

ADDRESS BY THE MINISTER OF FINANCE, ENOCH GODONGWANA, ON THE OCCASION OF THE BUSINESS UNITY SOUTH AFRICA'S ANNUAL GENERAL MEETING

30 August 2021

Mr. Siphon Pityana: President of Business Unity South Africa, and your leadership collective;

Presidents, Chairpersons and CEOs of BUSA member organisations;

Distinguished Ladies and Gentlemen:

INTRODUCTION

It is a great pleasure for me to address the membership of Business Unity South Africa on the occasion of your Annual General Meeting.

This AGM draws particular significance as it is taking place during Women's Month; a period in which, as a nation, we remember and honor the immense sacrifices made by women to secure our liberation as well as their contribution in building the country of our dreams.

This is a period in which we recommit ourselves to do everything necessary towards the total emancipation of the women of our country.

At the center of this effort is the need to ensure that women become the main drivers and the major beneficiaries of our ongoing efforts to transform the South African economy.

Ladies and Gentlemen: let me from the onset indicate that we, in government, regard the business sector as our partners in development.

We may hold different views from time to time; we may differ in approach on certain issues, however, together we have an obligation to find one another and stay the course.

We share a common commitment to achieve higher levels of economic growth, reduce unemployment and poverty significantly, and narrow the income inequality.

Ladies and Gentlemen, we are meeting at a time when major economic indices are not supportive of our endeavors to achieve our shared goals.

In the past, we have had times when economic growth averaged about 3.8 % for more than a decade, when we experienced the fastest growth of the black middle class; and when we were able to roll out massive social security programmes to cushion the poor from poverty.

Some have characterized this period as that of jobless growth. That is partly true. However, what is also true is that we managed to grow employment from about 9 million people in 1994 to about 16 million people just before the Global Financial Crisis.

The questions to be posed are: Is a return to such a growth trajectory feasible in the current environment? If it is impossible, what are the impediments? If it is attainable,

what are the key drivers? What structural reforms are necessary to enable these growth drivers? To address these questions will require that we all work together as a nation.

If there is one lesson to be learnt from the COVID-19 pandemic, it is that when faced with difficult challenges, as South Africans we are able work together and rise to the occasion.

As we continue to respond to the pandemic, we are seeing unprecedented collaboration between the private and public sectors for the common good of all South Africans.

The economic crisis we currently face requires such collaboration

I have decided to structure my input along the following themes:

- Economic reconstruction and recovery;
- Structural reforms; and
- Fiscal and social stability

CURRENT STATE OF THE ECONOMY

Before focusing on each of these themes, the starting point is to agree on a common set of facts.

We may disagree on the analysis of those facts depending on a number of factors including the assumptions we make about growth drivers. However, it is important that we put those facts forward so that, by and large, we are able to move from a common base.

We all know that the South African economy has grown for about just over 1% for almost a decade in an environment when population growth averaged 1.6 %.

The result has been a decline in per capita income. In other words, we have become poorer as a nation.

This a product of high unemployment which has reached alarming proportion of 34.4% in quarter 2 of 2021. As we know, unemployment leads to poverty and income inequality.

South Africa's problems of low growth, high levels of unemployment, poverty and inequality have been exacerbated by the COVID-19 health and economic crisis.

Before COVID-19, we experienced multiple sovereign credit ratings downgrades which raised the cost of borrowing, putting pressure on the fiscus.

The low growth environment is affecting revenue collection through corporate income tax, import duties, PAYE and indirect taxes such as VAT.

Complicating matters are the recent violent unrest and mass looting in parts of the country which have introduced a further layer of uncertainty in the economic environment.

The employment losses associated with these developments, coupled with the ongoing effects of measures introduced to curb the spread of COVID-19 are likely to have a significant impact on growth and job creation in the medium to long term.

Women's participation in the economy is likely to be disproportionately affected by these developments.

On the positive side, South Africa's fiscal position in 2020/21 turned out to be better than initially projected, as revenue collection exceeded forecasts.

This is largely due to favourable developments in global commodity markets, both in terms of volume demand and prices.

We all know these facts!

ECONOMIC RECONSTRUCTION AND RECOVERY

Faced with the challenges I have outlined our response must be to forge ahead along the path of economic reconstruction and recovery.

