THE REAL ECONOMY BULLETIN
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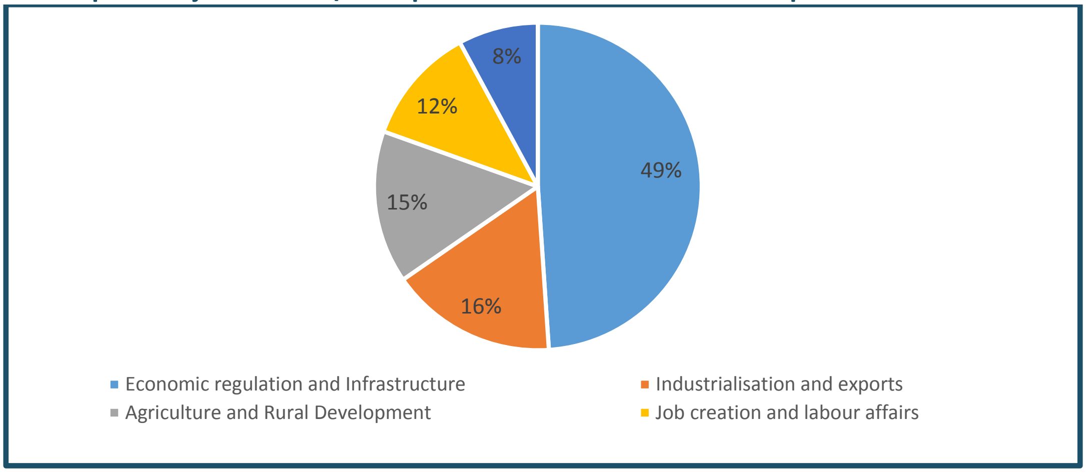
Briefing Note: Medium Term Budget Policy Statement (MTBPS): Implications for industrial development

In the 2018/19 financial year, the South African state plans R1.67 trillion in expenditure. Of this, R200 billion (or 12%) of the budget is earmarked for supporting economic development. Of this, the lion's share goes for infrastructure, mostly transport, with the rest supporting industrialisation and exports, agriculture and rural development, job creation and labour affairs, innovation, science and technology (see Graph 1). As evidenced by the large swathe of functions that are covered by "economic development", a number of ministries and departments therefore support this mandate.

Graph 1: Adjusted 2018/19 Expenditure for Economic Development – R200 billion



Source: National Treasury, 2018. National Budget Review 2018 – Chapter 5 Consolidated Spending Plans.

The Department of Trade and Industry (the dti) is most directly responsible for catalysing economic transformation and development in South Africa through striving for a restructured economy. This is characterised by accelerated economic growth and inclusive industrialisation that creates employment and greater equity. The dti accounts for just under 5% of planned spending on "economic development", or around 0.6% of total expenditure by the state.

Overall the dti budget has increased by 12% in real terms since 2014/15, or an average of around 3% a year above inflation. The biggest real budget increases were in 2015 and 2016, with increases of 11% and 7% in real terms respectively. In contrast, the 2017/18 year saw a drastic reduction in the dti budget, with a 9% drop from the previous year (see Table 1).

Table 1: Budget rends – the dti 2014-2018

	2014/15	2015/16	2016/17	2017/18	2018/19 (a)
R millions	8 660	9 472	10 349	9 343	9 532
Nominal growth	4%	9%	9%	-10%	2%
Real growth	4%	11%	7%	-9%	3%

Notes: (a) Adjusted appropriation based on MTBPS 2018. Source: Compiled by Author based on National Treasury, 2018. Estimates on National Expenditure 2018 – Vote 34 Trade and Industry; National Treasury, 2018. Adjusted Estimate of National Expenditure – Vote 34 Trade and Industry.

The adjusted 2018 MTBPS, published in November 2018, increased the dti budget by R69 million to R9.5 billion for the 2018/19 financial year. The nominal increase is primarily directed towards strengthening the corporate services of the department through the "administration" budget line which covers the office of the Director General. Two key programmes within the dti account for the bulk of funds, namely the Industrial Development Division (IDD) and the Incentive Development and Administration Division (IDAD). IDAD alone accounts for almost 60% of the dti's budget.

A closer look highlights some interesting budget reallocations. Within the IDD budget line, virements and budget transfers of R407 million occurred to direct more resources towards *Industrial Competitiveness* (increased by just under R118 million) and *Customised Sector Programmes* (increased by R289 million). The main source of the increase in funds available to IDD was a substantial reduction in IDAD spending. *Manufacturing incentives* were reduced by R102 million and *Infrastructure Investment Support* incentives were reduced by R439 million (impacting on infrastructure development in special economic zones, and in government-owned industrial and critical infrastructure projects). In contrast, services incentives grew by R100 million. These changes, however, do not affect the total amount available for incentives.

As part of these changes, an additional allocation of R100 million was made to the South African Bureau of Standards (SABS) to revamp aging infrastructure. The additional allocation will support improvements at this key institution.

Although the low growth environment and pressing social demands place immense pressure on spending priorities, and for the dti to meaningfully "lead and facilitate access to sustainable economic activity and employment for all South Africans…and catalyse economic transformation and development", much greater resources are required to support inclusive industrialisation.