Defence and the South African Economy : The Necessity to Look Through a Wider Lens

Presented by Dr N Taylor
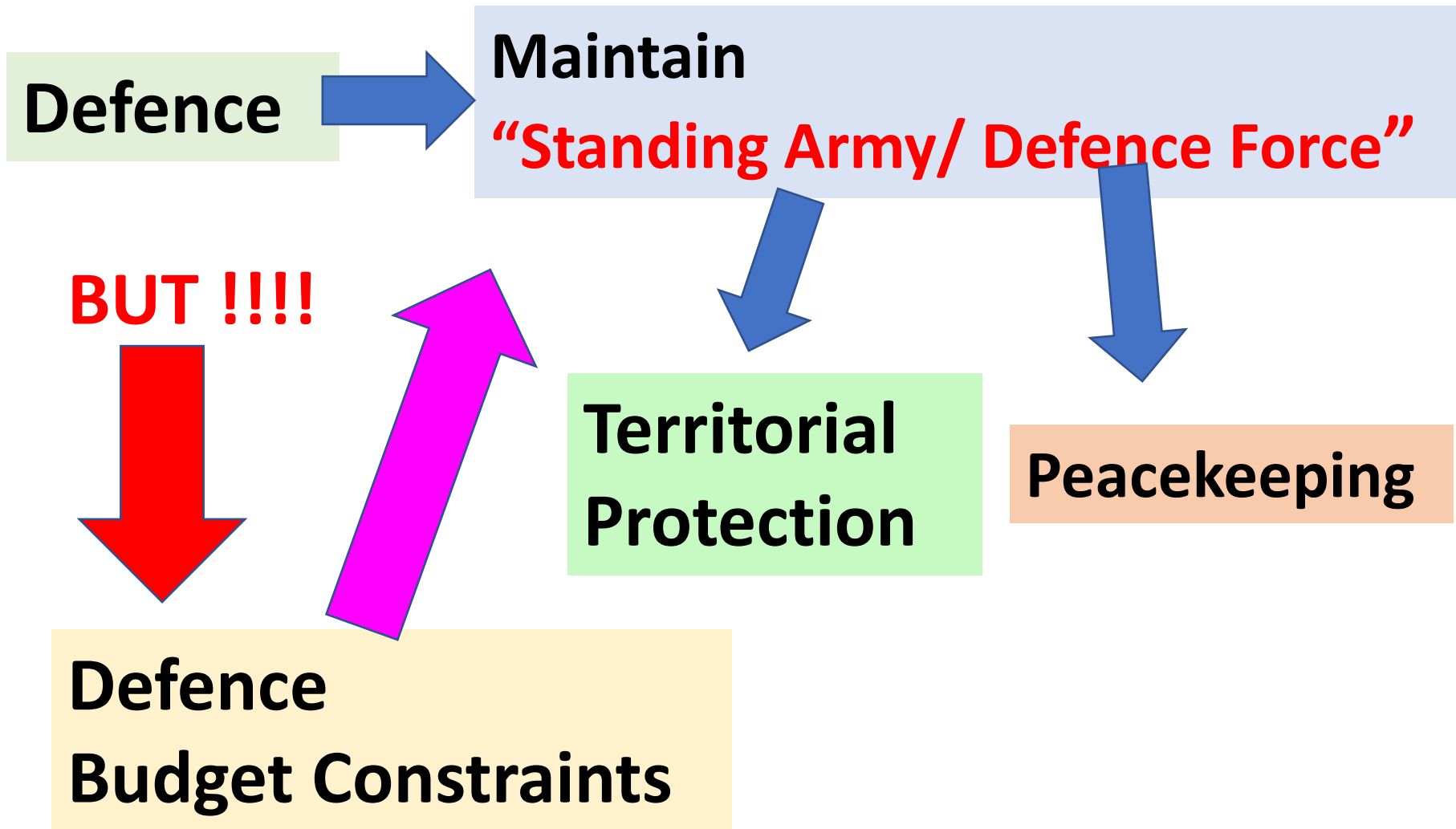
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forward together · saam vorentoe · masiye phambili

Defence → Maintain **"Standing Army/ Defence Force"**

BUT !!!!

Defence Budget Constraints

Territorial Protection

Peacekeeping

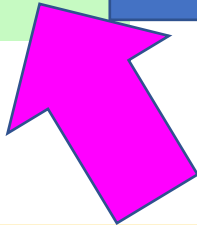# Key Discussion Points
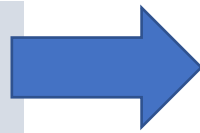
Defence → **Take into Consideration the Wider Economic Outlook**

Growth → **Increase Revenue to be Allocated to Defence**

BUT !!!!

**South Africa is characterised by Conditions and Climate for Growth**

Need to Look at Defence within the South African Economic Climate: The Good and the Bad

Overview

- **Composition of Government Expenditure**
  (Focus on Defence)

- **Current Economic Indicators**

- **Problems –**
  - **Rising Debt/ GDP ratio**
  - **Increased Gap between Government Expenditure and Revenue**
  - **Credit Downgrading**

Defence Budget Trends

- *The DOD* aims to create a defence force that is more efficient, sustainable and capable.

- According to the 2020 Defence Budget, these measures include:

  - using internal personnel for basic maintenance and repairs

    (expected to decrease by R 209.8 million)

  - introducing measures to enhance revenue

    (leasing and selling of defence assets

    expected to generate R 3 billion)

  - maximising reimbursements from the UN as part of South Africa's peace support operations in the DRC

    (reimbursements from UN expected to be R 1.9 billion)

