

Long-term fiscal reports

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Overview

- Rationale behind long-term fiscal reports
- International examples: are long-term reports useful?
- Basis for South Africa's long-term report
- Difficulties in designing a long-term model
- Drivers of South Africa's fiscal outlook
- Overview of the South African model
- Preliminary results

Introduction

- Long-term fiscal projections provide a basis to discuss the sustainability of current public policies over an extended period (ten years or more)
- They model future government expenditures and revenues based upon a number of explicit demographic, macroeconomic, and microeconomic assumptions
- Such projections have been considered best practice for budget/ fiscal transparency for nearly a decade, yet their use is still limited to a relatively small number of industrialised countries.

Purpose of long-term fiscal reports

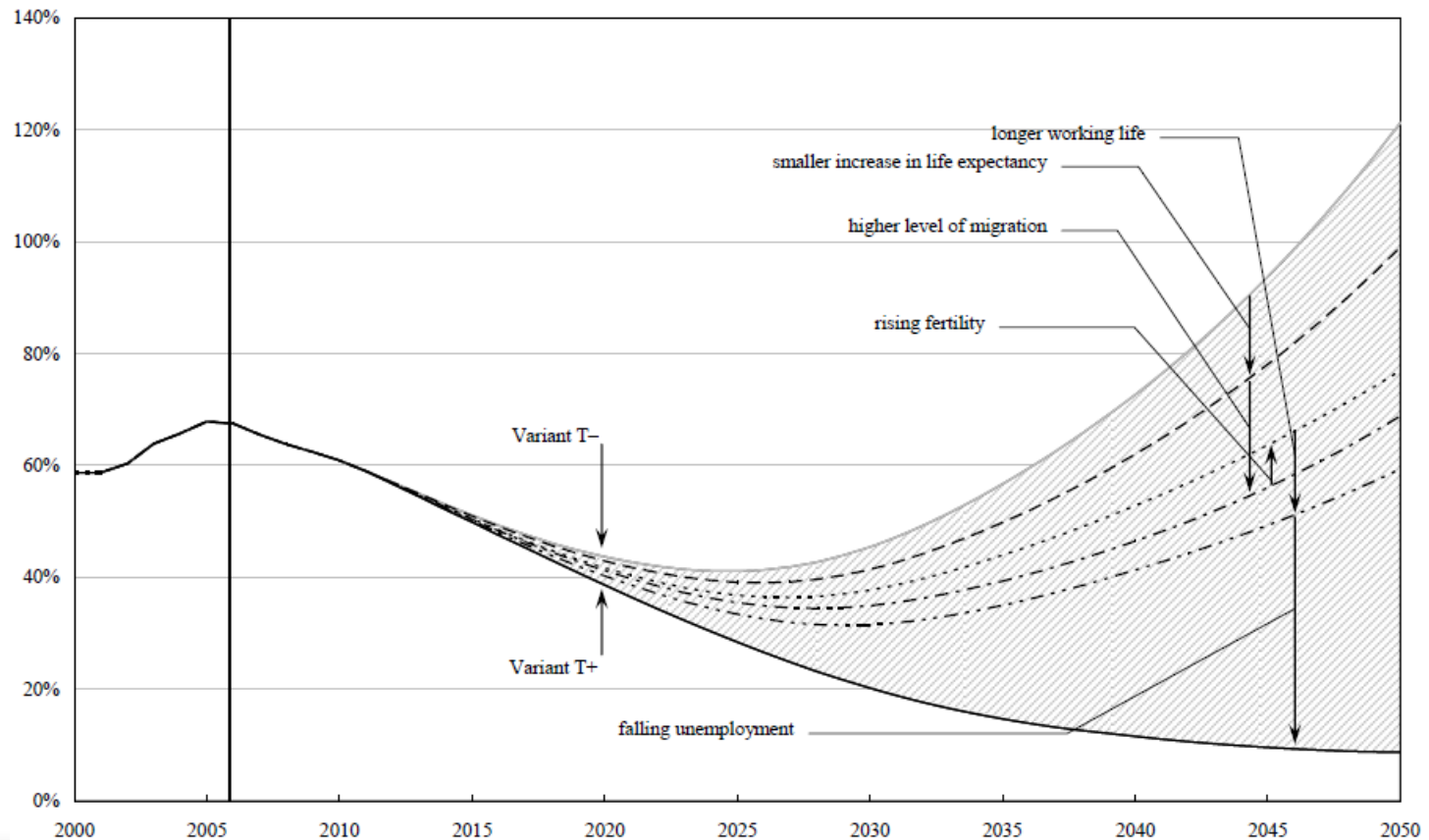
- Promote debate and enhance transparency around the budget process
- Balance political pressures for short-term spending against fiscal pressures and risks over an extended time horizon
- Make explicit the longer-term costs of existing policies
- Illustrate the fiscal consequences of reforms or policy options
 - Most reports are concerned with the effects of aging on social security and health systems

