PRESS STATEMENT

MTBPS 2021: National Treasury Disinvests from the South African Economy

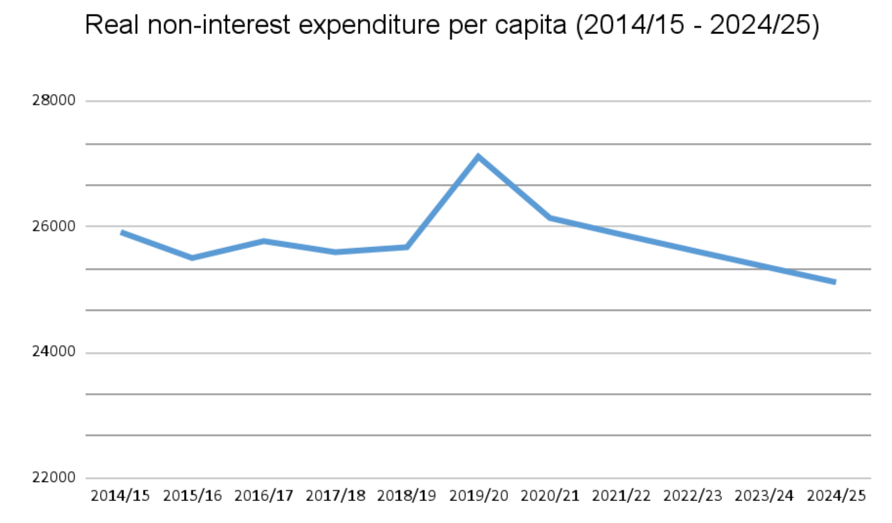
12 November 2021

Two features dominate yesterday's MTBPS: large-scale disinvestment by the government and a complete lack of vision for how to get South Africa out of our current economic and social crisis.

Disinvestment: a government abandoning its people

The National Treasury appears to have lost the enthusiasm to invest in the South African economy.

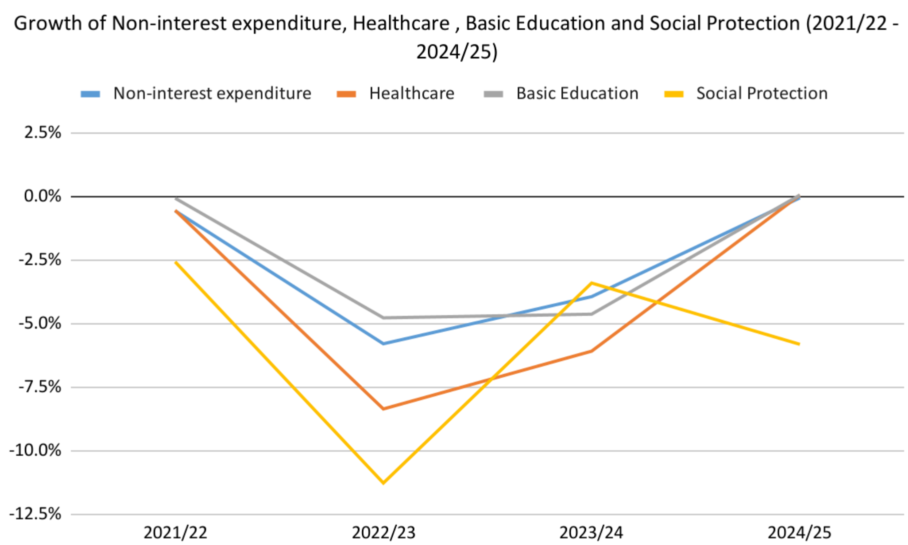
- **Spending on government programmes** (consolidated non-interest expenditure, that is, total spend excluding debt servicing costs) has been cut by -3.3% in real terms on an annual basis in the medium term expenditure framework (MTEF). We see that, in the midst of a severe economic and social crisis, real per person expenditure falls from R26,140 in 2020/21 to R25,117 in 2024/25.



- **Health** expenditure has been cut by R11.2 billion between 2021/22 and 2022/23, and by an annual average of -4.8% in real terms over the medium term. This is despite the ongoing pandemic and the department's struggle to absorb existing budget cuts.
- **Basic education** expenditure declines by R2.2 billion between 2021/22 and 2022/23, and by -3.1% on average in real terms per annum over the medium term. The government admits that this will lead to increased class sizes and negatively impact learning outcomes.

- **Social protection** declines by R18.7 billion between 2021/22 and 2022/23, and by an annual average of -5.8% in real terms over the medium term. Despite our social crisis, the Minister says the government will “consider” extending social relief in February 2022.
- Despite emphasis on **infrastructure** as a structural constraint to growth, only R24 billion is allocated over the 2022 MTEF period to the Infrastructure Fund, with the dubious aim of leveraging private sector and development finance.
- Only R10 billion has been allocated for phase two of the **Presidential Employment Stimulus**. The total expenditure on job creation and protection, still falls R76.4 billion below the R100 billion that was proposed in the R500 billion COVID-19 rescue package.
- The highly contractionary macroeconomic stance will **retard job creation** through stifling economic recovery and meaningful expansion. Through the budget cuts, the government is contributing to joblessness through mass retrenchments in the public sector.