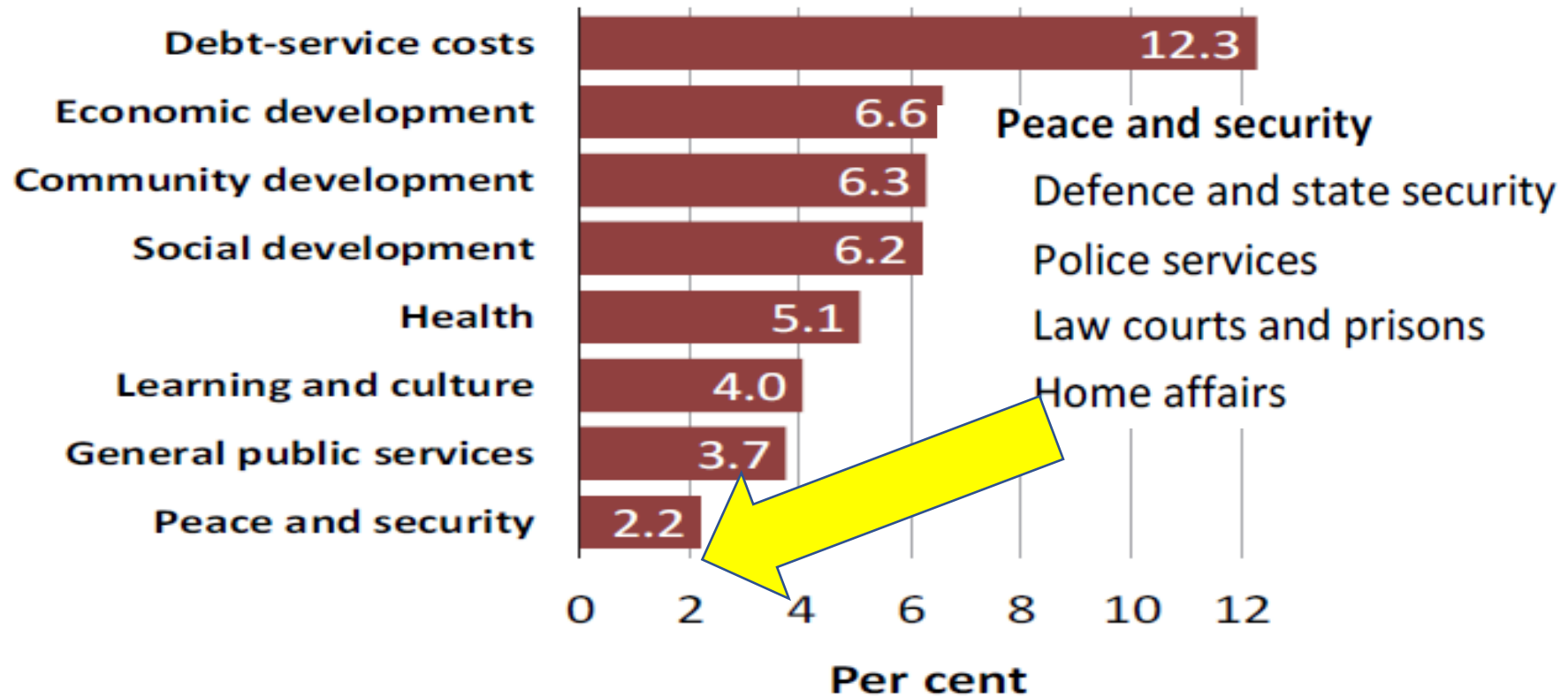# Armed Forces as a Percentage of Total Labour Participation : South Africa
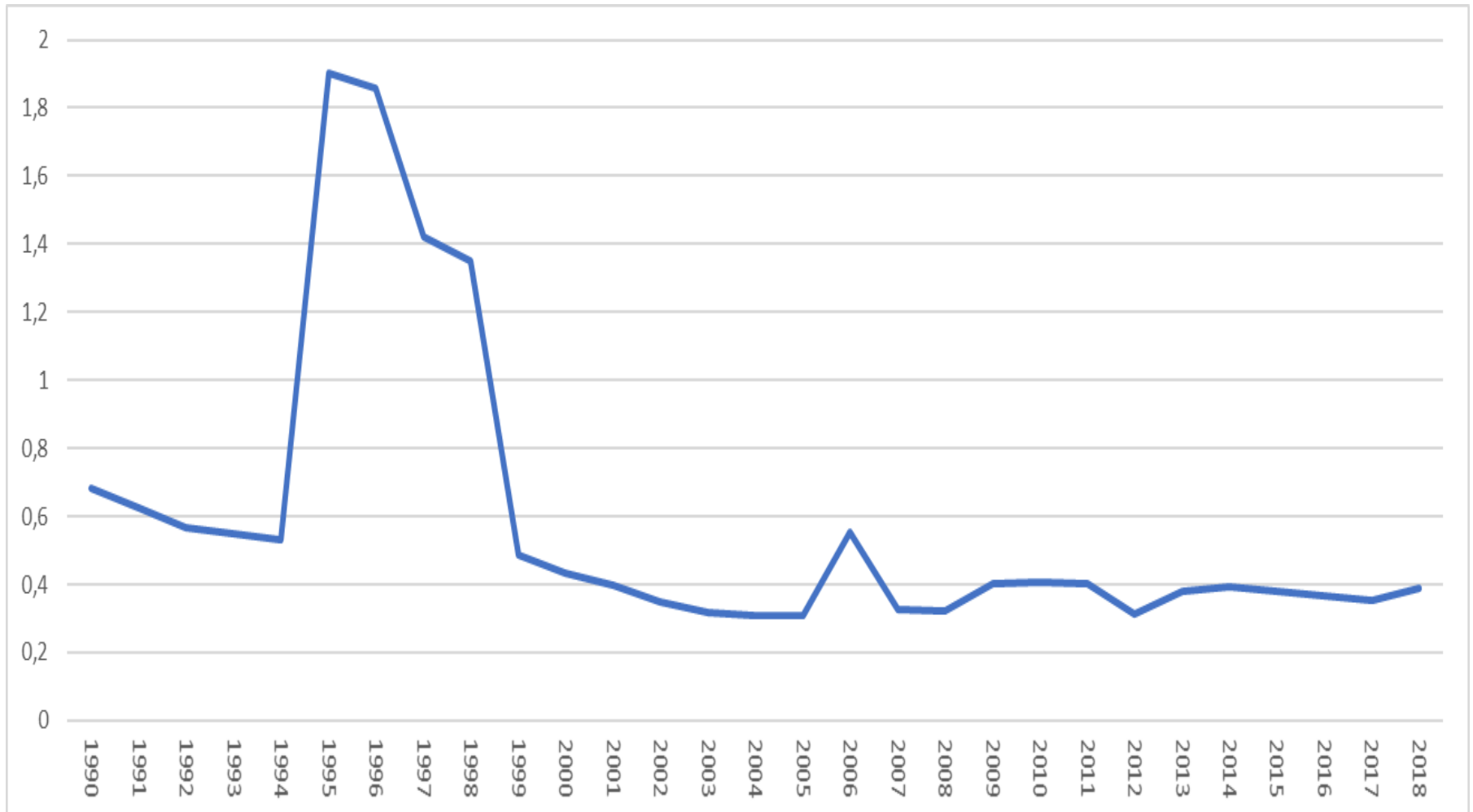
Source: World Development Indicators (2021)

Table 1.4 Consolidated government expenditure by function

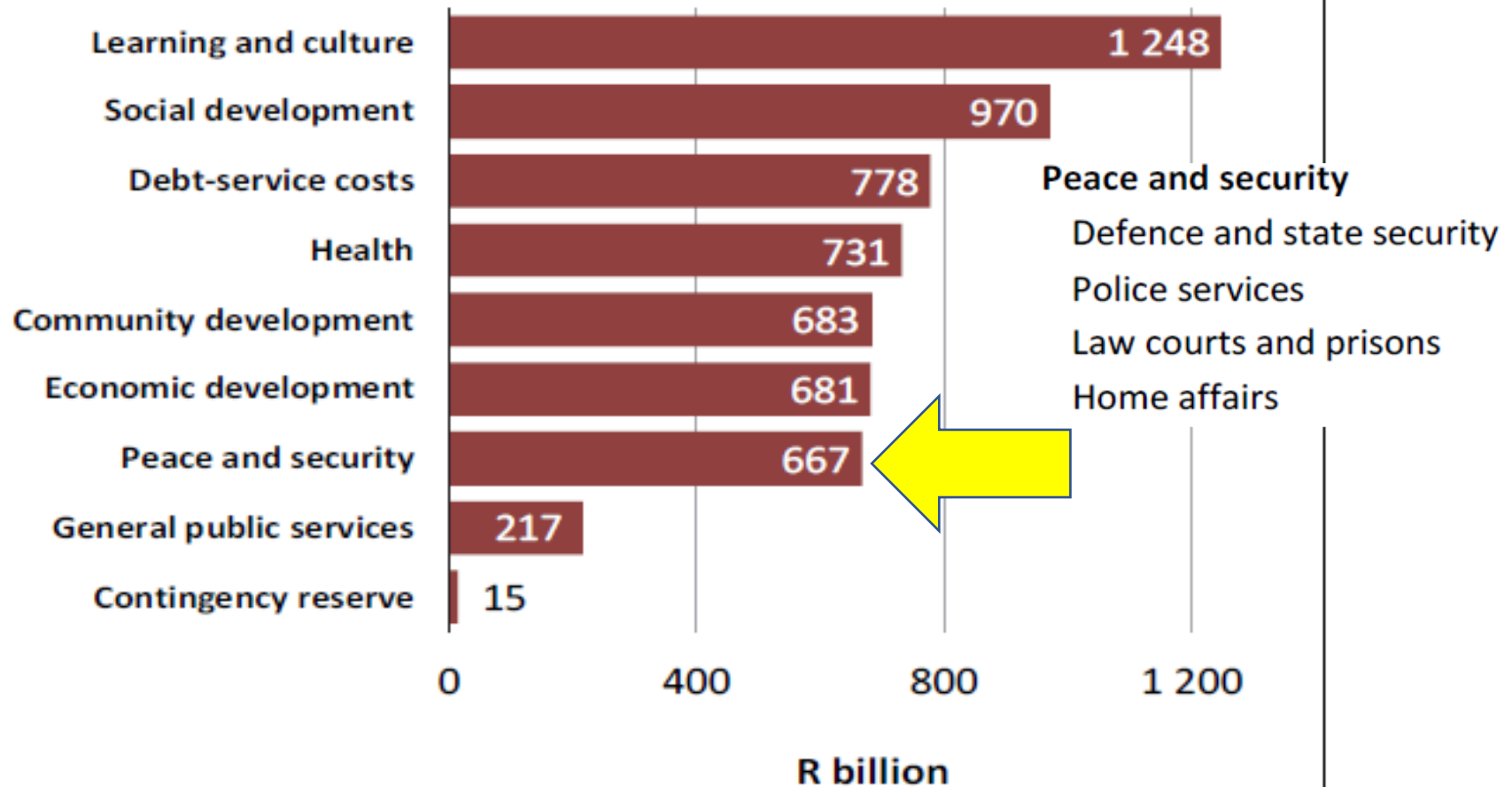| R billion	2019/20 Revised estimate	2020/21 Budget estimate	Average growth 2019/20 – 2022/23
Learning and culture	385.6	396.4	4.0%
Health	222.0	229.7	5.1%
Social development	284.5	309.5	6.2%
Community development	201.7	212.3	6.3%
Economic development	198.9	211.5	6.6%
Peace and security	214.4	217.0	2.2%
General public services	66.3	70.0	3.7%
Payments for financial assets	65.2	73.6	
Allocated expenditure	**1 638.5**	**1 720.2**	
Debt-service costs	205.0	229.3	12.3%
Contingency reserve	–	5.0	
Consolidated expenditure[1]	**1 843.5**	**1 954.4**	**5.1%**

