South Africa's fiscal crisis: Rising debt and urgent reforms unveiled

By Katja Hamilton

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South Africa's financial future looks bleak. With government spending having exceeded its revenue since the 2008 global financial crisis, the country's rising annual budget deficit has reached the point where the government will have to borrow an average of R553bn per year over the medium term.

Source: Reuters.

As a result, gross debt rises from R4.8tn in 2023/24 to R5.2tn in the next financial year. By 2025/26, it will exceed the R6tn mark.

This was the crux of Finance Minister Enoch Godongwana's delivery of the 2023 Medium-Term Budget Policy Statement (MTBPS) on Thursday, 1 November.

“We now expect gross government debt to reach 77% of GDP by 25/26. This is higher than the level we forecast in February," Godongwana said.

“Over the next three years, debt-service cost as a share of revenue will increase from 20.7% in 2023/24 to 22.1 per cent in 2026/27. The cost, or interest of this debt, for next year alone, amounts to around R385.9bn.

“Over the Medium-Term Expenditure Framework, interest costs amount to R1.3tn. This is more than we spent on police, education, or health.

SA’s fiscal year-to-date government spending reached R1.04tn by September. This figure represents an increase of nearly R100bn compared to the previous year, as reported by data from the National Treasury. Year-to-date expenditure has surpassed revenue by over R250bn.

Furthermore, the government anticipates that revenue collection will fall short of the estimates made in this year's February budget, with a projected deficit of R56.8bn for the 2023/24 fiscal year.

This comes on the back of a sharp fall in corporate tax collection, particularly from the mining sector, and major expenditures including the government's payroll, Eskom's debt burden, Transnet's challenges, and social welfare grants.

The government benefited from increased revenue due to high commodity prices in recent years. However, with the end of the high commodity price cycle and inefficiencies in Transnet's freight rail (TFR), mining companies, which were a source of significant revenue last year, are now less profitable and contributing less than expected to government finances.

Public-private partnerships

As a countermeasure, Godongwana said plans are underway to unveil a three-year plan to review government departments, entities, and programmes. This review will focus on resolving issues of overlapping responsibilities and functions, particularly within public entities.

The plan also aims to establish consistent standards for executive compensation in public entities that receive funding from the government budget.

The SA government is also seeking to facilitate a quantum shift in the quantity and quality of delivery by mobilising private-sector financing and technical expertise at scale.

“Funding for capital projects remains the fastest-growing item by economic classification,” Godongwana said.

He confirmed the country’s government is making changes to its financial and legal rules to encourage partnerships between the public sector and private companies. These changes are based on recommendations from a review of how these partnerships work. New regulations with these changes will be announced by the time of the 2024 budget.

“We are amending Treasury Regulations and key elements of municipal legislation in line with the recommendations of the completed review of the Public- Private Partnerships (PPP),” he said.

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Moreover, Godongwana said the government will make it easier for private investors and international organisations to invest with the government in certain infrastructure projects by creating new ways to borrow money.

To this end, he said the government is setting up an agency to help attract private companies to invest in public infrastructure projects.

“We are positive about more involvement from the private sector in the generation of electricity and the potential involvement of private-sector experts that will be focused on finding solutions for the poor condition of the state-owned enterprises," said

Johan Werth franchise principal and financial adviser At Consult by Momentum who was reviewing Thursday’s medium term budget speech.

“To us, public-private partnership has always been important as all stakeholders should take accountability for the success of our economic future, however, it should not be without consultation and without the relevant government reforms that will attract investment into infrastructure.”

> *[Listen] Deputy Minister Pam Tshwete says government is finalising the establishment of a Human Settlements Development Bank (HSDB) through a legislative framework. https://t.co/sUzE3B1gNB pic.twitter.com/NeomQSzv1e— South African Government (@GovernmentZA) November 1, 2023*

However, there is much the MTBPS did not address.

“To reach a budget surplus, we will have to turn around negative factors such as the lower revenue performance; higher wage bill, higher debt-servicing costs. If we do, the economy should grow faster, revenue collection should be more efficient, government spending should be curbed. So far, we have not seen this happening,” said Werth.

He said easing of restrictions on self-generation of power will also assist to reduce power failures, however he warned it could create a potential loss of revenue for Eskom.

With the deregulation of the electricity industry, a large number of municipalities that rely on electricity as a revenue will find themselves at a loss. “We need to review what other sources of revenue for the municipalities will look like,” Godongwana said.

A perspective from opposition leaders

“What is concerning, is the fact that SA’s debt to GDP ratio is now increasing towards 7%. We were borrowing more money than we can afford to pay back,” said EFF’s chief whip, Floyd Shivambu. “We are spending more than R350bn a year on debt-service costs, that is just paying for the interest which is going to the World Bank and the International Monetary Fund and other financial institutions.

“We have got a directionless government. They are refusing to accept the simple fact that they're failing to monitor the fiscal economy qualitatively and quantitatively in response to the aspirations and interests of our people.”

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Nqabayomzi Kwankwa of the UDM added. “The country is broke. We are teetering on the edge of a fiscal cliff. No fiscal consolidation has been done over the years nor any proper management of the country's finances. The ANC have been promising to fight corruption to deal with issues of government, and they have not been able to do that.

“I said a couple of years ago that the efforts and the statements which are made by the ANC committing to fight against corruption are as credible as a cat deciding to conduct a commission of inquiry into the disappearance of mice, because there's no commitment. They are the ones responsible for this thing, and they never resolve it.

“Imagine if we are going to borrow R553m per annum in order for us to survive? How are we going to be able to meet our expenditure needs or provide the funding for Eskom?”

And, as Werth pointed out, the results speak for themselves.

“Much of the action that was tabled in the MTBS was around reviews – for example reviewing and then reconfiguring the structure and the size of the state, but this does not indicate any immediate action.

“This will happen over the next three years, so for now, we need to sit tight and wait it out.”

You can find the full MTBPS statement here.

ABOUT KATJA HAMILTON

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