InNumbers

2,529

The number of electric vehicles sold in SA in fourth quarter of 2023, up from 1,582 in 2022 fourth quarter.

Business
The Big Read
Sunday Times

Enoch's big offshore boo-boo

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Nick van Rensburg told Business Times that while it makes sense for funds to diversify, the jump in the offshore limit from 30% to 45% was too large.

"The effect of this has been to cause significant damage to the remaining 55% of South African assets under management, which experienced significant selling pressure," he said.

"[It has also] reduced future demand for South African government bonds – at a time when we should be doing what we can to boost investment over consumption – and weakened the rand, which boosted inflation; more so for the poor as food and transport are a larger percentage of their spending basket," he said.

Van Rensburg suggested lowering the offshore cap to 40% for three years followed by a review. If done in conjunction with the industry, it would create stability and certainty, he said.

"It would stop the outflows, and relieve some pressure on the rand. This will limit ongoing pressure on food and fuel prices. It will limit ongoing damage to the 55%-60% of assets under management that remain in South Africa," he said.

Old Mutual Investment Group portfolio manager Jason Swartz said the increased allocation was a positive development. Offshore markets promising high returns will be appealing to funds and end-clients, which is not a problem as long as the risks that come with the diverse investment sources are clear from the beginning.

Other domestic asset classes such as bonds remained competitive, Swartz added.

"South African nominal bonds offer very compelling yields of more than 11% that compensate investors for our sovereign risks, compared to that of developed markets where yields are around 4%-5%.

"Whenever there is a wider opportunity set, if the risks are managed correctly, that should always benefit the client. I don't really have a comment about reversing it, but finding the right long-term strategic balance between risk and return is critical to finding opportunities for real [inflation-beating] returns," he said.

Infrastructure, renewable energy, port communications, data centres, and other basic services and infrastructure projects in South Africa were ripe for investment as these could have an exponential impact on the country's growth prospects, Swartz said.

"We have seen the extent or the severity of the energy crisis moderate because private investment has stepped in. Given some of the challenges in logistics, that is likely to weigh on our potential growth, so Transnet is a huge policy headache, and adding private investment there would also have a huge uplifting effect on the economy," he said.

Wade Witbooi, senior portfolio manager at Sanlam Investments Multi-Manager, doesn't believe the increased offshore allocation would have a cooling effect on domestic investments, though it did mean local listed entities are facing more competition from global listed entities.

"Government needs to ensure that the economic and business conditions in the country are attractive and appealing so that companies can grow earnings in an economy that is also growing and providing opportunities for further growth and investment. If the overall pie grows, competition will increase and more companies will potentially list on our exchanges," he said.

RMB chief economist Isaah Mhlanga said there were different ways to look at the 45% offshore allowance and the view of pension fund contributors was that their funds were seeing lower returns in the domestic economy compared with emerging peers and advanced economies.

"We have been seeing a decreasing number of listed companies, which is not unique to South Africa ... The market is highly concentrated. Investment opportunities in the listed market have shrunk, but for the pension fund member that is contributing for retirement, you need to maximise returns," he said.

Thabo Khojane, MD of asset manager Ninety One, and deputy MD Sangeeth Sewnath, told Business Times higher offshore limits under regulation 28 will likely lead to a rise in retirement fund assets invested abroad, with the average offshore exposure of South African pension funds, excluding the PIC, increasing from 29% before the move.

"There is some variation in the offshore allocation of pension funds, however. According to the Alex Forbes Large Manager Watch, Coronation had the highest offshore exposure as of the end of December 2023, with 46%. The lowest exposure was Stanlib at 31% and Ninety One was at 41%."

They said Ninety One supported the gradual relaxation of exchange controls; tightening them would instil a lack of confidence in long-term policy certainty.

