

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 2218 [NW2575E]
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2218. Mr M G P Lekota (Cope) to ask the Minister of Finance:

- (1) Whether the National Treasury had (a) refinanced debt in order to keep up its rate of spending at any stage from 1 January 2009 up to the latest specified date for which information is available and (b) undertaken any exercise, with independent verification, to assess to what extent the heavier borrowings by the Government in the specified period had served a clear countercyclical purpose as is shown by economic growth taking the country out of the trough it was into a higher gradient; if not, why has the national debt risen so rapidly to its present level; if so, what (i) are the details and (ii) impact will the refinancing of debt have on the fiscus in the next four years in a market where the cost of borrowing will have risen;
- (2) whether, in pursuit of achieving intergenerational equity, the Government is keeping young South Africans fully informed of the repayment burden that is being shifted to them to settle?

NW2575E

REPLY:

- 1) (a) Government borrows money to finance the main budget balance and maturing debt. To partly mitigate refinancing risk – the risk that government will not be able to raise money to finance the budget deficit and repay debt at any scheduled point, or will have to do so at high cost – government also makes use of a bond-switch programme to ease pressure on targeted areas of the bond redemption profile by exchanging short-term for longer-term debt. Between 2008/09 and 2014/15, government switched R203 billion short-term debt (domestic bonds) for longer-term debt.

(b) (i) National Treasury estimates the impact of fiscal policy on economic growth. Internal estimates of the fiscal multiplier are in line with published South African peer-reviewed journal articles, which find that fiscal stimulus has a fairly significant short-term impact on growth.

As was the case for South Africa, many governments had estimated in 2010 that the economy would quickly recover to pre-crisis growth rates. Countercyclical stimulus was expected to reduce the time it would take for economies to return to potential levels of output. These growth projections proved to be over-optimistic; a secular decline in global growth delayed fiscal consolidation and produced rising levels of debt.

Countercyclical policy can influence short-term deviations from trend growth, but cannot be used to address structural declines in output. Many governments have grappled with the fiscal implications of a global slowdown in growth. In South Africa's case, potential growth 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, with two implications for fiscal policy: first, the level of output cannot be significantly increased by running larger deficits; 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. The focus of the 2015 Budget is on narrowing the structural fiscal deficit by raising taxes, slowing spending growth and putting in place measures to improve spending efficiency.

(b) (ii) Government is paying interest at an average coupon/interest rate of 10 per cent on the debt which needs to be refinanced over the next four years. It is projected that this debt will be refinanced at a lower average coupon/interest rate of 9 per cent.

- 2) The 2015 Budget is aimed at ensuring long-term fiscal sustainability, which is a defining feature of intergenerational equity. The budget also aims to change the composition of borrowing, in order to ensure that government debt is used to fund expenditures with a long-term impact.

Government has stated that there is a long-term (or structural) imbalance between revenue and expenditure, and is addressing this imbalance by raising taxes and reducing the rate of expenditure growth. The bulk of the slowdown in spending growth has been targeted at government consumption, with the current deficit (i.e. the gap between revenue and consumption spending) projected to close in 2015/16. Government is protecting capital expenditure, which remains the fastest growing area of non-interest spending. These three elements of the budget are likely to improve the intergenerational fairness of fiscal policy.

Government reports on the long-term implications of its fiscal choices. The 2015 Budget Review includes estimates of the debt outlook and debt repayments up to 2020/21. In addition, the main findings of the long-term fiscal model are available on the Treasury website. The long-term model's main finding is that current social spending policies are sustainable over the next three decades.