BENEFIT

Cape Town, 30 October 2024. The Minerals Council South Africa notes the tabling of the first fiscal policy statement since the formation of the Government of National Unity (GNU) in June 2024.

Compared to the projections in the February 2024 Budget, we welcome the somewhat more optimistic real GDP growth forecasts that informed the public finance ratios presented in the Medium-Term Budget Policy Statement (MTBPS). After a subdued 1.1%[1] in 2024, this sees real GDP growth in South Africa averaging 1.8% between 2025 and 2027, somewhat higher than the IMF's latest projection for average medium-term growth of 1.5% in South Africa.

The MTBPS highlights that the slightly higher growth forecast is a function of improved power supply and better business, consumer and investor confidence tied to the GNU. Importantly, to ensure sustainable public finances, growth needs to improve to well beyond 2% on a sustained basis. For this to materialise, non-energy growth constraints and structural reforms must be tackled with vigour.

This has particular relevance for the mining sector. The MTBPS notes that the poor Transnet rail and port performance, regulatory bottlenecks, and crime are offsetting the mining sector's gains from improved electricity supply. This explains why mining production remains below the pre-COVID-19 level. These are the same issues that the Minerals Council have consistently highlighted as among the major constraints holding back the mining sector.

Another looming risk to mining and the economy more broadly is Eskom's application for an untenable electricity price increase of more than 36% in 2025. In its modelling, National Treasury has a much lower assumption for the increase in the CPI electricity component of 12.3% in 2025. This highlights risks to inflation (on the upside) and growth (on the downside) if Eskom's tariff application is approved.

On the regulatory front, the MTBPS said the process to split the Department of Mineral Resources and Energy (DMRE) into two departments should be completed by April 2025. This is good news as it should result in a more mining-focused Department of Mineral and Petroleum Resources.

[1] This is in line with the latest consensus from private sector economists for growth in 2024. For next year, the fact that Treasury's growth forecast is at 'only' 1.7% highlights the scale of work required to get to the 3%+ upside growth scenario recently presented by the business sector and informed by modelling from the Bureau for Economic Research.

A key component of the challenge in the logistics sector is a weak Transnet balance sheet. As expected, the MTBPS was firm that at this stage, Treasury remains opposed to any further financial support for Transnet in addition to the R47 billion guarantee facility announced in late-2023. The MTBPS argues that Transnet needs to dispose of non-core assets and reduce its cost structure. Furthermore, Transnet should explore alternative funding models for infrastructure and maintenance. These include project finance, third-party access, concessions and joint ventures.

"While we fully support these sentiments and appreciate the country's fiscal straight jacket, it remains unclear how Transnet will fund a significant maintenance backlog without a degree of balance sheet recapitalisation that is tied to strict conditions," says Hugo Pienaar, chief economist at the Minerals Council.

As the experience with Eskom has shown, some relief of balance sheet pressures should enable Transnet to spend more on infrastructure upgrades and maintenance. "This will not only boost growth, investment and jobs in the bulk[2] mining industry, which is responsible for almost 50% of total mining production and which provided export earnings of more than R260 billion in 2023, but it will also support non-mining sectors such as agriculture and manufacturing", says Pienaar.

Private sector participation in the logistics sector is a must-needed reform but is unlikely to materially improve operational performance in the absence of significant near-term investment that improves the quality of the logistics infrastructure.

We are encouraged by the focus in the MTBPS on initiatives to lift growth-enhancing public sector infrastructure investment. Amongst other measures, this includes actions to scale up private sector participation, carving out government borrowing for infrastructure as a standalone category of government's overall borrowing requirements, and extending the scope of borrowing to include infrastructure bonds. If these measures prove to be successful, they will contribute to the next few years being the "infrastructure years", as the late former finance minister Tito Mboweni said in one of his last public interviews.

"Improved public infrastructure spend will not only benefit mining through lowering the cost of doing business and unlocking latent growth potential, but also boost demand for mining-related building materials," says Pienaar.

Outside of mining, the key takeaway from the MTBPS is that South Africa's public finances remain precarious. At 75.5% of GDP in 2025/26, gross debt is now projected to peak somewhat higher than envisaged in the February 2024 Budget. The higher debt peak is a function of lower revenue projections and more spending. Although moving lower as the Treasury budgets for primary budget surpluses[3], the debt ratio also remains higher over the medium term than outlined before. It now ends at 69.3% of GDP in 2031/32 versus the 67.1% expected in February.

Regarding other issues, the main Budget in February 2025 may provide clarity on the introduction of a new fiscal anchor to guide fiscal policy, as well as a possible change to the

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[2] Bulk mining refers to the iron ore, coal, chrome and manganese sectors.

[3] The primary budget measures the difference between government revenue and non-interest government expenditure.

SA Reserve Bank's inflation target. At this stage, the Treasury expects headline CPI inflation to average 4.5% during the next three years.

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