1. Consisting of national, provincial, social security funds and selected public entities
   See Annexure W2 on the National Treasury website for a full list of entities included
Source: National Treasury

Figure 5.1 Average nominal growth in spending, 2020/21 — 2022/23

Category	Per cent
Debt-service costs	12.3
Economic development	6.6
Community development	6.3
Social development	6.2
Health	5.1
Learning and culture	4.0
General public services	3.7
Peace and security	2.2

Peace and security

Defence and state security

Police services

Law courts and prisons

Home affairs

Per cent

Source: National Treasury

Figure 5.2 Consolidated government expenditure by function, 2020/21 — 2022/23

Function	R billion
Learning and culture	1 248
Social development	970
Debt-service costs	778
Health	731
Community development	683
Economic development	681
Peace and security	667
General public services	217
Contingency reserve	15

Peace and security
Defence and state security
Police services
Law courts and prisons
Home affairs

Source: National Treasury (2021)

Table 5.6 Consolidated government expenditure by function⁻

| R million	2019/20 Revised estimate	2020/21 Medium-term estimates	2021/22	2022/23	Percentage of total MTEF allocation	Average annual MTEF growth
Peace and security	**214 365**	**217 001**	**221 291**	**228 804**	**12.5%**	**2.2%**
Defence and state security	50 766	51 378	48 932	50 439	2.8%	-0.2%
Police services	105 163	106 127	110 758	114 186	6.2%	2.8%
Law courts and prisons	48 448	49 604	51 992	53 641	2.9%	3.5%
Home affairs	9 988	9 891	9 609	10 538	0.6%	1.8%

