Budget Background February 2023

Preparation for SABC feature looking back at the previous budgets to unpack South Africa's state of finances and the major challenges etc.

Please quote, Dr Kenneth Creamer, Economist at Wits University

Period from 1994 to 2000

Back in 1994, the democratic government inherited a highly unequal and stagnating apartheid economy, characterised by low growth, low hope in the future, mass uprisings against apartheid and international isolation. Over many years the apartheid budget had been designed mainly to serve the privileged white minority – with unequal access to education, health and other services.

The first democratic government made interventions to begin to transform South Africa into a more equal society. It was also priority for the first democratic government to stabilise public finances and avoid falling into a debt trap. Leading to the criticism that not enough was invested in infrastructure and reconstruction and development during this time.

Period from 2000 to 2008

During this time, the world economy went through benign period of relatively good growth and low inflation. A major benefit for South Africa was high commodity prices – driven in large part by the expansion and growth of the Chinese economy that was buying global minerals like coal, iron ore, manganese and ferrochrome.

The South African economy grew consistently in this period, jobs were created and the unemployment data shows that unemployment came down. When the economy grows like that government finances get much stronger – there was even a brief moment when South African had a budget surplus. It was also a time when we began to build infrastructure in preparation for the 2010 World Cup.

The AIDS crisis did reduce life expectancy in SA significantly during this period, and there was major pressure on government to roll out ARV's and respond correctly to the crisis.

Period from 2009 to 2017

In this period the situation rapidly deteriorated for the South African economy due to a confluence of negative global and domestic factors.

Globally, the Great Recession struck due to a major banking and financial crisis in the United States and other countries. Growth in South Africa's trading partners fell leading, commodity prices also fell, and these factors resulted in falling growth and job creation in South Africa.

Domestically, this time saw the beginning and then persistence of load shedding, as it became clear that we had not invested enough in our electricity infrastructure. The period also saw a rise in corruption and state capture – where services declined as public money was stolen and public institutions were repurposed to serve the interests of corrupt politicians and criminal elements working in business and state owned companies (as detailed in the Zondo Commission report).

This lead to very low growth and negative per capita growth where the population was growing faster than the economy. Unemployment, poverty and inequality began to rise again for the first time since democracy in 1994.

Public finances were severely impacted – low growth resulted in large budget deficits and the national debt rose quickly from around 25% of GDP to nearly 70% of GDP. This weakened state capacity further as more and more tax revenues have had to be used to pay back the debt rather than to pay for public services and infrastructure.

The Period from 2018

From 2018 there was much promise that there would be a new dawn and we would put the era of corruption and state capture behind us and that we would restore investment, growth and job creation. Again global and domestic factor have made this difficult.

The global Covid pandemic from 2020 to 2022 resulted in the deepest recession that the world and South Africa had seen for nearly 100 years. Special measures were put in place to help those in need with special grant payments and to help businesses to pay their salaries and survive the periods of Covid lockdowns. The Russia-Ukraine war has pushed up energy and food prices and threatens a global recession.

Domestically, investment levels have fallen from the targeted level of 25% of GDP to less than 15% of GDP. Loadshedding has become much worse and is also dragging down investment, growth and employment levels.

As the country approaches the budget this week, a decisive response to loadshedding is the country's number one priority, government has signalled that it intends to strengthen Eskom by taking over some of its debt and taking forward its restructuring.

Also it is expected that incentives will be put in place to make it easier for businesses and households to invest in solar panels and batteries to reduce the impact of loadshedding on ordinary people and the economy.

This must be balanced against other priorities such as social grants, service delivery, infrastructure, public employment programmes, and public sector wages, while at the same time avoiding ever deepening national debt.

It will be a difficult balancing act, and it is one that we cannot seriously hope to succeed at if loadshedding is not reduced, and then brought to end, decisively in the months and years ahead.