Treasury to consider budget cuts, increase revenue collection

The South African government will implement departmental budget cuts and bolster revenue collection to stimulate economic growth. This is at the back of projections that the country's economy is set to contract by 7.2% in 2021.

Dr David Masondo, deputy finance minister

Responding to oral questions when the economic cluster departments appeared before the National Assembly, Finance Deputy Minister, Dr David Masondo, said government was aiming to stabilise debt in 2023/24 through a combination of reforms that will boost economic growth, and measures to increase revenue collection and lower expenditure.

“This will require spending reductions and revenue adjustments amounting to approximately R250bn over the next two years, beginning in 2021/ 22.

“Work is underway to ensure that fiscal consolidation and debt stabilisation is achieved,” he said.

Masondo said as Treasury implements budget cuts, there should be no holy cows and no spending items will be automatically protected from possible downward adjustment.

“The details of the spending reductions and revenue measures will be presented in the 2020 Medium-Term Budget Policy Statement (MTBPS) and the 2021 Budget Review,” he said.

Countercyclical approach to support the economy

Masondo said, meanwhile, when the Covid-19 pandemic hit SA shores, government adopted a countercyclical approach [reducing spending and raising taxes during a boom period, and increasing spending and cutting taxes during a recession] to support relief efforts when economic activity took a knock.

“The short-term fiscal measures adopted are meant to provide support to the economy by maintaining the spending envelope in the context of falling revenue, redirect funds towards the response to Covid-19 interventions and to provide support to business by raising the contingent liabilities of the state.

“In this regard, government has undertaken a counter-cyclical approach in response to the Covid-19 pandemic in 2021, in which the main budget deficit is projected to widen to 14.6% of GDP and the debt to reach 81.8% of the GDP.

“Cabinet endorsed an active approach that will adjust expenditure to a sustainable level, as well as a target of a primary surplus by 2023/ 24,” said Masondo.