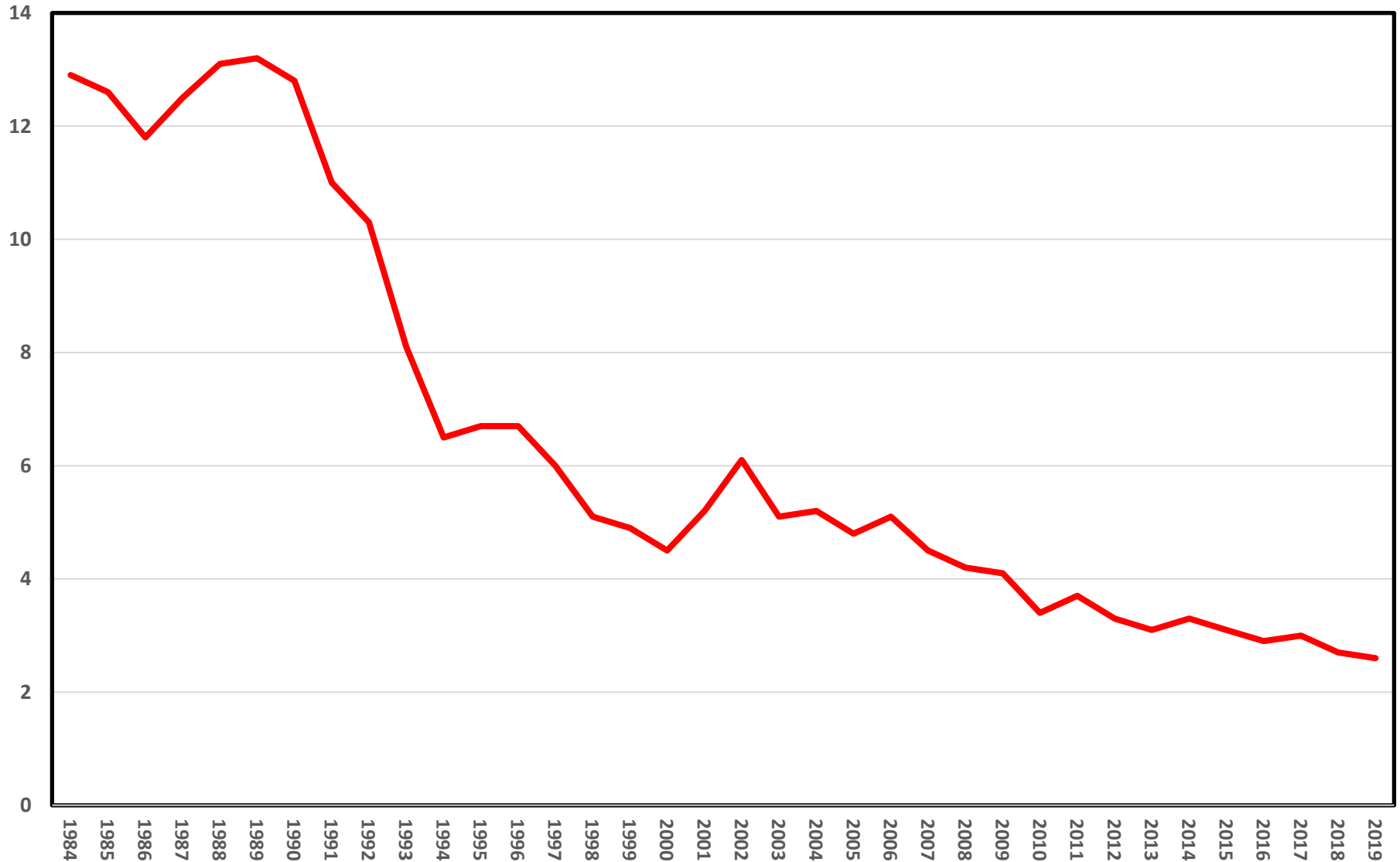**Source: National Treasury (2021)**

Government Spending (R millions)
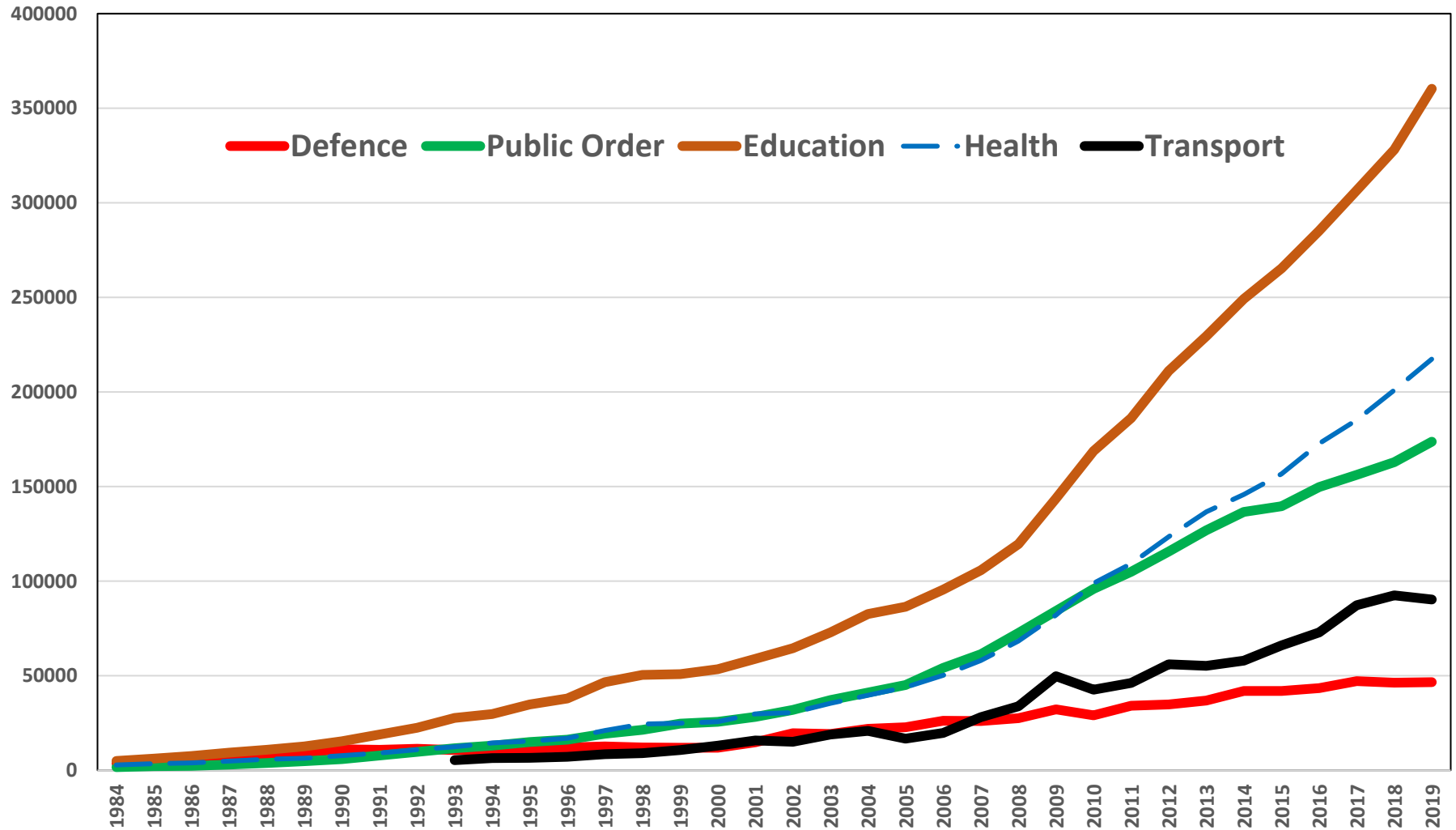
Source: World Development Indicators (2021)

Government Spending (R millions)

Source: World Development Indicators (2021)
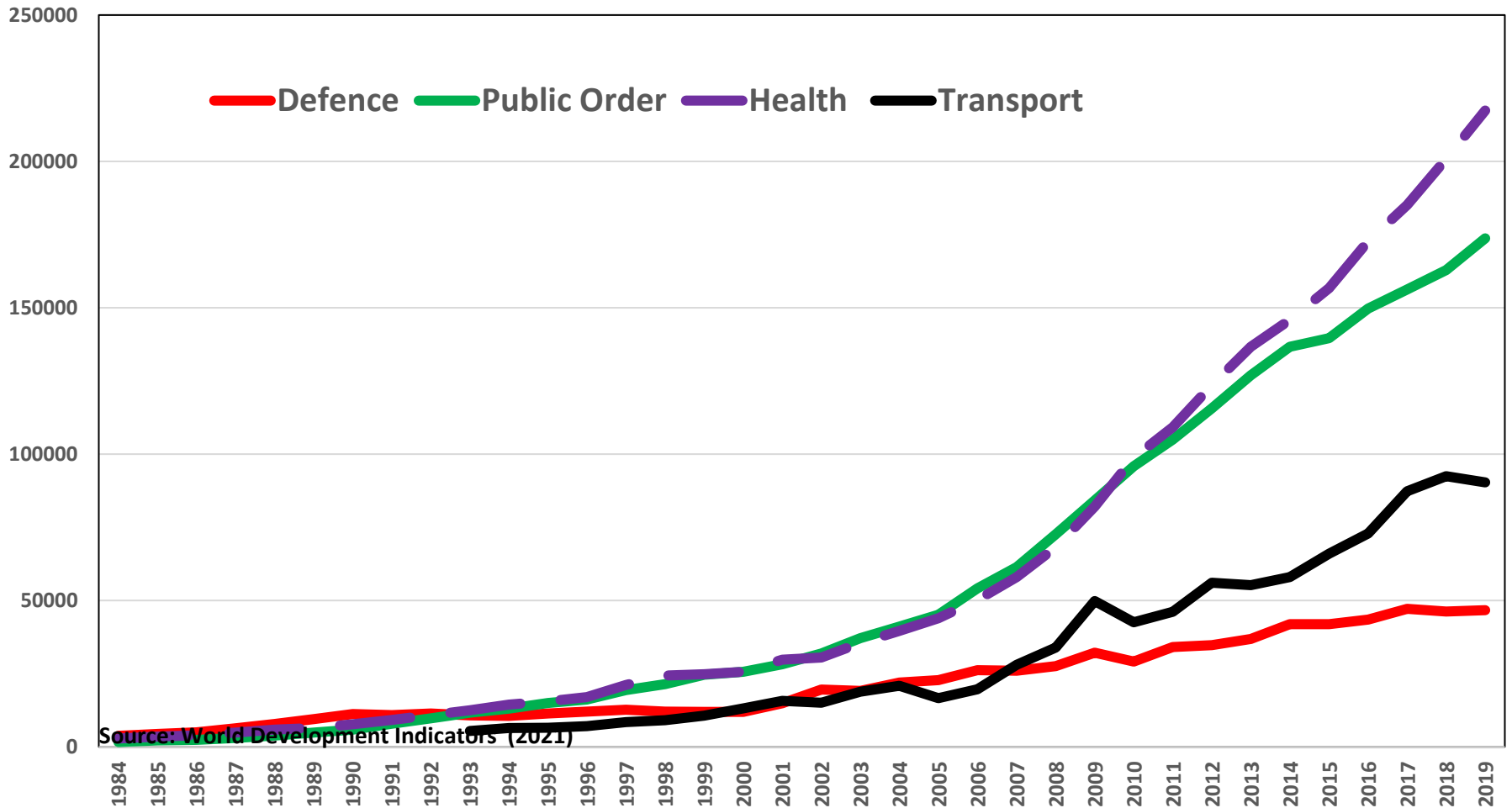
Source: World Development Indicators (2021)

