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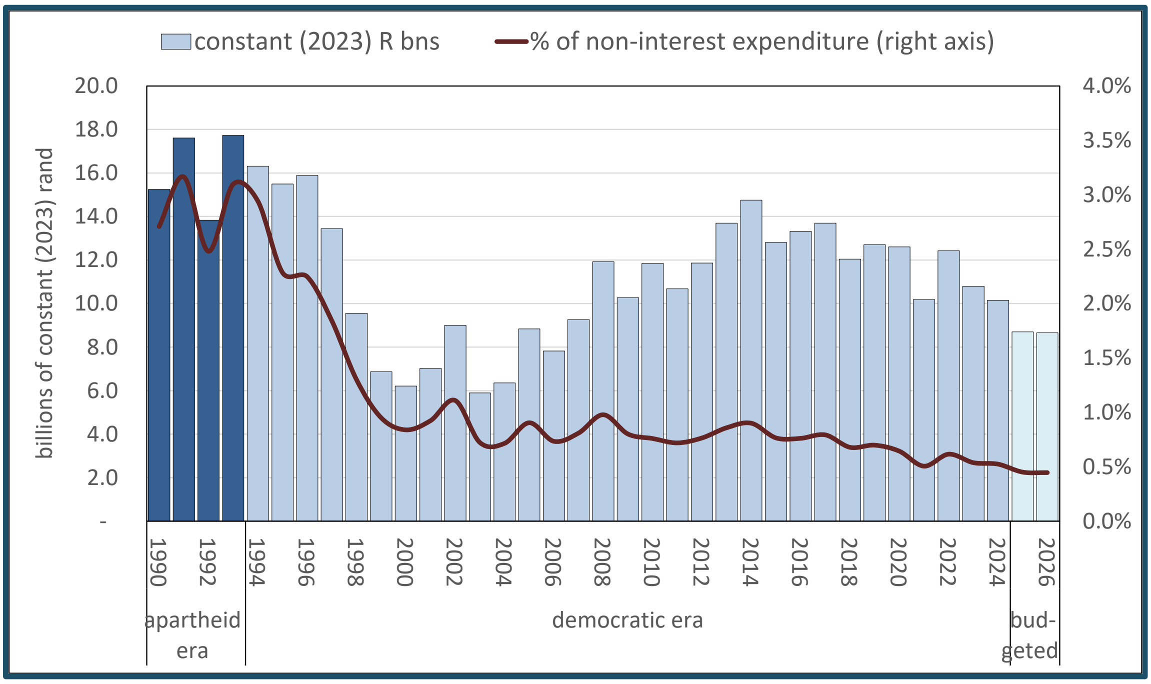
Briefing Note 1: The budget and industrial policy

Neva Makgetla

The recent budget was not good news for industrialisation. In particular, it brought deep cuts to funding for the Department of Trade, Industry and Competition (dtic), especially for industry-level incentives. More broadly, the economic vision that framed the national budget downplayed efforts to promote more inclusive industrialisation.

The 2024/25 budget reduces total dtic spending by 14% in constant terms. In 2023 rand, the dtic's budget will fall from R10.1 billion in 2023/24 to R8.7 billion in 2024/5. These cuts continue a sharp downward trend from 2022. The dtic budget shrank by 30% from 2021/22 to 2024/25. That followed a 9% decline from its peak in 2013 to 2021/22. As a result, the share of the dtic in the national budget excluding interest payments is expected to drop to 0.45% of non-interest expenditure this fiscal year, down from 0.62% in 2022 and 0.86% a decade before that. (Graph 1) According to its budget, the dtic has downsized by 14%, or almost 200 positions, since 2021.

