

# STATEMENT

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## MTBPS 2023: A shoddy compromise that means death by a thousand cuts

2 November 2023

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The Institute for Economic Justice (IEJ) views the Medium-Term Budget Policy Statement (MTBPS) with both relief and alarm. We welcome National Treasury's marked departure from the drumbeat of a looming 'fiscal crisis' that has been repeated *ad nauseam* over the past two months. This 'fiscal crisis' was almost completely absent from the Minister's speech and associated MTBPS analysis. Rather, the Minister identified a lack of growth as central to our economic and fiscal challenges. Despite this, the budget does not put forward a credible growth strategy, passing on this responsibility to the private sector.

We are alarmed that National Treasury has doubled down on the existing path of austerity that has, and will continue to fail to grow the economy and improve the well-being of everyone in South Africa. Trying to achieve growth via austerity—cuts to basic services and other critical areas of spending—is like trying to drive uphill with the handbrake on.

### South Africa's crises

The emphasis on a 'growth crisis' rather than a 'fiscal crisis', and the importance of sustainable economic expansion to achieve a sustainable fiscal path, vindicates the IEJ's position that claims of an imminent risk of fiscal collapse were exaggerated to justify indiscriminate budget cuts.

In fact, the projected revenue shortfall of R44 billion is actually below that estimated by the IEJ and most analysts, indicating a somewhat 'less-bad' picture than expected. This revenue shortfall is also [within the range](#) of previous shortfalls that the country faced between 2017 and 2020, of between R30 billion and R70 billion. Further, our budget deficit, projected to be 4.7% for 2023/24, is noticeably lower than the average expected deficit for countries at our level of economic development, which the [IMF estimates](#) to be 5.9%.

Similarly, although the debt-to-GDP ratio forecasts increase, this is not portrayed as pushing us over a mythical 'fiscal cliff'. Rather, following the approach taken by the IEJ in recent

months, the high cost of debt servicing is identified as a key fiscal concern. Unfortunately, the MTBPS offers no direct measures to reduce the cost of borrowing.

Disappointingly, the MTBPS is largely silent on the dire socio-economic crises we face. This in a context where there are currently [11.9 million](#) unemployed people by the expanded definition and 62.6% of South Africans [live in poverty](#). Around a [fifth of households](#) lack access to adequate food and regularly send out a household member to beg for food. This is worse for rural and female-headed households. These are the crises that the budget should be overtly geared towards solving.

### Austerity - past, present, and future

While in-year spending cuts are far below those desired by National Treasury, the proposed recipe for growth still squarely centres austerity. There has been a R62 billion real-terms reduction in non-interest consolidated government spending from last year (2022/23 to 2023/24). Compared to its allocations in the 2023 February Budget, main budget non-interest spending falls by R85 billion over the next two years. This continues the failed path we have been on for almost a decade. It is both retrogressive and self-defeating.

Over the next three years, the government will decrease spending on every public school learner and public healthcare user. The MTBPS reports a decrease from 2022/23 to 2023/24 of real spending in health and basic education of R10 billion and R2 billion respectively. In the medium term (over the next three years), the government aims to decrease real spending on basic education and healthcare by R16 and 14 billion respectively. This means spending per enrolled learner will fall, in real terms, from R25 387 in 2022/23 to R23 363 in 2026/27. It also means that while each public healthcare recipient was receiving an average of R5 326 in 2022/23, by 2026/27 this fall to R4 525 in real terms.

This comes on top of cuts proposed in the [2023 Budget](#) and previous years. In February 2023, over the medium term, healthcare, basic education, and social protection were cut by R47, R39, and R37 billion respectively.

### The cost of the continued austerity

On-going cuts will put further stress on already struggling public services. There are currently around [224 people](#) for every nurse and [29.8 learners](#) for every educator in the public sector, ratios much higher than recommended.

Much of the burden for coping with the additional pressure due to spending cuts falls on women. Given women constituted over 60% of public service employees, the freezing of posts or 'managing headcount' undermines women's employment and well-being. Further, as access to healthcare and other services decreases, women have to fill the gaps, such as taking care of sick relatives, who should be in hospital or under professional care.