Expenditure on Defence / Total Public Expenditure

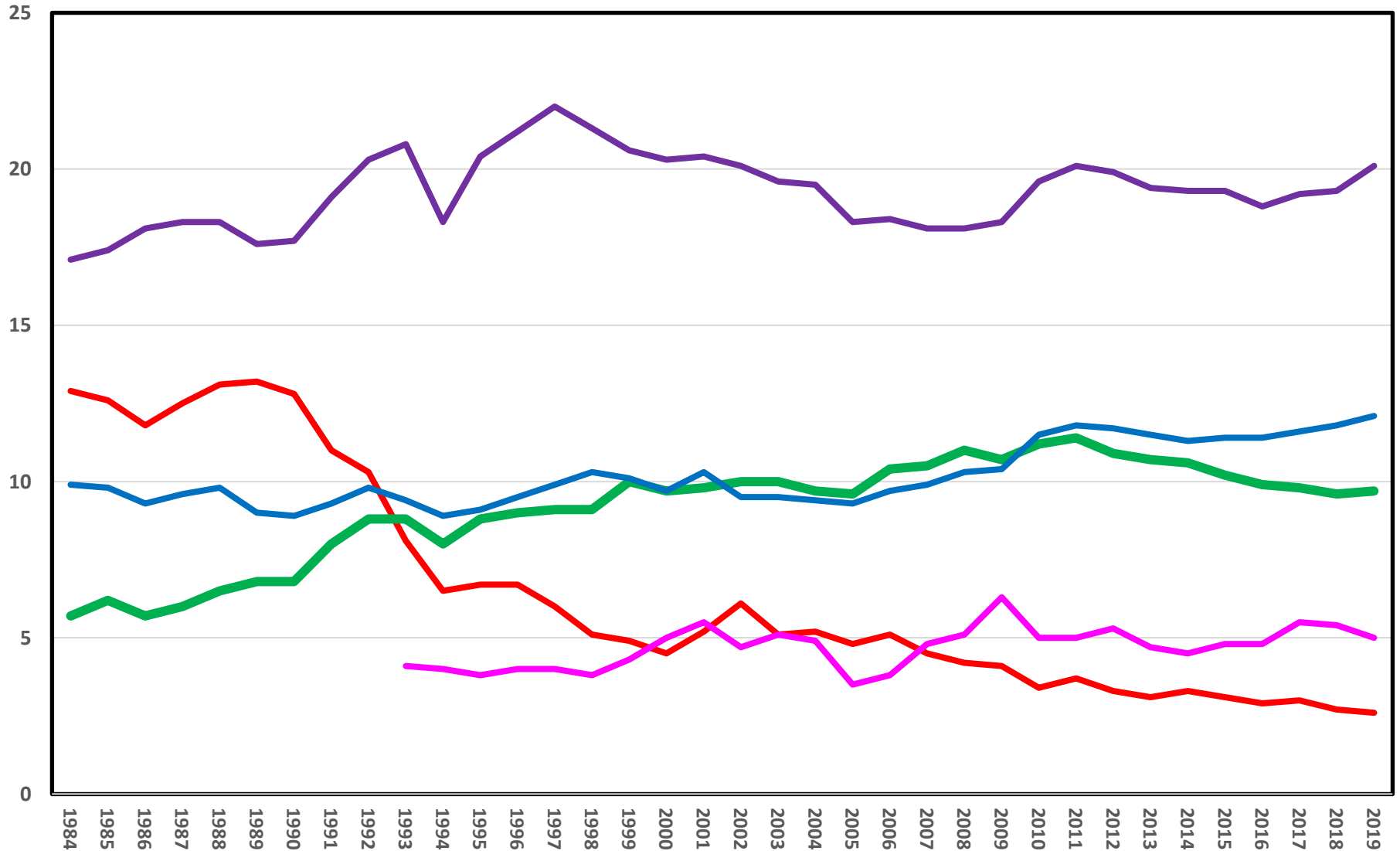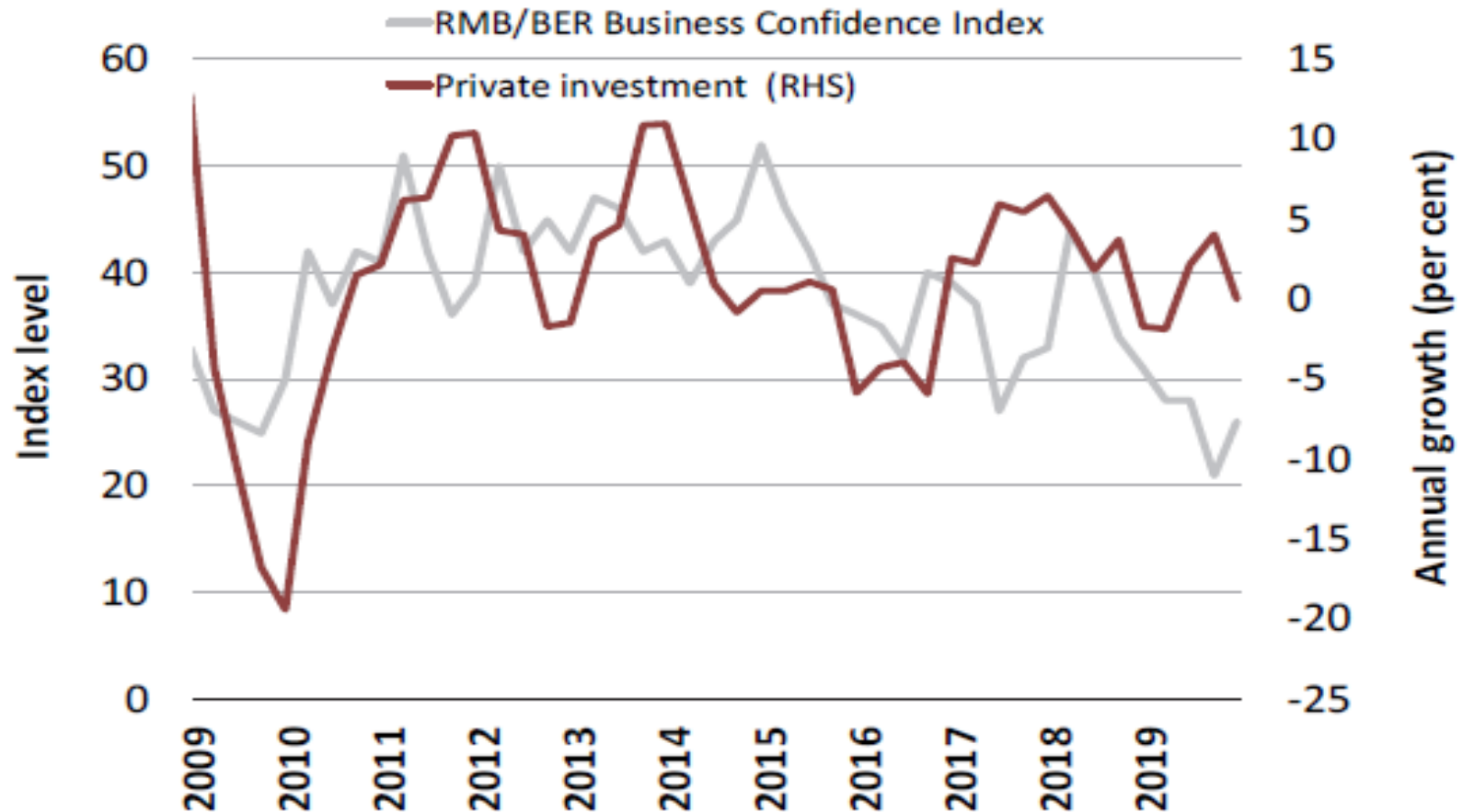# Composition of Public Expenditure/ Total Public Expenditure

Source: World Development Indicators (2021)

MACROECONOMIC PERFORMANCE AND PROJECTIONS

Percentage change	2016	2017	2018	2019	2020	2021	2022
	Actual			Estimate	Forecast		
Household consumption	0.6	2.1	1.8	1.1	1.1	1.3	1.6
Gross fixed-capital formation	-3.5	1.0	-1.4	-0.4	0.2	1.3	1.9
Exports	0.4	-0.7	2.6	-2.1	2.3	2.6	2.8
Imports	-3.9	1.0	3.3	0.2	1.8	2.5	2.8
Real GDP growth	**0.4**	**1.4**	**0.8**	**0.3**	**0.9**	**1.3**	**1.6**
CPI inflation	6.3	5.3	4.7	4.1	4.5	4.6	4.6
Current account balance (% of GDP)	-2.9	-2.5	-3.5	-3.4	-3.4	-3.5	-3.7

Source: National Treasury (2020)

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Figure 2.2 Confidence and private investment

Legend:
— RMB/BER Business Confidence Index
— Private investment (RHS)

Left axis: Index level (0–60)
Right axis: Annual growth (per cent) (-25 to 15)