The graph below illustrates the extent of the cuts to health, basic education and social protection when inflation is taken into account over the next three years.



The MTPBS 2021 blames the “weakened state” of public finances for “limiting the government's ability to provide additional targeted social and economic support”. This is despite the R120 billion in higher-than-expect gross tax revenue this year, and R130 billion over the following two years. Net loan debt in 2020/21 is estimated at 66.2% down from 74.3% in February’s Budget.

Instead of using this considerable fiscal space that has opened up for much needed investment, R15 billion this year and R29 billion over each of the next two years has been parked in ‘unallocated reserve’. While we appreciate that the government is operating in a highly uncertain economic environment, such funds should be invested in decisive action to lift South Africa out of its current economic slump.

An economic non-vision: austerity, debt and more of the same

Government is committed to achieving a budget surplus - receiving more funds than it spends - by any means necessary. The MTBPS 2021 states that "[t]he fiscal strategy remains broadly unchanged, with a focus on achieving a primary budget surplus from 2024/25." It is baffling that over a year into the pandemic, with numerous lessons learnt, both locally and globally, on the importance of public investment, the government remains committed to an austere approach adopted in the 2020 Special Adjustments Budget. This shows a profound misunderstanding of the crisis and no vision for how we solve it.

This approach underestimates the social and political risks of not utilising fiscal space for the rescue of the economy and to pave the way for an equitable recovery.

As noted in our pre-MTBPS statement, reducing the share of the budget spent on debt servicing costs is a valid objective. There are three ways in which governments attempt to do this: 1. a pursuit of a budget surplus via expenditure cuts (austerity); 2. increasing growth through fiscal expansion (stimulus); 3. and/or monetary policy and regulatory interventions to directly lower the cost of borrowing. The first of these - pursuing a budget surplus through expenditure cuts - has been proven as disastrous. In Greece and Ireland for example, Oxfam found that budget cuts reversed a decade of growth.

South Africa must adopt a combination of the second and third approach. It must pursue a path of carefully targeted expenditure increases to spur sustainable and human-centred economic growth, while actively intervening to lower borrowing costs.

The mantra of 'structural reforms' - designed to lower the cost of doing business and create a more competitive economy - will not bring growth or jobs on its own. First, the significant investment that is needed to ensure meaningful improvements in economic infrastructure is nowhere to be seen in this budget. Second, demand in the economy remains historically depressed, which will be worsened through budget cuts. Third, economic reforms must centre decent work and structural transformation of the economy, not just 'competitiveness'.

The macroeconomic policy framework needs reimagining so that macroeconomic policy drives a transformative agenda with macroeconomic, sectoral, labour and social policies mutually reinforcing one another.

What we need

IEJ has put forward a number of proposals which remain desperately needed. In the midst of disinvestment in basic services and a lack of clear vision to alleviate unemployment, poverty and stimulate growth, the government must urgently implement the following measures:

- **Implement a comprehensive stimulus package** to stimulate demand, and expand capacity in the economy and create jobs. The care sector, construction and manufacturing must be targeted to ease the burden of unpaid care work, promote labour intensive investment and support infrastructure for public goods.

- **Comprehensive social security support is a human right.** Extension and improvement of the Covid SRD grant, and the development of pathways towards a Universal Basic Income Grant (UBIG) should be prioritised in the February 2022 budget.
- **Increase allocation for the Presidential Employment Stimulus (PES)**. If job creation is a priority, then PES must be expanded and the balance of the R100 billion for job-creation should be inserted into the MTEF.
- **The state should conduct gendered human rights impact assessments in partnership with CSOs**, where budget cuts are proposed.
- **Increase and improve processes for meaningful participation and transparency**. The National Treasury needs to strive to achieve fiscal sustainability through sustained engagement and collaboration with social partners.
- **Pursue additional sources of tax revenue**. This should include implementing a wealth tax to open up fiscal space and promote an equitable tax structure in the medium term. In addition, greater effort needs to also be made to clamp down on illicit financial flows (IFFs) and tax evasion.
- **Accept that South Africa will have, for the medium term, significantly higher levels of debt, to enable a serious growth strategy, which will ultimately consolidate debt levels.** This would entail setting the debt target at appropriate levels which enable a robust fiscal stimulus, and announcing this.
- **Commit to counter-cyclical borrowing to finance spending plans.** Measures to contain borrowing costs must also be put in place, including necessary interventions in the bond market by the Reserve Bank.

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