

MEDIA STATEMENT

MINERALS COUNCIL CALLS FOR A BUDGET TO PUT ECONOMY ON SUSTAINABLE GROWTH PATH

A vital instrument to change trajectory of the economy and the lives of its people

Johannesburg, 21 February 2020: Ahead of next Wednesday's Budget speech by Finance Minister Tito Mboweni, the Minerals Council South Africa wishes to offer some thoughts on the tough options available.

This 2020/1 Budget will be delivered in a crucial period in our country's economic development.

Says Minerals Council CEO, Roger Baxter: "The National Budget is a vital instrument for government to change the trajectory of the country's economy and the lives of its people. It is also a vital signal to the international investor community (and ratings agencies) that South Africa understands and implements the necessary steps to put the economy back on a sustainable and higher growth path."

The longest economic downswing since 1945 shows no sign of easing. On the contrary, it could worsen. Over 12 years, government debt has ballooned from a comfortable 26% of GDP in 2008, to a dangerous 56% of GDP in 2019. Fixed investment, at 17.9%, is way below international norms. Unemployment, always high, is growing. As is well known, many of these fiscal and other consequent stresses are due to the poor performances of state-owned enterprises (SOEs) that were mismanaged for a decade.

There is clearly a need for a paradigm shift in policies to put the economy on a meaningful growth trajectory. Without such a shift, a sovereign credit downgrade is a certainty and will delay recovery to such a degree that social instability may derail the South African democratic project.

In our view, this leaves Minister Mboweni and the National Treasury with extremely limited options. Many of these options are painful. But they are necessary to prevent more agonising choices a short way down the road.

Among the measures the Minerals Council believes need to be included in or signaled in the Budget are:

- Urgent implementation of the Treasury Strategy on the economy. The practical approach shown by the National Treasury's strategy for inclusive growth, addressing the important policy issues in the real economy, is supported. Confidence will be greatly enhanced when real action is taken and is seen to be taken on resolving key constraints in infrastructure industries, maintaining a prudent fiscal and monetary policy stance and improving the competitiveness of the country to foster higher investment.
- Measures to address the electricity crisis. The Minerals Council supports the allocation of R250 billion in fiscal support to Eskom over the next decade. However, these injections must be subject to strict criteria and performance by Eskom.
- Measures to address the fiscal crisis. Government spending will have to be brought under control through curtailing its salary bill, and eradicating waste and fraud. It is critical that government stops destroying value and taxpayer funds through wasteful bailouts of dysfunctional SOEs.
- Measures to start making South Africa tax competitive. In 2019, South Africa's headline corporate tax rate was 28% and its effective tax rate in 2017 according to the OECD is 27.1%. Since 2000, the average OECD corporate tax rate has fallen from 28.6% to 21.4%. In 2017, the average effective corporate tax rate in the OECD was 22.6%. South Africa's effective corporate tax rate is 4.5 percentage points higher than the OECD and shows how the country's tax competitiveness has declined.
While South Africa faces a fiscal crisis, it is also facing an investment crisis. So, while it may be necessary to sustain current corporate tax rates in the short term, it is also crucial for Treasury to start indicating the future trajectory of the corporate tax rate to make it more investment competitive, say over the next decade.
- Measures to boost business and investor confidence. South Africa's investor and business confidence is at multi-year lows. Efforts to create policy certainty are crucial to promoting greater confidence. Greater certainty on the issue of land expropriation without compensation and on the continuing consequences of previous BEE deals in mining are two such critical policy areas.

A further critical area that Treasury can use to help create policy certainty is the application of the full toolbox of measures to address climate change. At present Treasury has the carbon tax in place, and a draft carbon offsets bill is out for comment. The challenge is that there is no certainty on the performance incentives, carbon budgets, carbon offsets and tax-free portions when phase 2 of the carbon tax is implemented.

Another crucial area to install confidence is for there to be a big improvement in the prosecution of people from both the public and private sectors for state capture, fraud and corruption.

- Measures to address the crime crisis affecting business. Crime, in all its manifestations must be addressed. Companies in the retail sector, manufacturing, construction, banking and mining (to name a few) are reporting on their losses and rising costs of protection and the huge cost of crime affecting their sectors. In 2019, there were 19 attacks on precious metals facilities in the mining industry. The Council has proposed the establishment of a dedicated Mining Police Task Force to handle the crisis in mining;
- Proposals to encourage a greenfields exploration boom in South Africa. Exploration is the lifeblood of the mining sector. Treasury funding of the Council for Geoscience's high-level geophysical mapping program is supported, and perhaps could be enhanced. In terms of encouraging the formation of more exploration venture capital in South Africa, enhancements to section 12J of the Income Tax Act and the possible introduction of a flow-through shares scheme should be considered by Treasury.

In conclusion, says Baxter: "South Africa has so much potential. Correct policies with action can unleash it".

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