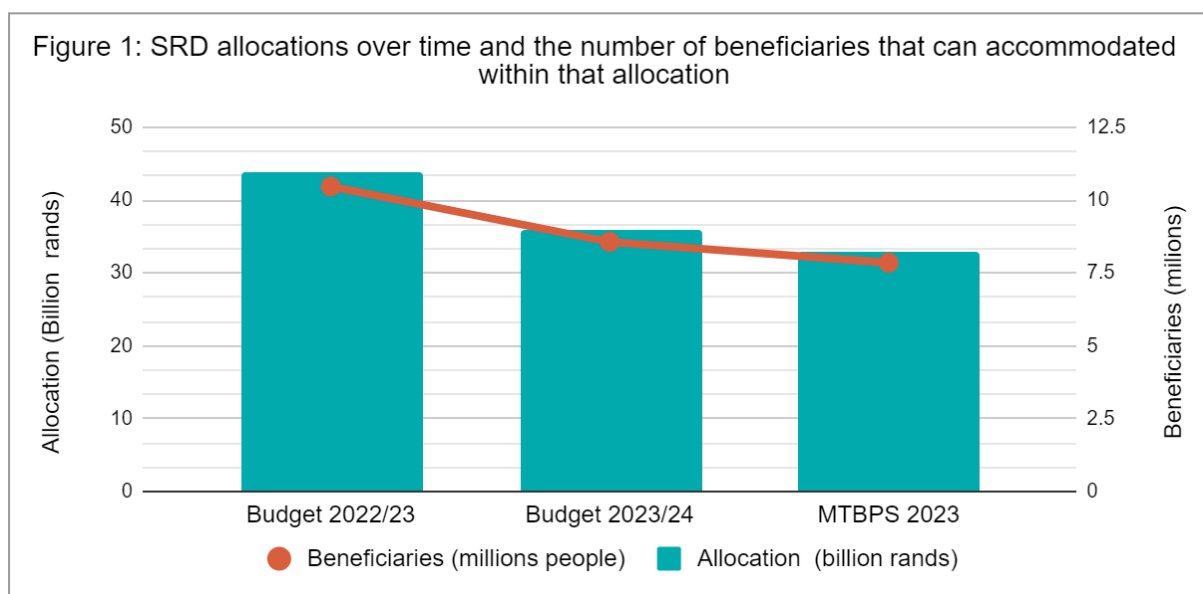
These budget cuts will also result in a shrinking economy. As [evidence](#) has shown, fiscal contraction larger than 1.5% of GDP generates a negative effect of more than 3% on GDP even after 15 years. The drop in GDP reaches 5.5% for cuts larger than 3%.

In this sense, the needs of the poorest are being sacrificed on the altar of achieving a primary surplus—a surplus that will fail to alleviate poverty, hunger, and unemployment.

### We cannot eat a primary budget surplus: The case of the SRD grant

While the National Treasury has begrudgingly allocated resources to the Social Relief of Distress (SRD) grant, this is their absolute bare minimum duty. Terminating the SRD grant—as National Treasury clearly wanted to—would be a breach of basic rights. This is a perfect illustration of the backwards logic of the budget framework, which puts the notional idea of a primary budget surplus over the immediate needs of real people.

Despite the fanfare about the grant’s extension, National Treasury continues to unilaterally undermine it. Whilst hunger and the depth of poverty climbs, the SRD grant’s budget has steadily decreased—from R44 billion in 2022/23 to R36 billion in 2023/24 and now to R33 billion in the MTBPS. Whereas the IEJ estimates that at least 16 million people should be receiving the grant, the new allocation allows for only 7.5 million beneficiaries (see Figure 1). National Treasury’s excuse is that the Department of Social Development (DSD) has underspent on the SRD grant allocation.



This underspend does not reflect lower levels of need but rather how government has deliberately excluded eligible applicants. Due to pressure from National Treasury to keep recipient numbers artificially low, DSD has put in place regulatory and procedural hurdles to access. This has given National Treasury exactly what they wanted, an excuse to slash the grant’s budget even further. This is heartless and unconstitutional.

The IEJ and #PayTheGrants have [taken government to court](#) over this injustice. In our court case, we show that approvals decreased from 10.9 million people in March 2022 to 8.3 million approvals in March 2023. The Minister of Finance recently [applied to intervene](#) in this litigation to oppose our efforts to enable greater access to the SRD grant.

It is also egregious that the value of the SRD grant remains at R350—which in real terms, takes us backwards. If the value of the grant had increased in line with food inflation it would be R449 in 2023, another aspect tackled in the litigation.

