Briefing Note: Budget 2020 and funding for industrial policy

With a depressed economy, the 2020 budget was bound to be a delicate balancing act. Entitled *Consolidation, Reform and Growth,* it acknowledges a weak economic outlook, low growth, tax revenue shortages, higher debt service costs and concerns with public finances and fiscal deterioration. A widening deficit, escalating interest payments with debt servicing costs the fastest-growing area of expenditure (growing at 12%) and a technical recession are worrying signs for the economy.

State-owned companies will get the bulk of new spending. In 2020/21, Eskom will get R25 billion and South African Airways R10 billion. In contrast, the main labour-intensive services – health, education and policing – all see a real cut, with increases below inflation. National Treasury hopes to reach a deal to cut public servants' pay by 3% in real terms so as to avoid reducing services to the public. If that proves impossible, funding for the major social services except for social grants will fall in real terms by between 2% and 3% a person. Social grants will increase by inflation.

The budget for the Department of Trade, Industry and Competition (DTIC) – the new department that merges the earlier Departments of Trade and Industry and Economic Development – is expected to contract if inflation is taken into account. It gets a 0.5% increase in nominal rand, rising from just over R11 billion in 2019/20 to R11.1 billion in 2020/21. That represents a reduction of 4% in real terms.

The DTIC budget commits to four focus areas, namely developing industrial infrastructure, providing industrial finance, strengthening exports and enhancing competition.

The 2020/21 budget provides above-inflation growth for programmes related to economic transformation, research and planning. Its incentive schemes rise under 2% in nominal terms, however, for a decline of around 2.5% after inflation. The departmental administration faces a 10% cut in real terms. Moreover, the South African Bureau of Standards (SABS) will see payments by the department fall below 2018 levels after taking inflation into account.

The department contributes around a third of the total SABS budget, with the remainder mostly earned through fees from companies.

Incentives to manufacturing and services (excluding funds transferred to the Industrial Development Corporation) comprise over a third of the DTIC budget.

The largest component is manufacturing incentives, at R3.8 billion in 2020. They cover the manufacturing competitive enhancement programme, the capital projects feasibility programme, the automotive investment scheme (which is funded primarily through off-budget tax subsidies), the export marketing and investment assistance scheme, the sector-specific assistance scheme, and the section 12I tax incentive scheme. These payments are expected to grow slightly above inflation, at 4.4%, in the current budget.

The second largest component is incentives for services, at R698 million in 2020. The bulk goes for business process outsourcing, television and film. These payments are expected to decline by R106 million in the 2020/21 budget, representing a cut of 18% after taking inflation into account. The budget does not explain which components will see reduced funding.

In short, the DTIC budget reflects the constraints facing government as it attempts to restructure the economy in the midst of an economic slowdown. With falling revenues and increasing demands to prop up the state-owned enterprises, the funds available for industrial policy have become tightly constrained. That in turn raises the importance of the Master Plan process in order to ensure more rigorous prioritisation, coordination across the state and effective collaboration with business.

For more information on fiscal and monetary policy, see the Trends in GDP Growth section.