

# Running out of Road: South Africa's public finances and what is to be done

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CENTRE FOR  
DEVELOPMENT  
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This background report was prepared by CDE after a long period of consultation with a wide range of economists from across the private sector. Input from all participants is gratefully acknowledged.

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## Introduction

The most striking facts about the trajectory of SA's economy since the global financial crisis are the low rate of economic growth and the vast increase in the pile of public debt. These phenomena are linked in two ways. If economic growth had been higher, more tax would have been collected and there would have been much less need to borrow in order to fund the gap between revenues and spending. In addition, faster growth would have meant that the economy was larger, so the ratio of debt to GDP would have been lower.

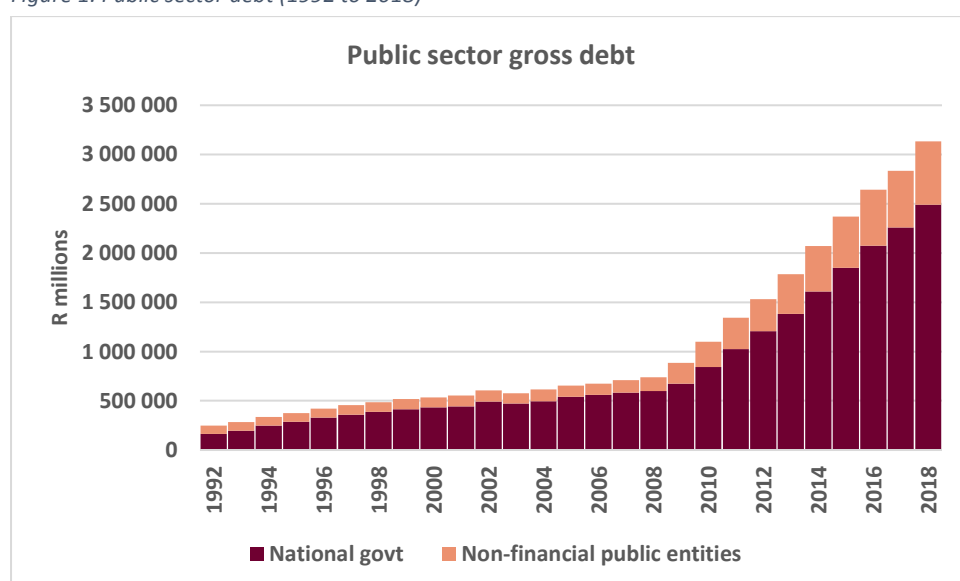
Slow growth, in other words, is a key driver of the rapid build-up of public debt. But, given the weight of the debt and the rapidity of its increase, lines of causality now work the other way, too: the precarious state of the public finances is one of the reasons why our growth performance has deteriorated, and why it is likely to continue to deteriorate until there is a substantial improvement in our fiscal position.

This report, drafted after considerable interaction with many of the country's leading economists (largely, but not exclusively, from the private sector), sets out the facts about the accumulation of debt, explains its causes, and sets out what South Africa has to do to get out of the trap into which we have fallen. It argues that fiscal consolidation is needed, and that this should be weighted to expenditure reduction rather than tax increases. By itself, however, fiscal consolidation is unlikely to close the gap between revenues and spending unless and until the economy grows more quickly, so it must be integrated into a wider growth strategy.

## SA's growing pile of debt

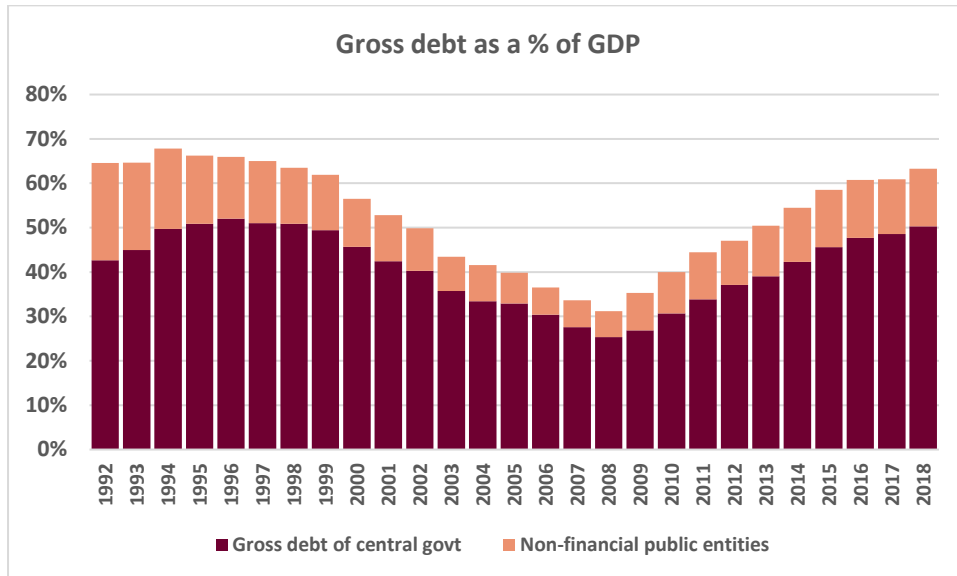
Including the borrowings of non-financial public entities (a category that includes the major SOCs), public debt now exceeds R3 trillion, up from R900 billion in 2009 and R210 billion in 1992 (Figure 1). Expressed as a percentage of GDP (Figure 2), public sector gross debt exceeds 60 per cent, and is back at the highest levels recorded at the end of apartheid. Critically, it shows little sign of slowing its upward trajectory.

Figure 1: Public sector debt (1992 to 2018)



Source: SARB database

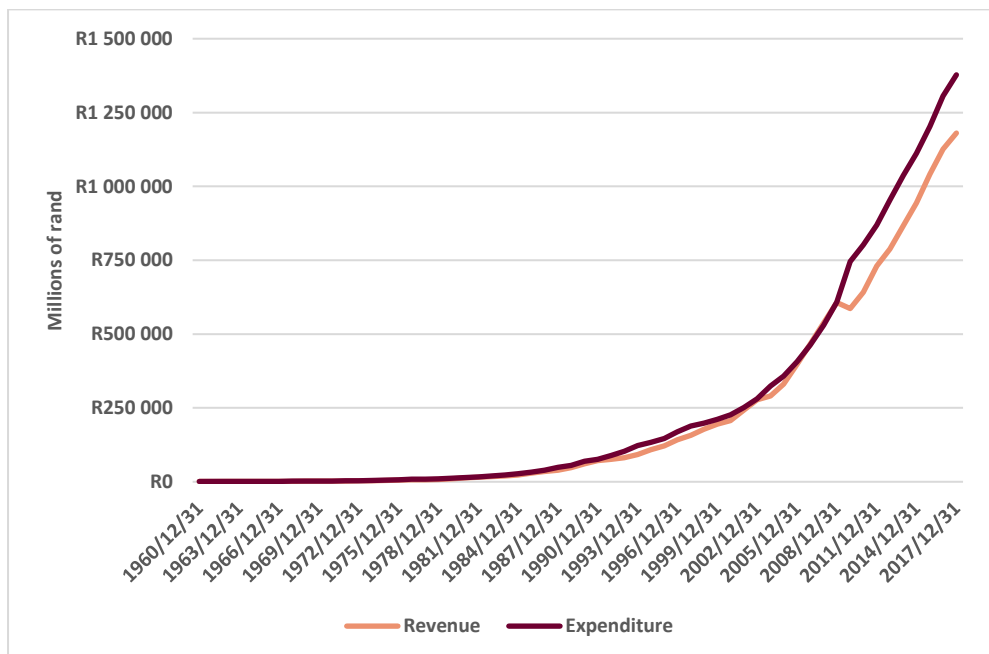
Figure 2: Public sector debt as a percentage of GDP (1992 to 2018)



Source: SARB database

There are two proximate causes for the explosion in public debt. The first is the gap between revenue and spending on government’s budget that emerged in 2009 and which has not been closed in the intervening years. In effect, a sharp decline in tax revenues in the immediate aftermath of the global financial crisis was not accompanied by a decline in spending. This may have been appropriate in the immediate wake of the crisis, but the gap between revenue and spending that opened up after the global financial crisis has never been closed (Figure 3), and the result is that debt has piled up at an unprecedented rate.