International examples

Country	Title of Report	Source	Time horizon	First Report	Freq.
AUS	Intergenerational Report	Treasury	40	2002	Every 5 yrs
CAN	Working papers	Dept of Finance	40	2000	<i>Ad hoc</i>
DEN	EC Convergence Report	Min of Finance	Until 2050	1997	Every 5 yrs
GER	Sustainability of Public Finance	Min of Finance	Until 2050	2005	Every 3 yrs
KOR	Vision 2030	Min Planning & Budget	25	2006	<i>Ad hoc</i>
NET	Aging & the Sustainability of Dutch Public Finances	Central Planning Bureau	Until 2100	2000	<i>Ad hoc</i>
NZ	LT Fiscal Position	Treasury	40	1993	Every 4 yrs
NOR	LT Perspective	Min of Finance	50	1993	Every 4 yrs
SWE	Sweden's Economy	Min of Finance	Until 2050	1999	Annually
SWI	LT Sustainability of Public Finances	Fed Dept of Finance	50	2008	Every 4 yrs
UK	LT Public Finance Report	Treasury	40	1999	Annually
USA	LT Budget Outlook	CBO (Congress)	75	1992	Every 2 yrs
USA	LT Fiscal Outlook	GAO (Audit Institution)	75	1992	3 times/yr
USA	LT Budget Outlook	OMB (President)	75	1971-97	Annually

International examples

Germany: Debt-to-GDP ratio



Usefulness of long-term reports

United Kingdom:

- Contributed to the policy debate on long-term economic issues
 - Promoted pension reforms and supported spending reviews
- Supported cross-departmental work, ensuring that departments are “joined-up” on a range of issues
- Created a small and dedicated unit with a very good overview of public finances matters, providing general advice to colleagues across government
 - This would later form the backbone of the Office of Budget Responsibility

Sweden and Finland:

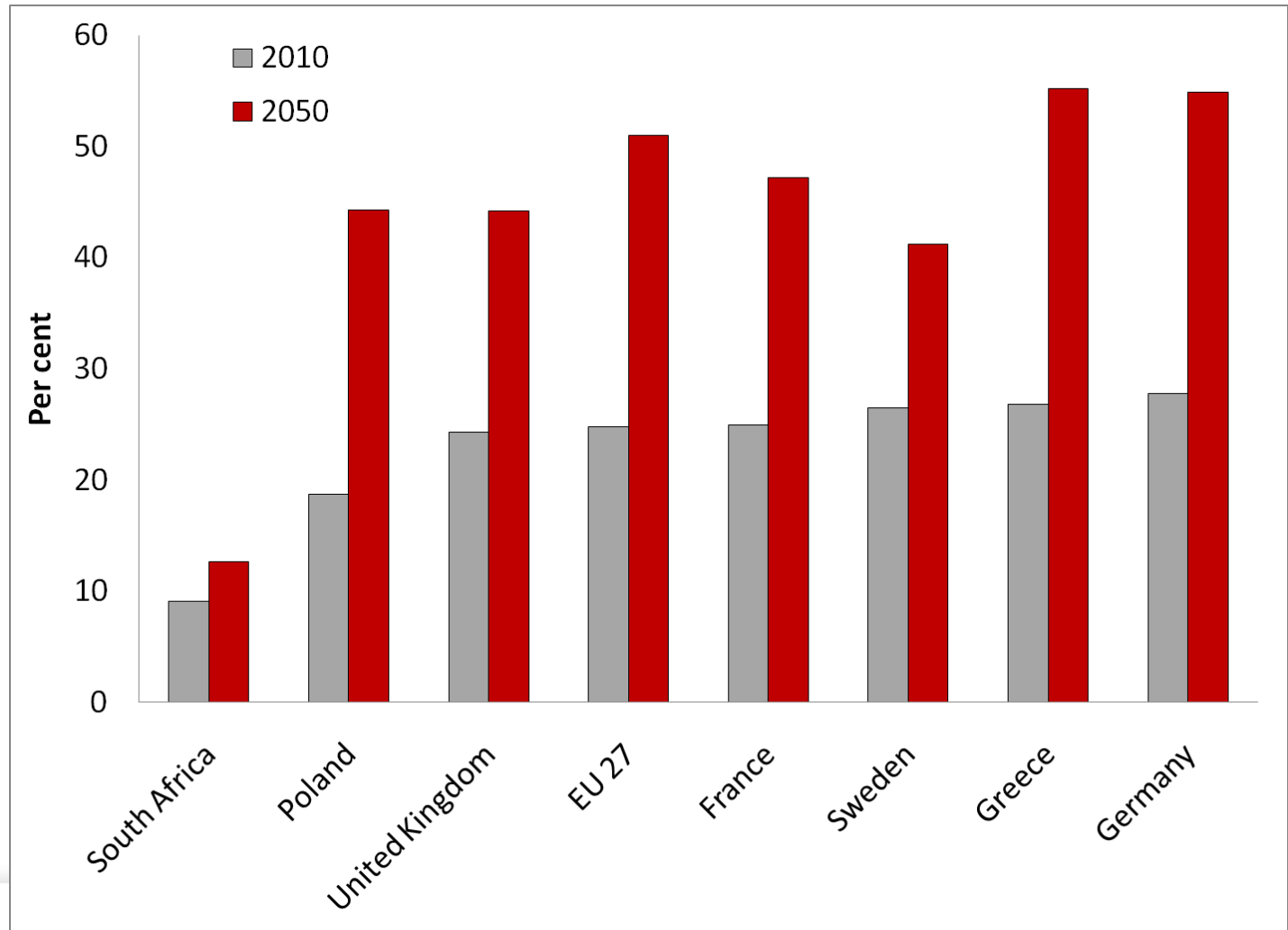
- Generated significant debate, and focused political energy on reforming social security systems

