STATEMENT

BUDGET 2024: TREADING WATER AND GOING NOWHERE

22 February 2024

With the 2024 National Budget, National Treasury continues on the unsustainable path of budget cuts, and hoped-for private sector spending, that it has pursued for over a decade. Once again, National Treasury has decided to sacrifice public services and long-term economic growth in the pursuit of a primary budget surplus and 'stabilising debt'. These budget cuts, the Minister has repeatedly claimed, are necessary because the government is running out of money, making it impossible to adequately fund government programmes.

A critical aspect of this year's budget, the drawing down of R150 billion in funds from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), exposes the claim of insufficient funds for the excuse that it is. It was only after considerable public pressure, led by the IEJ, that the National Treasury decided to access these funds. As the IEJ's newly released Policy Brief *Alternatives to Austerity: Revenue options to raise the maximum available resources* shows, there are several other sources of revenue that also continue to sit idle while the Minister cuts expanding public services and social support.

The cuts proposed in this year's budget are undertaken in the context of massive levels of hunger where 62.6% of South Africans live in poverty, 11.7 million are unemployed, and 77% of those still actively seeking employment are long-term unemployed, let alone those who have given up hope of finding a job. Tragically for the millions excluded from our economy, this budget will not create jobs nor reduce poverty.

OVERALL EXPENDITURE CUTS

Despite pressing needs, government spending on essential social and economic priorities continues to fall. Between 2019/20 and 2026/27 the National Treasury will have cut a whopping R270 billion in main budget non-interest expenditure. This comes on top of budget cuts made between 2014 and 2019. Had non-interest expenditure simply kept pace with inflation from 2019/20 onwards, it would have reached R2.04 trillion in 2024/25. Instead, it is budgeted at R1.95 trillion. The fall in spending is even more dramatic when calculated per person. Per capita main budget non-interest expenditure is due to fall from R34,607 in 2019/20 to R27,283 in 2024/25 and further to R26 405 by 2026/27. Over the eight years from 2019/2020 to 2026/27, government will spend 23% less per person. This will disproportionately impact lower-income earners, Black women and children, who rely more on essential public services.

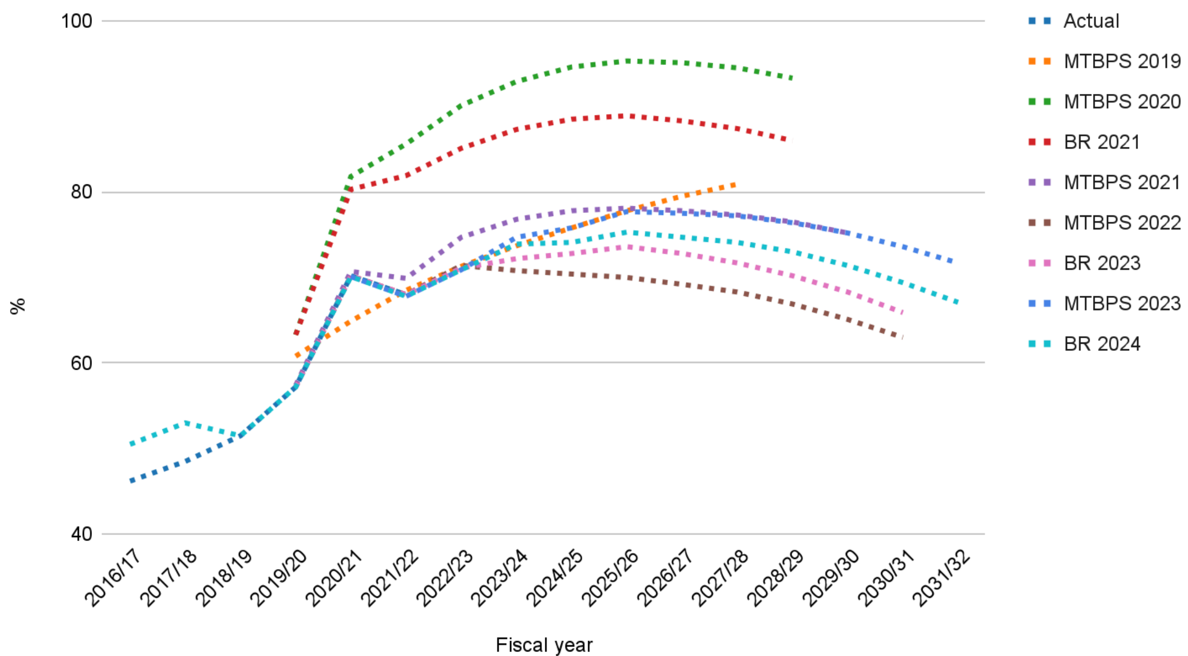
Table 1: Key non-interest expenditure trends

