2021 MTBPS analysis

16 November 2021

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

The Parliamentary Budget Office

The Parliamentary Budget Office (PBO) was established in terms of Section 15 of the Money Bills and Related Matters Act 2009 as amended in 2018

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The PBO offers independent and objective advice and analysis to the Finance and Appropriations Committees in both Houses of Parliament on money bills and other bills presented by the Executive; and any other documentation or reports with fiscal implications

Outline

- Introduction
- Background
- Policy framework and plans
- Macroeconomic overview and risks to growth and development
- Revised fiscal framework and debt outlook
- Revenue and expenditure
- Conclusion

Introduction

- The MTBPS provides an update on the current budget and sets out the government's priorities and budget allocation over the MTEF
- In terms of Money Bills and Related Matters Act 2009, Parliament in adopting revised fiscal framework should ensure that:
  - an appropriate balance between revenue, expenditure and borrowing
  - debt levels and debt interest cost are reasonable
  - the cost of recurrent spending is not deferred to future generations
  - adequate provision for spending on infrastructure development, overall capital spending and maintenance
  - consider the short, medium and long term implications of the fiscal framework, division of revenue and national budget on the long-term growth potential of the economy and the development of the country
  - take into account all public revenue and expenditure, including extra-budgetary funds, and contingent liabilities
- This presentation includes:
  - An update on policy implementation
  - The policy framework and plans for the MTEF
  - A macroeconomic overview and risks to growth and development
  - The revised fiscal framework and debt outlook
  - Revenue and expenditure

Background

- The Covid-19 pandemic continues and the health, social and economic effects will continue to unfold over the medium term
- A fourth wave of infections is currently hitting Europe quite hard, even though vaccination rates there are high
- According to Minister of Heath, South Africa will be hit by a fourth wave in December 2021. This creates even more uncertainty with regard to the forecasts in the 2021 MTBPS
- There remains a global consensus that public sector action in the form of fiscal and monetary stimulus remains vital to avert further economic collapse
- However, the 2021 MTBPS proposes to impose tough fiscal consolidation, including lowering of social expenditure (Heath, Basic Education and Social Protection) in real terms over the medium term

Background

- The efficiency, effectiveness and performance of government's key plans have been poor and targets are unlikely to be met
- Supply-side structural reforms are unlikely to have an impact adequate to enhance growth in the medium term, therefore, they have to be complemented by measures to stimulate demand in the economy
- Revenue collection so far for 2021 has been better than expected and has improved the fiscal framework but this revenue increase is not expected to continue
- The question of where relief and recovery for the poorest households and businesses will come from is an important question that the 2021 MTBPS leaves unanswered
- The PBO, as in previous years, is concerned about the credibility of the fiscal framework

Policy framework and plans

Policy implementation over the medium term

The bi-annual MTSF report (compiled by DPME) at the end of March 2021 shows:

- **Public Sector:** In the Public Service, almost 35 per cent of senior managers do not seem to have the required qualifications (might not be a true reflection, due to skills not reported on Persal, but still of concern) The situation is more serious at the municipal level where between 50 to 60 per cent of officials are reported to not have the required skills and competence to do their jobs.
- **Education and skills:** The proxy for quality education is tracked through the number of learners achieving 60 per cent and above in Maths and Science in grade 12. The 2020 results reflected rates of only 13.2 per cent and 15.3 per cent respectively in the two subjects. Research has shown that it may take a number of years to recover from the resultant loss of learning due to Covid-19. If the country chooses not to do anything drastically, recovery will be achieved only in 2032.
- **Health**: The child under-5 severe acute malnutrition case fatality rate was 7.1 per cent for the period October 2020 to March 2021, while the MTSF target is <5 per cent by 2024. This rate of malnutrition is linked to high poverty and inequality rates
- **Assets and access:** According to the MTSF bi-annual report, only about 10 per cent of land has been transferred to black owners since 1994, as programmes of restitution, redistribution and policies to improve security and fairness of tenure have floundered, due to lack of funds and high levels of corruption and inefficiencies
    - Spatially, human settlements development is an enabler for economic empowerment, it contributes approximately 7 per cent to the construction industry and about 5 per cent to total employment
    - The Department of Human Settlements' Housing Needs database shows that over 1.7 million households are located in informal settlements and the slow pace of upgrading of these settlements is prolonging the harsh living conditions experienced by these communities and entrenching their vulnerability

The MTEF spending priorities in the 2021 MTBPS has to take into account these developmental challenges, as they will further delay the achievement of the MTSF Priorities

Policy direction to inform budget proposals

2021 SONA	2021 Budget	2021 MTBPS
• Defeat the coronavirus pandemic • Accelerate economic recovery • Implement economic reforms to create sustainable jobs and drive inclusive growth • Fight corruption and strengthen the state	• Government's immediate priority was to support a rapid return to economic growth in the wake of the COVID 19 lockdowns • The budget funds a massive and free COVID-19 vaccination campaign • Extending temporary support in response to COVID-19 • Government will support the economic recovery by extending short-term economic support and undertaking reforms to lower the cost of doing business and stabilise the public finances • The budget supplemented the Presidential Youth Employment Initiative by adding R11 billion, taking the total funding for employment creation to nearly R100 billion • Department of Justice and Constitutional Development allocated R1.8 billion to improve business processes to support law enforcement agents in the fight against crime and corruption	• Government remains committed to structural reforms designed to lower the cost of doing business and create a more competitive economy Over the medium term, the following reforms will be accelerated: • Diversifying energy generation to alleviate electricity supply shortages, and taking additional steps towards a competitive energy market • Releasing broadband spectrum, with the auction process starting on 1 March 2022 • Opening third-party access to the freight rail network by the end of 2022 to increase capacity • To boost tourism and attract skills, the new completed e-Visa system will be rolled out to 15 countries by March 2022 • Reviewing the legal regime governing skilled migration • Accelerating infrastructure investment

There is consistent policy direction with regards to economic recovery through structural reform

However, government expenditure is necessary to crowd-in investment into the economy

