MINERALS COUNCIL
SOUTH AFRICA

# MEDIA STATEMENT

## THE MINERALS COUNCIL SOUTH AFRICA LAUDS A REALISTIC BUDGET SPEECH AND ITS SOBERING ASSESSMENT OF DEBT, GRANTS AND FAILING STATE-OWNED COMPANIES

**Johannesburg, 23 February 2022.** The Minerals Council South Africa welcomed the realistic and pragmatic maiden annual budget speech by Finance Minister Enoch Godongwana which acknowledged the critical role mining plays in the South African economy.

Worryingly for the country, debt is forecast to rise to R5.4 trillion over the medium term from R4.3 trillion, which is already incurring debt-servicing costs of R330 billion a year, which is more than the government spends on health, police or basic education.

Minister Godongwana's commitment to reducing the fiscal deficit and stabilising debt, partially using the windfall from the mining sector's high commodity prices, bodes well for the discipline the country needs in managing its finances. His comments that no permanent expenditure could be planned on the back of temporary high commodity prices and without worsening the deficit were a realistic assessment of the unsustainable spending on grants paid to 46% of the population. His target of stabilising debt and achieving a primary balance by 2023/4 must be welcomed.

"Minister Godongwana painted a very realistic picture of mining production and the negative impacts of rising input costs, electricity shortages, inadequate rail availability and regulatory uncertainty would have by moderating the mining sector's recovery from two years of the Covid-19 pandemic," says Minerals Council Chief Economist Henk Langenhoven.

"It was notable that Minister Godongwana acknowledged that the broader economy is not doing well and that it was really only mining that performed during 2021," he adds.

Minister Godongwana made the sobering assessment that commodity prices could weaken in the near to medium term. The current account surplus as a share of GDP remained steady at 3.8% in 2021 mainly because of high prices of iron ore, rhodium and coal in SA's mineral sales which made up 60% of exports. However, commodity prices are forecast to ease and the current account will decline to a marginal surplus in 2022 before slipping into a deficit of -1.5% for each of the next two years.

The Minerals Council welcomed the promise of "tough love" for state-owned entities into which the government has pumped more than R308 billion to bail out their failing balance sheets.

"The need for private-public partnerships in key state-owned companies like Eskom and Transnet's rail and port assets is critical to ensure sustainable, inclusive economic growth and job creation," says Langenhoven. "The speech did not go into as much detail on restructuring as perhaps we would have liked, but clearly there is a recognition in the government that it cannot save the economy by itself."

The extension of the first phase introduction of the Carbon Tax to December 2025 will be a relief for mining companies and the broader economy. Mining companies have 3.9GW of renewable energy projects worth about R60 billion in the pipeline and they need a sense of urgency from the government to approve them and reduce their exposure to Eskom and its carbon-heavy electricity generation.

The freeze on hiking taxes will benefit the whole country, while the one percentage point reduction in corporate taxes to 27% sends the right message to business.

Included in the Budget was comment on two mining-specific taxes. "We note the proposed clarification of two sections of taxes specifically related to mining and welcome the clarity sought by Minister Godongwana. We trust the mining industry's tax experts will be fully consulted on whatever changes are under consideration," says Langenhoven.

**For further queries:**
Allan Seccombe
Head Communications
Tel: 064 650 4636
Email: aseccombe@mineralscouncil.org.za
Web: www.mineralscouncil.org.za