X-axis: 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019
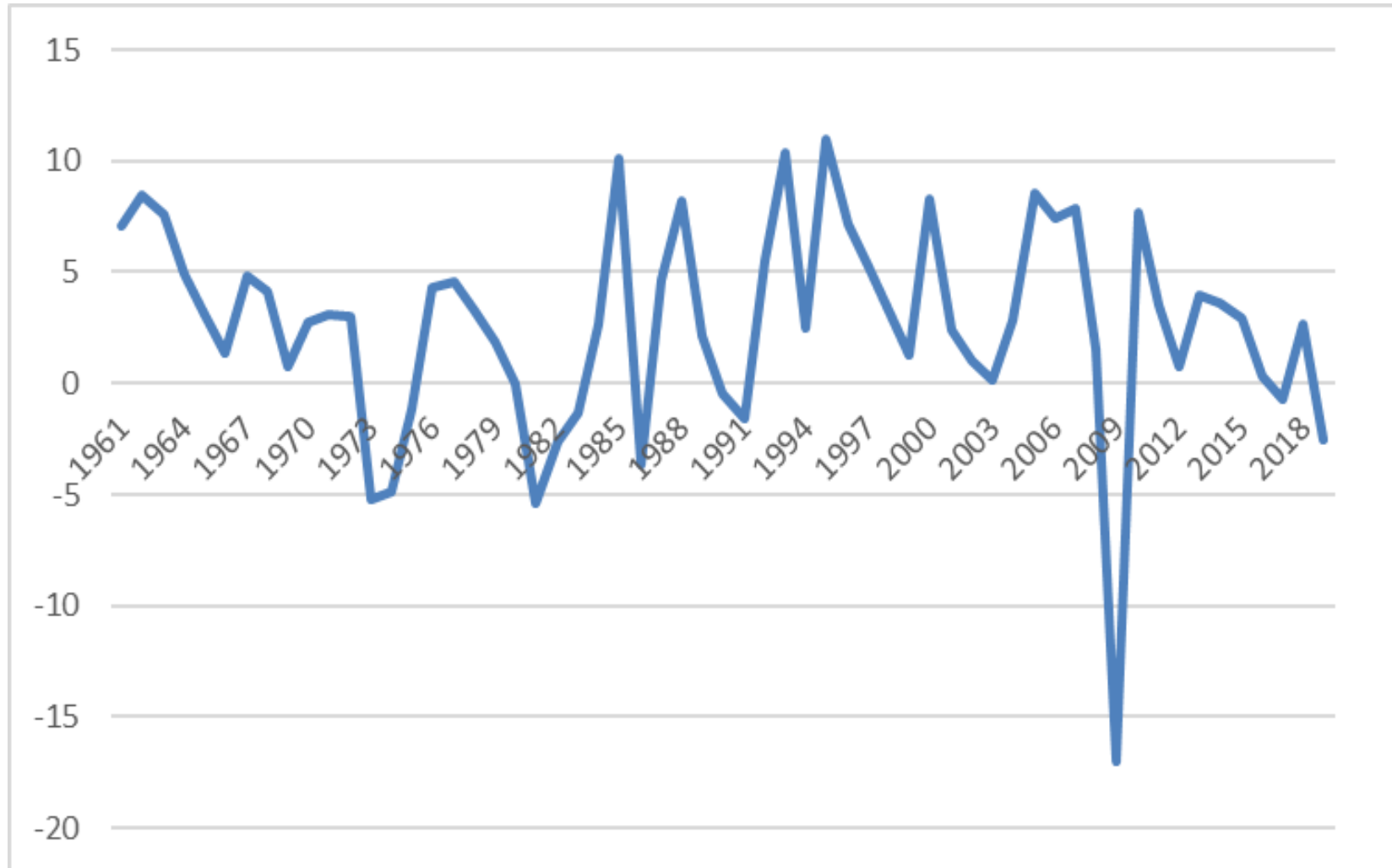
Source: Global Insight
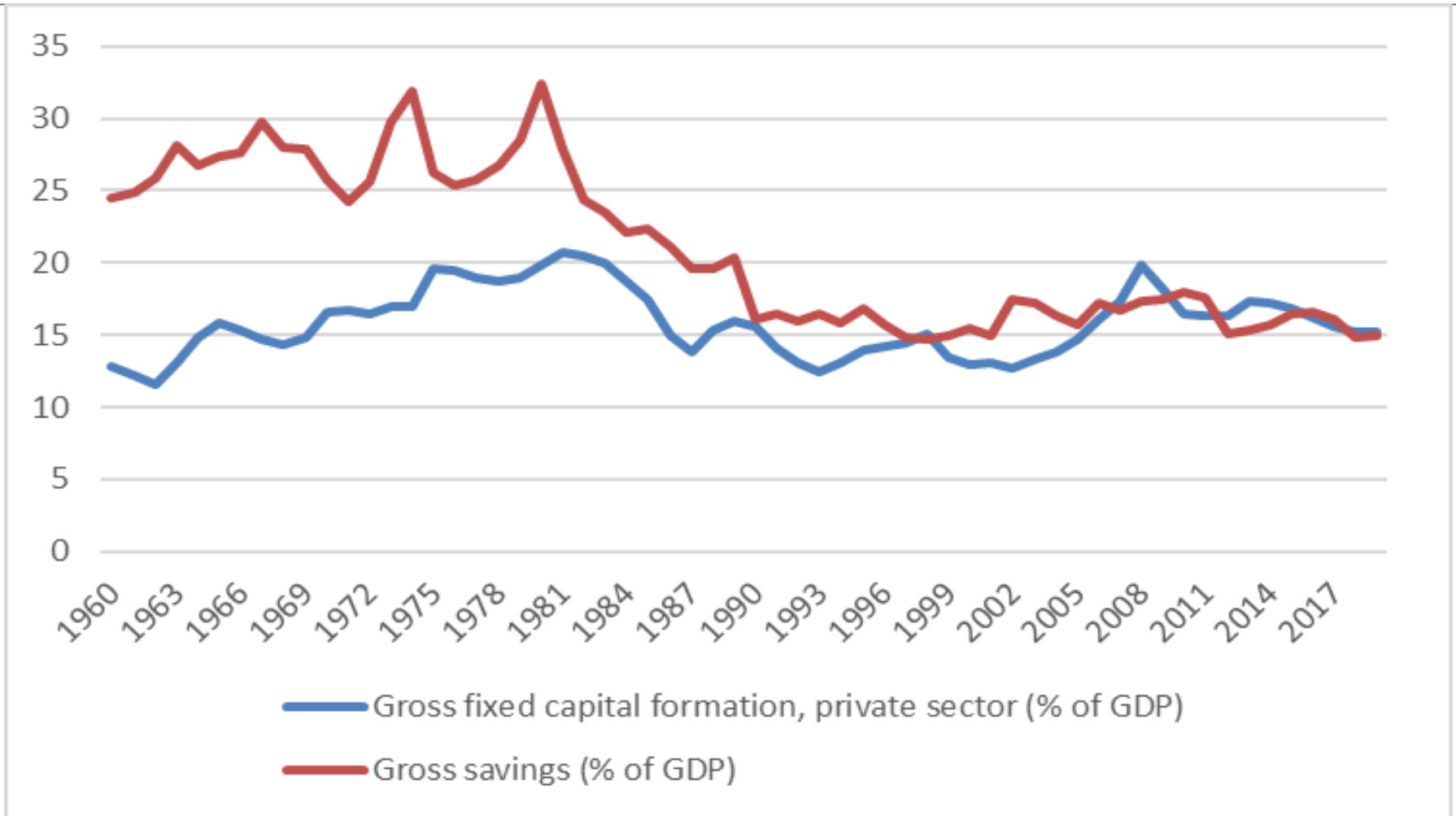
Gross Domestic Product Growth (%)
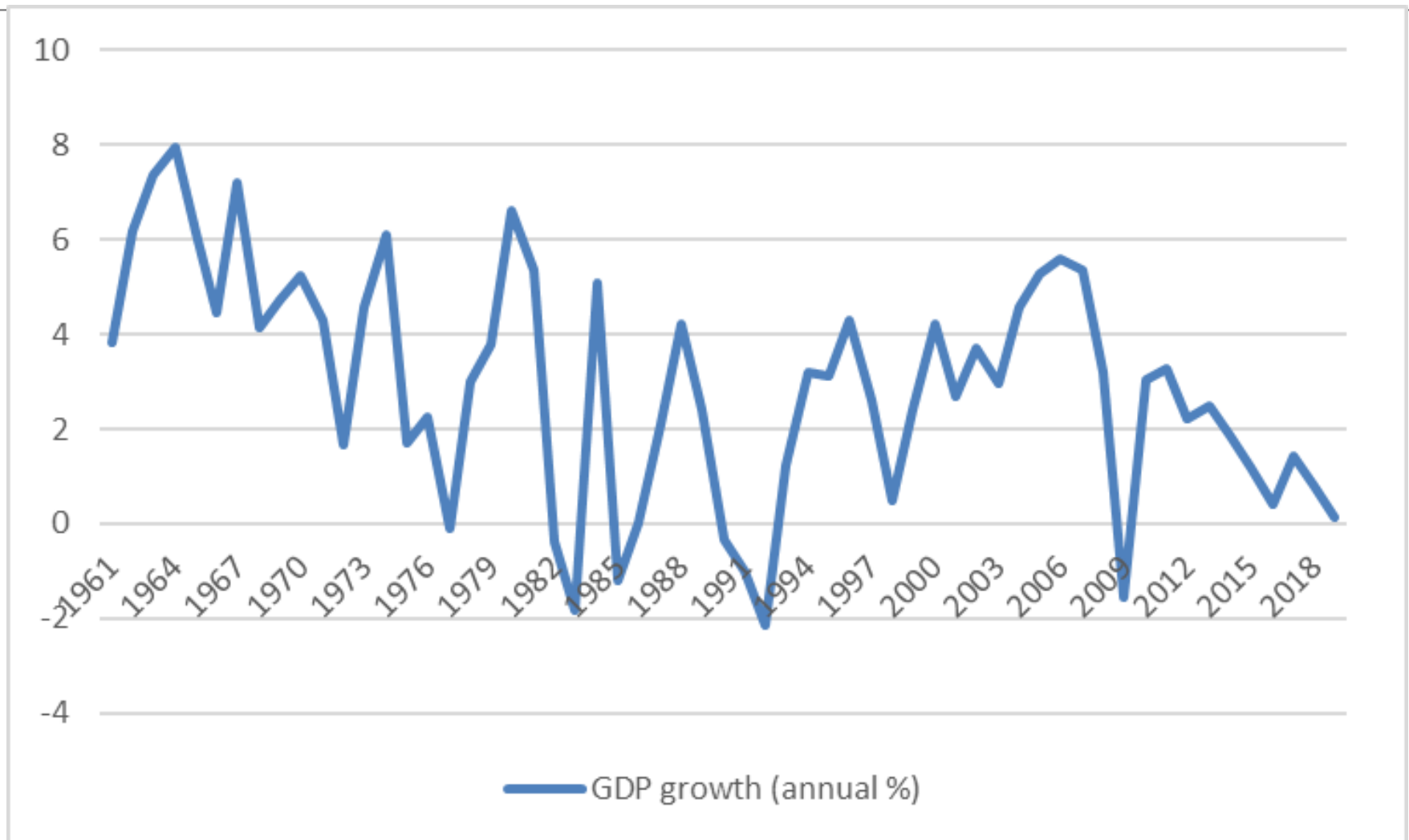
Source: World Development Indicators (2020)
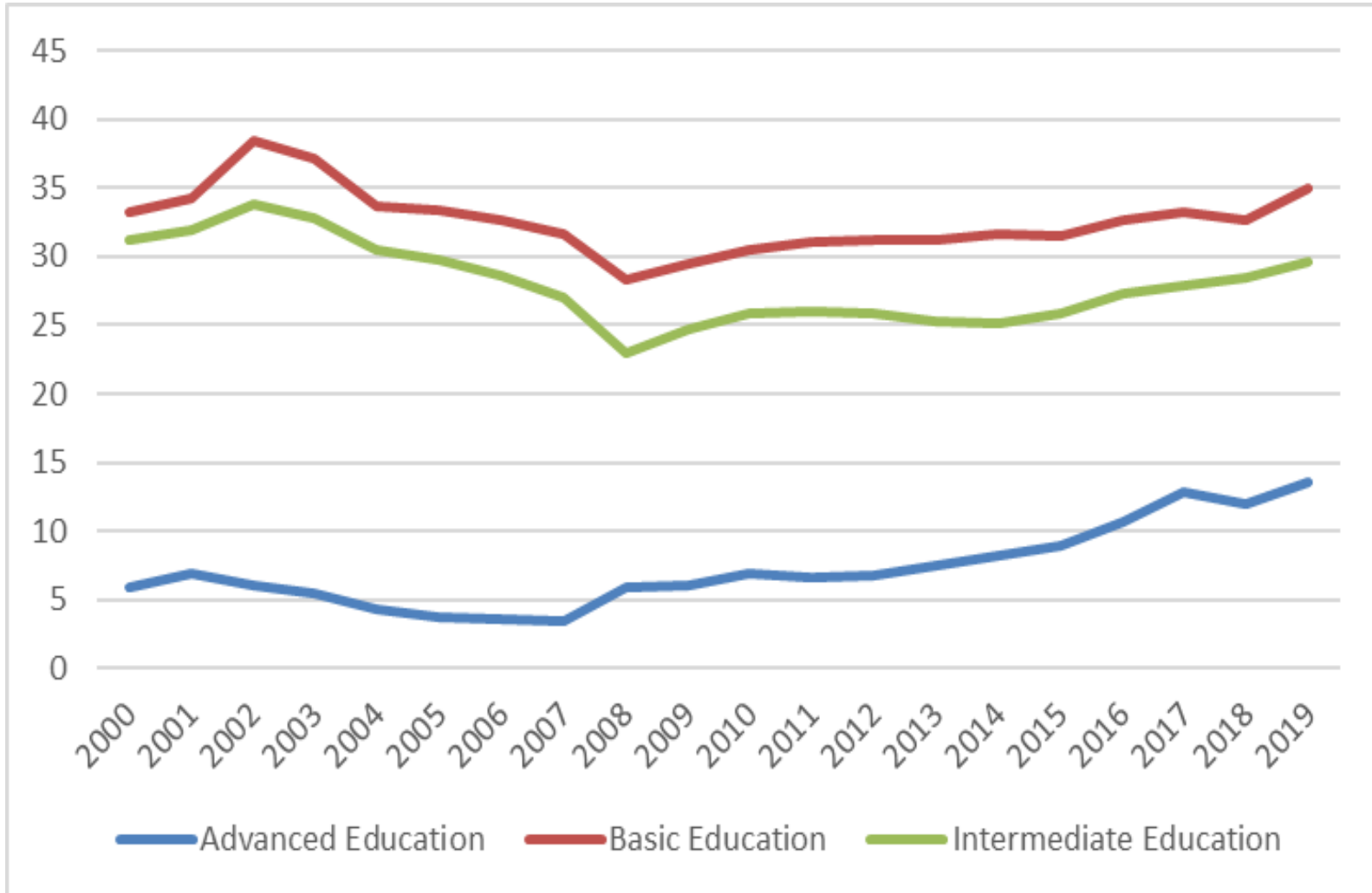
Export Growth (Percentage)

