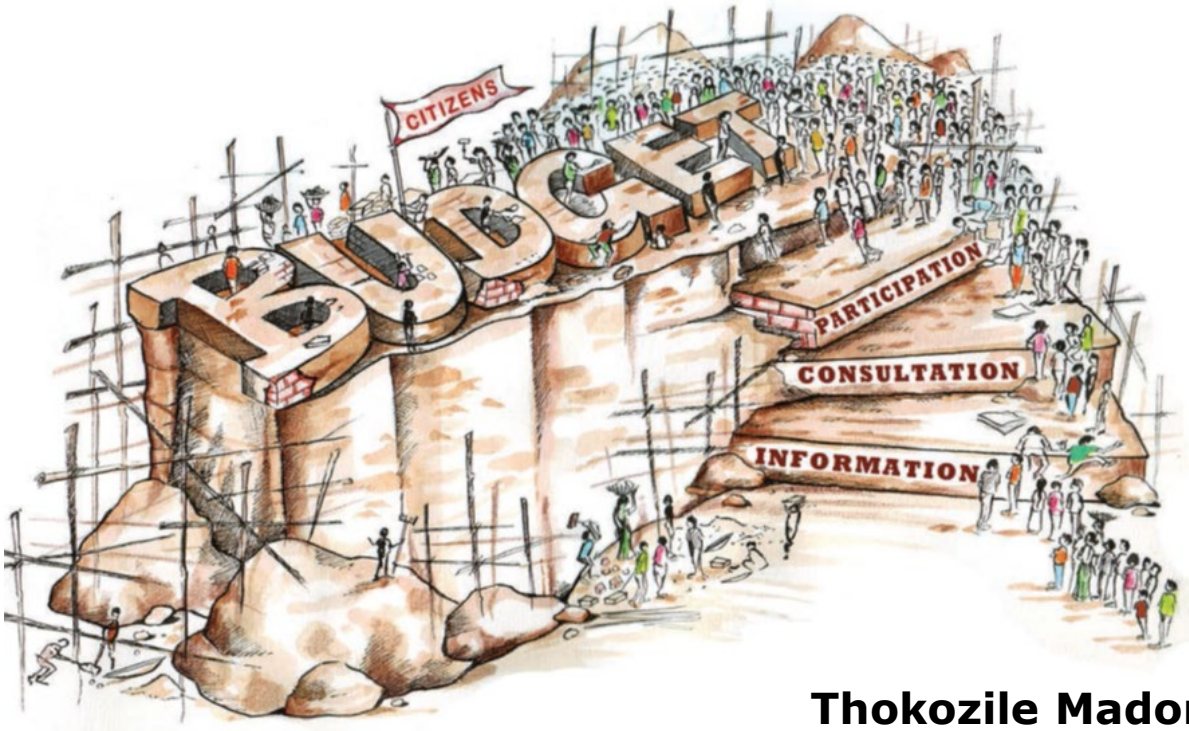




Exploring the impact of austerity budgeting on South Africa's public services



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05/03/2025

The South African Budget Process

The Government's Money is the People's Money

The Budget is always a **POLITICAL EXERCISE** that starts with political choices about priorities and ends with **POLITICAL CHOICES** about which programs and projects get funded.

That's Why We Are Here – Monitoring The Government's Actions –Commenting On Its Policies & Plans And Challenging Them To Be Rights-Based, Equitable, Sustainable and Just



DID YOU KNOW?
ECD has been recognised by government as a fundamental and universal human right to which all young children are equally entitled without discrimination.

EELC EQUAL EDUCATION LAW CENTRE

The infographic features a circular photograph of a young child in a striped shirt and pink pants playing with colorful blocks on a wooden floor. The background is dark blue with yellow stars and a white cloud icon. The text is presented in a red speech bubble and a white box at the bottom left.

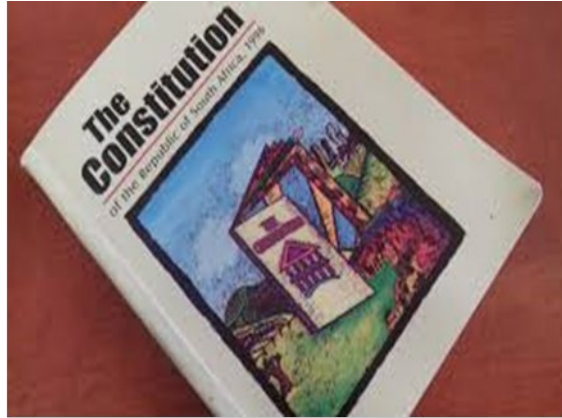
Why should we focus on Economic Policy?

WHAT IS MACROECONOMIC POLICY?

Macroeconomic policy is the use of monetary and fiscal policy to achieve economy-wide objectives. Monetary policy is typically conducted by central banks and comprises decisions about interest rates, financial regulation and inflation targeting. Fiscal policy is determined by the government and covers public expenditure, taxation and borrowing.



The Starting Point is Always Policy and Planning



Budget Prioritisation Framework: *TOWARDS BUDGET 2024/25*



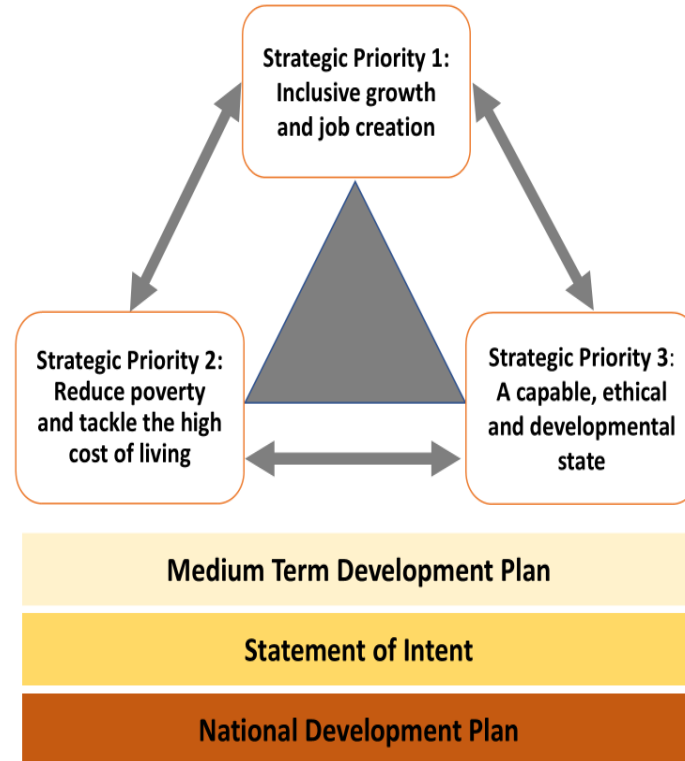
SOUTH AFRICA'S 2030 STRATEGY FOR EARLY CHILDHOOD DEVELOPMENT PROGRAMMES *EVERY CHILD MATTERS*