South Africa's long-term report

- Part of a broader set of institutional reforms
- Introduced the Fiscal Guidelines in 2010 which argued that fiscal policy should be set according to the principles of:
 - Counter-cyclicality
 - Debt sustainability
 - Intergenerational fairness
- Aim of the report is two-fold:
 - Review the sustainability of our current spending plans
 - Foster debate about the policy trade-offs facing South Africa, in light of the National Development Plan

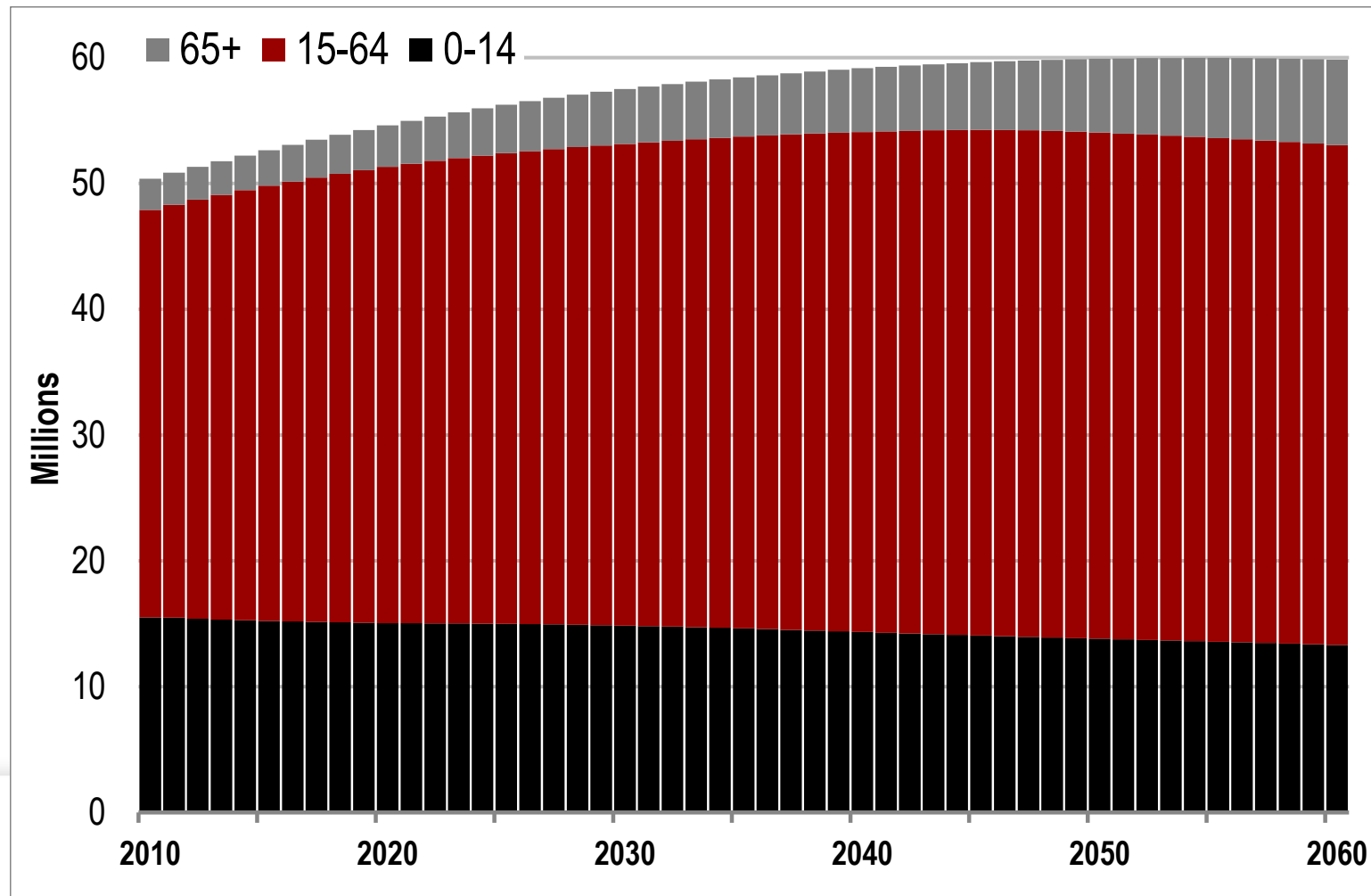
South Africa is a young population, and does not face the same challenge of 'aging' as in developed economies

