

# Fiscal policy since the financial crisis

Michael Sachs | Fiscal Policy | National Treasury  
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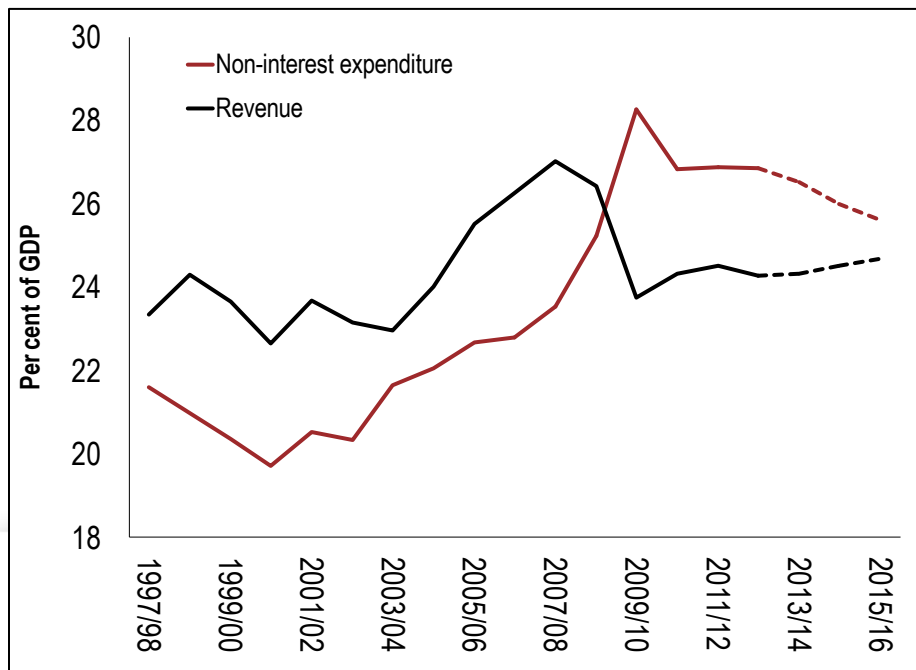
**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

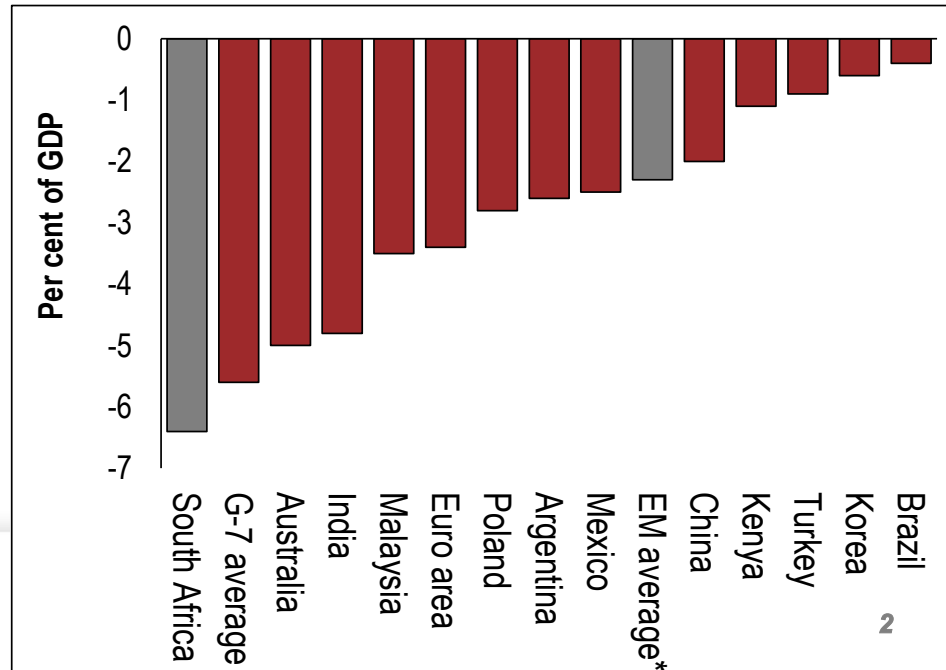
# A counter-cyclical response

- Like many other developing countries, South Africa was able to practice counter-cyclicality after 2008.
- Low levels of debt, built through consistent primary surpluses over a decade, meant considerable fiscal space.
- Despite the collapse in revenue, expenditure was sustained and increased.

