

FreeFACTS

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South Africa's finances in a parlous state

The government continues to spend far more than it earns and the political will does not appear to exist to make the hard decisions that are necessary, such as cutting the number of people who work for the government and privatizing at least some of our state-owned enterprises. If these hard decisions are not taken now, there will be dire consequences for South Africa down the line.

There are two options open to the government. The first is a bailout from the International Monetary Fund (IMF), which is unlikely, as this means the government will need to implement certain reforms which would be politically unpalatable. The second is a policy of prescribed assets.

If prescribed assets were implemented your pension fund manager would be forced to invest a certain proportion of your savings in assets 'prescribed' by the government. For example, 20% of your pension could be invested in government bonds whether on approval or not. Already you are restricted by how much you can invest outside of South Africa, so this additional prescription would not be hard to implement.

This edition of *Free Facts* looks at the state of South Africa's finances and show the dire state that we as a country are in. Drawing on data from renowned economist, Mike Schussler, it shows how out-of-control spending in the country is, and what the consequences of this will be, especially in an environment of low economic growth and a declining tax take.

In addition, it provides information on South Africa's pension pot and why the government could have its eye on it. Contrary to popular belief, South Africans are actually among the world's best savers with the amount saved being about equal to the country's total GDP. It is clear why this is a tempting target for our politicians.

Until real economic reforms are implemented your pension will remain under threat.

— **Marius Roodt**

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South Africa's finances

Debt

Debt as a proportion of GDP-Budget 2019			
Year	MTBPS ^a , 2018	Revision including support for Eskom	Revision excluding support for Eskom
2015/16	48.9%	–	–
2016/17	50.6%	–	–
2017/18	52.7%	–	–
2018/19	55.8%	55.6%	55.6%
2019/20	56.1%	56.2%	55.6%
2020/21	57.4%	57.8%	56.7%
2021/22	58.5%	58.9%	57.4%
2022/23	59.2%	59.7%	57.8%
2023/24	59.6%	60.2%	57.9%
2024/25	59.6%	60.1%	57.6%
2025/26	59.4%	59.9%	57.0%
2026/27	58.9%	59.3%	56.2%

Source: Presentation by Mike Schussler, economists.co.za

a Medium-term budget policy statement.

Debt as a proportion of GDP-MTBPS 2019			
Year	2019 Budget	Revision including support for Eskom	Revision excluding support for Eskom
2015/16	48.9%	–	–
2016/17	50.6%	–	–
2017/18	52.7%	–	–
2018/19	55.6%	56.7%	56.7%
2019/20	56.2%	60.8%	59.8%
2020/21	57.8%	64.9%	62.8%
2021/22	58.9%	68.5%	65.7%
2022/23	59.7%	71.3%	68.0%
2023/24	60.2%	73.7%	70.1%
2024/25	60.1%	75.8%	71.8%
2025/26	59.9%	77.8%	73.4%
2026/27	59.3%	79.5%	74.7%

Source: Presentation by Mike Schussler, economists.co.za

It is clear how South Africa's fiscal position has deteriorated in a very short space of time. In February 2019 it was estimated that, even with support for Eskom, South Africa's debt as a proportion of GDP would reach 60% by 2026/27. However, just over six months later the country's fiscal position has deteriorated so rapidly that the debt-to-GDP ratio is predicted to be almost 20 percentage points higher than today. We should also remember that estimates from the government tend to be on the low side so it is quite possible that the true figure could turn out to be even higher.