What the new Medium-Term Development Plan Says

Approach to the draft MTDP: Three Strategic Priority Areas

- Following the **Opening of Parliament Address on 18 July 2024**, the President announced and confirmed the **Strategic Priorities** and priorities for the 7th Administration of Government.
- The next steps are that the Strategic Priorities will be supported by detailed interventions and targets within the draft MTDP.
- The draft MTDP 2024-29 proposes **three strategic priorities** which are: i) Inclusive growth & job creation; ii) Reduce poverty and tackle the high cost of living; iii) Build a capable, ethical & developmental state.
- **Inclusive growth and job creation will be viewed as an Apex priority.** All spheres of government, clusters and sectors will prioritise relevant economic interventions.
- The three strategic priorities are interrelated and interlinked.
- A capable state plays a key role (direct and indirect) within the economy through regulation, network industries and by creating an enabling environment, and that law and order are maintained.
- The social wage is a key instrument for poverty reduction and is a safety net for the vulnerable. It also ensures that we have a skilled and healthy workforce, enabling infrastructure and basic services.



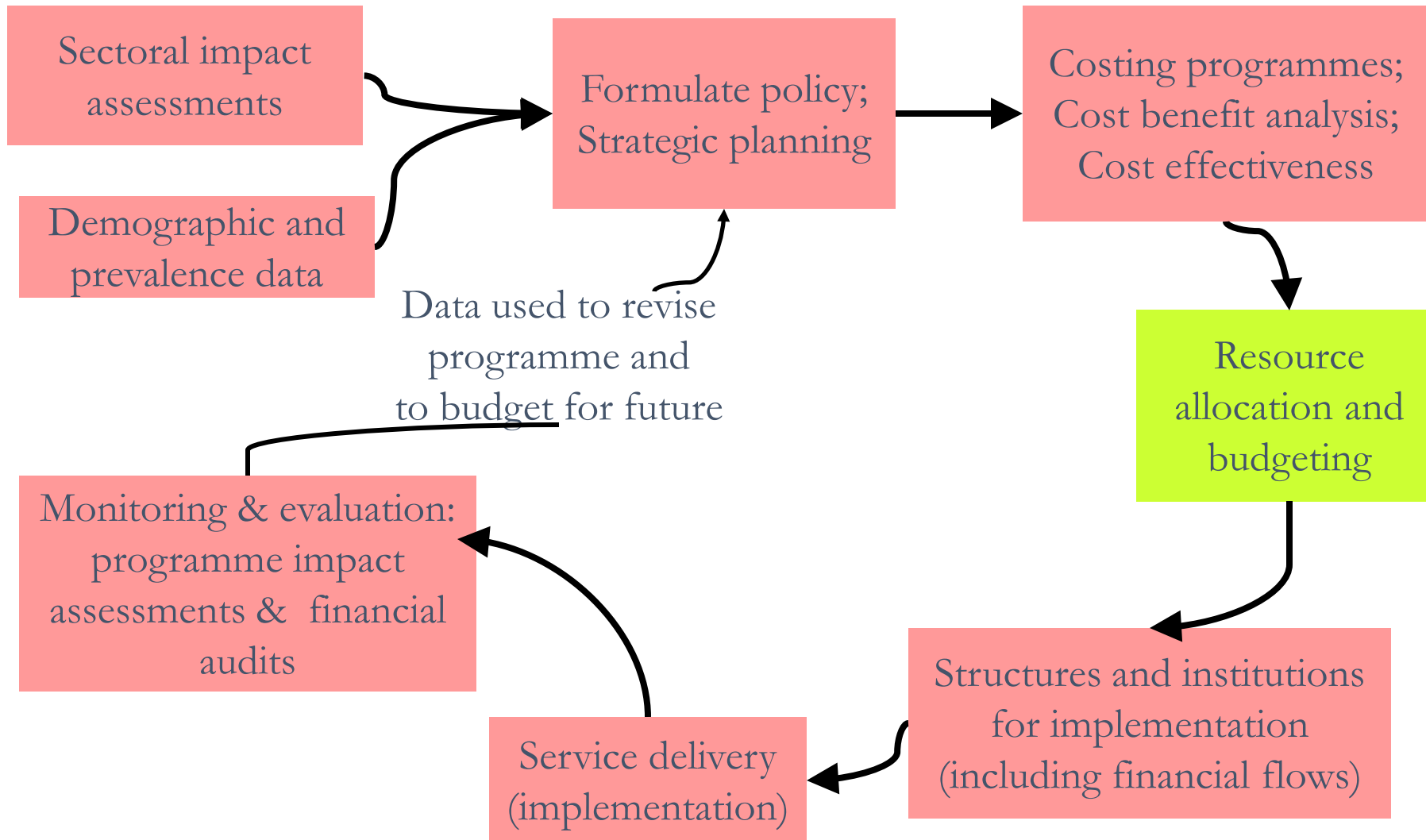
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Basic Education and Skills

Basic Educations

- Continue on programme to universalize ECD
- Continue the program of registering ECD providers
- Programs to improve competency levels in reading and numeracy skills should continue with progress measured through the new Systemic Evaluation, PIRLS, SEACMEQ and TIMSS
- Implement programs to attract more learners into the new technical subjects that have just been introduced
- **Continue eradicating inappropriate school infrastructure monitor efficiency and contract management**
- **Focus on infrastructure maintenance and put measures to reduce vandalism**

Where do budgets fit into policy-making & service delivery?