	2019/20	2024/25	2026/27
Nominal non-interest expenditure	1,593,095	1,753,784	1,932,982
If 2019 non-interest expenditure had kept pace with inflation	1,593,095	2,043,987	2,234,221
Real non-interest expenditure (2024/25 rands)	2,034,226	1,782,614	1,765,019
Real non-interest expenditure per capita (2024/25 rands)	34,607	27,283	26,496

DEBT AND THE FOCUS OF FISCAL POLICY

The overriding fiscal strategy remains one of stabilising debt by cutting expenditure. Funds drawn from the GFECRA have not been used to boost essential expenditure. Instead, they have been deployed to accelerate the debt reduction strategy, which promises a primary budget surplus in 2023/24—the priorities of financial markets have been put before those of vulnerable and hungry people. Debt targets are more severe than in both the 2023 Medium-Term Budget Policy Statement and previous National Budgets - this is seen in Figure 1 which shows the projected path of debt-to-GDP in successive budgets. Whereas the 2021 National Budget considered the stabilisation of debt at 88.9% in 2025/26 as “a sound platform for sustainable growth,” National Treasury now aims for just 75.3% in that year. However, such forceful debt stabilisation is unnecessary. South African debt levels are in line with our peers, with emerging and market and middle-income countries averaging 69% in 2023.

Figure 1: National Treasury medium-term debt-to-GDP projections (across various publications)



Previous failures to achieve lower debt through budget cuts call this fiscal strategy into question. Evidence indicates that austerity leads to a decrease in GDP, and therefore will result in a higher debt-to-GDP ratio. The current fiscal strategy is self-defeating. Instead, government should prioritise reducing the *cost* of borrowing – which it rightly identifies as high – through Reserve Bank intervention, targeted capital controls, capital management techniques, and credit allocation policies. This would allow fiscal policy to prioritise growth and employment generation, support industrial policy and expand social spending.

REVENUE

The budget fails to raise the revenue needed to support government programmes, simply accepting a tax collection of R56 billion below the 2023 Budget expectations. The freezing of tax brackets and the medical aid tax benefit, and the increase in sin taxes are welcome. But these fall far short of meeting the challenges faced.

As identified in a newly published IEJ Policy Brief, over the last three decades, corporate income tax rates have fallen and sit below the median level of peer countries, wealth has remained undertaxed, large tax handouts have been given to high-income taxpayers and corporations, and illicit financial flows have accelerated.

In a series of concrete proposals we identify that funds could be raised from some of the following sources:

- R65 billion in retirement fund benefits given to those earning above R750 000;
- R12 billion in medical aid tax benefits given to those earning above R500 000;
- R7 billion wasted on the ineffective Employment Tax Incentive;
- R70 - R160 billion in a potential wealth tax;
- Over R40 billion from taxing financial transactions;
- R12 billion wasted on the ineffective Corporate Income Tax cut;
- Significant portion of the R507 billion in the GFECRA;
- R64 billion from a sliding-scale Social Security Tax;
- R38 billion in resource rents; and
- R9 billion to be raised from a luxury VAT rate.

