NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
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1810. Dr M J Figg (DA) to ask the Minister of Finance:

(1) What is the National Treasury doing to stimulate the low levels of economic growth;

(2) what is the National Treasury's position with regard to the counter-cyclical approach to stimulate economic growth which was adopted under the former Minister of Finance?

NW2029E

REPLY:

(1) National Treasury supports other Government departments in ensuring the National Development Plan's objectives of higher growth and job creation are met. The Budget Review of 2015/16 outlines a number of measures being undertaken by National Treasury to boost growth, employment and investment.

Government has taken bold steps to reduce the pace of debt accumulation in order to keep borrowing costs in the economy low. Tax increases have been moderate, and government consumption has been reduced to create fiscal space to sustain public investment.

Infrastructure spending has been prioritised, with a total spending R813.1 billion over the next three years, particularly in the electricity, transport and telecommunication sectors
Support to State Owned Enterprises ensures the sustainability of public finances and public investment (see page 8 - 9 of the 2015/16 Budget Review).

The Employment Tax Incentive seeks to create new employment opportunities.

The effectiveness and efficiency of public sector investment in metropolitan municipalities is being improved. Please refer to Budget 2015, pages 9-10 for further information on this point.

More broadly, Government is improving economic policy coordination and implementation, and the development of partnerships between the public sector, business and labour. Regulatory obstacles that might hinder growth are being removed (see pg 6 – 7 of the Budget Review 2015/16) and the Industrial Policy Action Plan focuses on promoting investment and competitiveness in leading sectors and industries such as the green economy, the ocean economy and research and development.

(2) Countercyclical fiscal policy targets the ‘output gap’, which is the difference between the current level of economic output and the economy’s long-term potential level of output. A positive output gap implies that the economy is overheating, and fiscal policy should respond by increasing government savings. When the output gap is negative, fiscal policy should support the economy by widening the deficit. Government has behaved in a broadly counter-cyclical manner over the past 10 years by raising savings when the economy was booming in the mid-2000s, and running large deficits after the recession of 2009/10.

South Africa’s potential growth rate has been revised downwards due to lower long-term global growth projections and electricity supply constraints. Slower potential GDP growth implies that the output gap is fairly small implying that there is limited spare capacity in the economy to produce. This has two implications for policy: first, the level of output cannot be significantly increased by running larger fiscal deficits (i.e stimulating demand in the economy); second, the deficit will not likely be reduced by a cyclical upturn in taxes, implying that there is a structural imbalance between revenue and expenditure. Government will continue to provide some support to the economy by running primary deficits over the next two years. But the focus is now on narrowing the structural fiscal deficit, by raising taxes, slowing spending growth and putting in place measures to improve spending efficiency.