Part 4: Fiscal cliff and debt burden 15 June 2021

The most-asked question in this regard is what will happen to **civil service pay increases**. It is useful to remember that in 2020 NO increases were granted to civil servants. This decision was challenged by the unions in court, which ruled in favour of the government. It is now under appeal to the Constitutional Court and we will have to await, and abide by, its ruling.

The wage negotiations for 2021 are now in process and have deadlocked. The state offered 1,5%, which is normal pay progression and already in the budget. In addition, it offered a non-pensionable R978 pm to be paid from saving on other personnel allowances. The Public Servants Association (PSA), who represent a minority of the public sector (230 000 members), has threatened to strike. Government and the majority unions from COSATU are still talking. It remains to be seen whether the unions can pull off a sustained strike.

In the meantime, **tax collections** have come in better than budgeted. Five months into 2021 **economic growth** is also much higher than anticipated. When the budget was tabled in February, it was based on growth of 3.3%. After the most recent GDP figures, economists' expectations hover around 4.5% - that means significantly more tax collections (Covid willing, of course).

Against the backdrop of better tax collections and higher growth, government is continuing with **fiscal austerity** as outlined in the February budget. The pain is being felt throughout the public sector and the country in general. Even the NPA and SA Police have had their budgets cut, not to mention cessation of Covid relief and low social grant increases.

The minister of finance pledged in Parliament that the **expenditure ceiling** is sacrosanct and will not be breached. It is worth remembering that since the expenditure ceiling practice was adopted in 2014 it has not been breached once till Covid in 2020. Clearly Treasury can control expenditure. We will see at the half-way stage in October how it is faring in the current year.

The commodities boom of the first half of 2021 has helped considerably to push SA to a higher growth rate and hence a better fiscal position. On-going **structural reform** by the government, as witnessed by inter alia the electricity announcement, should bring a growth dividend. All signals from the body politic are that we will see more structural reform announcements in the second half of this year. Higher growth is the best way to deal with debt and the fiscal cliff.

So what?

- Government is clearly displaying the political will to curb salary increases, and also to pursue the expenditure cuts outlined in the 2021 budget. There is no lack of will.
- Tax collections are better than budgeted and economic growth now considerably higher than budgeted 4 months ago.
- Government's three-year budget framework indicates that a primary surplus can be reached and the debt to GDP ratio stabilised by 2025. Between austerity on the one hand and growth on the other, this seems possible.