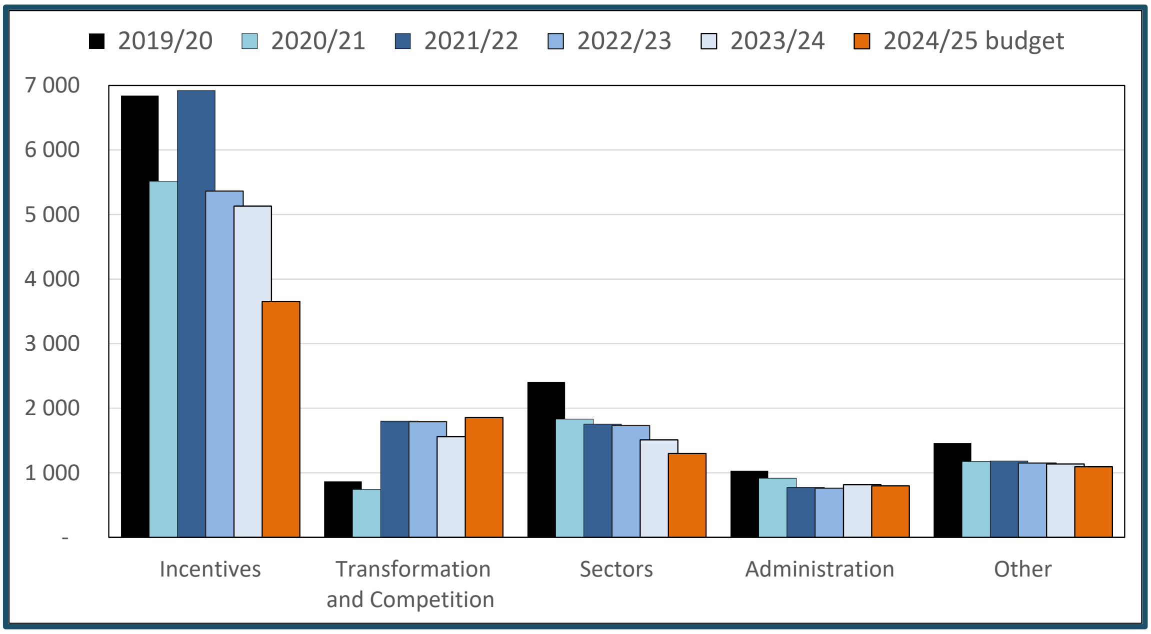
Graph 1: The dtic budget in billions of constant (2023) rand (a) and as percentage of total non-interest expenditure, year to March, 1990 to 2025



Note: (a) Reflated with average CPI to March rebased to 2023. Source: Calculated from National Treasury. Estimates of National Expenditure for the relevant years.

Budget cuts since 2021/22 have fallen most heavily on the dtic's incentive programmes. These measures aim to promote more competitive and innovative economic activities. They also affect its industry-level programmes, including the new master plans. As Graph 2 shows, the budget for the incentives division is expected to fall by 30% in the coming year, for a total decline of almost half since 2021/22. The sectors budget is facing a 14% cut this year, which means it will have shrunk by over a quarter since 2021/22. Other budgets have been less affected over the past four years, with modest growth in the budget for transformation and competition, only a small decline in administration, and an 8% cut in the aggregate budget for export promotion, trade and other regulation, and research.