Figure 3: Revenues and expenditure of national government



Source: Qantec data

There are a number of reasons for failure to close the gap between revenues and expenditures. The most important is that, while it was completely appropriate for government to loosen fiscal policy in the face of the global downturn, the “stimulus” that was implemented then was premised on the

assumption that the economy would quickly return to the rapid growth that had characterised the previous decade. Higher, faster-growing spending became a structural feature of the budget. In particular, even as the downturn struck, the public service grew rapidly and structural changes to the level of compensation of public servants, leading to a large increase in average compensation, were implemented.

Given the fact that economic growth has never returned to the levels achieved in the years before the 2008 crisis, it is now obvious that a much more appropriate response to the shock would have been a large, *temporary* stimulus focused, preferably, on delivering productivity-enhancing infrastructure. There were two reasons why a temporary, infrastructure-focused stimulus of this kind did not happen, however.

- It was assumed that the economy would quickly return to growth of 4 per cent a year and more, which would render the planned increase in public sector compensation spending affordable.
- South Africa was already engaged in a programme of infrastructure spending that was exceptionally large by historic standards. Vast spending was being rolled out in the run-up to the 2010 FIFA World Cup (stadia, airport upgrading, Gautrain, and bus rapid transit systems), and Eskom was commissioning two enormous power stations. Infrastructure spending, in other words, was already elevated, and it is doubtful that the public sector had the capacity to spend much more with reasonable efficiency. Indeed, as time has shown, much of the infrastructure commissioned in this period (especially by Eskom and Transnet) would be delivered exceptionally inefficiently, with huge implications for the challenges we currently face.

The ultimate reason why any thought of a *temporary* fiscal stimulus in 2009 could not be entertained, however, is that this was precisely the time that government made the decision to implement significant changes to the size of the public sector and to increase the remuneration of public servants. Add to this the impact of annual higher-than-inflation increases to basic pay, and the effect on annual spending has compounded even as slow growth has made clear that the original decision was a bad one. The result is that the only item of spending that has grown faster than compensation is debt costs, both of which have grown more quickly than the economy as a whole (the nominal value of which – NGDP – grows by the rate of economic growth plus a measure of price increases). Since 2009, debt service costs have grown at a rate that was 5 percentage points faster than the growth of NGDP, while public service compensation growth was at a rate that was 2 percentage points faster than NGDP.

The upshot is that the large gap between revenues and spending is not a temporary feature of fiscal policy, but is a structural consequence of an expenditure trajectory that has never adjusted to a slow-growing economy that has not been able to generate the revenues needed to fund government’s spending commitments. The extent of recent and currently anticipated public sector borrowing needs is summarised in the 2019 Budget Review, which shows that in the seven years between 2015/16 and 2021/22, the public sector is expected to borrow R2.2 trillion rand (Table 1). Of this, R1.5 trillion is for the financing of national and provincial government, while R640 billion is for the SOCs. Overall, total borrowings will average a fraction less than R1 billion a day, every day, over the seven years.

Table 1: Public sector borrowing requirement (2015/16 to 2021/22) in billions of rand

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Seven year total
Main budget	168.4	167.6	208.6	224.5	255.2	264.4	267.6	<b>1 556.28</b>
Social security funds	-10.1	-8.2	-9.4	-10.3	-8.0	-5.4	-5.1	<b>(56.46)</b>

Provinces	-0.6	2.5	-0.7	0.9	-1.0	-1.6	-2.1	<b>(2.57)</b>
Public entities	-7.6	-5.0	-8.4	-4.7	-3.6	-5.0	-8.0	<b>(42.45)</b>
RDP Fund	1.0	0.2	0.3	-0.2	0.1	0.1	0.1	<b>1.48</b>
<b>Consol. government</b>	<b>151.0</b>	<b>157.0</b>	<b>190.3</b>	<b>210.2</b>	<b>242.7</b>	<b>252.6</b>	<b>252.4</b>	<b>1 456.28</b>
Local authorities	8.0	8.4	13.6	16.2	16.1	16.0	16.0	<b>94.35</b>
State-owned companies	120.5	88.5	99.4	103.7	74.7	73.8	75.8	<b>636.35</b>
<b>Borrowing requirement</b>	<b>279.5</b>	<b>254.0</b>	<b>303.3</b>	<b>330.1</b>	<b>333.5</b>	<b>342.3</b>	<b>344.2</b>	<b>2 186.98</b>

Source: 2019 Budget Review

The concern about the quantum of borrowings that government will undertake should not be understood to imply that all borrowing is bad. And it is worth noting that, while the rate of increase in debt is faster in South Africa than it is in most countries, South Africa's overall level of borrowing is not especially high by global standards and many other countries have also been piling on debt in recent years. Ultimately, the critical problem is not debt itself, but whether borrowings are being used to create the assets and resources needed to produce higher levels of income, and, in the process, repay the debt. After a decade of state capture and the squandering of resources, it is quite obvious that this is not the case in South Africa, and, if anything, the stock of productive assets available to the country is smaller now (despite the vastly higher debt) than it was a decade ago. This, of course, is a key reason why growth has been so disappointing. Indeed, in many ways, that growth slowdown, rather than a programme of investment in productive assets, is what has driven the rise in borrowing.

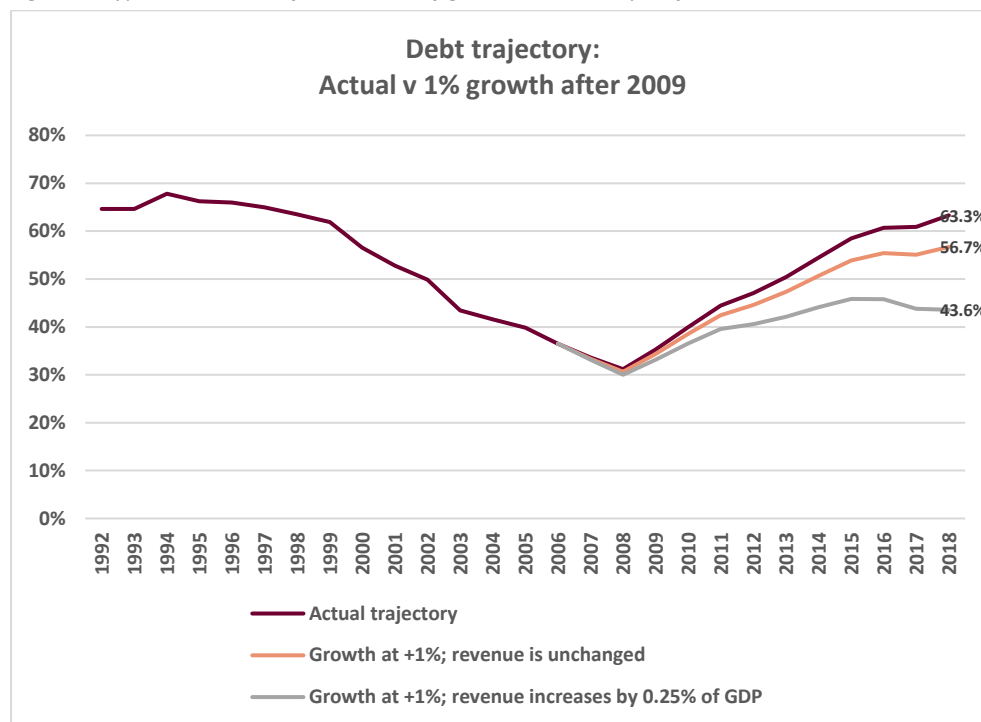
### The accumulation of debt has been driven by slow growth...