Comparison of old age dependency ratio, 2010 and 2050

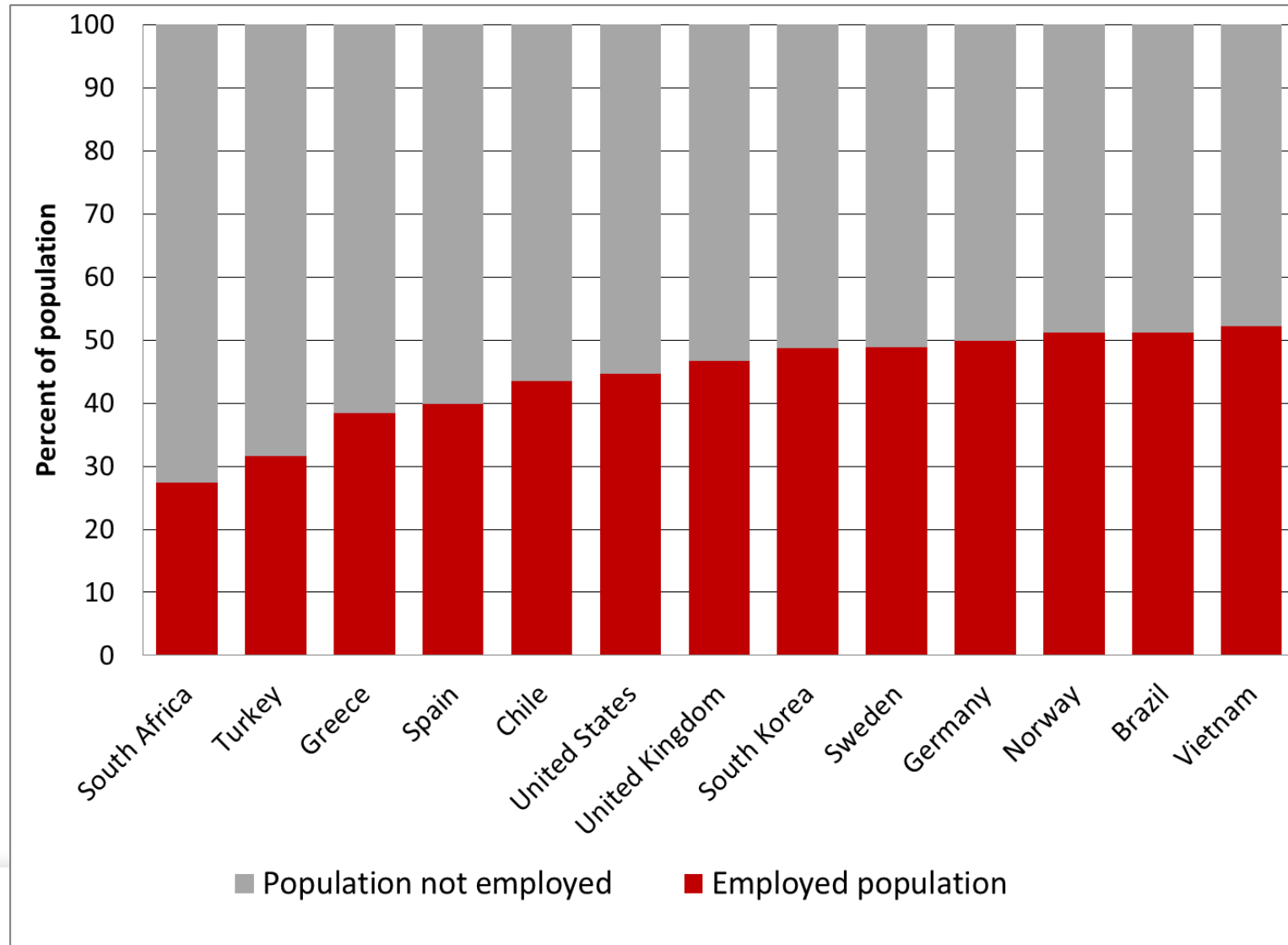


Source: Euphix and own calculations

Age structure of the population

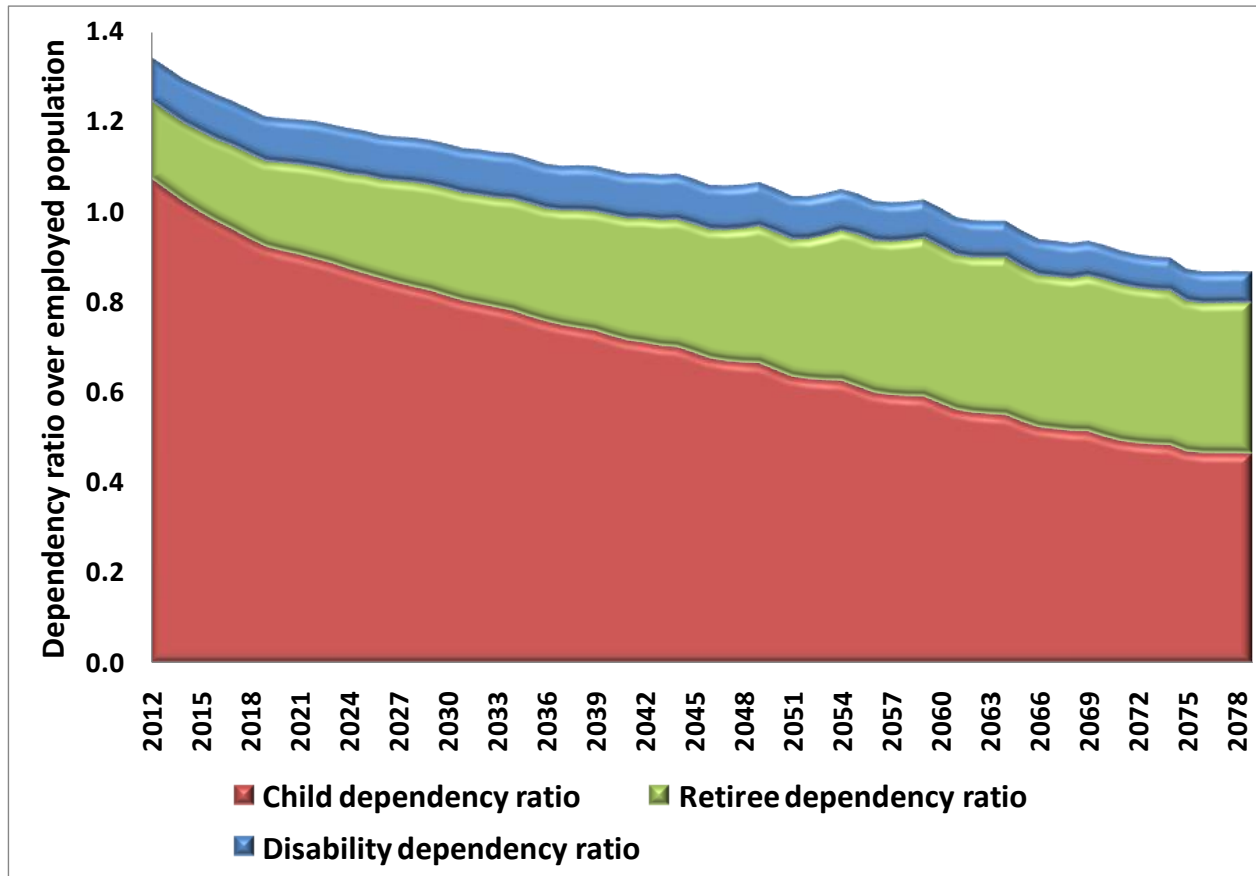


High levels of unemployment limits our tax base



High overall dependency ratio of non-working to working

South African dependency ratio forecasts