Policy implementation over the medium term

Function group	Spending priorities being considered for the 2022 MTEF period

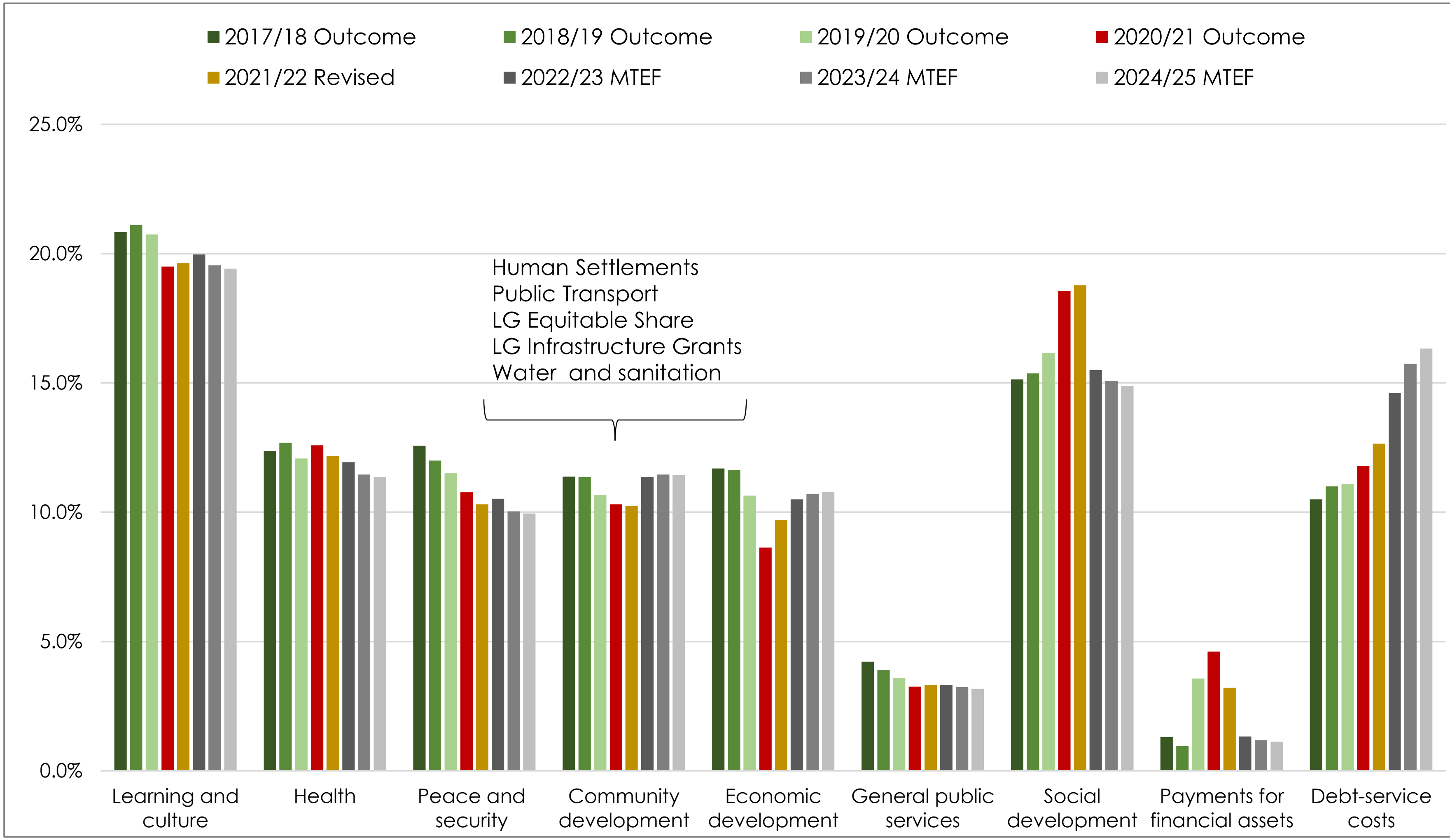
Learning and culture	• Basic education sector
	  • More policy decisions needed to bring compensation spending in line with available resources
	• Post-school education and training sector
	  • A ministerial task team is conceptualising a new student financial funding model for the higher education and training system
	  • The operating model for the rollout of community libraries will be reviewed over the medium term

Health	• Discussions are under way on how to respond to future waves of infection and continue the vaccination programme in 2022/23, including for younger groups and with booster doses if necessary • Spending pressures associated with absorbing the large cohorts of medical graduates needing internships and community service posts are being considered • Infrastructure allocations will be delayed and allocated in future in line with revised cash flow projections
Social development	• Addressing shortfalls in social grants • Introducing the extended child support grant for children who have lost both parents (double orphans) • Researching possible new social support options once the special COVID-19 social relief of distress grant ends in March 2022
Community development	• To provide for a more systematic response to improve water and wastewater management in municipalities, from 2022/23 conditional grants will include conditions that are aimed at incentivising improved asset management and performance • National departments are expected to improve monitoring and regulatory compliance through periodic reporting and building capacity
General public services	• Enhance the governance of state-owned companies • Facilitate the population census in February 2022 • Implement the Integrated Financial Management System • Support recapitalisation of the World Bank and the African Development Bank in line with South Africa's shareholding duties in these institutions • DPSA will continue reviewing personnel spending to reduce unsustainable growth in the wage bill