Budget: EV makers are on their own to spur demand

The automotive industry has welcomed the incentives announced in the budget speech for the manufacture of electric vehicles in South Africa. Picture: 123rf.com

Failure to reduce import tariffs seen as more foot-dragging

By **ARTHUR GOLDSTUCK**

● The automotive industry gave a cautious welcome to incentives for electric vehicle (EV) manufacture announced in Wednesday's budget speech – but meanwhile must forge ahead with its own efforts to create and meet demand for EVs in South Africa.

Finance minister Enoch Godongwana announced that "to encourage the production of electric vehicles in South Africa, government will introduce an investment allowance for new investments, beginning March 1 2026".

While the incentive is attractive – it will allow producers to claim 150% of investment spending on electric and hydrogen-powered vehicles in the first year – the failure to reduce a 25% tariff on imported EVs is regarded as persistence of foot-dragging on a transition from the internal combustion engine (ICE).

Greg Maruszewski

Lebo Gaoaketse, head of marketing and communication at WesBank, said there had been "intensive industry lobbying", leading to "hope for a government pronouncement that would result in a reduction in the import duties imposed on electric vehicles".

This, he said, would result in a drop in the retail price of EVs.

"However, South Africa's policy on EVs, as previously communicated by trade, industry & competition minister Ebrahim Patel and more recently by Godongwana in his budget speech, remains focused on advancing the country's aspirations to become a manufacturing hub for EVs and EV batteries, while demand stimulation through reduced import duties and incentives for end users would not be considered in the near term."

The failure to support the stimulation of EV demand has meant the automotive industry is on its own in rolling out what are broadly referred to as New Energy Vehicles (NEVs). This was underlined by the launch, just hours after the budget speech, of the new Volvo EX30, the lowest-cost premium EV yet to come to South Africa.

While a number of low-cost brands have released EVs priced at about R500,000, the R775,000 price tag on the EX30 is regarded as a new benchmark in the premium segment. For the first time, said Greg Maruszewski, MD of Volvo Cars South Africa, it has brought the price of EVs in this segment to well under R1m.

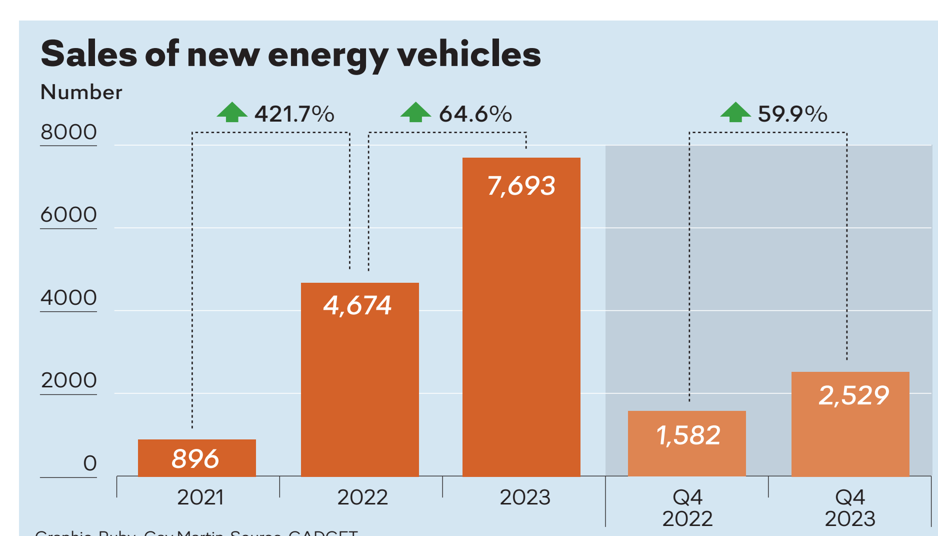
Maruszewski told Business Times at the launch event on Thursday: "For us it's a very important launch, because this car will put us into a new segment, and it's a segment with a lot more people than we've spoken to before. And that means volume. So far the market is very small, but with this offer, because of the price plus the offering, I feel we can grow the segment a lot quicker."