It's clear from the above that slow economic growth is a critical variable in this story: had growth returned to pre-crisis levels, revenues would have been higher, necessitating less borrowing, and rendering the increase in spending more affordable. Faster growth would have meant a larger economy and a correspondingly lower ratio of debt-to-GDP.<sup>1</sup> It is possible to show this effect by considering a counterfactual.

Imagine that South Africa's public sector had had to borrow exactly the same quantum of money it has had to borrow since 2008, but that the economy had grown 1 per cent a year more quickly than it did. If that had happened, the ratio of public debt to GDP in 2018 would have been 6 percentage points lower than the 63.3 per cent that was recorded at the end of 2017/18, and would have come in, instead, at around 57 per cent. If one makes the further – entirely realistic – assumption that faster growth would have generated more tax revenues, necessitating less borrowing, then the debt ratio would have been even lower. If, for example, revenues grew by 0.25 per cent of GDP for every percentage point increase in GDP growth (a rather conservative assumption), the debt ratio would be around 44 per cent and would actually be on a downward trajectory because we would now be running a primary surplus as a result of lower debt service costs and higher revenues (Figure 4).

<sup>1</sup> Growth is also a driver of slower growth in the revenues of SOCs, notably Eskom, making their financial positions that much more precarious. This will be discussed in more detail below.

Figure 4: Hypothetical ratio of debt to GDP if growth were 1% a year faster



Source: SARB data; own calculations

The upshot of this thought experiment is profoundly important: if nominal GDP growth had been just 1 percentage point a year faster than it had been, the trajectory of South Africa's debt would be considerably more sustainable, and our position would actually be improving rather than deteriorating.

Critically, if this is true of the past decade, it is true also of the next one, with the obvious implication that finding ways to accelerate growth (so long as this is neither driven nor accompanied by more public spending) is a first-order priority for ensuring the sustainability of our public finances. Indeed, if growth had been as little as 1.5 percentage points a year faster between 2009 and 2018, the debt ratio would be well under 40 per cent. Such figures are not hopelessly unachievable, and must – surely – be within our grasp if governance and confidence improves (more on this below).

Whatever rate of economic growth may or may not have been achievable with better governance, the fact of the matter is that growth has been exceptionally disappointing, and, as a result, the actual trajectory of South Africa's debt ratio has been (and continues to be) explosive: it is rising and shows no sign of stabilising. It is worth reflecting on the consequences for growth of the astonishing accumulation of public debt.

### ... but the accumulation of debt is now slowing growth

It is hard not to be horrified at the rapidity of the accumulation of public debt over the past 10 years, a decade in which South Africa's creditworthiness has fallen dramatically. This has resulted in deteriorating credit ratings, reflecting the increasing unsoundness of our macroeconomic fundamentals. It is, nevertheless, important to understand that the deepening fiscal crisis has to date been primarily a result of, rather than a cause of, slower growth. Increasingly, however, the unsustainability of this trajectory is reversing this causality; it is increasingly the case that higher and higher levels of debt are becoming the cause, rather than the consequence, of slower growth.

There are a number of mechanisms through which high levels of debt, especially when it is rising rapidly, can slow economic growth, and it is very likely that the impact of these has started to be felt. The first such mechanism is that higher levels of debt impose costs on firms, households and taxpayers as real interest rates rise in response to the decline in the sovereign's creditworthiness and the increase in risk. Higher interest rates mean reduced disposable income (making us all poorer now) and reduced investment (ensuring that we will be poorer than we might otherwise be in the future).

A further negative effect on growth occurs because firms and households expect higher future tax rates to pay down today's debt. In the absence of growth, the only way that government can meet its commitments to its creditors is by levying higher taxes on its citizens, and, the higher the level of debt (and the lower the rate of growth), the more likely it is that this will happen. The *expectation* of future tax increases has implications for the present: businesspeople, banks and asset managers recalibrate the expected return on current investments and raise the hurdle rates that potential investments must clear if they are to attract funding. The result, again, is less investment and the slower accumulation of the physical capital needed to support growth in the future.

A country's creditworthiness is measured only imperfectly by the ratio of debt to GDP. As important as that ratio is to assessing creditworthiness, the perceived risk of extreme outcomes is at least as important. This, in turn, is driven by the quality of governance. Thus, to the extent that a rising ratio of debt to GDP is understood to reflect bad governance that could also lead to other bad outcomes, its impact on perceived creditworthiness and on growth will be greatly magnified. This factor is a significant one in South Africa. For the past ten years Cabinet and the President has been indifferent (at best) to the trajectory of South Africa's macroeconomic balances, there has been no steady hand on the tiller of the ship of state. The result is a further undermining of South Africa's creditworthiness, reducing investment in the country by both resident firms and foreign investors.

### The rising risk of extreme outcomes

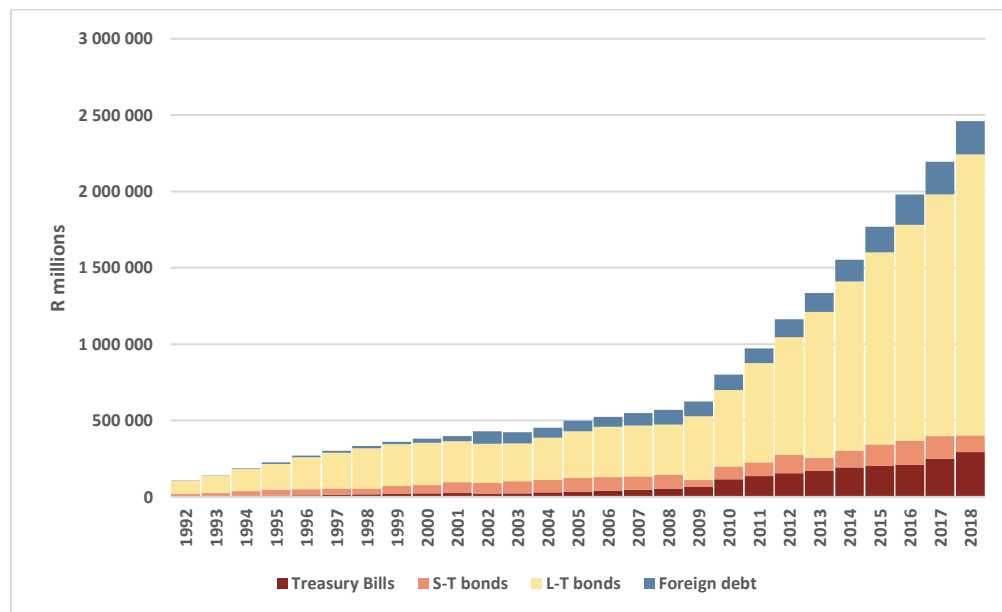
Although there is little evidence that there is a specific level of debt beyond which extreme outcomes become probable or, even, beyond which growth rates must inevitably decline, the converse – that all levels of debt to GDP are equally safe – is, self-evidently, not true. Countries can and have gotten themselves into very difficult positions by taking on levels of debt that turned out to be unaffordable, and then hitting a wall of some kind. The greatest risks fall on those countries that have had to borrow money in currencies other than their own. This can seem attractive in good times, when the economy is growing and the currency is strong, because loans made in hard currency can often be secured at comparatively low interest rates. The difficulty is that when growth slows and the currency weakens, the burden of that debt rises quickly as the value of the currency falls. In these circumstances, the cost of debt in local currency terms spirals quickly as it is refinanced.