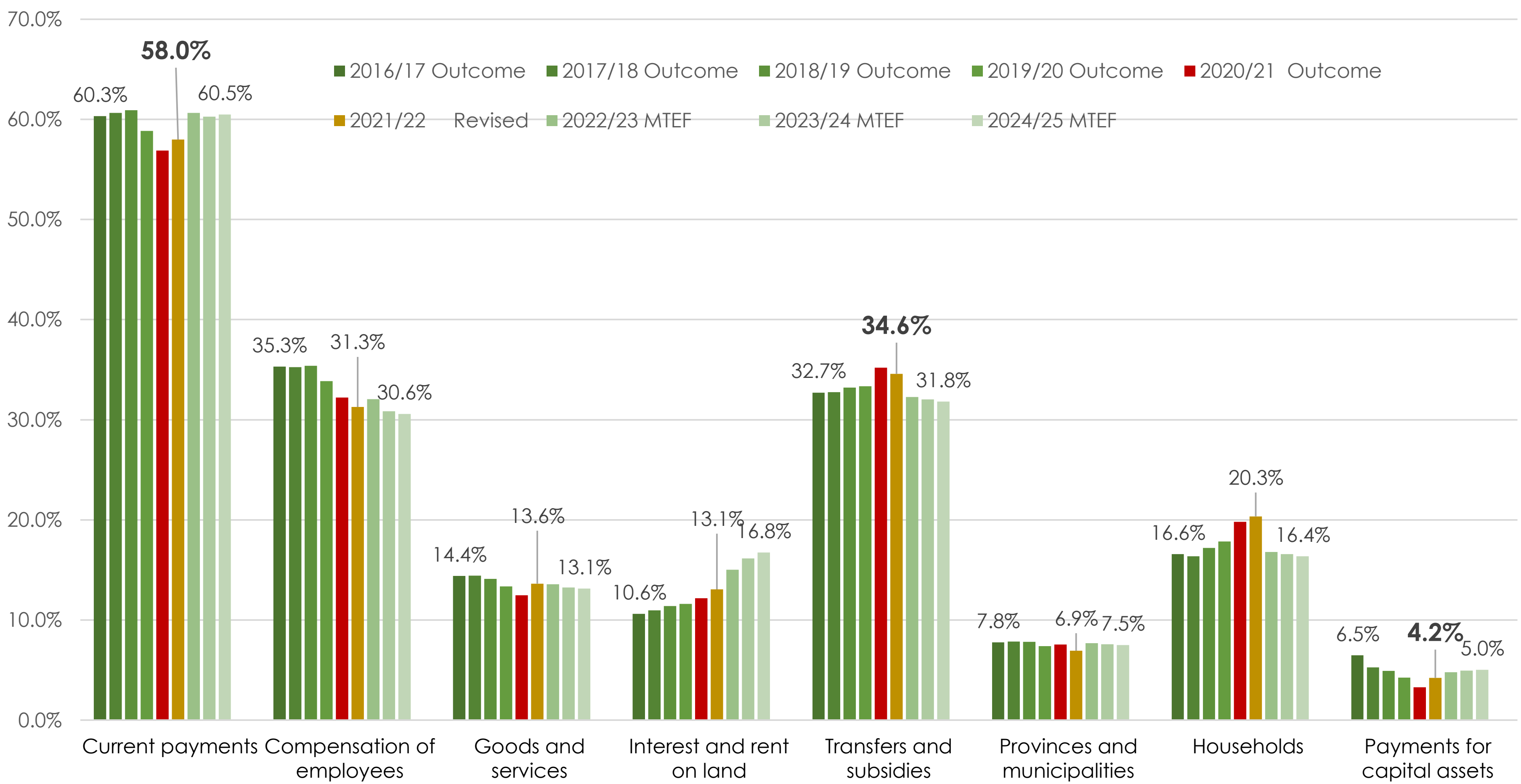
Policy implementation over the medium term

Function group	Spending priorities being considered for the 2022 MTEF period
Economic development	• Reindustrialising through implementation of the master plans • Growing exports through the African Continental Free Trade Area • Implementing the Tourism Sector Recovery Plan; supporting township and rural economies • Promoting localisation, inclusive economic growth and job creation • The Department of Science and Innovation will implement its recently approved decadal plan on science, technology and innovation for 2021– 2031 • The department also reprioritised funds to support technology localisation, beneficiation, advanced manufacturing and research by the National Research Foundation • Department of Tourism reprioritised funds to support short-term public jobs in the tourism sector and transform the sector through the rollout of the Tourism Equity Fund • Department of Forestry, Fisheries and the Environment has reprioritised funds for the South African Weather Service • The department also reprioritised funds to support operations and address the budget shortfall of South African National Parks
Peace and security	• Enhance capacity in institutions combating crime and corruption, and upgrade information and communications technology infrastructure for greater efficiency • Both the South African Police Service and South African National Defence Force received additional funding through the Second Special Appropriation Bill to provide for unforeseen costs resulting from the unrest in July 2021 • Over the next few years, the Department of Defence will reprioritise funds to set up a rapid response unit • It will implement reforms to manage longstanding pressure on compensation that is resulting in irregular spending

Spending priorities: Proportion spent and estimated per function group



Spending priorities: Proportion spent and estimated per economic classification



Efficiency, effectiveness and performance: Government is unlikely to achieve most of the targets

- Medium to long-term policy priorities, including proposals for post-Covid-19 recovery includes the NDP, vision 2030, the seven priorities of the 2019-2024 Medium Term Strategic Framework (MTSF), the Presidential Employment Stimulus and the Economic Reconstruction and Recovery Plan (ERRP)
- The District Development Model (DDM) aims to build capacity for improving planning, budgeting, monitoring and evaluation over a longer period
- An analysis of progress made with the implementation of these plans shows that in most instances government is unlikely to achieve most of the targets that have been set
- Government's actions to address the slow implementation have mainly been the reprioritisation of budgets in the short term
- Reprioritising budget has not yielded required results, therefore government may have to reconsider the adopted approach

Efficiency, effectiveness and performance: Government is unlikely to achieve most of the targets

- General findings from spending reviews conducted in 2020/21 suggest the need to:
  - Improve design to ensure the development of policies that are affordable in the current context, and avoid overlapping mandates
  - Review procurement processes to eradicate corruption and ensure delivery of cost-effective solutions
  - Contain compensation spending through a combination of headcount and remuneration measures

2021 MTBPS proposes:

- Refund departments for COE budgets that were reprioritised in 2021 by allocating funds provided for infrastructure, part of the contingency reserve and other provisional allocations
- Import skills, while cutting on personnel numbers
- Continue to only focus on COE for cost containment, while health services and the provision of education and protection services are under pressure
- Continue with the Presidential employment initiative, which is a duplication of other employment initiatives and roll-overs from last year that were not spent. Funds are also allocated for infrastructure spending
- Reduce the allocation to pay for financial assets (SOE support), but create an unallocated reserve in addition to the contingency reserve
- Grow the community development function by an average of 5.5 per cent over the MTEF, while this function is not performing and shows historic underspending
- Continue to grow funding for conditional grants, which are administered poorly and not performing

Macroeconomic overview and risks to growth and development

Is the view of risk in the 2021 MTBPS in line with global consensus ?

