STATEMENT

GNU mini-budget maintains the status quo despite urgent societal needs

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The Medium-Term Budget Policy Statement (MTBPS) fails to provide the new coalition government (the so-called Government of National Unity, GNU) with a viable financial basis upon which to implement its key priorities. While the GNU likes to present itself as a new dawn, the MTBPS is, in nearly all respects, a continuation of the anti-poor allocations, strategies, and policies of previous administrations.

The MTBPS, as one of the first expressions of the GNU's commitments, must be evaluated against the three areas of priority it has identified for itself for the next five years, these are: to drive inclusive growth and job creation; to reduce poverty and tackle the high cost of living; and to build a capable, ethical and developmental state. It is difficult to see how the MTBPS enables progress on these priorities. Instead, it once again lays bare the ongoing contradiction at the heart of government, between fiscal policy and rights.

The fiscal strategy continues to undermine inclusive growth

The fiscal strategy will continue to stifle economic growth. In keeping with the previous administration, the fiscal strategy remains one that prioritises debt stabilisation through budget cuts above all else. While it may be some relief that, in contrast to the 2023 MTBPS, we see no new cuts to consolidated and main budget spending, this must not be misconstrued as a change in overall policy direction.

Although consolidated government spending will be higher by R42.7 billion over the next three years, compared to the February Budget 2024 commitments, consolidated non-interest expenditure is expected to grow by only 4.2% over 2024/25 - 2027/28, below CPI inflation of 4.5% and population growth of 1.5%. A growth of 6% in consolidated non-interest expenditure is necessary just to ensure that a similar level of services can continue to be provided. The MTBPS, therefore, continues the trend seen over successive budgets of reductions in spending per user for many vital expenditure categories, which we expand on below.

It is important we continue to call this fiscal policy what it is: austerity. We know, without question, that it damages the country's growth prospects while making the rich richer. Recent evidence shows that the effects of austerity on inequality are "exerted for up to two years, and are driven by concentrating income into the top ten percent of earners". Given that South Africa is already one of the most unequal countries in the world, a continuation on this path means the effects will last longer. As evidence shows, the impacts of austerity on the economy can last up to 15 years. Therefore, austerity can "permanently affect the expected path of GDP, and its effects on sustainability are exactly the opposite than its original goals".

While austerity has long been the ideology of the National Treasury, they are now attempting to lock it into future budgeting decisions, through a binding fiscal rule. As the IEJ shows in a newly released discussion document, '*Are Binding Fiscal Rules the Right Solution for Debt Sustainability in South Africa?*', fiscal rules can undermine legitimate contestation and negotiation of the budget by stakeholders, such as labour; encourage opaque accounting techniques; stifle growth; and are frequently violated. Internationally, success in implementing fiscal rules depends crucially on government-wide consensus. Despite the formal GNU political arrangement, the parties who hold the majority of executive and legislative power, the ANC and the DA, are still on opposite sides of this issue. We anticipate the release of National Treasury's discussion document on this issue by the end of March 2025 and look forward to participating in what must be a robust, broad-based, stakeholder consultation process thereafter.

Job creation and public employment

The failure to allocate sufficient spending to public employment in the MTBPS demonstrates the new government's unwillingness to reduce our record-high unemployment and improve the welfare of the public. Expenditure for 'job creation and labour affairs' continues to receive a minuscule (0.97%) share of the budget over the next three years. With the public sector wage negotiations currently ongoing, Treasury's provisional allocation may need to be revised so that departments do not, once again, have to manage costs by continuing the freeze on hiring posts.

Our government seems to view spending on public employment as an unwarranted drain on the fiscus rather than an investment in our collective future and is thus hell-bent on reducing it. This thinking is misguided. First and most trivially, a portion of public servants' salaries is recovered through the tax system. Second, more public servants (such as teachers and nurses) ensure

better service delivery, which is vital, especially for township and rural areas that depend critically on public services. These jobs are foundational to our economy and society.

Additionally, public employment through, for example, the Presidential Employment Stimulus (PES) and Expanded Public Works Programme (EPWP) are a net positive for the economy and society by helping with the beneficiary's well-being, higher consumption, and reducing the number of people who may resort to extra-legal means of getting income. Yet, there is no mention of how the Presidential Employment Stimulus will be expanded and improved going forward nor any credible job creation strategy put forward.

Resourcing Public Services

The financing of public employment is intimately tied to the issue of providing basic quality public services. The MTBPS acknowledges that the ratio of the number of public servants per public employee has increased from 44 to 48 between 2017/18 to 2023/24. This is the result of a failure to adequately resource public services since the commencement of austerity in 2012. The 2024 MTBPS, while moderately increasing real non-interest expenditure by 0.15% (in 2019/20 rands) on average over the next three years, still falls short of the levels required to address this challenge. We note that, in 2019/20 rands, spending per uninsured healthcare user will decrease from R4 116.78 in 2024/25 to R3 898.42 by 2027/28. On the other hand, spending per learner (in 2019/20 rands) moderately increases from R18 813.82 in 2024/25 to R19 372.11 by 2027/28.

While increased allocation to basic education is welcome, its long-term impact may be offset since expenditure on other public services such as healthcare is cut. Ultimately, this MTBPS reflects the National Treasury’s overall approach of pitting key priorities against one another.