Revenue and non-interest spending (1996/97-2015/16)

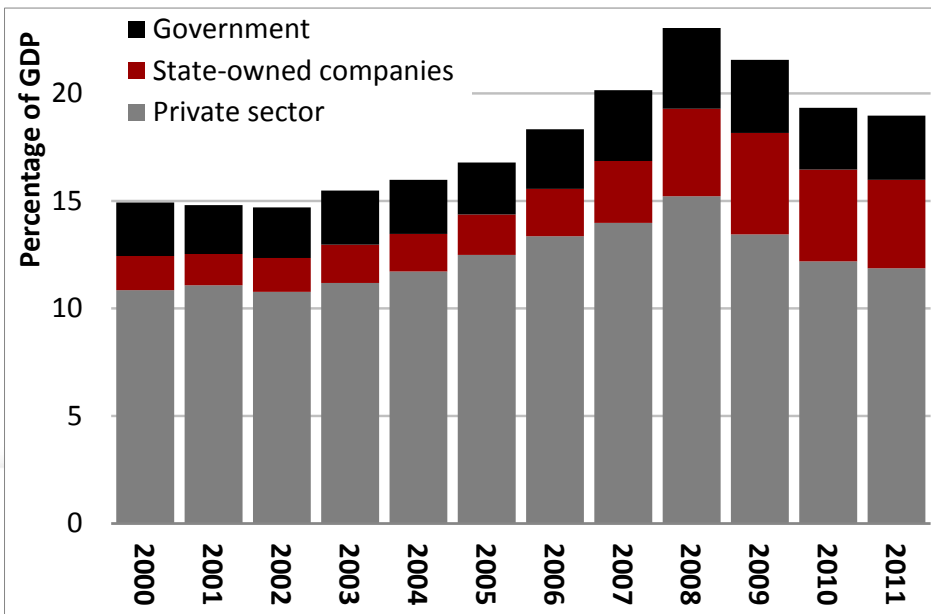


Change in the deficit (between 2007 and 2011)