- The rest of the world is concerned with resilience within society to maintain stability within society
- The 2021 MTBPS seems concerned mainly with fiscal stability (which is narrowly defined) and business confidence
- The 2021 MTBPS has an appendix, Fiscal Risk Statement on medium and long-term risks to public finance, that does not mention risks of:
  - A recurrence of the type of damage incurred by the July 2021 social unrest
  - Developmental physical and mental health effects of malnutrition, stunting and other consequences of poverty and inequality on future economic growth and development
  - The further unravelling of the social fabric and living conditions in society that fuels and exacerbates gender-based violence, crime, drug abuse, and gangsterism
  - Impact of climate change (even though the MTBPS was released when the COP 26 forum was happening) on communities, economic activity and economic growth and development
  - Economic and financial crises and contagion related to supply-side risks caused by breakdowns and delays in global value chains
- The appendix fails to
  - mention the high risks associated with social, political and economic unrest and instability due to the unbelievably high levels of inequality in South Africa
  - It does not examine the consequences of the extraordinarily high levels of poverty, inequality and unemployment in South Africa on society, business confidence and the prospects for short-term growth and long-term development
- Therefore, the government' approach to fiscal policy and risks has to taking into account that public finances should support stability, resilience and economic development

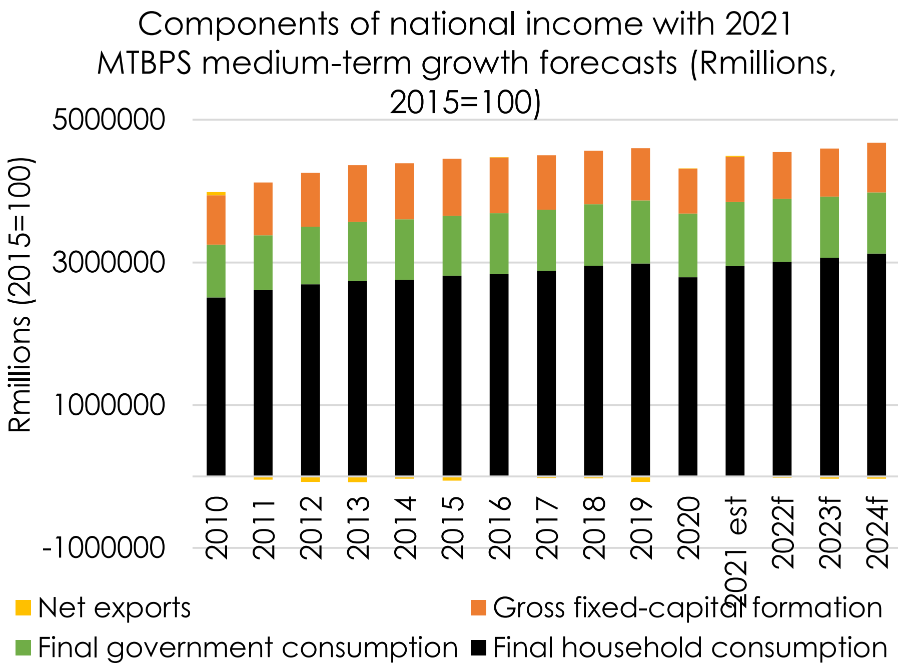
Economic growth and development

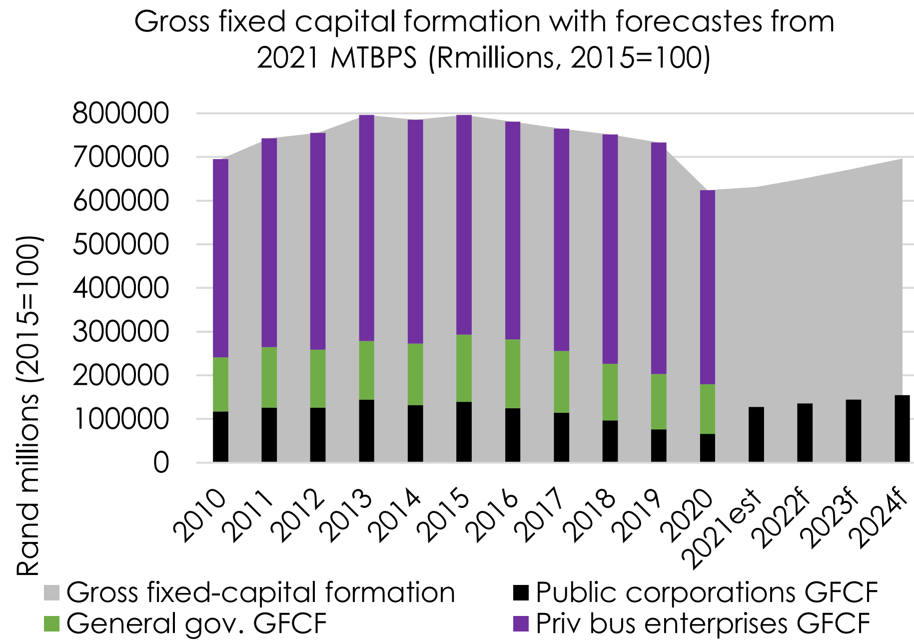
- The 2021 MTBPS says, “In South Africa, policy uncertainty and the slow implementation of structural reforms continue to weigh on business confidence and investment.”(p19)
- The PBO’s 2019 presentation on the MTBPS already raised serious concerns about the potential for effectiveness of the structural reforms. The PBO said:
  - Experience with the NDP provides an indication of poor performance. PBO’s research showed problems of integration, alignment, coordination, and M&E
  - Demand constrained, poor global and domestic economic growth, hampered by fiscal consolidation, reduces chances of success, and
  - Constrains the potential impact of sectoral interventions:
    - Extreme levels of inequality continue to manifest along racial categories and reinforce the dysfunctional apartheid spatial outcomes
    - Continued distrust and ideological divide across stakeholders and interest groups may work against agreement on:
      - Regulation and ownership of network industries
      - Competition and industrial policies
      - Labour market regulation
      - Privatisation and public private partnerships (PPPs)
- The 2021 MTBPS lacks evidence or a commitment that narrow focus on supply-side structural reforms will not exacerbate the severe structural problems of the economy

