Summary of Public Economy Project's submission to Joint Sitting of Finance Committees on the 2023 Medium Term Budget Policy Statement, 8 November 2023

1. The medium-term budget policy statement reveals a deepening fiscal crisis in South Africa, marked by economic stagnation, higher interest rates, and increasing debt costs. The government's fiscal strategy is shifting towards a stronger negative impact on growth, with core spending being reduced to manage rising debt. Despite hopes of increased investment spending, the reality is uncertain.

2. The economic growth crisis is now a fiscal crisis. Austerity measures over the last decade have failed to stabilize debt, leading to lower demand, growth, and a weakened state infrastructure. The situation is exacerbated by falling GDP per capita, making debt stabilization unlikely. Immediate actions are required to restore electricity supply and enhance export infrastructure, alongside a broader program for economic transformation aimed at addressing inequality and growth.

3. The February budget faced several miscalculations, including overly optimistic growth and revenue projections, incorrect assumptions about the permanence of the commodity windfall, and a failure to anticipate the severity of the downturn in commodity prices. This led to a misjudgement in Corporate Income Tax and Value-Added Tax estimates, impacting exports, investments, and household consumption.

4. The government's response to these discrepancies includes substantial in-year resource allocation changes, effectively creating a new budget. There's a significant reduction in medium-term expenditure and a moderate revenue increase. These adjustments, totalling R72 billion, represent a substantial shift in government resource allocation and policy priorities, questioning the constitutionality and practicality of such changes.

5. The revised budget strategy indicates a deeper and more sustained path of austerity, with real government consumption and spending on core services like health, education, and social development set to contract significantly. This could lead to deteriorating service provision and a weakened state. Notably, real spending on basic education and healthcare is projected to decrease by R16 and R14 billion, respectively, raising concerns about the impact on education outcomes and healthcare delivery.

6. The government proposes funding the Presidential Employment Stimulus by repurposing existing programs, but questions remain about the feasibility and effectiveness of targeted program cuts and efficiency gains in the public sector. There is scepticism about achieving significant fiscal savings through these measures, especially given the challenges of implementing them on a large scale and within a constrained budget.

7. In summary, the government faces a challenging fiscal landscape, with the need to balance austerity measures against the impact on service delivery and socio-economic rights. The path of fiscal consolidation seems set to continue, with significant implications for government consumption and frontline services. The government must navigate these challenges while ensuring the sustainable delivery of essential public services and fostering growth and development.

8. The Public Economy Project baseline projections of key fiscal metrics suggest that the government's fiscal objective of debt stabilization may not be realised over the MTEF. The PEP's fiscal projections take into account additional expenditure pressures over the medium term not included in government official projectsions. This assessment adds another layer of complexity to the government's fiscal challenges, underscoring the difficulty in achieving a balance between necessary austerity measures and maintaining essential public services, while also dealing with rising debt and economic stagnation.