NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER3263 [NW3879E]

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Mr N J J van R Koornhof (Cope) to ask the Minister of Finance:

(1) How does the country's primary budget balance in February 2009 compare with the primary budget balance in February 2011;

(2) whether a decline in the budget is a cause for concern; if not, why not; if so, what steps will be taken by the National Treasury?

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REPLY:

(1) At the time of the budget in February 2009, the consolidated primary deficit was expected to be 1.4 per cent of GDP in 2009/10. As a result of the financial crisis, revenue came in roughly R66.4 billion below the budget target, resulting in a wider-than-anticipated deficit. The recently published 2011 Medium Term Budget Policy Statement (MTBPS) shows that the primary deficit reached 4.3 per cent in 2009/10, and is expected tonarrow to 2.9 per cent of GDP in 2011/12.

(2) The primary balance is an important determinant of a country's debt trajectory. Running a primary deficit for long periods of time can be problematic if it results in unsustainably high debt.

The acceleration in spending between 2007/08 and 2009/10, and falling revenue, resulted in a primary deficit. The moderation of spending, combined with a recovery in tax revenue, sets a clear and realistic path towards the elimination of this deficit – and stabilisation of debt as a percentage of GDP. Should the economy fail to recover as predicted, ensuring long-term fiscal sustainability would require a combination of slower spending growth and policy measures to raise tax revenue.

The 2011 MTBPS shows that South Africa's national net loan debt is likely to stabilise at around 40 per cent of GDP in 2015/16. While this is relatively low by international standards, Treasury will aim to bring down debt over the longer term in order to create the fiscal space to weather another downturn.