By: Kusa Nkosi

2023 National Treasury Budget Preview - Navigating Policy Trade-Offs Amid an Economic Slowdown

South Africa's National Treasury will present its budget for the upcoming fiscal year later this month, outlining the country's economy, amendments to tax, and collection and distribution of revenue across different disciplines and government departments.

Efficient budgeting is vital to ensure that the country's scarce resources are appropriately allocated among the many areas needing economic support.

While some losses are acceptable considering issues being dealt with, excessive deficits can lead to serious consequences. At the same time, there is no room for politically incentivised policy adventurism, lest we suffer a similar capital and foreign exchange market fallout as that caused for the United Kingdom by axed Chancellor of the Exchequer Kwasi Kwarteng's ill-fated British treasury policy. As the budget presentation approaches, attention needs to be given to state owned enterprises (SOEs), the tax framework, public wages and other amendments proposed in the medium-term budget policy statement (MTBPS) delivered towards the end of last year.

State Owned Enterprises

In the preview of South African Finance Minister Enoch Godongwana's budget speech, much of the focus on SOEs is on Eskom. In the MTBPS - as part of the efforts to ensure Eskom's long-term financial stability and improve reliability of electricity supply - the Minister proposed that the government take over a "significant" portion of Eskom's R400 billion debt.

The widely accepted expectation is that the government will take on half of Eskom's debt. If so, the sovereign debt to GDP ratio will deteriorate from the estimated 71.4% for 2022/2023 to 75.3% - on the off-chance that government takes on 100% of Eskom's Debt, the debt to GDP ratio deteriorates further to 78.4% in 2022/2023.

According to the International Monetary Fund (IMF), bailouts for Eskom have averaged 1% of GDP in the two fiscal years ending 2021 and 2022, yet electricity load shedding peaked as high as 47.7% of that time (an average of 14.8 calendar days a month) in late 2022, as reported by the South African Reserve Bank. SOEs provide fundamental economic goods and services, hence it is crucial they survive and hopefully prosper; thus, a firm stance must be taken on accountability with consequences for lack of responsibility and proper governance.

In the upcoming budget, the Minister must establish and maintain transparency and credibility to his ‘no compliance to conditions, means no funding’ policy.

Tax Framework and Public Wages

Global economic growth has been revised down from 3.4% in 2022 to 2.9% in 2023 by the IMF. Furthermore, the organisation expects that one-third of the global economy will be in a recession in 2023. Observing high inflation and interest rates, discretionary spending will slow down, putting the solvency of businesses and consumers at risk. In anticipation of these conditions, pressure is mounting for the Minister to offer more tax relief to help support economic recovery as he did with the R5.2 billion tax relief in the 2022 budget.

Agbiz chief economist Wandile Sihlobo argued in late January that the National Treasury must review the excise tax burdens for wine, citing that ‘the wine industry is on a recovery path, but lower wine grape harvest and excise tax will continue to weigh on the sector. Thus, the National Treasury must review excise tax to ease the pressure in this critical and labour intensive industry’.

Considering decreasing economic growth (fuelled by load shedding, rising inflation and interest rates) National Treasury must strike a balance in giving room to vulnerable citizens and business sectors, while also avoiding large scale threats to tax revenue collection. These are hard trade-offs, with one of increasing concern being fiscal policy credibility. In the February 2022 budget, National Treasury assumed zero growth in public wages which proved futile when Transnet wage strikes broke out, forcing the government to offer a 7.5% wage increase after the initial 3% was declined. For context, this is around R100 billion more than what the Minister tabled in the 2022 budget. Treasury must proceed with caution to restore credibility to the fiscal policy.

Avoiding FATF Grey-listing

The proposal of increased resources for the budgets of the National Prosecuting Authority, the Special Investigating Unit, the Financial Intelligence Centre and the South African Revenue Service was highlighted by the Minister in the MTBPS.

This came after concerns over a grey-listing by the Financial Action Task Force (FATF) matured. The FATF, an international organisation responsible for developing policies to fight money laundering and financing of terrorism, assessed South Africa's anti money laundering measures in its October 2021 evaluation. The results were poor, finding that although South Africa has 'a solid framework to fight money laundering and terrorist finance' there are 'significant shortcomings in implementing effective systems, including a failure to pursue serious cases'.

The FATF will deliver its verdict on whether or not South Africa will be grey-listed later this month, after taking into consideration efforts by the country to convince the organisation of its capacity to prevent money laundering and terrorism financing.

Being grey-listed by the FATF would mean the country's limitations threaten the international financial system and could lead to economic as well as financial sanctions and embargoes. This is not ideal, considering the socio-economic landscape in SA, and the expectation is that the Minister will allocate more resources to address the structural inefficiencies in implementing effective systems and failure to pursue serious cases.

As the risk of global and domestic economic slowdown increases, National Treasury faces tough policy trade-offs as it drafts the 2023 Budget. And as the Minister submitted in the MTBPS, former president Nelson Mandela reminded us: 'Democracy will have little content, and indeed, will be short lived, if we cannot address our socioeconomic problems within an expanding and growing economy.'