NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

QUESTION NUMBER 349 [NO4341E]

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Dr D T George (DA) to ask the Minister of Finance:

(1) Whether he has put any contingency plans in place to deal with a continuing decline in revenue; if not, why not; if so, what are the relevant details;

(2) whether he intends to amend economic policy to adapt to changing global conditions; if not, why not; if so, what are the relevant details?

NO4341E

REPLY:

(1) The Medium-term Budget Policy Statement (MTBPS) presented to this House on 25 October explained the impact of lower tax revenues on the fiscus. This year, we expect tax revenue to be R729 billion, which is R13 billion below Budget estimate made in February.

Our countercyclical approach to fiscal policy allows for a temporary increase in borrowing to offset cyclical declines in revenue. The MTBPS projected that government debt will rise from 23 per cent of GDP in 2009 to about 40 per cent of GDP in 2015, which is still well within global norms for debt sustainability.

We were fortunate to have had the fiscal space to increase borrowing substantially at the start of the global crisis without threatening debt sustainability. Our deep and liquid domestic bond market has allowed us to increase borrowing in the domestic market, while keeping our external debt burden relatively low.

One outcome of the rising debt ratio is that debt service costs are now the fastest growing category of expenditure, meaning that higher borrowing in the future will need to be prudently managed. The fiscal framework outlined in the MTBPS, which sees the deficit falling from 5.5 per cent of GDP this year to 3.3 per cent by 2014/15, relies on an improvement in revenues as the economy recovers and slower growth in expenditure over the Medium Term Expenditure Framework (MTEF).

National Treasury routinely considers a range of scenarios and their consequences for policy formulation. The modelling work conducted by the National Treasury suggests that even under slower GDP and revenue growth, our level of national debt will stabilise, and fiscal sustainability will be achieved. Furthermore, the SARS management has put in place measures that will ensure that optimal revenue collections take place.

(2) The euro zone crisis has brought new financial challenges and threats to global growth. Instead of the gradual recovery in growth that we expected at the time of the Budget in February, we once again face the prospect of declining global trade, falling industrial demand, delays in investment, weak household consumption, and the renewed liquidation of businesses and stressed financial institutions. This time we face the added risk that fiscal austerity and aggressive consolidation in some parts of the world will extend the slowdown and deepen the crisis.

The crisis of leadership currently reflected in the Eurozone and in Europe is having a damaging effect on the global economy including our own. The leaders of Ireland, Greece, Italy and now Spain have paid a political price for their economic crises. The world expects Europe to urgently mobilise the resources required to recapitalise banks and support a durable restructuring of insolvent or debt laden economies. However, swift and decisive actions have not been taken. The failed debt talks in the US compound the challenges in the global economy further.

The South African government will continue to call upon European governments and authorities to act more decisively to build the necessary and credible “firewalls” that will prevent the contagion spreading even further and creating increased uncertainty and economic decline across the globe.

The Medium Term Budget Policy Statement acknowledged the considerable risks to the world economic recovery and the outlook for our own economy, and set out the fiscal and budgetary dimensions of the government’s response to what the head of the International Monetary Fund, Christine Lagarde has called “these dangerous times”.

At this point we do not see a need for additional policy changes, but we will closely monitor global developments in our preparations for the 2012 Budget to assess their impact on the economy.

The key elements of our macroeconomic response set out in the 2011 MTBPS can be summarised as follows:

- We have pursued an accommodative fiscal stance since 2009, in response to the global crisis and the recession. Revenue has fallen, but we have maintained real growth in expenditure, complementing the Reserve Bank’s support for the economy through lower interest rates and monetary easing.
- Recognising that our tax revenue collections have not yet recovered fully from the effects of recession, our counter-cyclical fiscal stance allows for the budget deficit to be reduced at a slower pace over the MTEF than previously anticipated.
- Next year government will spend about one trillion rand.

- The short-fall between expenditure and revenue will be financed through a temporary increase in borrowing. The projected doubling in the country’s debt burden to about 40 per cent of GDP in 2015, signals the substantial contribution of public spending to the economic recovery and growth.
- Over the MTEF, government will focus support towards infrastructure investment, job creation, social development priorities and an economic support and competiveness package.
- We will create a “policy reserve” to finance initiatives that support economic growth. Government has substantial financial investments, sometimes in surplus cash and sometimes in other assets. Where these resources could more productively be applied to our social and economic priorities, we will return surplus funds to the fiscus. Greater efficiency in government cash management and in goods and services procurement, where ordinary disciplines of financial management have to be strengthened, will further enhance the effectiveness of government’s expenditure. Further steps will be taken to reduce administrative costs and unnecessary duplication of capacity. Departments will be obliged to identify and report on savings initiatives. We will request the Auditor-General to strengthen his focus on value for money.
- The MTBPS also highlighted strongly that long-term sustainability depends also on shifting the composition of government spending from consumption to investment. Our aim is to strengthen infrastructure investment and maintenance, because this will improve the underlying growth potential of the economy. This means that we must see a moderation in the growth of the wage bill and spending on goods and services over the MTEF period ahead. We must do more with less.

The events unfolding in Europe pose a significant risk to the near-term performance of the South African economy. However, as the National Development Plan released by Minister Manuel shows, there are many domestic constraints that we should address to improve our competitiveness and promote the kinds of structural change that will lead to more rapid, inclusive growth within the context of a changing global landscape.

Towards this end, the MTBPS proposed an economic support package of R25 billion over the next six years to support competitiveness improvements and structural change through assisting enterprises to adjust to new market opportunities, technological advances, and a more challenging global environment. Further details will be included in the 2012 Budget Review.

We will continue to rigorously implement the plans outlined above to bolster the prospects of growth and job creation.