PURPOSE OF THE BUDGET



A quick look at key legislation

The Constitution, 1996

- Establishes three spheres
 - National, 9 provinces and 284 municipalities (2000 demarcation) & assigns functions (Schedules 4 & 5)
 - some functions are concurrent, other are exclusive
- Although spheres are distinctive Constitution prescribes
 - cooperative governance S(40 & 41)
 - sharing of revenue raised nationally
- There is provision for different forms of intervention
 - Sections (100 for provinces & 139 for Local Gov)

Intergovernmental Fiscal relations Act, 1997

- Establishes Budget Council (MoFin & 9 MECs of Fin) to facilitate consultation on:
 - financial & fiscal matters
 - legislation &/or policy with financial implications
 - matters pertaining to financial mgt & monitoring
- Also establishes Budget Forum
 - which is BC plus organised local government
 - does all of the above w.r.t. local government

The Financial & Fiscal Commission Act, 1997

- sets out functions of the FFC, which include acting as a consultative body for, and making recommendations and giving advice to, organs of state on financial & fiscal matters

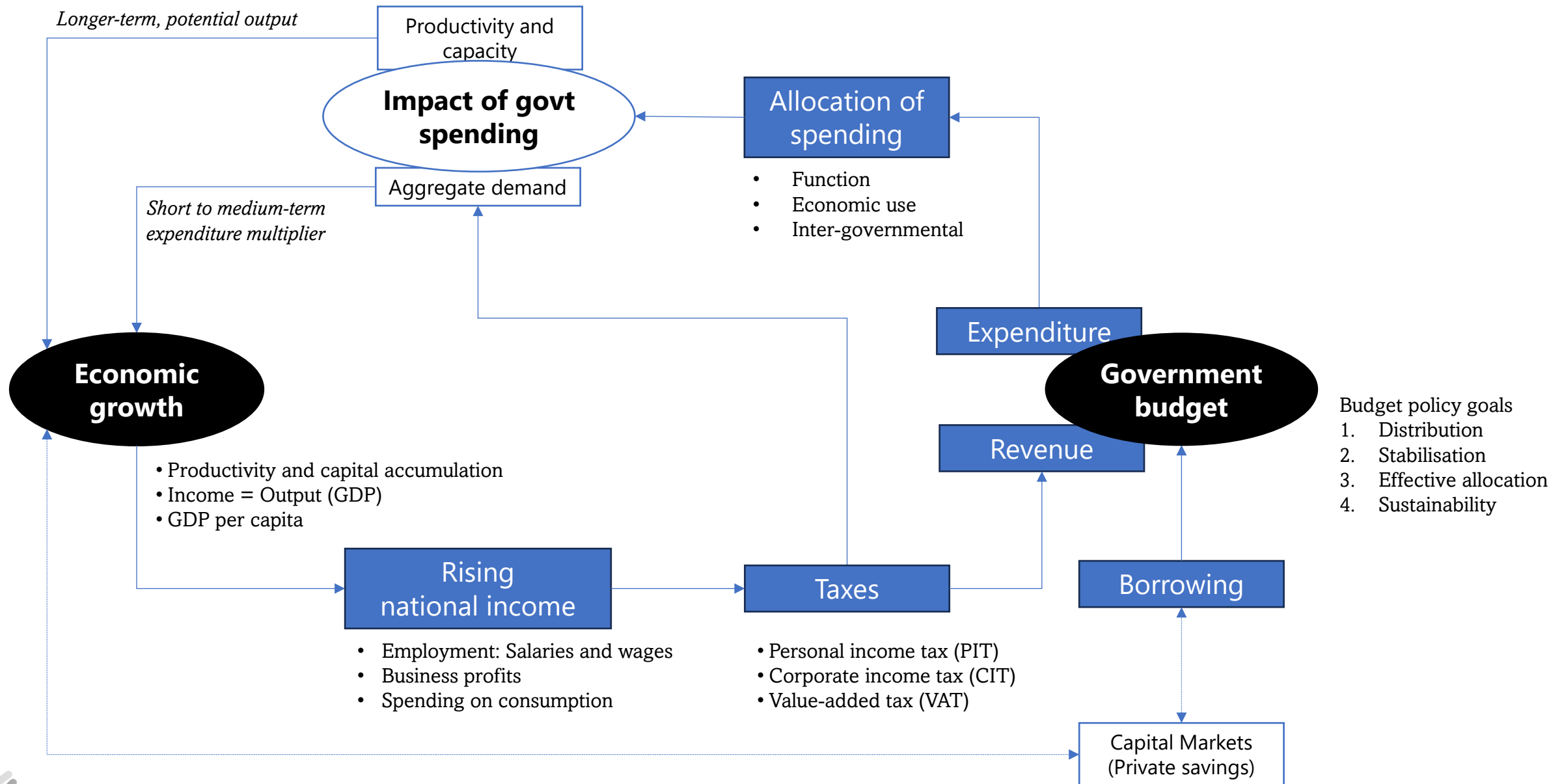
The Public Finance Management Act, 1999

- Financial management
- Procedures relating to budgeting, budget formats & financial management & reporting

Money Bills Amendment Procedure and Related Matters Act 2009

- Objective: to provide for procedure to amend money bills before Parliament and for norms and standards for amending money bills before provincial legislatures and related matters
- This gives effect to section 77(3) of the Constitution *“All money Bills must be considered in accordance with the procedure established by section 75. An Act of Parliament must provide for a procedure to amend money Bills before Parliament”*
- Section 15 of the Act establishes a Parliamentary Budget Office