Where will relief & growth come from

- The approach by government to growth and development has to take into account the global consensus on the importance of the State in the economy and during crises
- It insufficient to rely on supply-side structural reforms to grow the economy while ignoring low aggregate demand and instability of household finances
- The country suffers from a severe demand problem that will be exacerbated by inadequate increases in the social wage as proposed in the 2021 MTBPS
- Government says that since social wage expenditure is 60 per cent of the budget that it is doing enough. However, it is important to further note that:
  - The ‘social wage’ declines in real terms over the medium term and real per capita expenditure on other social wage declines
  - Lack of announcement on the extension to the Relief of Social Distress Grant create uncertainty and add to the insecurity of millions of households
  - Access to services is unequal between formal and informal settlements and rich and poor and rural and urban households – additional expenditure on services is required to reduce inequality of access and quality of services
  - The social security system is not comprehensive and excludes millions of people affected by extraordinary levels of structural unemployment and the working poor
- A considered Basic Income Grant will support the kind of growth the economy requires
  - Increase stability of households and reduce poverty and inequality
  - It could help shift the growth path towards producing labour intensive and less energy and capital intensive manufactured goods and related services to meet demand of poor households

Where will relief & growth come from

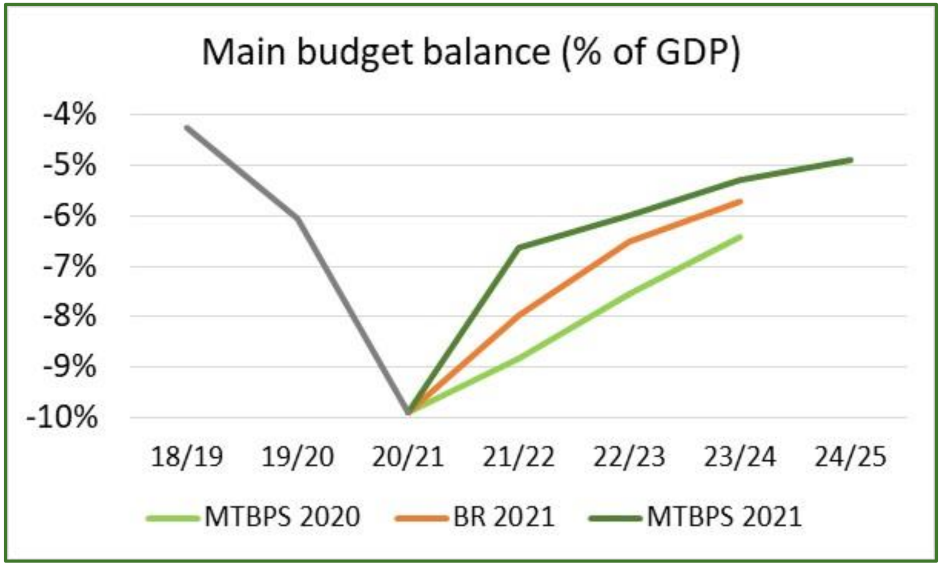


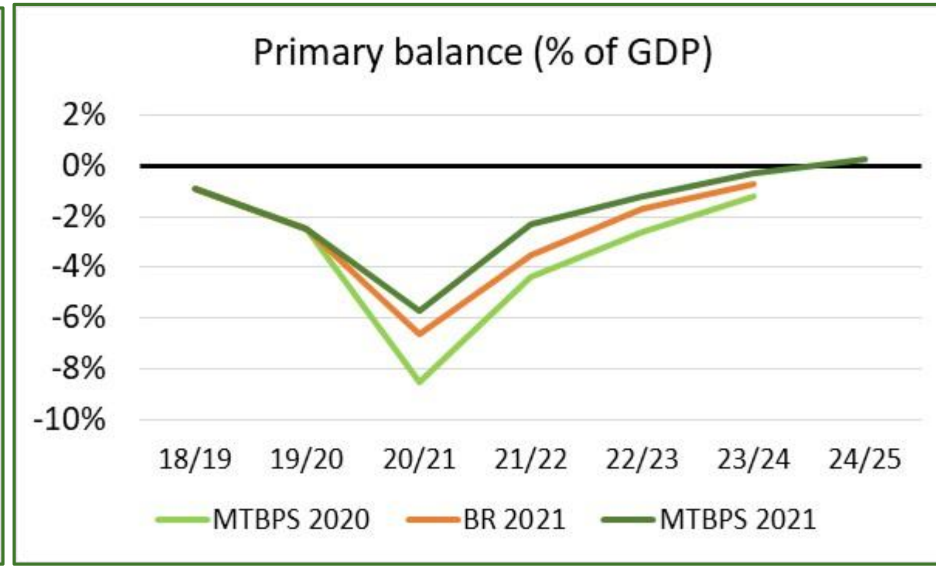


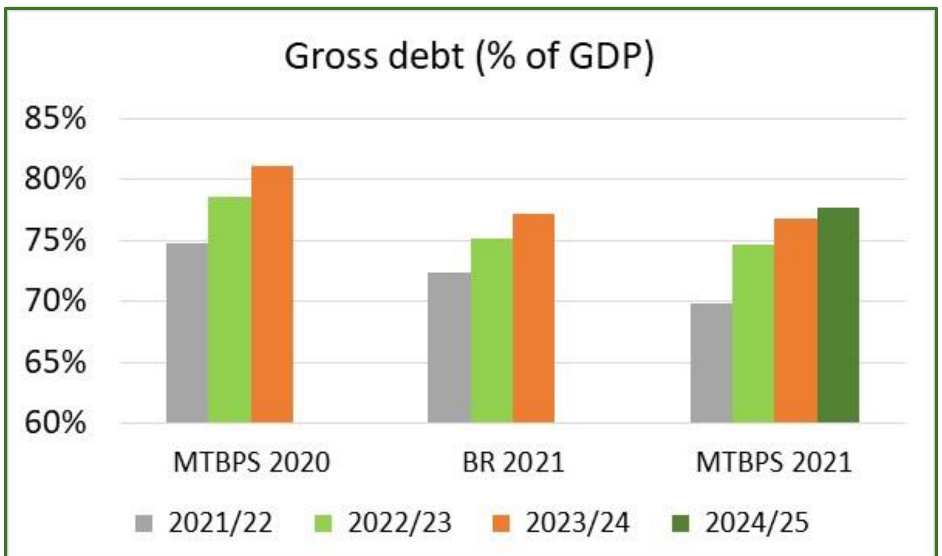
- The 2021 MTBPS forecasts of growth over the medium term depends on growth in household consumption and investment:
- The 2021 MTBPS forecasts household consumption to increase because credit extension to households has improved
- However, households remain credit constrained and have to continue reducing debt while poor households buying power will be affected by real reductions in the social wage
- Investment is projected to grow at more than 3 per cent – growth not seen since the recovery from the global financial crisis
- However, much of this growth depends on private sector investment due to raising the threshold on embedded electricity generation and large public infrastructure investment