Fortunately, the depth, sophistication and credibility of South Africa's capital and foreign exchange markets have made it possible for government to borrow almost exclusively in rand-denominated terms, and at relatively long maturities (Figure 5). Had this not been the case we would, in all likelihood, have long since encountered a major currency crisis leading to much higher interest rates. This makes the recent trend toward increased exposure to foreign debt by government and the SOCs worrying: as a general rule, entities that do not earn income in foreign currency should not borrow in foreign currency. Nevertheless, a currency crisis, though theoretically possible, could only really happen if confidence in South Africa's capital and forex markets were to collapse. Is this impossible? Not entirely; after all, collapse in a market is not a technical event but a result of investor nerve and the collective judgement of those investors. Continued assaults on the independence of the Reserve



Bank or the imposition of aggressive exchange and capital controls and/or prescribed asset rules could weaken confidence to the point that confidence in the predictability of the value of the Rand would decline significantly, with immediate implications for the exchange rate, making it harder (and much more expensive) to borrow in local currency.

Figure 5: Profile of central government debt



Source: SARB database

This, of course, would be only one of a range of potentially catastrophic consequences of a collapse of confidence in the quality of financial and capital market regulation. It is, therefore, critically important that policy-makers do nothing to undermine confidence in the institutional architecture on which its capital markets rest.

Another kind of policy shock that could tip a deteriorating fiscal situation into a crisis would be if participants in capital markets came to believe that the National Treasury were no longer able to manage fiscal policy competently – whether because it had lost the skills to do so or because it no longer had the requisite institutional and political authority. This, too, is not inconceivable, and has implications for policy-makers: the National Treasury, one of the undoubted success stories of the past two decades, must not be allowed to weaken further; indeed, it must be strengthened.

Even if we assume that the risk of a doomsday scenario of collapse in confidence in South Africa’s capital markets has been modest, the mere fact that there is a plausible path to its materialising has implications for South Africa’s economic prospects: when risks of extreme outcomes rise, investment slows and the cost of capital rises. What matters for investors is not just the most likely outcome or the expected value of returns on investment, but the distribution of possible outcomes. When the risk of extreme outcomes rises, its impact on the cost of capital can be disproportionately large even while the probability of its materialising remains small. In these circumstances, responsible investors and company boards must be more cautious about where, how, and how much they will invest lenders’ and shareholders’ funds in activities and assets that are exposed to this risk, and may even seek to reduce their exposure to domestic risks. And, even when they choose to invest locally, they will find that their funders – whether shareholders or lenders – will provide funds only on the expectation of significantly higher rewards, sometimes denominated in foreign currency. The result is that diminishing appetite for investment is accompanied by an increasing cost of doing so. Inevitably, this means less economic growth.

Rising interest rates are already evident: as Figure 6 reflects, while nominal interest rates have increased by only a few percentage points in the past decade, in real terms (i.e. the gap between nominal rates and the inflation rate), interest rates have increased a great deal with the decline in inflation. This is despite the fact that interest rates are at historic lows in many parts of a world that are awash in capital. Indeed, there are trillions of dollars currently invested in sovereign bonds that pay negative real interest rates (albeit not in the developing world).

Figure 6: Interest rates and CPI inflation (1960-2017)



Source: SARB database

Higher real interest rates, reflecting greater perceived risk, mean slower growth. They also mean that, collectively, South Africa will be paying a greater and greater share of our national output over to those from whom we have borrowed, whether individually or collectively. Slower growth, in other words, is accompanied by a reduction in disposable income as we pay over more and more to those from whom we have borrowed money. For government, debt service costs have risen from 7 per cent of spending in 2009/10 to 12 per cent, and are expected to amount to around R200 billion in 2019/20, which is roughly double what government will allocate to the South African Police.

**BOX: Could SA default?**

As a general rule, countries that borrow in their own currencies cannot default because, if push ever came to shove, they could always print the cash needed to pay off creditors. Doing so would spark an inflationary episode, which is a kind of soft default in that creditors are paid back using currency that is worth less than they expected it to be worth, but it is not, technically speaking, a default, though it would certainly feel like one.

The fact that a soft default of this kind is even possible makes lending to governments risky and, in the absence of some guarantee that debts will not be paid off with worthless paper, lending to government would not happen. This, ultimately, is why the independence of central banks tasked with maintaining the value of the currency (and investing in a reputation for commitment to this goal) is so central to sustainable economic policy.

The implication of this is obvious: South Africa can always avoid default on local currency obligations, but it could do so only if the Reserve Bank's independence is revoked. This would have a range of consequences that would be equivalent to an actual default: using inflation to reduce the real burden of public debt could be incredibly costly in the long run because lenders' loss of faith in the value of the currency would lead them to refuse to lend to government except on much more onerous terms and/or only in foreign currency. This would have the perverse effect of creating much larger risks of real defaults in the future.

The upshot of the above is that South Africa's public finances are increasingly precarious, its macroeconomic fundamentals are increasingly unsound, and the path we are on is increasingly unsustainable. This precariousness means that, in an increasingly uncertain world in which the risk of some kind of economic shock is real and growing, we have no room to manoeuvre in response to any crisis not of our making. That, too, adds to the risk we are running and also increases the costs of capital. These are costs that are being borne by all of us, and, as growth declines, so too do our prospects of resolving the many social and economic challenges that we confront. This is, by any definition, a crisis, and one that will shape the policy agenda for years, even decades, to come.

## South Africa's options

To understand the limited set of options that South Africa faces, it is essential to appreciate that there are only a handful of variables that determine whether the ratio of debt to GDP rises or falls:

- The rate of economic growth, and, critically, whether this is greater or less than the interest rate that government pays on its debt;
- The size of the existing stock of debt in relation to GDP; and
- Whether government spending on everything apart from interest payments is greater or less than revenues it collects (i.e. whether the primary balance is positive or negative).

While we need not be detained by the precise mechanism through which each of these variables affect the trajectory of the debt ratio, the core conclusions are mathematically inescapable. These are that the debt ratio will worsen (improve) at a rate determined by:

- The size of the primary deficit (surplus);
- The larger (smaller) the size of the existing stock of debt; and
- The extent to which the interest rate exceeds (is lower than) the rate of economic growth.

None of these variables is entirely under the control of the fiscal authorities. Economic growth is determined by a wide range of factors, few of them directly under the control of government, especially in the short term; the interest rate is set in the market on the basis of factors that can be difficult to shift; and the value of the stock of existing debt is the outcome of past choices that cannot be undone in the present (except through default). What, then, are the options for putting debt on a more sustainable trajectory?

### Inflating our way out of trouble?

Inflation is one way that societies have reduced the burden of accumulated debt: as current prices rise, the real value of existing debt (and some debt service costs) falls. To the extent that this is possible, a number of conditions have to be satisfied, the most important of which is that the inflation must be unexpected and an increase in inflation must neither increase debt service costs nor the nominal value of outstanding debt. But even though these conditions would apply to the vast majority of South Africa's debt (which is in the form of long-term bonds with coupon and par

values that are not adjusted to inflation), seeking to engineer a temporary increase in inflation to ease the burden of outstanding debt would be foolhardy (because of the risk that a temporary acceleration of inflation will become a permanent one in a society in which many core costs are indexed to inflation) and costly (because it will permanently raise the cost of capital in South Africa as lenders price in the risk of further inflation, anticipated and unanticipated). Every debt ever incurred after the inflationary episode, in other words, would come at a higher cost than it would otherwise have done, with implications for investment and growth that will persist for the very long term. An acceleration of inflation would also deepen poverty and inequality because the poor are much less able to protect themselves from its consequences than are the better-off.

The less said about inflation as a “solution”, then, the better.

### Closing the primary deficit

If inflating the debt burden away is a wholly undesirable approach to improving long-run debt sustainability, policy-makers are left with stimulating growth (see below) and closing the primary deficit. Closing the primary deficit is what is meant by the term “fiscal consolidation”, and, in principle, it can be achieved by raising revenue, reducing spending or some combination of the two.

One of the challenges of fiscal consolidation, whether driven through expenditure cuts or tax increases, is that its short-term impact is to slow economic growth. There is evidence that raising taxes – which is the approach that has dominated government attempts at fiscal consolidation over the past few years – appears to slow growth more than expenditure cuts do, but both approaches could have this effect, at least in the short term. Inevitably, this means that larger adjustments are needed to achieve consolidation, because, as growth is depressed, so too is revenue collection.