Source: World Development Indicators (2020)
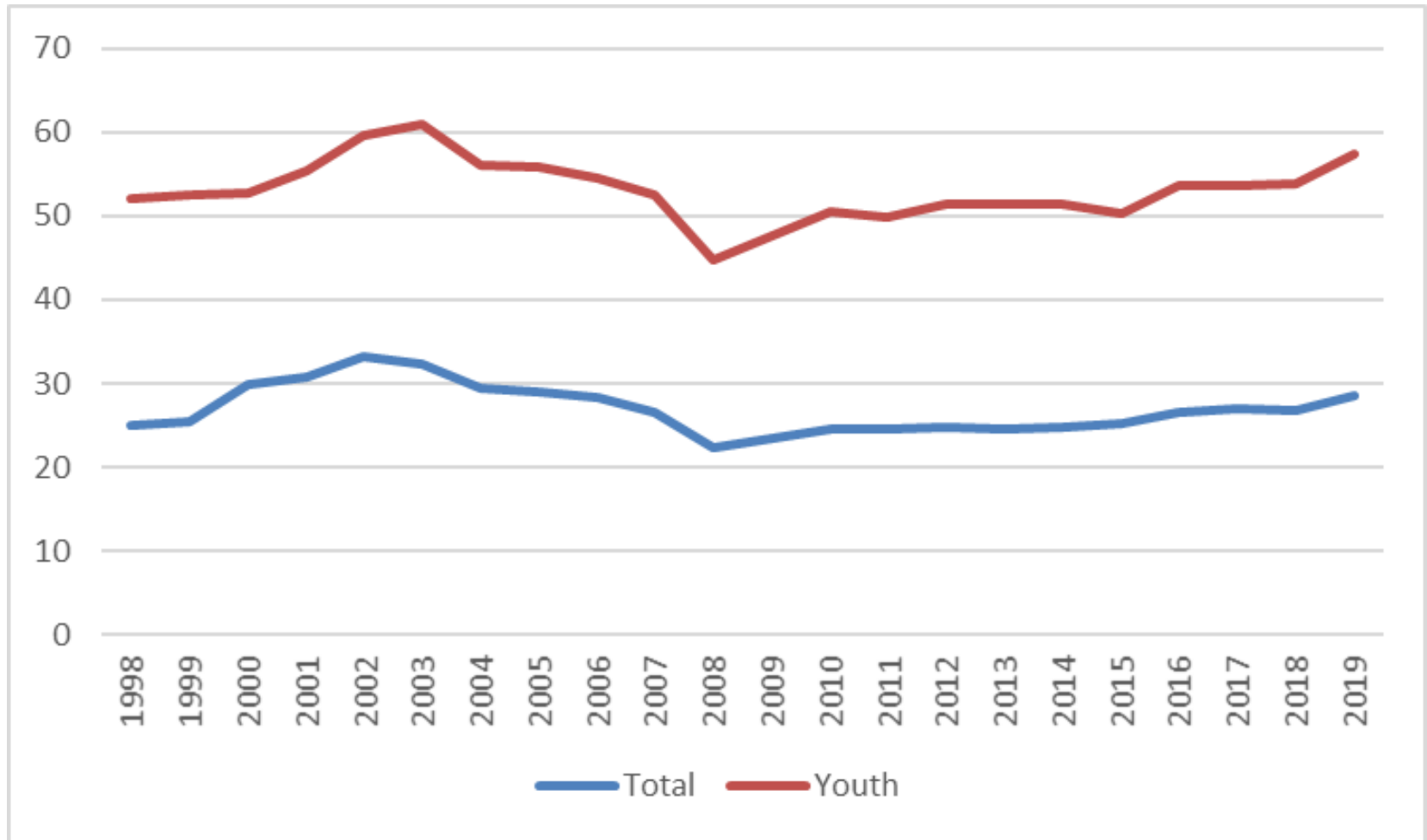
Domestic Savings and Investments