South Africa's finances

Investment

Investment ^a by type of investment, 1994-2018					
Year	Public			Private	Total
	Economic infrastructure ^b	Social infrastructure ^c	Economic services ^d		
	Rbn				
1994	41.7	8.7	6.8	155.9	217.5
1995	41.6	11.4	9.8	172.9	240.8
1996	48.3	11.5	11.5	186.2	262.5
1997	49.6	13.5	15.2	195.2	277.5
1998	67.0	12.6	15.5	191.4	290.8
1999	51.5	11.6	17.2	185.3	268.7
2000	45.4	8.8	24.3	200.4	279.1
2001	43.0	11.2	19.1	213.2	287.0
2002	44.4	13.5	22.9	218.5	297.0
2003	54.3	14.9	22.7	236.7	327.4
2004	59.2	16.3	23.9	271.5	369.6
2005	65.0	17.0	21.2	307.2	410.2
2006	76.9	19.5	25.1	338.6	460.0
2007	105.4	21.0	29.3	367.6	523.3
2008	146.5	17.9	24.8	401.2	590.4
2009	160.3	17.5	23.7	349.4	551.0
2010	149.3	20.0	18.6	341.5	529.4
2011	146.9	20.4	21.5	369.9	558.8
2012	153.3	20.3	25.2	374.5	573.3
2013	163.8	22.4	25.3	402.7	614.5
2014	161.5	23.9	24.3	409.1	618.8
2015	174.7	29.2	25.4	405.2	634.5
2016	166.1	26.5	26.2	393.3	612.1
2017	151.1	25.0	29.5	413.0	618.5
2018	136.0	24.4	27.8	421.5	609.6
2017-18	-10.0%	-2.4%	-5.8%	2.1%	-1.4%

Source: SARB, www.resbank.co.za, time series data, accessed 17 October 2019

a At constant 2010 prices.

b Roads, bridges, dams, electricity and water supply, etc.

c Schools, hospitals, etc and administrative services.

d Business enterprises not included in economic infrastructure.

South Africa's finances

Investment by type of investor ^a , 1960-2018						
Year	Private business enterprises	Public authorities		Total ^c	All investment	Private business as a proportion of total ^c
		General government	Public corporations ^b			
Rbn						
1960	43.4	30.1	3.8	33.9	77.0	56.4%
1961	42.7	30.9	3.8	34.7	77.1	55.4%
1962	40.8	30.4	4.3	34.7	75.3	54.2%
1963	48.2	34.1	6.3	40.4	88.8	54.3%
1964	60.4	38.9	6.6	45.5	106.2	56.9%
1965	67.3	49.7	8.1	57.8	124.8	53.9%
1966	64.7	49.1	9.8	58.9	123.3	52.5%
1967	66.3	48.1	11.7	59.8	126.5	52.4%
1968	68.7	51.3	12.2	63.5	132.3	51.9%
1969	79.3	56.5	12.6	69.1	148.8	53.3%
1970	92.7	62.0	15.0	77.0	170.1	54.5%
1971	99.2	75.2	15.1	90.3	188.5	52.6%
1972	98.7	87.1	16.6	103.7	199.5	49.5%
1973	106.4	78.6	24.8	103.4	209.9	50.7%
1974	114.2	80.9	27.6	108.5	223.6	51.1%
1975	118.1	91.1	34.8	125.9	245.4	48.1%
1976	112.1	96.7	34.0	130.7	242.4	46.2%
1977	106.9	81.4	37.4	118.8	227.9	46.9%
1978	104.1	70.1	42.3	112.4	221.6	47.0%
1979	107.4	70.6	47.0	117.6	230.8	46.5%
1980	133.0	71.1	57.5	128.6	270.3	49.2%
1981	159.5	79.7	48.3	128.0	294.5	54.2%
1982	158.9	80.1	42.6	122.7	288.1	55.2%
1983	156.6	70.5	41.9	112.4	277.9	56.4%
1984	157.3	64.8	43.0	107.8	273.8	57.5%
1985	137.6	64.7	44.2	108.9	254.6	54.0%
1986	114.7	57.2	31.6	88.8	207.3	55.3%
1987	119.2	52.5	26.2	78.7	196.7	60.6%
1988	140.3	54.1	24.5	78.6	221.4	63.4%
1989	143.3	56.8	33.0	89.8	235.8	60.8%
1990	143.8	49.6	33.9	83.5	230.3	62.4%
1991	135.9	44.5	30.4	74.9	213.3	63.7%
1992	132.6	39.7	28.5	68.2	202.1	65.6%
1993	138.3	37.1	24.2	61.3	200.9	68.8%
1994	155.9	36.9	23.3	60.2	217.5	71.7%
1995	172.9	38.1	26.9	65.0	240.8	71.8%
1996	186.2	43.8	29.8	73.6	262.5	70.9%
1997	195.2	46.8	32.5	79.3	277.5	70.3%
1998	191.4	46.6	49.2	95.8	290.8	65.8%
1999	185.3	44.6	35.7	80.3	268.7	69.0%
2000	200.4	47.1	28.5	75.6	279.1	71.8%
2001	213.2	44.5	27.3	71.8	287.0	74.3%
2002	218.5	48.4	30.3	78.7	297.0	73.6%
2003	236.7	54.8	36.1	90.9	327.4	72.3%
2004	271.5	59.4	38.8	98.2	369.6	73.5%
2005	307.2	59.3	43.8	103.1	410.2	74.9%

