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SA needs clear plan for growth, says Financial and Fiscal Commission

A coherent macroeconomic framework must be underpinned by the budget and reflected in the figures in related money bills

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The fiscal credibility of SA is under threat, and the country needs to strengthen the coherence of its economic and fiscal stance as it responds to the Covid-19 pandemic, the body charged with oversight and making recommendations on the fiscal framework has said.

The Financial and Fiscal Commission (FFC) has called for “a clear strategy for growth” that is underpinned by the budget and supported in relevant money bills. It threw its weight behind the government-endorsed Treasury document “towards an economic strategy for SA” as way to raise the credibility of government’s economic and fiscal stance.

The commission made this assessment in its latest submission on the 2020/2021 division of revenue bill, tabled in parliament in July, and comes as the Covid-19 pandemic has ravaged government finances, which were already under strain before the economic crisis precipitated by the disease.

“The fiscal credibility of the SA government is under threat, due to inconsistencies and ambiguities of the budget relative to the economic and fiscal positions taken by the government and its president,” it said.

Finance minister Tito Mboweni should develop and execute “a clear, coherent and comprehensive macroeconomic framework that is in line with the president’s economic and social support response package to Covid-19,” the commission said in its report.

It said that the minister should consider the position taken by the strategy document, drawn up by Treasury last year as series of measures to simulate growth, to “strengthen the continuity, consistency and credibility of the economic and fiscal stance,” it said.

These policy positions should be clearly represented in “monetary figures, in the 2021/2022 Appropriation Bill and Division of Revenue Bill for implementation,” it said.

In the recent supplementary budget, Mboweni outlined extensive reprioritisation of the national budget to fund the government’s response to the pandemic, as well as the toll it has taken on the state’s finances.

With revenue collections set to fall short of the targets set in the February budget by more than R300bn, and spending set to increase, the consolidated budget deficit is expected to double to

15.7% of GDP in 2020. This will require more borrowing with government's debt to GDP levels set to spiral to 140% if active steps are not taken to rein in spending and introduce reforms needed to stimulate growth.

Mboweni promised that the state would introduce "far-reaching reforms" that would include those outlined in the Treasury's strategy document in the upcoming medium-term budget policy statement.

The commission said that the government's interventions thus far "have fallen far short of the magnitude by which Covid-19 has shifted the SA economy". This is because they lack a "clear and coherent economic vision, supported by concomitant budgetary support and strategy to bring about clear fiscal actions".

It said the government faced the choice of reverting to "business as usual" threatening to deepen the SA's unequal economic and social construct that has deepened since democracy, or to use the Covid-19 crisis as "an opportunity to effect structural change in the economy".

The pandemic has highlighted the inequalities in SA's economic system, inherited from the apartheid era, but continued post democracy, given ongoing over-dependence on traditional commodity-based industries, and the state's failure to "diversify the economy and eradicate the roots of structural joblessness and inequality"

The commission argued that a "fundamental structural transformation of the economy is inevitable" thanks to the pandemic. It recommended that the ministers of finance, of economic development and trade and industry, and of labour should "jointly address the economic barriers, social inequality, and societal polarisation by adopting a localised product value chain approach".

A localised product value-chain approach would help to transform the domestic economy and stimulate inclusive growth, the commission noted in a media statement on the submission.

According to the commission, this approach would link incentive grants frameworks of both the provincial and local conditional grant to the procurement of locally assembled goods, to stimulate the domestic economy and encourage job growth while taking international trade agreements into account.

As part of efforts to ignite growth and development, the commission advised a focus on the agricultural economy and support for small and emerging farmers.

"In establishing food security, agriculture has the ability to simultaneously raise productivity, incomes and employment with broad effects across economic sectors," the commission said.

It estimated, that for every rand invested in primary agriculture, the GDP multiplier is 44c, while for agro-processing it is 25c.

Despite the benefits and opportunities, “public expenditure into agriculture has been nothing short of dismal, consistently diminishing,” it said.

To unlock the potential of the sector, it recommended that the government provide infrastructural and financial support to farmers, “particularly emerging farmers who do not have strong financial muscle”.

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