Source: World Development Indicators (2020)

Unemployment Rates (% Working Population)

Source: World Development Indicators (2020)
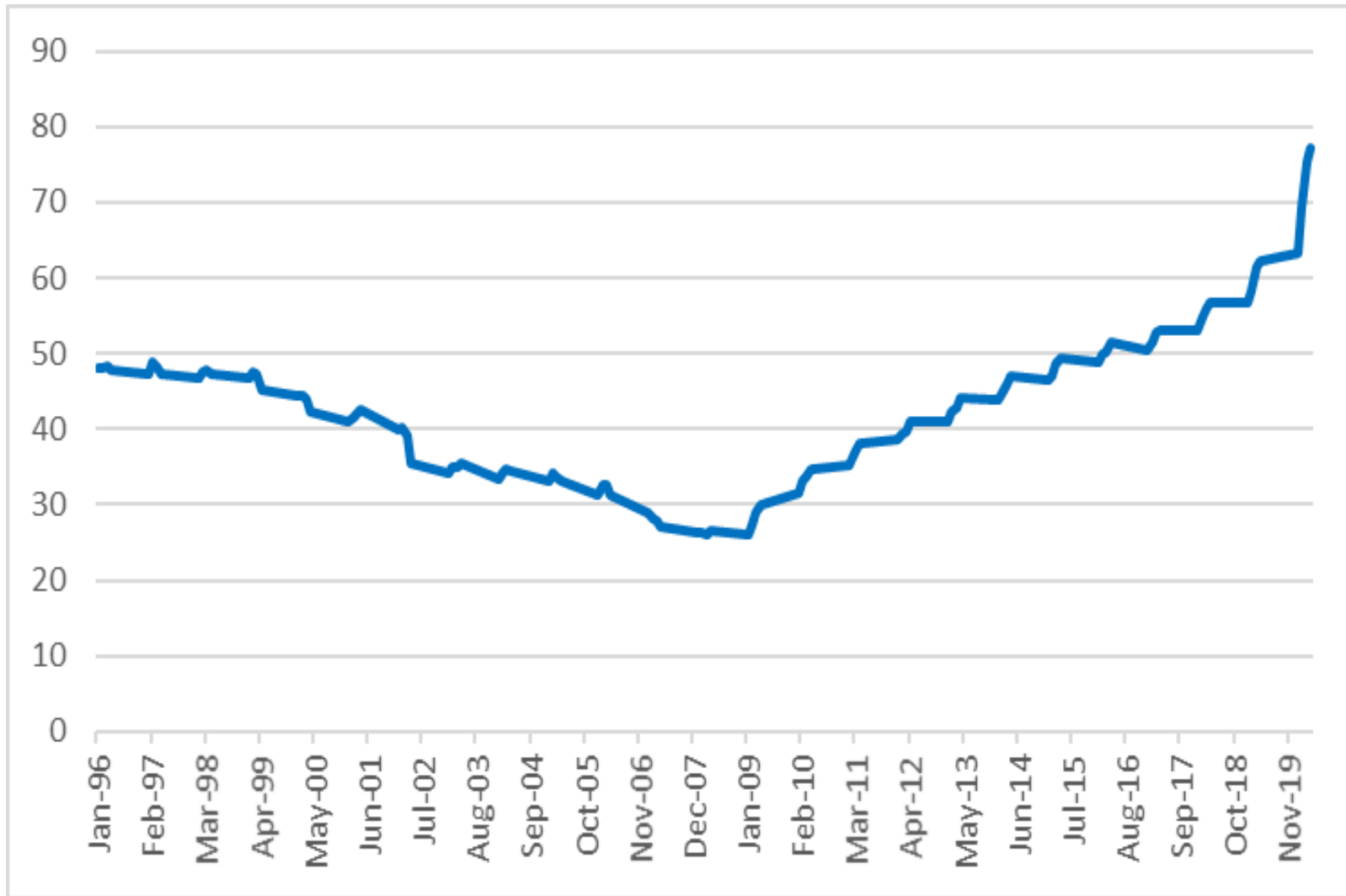
Unemployment (% Working Population)

Source: World Development Indicators (2020)

CONSOLIDATED FISCAL FRAMEWORK

R billion/percentage of GDP	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
		Outcome		Estimate	Medium-term estimates		
Revenue	1 285.6	1 351.4	1 445.4	1 517.0	1 583.9	1 682.8	1 791.3
	29.1%	28.8%	29.4%	29.4%	29.2%	29.2%	29.2%
Expenditure	1 442.6	1 541.9	1 642.8	1 843.5	1 954.4	2 040.3	2 141.0
	32.6%	32.8%	33.4%	35.7%	36.0%	35.4%	34.9%
Budget balance	-157.0	-190.5	-197.4	-326.6	-370.5	-357.5	-349.7
	-3.6%	-4.1%	-4.0%	-6.3%	-6.8%	-6.2%	-5.7%
Gross domestic product	4 419.4	4 698.7	4 921.5	5 157.3	5 428.2	5 759.0	6 126.3

22   **Source: National Treasury (2020)**

Government Debt/ GDP

Source: World Development Indicators (2020)

Conclusions

- **The Defence Budget has dramatically reduced since the 1990s.**

- **This places pressure on the DOD to maintain a "standing army" ensure territorial protection**

- **At the same time, the defence budget needs to be viewed in the context of South Africa's broader economy.**

- **Focus needs to be placed on maintaining an economic environment that will promote growth and thus increase revenue allocations.**

- **Recommendation is that continued focus be placed on :**
    - **Reducing Debt/ GDP ratio**
    - **Reducing Gap between Government Spending and Revenue**
    - **Avoid Credit Downgrading**