Mining sector profits and tax revenue hit by SOE failure

By Lindsey Schutters

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Finance minister Enoch Godongwana delivered a medium-term budget statement (MTBPS) on Wednesday that clearly exposed the negative impact state-owned entities such as Transnet and Eskom have had on the mining sector's profitability and government tax revenue. According to the statement, mining corporate tax revenue in H1 of 2023/24 declined by R24.6bn, or 55.4%, compared to the same period last year. This contributed to the R56.8bn downward revision in gross government tax revenue relative to the February budget forecast.

The fiscal situation worsened despite the government's efforts to cut non-interest expenditure by R85 billion over the next two years and to signal R15bn worth of tax increases in 2024/25. The government debt is now expected to peak at 77.5% of GDP, higher than the 73.6% projected in the February budget.

Hugo Pienaar, the new chief economist of the Minerals Council South Africa, said that these steps were necessary but insufficient to put South Africa's public finances on a more sustainable path.

“The task is so large that even R85bn worth of cuts are not making a dent. The solution is to grow the economy faster. It’s the only sustainable solution we have. There is only so much that can be cut and there are risks to the economy by raising taxes,” he said in a media statement.

Realistic diagnosis

The Minerals Council welcomed Godongwana's realistic diagnosis of the structural constraints on the economy and his commitment to work with the private sector as a key partner to address these bottlenecks.

Pienaar said that this medium-term budget statement showed how crucial the mining sector was for government revenue, and how it was affected by rising input costs, lower commodity prices and declining production and sales.

‘We saw it on the upside for the past two years during our response to the COVID-19 pandemic, and now on the downside this year.”
Over the next three fiscal years, relative to the February 2023 budget forecast, government tax revenue is now expected to be R121.4 billion less.

“Minister Godongwana’s comments about declining revenue reinforces what the Minerals Council has been warning of in recent years. It is a clear illustration of the strain on profitability in the mining sector because of rising input costs, lower commodity prices and declining production and sales.,” Pienaar continued.

“The mining industry can’t do anything about commodity prices, but there are levers to pull to reduce the costs faced by the industry amid double-digit electricity price hikes and transport logistic inefficiencies, particularly the rail network and ports operated by Transnet.”

Export loss

Godongwana estimated that coal and iron ore exports lost due to rail and logistics failures could have added 1.3 percentage points to the current account balance in 2022, resulting in a surplus. The cost of rail inefficiencies last year was estimated at R411bn.

The statement also reported that VAT refund payments in the first six months of 2023/24 were R21.5bn higher than last year due to increased investments in self-generation and higher costs of doing business, including more expensive road transport. The mining sector accounted for R5.7bn in VAT refunds.

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Godongwana announced that there would be a separation of infrastructure management from operations in Transnet in the coming months, which Pienaar said was a welcome development that would clear a major hurdle for improving rail efficiency and competitiveness.

Minerals Council will engage the presidency

The Minerals Council released a media statement saying that its members are working through the Business for South Africa body to engage the Presidency and Ministers on urgently arresting and stabilising the deterioration in rail and port services provided by Transnet, finding solutions to South Africa’s energy crisis as well as crime and corruption.

It will be leaning on the private sector as a critical partner in addressing key constraints on the economy and, in so doing, improving perceptions of the country, attracting investment and ensuring inclusive, sustainable growth and job creation.

“While we remain positive on recent reform announcements from government to effect change and include private sector participation to drive the economy, we need far more urgency in dealing with these constraints,” said Minerals Council CEO Mzila Mthenjane.

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