Economic growth and government's budget



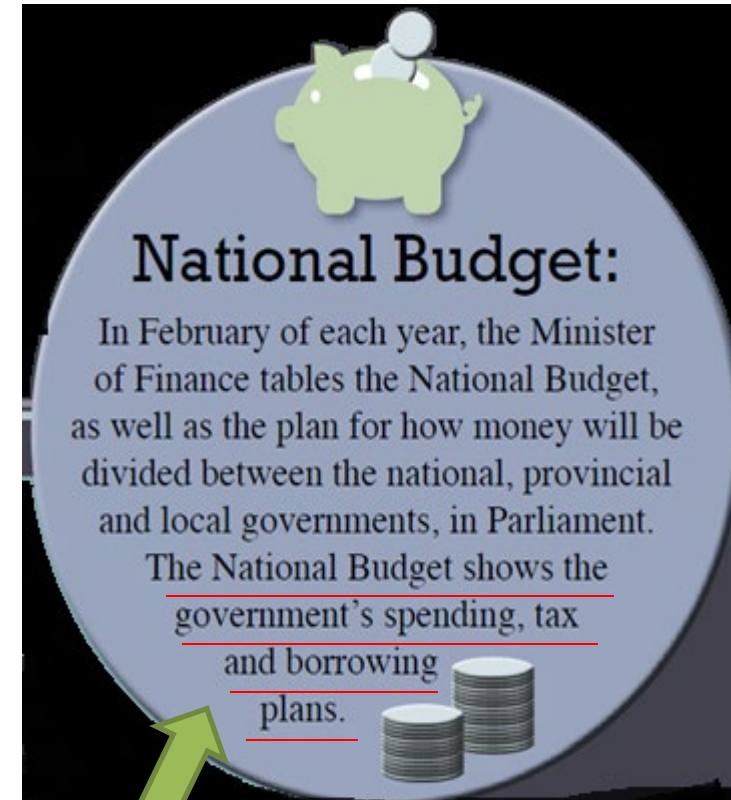
- Budget policy goals
1. Distribution
 2. Stabilisation
 3. Effective allocation
 4. Sustainability



The Fiscal Framework Defined

the framework for a specific financial year that gives effect to the national executive's macro-economic policy and includes— (a) estimates of all revenue, budgetary and extra-budgetary specified separately, expected to be raised during that financial year; (b) estimates of all expenditure, budgetary and extra-budgetary specified separately, for that financial year; (c) estimates of borrowing for that financial year; (d) estimates of interest and debt servicing charges; and (e) an indication of the contingency reserve necessary for an appropriate response to emergencies or other temporary needs, and other factors based on similar objective criteria.

***Money Bills Amendment Procedure
and Related Matters Act***



There are some fundamentals to Remember about Public Finance

1. Budgets are Rigid - Consider what makes budgets rigid:
 - Compensation of employees
 - Contracts
 - Pensions and Social security payments
 - Debt repayments

These factors limit the amount of money that can be shifted in a single financial year.



2. Budgets have winners and losers

...

- All budgets are based on balances and political trade-offs or “What I get is what you don’t get”.
- Where should one look for this money? What trade-offs would need to be made to resolve your problem?
- What are the political costs that would result from the change in the budget that you want?



Fiscal Consolidation aka Austerity

- Fiscal consolidation, adjustment or constriction measures (more commonly referred to as austerity measures)
- Defined as legal or policy changes which aim to lower public expenditure and tame growing sovereign debt burdens (oecd, 2011)
- Nature and mix of fiscal consolidation policies vary from one country to another
- 4 Most common fiscal consolidation measures are
 1. public expenditure cuts (*South Africa's main path*)
 2. regressive tax changes (*one could argue increase in VAT & decrease in CIT*)
 3. labour market reforms
 4. pension reforms
- NB- not all fiscal constrictions are inherently harmful – e.g. cutting truly wasteful public spending can provide much needed revenue for social services.

ASSESSING AUSTRITY: A FOUR-STEP FRAMEWORK



Key Problem of Austerity



LIMITED ROLE FOR THE GOVERNMENT

Policies of the state prioritize the wealthy and big corporations (protect private property)

Privatisation of public goods – making people pay for essential services such as healthcare, education, water, public transport

Unable or unwilling to adequately address systemic crises such as climate change, economic instability etc.

What research tells us...

- Every year, the budget gives concrete numerical form to policy goals. It shows citizens the choices government is making about investments and the provision of services. It enables government departments to plan not use these resources effectively. (Sachs et al, 2023)
- These spending choices, and how they are financed have direct consequences for the welfare of citizens and the distribution of income. (Sachs et al, 2023) – Policy Priorities in Health for example.
- Austerity's social and economic effects intersect with deepening political inequalities (CESR,2018)
- Austerity induces severe economic costs through lowering GDP, employment, private investment, and wages. Austerity-driven recessions amplify the political costs of economic downturns considerably by increasing distrust in the political environment (Gabriel et al, 2023)
- Research conducted in 25 European countries covering the period 1919 to 2008 show a clear link between the magnitude of expenditure cutbacks and increases in social unrest (Gabriel et al 2023).
- Implementation of austerity in Greece, cases of HIV infection leapt by 52% when the government cut its budget for needle-exchange programmes. (IEJ,2018)
- Even the IMF found that found that programmes implementing fiscal consolidation did so in ways that disproportionately burden people on low incomes.