Revised fiscal framework and debt outlook, revenue and expenditure

Improvement in fiscal outlook







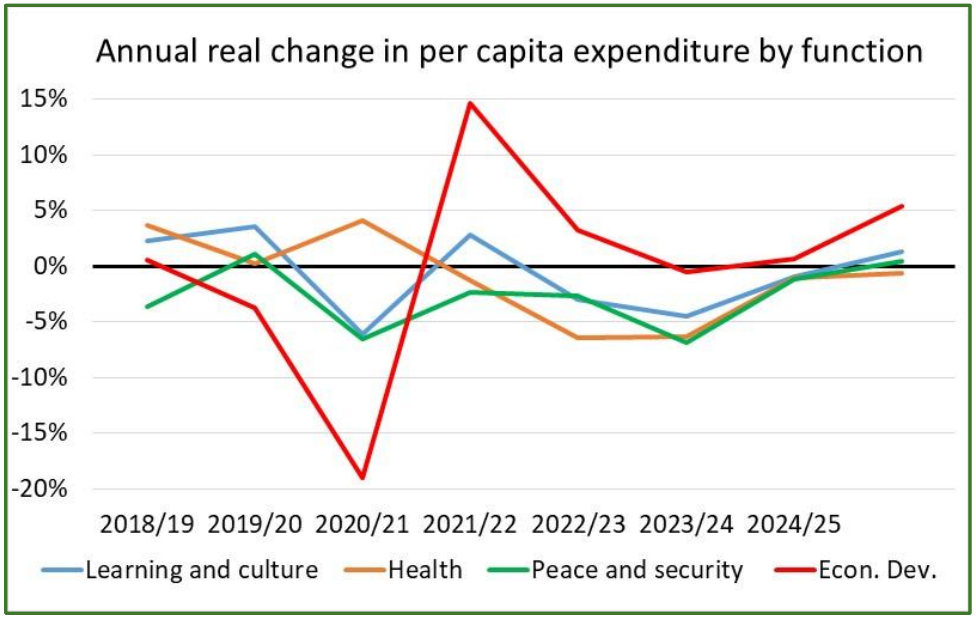
1. Improved growth and revenue
2. Underscores importance of growth for healthier public finances
3. Important to not confuse cycle with trend growth
4. MTBPS intends to stick to the fiscal objective of "consolidation" until 2024/25 – primary surplus
5. Also, effect of GDP rebasing

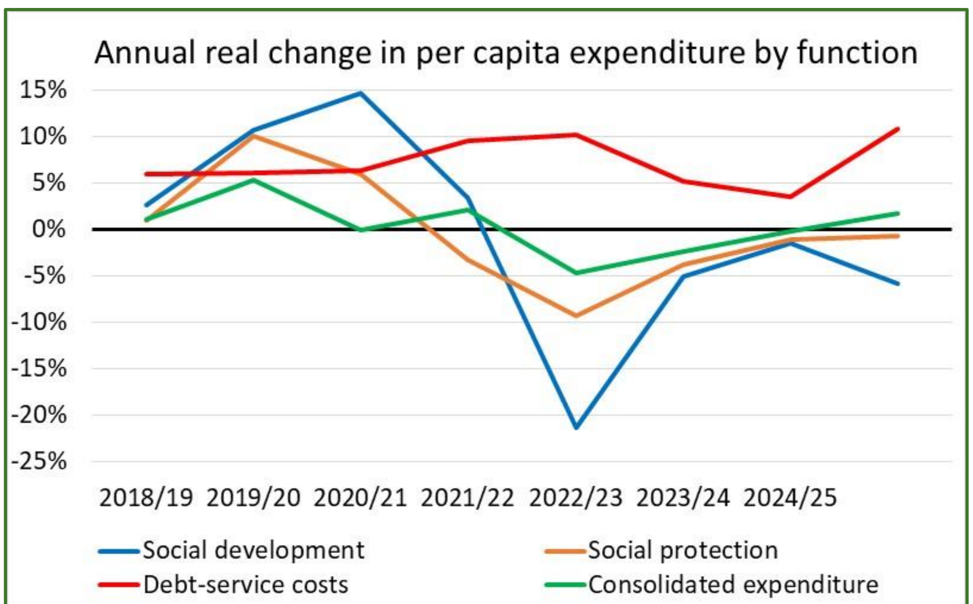
Data: Stats SA, National Treasury, PBO

Fiscal framework

R billions	2021/22	2022/23	2023/24	2024/25
Main budget revenue				
MTBPS 2020	1263.6	1388.3	1487.1	
BR 2021	1351.7	1453.7	1522.0	
MTBPS 2021	*1483.2*	*1517.5*	*1581.3*	*1689.4*
Non-interest expenditure				
MTBPS 2020	1529.3	1557.2	1571.5	
BR 2021	1564.5	1562.8	1572.5	
MTBPS 2021	*1623.9*	*1594.8*	*1602.1*	*1673.3*
Debt-service costs				
MTBPS 2020	271.8	317.6	353.1	
BR 2021	269.7	308.0	338.6	
MTBPS 2021	*269.2*	*303.1*	*334.6*	*365.8*
Main budget expenditure				
MTBPS 2020	1801.1	1874.8	1924.6	
BR 2021	1834.3	1870.8	1911.0	
MTBPS 2021	*1893.1*	*1897.9*	*1936.7*	*2039.1*
Main budget balance				
MTBPS 2020	-537.4	-486.6	-437.5	
BR 2021	-482.6	-417.2	-389.0	
MTBPS 2021	*-409.9*	*-380.4*	*-355.4*	*-349.7*

Dark in the "fiscal consolidation tunnel"





- Government anticipates that there will be "light at the end of the fiscal tunnel" by the end of the current MTEF (2024/25)
- In the mean time, several functions and programmes have experienced and will continue to experience real per capita reductions in pursuit of fiscal consolidation
- Consolidation efforts have also caused spending composition to be less optimal.
- This has and will continue to harm service delivery, state capacity and growth. Government has conceded this.

