



An Immediate Response to the 2011 MTBPS by Idasa

The recovery of the South African economy since the recession of end 2008 and early 2009 remains muted with little prospect for significant improvement. Indeed, given renewed fears around debt default and restructuring in the euro-zone, things look bleaker now than they did earlier in the year. The destiny of the South African economy is and will remain interlinked with that of the world.

Though South Africa's economy grew by 2.8% in 2010, and then accelerated in the first quarter of 2011 with an annualised growth rate of 4.5%, the second quarter of this year saw growth of only 1.3%, with agriculture as well as manufacturing output declining by more than an annualised 5%. Very few new jobs have been created in such an environment and the social and political pressure of high unemployment remains and is likely to increase. In fact, as yesterday's 2011 MTBPS confirmed, the jobs that have been created have been overwhelmingly in the public sector. Though the private sector is not technically in recession, it could be seen to be from the perspective of job-creating ability.

The ability of the budget to transform South African society is, of course, significantly related to the growth rate of the economy. It is therefore not surprising that a bleak realism dominated the content and the tone of Minister of Finance Pravin Gordhan's MTBPS Speech. This is surely the correct attitude given the significant problems that we now face and that loom intractably over the medium-term.

The South African fiscal authorities have been running deficits since 2009 to simply maintain public spending commitments, i.e. to keep resources available to government roughly constant in the face of dwindling tax

revenues. The February 2011 Budget clearly acknowledged the challenge of reduced tax revenue, but as the 2011 MTBPS made clear, that muted tax revenue expectation was still not as bleak as the revised estimate for 2011/12 that the Minister provided yesterday. Tax revenue for 2011/12 may well be some R 10 billion less than the pessimistic assumptions of the 2011 Budget. This is sobering: even with total expenditure to date this year slightly less than budgeted for (a larger salary bill, but underspending on infrastructure) the revised budget deficit for 2011/2012 is adjusted upward to 5.5%, with a gradual return to fiscal normality which sees the deficit plateau at 3.3% by 2014/15.

As the 2011 Budget articulated it, in nominal terms the cost of debt-servicing will double from its 2007/08 value to 2013/14, and debt service costs will increase by an annual average of around 16% from 2010/11 to 2013/14, or at more than double the proposed rate of increase of allocated expenditure of 7.2%. Debt servicing, in other words, is by far the fastest increasing budget item over the medium-term and the burden of debt servicing will play a larger role in coming budgets, as it did in the first years of Trevor Manuel's time as Finance Minister. The 2011 MTBPS does not depart fundamentally from this trend, but in fact makes it more pronounced, since deficits remain slightly larger for longer.

As the Minister's speech emphasised, apart from the issue of debt sustainability, what South Africa is losing is fiscal policy flexibility over the next decade. Quite simply, the nature of the present crisis, and its continuation, are requiring sustained expansive deficit-financed fiscal policy. This means that in the post-recovery context, focus will have to turn to fiscal consolidation. With a debt-stock at 40% of GDP, by 2015 debt servicing will again take up at least 10% of the budget, as it did in the mid-1990s.

This trajectory now seems unavoidable, and there is no scapegoat, beyond the "global financial system", to blame for it. Nor have any convincing policy alternatives to deficit financing been available. But the longer-term implication is that the global economy must recover and/or South Africa must find markedly better ways of getting value for public money and addressing the unemployment challenge. Nothing in the global economy suggests quick recovery. The underlying narrative of the budget then continues to be, and



with increased urgency, that we need to do more with less. Efficiency and effective reprioritisation must become even more important than usual.

In this regard the Minister was correct to call on all South Africans to face these challenges, and

certainly also correct to express concern over a growing salary bill on the one hand and a continued inability in many instances to spend on public infrastructure on the other. The emphasis in the speech on addressing waste and extravagance is also welcomed. We need to continue to explore ways to develop more effective multi-stakeholder coalitions against corruption.

It will be interesting to see more detail, and more discussion, related to the competitiveness support package of R 25 billion over the next six years which the 2011 MTBPS introduces. Certainly the aim of the package to boost industrial development, assist enterprises and accelerate job creation is essential, but the identified programmes on which the new package is supposed to build are far too many and too broad in their focus at this stage.

It hardly needs pointing out that globally the combination of shrinking resources, environmental deterioration and governments that have lost the trust of their citizens is a highly flammable one. Against this backdrop the MTBPS Speech is quite right to emphasise budgetary accountability and service delivery in South Africa and to stress that getting more from less must be the focus of all our government departments, our democratic institutions, and citizens themselves.

The MTBPS has, over the years, become an important contributor to budgetary stability as well as budgetary participation by non-government stakeholders, and continues to fulfil this function. It will be important to see how the changing context over the next few months requires further revision of its assumptions. It is unlikely that any silver bullets will be forthcoming, and South Africans will have to accept that, fiscally, the period from 2008 to 2015 will be far more constrained than that of 2002 to 2007. This does not mean that our deep-rooted social challenges cannot be addressed, but it suggests that far more effective state-society partnerships are needed than have been realised to date if budgetary impact is to be enhanced.

Questions or comments can be sent to Len Verwey, lverwey@idasa.org.za