South Africa's finances

Investment by type of investor^a, 1960-2018 (continued)

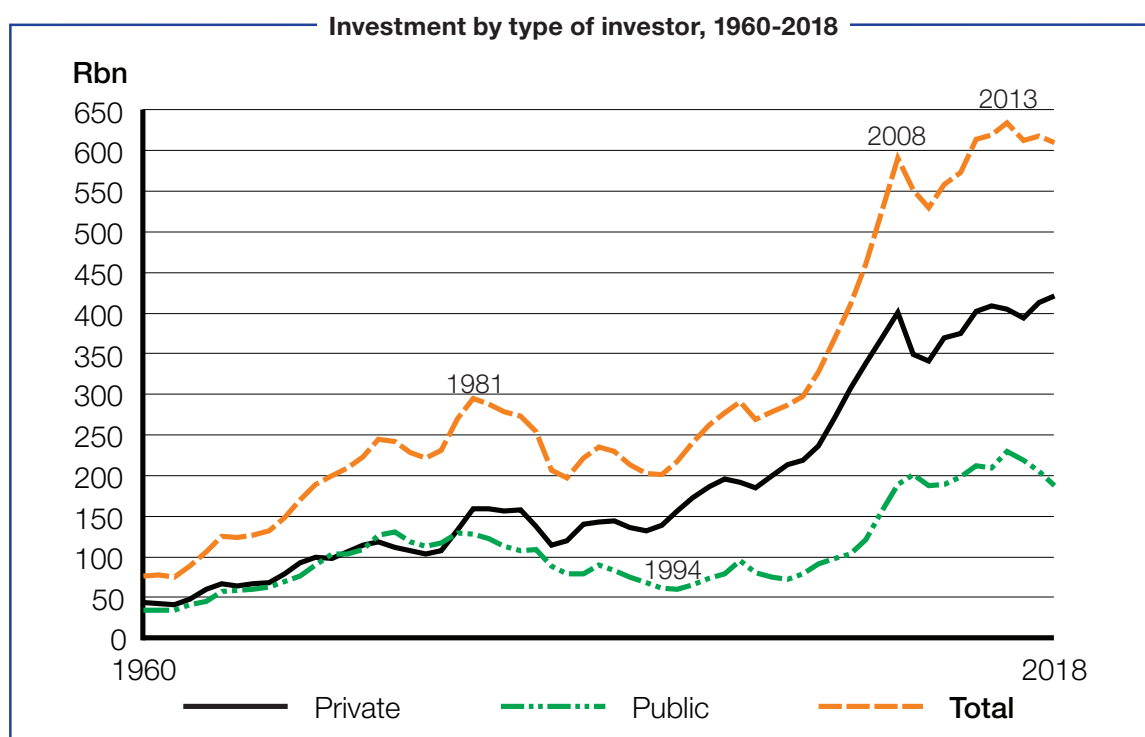
Year	Private business enterprises	Public authorities			All investment	Private business as a proportion of total ^c
		General government	Public corporations ^b	Total ^c		
Rbn						
2006	338.6	69.0	52.4	121.4	460.0	73.6%
2007	367.6	84.8	70.9	155.7	523.3	70.2%
2008	401.2	91.1	98.1	189.2	590.4	68.0%
2009	349.4	84.2	117.4	201.6	551.0	63.4%
2010	341.5	76.2	111.7	187.9	529.4	64.5%
2011	369.9	79.3	109.6	188.9	558.8	66.2%
2012	374.5	85.1	113.8	198.9	573.3	65.3%
2013	402.7	90.6	121.3	211.9	614.5	65.5%
2014	409.1	95.3	114.4	209.7	618.8	66.1%
2015	405.2	109.1	120.2	229.3	634.5	63.9%
2016	393.3	103.1	115.8	218.9	612.1	64.3%
2017	413.0	103.3	102.3	205.6	618.5	66.8%
2018	421.5	98.7	89.4	188.1	609.6	69.1%
2017-18	2.1%	-4.5%	-12.6%	-8.5%	-1.4%	3.5%

Source: SARB, www.resbank.co.za, time series data, accessed 21 October 2019

a At constant 2010 prices.

b Includes the South African Post Office, Telkom, Transnet, and Eskom.

c CRA calculations.