### The failure to maximise available resources

Given the structural social and economic challenges South Africa faces it is indefensible that the MTBPS offers so little in the way of measures to increase revenue. Only R15 billion in (unknown) additional tax was announced for the next budget cycle, meaning a falling tax-to-GDP ratio, which already lags behind [OECD](#) countries.

This R15 billion is insufficient to meet the requirements of protecting people whilst growing the economy; a range of other revenue-raising options exist. The February Budget allocated R305 billion in income support to the highest earning 30%. Reducing tax breaks for those earning above R750,000 per year could raise up to R83 billion. The reduction of the corporate income tax rate from 28% to 27% has cost R11 – R13 billion a year. This is on top of ineffective corporate tax subsidies, such as the Employment Tax Incentive which costs about R6.6 billion a year with little evidence that it has supported youth employment.

In the context of needing to ensure a progressive tax mix, we are pleased that National Treasury's ill-considered proposal of increasing VAT has not (currently) been tabled. This would make the tax mix more regressive, increase inequality, and have a disproportionately negative impact on the poor, particularly women and children. In addition, the 2018 [increase](#) from 14 to 15% did not lead to meaningful revenue generation, with the [VAT increase](#) raising only an additional R612 million, opposed to the R22 billion expected.

The resources available in the Gold Foreign Exchange Contingency Reserve Account (GFECRA) were also not taken into consideration. The GFECRA remains a feasible and relatively low-risk option to support essential spending for an inclusive growth path. There is no evidence that drawing on a portion of the account would be unduly legally or technically complex. Rather, the main reason for not doing so appears to be that this would throw a spanner in the works of National Treasury's austerity agenda. By contrast, National Treasury has a constitutional duty to utilise all available resources to meet socio-economic rights.

### Outsourcing the responsibility for growth

While the Minister of Finances' speech correctly identifies the need for economic growth, the budgeting behind this statement abdicates much of its responsibility for driving economic expansion, instead presenting overt and covert privatisation as the solution.

While the increased spending on economic regulation and infrastructure is welcomed, total medium-term spending cuts will undermine development through a real decline in spending on job creation (-1%), industrialisation and trade (-13%), agriculture and rural development (-11%), and innovation, science, and technology (-20%). The MTBPS cuts these non-infrastructure development priorities by R9 billion next year, while increasing infrastructure and regulation spending by R7 billion in real terms.

The responsibility to grow the economy is essentially being placed on the shoulders of private finance through proposed Public-Private Partnerships infrastructure projects, while the National Treasury fails to leverage fiscal policy to industrialise and diversify. The National Treasury adopts this approach despite evidence that private finance centric regimes have failed to mobilise the necessary financing internationally. In addition, this approach risks reducing access to public services, and saddles the state with massive financial, legal, and social risks, while allowing the private sector to extract rents from the privatisation of public infrastructure.

### An unaccountable Minister of Finance and National Treasury

The Minister of Finance is using fiscal policy like a handbrake—to obstruct and even dictate government policy. This lack of democratic accountability seems to have found widespread support within elements of the business press. The line goes that because the government cannot be trusted with public money, National Treasury should conspire to withhold available resources from the government. This is profoundly cynical and anti-democratic.

While corruption and wasteful spending must be opposed at every turn, to support the position that we wish to deny the government funds that belong to it in order to force its hand to implement austerity is profoundly cynical. National Treasury is only accountable to our democratically elected officials and to the public—not the other way around.

An ongoing choking of public services and social protection perpetuates the erosion of the social compact and paves the way for maladministration. For a decade, austerity has been sold as a panacea to our growth problems and high debt costs. Yet, as successive Finance Ministers double down on austerity, these problems worsen. It is past time for politicians to realise that austerity is a *cause* of our economic stagnation, and more of the same will only bring us closer to the edge, whilst obfuscating the true lines of political accountability.

A budgetary regime which takes growth, employment, poverty, and inequality as seriously as debt stabilisation would ensure that resources are mobilised through: new forms of tax; new channels of concessional development finance; untapped pools of public funds; and credit allocation policies to lower the cost of available debt. It would reverse budget cuts and abandon National Treasury's quest for an immediate primary budget surplus. A development-focused budget would prioritise public investment in physical infrastructure, the care economy, and the green economy, all of which have been shown to have a positive impact on employment outcomes and GDP growth. This is the type of National Budget everyone should demand from National Treasury in February 2024.

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For further comment:

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