Data: Stats SA, National Treasury, PBO

Fiscal framework – credibility and risks

- **Credibility of fiscal outlook**
  - SA has perennial challenge with fiscal slippage
  - Forecast growth has generally exceeded actual growth (general optimism – See PBO 2020)
  - Current macroeconomic environment is radically uncertain
  - Modest economic growth and revenue buoyancies mitigate some risk from underperforming relative to forecasts
- **Anticipated "end to consolidation"**
  - Government anticipates "leaving the fiscal consolidation tunnel" by 2024
  - Presumably a return to counter-cyclical fiscal policy
  - There are Implications for service delivery & state capacity in the medium term and beyond if consolidation is delayed
- **Costing and considering policy trade-offs**
  - Between competing policy proposals that form part of expenditure baseline.
  - Greater transparency required on costs and economic impacts of new policies
  - A possible extension of the SRD grant will be from existing resources
- **"Public sector remuneration strategy"**
  - To date government's approach has been blunt, with unintended deleterious consequences
  - Remuneration and retention policies must ensure adequate service provision

Revenue and expenditure discussions

Revenue collection and other updates

- The gross tax revenue estimate for 2021/22 has been revised up by R120.3 billion to R1 485.4 billion compared with the projection in the 2021 Budget:
  - This improved outlook is due to better-than-expected collection rates in 2020/21, specifically from corporate income tax due to high commodity prices and a favourable ratio of export to import prices
  - Upward revisions to near-term economic growth projections
- Compared with the 2020 Budget projections, revenue is expected to be R284.7 billion lower than forecast until 2022/23
- Windfall commodity revenues are unlikely to provide significant additional revenues beyond 2021/22
- Slow employment growth and lower employment levels limit personal income tax projections

R billion	2020/21			2021/22		
	Budget1	Outcome	Deviation	Budget[1]	Revised	Deviation
Persons and individuals	482.1	487.0	4.9	516.0	542.1	26.1
Companies	188.8	202.1	13.3	213.1	288.6	75.5
Value-added tax	324.6	331.2	6.6	370.2	373.6	3.5
Dividends tax	23.0	24.8	1.9	26.2	29.9	3.8
Specific excise duties	24.7	32.3	7.6	43.7	42.3	-1.4
Fuel levy	75.2	75.5	0.3	83.1	89.2	6.1
Customs duties	45.2	47.3	2.1	53.1	54.7	1.6
Ad valorem excise duties	3.3	3.4	0.1	3.5	4.4	0.9
Other	45.3	46.1	0.8	56.1	60.4	4.3
Gross tax revenue	**1 212.2**	**1 249.7**	**37.5**	**1 365.1**	**1 485.4**	**120.3**

Source: National Treasury

In-year spending adjustments

	R million
Non-interest expenditure (2021 Budget Review)	**1 564 511**
Public violence and COVID-19 fiscal relief package allocatio	**32 850**
Increases in other allocations since 2021 Budget	**41 048**
National and provincial departments allocations for wage bill adjustments	20 512
Denel	2 923
Further purchase of vaccines funded from contingency reser	2 342
Presidential employment initiative phase 2 allocation	10 954
Other allocations in AENE[1]	4 317
Resources used to fund adjustments since 2021 Budget	**(17 942)**
Drawdowns, suspensions and projected underspending[2]	(17 942)
Other adjustments[3]	**3 402**
Revised non-interest expenditure (2021 MTBPS)	**1 623 869**
Change in non-interest expenditure from 2021 Budget	59 358

- A proposed net addition of R59.4 billion to main budget non-interest spending consisting of:
  - R77.3 billion in spending increases, partially offset by projected underspending,
  - Drawdowns on the contingency reserve and provisional allocations announced in the 2021 Budget
- Fiscal relief package financed through a portion of R120.3 billion revenue windfall

In-year spending adjustments

- National departments with expenditure less than 40 per cent and more than 60 per cent of the adjustments budget in the first six months of the 2021/22 financial year
- Military Veterans is at 27.7 per cent despite a reduction in the budget

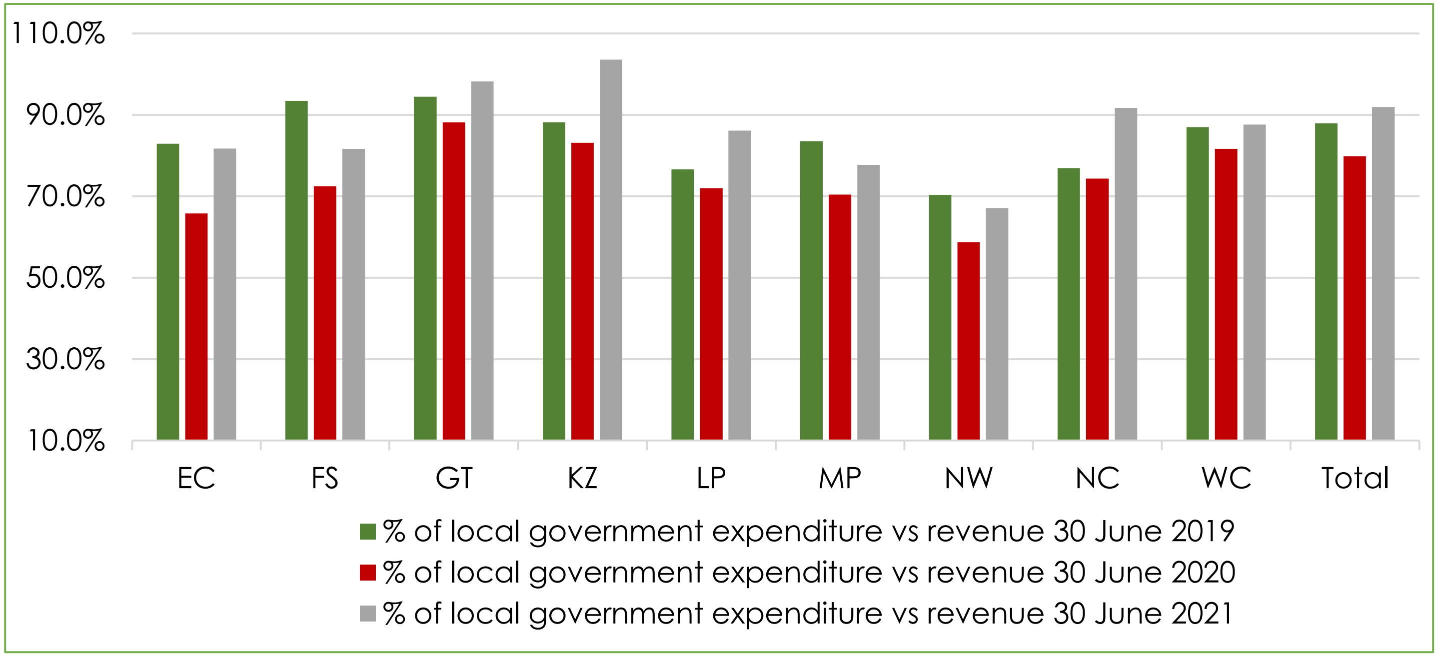
Vote number and title		2021/22				
					Actual expenditure	
						Apr 21 - Sep 21
R thousand		Appropriation	Adjusted appropriation	Adjustment	Apr 21 - Sep 21	% of adjusted appropriation
1	The Presidency	592 321	604 579	12 258	223 553	37.0
3	Cooperative Governance	100 875 870	101 259 931	384 061	40 929 734	40.4
8	National Treasury	41 055 707	45 546 707	4 491 000	14 464 520	31.8
9	Planning, Monitoring and Evaluation	453 950	459 213	5 263	173 858	37.9
10	Public Enterprises	36 291 819	36 274 819	(17 000)	35 870 920	98.9
14	Statistics South Africa	4 474 590	4 931 640	457 050	1 570 804	31.9
15	Traditional Affairs	171 392	172 690	1 298	67 679	39.2
17	Higher Education and Training	97 784 005	97 889 005	105 000	70 251 836	71.8
20	Women, Youth and Persons with Disabilities	763 539	1 195 508	431 969	469 965	39.3
26	Military Veterans	654 367	607 388	(46 979)	168 499	27.7
29	Agriculture, Land Reform and Rural	16 920 399	18 023 260	1 102 861	6 313 926	35.0
30	Communications and Digital	3 692 881	3 884 456	191 575	1 444 943	37.2
32	Forestry, Fisheries and the Environment	8 716 848	9 099 737	382 889	3 079 978	33.8
38	Tourism	2 429 627	2 545 338	115 711	864 943	34.0
41	Water and Sanitation	16 910 080	17 735 057	824 977	5 710 343	32.2
Total		**980 583 908**	**1 028 457 408**	**47 873 500**	**503 296 942**	**48.9**