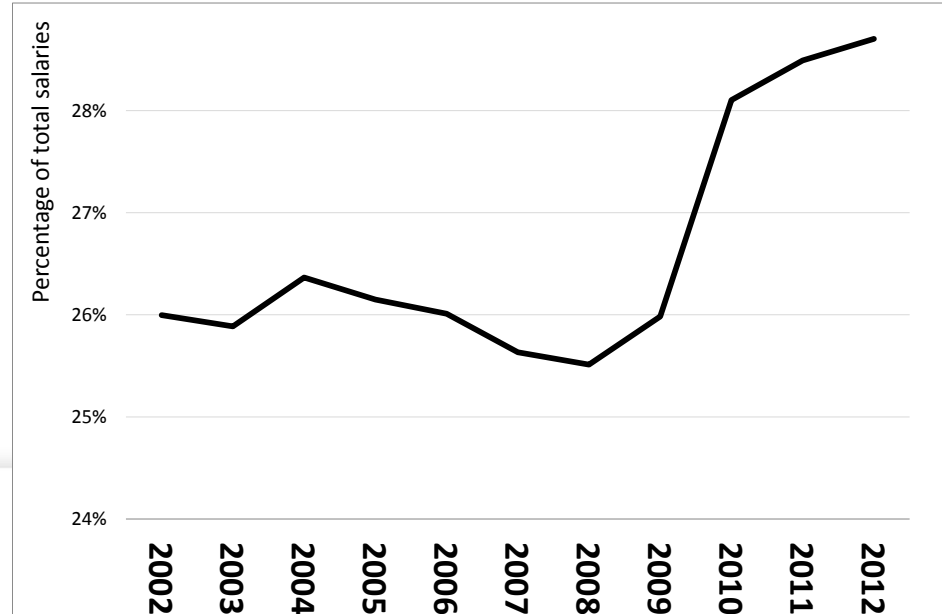


# Rising public investment and consumption

Public sector share of total investment

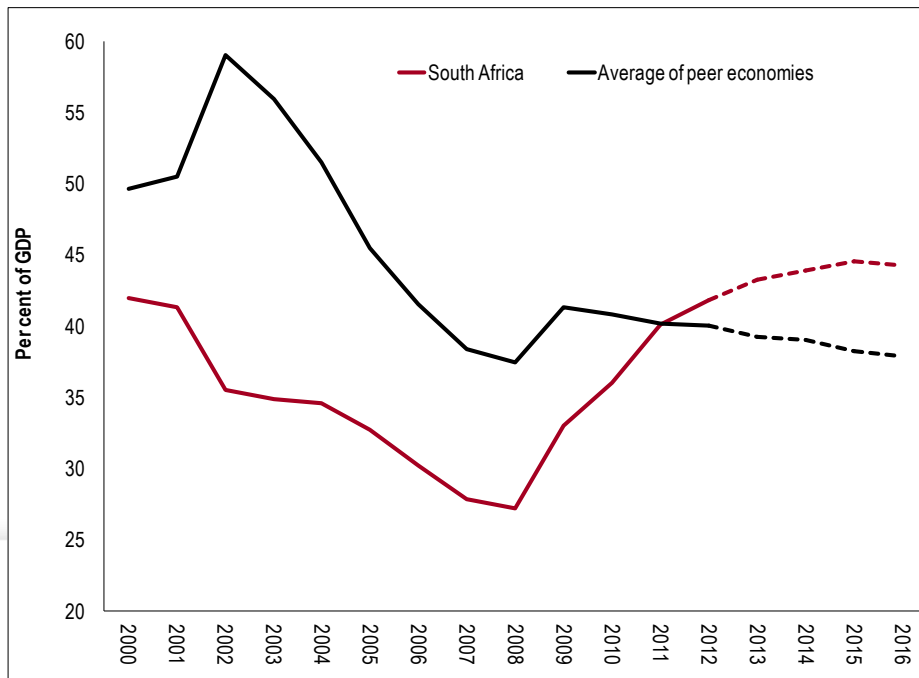


Public sector as a share of total salary bill

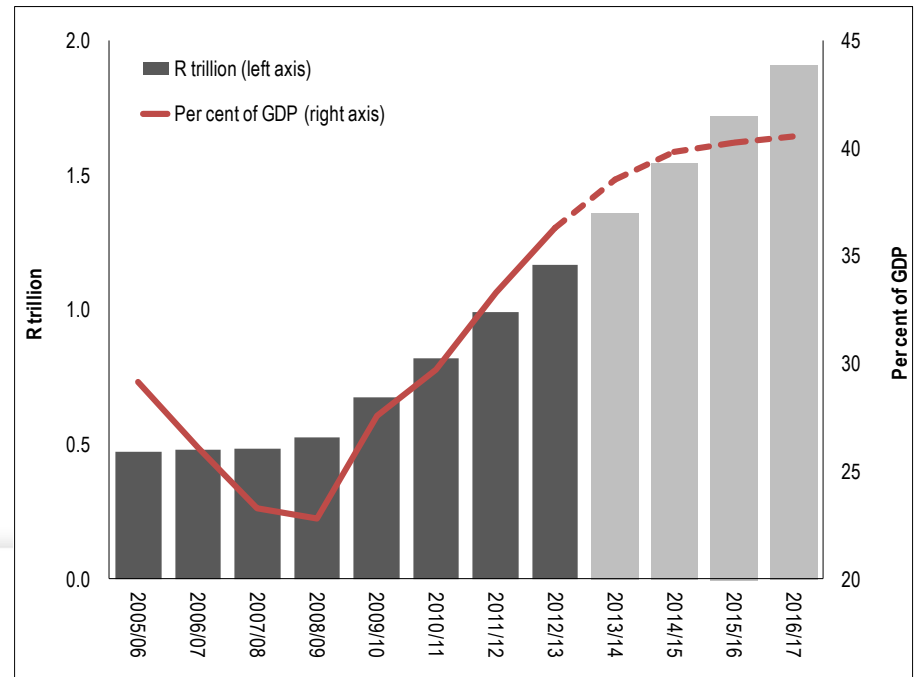


# Deteriorating debt position

**Fig. 9 Debt-to-GDP of South Africa compared with peer economies, 2000 – 2016**



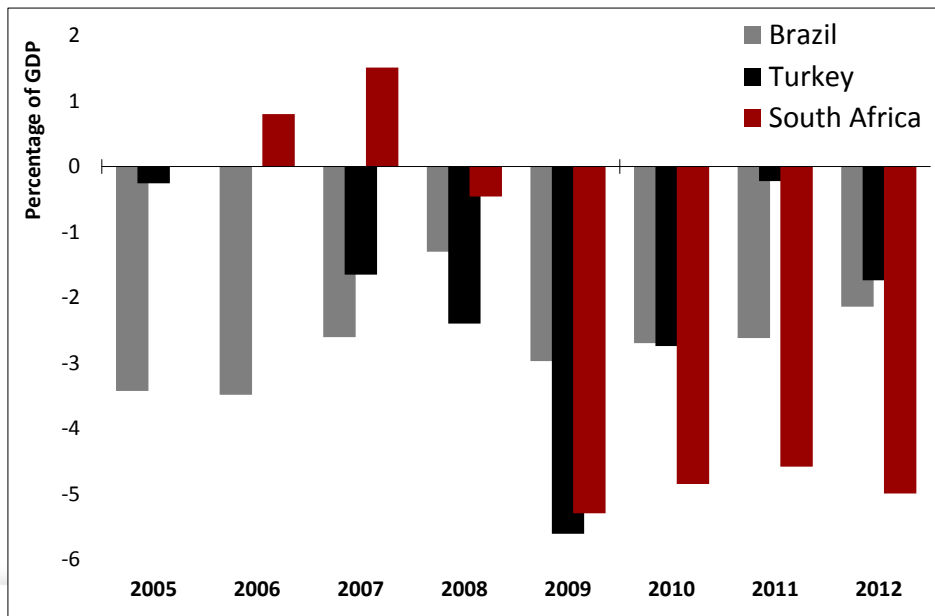