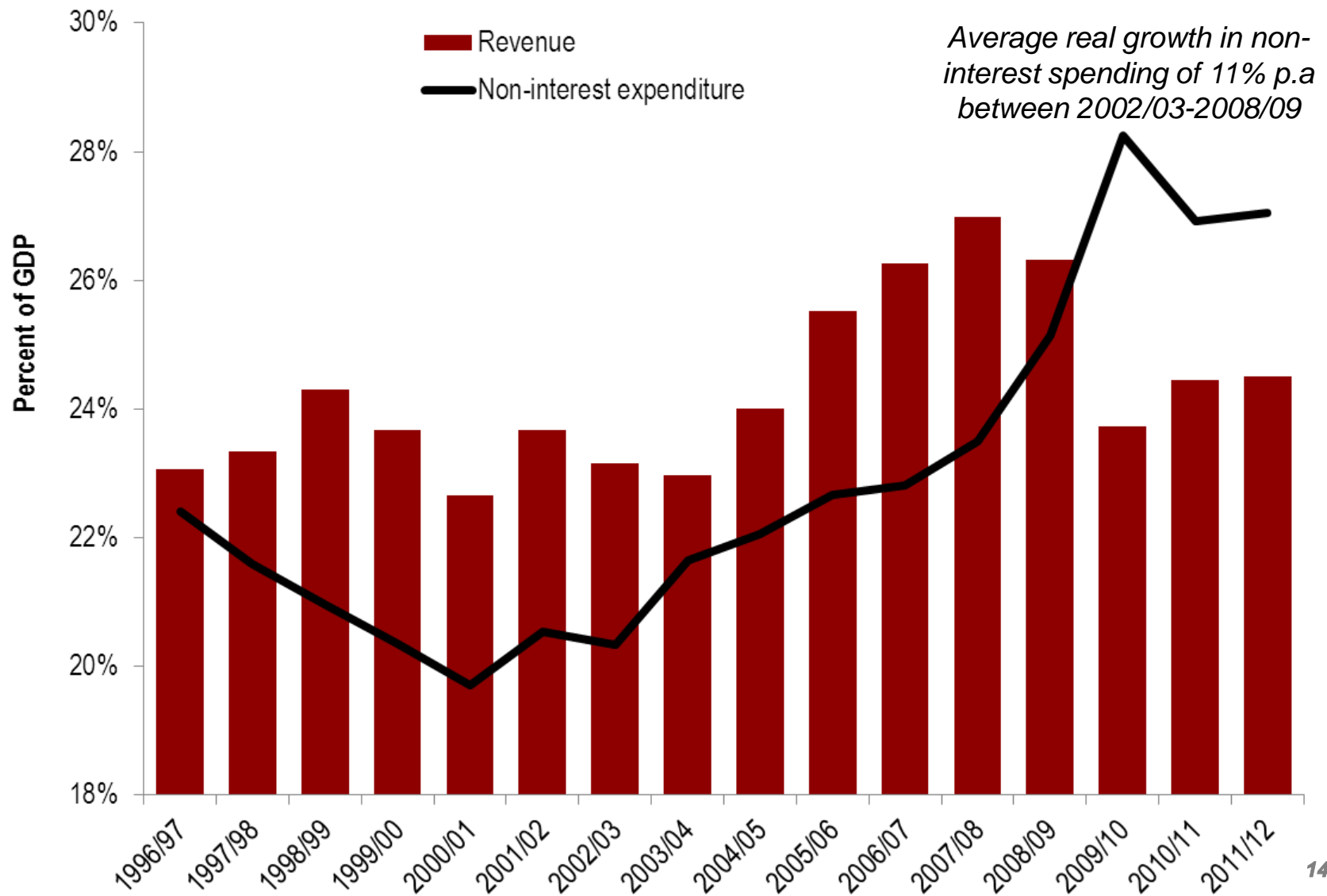
Source: Social security and retirement reform project

- The ratio of non-working age to the employed population is very high (1.3 to 1 in 2012)
- Child dependency likely to decline, while old-age dependency likely to grow
- General demographic trends are favourable, assuming we grow the employed population