Division of revenue framework

R billion	2018/19	2019/20 Outcome	2020/21	2021/22 Revised	2022/23	2023/24 Medium-term estimates	2024/25
Division of available funds							
National departments	**634.3**	**749.8**	**790.5**	**817.4**	**764.7**	**743.0**	**774.4**
Provinces	**572.0**	**613.5**	**628.8**	**661.2**	**658.4**	**647.2**	**676.1**
Equitable share	470.3	505.6	520.7	544.8	538.8	525.3	548.9
Conditional grants	101.7	107.9	108.1	116.4	119.6	121.9	127.2
Local government	**118.5**	**123.0**	**137.1**	**137.6**	**146.3**	**148.9**	**155.4**
Equitable share	60.8	65.6	83.1	78.0	83.1	83.6	87.3
General fuel levy	12.5	13.2	14.0	14.6	15.3	15.4	16.1
Conditional grants	45.3	44.2	40.0	45.0	47.9	49.9	51.9
Provisional allocations not assigned to votes[1]	–	–	–	11.0	5.3	29.3	33.1
Unallocated reserve	–	–	–	–	15.1	28.8	29.3
Projected underspending	–	–	–	-6.3	–	–	–
Non-interest allocations	**1 324.8**	**1 486.2**	**1 556.4**	**1 620.9**	**1 589.8**	**1 597.1**	**1 668.3**

- Provincial equitable share was revised upward from R523.7 billion during the 2021 Budget review
- Conditional grants to provinces was also revised upward from R115.8 billion during the 2021 budget review

Local government spending capacity



- In aggregate, municipalities underspend on their expenditure budget
- As of 30 June 2021, municipalities had spent 91.9 per cent of their adjusted expenditure budgets of R485.6 billion
- Only local governments (LG) in Gauteng had overspent their expenditure budget by 30 June 2021
- In the past three financial years, LGs in North West spent less than 70 per cent of their expenditure budget

Conclusion

- The context for the 2021 MTBPS is the ongoing Covid-19 pandemic and the negative health, social and economic effects that will continue to unfold over the medium-term
- According to Minister of Heath, South Africa should expect the fourth wave of the pandemic in December 2021
- The likelihood of this fourth wave creates even more uncertainty with regard to the forecasts in the 2021 MTBPS
- The bi-annual MTSF report shows that:
  - The government is still lagging behind in education and healthcare outcomes
  - Land reform problems means that fewer people have access to land than targeted; and
  - The government is also lagging in the appointment skilled public sector managers
- An analysis of progress made with the implementing NDP, MTSF, ERRP and President Employment Stimulus shows that in most instances government is unlikely to achieve most of the targets
- Therefore, the MTEF spending priorities in the 2021 MTBPS has to take into account these developmental challenges
- The 2021 MTBPS is consistent with the policy direction of the 2021 SONA and the 2021 Budget Review with regard to economic recovery through structural reform. However, increased government expenditure will be necessary to crowd-in investment from the private sector into the economy

Conclusion

- The decision to reduce headcounts and the proportion of the budget allocated for compensation needs to be managed carefully to prevent the negative effect on education, health and peace and security. This will also further slow down the achievement of targets set for the 2019-2024 MTSF
- There is a current global consensus about the need to increase resilience to crises, such as the Covid-19 pandemic in economies and societies. However, the 2021 MTBPS focuses mainly on achieving a narrowly defined level of fiscal stability and increasing business confidence
- The 2021 MTBPS proposals lacks evidence to show that narrowly focused commitment to supply-side structural reforms will not exacerbate the severe structural problems of the economy
- The improved revenue outlook for the current year shown in the 2021 MTBPS underscores the importance of growing aggregate demand, and the associated economic growth, for achieving healthier public finances
- Therefore, government should also support recovery and rebuilding of the economy in a way that increases aggregate demand through building the resilience to crises and spending power of the poorest households
- These measures to support households could form part of a strategy for structural economic transformation that deepens and diversifies the productive base of the economy
- Overall, the approach by government to public finances has to take into account the current global consensus on the importance of the State in the economy, particularly during crises