Briefing Note 1: The 2023/4 budget and industrial policy

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The recent 2023/4 national budget mainly takes forward the rather austere strategies adopted in 2022/23. To analyse the impact on inclusive industrialisation, this note looks at three aspects: the overall fiscal approach; broad support for industrialisation; and the allocation to the dtic.

In real terms (deflated by the projected CPI to March), the budget foresees a 2% real cut in spending outside of debt service payments, which increased by 38%. In the process, the government will prioritise paying off foreign debt.

This strategy effectively means government services as a whole will have reduced resources this year. Yet demands are only growing, as the pandemic left South Africa with around half a million fewer jobs and deeper inequalities. Moreover, the population is growing just over 1% a year. Revenues are expected to climb by around 8% in real terms, but the increase goes entirely to debt repayment.

The cuts to national spending overall tend to dampen economic growth by reducing demand. That in turn makes it harder to restructure the economy as needed for industrialisation. In this context, it becomes particularly important that changes to government spending improve its alignment with national priorities. Instead, like last year, the National Treasury is relying on cross-cutting cuts to public servants' pay and social grants, with increases limited almost exclusively to physical infrastructure. The budget foresees a 5% real reduction in personnel costs and a 1% cut to transfers to households. In contrast, payments for capital assets will climb by over 10%.

Broad cuts to remuneration and social grants avoid the deep research and wearing negotiations with other officials that more programmatic cuts require. But it effectively imposes an untargeted reduction on social services, including education, as well as transfers to the poorest households. In effect, it pays for higher investment in tangible infrastructure by reducing spending on social and human capital. For industrial policy, however, higher education levels and greater social solidarity form critical preconditions.

The budget vastly increases support for the electricity transition, both by taking over much of Eskom's enormous debt, with conditionality to improve management, and by assisting businesses and households to invest in off-grid solar. It lets businesses write off 125% of investment in solar generation over the next two years, and provides guarantees to finance the initial investment.

Dedicated funding for industrial policy remains relatively small. The dtic gets around 0.5% of total expenditure, with a modest decline over the past five years. Around 80% of the dtic budget transferred to agencies and private businesses. Almost three quarters of the transfers are provided through incentive schemes managed by the Industrial Financing and Industrial Policy divisions. Almost all of the rest finances the Competition Commission.

The relatively small size of the dtic budget would not be a problem if it had stronger mechanisms to leverage key government instruments that fall under other departments – especially training and education; national and municipal infrastructure and licensing; and regulatory frameworks that affect ownership such as land reform and zoning. In every country, these programmes absorb the bulk of national spending. The problem is to ensure that they effectively support and reinforce inclusive industrialization. Currently, however, as the overall budget strategy shows, South Africa still lacks the platforms required to secure that kind of coordination across national departments as well as provincial and municipal authorities.