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PRESS RELEASE

FOR IMMEDIATE RELEASE | Thursday, June 25, 2020

naamsa RESPONDS TO THE SUPPLEMENTARY BUDGET SPEECH

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naamsa welcomes the 2020 Supplementary Special Budget tabled by the Honourable Minister of Finance Mr. Tito Mboweni on the 24th June 2020. Minister Mboweni's budget speech sought to reassure South African and international investors through a commitment to fiscal discipline at a time when SA is facing severe fiscal pressures amidst the COVID-19 global pandemic. The special supplementary budget is premised on redirecting the R130 billion government spending to help fund the R500 billion economic stimulus package that government introduced to mitigate against the disproportionately negative impact of COVID-19. Throughout the course of the year, the Minister will be confronted with the difficult balancing act to keep the economy running with the constraint budget allocation.

AUTOMOTIVE INDUSTRY SUPPLEMENTARY BUDGET IMPLICATIONS

naamsa is very pleased that the supplementary budget did not contain major tax shocks for the remainder of the year. This will provide relief for the automotive industry which expects sales losses of 10 times more than initially anticipated 3 to 5% decline pre-Covid-19 to the current 30 to 50% decline as a result of Covid-19. Considering the already huge tax burden on the motor industry where in the order of 42% of the price of a premium vehicle consists of mainly fiscal taxes, the increase in CO2 tax in the 2020 February Budget exacerbated the situation for consumers at a time when the new vehicle market reflected a progressive decline over the past six years.

Any further changes proposed in these fiscal duties will have dire consequences to the competitiveness of local OEM vehicle manufacturing and all retail sales, and the after-sales vehicle market in South Africa. Furthermore, from the office of the Presidential Sustainable Infrastructure Development Symposium [SIDS] of South Africa webinar, it will be interesting to see what kind of capital investment projects will be put in place as part of the stimulus package to accelerate priority programs and sector ready projects in the manufacturing sector.

In the absence of details of specific relief measures from the government to cushion the automotive sector against operational challenges posed by COVID-19 pandemic, naamsa will continue to engage government and stakeholders in formulating strategic responses amidst the crisis.

ECONOMIC OUTLOOK

The current SA economic condition gives a melancholy scenario – Economic growth is said to contract 7,2% by the end of 2020, this contraction is higher than the 7,1% growth contraction predicted by the South African Reserve Bank (SARB) for the year 2020. The substantial rise in debt levels and a widening budget deficit is expected to continue for the foreseeable future. Public-sector debt is predicted to increase to R 6.4 trillion over the next three years. The national debt is said to reach R 4 trillion, or 81,8% of GDP by the end of 2020, compared to an estimate of 65,6% of GDP projected in February.

By 2023/4 is predicted to exceed 106,1% of GDP, and at the end of a decade, the debt to GDP is expected to rise by almost 140,7%. On the other hand, the StatsSA Quarterly Labour Force Survey this week also reported an increase in South Africa's unemployment rate to 30.1% in the first quarter of 2020. Business confidence has been weak for some time. The economy has been bleeding jobs with some companies shutting down due to the national lockdown, SARB has projected job losses of 370 000 and 1 600 businesses could be declared insolvent in 2020. It is worth noting that the unemployment numbers for the first quarter reported recently by StatsSA do not capture the devastating impact of COVID19 on the job market.

FISCAL CONSOLIDATION

In SA, personal income taxes, value-added tax (VAT), and corporate income taxes collectively account for approximately 80.7% of the total tax revenues of the country. From the 2020 Supplementary Budget, National Treasury has highlighted that it expects a revenue shortfall of R300bn for the 2020/21 fiscal year. Due to the decline in the nation's tax pool and expected shortfall in tax revenue, it is therefore, unlikely that the primary surplus envisaged by treasury in 2023 will be achieved. So where will the money come from?

From a fiscal point of view, it will be conceivable for the government to seek external funding support. In this regard, SA government intends to borrow $7bn (R121bn) from international finance institutions. This is one rate cut away from a negative real interest rate. Recently, government has also borrowed $1 billion [R17,2 billion] emergency COVID-19 loan from the BRICS group New Development Bank to help reduce the socio-economic impacts of the pandemic. Minister Tito has a difficult task of dealing with the potential internal party political opposition towards some of the conditional requirement that the likes of IMF bank may attach to the loan conditions (i.e. the better managing of State Owned Enterprises).

From a monetary point of view, SARB has indicated that CPI will average 3% for 2020. The Inflation reported recently is sitting at 3%, the lowest since June 2005. Additional to the 275 basis point cuts, the reserve bank has embarked on a substantial bond-buying program to resolve the market volatility and dislocation, provide liquidity, and this has also assisted the rand to recover since April. It will be important to ensure that the R200 billion set aside for working capital of SMME's reach the vulnerable proprietorships who have been disproportionately affected COVID-19.

End of report!

ABOUT THE SA AUTOMOBILE INDUSTRY

- the automotive industry contributes 6.9% to GDP [4.4% manufacturing and 2.5% retail];
- total automotive revenue in South Africa amounted to R503 billion in 2018;
- in 2018, the export of vehicles and automotive components reached a record amount of R178,8 billion, equating to 14,3% of South Africa's total exports;
- the industry accounts for 30.1% of the country's manufacturing output;
- vehicles and components are exported to a record 155 international markets;
- we are the country's 5th largest exporting sector out of all 104 sectors and accounts 13.9% of total exports;
- the manufacturing segment of the industry presently employs more than 110,000 people across its various tiers of activity [from component manufacturing to vehicle assembly];
- combined with the industry's strong multiplier effect, the industry is responsible for approximately 457,000 jobs across the South African economy's formal sector.

NOTES FOR EDITORS

- NAAMSA is a pre-eminent industry representative that actively and responsibly represents, promote, advance and protect the interests of local manufacturers and assemblers of passenger, light and heavy commercial vehicles as well as major importers and distributors of new vehicles in South Africa. We represent 41 companies;
- Our vision is to the most credible and respected thought leader and partner of a globally competitive and transformed automotive industry that actively contribute to the sustainable development of South Africa;
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