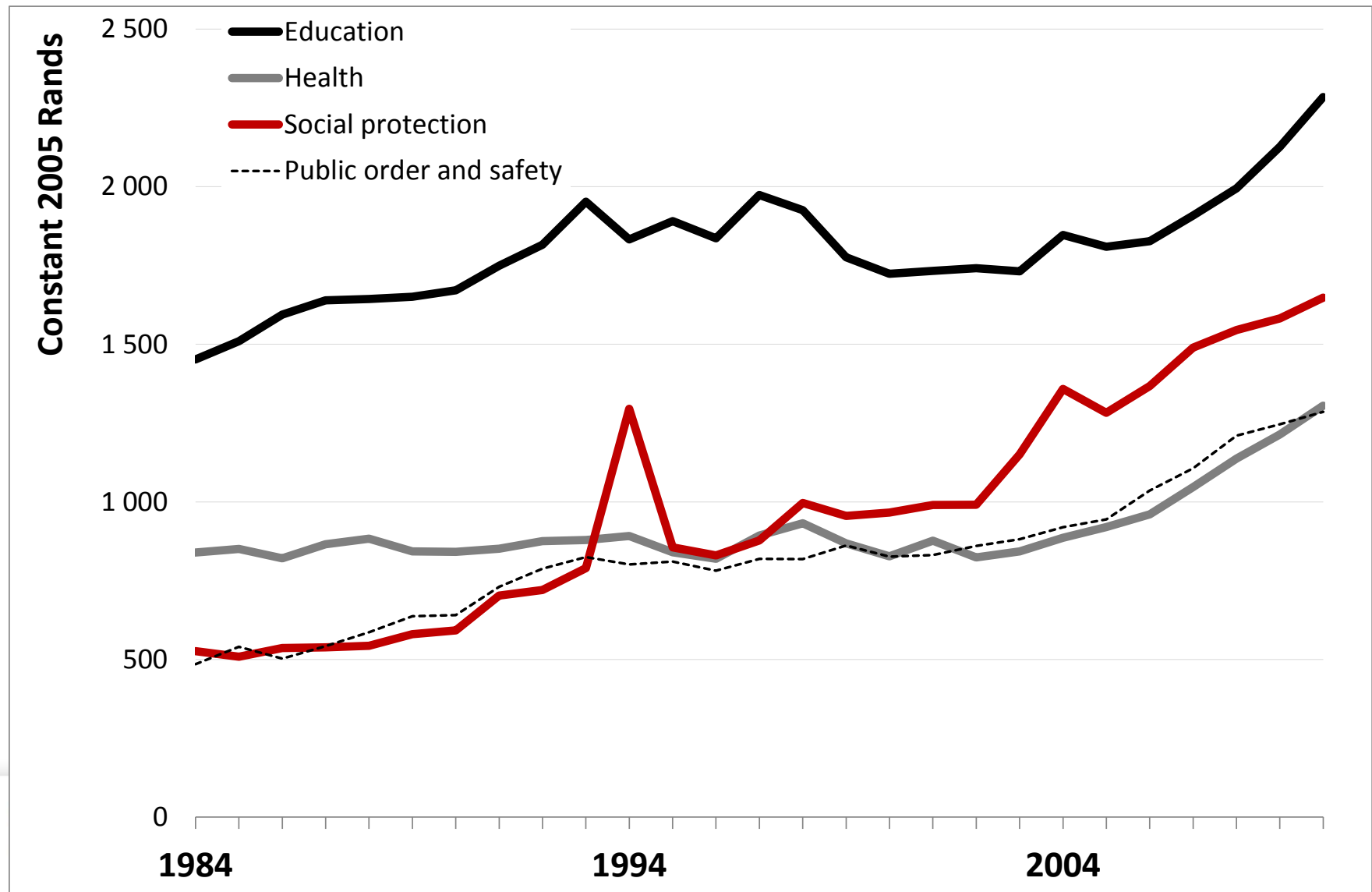
Difficult issues

- Forecasts vs. projections
- Projecting from a time of deep structural change
- Defining ‘unchanged policy’ assumption
 - Policy intent vs. policy practice
 - Recent growth rates or share of income
- Feedback effects