Critical Issues in Relation to Budget 2025



I don't have to tell you - the picture we're focused On

Figure 2: Snapshot of young children in South Africa

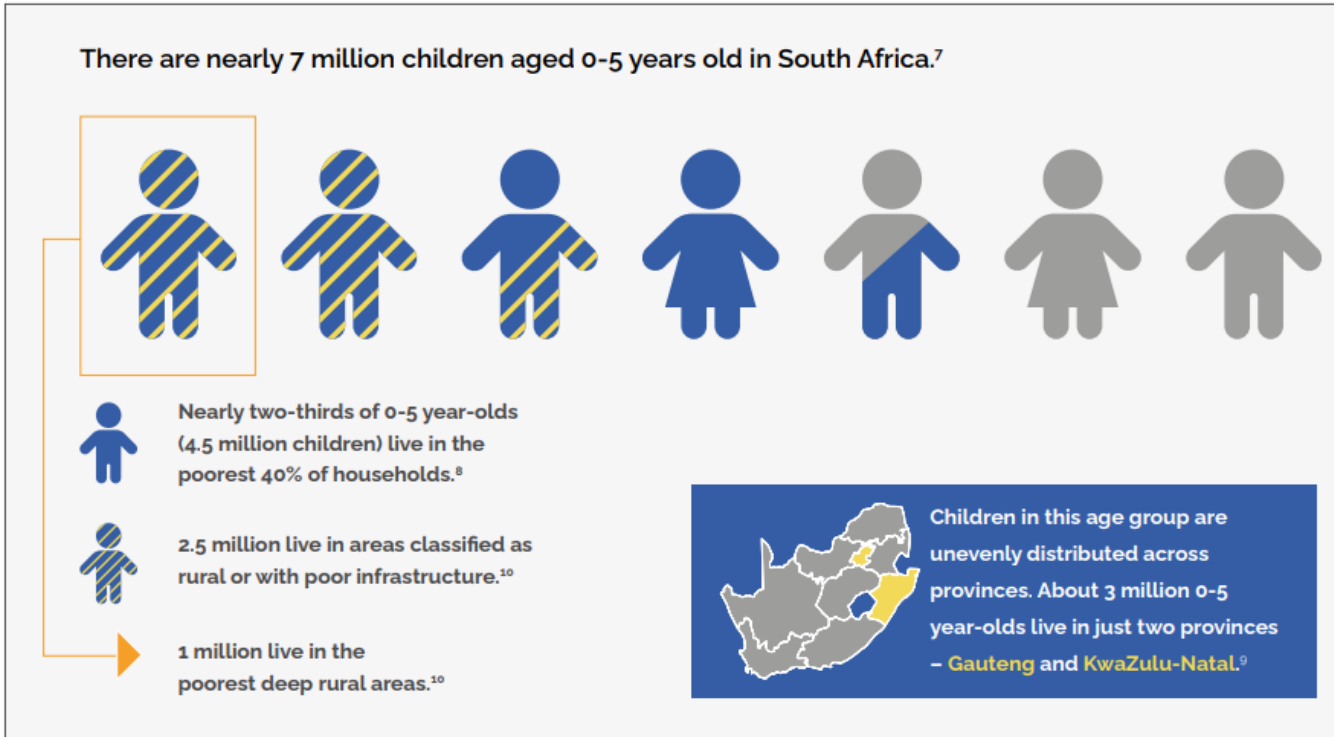


Figure 3: Snapshot of early learning programmes in South Africa



Spending pressures in the Feb 19 budget proposal

Item	2025/26	Remarks
COVID-19 SRD grant	35.2	
Healthcare frontline services shortfall	9.3	Provincial health compensation costs, unemployed doctors and goods and services
2025 public-service wage agreement	7.3	Covers 5.5% COLA for govt employees in 2025
Education: compensation shortfall	5.3	To prevent larger class sizes and accommodate grade R expansion
Presidential employment stimulus	4.6	This remains unfunded after 2025
Various infrastructure projects	3.3	BFI allocations
Home Affairs	3.0	Digitisation and human resource capacitation
Early childhood development	2.8	First year of a R10 billion to increase grant value from R17 - R24 (per child, per day), and expand access
Defence compensation shortfall	2.5	
SANDF troop deployment in DRC	1.8	
Western Cape Rapid Schools Build Programme	1.0	BFI allocation
Correctional services headcount shortfalls	0.8	To prevent falling headcounts
Direct charges	0.6	
SARS	0.5	Spending adjustments and further support
SANRAL debt repayment	8.7	* R5.5bn: Gauteng province, R3.2bn NT: Not clear why this is regarded as an addition to the budget.
Social grants above-inflation increases	6.3	* This is to offset a VAT increase
Passenger Rail Agency of South Africa	5.9	* It is not clear that PRASA will be able to spend all this additional money in 2025
Early retirement costs	4.4	* Why fund early retirements and top up departments for headcount shortfalls?
Turnaround trading services in metros	2.4	* Performance-based grant for metros; depends on achieving targets for revenue collection, service delivery ...
Disaster management	1.9	* The purpose of this grant is not explained in the Budget Review
Spending additions to various institutions	1.4	* Includes G20 and ICASA spectrum auction cost in 2025/26, new ministries and deputy ministries carry-through costs
Total	109.1	
Financing available within budget envelope	-41.3	Provisional allocations and technical adjustments (Table 3.4 in nonBudget Review)
Unfinanced spending increase	67.8	
<i>Removing flagged items (*)</i>	<i>-30.9</i>	
<i>5% cut to all other items</i>	<i>-3.9</i>	
Remaining total to be financed in 2025/26	32.9	



The DEVIL is always in the Detail – MTEF Guidelines

3. PRINCIPLES FOR THE 2025 MTEF

Due to slow economic growth the budget is again formulated within a tight fiscal environment and the following policy guidance should be taken into consideration when preparing the budget submission to provincial treasuries:

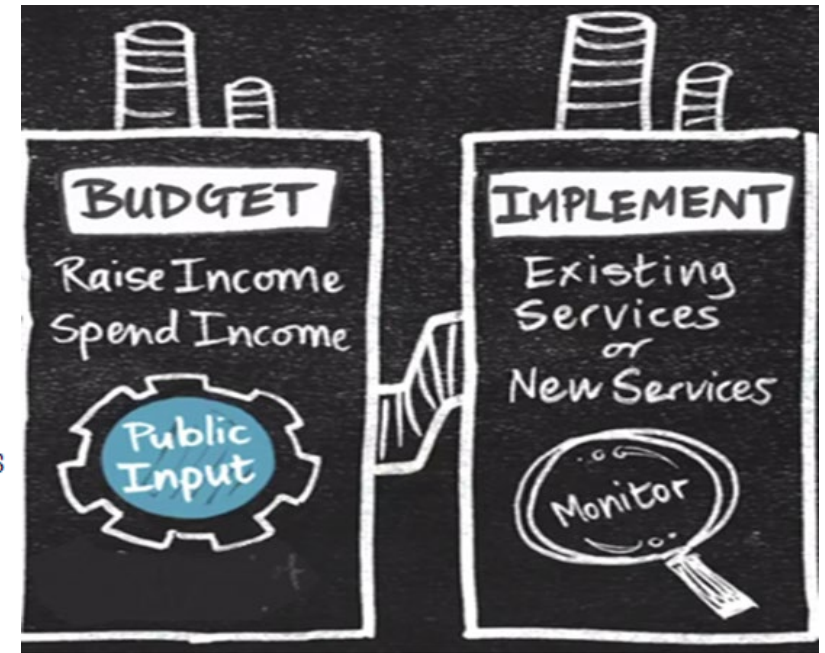
- 3.1 The 2025 MTEF process will be underpinned by the announced goal by the National Treasury, of stabilising and then reducing the government debt as a percentage of economic output. To achieve this, government must run a primary surplus, which means that non-interest spending must be lower than the projected revenues by a margin sufficient to prevent a further increase in government debt.
- 3.2 In light of this, the total spending envelope will be maintained within the parameters set out in the 2024 MTEF.
- 3.3 Resources will only be available within the parameters required to meet the objectives of the medium-term fiscal strategy as outlined in the 2024 Budget Review. In this regard, should the economic outlook remain the same, no additions will be made to the overall envelope. In instances where spending may be accommodated by unforeseen or higher-than-expected revenues, permanent increases to spending will be avoided.
- 3.4 Any spending pressures must first be funded from current baselines and programmes that have not delivered their expected outcomes.
- 3.5 Any funding pressure to a programme will need to be funded through reprioritisation, either within the provincial department's or public entity's budget, or from other provincial departments' or public entities' budgets.
- 3.6 The 2025 Budget process will maintain the compensation ceilings of provincial departments within the existing limits, implying a trade-off between the unit cost of labour and the total size of the staff establishment in each department. Only extreme and critical exceptions to

Budget proposals and budget arithmetic

- A budget is an exercise in accounting, which means that each year's budget must add up :

$$\begin{array}{ccccccc} \text{Spending on} & & \text{Spending on debt} & & \text{Tax} & & \text{New} \\ \text{programs} & + & \text{service costs} & = & \text{Revenue} & + & \text{borrowing} \\ & & \text{(interest payments)} & & & & \\ & & & & & & \end{array}$$

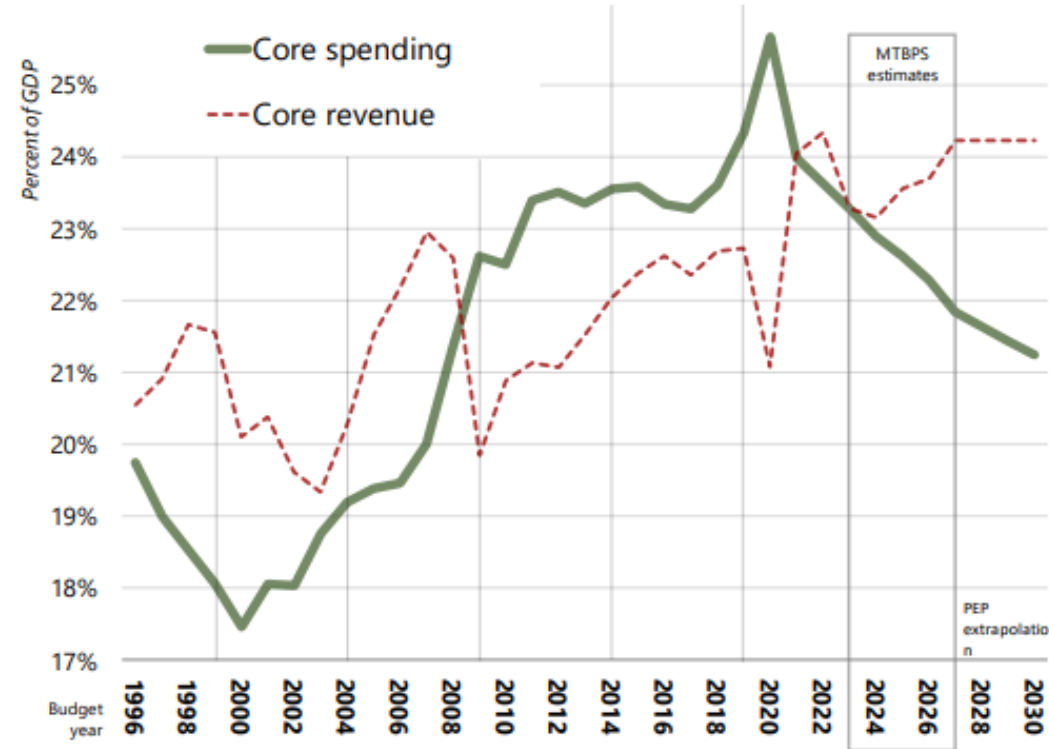
- The February 19 budget proposal:
 - Claimed that if govt sticks to the harsh austerity set out in MTBPS the national debt will stabilise
 - Acknowledges that there are large spending pressures that are not part of the MTBPS baseline and then adds R68 billion to total expenditure to accommodate these pressures
 - Rules out new borrowing to finance this spending
 - Balances additions to spending with a R58 billion VAT hike + R3 billion PIT increase
- There is limited time to finalise a new budget before March 12
- What is to be done?



Policy baseline: a declining size of the state amid rising uncertainty

Figure 1: Budget policy baseline

Core spending and revenue as share of GDP



Source: National Treasury budget data; Public Economy Project calculations

Note: The graph shows the policy assumptions that underpin the fiscal stance if it is maintained in line with treasury assumptions set out in the MTBPS, October 2024. The graph extrapolates the path assuming that revenue remains constant and spending aligns with the Treasury's "fiscal framework assumptions for the long-term main-budget baseline". Real non-interest expenditure grows by 1.2 per cent annually from 2028/29 onwards, informing the debt projection. (see MTBPS p65)