A second consideration is also important. This is that the extent of the fiscal consolidation needed must reflect the fact that the SOCs are running large quasi-deficits. To the extent that these are not addressed on the entities’ own income statements, fiscal consolidation in government would have to be larger to achieve debt sustainability. The flipside of this is that if spending in the SOCs can be reduced (and/or their revenues can be increased), then less consolidation is needed in government.

Having said that, the primary deficit, while significant, is not so large that it is hard to imagine its being reversed. This is reflected in Table 2, which shows that the primary deficit in 2018/19 was R42.3 billion (0.8 per cent of GDP), and that this is projected to fall to R20.2 billion (0.3 per cent of GDP) in 2021/22. At current levels, the primary deficit could be closed by increasing the nominal value of tax revenues by about 3.8 per cent or by reducing spending by about 3.6 per cent. These are not inconceivably large targets.

Table 2: Budget deficits (2015/16 to 2021/22), billions of rand and % of GDP

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
<b>Revenue</b>	<b>1 076.2</b>	<b>1 137.9</b>	<b>1 196.4</b>	<b>1 285.4</b>	<b>1 403.5</b>	<b>1 505.1</b>	<b>1 632.9</b>
<i>% of GDP</i>	26.1%	25.8%	25.3%	25.4%	25.9%	25.9%	26.1%
Non-interest expenditure	1 115.8	1 159.0	1 242.3	1 327.6	1 456.5	1 545.5	1 653.1
Debt-service costs	128.8	146.5	162.6	182.2	202.2	224.1	247.4
<b>Total expenditure</b>	<b>1 244.6</b>	<b>1 305.5</b>	<b>1 405.0</b>	<b>1 509.9</b>	<b>1 658.7</b>	<b>1 769.6</b>	<b>1 900.5</b>
<i>% of GDP</i>	30.2%	29.6%	29.8%	29.8%	30.6%	30.4%	30.4%
<b>Budget deficit</b>	<b>-168.4</b>	<b>-167.6</b>	<b>-208.6</b>	<b>-224.5</b>	<b>-255.2</b>	<b>-264.4</b>	<b>-267.6</b>
<i>% of GDP</i>	-4.1%	-3.8%	-4.4%	-4.4%	-4.7%	-4.5%	-4.3%
<b>Primary deficit</b>	<b>-39.6</b>	<b>-21.1</b>	<b>-45.9</b>	<b>-42.3</b>	<b>-53.0</b>	<b>-40.4</b>	<b>-20.2</b>

% of GDP

-1.0%

-0.5%

-1.0%

-0.8%

-1.0%

-0.7%

-0.3%

Source: 2019 Budget Review

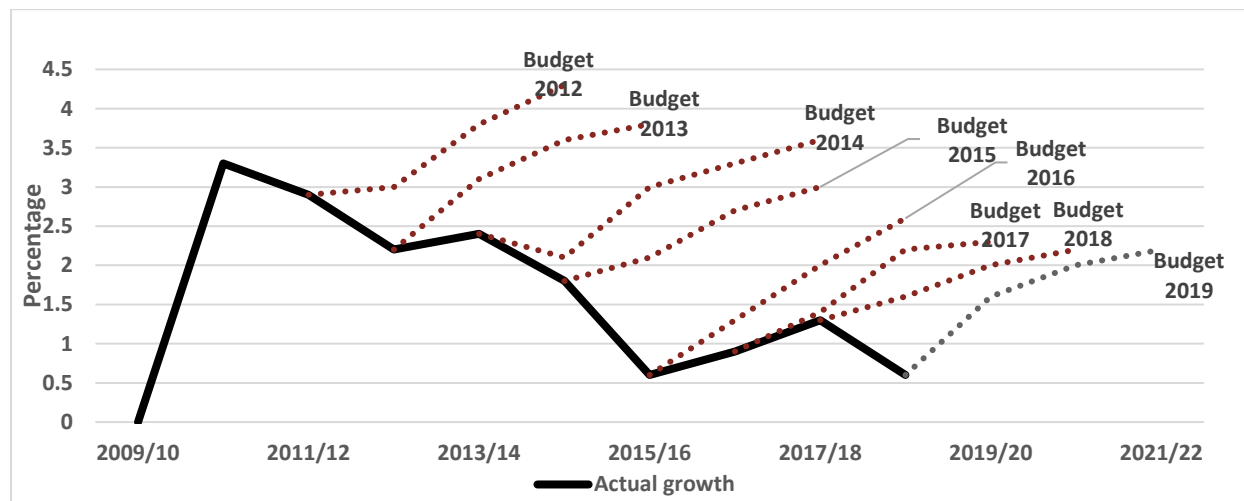
### Raising more revenue

There has been some attempt at fiscal consolidation over the past few years, and this has been weighted to increasing tax revenues. We have seen, for example, much less tax relief announced in the budgets than had been the norm in better times, the increase of some marginal personal tax rates, higher dividend and capital gains taxes, and, most controversially, an increase in some indirect taxes, most notably the VAT rate. Add to this the large rise in the tariffs of some SOCs, most notably Eskom, and it is clear that, to the extent that government has sought to close the primary deficit (and the SOCs' quasi-deficits), its efforts have been focused on raising tax rates and SOC revenues.

But this has not worked.

One reason for this is that growth has consistently disappointed (in part because higher taxes and tariffs, combined with the poor performance of government and the SOCs, has slowed growth), leaving government with less revenue than expected. This has been worsened by a persistent tendency to overestimate economic growth in the formulation of budgets, which has meant that spending plans have generally been based on growth expectations that have failed to materialise, leading to ever more borrowing. This is reflected in Figure 7, which shows the growth estimates for each of the next two years that Treasury has used when compiling budgets since 2012. As is apparent, actual growth has been consistently lower than what was expected one or two years earlier, and the result is that all those budgets have been premised on growth predictions that have failed to materialise.

Figure 7: Actual growth (black line) compared to budget projections



Apart from overestimating growth, however, the relationship between the rate of growth of tax revenues and the rate of growth of the economy as a whole (a relationship known as “tax buoyancy”) has changed: in the past, taxes generally grew a lot faster than the economy; today they grow at little more than even pace. The result is that over the last four financial years, government has taken in an aggregate of R150 billion less than the sum of its estimated revenues published in each of those years.

Precisely why this is so is not completely clear, but it likely has something to do with weaker institutional capability at the South African Revenue Service (SARS), declining tax morality, and the

changing structure of the economy. There is no real way to estimate how much of the decline in the growth of revenue collection can be attributed to each of these factors. What is clear, however, is that there are no good reasons to think that revenue buoyancy will be much higher than 1:1 for some considerable period, even if there is a plausible case that a reenergised SARS could improve tax collection.

Barring a dramatic turnaround in the collection of taxes, there appears to be little prospect that the primary deficit can be closed through higher taxes, and almost certainly not without some impact on growth, which would be slowed by reduced household consumption as well as by the incentive effects that higher taxes on income have on firms and workers.

### Reducing expenditure

Because it would be very hard to close the primary deficit through higher taxes, the weight of closing it will have to fall on the expenditure side of the budget. This, in any event, is both appropriate (because taxes have already been raised, though with disappointing results) and more desirable (because the negative effect on growth of reduced expenditure is smaller than the effect of higher taxes). Reducing spending, however, is always and everywhere politically difficult: the pain of cuts often falls on constituencies that are small and more easily mobilised to resist them (public servants; the recipients of some or other subsidy) than are the potential beneficiaries of reduced spending (primarily taxpayers). Add to this mix South Africa-specific dynamics of race and inequality, and an essential dynamic of public finance here is a constant pressure to ratchet spending upwards, a dynamic that makes cutting spending even harder than is the case elsewhere.