Government spending has also grown sharply since the turn of the century

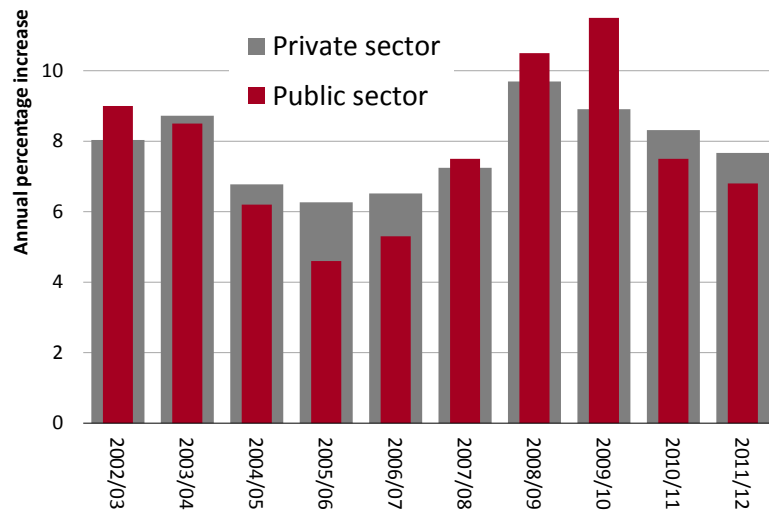


Projections from an era of structural change



Wages, prices and excess cost growth

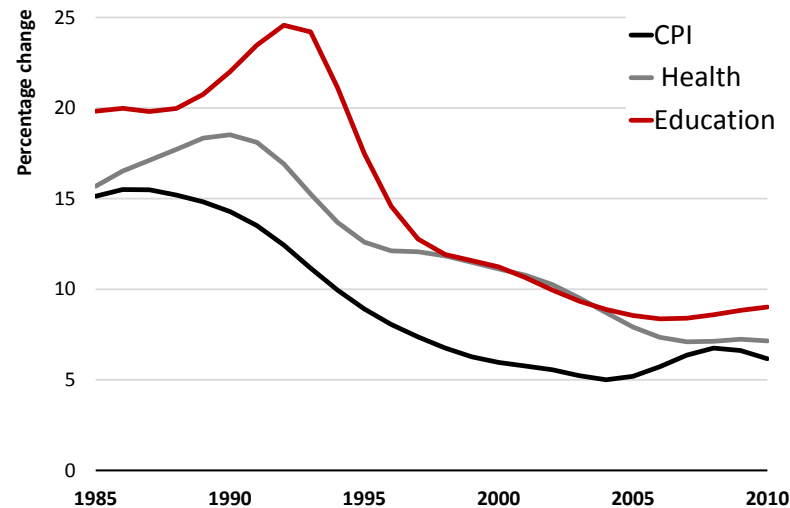
Public and private sector wage settlements, 2002/03–2011/12*