As a result, the vehicle is expected to make waves beyond only Volvo sales, in effect acting as a rising tide that lifts all boats. "It will grow the segment, it will grow awareness, and you will have new customers. So it will compete against a lot of the current ICE cars as well. It is going to have a positive impact on the whole automotive industry when it comes to EVs, for sure," Maruszewski said.

The EX30 has an estimated range of 480km, but several other firsts will raise eyebrows. With much of the anti-EV sentiment based on a perceived lack of power, the most significant feature is its ability to accelerate from 0-100km/h in 3.6 seconds. According to Volvo, it is officially its fastest-accelerating car ever. With a standard battery capacity of 134kW, it can be charged from 10% to 80% in a little more than 25 minutes.

It is also the first car to have a premium soundbar installed in the vehicle instead of an array of speakers.

A high-end Harman Kardon soundbar is fitted inside the dashboard across the front of the car. Maruszewski agreed that the launch was a watershed moment for EVs in South Africa, particularly in light of this week's budget speech.



Janico Dannhauser, product and pricing manager at Jaguar Land Rover Africa, said it was commendable that South Africa sought to play a key role as a manufacturing hub and not just as an end user of EVs.

However, he said, "there remains an opportunity for quick wins to stimulate demand for EVs among car buyers". Key among these is a reduction in the import duties imposed on EVs. A reduction in this regard would have an immediate impact on the affordability of EVs.

A consumer-focused incentive scheme has also proven effective in global markets in encouraging the uptake of EVs among consumers, Dannhauser said.

"Growing the EV charging infrastructure is also an important imperative that is being spearheaded by the private sector. More public sector participation is required to fast-track the broadening of South Africa's public charging network, particularly in areas that lie outside the established urban centres. There is, therefore, scope for greater improvement in policy reforms aimed at ensuring South Africa's continued relevance in the evolving automotive world."

Figures released this week by the Automotive Business Council (naamsa) showed that while EV sales were low they marked the only area of growth for the industry as a whole in the last quarter of 2023.

Sales of NEVs by 19 industry brands increased 59.9%, from 1,582 units in the fourth quarter of 2022 to 2,529 units in the fourth quarter of 2023.

The year-on-year increase was even more significant: up 421.7%, from 896 units in 2021 to 4,674 units in 2022, with a further 64.6% increase to 7,693 units in 2023. NEV sales breached the 1% share of the new vehicle market for the first time in 2023, comprising 1.45% of total new vehicle sales, compared with 0.88% in 2022.

Total new vehicle sales during the fourth quarter of 2023 recorded a decline of 5.4% compared with the corresponding quarter in 2022 and a decline of 3.5% compared with the third quarter 2023.

Naamsa gave a cautious welcome to Godongwana's speech.

The financial incentive, said naamsa CEO Mikel Mabasa, was "a crucial step in attracting investments, fostering innovation and driving the growth of the EV sector within South Africa".

"We welcome government's decision to reallocate funds to specifically support the transition towards our broader evolution towards new energy vehicles, because this demonstrates a commitment to provide the necessary fiscal support for the development and adoption of EVs."

Mantengu Mining CEO Mike Miller

Mantengu rails at JSE response to shady trade

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to the JSE and the FSCA for investigation. However, the JSE said it needed more time to investigate the claim, which Miller and his colleagues objected to.

"Their view is that it was premature, and the JSE needs to be given time and space to do its investigation. We fundamentally disagree. What happens to a shareholder value between now and six or 12 weeks' time, when we have not armed the shareholder with information? We have to allow them to trade with the knowledge that we have now made public to say trade carefully."

Shaun Davies, director for market regulation at the JSE, confirmed that Mantengu reported the alleged manipulation of its share price to both the bourse and the FSCA. Investigations into potential market manipulation are conducted by the FSCA, but the JSE would assist the regulator in its investigation, if required, he said.

