Nhlanhla Cyril Mbatha | The juggling act of fiscal policy: Growing debt vs declining growth

The juggling of balls has been taken out of internal party politics of the ANC to members of the GNU and a divided Parliament. For many proponents of democracy, this signals a positive development in South Africa, even with its current price tag, writes ***Nhlanhla Cyril Mbatha.***

For the first time in post-apartheid South Africa, the 2025 national Budget presentation in Parliament was postponed at last minute by the Cabinet of the government of national unity (GNU).

This reflected the intensity of the opposing views on what are the national needs and useful tools to prioritise both within the GNU and thereafter in Parliament. The postponement signals the transactional price of a democratic process in drafting and executing a fiscal policy.

About 20 years ago former minister of finance, Mr Trevor Manuel, would liken the political process required in negotiating the order of socio-economic priorities to juggling of balls when presenting his national Budget speech.

The juggling of balls has now been taken out of the internal party politics of the ANC (a majority party at the time) to members of the GNU and a divided Parliament. For many proponents of democracy, this signals a positive development in South Africa, even with its current price tag.

Opposing views

There are, however also many opposing technical views on how best to formulate fiscal policy and the annual national budget with different outcomes.

The economy has performed poorly in recent years, with interlinked negative results that include a shrinking tax base, depleting national revenues, a rising debt-to-GDP ratio alongside joblessness, especially in formal sectors. This has left Treasury and the GNU cabinet in the unenviable position of having to perform the juggling acts of ranking our national challenges and needs.

The fact that national debt to GDP has risen to around 75% from 24% in 2008 may itself not be as big a problem and reason for alarm compared to what has happened to the economy itself (seen through dipping economic growth rates) in the same period.

For example, although 75% of debt to GDP is a high figure, it still remains below the average of many OECD countries. For instance, Japan's debt to GDP sits at around 250%, with many other OECD countries well above 100% of debt to GDP. In this case, the important question to ask is how the capital raised through loans over the last decade has been used in plans laid out to grow the economy.

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Have they been used to bolster long-term investments (on the aggregate supply-side) that restructure and grow the economy effectively in responding to obvious structural socio-economic challenges, or have they been channelled towards short-term consumption expenditures (on the aggregate demand side), as short-term cyclical interventions or worse *as political spending*, with little structural future returns and limited prospects for future debt repayments?

These are the questions to probe whether decisions made to accumulate more debt have been based on sound planning and execution with future returns for future generations in mind. Debt accumulated to support sound plans may be costly at present, but would nevertheless benefit the economy and future generations if executed effectively. This is how we should be evaluating our national debt, not only on its size relative to GDP.

In this sense technical evaluations should be based on analysis of correlations between debt levels in relation to GDP growth rates from a historical lens. There is also a need for comparative analysis of other similar and different countries and their economies. For example, we might compare South Africa to OECD and other BRICS countries on their debt percentages to GDP versus their GDP growth rates.

From this perspective, it should be worrying that South Africa's debt accumulation in absolute terms has happened against the backdrop of a continuously deteriorating economy, with growth rates falling from 3% (after the 2008 economic crisis) to the recent figure of 0.7%.

External factors

The piling debt has not been associated with a growing economy, which must repay the debt. This economy might even fail to raise enough revenues required to service even the compounding interest effect of the loans. From simple home-budgeting principles, this is the first sign of spiralling uncontrollably into a debt trap.

At a national level, it is the *fiscal cliff*. This is also typical for households that live beyond their means. Using international loans to finance mostly domestic consumption is, metaphorically speaking, living beyond one's means.

Nevertheless, there are times when policymakers and government technocrats do not have complete control over what happens to their economies because of exogenous factors (such as international economic developments). For this reason, it is important to also look at South Africa's debt and associated economic performances in comparative terms.

Normally lower economic growth rates are associated with matured economies while emerging economies are associated with higher growth rates. At a microeconomic level, higher growth rates of emerging economies stem from taking advantage of economies of scale when starting out.

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So, compared to matured OECD countries, it should be worrying that South Africa's growth over the recent years has consistently declined to reach levels below many of such countries from 2014. Before the Covid-19 pandemic, the country's annual growth rate was at 0.3% compared to an average of 1.9% for OECD economies.

The negative effect on growth from this pandemic was also worse for South Africa, than the effect of the 2008 economic crisis. This further supports the argument of not only a shrinking economy, but an economy that has also become relatively less resilient to external shocks. Poorly constructed and executed plans, including through borrowing, have not saved it from spiraling into more debt.

Of the BRICS countries, South Africa has featured the most number of times as the economy with the lowest annual growth rate since 2009 (i.e. eight out of 16 times). Brazil follows behind, with five times in the 16 years.

The indications are that most of our problems are manufactured internally. Compared to our counterparts in the BRICS block, our economy has performed poorly on both growth and debt. It has also performed poorly on growth against matured (OECD) economies.

It should be noteworthy that among the BRICS countries, the World Bank data indicates that Russia seems to have maintained better fiscal discipline, with the lowest debt levels to GDP (of all BRICs countries) while also outperforming South Africa on economic growth. This has been the case as recently as 2023, while Russia is facing economic sanctions from almost every OECD country. In 2023, Russia's economic growth rate was more than five times higher than that of South Africa at 3.65% compared to 0.7%.

Deeper trouble

Using both the recent history and a comparative lens, South Africa's economy has sunk deeper into trouble since 2008. The issues are deeply structural.

The debt to GDP ratio that is rapidly climbing is only one of the indicators towards our economic crises and growing social problems.

In a fiscal policy response, growing the economy to afford the spending we desire socially for our welfare (and also to contain our debt crisis) should then be our number one priority. Without such prioritisation, social conflicts would only escalate especially with the tightening economic constraints and vanishing fiscal policy options.

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The current contestations of whose needs should be prioritised in the national Budget would naturally playout along the axis of income generation efforts versus levels of spending (on competing needs). The extremes on the axis often pit the business sector against civil society, the employed against the unemployed, with political parties representing the right versus the left.

These contests were illustrated clearly in the postponement of the presentation of the 2025 Budget. And this is not even the end of the political story of attempts towards reaching consensus.

The historical lens looks backwards. It may tell us which groups have gained and which have lost in the past. But it may still be insufficient in telling us what will happen in the future. Hence, future voices are required in debates towards national budgeting agreements because current debts are the burdens of future citizens.

Future workers and business owners are currently our youth. These young people are in school and many are already struggling in finding jobs in the current economy. There are limited channels and means for their needs to be taken into account in current political debates. This is the case even though they are the ones who will bear most (if not all) of the costs from the mess we are likely to leave behind from poor decision-making. The growing debt-to-GDP-ratio is about them. To unmute future voices we could begin by promoting good quality, mass-based and freely-available educational projects focussing on economic and financial management for their socio-economic sustainability.