It is encouraging that the government has taken steps to limit the loopholes that multinationals use to shift profits through the OECD Global Minimum Tax. However, the 15% rate is lower than the global average corporate income tax rate of 25% and the statutory rates in most developing countries and thus will not significantly boost revenue. The 15% tax rate is, in fact, close to the 12% proposed by tax havens and low-tax jurisdictions, underscoring concerns with this plan having been developed outside of United Nations (UN) intergovernmental processes and without transparency and participation. South Africa should use its upcoming Presidency of the G20 to advance a more robust and progressive UN tax convention agenda.

EXPENDITURE CHOICES

Social grants including the Social Relief of Distress grant

Despite the applause the Minister received during his speech, the picture for social grants is grim. These see an increase of 4.8-5% from last year, compared with an inflation rate of 5.6%. This comes on top of an erosion in their value over previous years. As we can see in Table 2, all grants would have been higher today had their 2019/20 values kept pace with CPI inflation. We see also how the Child Support Grant sits below the food poverty line while the foster care grant is below the (inflation-adjusted) upper-bound poverty line.

Table 2: Social Grants

	Budget 2024/25 values	The value of social grants today if the 2019/20 social grant values had kept pace with inflation.
Benchmarks		
Upper Bound Poverty Line (2024 estimate)		1631
Food poverty line (2024 estimate)		796
Grants		
Child support grant	530	545

Old age grant	2185	2284
Disability grant	2185	2284
Foster care grant	1180	1283
Care dependency grant	2185	2284
SRD Grant	350	440*

**estimate May 2024*

While the Social Relief of Distress (SRD) grant has received another extension, its budget has been slashed from R44 billion in 2022 to R33.6 billion in 2024—fewer people will receive the grant despite there being more unemployed adults, alongside rising levels of hunger. National Treasury justifies the budget cut based on the Department of Social Development (DSD) underspending. However, this underspend results directly from National Treasury pressurising DSD to exclude deserving beneficiaries. The IEJ, along with partners #PayTheGrants, has taken legal action challenging unfair exclusions, as well as the static value of the grant.

In draft amendments to the SRD regulations, the grant remains at the inadequate level of R350, worth R285 in 2020 rands and almost three times below the Food Poverty Line of R760. This blocks people from acquiring basic necessities, limits them taking up economic opportunities and cripples their participation in the economy. Youth Capital has shown that young people have to choose between buying food or looking for a job, with the cost of job-seeking estimated to be R1 469 per month. While the SRD has provided a lifeline for millions of people, and supported some with job-seeking and livelihood strategies, its impact is being strangled by the limited allocation from the National Treasury.

Despite this, the Minister of Finance claimed in the Budget Speech to be "improving" the SRD grant. We can only assume he is referring to the draft amendments to the regulations governing the grant, released for comment by the Minister of Social Development last week. Far from improving the grant, these amendments add new punitive clauses which are likely to further reduce access to the grant, whilst keeping the value at R350. This is utterly contrary to the spirit of the President's SONA commitment to "extend and improve" the SRD grant, of which the Minister of Finance makes a mockery.

Public Employment

As the President recently acknowledged in his SONA, public employment programmes have given many young people employment opportunities. The Presidential Employment Stimulus (PES) in particular has supported 1.7 million young people. The PES's biggest component - the Basic Education Employment Initiative - has resulted in participants spending more on groceries, toiletries and other basic necessities. A recent study notes that "the participants do buy goods which are produced locally, using local workers" and encourages that "when evaluating the costs and benefits of the programme, and similar programmes such as social grants, these "extra" economic benefits need to be part of the calculation".

Given the PES's impact, we are encouraged that it will receive an allocation of R7.4 billion, while other employment programmes also receive additional support. However, it is concerning that the PES has not been scaled up to support more young people nor received long-term budget allocations. In its first phase, the budget for the flagship programme was R12.9 billion. The current levels of unemployment require rapid scaling up of employment programmes, especially the PES, to alleviate unemployment and stimulate demand in the economy.