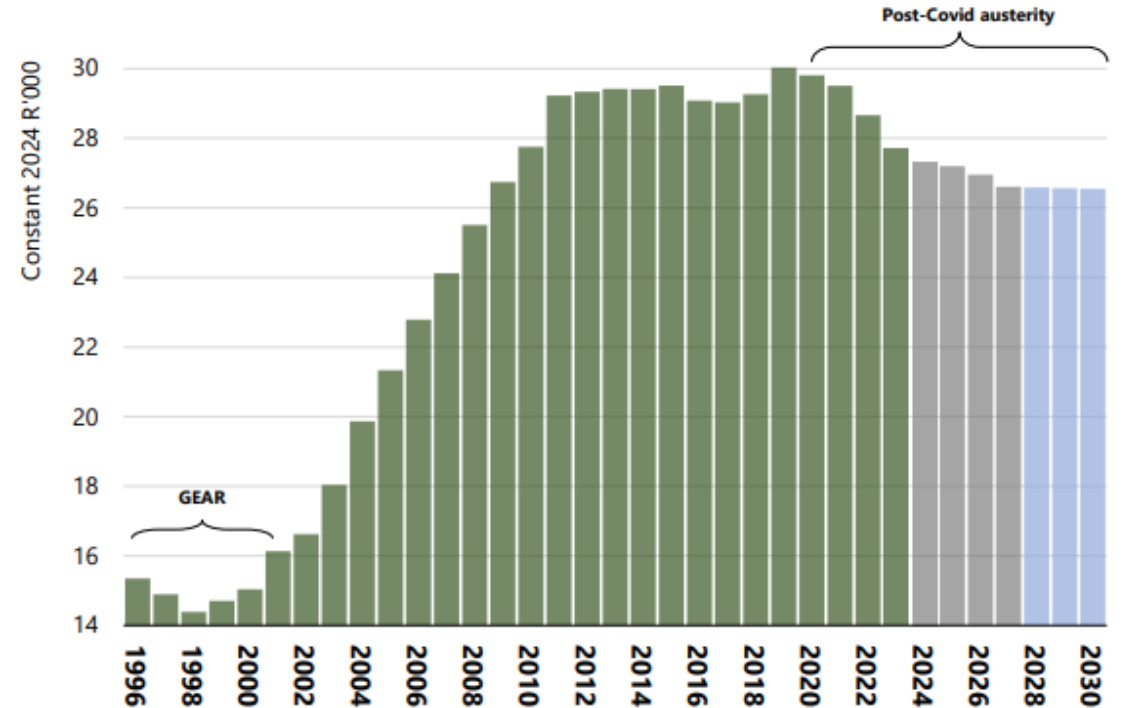
Austerity mission accomplished?

- Government has reduced real spending per capita over the last five years
 - Since the COVID pandemic, core spending has fallen by R2,325 per South Africa from R30,440 (in 2019) to R28,116 (in 2023).
- This has been the largest expenditure reduction in South Africa's democratic history.
 - The last period of austerity associated with GEAR led to a 6.3% reduction in real per capita expenditure
 - The post-COVID austerity has already seen a reduction of 7.6%.
- The budget envisages a continuation of austerity, aiming to reduce expenditures per person a further 3.5%, or nearly R1000 per South African

Real core spending per capita

Figure 2: Wither service delivery?

Real core spending per capita



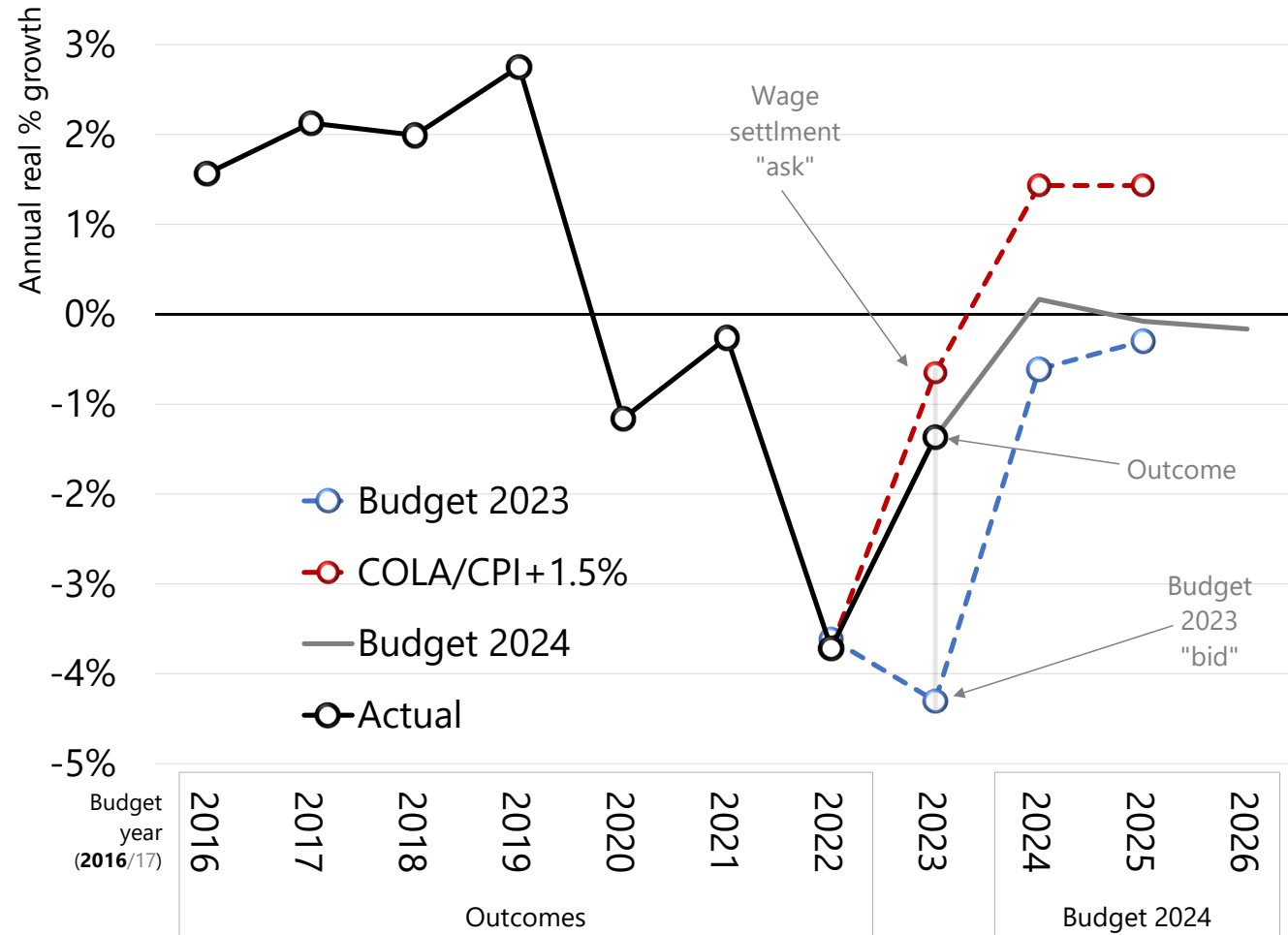
Source: National Treasury budget data; Public Economy Project calculations



