Government expenditure: accelerate a shift from consumption to investment

By Patrick Buthelezi

21 Feb 2023

The expenditure ceiling, which helps to anchor expenditure, has adjusted higher in recent years, although the National Treasury has done a very good job in holding the line on the expenditure in the fiscal year to date.

Source: Supplied. Patrick Buthelezi, Economist at Sanlam Investments.

The incoming monthly budget data suggests that the Treasury exercised restraint in the current fiscal year.

The main government expenditure is tracking lower 3.8% year to December 2022 compared to the budgeted increase of 6.9% in 2022/23. The expenditure numbers could potentially surprise on the downside in 2022/23, although there is always the possibility of some lumpy payments in the last three quarters of the year.

Looking forward, the 2022 medium-term budget policy statement (MTBPS) sketched an ambitious fiscal consolidation programme. Main budget expenditure increased on average by 6.1% from 2020/21 to 2022/23. However, the national Treasury is projecting main budget expenditure to increase at a slower pace of 3.9% on average per annum from 2023/24 to 2025/26. This seems a stretch given the extent of socio-economic degradation and ailing state-owned company balance sheets.

Spending on the social wage is sticky and not easily curtailed. Social wage includes spending on health, basic education, free higher and training, community development social protection and social security. It has grown from R932.2bn in 2019/20 to an estimated R1127bn in the current fiscal year. This amounts to 59.2% of non-interest government expenditure. The medium-term budget policy statement pencilled in moderate average growth in the social wage of 2.5% in 2023/24 to 2025/26, following an increase of 6.6% in 2020/21 to 2022/23.

Social relief of distress grants

Admittedly, the latter growth was partly influenced by introducing what was to be a temporary measure of social relief of distress grants (SRDG) in 2020. However, the projected increase implies a significant decline in spending in real terms over the medium term expenditure framework (MTEF).

In any event, the new SRDG is forming a permanent feature of the budget. Additionally, the president expressed his support for the social distress grant to continue, which is consistent with the ANC resolution in December 2022.

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Further, the finance minister announced an upward adjustment in allocation to the police and health in the medium-term expenditure framework during the MTBPS. The minister of police revealed that crime continued to increase rapidly in the latest crime statistics from 1 October, 2022 to 31 December, 2022. The minister of police indicated that increasing service-delivery protests are putting a strain on limited resources as police attended to 2,455 protests between 1 July, 2022 and 30 September, 2022.

At the same time, state-owned companies have relied heavily on the central government for support. The president declared the national state of disaster in his state of the nation address to speed up efforts to resolve the electricity crisis and committed the government to fund diesel for Eskom to reduce the severity of load shedding. It is not known to what extent the Treasury will lend support, but the bill to help reduce the severity of load shedding could amount to billions of rand.

Government wage bill

The elephant in the room is the government wage bill. The unions are currently demanding double-digit wage increases to compensate for the high cost of living following last year's disputed increase, comprising non-pensionable cash gratuity of R1,000 for level 1 to level 12 and 3.0% increase for pensionable for all employees.

Eight trade unions are allegedly refusing to participate in the wage negotiations insisting there was no agreement in 2022/23 dispute for 2023/24. Workers are demanding a double-digit wage increase, including a R2,500 housing allowance and a bursary scheme for public servants.

It is going to be a difficult sell to the unions. Further, the state needs to manage the risk of losing highly skilled individuals to the private sector. Managing the wage bill is critical to maintain fiscal sustainability, since the consolidated wage bill accounts for over 30% of total consolidated spending.

Even though all these potential expenditure pressures may not be reflected in this budget, they do risk long-run fiscal sustainability, until such time as economic reform is implemented and it lifts potential economic growth meaningfully.

This drive should include an acceleration in shifting expenditure from consumption to infrastructure spending because, in turn that will promote economic growth and boost revenues.

ABOUT THE AUTHOR

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