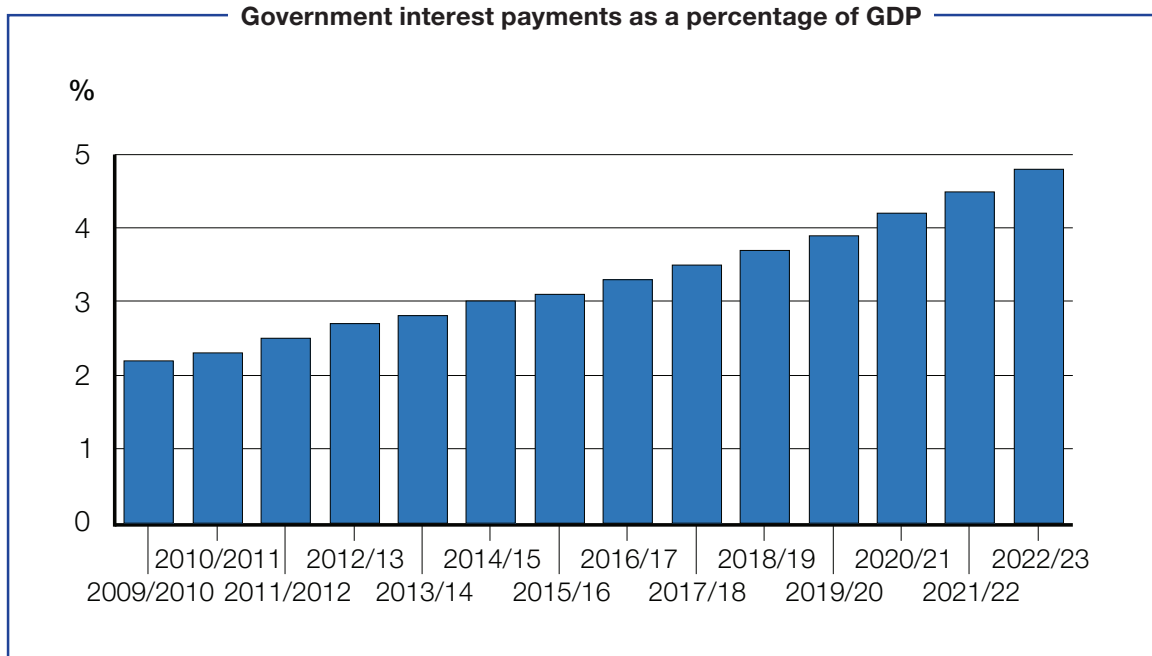
The above graphs and tables show that the government is the entity which is on an investment strike, rather than the private sector, that contrary to the narrative pushed in South Africa. As can be seen, private investment accounts for more than two-thirds of investment. At the same time, the proportion of government investment once again declining. This will have implications for the construction of necessary infrastructure, such as roads, schools, and clinics, and for economic growth rates.

Interest payments

Government interest payments as a percentage of GDP			
2009/2010	2.2%	2016/17	3.3%
2010/2011	2.3%	2017/18	3.5%
2011/2012	2.5%	2018/19	3.7%
2012/13	2.7%	2019/20	3.9%
2013/14	2.8%	2020/21	4.2%
2014/15	3.0%	2021/22	4.5%
2015/16	3.1%	2022/23	4.8%

Source: Presentation by Mike Schussler, economists.co.za

This table and the graph below show how rapidly government interest payments are rising.



