NATIONAL ASSEMBLY
QUESTION FOR ORAL REPLY
QUESTION NUMBER: 173 [NO2382E]
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★173. Mr N E Gcwabaza (ANC) to ask the Minister of Finance:

(1) Whether, with reference to the National Treasury's gross domestic product (GDP) forecast for 2015 which has been revised downwards with a projection growth of 2%, he has found that the current budget deficit as well as the debt-to-GDP ratio is within acceptable levels; if not, why not; if so, what are the relevant details;

(2) whether he is found that South Africa will be able to curb the growing budget deficit over the Medium-Term Expenditure Framework?

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REPLY:

After taking into account the lower GDP growth rate for 2015, government believes that the current levels of borrowing are manageable, but that the deficit must decline over the medium term in order to ensure fiscal sustainability.

The weaker growth outlook was a major factor behind the decision to reduce spending growth and raise taxes. Government reduced the expenditure ceiling by R10 billion in 2015/16 and R15 billion in 2016/17. The general fuel levy was raised by 30c/litre and the Road Accident Fund levy by 50c/litre. At the same time, marginal personal income tax rates were increased by 1 per cent for all taxpayers above the lowest income bracket.

At the time of the February budget, government stated that these interventions would narrow the deficit from 3.9 per cent of GDP in 2014/15 to 2.5 per cent of GDP by 2017/18. Government remains on track to achieve its medium-term targets. Net debt is expected to stabilise below 44 per cent of GDP in 2017/18. This is a sustainable level of debt, but government will have to reduce debt over time in order to generate fiscal space for responding to future crises.

As reported in the budget, there are major risks to the consolidation path including slower growth, the weak financial position of state-owned companies, and the new wage agreement. Government is working to ensure that the spending limits are maintained despite the wage agreement requiring additional spending of around R66 billion over the MTEF. A revised framework will be presented in the MTBPS.