Press Release

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South African Institute of Race Relations
The power of ideas

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Budget shows South Africa is heading for serious economic and political trouble – IRR

The numbers presented in Minister of Finance Tito Mboweni's budget are another warning that South Africa is sailing into very serious political and economic trouble, says the Institute of Race Relations (IRR).

According to the minister:

- Economic growth is expected at 1.5% this year, forecast to rise to 2.1% in 2021
- The budget deficit is forecast at a revised estimate of 4.2% in 2018/19, moving to 4.5% in 2019/20 and 4.3% in 2020/21
- Government debt is estimated to approach 60%

According to the IRR these figures mean that:

- South Africa's economy is expected to grow at less than half the average rate of emerging markets;
- As in the last decade of apartheid, the deficit is set to remain a multiple of the rate of economic growth; and
- There is no political will to rein in debt levels that have more than doubled over the past decade

IRR CEO Dr Frans Cronje said the risk to South Africa emerged from three sources.

‘The first is in the numbers themselves. Even if the forecast growth rates are achieved, there will be virtually no upward movement in levels of economic participation and job creation. And we must remember that Treasury medium-term forecasts have tended to be 50% off over the past decade. There is a very well established relationship between investor confidence, investment, GDP growth, job creation, revenue collection, welfare reach, popular confidence in the future, support for the ruling party, and levels of violent anti-government protest action. A necessary consequence of the latest growth projections is that levels of social and political stability will deteriorate markedly over the medium term.

‘The second is that global circumstances are also turning against South Africa. Growth in Europe, America, and China has peaked and slowdowns are forecast into 2021 with significant downside risks in the event that global trade talks fail and stimulus mechanisms and accommodative monetary and fiscal policy fade. South Africa will be trying to stage a recovery through an era of downward drift in global economic circumstances.

‘This brings us to the third area of risk, which is government policy. It would not be out of place to say that, given Treasury projections and global circumstances, the government’s policy framework borders on the insane. Far from securing investor confidence, the administration of Mr Ramaphosa is squandering such confidence. The much heralded Mining Charter has in truth shut the door on much by way of new green-fields mining investment. New minimum wage laws have effectively closed off avenues to formal employment for a majority of young people. Threats to property rights have reached a sufficiently advanced stage to, in and of themselves, prevent an economic recovery. The proposed National Health Insurance scheme risks wrecking South Africa’s private healthcare system and with it the ability of the country to retain a strong middle class. Ever stricter enforcements of racial-nationalist empowerment policies act as a tax on investment and reduce productivity and international competitiveness.’

Cronje said: ‘These policies speak to an ideological worldview that is hostile to markets, private enterprise, and risk-taking investment and instead prioritises state control and direction of the economy over structural reform and modernisation while being blind to the economic, social, and political consequences. A good example of this general problem was the extraordinary reaction both of the government and the ANC to concerns raised about the investment climate towards the middle of last year.’

Cronje warned: ‘Should the current trajectory continue, a number of things will happen. The first is that a rating agency downgrade is inevitable. This triggers a sharp devaluation in the currency and rising debt service costs. The government is later forced either to seize pension funds, print money or surrender policy sovereignty in exchange for a bailout. South African growth rates underperform relative to forecasts with a very real risk of slipping into a long-term recession as living standards deteriorate rapidly and political instability rises.’

Cronje noted that ‘very few analysts are prepared to publicly concede the risks or admit to the structural reforms that will be needed to turn the tide’.

‘Those reforms now by necessity include deregulating the labour market, abandoning minimum wages, slashing civil service expenditure, putting an end to preferential procurement policies, selling parastatals, repealing race-based empowerment and equity laws and replacing these with policies focused on actual socio-economic disadvantage, allowing parents to take management control of schools, introducing a hybrid constituency-based electoral system, affording greater policy-making powers to provinces, and reversing every threat to property rights.

‘Short of implementing this list,’ Cronje predicted, ‘South Africa risks very serious political and economic reversals over the decade ahead. Those reversals will reduce living standards, erode much of the socio-economic progress made since 1994, and call into further doubt the sustainability of the constitutional order, civil rights, and the rule of law.’

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