South Africa's finances

South Africa in 2030

South Africa in 2030			
	1995	2019	2030
Number of people employed	9 852 000	16 375 000	19 305 000
Number of people unemployed (strict)	2 038 000	6 734 000	10 928 000
Number of people unemployed (expanded)	4 253 000	10 272 000	14 201 000
Narrow Labour Force (employed people and unemployed people on the strict definition)	11 890 000	23 109 000	29 002 000
Broad Labour Force (employed people and unemployed people on the expanded definition)	14 105 000	26 647 000	33 051 000
Strict Unemployment Rate	17.1%	29.1%	37.7%
Expanded Unemployment Rate	30.2%	38.5%	43.0%
Adult Population	20 641 000	38 582 000	47 645 000

Source: Presentation by Mike Schussler, economists.co.za

Note: The strict unemployment rate only includes people who are actively looking for work, while the expanded rate includes those who would work if they were given the opportunity, but have stopped looking for work.

This is Mike Schussler's prediction for the state of the South African labour force if we carry on at our current growth trajectory. Unemployment will continue to worsen and we could have a situation where nearly half of all South Africans do not have work, with all the consequences that will have for social stability.

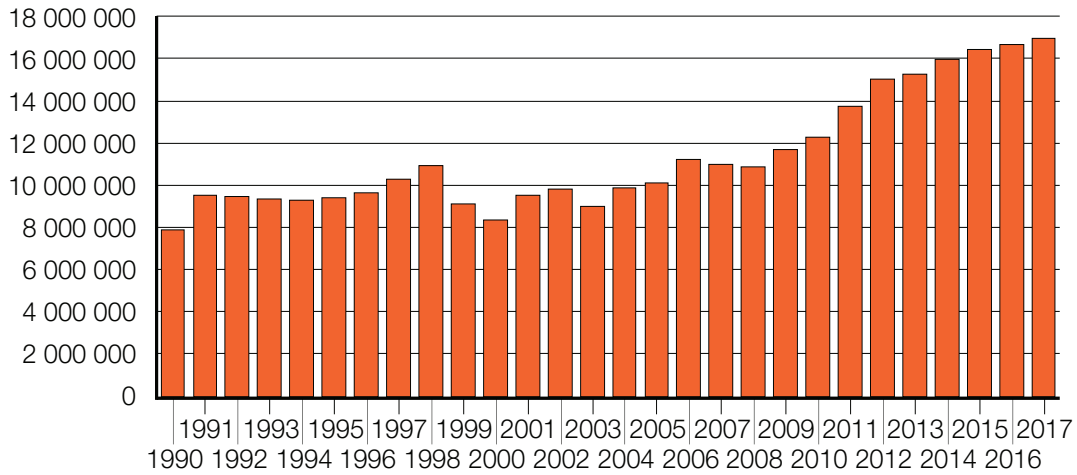
Pension funds

Number of pension and retirement fund accounts in South Africa, 1990-2017			
Year	Number	Year	Number
1990	7 878 555	2004	9 853 055
1991	9 495 251	2005	10 077 992
1992	9 458 627	2006	11 192 361
1993	9 309 339	2007	10 990 580
1994	9 244 435	2008	10 845 745
1995	9 390 184	2009	11 663 993
1996	9 626 422	2010	12 298 378
1997	10 256 403	2011	13 750 247
1998	10 893 219	2012	15 005 306
1999	9 105 368	2013	15 255 875
2000	8 349 318	2014	15 942 554
2001	9 533 846	2015	16 457 075
2002	9 779 884	2016	16 643 722
2003	8 957 399	2017	16 945 651

Source: Presentation by Mike Schussler, economists.co.za

South Africa's finances

Number of pension and retirement fund accounts in South Africa, 1990-2017



Private pension funds as a percentage of GDP, 2016 (selected countries)

Country	Percentage	Country	Percentage
Australia	123.9%	New Zealand	24.4%
Brazil	22.9%	Russia	6.1%
Canada	159.2%	South Africa	100.6%
Chile	69.6%	Switzerland	141.6%
France	9.8%	Turkey	4.8%
Germany	6.8%	United Kingdom	95.3%
Iceland	150.7%	United States	134.9%
Ireland	40.7%		

Source: OECD, *Pensions at a Glance 2017: OECD and G20 Indicators*

It is clear from the above that the South African pension funds industry is large. The number of people who contribute to or draw from retirement funds has grown rapidly and the size of the industry rivals that in developed countries. It is unsurprising that the government has its eye on this sector to plug the very big funding holes that exist.