African Fiscal Forum: Building Sustainable Public Finances in an Uncertain World
14–15 March, Park Inn Hotel, Johannesburg

Opening address by Nhlanhla Nene, Deputy Minister of Finance, South Africa

Good morning ladies and gentlemen. It is with great pleasure that I welcome you all to the second African Fiscal Forum, jointly hosted by the National Treasury of South Africa and the International Monetary Fund (IMF), sponsored by the European Commission and USAID. Following a successful and valuable Forum in 2011, we decided to host this Forum again this year. Once again, the forum has managed to bring together representatives of Ministries of Finance from 22 African countries – almost double what we had in 2011, the IMF, World Bank, the OECD and the European Union to discuss fiscal policy challenges facing the economies and governments on the continent.

The 2008 financial crisis and current weak growth in developed countries continue to illustrate the importance of fiscal buffers in managing an economic downturn. Currently, governments all over the world face the task of credibly dealing with large fiscal adjustment needs in a time of slow and uncertain global growth. The IMF suggests that countries with fiscal space should continue to be countercyclical, while countries with already high debt levels should try to stabilise debt. For many African countries fiscal space is becoming limited. Therefore policies to rebuild fiscal space and buffers should be considered urgently and this is why we are all here, to discuss such policies.

Africa, however, finds itself in a fortunate situation where it is seen by many developed countries as a safe haven for excess savings and investment. The conference will therefore focus on issues around managing fiscal risks in an uncertain global economy (with a focus on managing the rapid capital inflows and balancing countercyclicality and debt sustainability), ways to strengthen revenue mobilisation in natural resources producing countries, dealing with energy subsidies and taxation of mineral resources. The conference will also be aimed at assessing the usefulness of long-term fiscal models for the design of current fiscal policies and how this exercise might be of relevance to African peers.

Emerging market economies continue to grow more rapidly than developed countries although other emerging market economies continue to struggle with weak external demand and domestic bottlenecks. Relatively high commodity prices continue to support growth in Africa, particularly in resource-rich countries. The Forum will provide the opportunity to discuss issues around the strengthening of revenue mobilisation and the design of taxes in African countries with extractive industries.

Most African countries continue to provide a mix of macroeconomic policies which support growth, while the fiscal stimulus measures implemented during the global downturn continue to spur growth in the region. Uncertain economic conditions however, continue to prevail, making it very important for us to focus on medium- to long-term considerations in order to sustain the continent's economic expansion and growth.

Fiscal policy is generally recognised as one of the best tools available to policymakers to ensure macroeconomic stability and long-term growth. The 2008-2009 financial crisis illustrated the importance of fiscal buffers in managing an economic downturn. With fiscal buffers largely eroded, policymakers in emerging markets are conscious of the need to rebuild fiscal and monetary policy space but are wondering how to calibrate policies in the face of major external downside risks. This conference will therefore examine how African countries manage fiscal risks in the context of global uncertainties and reduced fiscal space.

As the continent navigates its way through the next few years, fiscal authorities need to strike a balance between addressing the challenges of strong, inclusive growth through sound fiscal management of spending and revenue, and the potentially adverse effects of another global downturn. The programme over the next day and a half aims to provide a broad range of perspectives and sharing of lessons from the crisis and ideas for the next phase of fiscal development and management in Africa.

As we are all aware, public finance sustainability is the ability of a government to sustain its current spending, tax and other policies in the long run without threatening government solvency or defaulting on some of its liabilities or promised expenditures. With growth weakening globally and downside risks emanating, fiscal consolidation remains challenging. The IMF – in their 2012 Fiscal Monitor – has indicated that there has been significant progress made in the last two years in strengthening the fiscal accounts following the recent crisis. Most countries have started consolidating, with deficits for a number of countries at or even lower than pre-crisis levels. The improvements in fiscal balances are more visible in advanced economies, not surprising though since these countries had much larger fiscal shocks. Although fiscal consolidation has begun in these countries, efforts at controlling debt stock have proven to be more difficult. For a number of emerging markets, debt stocks have already peaked. In the 2012 Medium Term Budget Policy Statement we also show that South Africa’s stock of debt will stabilise in 2015/16. Debt ratios for advanced economies in general continue to increase.

With this said and provided that global economy continues to grow at such a slow pace, countries should work towards rebuilding fiscal reserves in order to respond to future crises when they arise. There are obvious ways to reduce the fiscal deficit which may harm the already weak growth in many of these economies including expenditure cuts and tax increases. There are however, other measures that can be used to develop fiscal space without hurting the already fragile economies. Firstly, the improvement of revenue management and collection provides a big opportunity for countries in Africa to increase fiscal reserves and reduce dependency on foreign aid. By expanding the tax base in countries, governments will be able to continue to sustainably manage expenditure priorities and debt over the long term. African countries, especially resource-rich countries, continue to benefit from higher commodity prices, a very crucial revenue stream. Secondly, where aid financing is available, targeted programmes to improve investment will assist countries in reaching their growth potential and lower the cost of doing business on the continent. Thirdly, the availability of debt financing and the willingness of investors to provide finance at reasonable interest costs, will also determine the ability of countries to continue to finance fiscal priorities and infrastructure. Finally, and probably most importantly, the management of expenditure has an increasingly prominent role to play in the development of fiscal space. Are current expenditure plans optimal to the continent's goals for expansion and growth? And most of all are they sustainable? By addressing the efficiency and effectiveness of government spending, governments can improve the quality of fiscal deficits by focusing on areas of spending with the biggest multipliers for economic support, macroeconomic stability, and inclusive growth. In line with this, one of the medium-term objectives in our 2013 Budget Review is improving the impact of public spending by prioritising capital investment, and reducing waste and inefficiency.

The focus on improved fiscal management and sustainability will place countries on a sound footing for further growth and development over the medium to long term. Failure to manage dependence on aid financing and growing debt stock will ultimately lower the growth potential of countries and reduce their ability to respond to future fiscal challenges and economic crises. Issues of political risk, governance and regional integration must be managed in conjunction with fiscal considerations. The coordination of monetary and fiscal policy will support the management of commodity price volatility, inflationary pressures, stabilise interest and exchange rates and aid growth and development. The continued improvement in budget management systems, the development of medium-term expenditure frameworks, accountability, transparency and institutional capabilities for budget management and governance will also work towards strengthening authorities' ability to face challenges in the fiscal environment as they arise.

Over the next one and a half days, these issues will be discussed and debated at great length. It is my hope that this forum continues to provide participants with the opportunity to share experiences, ideas and build relationships that will benefit the development of fiscal institutions and capacity in governments to deal with fiscal challenges that arise in future.

In closing I would like to thank the European Commission and the USAID for the funding they have provided in order for National Treasury and the IMF to host these important discussions. In addition, thank you to the team of people from the Fiscal Policy Unit in the Budget Office of the National Treasury, the Fiscal Affairs Department and Africa Department of the IMF for all their hard work and efforts in pulling this event together. All the best for the forum and I hope that this will continue to inspire us to have many forums of this nature to take place on the continent.