

MEDIA STATEMENT

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MINERALS COUNCIL LOOKS FORWARD TO A DECISIVE SONA

Johannesburg, 12 February 2020: Over the next two weeks, two Parliamentary events – tomorrow’s State of the Nation Address (SONA) and the annual National Budget speech on 26 February - are going to provide powerful signals on whether South Africa is serious about addressing the economic and governance crises facing the country.

The pivotal event is the SONA, and the Minerals Council urges President Ramaphosa to set the required direction and indicate clearly and simply the way forward.

Says Roger Baxter, Minerals Council CEO: “The South African economy is in an unprecedented economic crisis, and in the longest economic downswing since 1945. In this, the most significant SONA since the dawn of democracy, the Minerals Council calls on President Ramaphosa to signal clear direction and action on critical issues.

“We understand that the President is being buffeted by a variety of perspectives from a range of constituencies. We would plead, however, that he use his powers of persuasion to impress upon all citizens the seriousness of the situation and, where appropriate, the need for radical measures to repair the damage done to South Africa since 2009 and to create a new foundation for growth and development.”

The nature of the crisis is reflected in the following facts:

- South Africa is in the longest economic downswing since 1945
- Government debt ballooned from 26% in 2008 to 56% of GDP in 2019, and threatens to rise further
- Unemployment has risen to 29.1% - ten million people are unemployed
- State-owned enterprises (SOEs) are a significant source of fiscal and economic crisis, particularly Eskom, and also SAA
- In 2018, fixed investment fell by 1.4% to 17.9% of GDP (compared with a global average of 26.3%)

On 1 November 2019, Moody's kept South Africa's credit rating at their lowest grade rating but downgraded the outlook from stable to negative. An absence of signs of radical remedies will result in a downgrade to "junk status" by Moody's within 6 months, confirming SA as a "junk" investment destination by all three main ratings companies.

This will lead to portfolio outflows as foreign funds sell off significant parts of their R118 billion investment in South Africa's bonds and R2 trillion in South African equities. There will also be increased borrowing costs, downward pressure on bonds and equities, accelerated imported inflation and likely depleted reserves. This would worsen confidence, further weaken investment and lead to a material worsening of the economic crisis.

A downgrade, and continued economic downturn, will have a material detrimental impact on all South Africans, including inflationary pressures; rising unemployment; further contraction of funds available for healthcare, education, infrastructure; and undermining of pensions and social security nets.

Action points

The Minerals Council will be looking tomorrow for signals from President Ramaphosa on the following matters to address the crisis points described:

- Promising critical action and decisions on SOEs to turn them around, or dispose of them where there is no strategic reason for their continued state ownership. We would like to hear the President acknowledge that the SAA business rescue practitioners should have the right to take the steps they consider necessary.
- Opening the way to a conservative 2020 National Budget, including the reigning in of public service wages and wasteful expenditure. There should be no more bailouts of any SOEs unless strict conditions are set that would remedy governance and efficiency shortcomings.
- While it would be improper for the President to interfere in the work of the National Prosecutions Authority (NPA), it is critical that he signal that government, like most citizens, is anxious to see the prosecutions being brought against not only all those involved in state capture, but also the private sector leaders involved in high profile instances of alleged fraud. It is unnecessary to wait for the Zondo Commission to complete its work. To empower the NPA to move rapidly, the President should direct the Finance Minister to allocate an extra R1 billion to the office of the National Director of Public Prosecutions to prosecute these cases.
- As part of a growth strategy and re-establishing confidence, the President needs to indicate that government is to allow private concessions in key areas of economic

infrastructure, such as electricity, rail and ports – including, of course, self-power generation - and materially reducing red-tape on business is required.

- Finally, given the unprecedented deterioration in the security situation facing the mining sector, the Minerals Council looks forward to hearing about specific measures to establish a specialised mining police task force to tackle the serious crime affecting the mining sector.

Roger Baxter concludes: “The Minerals Council is hoping for and looking forward to a new era of decisively addressing the country’s myriad challenges. South Africa cannot afford otherwise. It has to be Action, Action and Action.”

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