"Occasionally, listed companies report concerns regarding trading in their securities to the JSE or the FSCA. Therefore, the reporting of alleged price manipulation by Mantengu is not a unique case. The JSE will provide assistance to the FSCA in its investigation into the alleged price manipulation reported by Mantengu."

Miller said the FSCA had confirmed that their preliminary investigation supported a prima facie case of insider trading and share price manipulation.

Gerhard van Deventer, divisional executive for enforcement at the FSCA, confirmed receiving a complaint relating to a possible contravention of section 80 of the Financial Markets Act, section 19 of 2012 in terms of prohibited trading practices or "price manipulation" from Mantengu Mining.

"Based on the complaint, the FSCA has decided to investigate the matter. This should not be interpreted as a comment on the merits of the complaint.

"By registering an investigation, the FSCA is not expressing a view regarding the possibility that a contravention has occurred. The purpose of the investigation is to establish whether there was a breach of the law," Van Deventer said.

From time to time companies report concerns of share price manipulation, he said. "While most of our cases are initiated as a result of the sophisticated surveillance system of the exchange, it is not uncommon for the enforcement division of the FSCA to receive complaints and tip-offs."

Stealth taxes could see South Africans paying R18.2bn more

By **TANNUR ANDERS**

● Finance minister Enoch Godongwana has introduced extra "stealth" taxes on South Africans by failing to adjust income tax brackets and medical aid credits for inflation in his budget, tax specialists say.

They estimate that Godongwana's strategy will suck an additional R18.2bn from the pockets of South Africans in this election year.

"With no inflationary adjustment to the tax brackets or increase in salary, taxpayers will have to cover the increased cost of goods and services with the same take-home pay, leaving them worse off," said Zohra de Villiers, a tax specialist at KPMG.

In January, the Reserve Bank forecast headline inflation for 2024 of 5%, within its 3%-6% target range but still above its desired 4.5% midpoint.

At face value, the budget makes some allowances for taxpayers burdened by high interest rates and a sluggish economic environment. "This budget made an apparent concession to the financial pressure under which taxpayers are struggling by not raising personal tax ... [but] the minister's refusal to adjust the tax brackets for inflation is in effect a stealth tax," said Tertius Troost, a senior tax consultant at Mazars.

Excise duties on liquor and tobacco, the so-called sin taxes, were subject to above-inflation increases. Picture: 123RF

"When a taxpayer receives an inflation-related salary increase, the increase might push him or her into a higher tax bracket, and thus [they] pay more tax."

Personal income tax is the biggest revenue contributor and will hit almost R740bn in financial 2025. Those who pay income tax, about 7.4-million people out of a population of 62-million, will contribute about 40% to tax revenue.

To collect an additional R15bn in tax revenue, the Treasury had two choices, said Kyle Mandy, a partner at PwC: raise VAT or raise personal income taxes.

He said the two ways to raise revenue through personal income taxes were either to adjust tax brackets for inflation and raise tax rates, or to keep the tax rate unchanged but allow inflation to do the job. "The effect of both is identical, but the latter is more subtle and less obvious to the casual observer as there is no explicit tax increase."

An inflation adjustment for personal income tax would prevent tax bracket creep – a movement from a lower tax bracket to a higher bracket by way of inflation. The adjustment ensures that taxpayers remain in a similar position.

By not adjusting for inflation, the Treasury has enabled a year-on-year increase in revenue from personal income tax by almost 14% for financial 2025, while other taxes have increased in line with the standard of 6%-8%, said KPMG employment tax division partner Sarika Rautenbach.

"Where exactly is this money coming from and what is it that we're going to do to get that money? The answer is nothing. We are doing nothing. By just doing nothing... we are raising [an additional] R18bn and that's coming from the individual's pocket."

Rautenbach said 2.7% of taxpayers, about 200,000 people, will be responsible for R137bn between them of the budgeted income tax, a significant portion of the personal income tax being paid.

The Treasury's raising of sin taxes by more than inflation and implementing the global minimum corporate tax are expected to yield an additional R8bn in corporate tax revenue in financial 2027.