Critical social and care services

Expenditure on critical social services has once again been cut. Despite the vacant posts in the public healthcare system and the high number of unemployed doctors, the government will spend R518 less per public healthcare user over the medium term. In 2023/24, R5,381 was allocated per user, by 2026/27 this will have fallen to R4,864. Similarly, basic education spending per learner will also fall from R25,130 in 2023/24 to R24,493 in 2026/27.

Little is said in the budget about the gendered impact and the long-term effects of these cuts in the budget. This ignores that when public services fail, women will disproportionately shoulder the burden of care, more will be unemployed given their overrepresentation in the public sector, and in the long run, fewer people will be able to contribute meaningfully to the economy due to a lack of human capital development. Thus, the budget overall is at odds with the objectives of advancing gender-responsive budgeting which is currently being piloted.

We are pleased that the overall subsidy component of the Early Childhood Development (ECD) Grant increases but are concerned that it does so much less than National Treasury previously planned. Further, as noted by Ilifa Labantwana in their recent budget statement, the value of the ECD subsidy remains stuck at R17 per child per day for the sixth year in a row. If the government's priority is expanding access to early childhood care as stated by the President in the SONA, more resources need to be devoted to these efforts to make a meaningful impact on the lives of children in South Africa.

Job Creation, Climate Change, and Economic Development

The government's quest to rapidly reduce the unemployment rate is completely undermined by Treasury's allocations towards economic development. Average real spending growth on the drivers of economic growth tumble over the medium term, including in agriculture and rural development (-2.9%), industrialisation and exports (-1.8%), and innovation, science and technology (-5.09%). Furthermore, the government does little to pick up the slack through direct employment. Spending on job creation and labour affairs in 2024/25 declines by 4.8% in real terms compared to 2023/24.

Government has also muted the development of a climate-budget tagging framework, climate budgeting, and the development of the Climate Change Response Fund to be financed to the tune of US$3.3.bn through multilateral development and financial institutions. The funds will be

channelled towards climate resilience including for the just energy transition. Whilst there is some glimmer of hope in principle, these efforts are watered-down by the centrality of PPPs in the provision of electricity with large fiscal risks for the state and a potential increase in tariffs for consumers and businesses

An improved focus on infrastructure is welcome, but the sustainability of its overall spending model remains questionable. Over 2024/25 - 2026/27, spending on economic regulation and infrastructure – which is mostly made up of water resources, road, and bulk infrastructure – grows by an average of 4.11% (in 2024/25 rands). This is a step in the right direction. However, this leaves South Africa's pitiful levels of public sector investment well below where it needs to be for meaningful economic development.

A PRIVATE SECTOR TO THE RESCUE?

Amidst a grim picture for public investment the National Treasury is counting on private sector investment to ride to the rescue. National Treasury has doubled down on the use of Private-Public Partnerships and leveraging private finance for infrastructure development, and in rescuing key network industries and State-Owned Entities (SOEs).

This is a fanciful solution to government's mismanagement and underinvestment. Worldwide private financial investment in infrastructure has slowed and failed to meet development targets *anywhere*. When investment does occur, the state assumes disproportionate risks and the private sector is guaranteed profit often at the expense of equitable access. Moreover, such schemes have had negative impacts on the environment and local communities. For instance, the Mokolo-Crocodile River Water Augmentation Project poses risks of water contamination in the Waterberg and Mokolo River. Also ignored is that private sector investment is not itself a solution to government incapacity as it requires significant capacity (of a different sort) to ensure proper regulatory oversight and the harnessing of such private investment for developmental gains.

WHERE WE SHOULD BE GOING

It is unconscionable that many Black South Africans, women and children are hungry daily, that productive age groups are unemployed and that critical social services remain woefully inadequate. The Budget and fiscal policy must centre development and human rights realisation. Within a coherent plan to grow the economy, additional resources can, and must, be leveraged for critical social and economic investment.

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