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NOTE OF COMMENT

THE 2020 SUPPLEMENTARY BUDGET PRESENTED TO PARLIAMENT TODAY BY FINANCE MINISTER TITO MBOWENI

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'Heavenly vengeance pursues a crime slowly but nevertheless catches up with it in the end. In matters of debt the penalty is not halting; it pursues the culprit at a gallop' (Anon)

'The supplementary Budget presentation by Finance Minister Tito Mboweni was inevitably going to be a 'bad news' one, with a bleak economic outlook. It confirmed that the country is facing its biggest budget deficit on record and the largest GDP contraction since the 1930s. The impact of Covid-19 globally and domestically, the prolonged lockdown of the local economy - combined with SA's weak economic pre-preconditions and universal 'junk' status - have made a new fiscal plan imperative for SA in view of drastically changed economic circumstances. The Finance Minister rightly described it as 'a Herculean Task'.

We must also recall that, whereas for most economies Covid-19 interrupted an existing boom, in SA's case it just deepened an incipient recession apparent in early 2020. And while Covid-19 has seen a fiscal debt explosion globally, countries differ in their capacity to deal with it and to successfully manage its consequences. The status of a country's public debt therefore reflects the rigor or the inconsistency of its past policies, and shapes each economy's room to manoeuvre in subsequent fiscal and monetary policies.

It is clear from the latest budget statement that, apart from Covid-19, the SA of today is paying dearly for yesterday's mistakes. Finance Minister Mboweni therefore again warned that an eventual sovereign debt crisis is now the sword of Damocles hanging over the economy, given the recent cumulative economic and fiscal trends in SA. A revised fiscal framework has had to be crafted to address a badly deteriorating economic and fiscal situation.

The revised Budget, however, is not a silver bullet or a magic wand that will right things overnight. It is clear from the budget 'message' that there is no 'quick fix'. It is, after all, also only a supplementary document. The challenge facing the revised Budget has been to now walk a challenging path between expansive economic support now and fiscal sustainability later. SA has to break out of its low-growth trap without falling into a debt trap. Recovery and reform must now be the general watchwords in economic policy.

What matters, though, is not the absolute level of borrowing but rather how well the money is spent and the cost of servicing the debt. The Budget statement emphasizes that SA will nonetheless need to access additional foreign loans, hopefully as cheaply as possible, including from the International Monetary Fund. Overall the revised Budget and its financing still lean too much towards government consumption spending as opposed to investment outlays by the state, thus increasing 'deadweight' debt through rising debt costs.

However, the welcome emphasis on infrastructural spending as a major catalyst of growth helps to redress the balance in the right direction. It remains important to create an economic environment which translates investment commitments into reality. As long as there remains a threat of further load shedding and a perceived lack of energy security private investment will be constrained in SA's economic performance. It is also necessary to rather prioritize a limited number of key viable infrastructural projects and not spread the net too widely, in order to maximize their economic impact.

Finding the right balance in government spending is another reason now why the rigorous recomposition and reprioritisation of state outlays to fit into the new economic realities has become necessary. There was no firm statement about the public sector wage bill, which is still subject to negotiation, and no formal reference to future status of SAA. SA is now in a fiscal position in which no expenditure should be seen as untouchable. All programs should be analysed with respect to their costs and their effectiveness. The zero based budgeting approach is therefore a welcome innovation and offers great promise.

Stop-gap measures can help to limit debt accumulation but they do not offer a permanent solution to chronic fiscal deterioration. Systemic changes in fiscal management have become necessary. And when large debt escalation results from structural deficits, structural reforms become essential. While the public debt ‘explosion’ in the supplementary Budget inevitably presents policymakers with difficult decisions, these decisions cannot be indefinitely avoided, or even in some cases postponed. If the new deficit targets are to be credible, then some tough nettles are still to be grasped.

The supplementary Budget presentation therefore rightly emphasized the need for urgency. The pressing question therefore is, not only for how long, but by how much, the budget will continue to remain badly unbalanced, unless effective corrective action is visibly implemented soon. To rebuild investor confidence fiscal management in SA must convey the overall impression that the country’s public finances will indeed be steadily brought under control in future. Fiscal credibility remains paramount

And the outcome of fiscal decisions in the modern global world depends not only on the facts of the situation but on market perceptions - whether correct or not - about the facts. Market reaction is important for confidence-building. SA must also be seen to start working towards regaining positive investment status in the years ahead. Evidence from elsewhere shows that it can be done, even if the road back to a good investment grade is a lengthy one. What needs to be done in any case broadly coincides with other pro-growth imperatives.

What therefore constantly shines through the latest fiscal gloom is the overwhelming need for a sustainable boost in SA’s flagging growth rate on the basis of structural reforms. Structural reform commitments must help to ensure that, where economic recovery from the recession leaves off, sustainable growth will take over. This is even more necessary as most of the Covid-19 relief measures are due to expire in October.

As the Finance Minister said, there are still future policy ‘staging posts’ in the policy decision-making process that must later be effectively utilized to build confidence as the economic situation further unfolds. The Medium-Term Budget Policy Statement (MTBPS) in October, for example, will also be mobilized to create a more substantial platform to manage the likely trends in SA’s public finances in future and how they can best be stabilized.

A consensus is now needed to defuse the public debt explosion over time and to commence remedying the situation in an orderly and gradual manner. It is a collective Cabinet responsibility and cannot be placed on the shoulders of the National Treasury alone. Effective implementation and collaboration remains the overarching challenge for new plans, policies and projects. There should be ‘zero tolerance of failure’, especially with extra funds being made to different levels of government to deal with the Clovis-19 crisis.

The Budget statement indicated that government is still committed to structural reform in general and to the Treasury's 2019 growth document in particular. The 'emergency' revised Budget therefore again confirmed that all roads eventually do lead through enhanced job-rich growth. Growth and job creation move in tandem. Inclusive growth is the overarching goal. 'Going for growth' must thus be the mantra that permeates future policy decisions for SA to build a bigger, stronger and better economy.'

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