Failure to adequately resource public services will disproportionately fall on women. Disinvesting in public services means privatising the economy's costs, with women’s time for employment and leisure dedicated to care needs that the government is failing to adequately resource. The gender-blindness of this MTBPS is no clearer than in the omission of updates on how the government will implement Gender-Responsive Budgeting (GRB). This is disappointing given the commitment in the 2024 Budget to include a gender budget statement in the MTBPS.

Reducing Poverty and Tackling the High Cost of Living

Between 2024/25 and 2025/26, social grants receive savage and unconstitutional nominal cuts. This is a direct result of National Treasury’s failure to provide for the Social Relief of Distress (SRD, R370) grant beyond 2024/25, despite repeated assurances by the President, the Department of Social Development, and other officials that the grant is here to stay, and will form the basis of a system of comprehensive basic income support for adults. Approximately 8 million people per month directly rely on the SRD grant to avoid severe hunger.

While the government claims that reducing poverty and the high cost of living is a priority, this is rendered hollow by its ongoing refusal to resource income support for working-age adults on a sustainable basis. National Treasury pits the SRD grant against other grants in an attempt to divide constituencies in need. While social grant spending on average grows by 1.8% over the medium term (though we do not know exactly how this increase will be allocated), the SRD is completely ignored. But the government has a constitutional obligation to *progressively realise* the right to social assistance. This has been the subject of litigation brought by the IEJ and #PayTheGrants, which was heard in the Pretoria High Court just this week. In these budget cuts, we see a clear violation of the government's obligations—they are significantly reducing the overall resourcing of social grants, and the number of people who have access to them. This will continue to be fiercely opposed by civil society.

A key method by which the government has sought to reduce the number of social grant beneficiaries—which we are challenging in court—has been by fully automating systems of application and verification. Evidence overwhelmingly shows that these measures have excluded roughly 50% of those eligible for the SRD grant. This is a cost-cutting policy, which leaves behind the most vulnerable (those without internet access and smart ID cards), and drastically reduces accountability in the system. It is deeply worrying then, that Treasury signals in the MTBPS that they will "intensify efforts to improve income verification and extend big-data cross-checking to all grants". We have long raised the alarm about the government's intentions to extend the harmful practices they have tested on SRD grant recipients to other grants, including the CSG.

Infrastructure and economic development

While the MTBPS largely maintains the status quo, there are some green shoots. Funding for infrastructure development sees an increase of 7.3% in real terms over the medium term. While this is welcome, we are very concerned that infrastructure development appears to be framed through the lens of mobilising private-sector finance.

The shift from state-led infrastructure development to Public-Private Partnerships (PPPs) and incentivising private financial investment in social services has failed, worldwide, to mobilise capital needed for investment. Instead, as research shows, by introducing profit incentives in the provision of basic rights it drives up user fees and hinders access to services, particularly for the most vulnerable. As the sewage spilling into the Thames River in London illustrates, privatising the provision of water services is no solution, resulting in large dividend payments to private investors with simultaneous under-investment in critical infrastructure. PPPs have similarly driven up the price, and driven down the quality, of water in Nepal and increased road user costs in Peru while needing to be rescued by public money. Overall, this approach to infrastructure development will render public services a luxury for the majority and undermine the capacity of the state.

The GNU's alleged push to build a developmental state is contradicted by continued underfunding for 'Industrialisation and exports' and 'Agriculture and Rural Development'. The development of an industrial base capable of increasing exports, as well as the transformation of the rural and agriculture sectors, have historically been central for countries that have shifted from backward/underdeveloped to rapidly developing countries. Yet, we instead observe an average real (2019/20 rands) decline of -2.93% and -3.9% over 2024/25 - 2027/28, for 'Industrialisation and exports' and 'Agriculture and Rural Development', respectively.

Measures to raise revenue

The MTBPS is silent on progressive measures to raise additional revenue, only noting that any increases will reduce household income and savings. It is important to note that not all households are equal, with high-income earners, the wealthy, and corporations benefiting from tax breaks. These tax breaks need to be removed whilst taxes on wealth, and financial transactions are implemented.

As the Minister of Finance stated in his speech, the G20 provides a unique opportunity for South Africa to build on Brasil's Presidency while putting forward an Africa-focused agenda. Such an agenda, however, needs to be bold following the leadership of the Africa Group, which has spearheaded the resolution of the United Nations Convention on International Tax and Cooperation (UNFCITC). The National Treasury's position that South Africa can both implement OECD's GloBe rules and fully participate in the UNFCITC is out of touch with the progressive position of the African Group. There can be no complementarity between democratic and intergovernmental processes at the UN and the OECD's two-pillar solution. Similarly, the GNU's weak position on taxing South Africa's rich more, and silence on the African debt crisis, are out of step with the Global South leadership that Brazil has so provided this year at the G20.

Way forward

Fiscal policy and the budget should be seen as tools to maximise economic growth and alleviate unemployment, poverty, and inequality. This should be based on an approach that centres on human rights, taking into account how economic policy decisions affect different groups and pursuing progressive measures to raise revenue to realise socio-economic rights.

Fiscal policy should also aim to stimulate domestic demand, targeting key sectors of the economy to support job creation and structural transformation. In the long term, such a shift will spur growth, alleviate debt levels, and improve tax revenue.

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