4. Economic Crisis Saftu Calls for National Action

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Saftu general secretary Zwelinzima Vavi called on labour unions, workers and the public to come together and demonstrate against reported budget cuts by National Treasury when the medium-term budget policy statement is delivered in October by Finance Minister Enoch Godongwana.

This comes after the Treasury reportedly instructed departments to cut budgets by up to 15%, suspend filling all vacancies and make cuts in infrastructure programmes because government has blown its budget. Speaking on the sidelines of the 28th Nedlac summit held at the Gallagher Convention Centre on Friday, Vavi said that labour could not agree to government solving a crisis it had created itself by implementing spending cuts to the detriment of the workers and the poor in the country. `We don`t accept that there must be even deeper levels of budget cuts or an austerity programme.

We can no longer afford to cut healthcare, education, police, correctional services, home affairs and social services. We insist that there be an alternative to austerity.` He said that the finances of government would not be in a precarious position if it had invested in infrastructure. Gross capital formation increased to 7.9% in the second quarter of this year from 0.2% in the three months to March, according to economic data from Stats SA.

The problem is that government itself is on an investment strike and it`s allowed the private sector to be on an investment strike. We`re now sitting at around investment of only 14% to GDP (2022). We can`t grow the economy that way,` said Vavi. `We must ask why government isn`t investing in the economy.

Why has it allowed the manufacturing sector to be basically cut by half? The manufacturing sector was contributing 22% to GDP in 1994. It`s now around 12%, so half of the capacity`s gone. `Why isn`t government coming up with any infrastructure programme, considering the way things are falling apart in Johannesburg?` Cosatu president Zingiswa Losi said budget cuts would not help resolve the economic crisis in the country.

The labour federation rejected `reckless attempts to impose misguided austerity budget cuts` across government. `While we appreciate the real fiscal constraints facing the state and the need to cut fat and reprioritise expenditure, the solutions offered by Treasury, of slashing expenditure and further decapacitating the state when the economy`s in desperate need of stimulus and a well-oiled and capacitated public service, will only serve to choke the economy and further weaken an already enfeebled government, she said.

The Reserve Bank has estimated that the economy will grow by only 0.3% this year - this while investment in the country has dwindled. South Africa has lost its appeal as an investment destination because of the many problems it faces, The crisis of government spending - and the proposed austerity measures by way of a solution - has been roundly criticised by economic experts and trade union leaders including being greylisted and given poor sovereign credit ratings, which have left it out of critical global indices.

Godongwana is expected to confirm the spending cuts at the upcoming mini budget speech. Last week, head of the budget office at National Treasury, Edgar Sibisi, said the upcoming mini budget speech would not favour spenders, as fiscal consolidations would be extended for the next two years.

This as government has exceeded its budget in line with the February estimates, including for the wage bill, after a 7.5% across the board increase. By July this year, government had recorded R685 billion in spending, which amounts to 34% of the budget estimate, compared with R628 billion for the same period last year.

The National Health Insurance (NHI) Bill, which is making its way through Parliament, was endorsed by the National Assembly. It is now awaiting concurrence by the National Council of Provinces and is set to be implemented from 2024. The likely extension, expansion and more expensive 8350 grant that currently covers 8.4 million people - ahead of what is certain to be a highly contested election - will increase rising public debt and high debt servicing costs.

For every rand of government revenue collected, 18c goes towards servicing the R340.5 billion of interest on our debt. Econometrix chief economist and director Azar Jammine said there was no choice in extending and increasing the R350 grant because of the levels of poverty and unemployment in the country. `Regarding the NHI scheme, studies have shown that 99 The problem is that government itself is on an investment strike and it has allowed the private sector to be on an investment strike. We are now sitting at around investment of only 14% to GDP (2022). We cannot grow the economy that way it can cost up to R500 billion extra. That becomes totally unaffordable - and the same goes for the basic income grant. `We`re talking about

substantial increases in expenditure that would jeopardise government`s ability to stick to its budget.
However, Losi said the country could afford the NHI if bloated salaries of senior government officials and MPs were trimmed. `What exactly do these people do while they`re earning a salary?` she asked. `The actual work and service are done at the bottom end, where public servants are overworked and underpaid. The Covid-19 pandemic showed us who was important.

Politicians were sitting at home, afraid of the virus and rushing to private hospitals for help every time they coughed, while public servants were the frontline workers. Others died in the line of duty because they were firefighters between us and the pandemic. `We`re not going to address the inequalities in our country as long as we have those who`re able to access high-quality healthcare services and others who have to wait from 4am for clinics to open at 8am, only to be told that they have no Panado in stock,` she said.

The increases in spending, together with lower revenue collection of R494 billion for the year to date (which is below the R510 billion collected during the same period last year), as well as an economy that is not growing and crippled by persistent load shedding and a growing deficit on the current account do not leave many options for National Treasury. The widening of the current account deficit is not helping.

The deficit increased to R160.7 billion in the second quarter of this year from a revised R63.7 billion in the first quarter, according to data from the Reserve Bank. As a ratio of GDP, the deficit widened to 2.3% in the second quarter of this year from 0.9% in the first quarter. This does not bode well for the currency, which has seen record lows this year and has an inflationary impact.

The state continues to fail to trim expenditure and Godongwana has indicated that either higher taxes or increased bond issuance are on the cards if expenditure isn`t cut, so the fiscal deterioration has undermined bond yields in South Africa,` said Annabel Bishop, chief economist at Investec.

South African bond yields have flagged recently, with that of the 10-year benchmark returning to 11.55%, from 11.10% at the end of July. Bond yields are losing ground as South Africa`s government finances continue to deteriorate, while foreign appetite is volatile,` she added.

This toxic mix of high crime levels, infrastructure failures, logistics and transport crisis has led South Africa to no longer be an attractive investment destination. It`s absolutely clear that, without investment on the back of which we could build inclusive growth, we can`t address these crises,` said Business Unity SA leader Cas Coovadia. `What the crises also show is a downward trend in all of the key indicators. If we don`t arrest that and start turning it around, we can`t solve the problems in this country.