

PRESS STATEMENT:

MTBPS – Mboweni moves us backwards

29 October 2020

The 2020 Medium Term Budget Policy Statement undermines attempts to resuscitate the economy and lay the building blocks for a Just Recovery from COVID-19. Neither the emergency relief package nor substantive steps towards a “new economy” have been enacted. The MTBPS threatens to deepen an already acute crisis.

Failing to save the economy and lives

South Africa’s economy was decimated in the second quarter of 2020. This was despite the announcement of a R500 billion emergency response package of which at most half has actually been spent, with only R36 billion in new money allocated. On top of the lockdowns, this lacklustre response played a leading role in the economy contracting by 16.4% quarter-on-quarter and 2.2 million jobs being shed. In June 2020, 37% of people ran out of money for food – more than double in 2016.

Addressing this should have been at the heart of the 2020 MTBPS. It was not. Rather, Minister Mboweni continues to pretend that the emergency response package was implemented and commensurate to the scale of the crisis, and proposed slashing future planned expenditure.

Highlighting a callous disregard for the lives of those who have suffered most due to COVID-19, the Minister reiterated that only the R350 COVID-19 Special Relief of Distress grant will remain in place, and only until January 2021. While we welcome this extension, the decision to not also extend the R500 Caregiver’s Allowance means 3 million more people will face hunger. Government should [heed the call](#) from civil society that both the COVID-19 grant and the Caregiver’s Allowance be extended for 5 months and increased to R585/month to match the food poverty line.

Failing to provide the basis for recovery

The 2020 MTBPS reflects a failure to use fiscal policy as a tool for the revival of the economy.

The MTBPS proposes R300 billion less in non-interest expenditure over the next three years than if we had continued at the same level as set out in the original February 2020 Budget. On average nominal non-interest expenditure grows by 0.75% compared to an average rate of inflation of 3.9%. This means R4 900 less spent per person. These budgetary cuts are concerning for departments such as basic education where real per capita growth will decline by

2.6% on average over the next three years. This is despite schools being unable to maintain and upgrade dilapidated or dangerous infrastructure or purchase school furniture and other teaching and learning support materials.

The economic recovery package will be undercut by such reductions in spending. Spending on health and education, for example, is crucial to secure human capital development. Further, reductions in expenditure undermine the functionality of the state by reducing resources (for example, through the freezing of vacant posts). This will have adverse effects on the building of state capacity and the implementation of anti-corruption strategies.

While a medium-term approach to debt stabilisation is required, this should not be approached in a manner that will, undoubtedly, lead to a contraction in the economy. This threatens both long-term growth prospects and debt targets. Rather, raising additional funds through taxation; reducing borrowing costs, including through monetary policy interventions; leveraging pots of available funding; and spending prudently on activities likely to grow the economy and secure human wellbeing, should be prioritised over indiscriminate cuts.

The IEJ is deeply concerned by the Minister's extreme position on fiscal consolidation, which is out of sync with historic evidence and sound economic theory.

Failing to consider constitutionally-enshrined rights or social dialogue

It is clear that the 2020 MTBPS does not seek to advance, or even consider, the realisation of socio-economic rights. It also does not follow any meaningful engagements with other sectors of society. As government expenditure will be a vital ingredient in economic recovery, it is critical that we approach budgets in a manner that seeks to build consensus and prioritise the most marginalised. Minister Mboweni's MTBPS fails in all these regards.

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