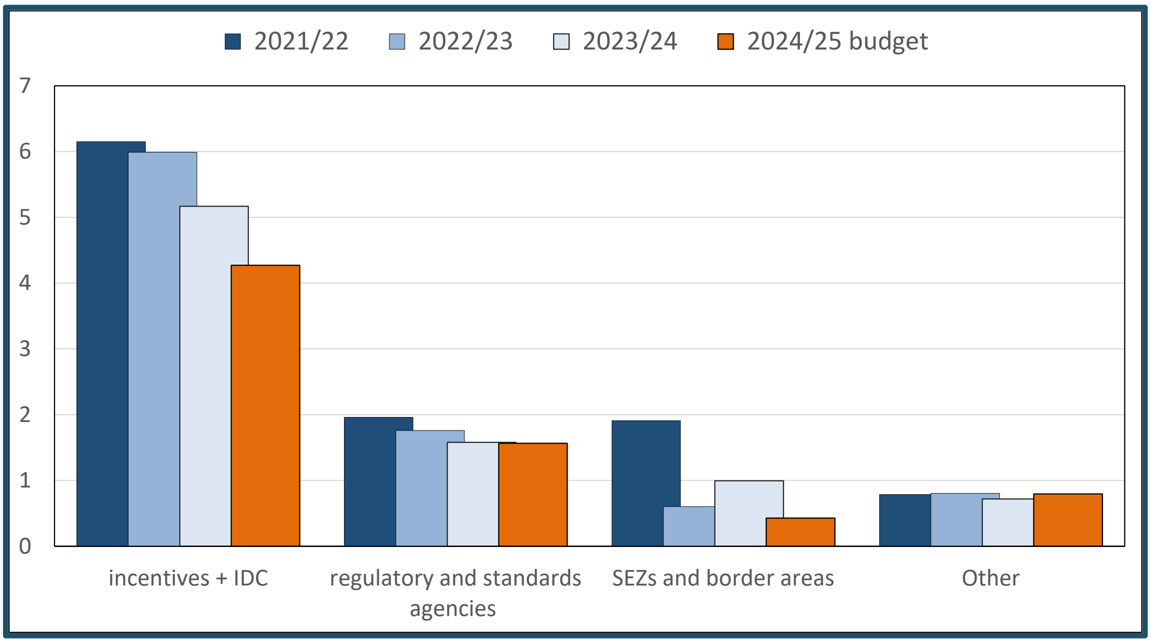
Graph 2: Expenditure by dtic administrative division, 2019/21 to 2024/25, in millions of constant (2023) rand (a)



Note: (a) Reflated with average CPI to March rebased to 2023. Figures for 2012/21 to 2023/24 are actuals; 2024/25 is budgeted. Source: Calculated from National Treasury. 2023 and 202 Estimates of National Expenditure.

Most of the dtic's budget goes for transfers, including incentives and support for its agencies, although the percentage has dropped from 87% in 2021/22 to 81% in the 2024/25 budget. Its array of incentives for manufacturing and services companies accounted for around half of the dtic budget from 2021/22 to 2023/24. Its share is, however, expected to fall to 43% in 2024/25. The Industrial Development Corporation (IDC) administered around 30% of these transfers in the past three years, while the dtic itself approved the remainder. Transfers to the dtic's host of regulatory and standard-setting agencies absorb 18% of its budget, up from 16% in 2021/22. Around half of that amount funds the competition authorities and the South African Bureau of Standards. The remaining transfers went to spatial initiatives (the special economic zones and industrial sites in the former so-called "border areas"); various comparatively small initiatives to promote particular industries or products; a range of non-profit organisations representing stakeholders; and research support. (Graph 3)

Graph 3: Expenditure on different types of transfer, 2019/21 to 2024/25, in billions of constant (2023) rand (a)



Note: (a) Reflated with average CPI to March rebased to 2023. Figures for 2021/22 to 2023/24 are actuals; 2024/25 is budgeted. Source: Calculated from National Treasury. 2024 Estimates of National Expenditure.

The dtic's on-budget expenditures are dwarfed by the less visible tax subsidies to the auto industry. The Treasury estimates that incentives to exporters, which take the form of reduced tariffs on imports of cars, cost around R30 billion a year – five to seven times the dtic's total on-budget incentives. Clothing and textiles get another R1 billion from a similar rebate programme.

The squeeze on the dtic budget reflected the Treasury's approach to economic policy. The Minister's Budget Speech started by calling on the government to focus on driving economic growth in order to generate resources for redistributive programmes. In contrast, industrial policy in South Africa has, for the past two decades, sought to promote a more equitable distribution of incomes from economic activity (that is, the primary distribution of income).

The Treasury's current stance inherently places initiatives to restructure the economy on the back burner. This reality is underscored by the language used. The budget speech mentions physical infrastructure 15 times, growth 14 times, but education just twice and industrialisation only once.