If raising taxes has the effect of slowing growth, the same may well be true of reducing spending, if only because of the fiscal symmetry between higher taxes and lower spending. This does not mean, however, that there is no good case to be made for reduced spending, one that extends beyond the question of how to close the primary balance. Here, the critical issue is the one described above: if the state of our public finances is a drag on growth, and if tax increases are unlikely to close the primary deficit, then the only option available is to reduce spending. However, there is abundant evidence that public spending is exceptionally corrupt, wasteful and inefficient, a consideration that makes cutting spending potentially much less harmful to growth than it might otherwise be.

High levels of waste and inefficiency mean that it must be possible to reduce spending in ways that have limited negative social and economic effects. If it were possible, for example, simply to cut public sector losses to corruption and inflated invoices for the provision of goods and services, then the negative impact on the wider economy would be negligible (and may even be positive). This is easier said than done, however. The inflation of supply costs to government is often both the unintended effect of corruption as well as an all-but-explicit goal of policies aimed at economic transformation. If targeting cuts in this way proves impossible, or if the vested interests linked to corruption and tenderpreneurship prove impossible to reduce, the consequence will be that much of the burden of spending cuts will likely fall on the public sector's compensation budget.

In a country with powerful public sector unions and a governing alliance that is more than a little sympathetic to the interests of public servants, there is nothing straightforward about reducing compensation spending, or even of slowing its growth. It does appear, however, that levels of natural attrition in the public sector are higher than one might suppose, with some 5 to 7 per cent of all public servants leaving their jobs every year. In this context, there is some room to manoeuvre. Having said that, rebalancing the size of the public service without doing anything to address the very rapid increase in individual remuneration that has emerged, is going to make fiscal consolidation very difficult. Government simply has to reconfigure conditions of service in the public

sector so that average wage increases are much slower than they have been over the past decade, during which period they have grown by an average of nearly 11 per cent a year, or 4.5 per cent a year in real, inflation-adjusted, terms.

### Getting more growth

Fiscal consolidation, while an essential step for a range of reasons, is unlikely to achieve the critical goal of closing the primary deficit unless it is accompanied by faster growth, if only because of the sheer scale of the political challenges of achieving this in a low-growth economy. This is a key reason (there are many others) why it is so vital that policy-makers focus on growth-enhancing reforms. Here, too, of course, the challenges are numerous because the reasons why growth has disappointed are many and deep. These include:

- The increasing unsustainability and precariousness of our public finances;
- Declining institutional quality in government;
- The maturity of our largest economic sectors, which, together with many of them being relatively close to the technological frontier, makes it hard to envisage their growing very quickly;
- The increasingly fraught and mistrustful tone of national politics, and the emergence of loud voices advocating policies that are likely to harm rather than help growth;
- The hard constraints into which the economy has run, including the scarcity of skills, and the scarcity and costliness of electricity;
- The unwillingness of critical political stakeholders and constituencies to embrace a reform agenda; and
- A weakening and more uncertain international economy.

Given all of this, it is all too easy to imagine South Africa's falling into a self-fulfilling cycle of low growth leading to a decline in expected growth, leading in turn to reduced investment. Indeed, the latest data suggests that this may have happened already. Breaking out of this cycle will require making progress on a broad range of fronts, the four most critical of which are:

- Continued work on improving the quality of governance and the efficacy of the institutions critical to growth;
- Determined work to improve the sustainability of our public finances and to reduce the risks these pose;
- Fixing the SOCs; and
- Implementing a range of supply-side reforms to help unlock growth.

## Recommendations

Fixing South Africa's public finances is not possible without faster growth, but it is not possible for growth to accelerate unless much more control is imposed on the explosive trajectory of South Africa's debt. The actions taken thus far on both fiscal consolidation and promoting growth have not achieved anything like what is required. The next sections look at what needs to be done to achieve more sustainable public finances and more rapid growth.



## Strengthen institutions critical to good governance

One of the central insights of modern theories of growth and development is the profound importance of the nature and quality of public institutions in creating the conditions of possibility for sustained economic growth, especially inclusive growth. Property rights, the rule of law, the protection of economic agents from potential predation by the state or non-state actors, sound economic management that supports broad, deep and efficient markets – in the absence of these, it is impossible for individuals and firms to be certain about what the future holds. This makes it harder, also, to invest in building human capital, in household formation and in productive assets. In the absence of all of this, inclusive growth will never accelerate.

Post-apartheid South Africa built much more inclusive, much more effective institutions than was conceivable under apartheid, based as it was on exclusion. But the quality of many of these institutions has deteriorated markedly in the past decade, impacting significantly on perceptions of the country's future prospects. Unquestionably, some progress has been made in the last 18 months to undo some of the damage (the removal of Jacob Zuma as president; the exposure of state capture through highly visible, highly credible judicial inquiries), but much, much more is needed.

That said, the past 18 months are not a story exclusively of policy-makers making progress in improving institutional quality, and there have been some very unhelpful developments over the same period. Three of these are critical policy questions that now need firm resolution: land reform, the independence of the Reserve Bank, and, more recently, the possible prescription of assets.

While it is not difficult to understand the social and political roots of the calls for uncompensated expropriation, for prescribed assets, and for looser monetary policy and weaker regulation of banking, the fact is that these calls are largely wrong-headed; their implementation would have the very real potential to slow economic growth for a protracted period of time, if not lead to negative growth. These proposals, even if some of them improved the welfare of a few people, would quickly become self-defeating.

It is critical that the real risks to growth are recognised and taken seriously in the resolution of the policy debates that have opened up on these issues.

In this regard, it is worth making special mention of the central bank, the credibility and competence of which is critical for sustained growth. If doubts emerge about its continued ability to regulate the banking sector sensibly and to avoid catastrophic decisions relating to the management of the currency, South Africa's capacity to borrow will weaken further, rates will rise and growth will slow even more. And that is the best-case scenario; in the worst case, South Africa's creditworthiness will collapse altogether.

One part of the immediate agenda for improving institutional quality, therefore, is that government needs to resolve, in as growth-supportive a manner possible, debates about policy that have already done damage to our growth prospects, and could easily do more.

We also need to see the assault on state capture move to the next level: exposure without accountability is likely to be far less effective in fixing the state than would be the successful prosecution of some of the key bad actors. Certainly, the continued presence of some of the worst offenders in our public life suggests a continuing failure of the rule of law, undermining the government's commitment to reform and prospects for investment. In this regard, real attention needs to be paid – and resources allocated – to fixing the National Prosecuting Authority and SARS. It is hard to overstate how serious the deficiencies in these institutions have become or how much



impact their rejuvenation could have on improving the quality of governance, the collection of revenue, and the legitimacy of the state.

Government also needs to fix the policy-making apparatus at its centre. Much more alignment, consistency and coherence is needed between government policies, and much more vetting of badly thought-out proposals and recommendations is needed. Historically, the National Treasury played this role, and, while there might be good reasons why this was politically and institutionally untenable, in the absence of a well-capacitated entity with meaningful authority and power (especially over the purse strings) playing this role, it is hard to see how the vastness and complexity of the policy challenges that government faces can be managed successfully.

Finally, while it is the quality of institutions that matter for growth, it is also the case that institutional quality declines if institutions are poorly led and poorly staffed. In this regard much of the public sector is now headed up by individuals with too little experience in the organisations that they lead and, in some cases, by people whose qualifications and experience ought to disqualify them from leadership roles in any organisation of significant size or importance. The effect is worsened by the high level of churn at the top of public institutions.

Some of this is inevitable – South Africa has to make space for new talent – but the scale of the deficiency in the quality of institutional leadership is now so large as to be deeply concerning. Unless a serious strategy is developed to attract and retain sufficiently skilful and committed leaders for significant periods of time, it is doubtful that institutional quality will improve sufficiently to support growth.