Salary bill contained

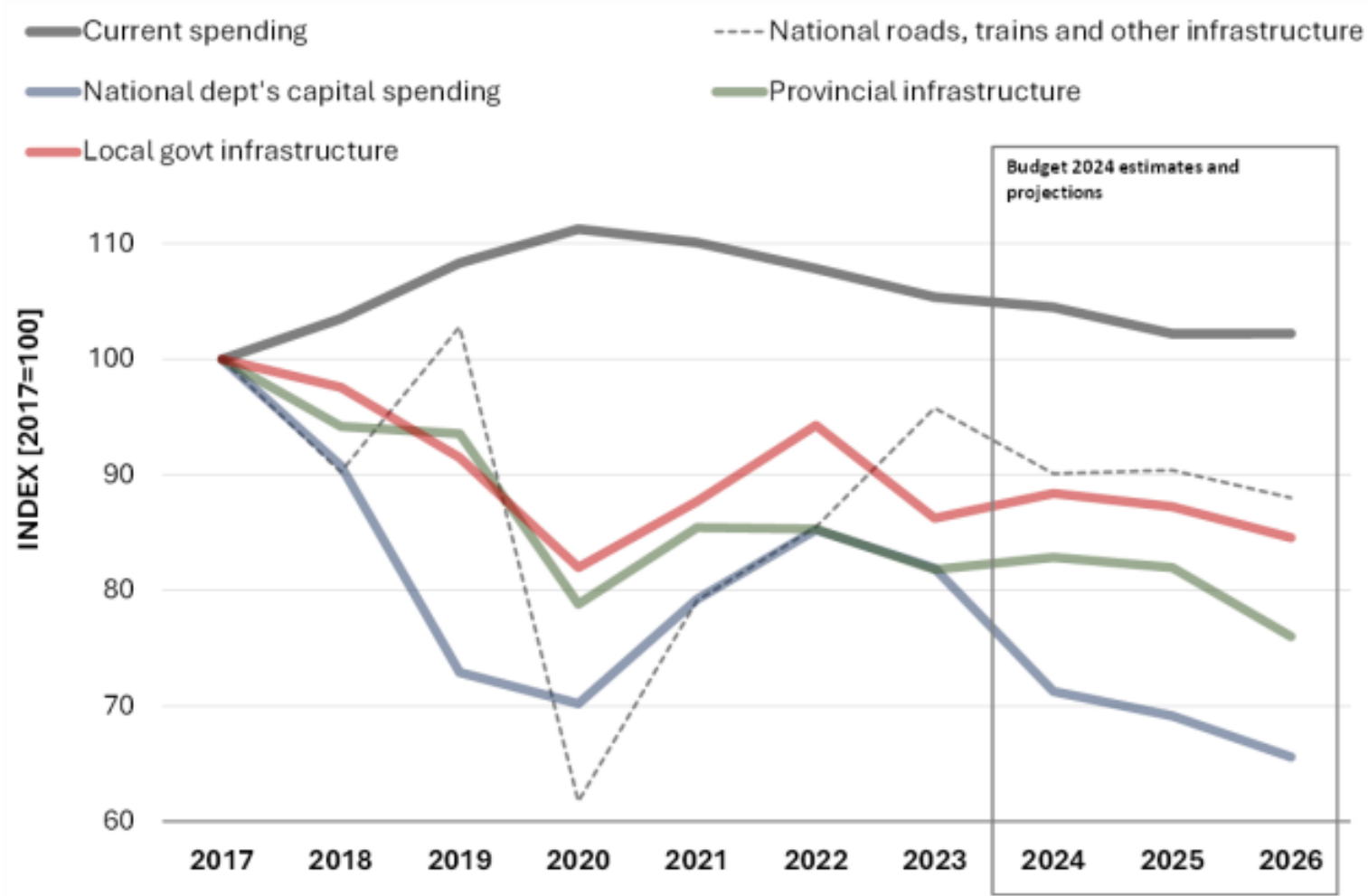
- Compensation spending has fallen in real terms for the last four years.
- Underfunding of the wage bill is locked into future budgets.
- If wage bill growth aligns with CPI from 2024 on, headcounts will need to fall, permanently reducing the number of government employees
- We estimate the wage bill pressure in 2023 and 2024 to be between R10-15 billion or 20-30 thousand employees
- Salary bill trends are varied:
 - A substantial additional allocation was made to police
 - Continued pressures on health and education, particularly in 2024

Real growth of salary bill



Less and Less in the budget for capital

Index of real capital and current spending financed by the main Budget



Source: National Treasury budget data; Public Economy Project calculations



John Maynard Keynes: the boom, not the slump, is the right time for austerity.

- [Research](#) by Ozlem Onaran and Cem Oyvatt, both economists at the University of Greenwich, shows that investment in care, green economies and public infrastructure is expected to have a strong positive effect on GDP and employment in both emerging and high-income economies.
- Just 1% of yearly investment (as a ratio of GDP) in the care economy for five years is estimated to increase GDP by 6.9% and total employment by 8.8% over a five-year period.
- Education, health, social development and childcare are at the core of the care economy.
- A green economy includes renewable energy, energy efficiency and public transport. Public infrastructure refers to gross fixed capital formation: investments in long-term assets like hospitals, clinics, roads and equipment that will help improve services.
- Investing in care, the green economy and infrastructure would be mostly self-financing because it could generate revenues.



THANK YOU