* Private sector settlements are for calendar years

Source: National Treasury, Andrew Levy Associates

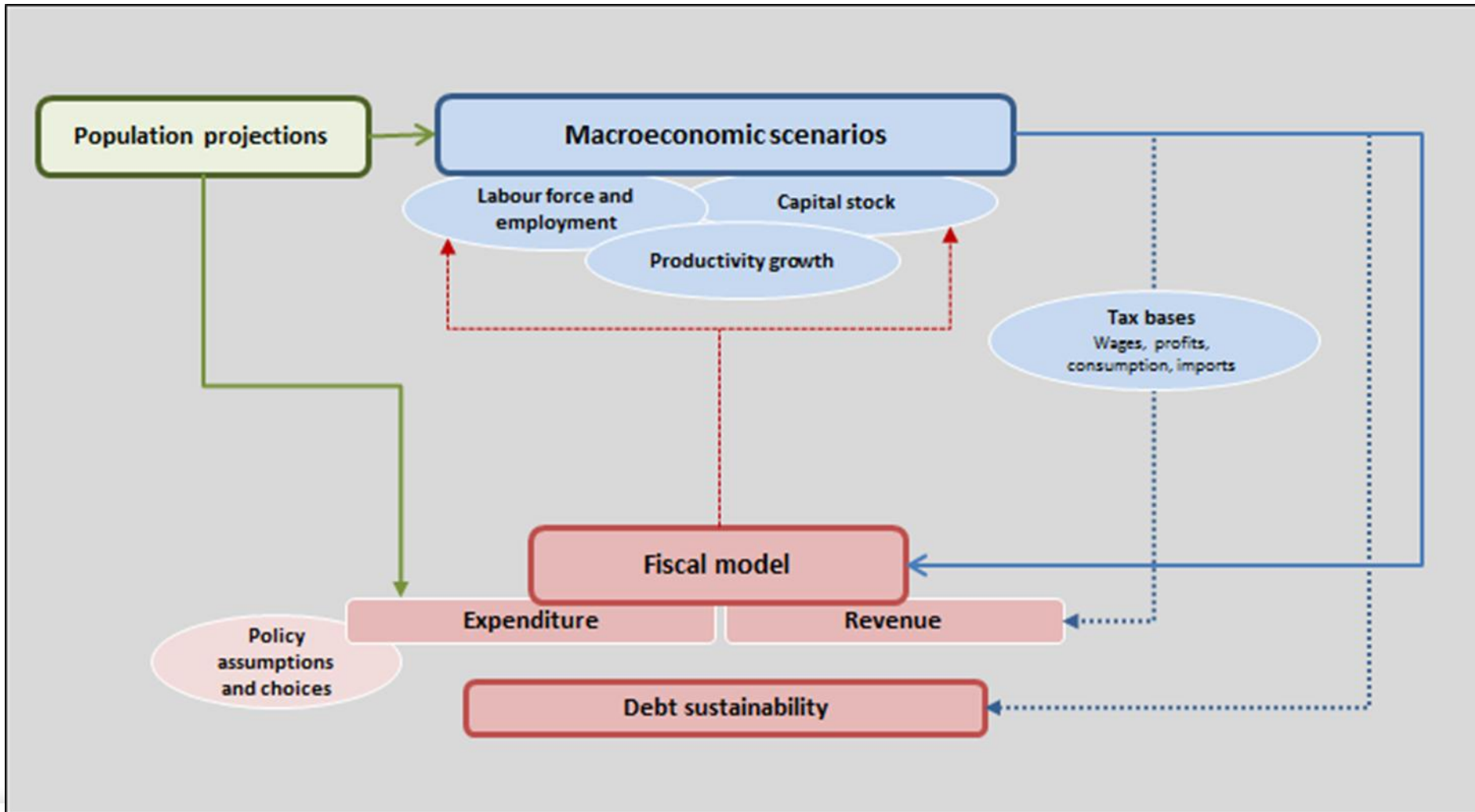
CPI, health and education inflation, 1985–2010*



* Inflation rates are smoothed with a statistical filter.

Source: StatsSA data

South Africa long-term model



Preliminary findings

Current fiscal policy and spending mix is sustainable, but would remain vulnerable unless government rebuilds fiscal space by reducing the debt-to-GDP ratio

- Pressure that social grants place on the fiscus will begin to decline over the next decade
- Government spending on health will continue to rise as a share of GDP in coming decades, even without reforms.
- As the school-age population begins to decline, resource pressures on the basic education sector will ease

New projects like National Health Insurance will require much faster growth, expenditure shifts, or increases in taxes

Thank you