### Fix our public finances

The unsustainable build-up of public debt has slowed growth both by raising the cost of capital directly and by increasing the risk of bad outcomes. In slowing growth, public finances have increased the degree to which their trajectory is unsustainable, and unless determined efforts at fiscal consolidation are implemented, the likelihood of a growth acceleration is greatly diminished.

Politically challenging as it is, fiscal consolidation requires some combination of higher taxes and lower spending. There are good reasons to think that this should be weighted in favour of expenditure reductions rather than tax increases:

- Higher taxes probably reduce growth more than does reduced spending;
- Fiscal consolidations that reduce spending tend to be more durable than those that raise revenue; and
- We have already done what can be done to raise revenue, and it has been both politically controversial and ineffective.

In seeking to reduce spending, immediate attention needs to be placed on reducing waste, corruption and inefficiency in public spending, the quantum of which, it is increasingly clear, is very large. This would be the least disruptive, more growth-enhancing form of consolidation, but it is also difficult: it is time-consuming, it demands high levels of skill (which, in turn, means finding a cohort of better managers to appoint), and it may not be especially effective if much of the wasteful spending that is identified is made up of the compensation of public servants who do not do their jobs (in which case effective action, which gets people working more effectively or replaced with better people, would improve government effectiveness, but would not reduce spending).

For these reasons, while improving value for money is highly desirable, a commitment merely to reduce waste and corruption is not a credible strategy for reducing spending, and more attention will have to be paid to big-ticket items – the compensation budget, in particular. In this regard, the critical problem is not the size of the public service (which has, in any case, been shrinking recently), but the rate of increase of public servants' remuneration. There is an obvious trade-off between these two variables – the more public servants, the less you can afford to pay them; the more you pay, the fewer you can afford. Government has not fully come to terms with this reality, and a rebalancing of its priorities is well past due.

In this context, it seems beyond obvious, but it is still a point worth making: there is simply no fiscal space for new spending programmes. In a context in which we should be reducing spending, government simply cannot be expanding the range of policy and service commitments. We cannot afford what we already do; there is no room to increase the list. We should not, in particular, be contemplating the implementation of NHI (which would massively increase both taxes and spending, amongst other serious concerns) in these circumstances.

Fiscal consolidation from this point on needs to be driven by expenditure reductions, but that does not mean that there is no need to think about the structure of South Africa's taxes. These are not exceptionally high by international standards, but, compared to other developing countries, direct taxes (personal and corporate income tax) play a much greater role here than do indirect taxes (VAT, excise taxes, etc.). While the political and social logic of this is apparent – these taxes can be much more progressive – they tend to distort incentives more and are, therefore, associated with slower economic growth and, therefore, less job creation. Unlikely and difficult as it would be to reduce direct taxes in favour of more indirect taxation, revenue-neutral tax reform could help lift growth rates.

Paying taxes, service charges and user fees is an essential element of responsible citizenship, and the culture of non-payment needs to be arrested. This has been worsened by well-documented weaknesses at SARS and the inability/unwillingness of various entities to collect user fees and charges from those who have used services but have not paid for them. This capacity needs to be rebuilt, and the political will found, to ensure consequences for non-payment for services. South Africans need to recognise that everyone must do their share, and should be conscious not only of their own behaviour, but that of others, too. Business should not do business with people or businesses that do not pay their taxes; households should pay what they owe (to SARS, to their local authorities, and to Eskom), and encourage others to do the same.

A final consideration: this report has considered the finances of national and provincial government (and some of the large SOCs), but there is increasing evidence of unsustainable trends developing in local government. This is reflected primarily in increasing consumer debt to municipalities. But local government has also borrowed about R80 billion (out of total liabilities of about R240 billion that include substantial trade payables much of which will be owed to Eskom and the various water boards). The extent of the challenges is not entirely clear, but the possibility that a large bailout will be needed in this sphere of government is real. This is something policy-makers will have to watch very closely.

### Fixing the SOCs

Fixing the SOCs is a central component of the broader challenge of re-establishing control over the public finances, in the absence of which any progress made on the main budget will be undone by the quasi-deficits being run by Eskom, SAA, the SABC and a number of other large SOCs. Nor is it enough to bail them out of the deep financial holes into which they have dug their balance sheets: if

the imbalances on these entities' income statements are not fixed, then they will continue to require support from government. But, if we do not fix them now, the task will only get harder.

In thinking about the SOCs, it is important to focus on more than just the financial challenges they face. Many – Eskom, in particular – are also facing deep operational challenges, seemingly unable to deliver on their core mandates at anything like the level of efficiency and reliability that any firm that faced the possibility of competition would have to achieve if it were to stand any chance of staying in business. This is critically important, for it suggests that South Africa could be delivering the goods and services currently provided by SOCs much more efficiently if market forces were allowed to operate in these industries, and it makes it that much more perverse that deeper restructuring of these industries – including through the privatisation of the SOCs – is not on the table.

Increasing competition in these sectors might make it harder for some SOCs to resolve their financial difficulties, but it would also make South Africans better off, and, critically, would create the basis for increased competitiveness elsewhere in the economy and, therefore, faster growth. It is important, in other words, that policy-makers think about more than the immediate financial and operational challenges facing these entities, and focus also on how the restructuring and opening up of relevant industries to competitive pressures could lower the costs of doing business and the cost of living.

To the extent that SOCs do have to be bailed out by government – and some of them clearly will have to be – this should be accompanied by strict conditions relating to reducing costs and building commercial and financial sustainability, conditions that, if unmet, will result in serious consequences for the managements and boards of the relevant entities. Successful bailouts must achieve something else, too: they must be understood by all to be once-off events.

More generally, the absence of accountability for SOCs' performance seems to be a significant source of the challenges faced by the sector: budget constraints simply do not appear to be sufficiently hard, leading to all kinds of inefficiency and abuse. One reason for this is that government has been unduly reluctant to allow any SOC to fail. This has reinforced the perception among the managers of SOCs that budget constraints are, at best, soft, and that failure to deliver is costless. It seems unlikely that this perception can be credibly turned around if this persists. At this point, government will have to allow at least some SOCs to fail if only to encourage the others.

In this regard, the mounting pile of evidence that government ministers – even those who are not corrupt – interfere too much in the business affairs of the SOCs is a source of concern: getting these businesses onto a sound commercial basis is hard enough without boards and managers being micromanaged by ministers. Apart from anything else, the fact that this occurs will make the recruitment of high-quality leaders all but impossible. And it will certainly make it impossible to hold them accountable for results.

A final comment on the SOCs relates to prescribed assets, an idea that some in the ruling party have mooted as a mechanism for financing the SOCs by forcing pension and retirement funds to allocate resources to them.

This is an exceptionally bad idea: compelling voluntary savings intended to finance retirement to be allocated to assets that promise lower or more risky returns would damage the credibility and efficiency of South Africa's capital markets. This will have enormous repercussions for long-term growth and, critically, to future pressures on the fiscus: if private savings do not fund retirement, then an ageing population will expect more help from the state. In any event, it is far from obvious

that those who do save for their retirements will continue to do so through pension funds if these are forced to make non-commercial investments.

Both in relation to the SOCs and the state itself, a critical issue that needs ongoing attention is the quality of leadership. To date, Cyril Ramaphosa's presidency has improved the integrity of leadership in a narrow band of institutions. Even within this narrow set of institutions, much less work has been done in making sure that key appointees have the skills and competencies necessary for the jobs with which they have been charged. Unless and until leadership improves across the board, there is little prospect of the state's providing a basis for faster economic growth.

Speed, in this regard, is increasingly of the essence. While bailouts of the SOCs may be inevitable, to the extent that they are not accompanied by turnaround strategies that are effectively implemented, they will only lay the groundwork for further bailouts. Bailouts that seek to strengthen SOCs' balance sheets, in other words, must be accompanied by reforms that strengthen their income statements, and the longer we wait to do this, the more money government is going to have to pump into them. This is money we cannot afford.

