

Press Release

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South African Institute of Race Relations

The power of ideas

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South Africa's finances in shocking state – IRR

In a briefing at the Institute of Race Relations (IRR) yesterday, renowned economist Mike Schussler shared some shocking figures, noting that South Africa was powering headlong towards a fiscal cliff and that a policy of prescribed assets was increasingly likely.

Prescribed assets is a policy whereby pension and other fund managers are told via government prescription where they can invest money. In present circumstances, pension fund managers would likely be forced to invest in government bonds to help the country meet its rapidly rising debt burden.

Schussler pointed out that public debt – including debt guarantees for state-owned enterprises (SOEs) – had reached nearly 70% of GDP. This is compared to about 32% in 2010. South Africa's current government debt ratio is also higher than those of its emerging market peers. Schussler noted that even National Treasury's own forecasts showed the situation was deteriorating markedly. In February, National Treasury had predicted that the debt-to-GDP ratio would be about 60% in 2026/27. Six months later, this was forecast to be closer to 80% by 2026/27.

This upward revision came against a background of declining tax revenue, Schussler said.

Already, the government is investing less in infrastructure such as roads, schools, hospitals, and dams.

Also concerning is South Africa's low economic growth. According to Schussler, on current trends, strict unemployment could reach 37.7% (up from today's 29.1%) by 2030, with expanded unemployment nudging 45%.

Politicians were under pressure to do something, said Schussler, and the government was unlikely to approach the International Monetary Fund (IMF) for assistance. Far more likely would be a policy of prescribed assets, as the IMF would insist on reforms and accountability.

South Africa's significant pension assets, equivalent to nearly 100% of GDP, a higher ratio than most other countries, present an inviting target for profligate politicians looking to plug a funding hole.

However, Schussler said: 'Our danger lies in not addressing the fundamental overspending and growth issues that South Africa faces. Without real reform we will make South Africans poorer.'

Marius Roodt, campaigns consultant at the IRR, said the Institute opposed any policy of prescribed assets.

'It's time the government makes the hard choices and cuts spending,' he said. 'The public sector wage bill must be reduced drastically and we must stop propping up failing SOEs. We must also create an environment where jobs can be created and where businesses can flourish.'

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