

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 950 [NW1117E]

950. Mr G G Hill-Lewis (DA) to ask the Minister of Finance:

Whether, in light of the fiscal pressures facing the economy and the commitment of the National Treasury to implement zero-based budgeting, the National Treasury has ever considered and/or is considering the implementation of (a) a balanced budget amendment to the Constitution of the Republic of SA, 1996, which requires that the State cannot spend more than its income or any similar amendment, (b) budget balance rules that require the primary budget balance to achieve a net balance of zero over a specified period of time or any similar rule, (c) debt rules which require the Government to place a growth ceiling on consolidated government debt or any similar rule, (d) expenditure rules that require government to place a growth ceiling on government expenditure or any similar rule and/or (e) revenue rules that require the Government to abide by certain limitations as it pertains to raising and introduction of taxes or any similar rule; if not, why not; if so, what are the relevant details?

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REPLY:

- a) The National Treasury is not proposing amendments to the Constitution.
- b) The National Treasury is not proposing a balance budget rule but the 2021 Budget sets out a fiscal framework that targets a debt stabilising primary balance in 2024/25 with debt as a share of output stabilising in 2025/26. The spending ceiling announced in February 2021 remains a key fiscal anchor.
- c) No, a debt rule is inappropriate because small changes to debt projection assumptions can have a very significant impact on the long-run debt outlook. Projections of debt are very sensitive to assumptions about future rates of economic growth, interest rates, exchange rates and the long-term path of the deficit. Unexpected increases in inflation or depreciation of the

exchange rate would increase the cost of outstanding inflation-linked or foreign-currency bonds. A debt rule would encourage pro-cyclical fiscal policy stances which would worsen the conduct of fiscal policy.

- d) Government already has an expenditure ceiling. It sets a maximum level of expenditure to which the government has committed itself. The ceiling is applied to national government departments and excludes spending that is financed from dedicated revenue sources other than the National Revenue Fund. The ceiling has helped to significantly slow the growth of non-interest expenditure.
- e) No, government's tax policy objectives are set out in chapter 4 of the 2021 Budget review. Tax rates are influenced by projections of government spending and borrowing and the nation's debt stock and a single numerical revenue rule would be inappropriate. Within this framework, tax policy must also consider the effect of taxes on economic growth; the behavioural response of taxpayers; inequality and fairness; and revenue administration capacity. Short-term tax policy changes factor in the state of the economy. Over the medium term, tax policy changes seek to create an environment that is conducive to broad-based economic growth and that avoids complicated incentives for specific sectors or groups of taxpayers. Progressivity will be enhanced by restricting deductions for the wealthy and increasing overall collections through improved administration.