**Box: The size of the South African state**

One of the characteristics of debate about fiscal policy in South Africa is that it sometimes feels as if some of the essential questions about the role of the state – both in development and in the delivery of services to citizens – remain fundamentally unresolved both in society and in the state itself. In a country with high levels of inequality, a vast range of social problems, and deeply fractured politics, this should not surprise anyone.

While debate about the role (and therefore size) of the state is legitimate, two features of the structure of this debate impact negatively on the proper management of public finances. The first is that, precisely because South Africa is a highly unequal society, the median voter is much poorer than South Africa's per capita GDP, and, as a consequence, there is fertile ground for populists to thrive on calls for ever more redistribution.

It is, in our view, impossible to envisage a South Africa in which the state does not engage in substantial redistribution, and any attempt to build a different kind of state would have long since run aground. That said, it is critical to recognise that redistributive activities have their limitations, the most important of which is that, at some point, redistribution will undercut growth by distorting the incentives of firms and taxpayers. The second is that South Africa's state is, by most measures, already highly redistributive, even if much of that redistribution is undermined by the weaknesses of the state. This is most evident in education, for example, where very significant resources are devoted to providing free (or near-free) schooling, but low state capability means that those are producing too little learning.

A second problem with the openness of the debate about the proper role and size of the state is that it is sometimes divorced from the budget-making process, with adverse results. This was the case, for example, at the end of 2017 when, after Cabinet had finalised and approved the fiscal framework for the 2018 Budget and MTEF, the then-President, Jacob Zuma, announced that fee-free higher education would be provided to all students coming from households with incomes of less than R350 000 per year. The result was to subvert the budget-making process, with enormous consequences for the integrity of the budget process, credibility of the budget, and the ability of the state – especially the National Treasury – to manage public finances. A similar process seems to be playing out with NHI, with consequences that have the potential to be even more destabilising.

## A growth-focused policy agenda

While fixing the public finances and the SOCs is a precondition for faster economic growth, considerably more reforms are needed if we are to get out of the growth rut into which we have fallen. Here we summarise the key reforms we need (with more detail available in a range of reports available on the CDE website, [here](#) ), all of which have attracted widespread support from a range of experts and stakeholders, and versions of which have even been articulated both by government and by the ruling party at various times (though implementation has been weak).

- *A different attitude from government to business and the power of competitive markets*  
Disappointing growth over the last decade can be explained, in large measure, by the lack of growth of private sector investment, which has been essentially flat for a long period. This reflects increased uncertainty about an increasingly risky future, largely as a result of all the issues discussed above. At the same time, the degree to which policy-makers have expressed scepticism to the point of hostility about the motives, commitment, and patriotism of business is also a factor affecting both the development of policy, its future trajectory, and the manner in which policies are implemented by officials. The result is heightened uncertainty about the future, reducing the appetites for risk and willingness to invest. While an improved attitude to business on its own will not change all this, it is necessary if investment rates are to begin to rise again. But a new attitude has to go further than words in a speech – however welcome – and must be communicated to politicians and officials right across government.
- *Addressing the skills constraint*  
A long-recognised “binding constraint” on growth in South Africa is the scarcity of skills and, relatedly, the inefficiencies that plague the production of more skills. Everyone knows that fixing this is vital for our economic prospects, yet actually achieving better outcomes has not been a real priority. That must change. But, even if reforms are well-designed and are then implemented seamlessly, their impact on the depth and breadth of skills in the workforce will be felt only very slowly. In order to accelerate the accumulation of skills, a different kind of reform must be implemented simultaneously, one that would allow us to tap into the global skills pool more effectively, and one, moreover, that also attracts wide support in business and (rhetorically, at least) in government: skilled immigration reform. This is important not just because it would allow South African businesses to attract essential skills, and drive greater entrepreneurship (among many other benefits), but because it would also send the right kind of signal about the direction of future policy reform and the openness of the country to the global economy.
- *Providing reliable and affordable energy*  
South Africa’s economy is no longer as energy-intensive as it once was, and many firms have already invested in at least some backup power capacity. Notwithstanding these changes, there is simply no way that an economy can grow quickly without reliable and affordable power. Considerable reform is needed in this sector, and, while this is not the place to review it all, ensuring the reliable provision of affordable power will require, at a bare minimum, addressing the regulatory obstacles that prevent private sector participation in the generation of power for the national grid.
- *Labour market reforms*  
Labour market reform, while helpful for faster growth, is critical to making growth more inclusive. Although there is a strong argument for deeper reforms (see [this 2016 report](#) from CDE), the minimum needed are reforms that would exempt small, young firms from some of

the more onerous requirements of the various laws and regulations that structure employment norms and wage-setting. This would make the entry and expansion of new businesses more likely, especially those that rely on disproportionately large numbers of unskilled workers. Not only would this make growth more labour-absorbing and inclusive, the expansion of employment would help soften some of the political constraints on some of the other reforms that are needed. In this regard, there is an exceptionally strong case to be made for the establishment of a special economic zone aimed at creating an environment conducive to labour-intensive firms producing goods for export.

- *Regulatory reform*

The regulation of economic and commercial activity in South Africa is far more onerous and intrusive than is sensible and now actively hinders growth. By imposing financial and compliance costs on firms, regulations make it harder for businesses to achieve commercial viability and/or force them to pass regulatory costs onto their customers. A deep, no-holds-barred review of how sensible and justifiable are all the regulations with which business must comply is long overdue. This is, in any event, something to which the President committed himself in his State of the Nation Address in February 2019, when he announced that his administration would make the reforms needed to climb as many as 30 places up the rankings for the ease of doing business, within 3 years. In seeking to achieve this, it is critical that attention is paid to reforming those issues that matter most to unlocking investment and employment growth, irrespective of whether they are the most likely to result in a movement up the rankings.

- *Faster and better-managed urbanisation*

In the long term, well-managed urbanisation is a key foundation for more rapid economic growth. At the moment, South Africa's policy is ambivalent at best. Important as land reform and the agricultural sector could be in stimulating more unskilled employment, they are not going to drive faster growth. A serious growth strategy must start with a support for effective urbanisation rather than seeking to encourage people to stay on the land. As it stands, however, what support is provided for urbanisation – notably grants from the fiscus to support RDP housing, municipal infrastructure and public transport – is riddled with contradictions. There is much more that could be done to support urbanisation and effective urban management, and a serious growth strategy would seek to achieve this.

## Concluding remarks

South Africa is in a profound and deepening economic crisis. Growth has disappointed for ten years, and yet, as the exceptionally poor growth figures for the first quarter of 2019 show, it still has the capacity to surprise on the downside. For the most part, the build-up of debt (which has doubled as a proportion of GDP in ten years) is a consequence of the growth slowdown and the failure of fiscal policy to adapt to the reality of much slower economic growth.

Increasingly, however, the debt explosion has become a cause of slower growth, as firms, households, and investors come to realise the risk posed by the deepening unsustainability of our public finances. If we add to this the apparent unwillingness or inability to act with urgency on the deepening operational and financial crises at Eskom and other SOCs, as well as the destructive “debate” about the role of the Reserve Bank, then it is hard to avoid despair about whether government and the ruling party recognise the extent of the challenge the country faces.

Responding to these mounting challenges is going to require action – much of it urgent – on a range of fronts. Urgent action must include reining in spending, improving tax collections, fixing failing SOCs and re-thinking the parastatal sector as a whole, and implementing growth-enhancing reforms.

It is far from clear that government fully grasps the depth of the changes required and how much leadership it will take from the President to get this done. While there have been some good signs in some areas (notably in relation to the exposure of state capture), there has also been a woeful lack of leadership in others. This will not do for much longer.

A short report on the same topic, **Running out of Road: South Africa's public finances and what is to be done** is available on CDE's website, [www.cde.org.za](http://www.cde.org.za). See the website for other publications in the **Growth Agenda** series.