**Fig. 10 Net government debt of South Africa, 2006/07 – 2016/17**



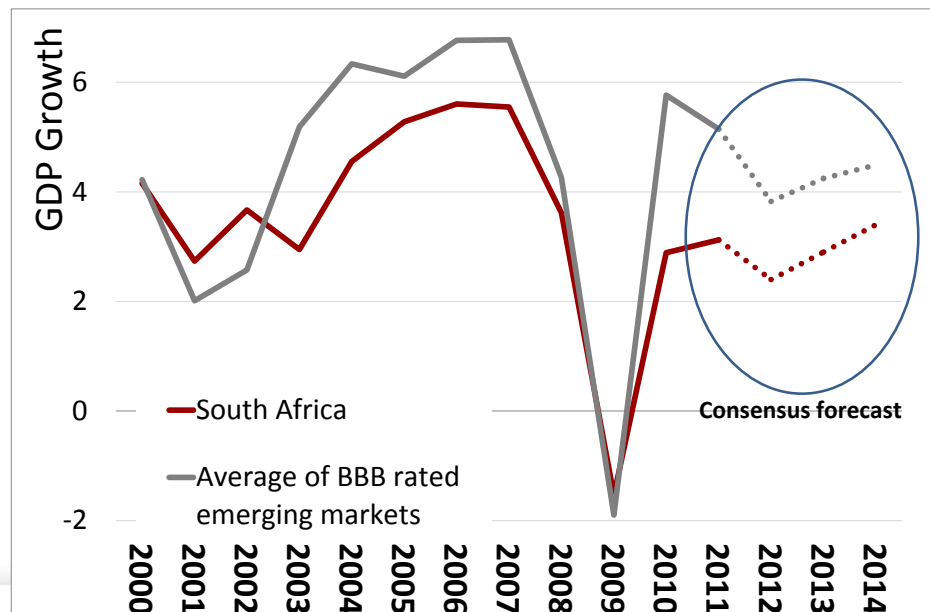
# But growth has disappointed

- Our fiscal policy has been much more expansionary than countries such as Turkey, Brazil or China.
- But the recovery in growth has disappointed ... and the picture is even worse if we look at jobs.