The Economic Reconstruction and Recovery Plan, announced by President Ramaphosa in October last year, remains our lodestar towards a new, inclusive economy.

Our goal, through this Plan, is not only to respond to the devastation caused by COVID-19 on our economy.

More broadly, we seek to make a permanent and decisive break with an economic trajectory characterized by low and declining growth; the exclusion of women, young people and people with disabilities from the mainstream economy; falling per capita incomes; low investment; as well as high and deeply entrenched levels of inequality, poverty and unemployment.

At the center of our economic reconstruction and recovery efforts is the mobilization of the public and the private sector around an infrastructure-led recovery.

We are envisioning an aggressive expansion of social and economic infrastructure that meets the needs of the people of South Africa.

This includes new investments in energy, mining, water and sanitation, roads and bridges, human settlements, health and education, digital infrastructure and public transport.

Maintenance of existing infrastructure is also an important part of our infrastructure roll out programme.

Our choice of infrastructure investment as a key driver of reconstruction and recovery is also informed by the reality that, across government, we already have budgets approved for infrastructure.

Our challenge remains execution. This is where cooperation with the private sector will be critical.

This does not preclude the business sector from identifying priority projects that will have a major contribution in the achievement of our shared goals.

Through the Presidential Employment Stimulus Program, many young people are being absorbed into mass employment opportunities: in education, arts and culture, global business services, early childhood development, as well as small scale and subsistence farming.

Work is also continuing to strengthen security of energy supply. This includes, among other things:

- a. Turning around Eskom including its unbundling;
- b. Embedded electricity generation up to 100 megawatts; and
- c. The implementation of a Just Transition towards a low carbon economy

These developments pose serious policy questions about the future of the electricity supply industry.

For instance, the embedded generation suppliers will be allowed to sell to third parties. This will effectively introduce competition in the sector.

Our immediate task must be to achieve the following objectives:

- Job creation and the reduction in unemployment;
- Public employment programs to complement our job creation efforts;
- Skills development to ensure that when the economy recovers we do not import skills; and
- The provision of income support for the most vulnerable.

As we engage on the recovery plan in the next few weeks, these objectives, I submit, must be considered.

STRUCTURAL REFORMS

As part of our Economic Reconstruction and Recovery Plan, we are implementing a set of structural reforms housed under Operation *Vulindlela*: a joint programme between National Treasury and the Presidency.

You are all aware of that work. I am not going to spend time spelling out its elements.

I just want to highlight that Minister Khumbudzo Ntshavheni – the Minister of Communications and Digital Technologies – is moving with speed to deal with bottle necks blocking the release of spectrum.

Key milestones in this regard are to move the current dispute out of court, so that the work to release spectrum could begin in earnest and to move with speed with migration from analog to digital.

In addition to the *Vulindlela* work, we need to look at new areas of ensuring ease and reducing the cost of doing business in South Africa.

The work done to make Transnet Port Authority an independent subsidiary of Transnet is an important step in the structural reforms process. However, more needs to be

done to enforce competitive behavior and in this regard, we need to ask whether regulation has been effective.

The journey of structural reforms must touch every level of the government. For instance, are rezoning regulations conducive to a friendly investment environment?

These reforms are not only about facilitating ease of doing business. They are also about transforming how the state itself does business.

The state must be an enabler. It must enable South Africans to go about their daily lives.

We collect taxes from South African citizens to make their lives better. We also have a duty to allocate them efficiently and spend them effectively. This task we are prepared and are going to undertake.

Scholars and practitioners in public finance have interesting formulations to describe this simple task.

That is what I understand to be the task of all treasuries worldwide.

CONCLUSION

As I conclude, I wish to invite BUSA and its affiliated organisations to engage government constructively on how together we can build a better South Africa for all.

The proposals developed by B4SA last year in June are an important contribution to this debate.

We urge all social partners to work together to speed up inclusive recovery.

I would appeal that as we work together, we must prioritise. We must agree on what are the key interventions that will make the greatest impact.

You will notice that I have not covered fiscal issues.

Either at the end of October or early November during the Medium Term Budget Policy Statement we will deal these matters in detail.

I wish you a successful AGM.

Thank you.