Budget deficit in SA, Turkey and Brazil (2005–2012)



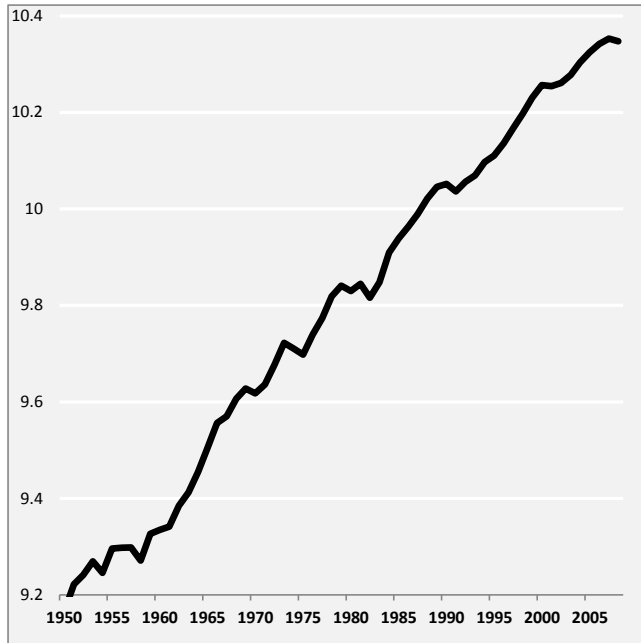
SA growth compared to BBB rated emerging markets



# The future trajectory of growth is uncertain

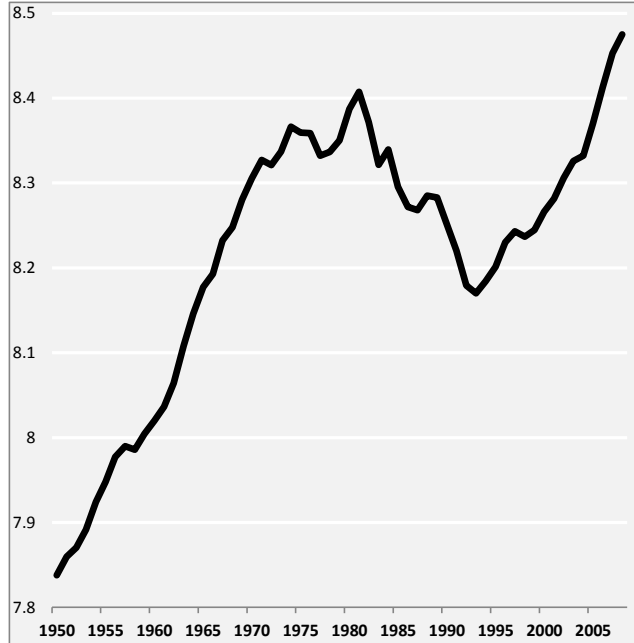
## United States

log of GDP per capita, 1950-2008



## South Africa

log of GDP per capita, 1950-2008



- Output gap is difficult to estimate in a country undergoing structural change (i.e. development)
- Should potential GDP growth reasonably be expected to return to pre-crisis levels?

# Discussion points

- Fiscal policy debates amongst economists are increasingly ideological. Monetary policy is becoming increasingly political.
- The most urgent issue is often the relationship between fiscal policy and short-term exogenous shocks (i.e. global volatility).
  - Poorly managed fiscal policy can derail or delay the process of growth and development.
  - The ability to sustain social spending and investment in the face of a global shock is a great achievement.
  - But the global shock of 2008 did not test African fiscal policy significantly, since the commodity boom sustained growth and there was no African recession.
  - Current global conditions (of low interest rates and high commodity prices) are also not severe. The real test will come in conditions of low commodity prices and rising interest rates.
- Fiscal sustainability is primarily a function of growth and development.
  - Sustainability has shifted from being a medium-term, developing country issue to a long-term advanced economy issue.
  - Good fiscal management (over the cycle) is a necessary but not sufficient condition for growth and development.
  - The most important fiscal policy issue in Africa is the impact of public finance on growth and development (long term, supply side).
- Globally, we are unsure about the size of the output gap in the present, and the trajectory of growth in the future.