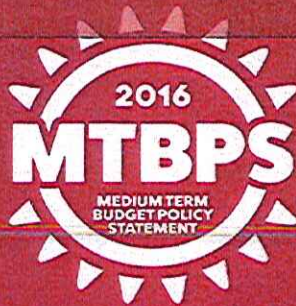
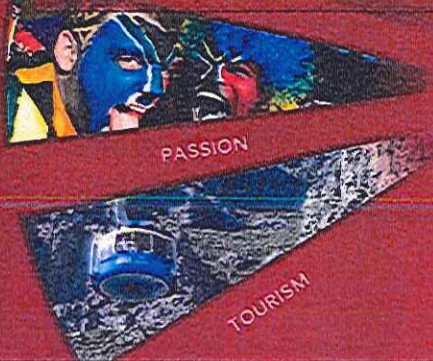


Response to questions and discussion in the joint standing and select committees on finance

Michael Sachs | DDG: Budget Office
Parliament | 4 November 2016

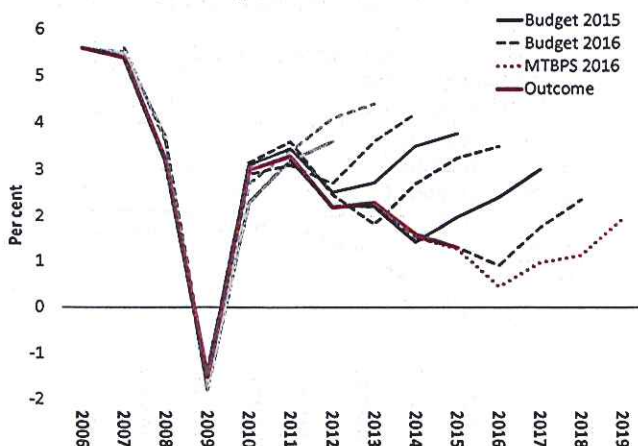


national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

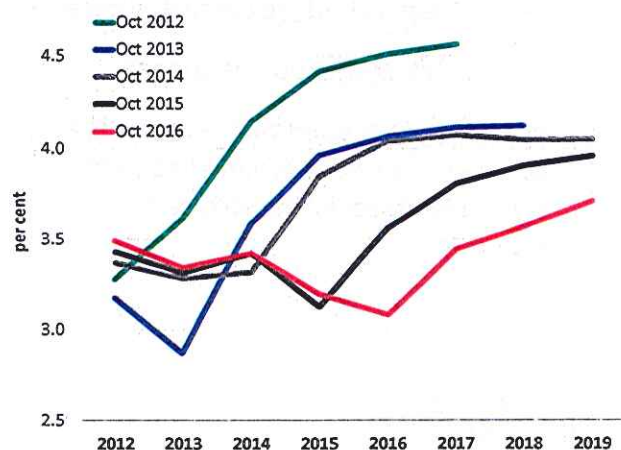
Growth forecasting

- National Treasury forecasts are on par with or better than those of private sector forecasts and the IMF.
- Economic models have a tendency to assume a “return to equilibrium”
- But the future “equilibrium” is highly uncertain and forecasts are usually wrong
- They are nevertheless indispensable to a medium-term budget framework.

National Treasury forecasts



IMF forecasts



Assumptions are very important

Table T.1 Assumptions underpinning the macroeconomic forecast, 2016 – 2019

	2014	2015	2016	2017	2018	2019
Percentage change (unless otherwise indicated)						
	Outcomes		Projections			
Global growth¹	4.8	4.1	3.9	4.1	4.3	4.4
Commodity prices²						
Brent crude (US\$ per barrel)	100	53	43	51	54	56
Gold (US\$ per ounce)	1 266	1 160	1 272	1 337	1 352	1 366
Platinum (US\$ per ounce)	1 385	1 055	1 015	1 078	1 086	1 093
Iron ore (US\$ per ton)	97	55	54	47	42	35
Coal (US\$ per ton)	72	57	60	63	62	61
Inflation³						
Food inflation	7.6	5.1	10.5	7.5	5.4	5.4
Investment³						
Real public corporation investment	0.7	3.5	0.4	0.5	2.1	2.3
Real government investment	8.5	14.6	4.6	5.3	4.2	5.0

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, October 2016)

2. Source: Bloomberg futures prices on 9 September 2016

3. National Treasury estimates

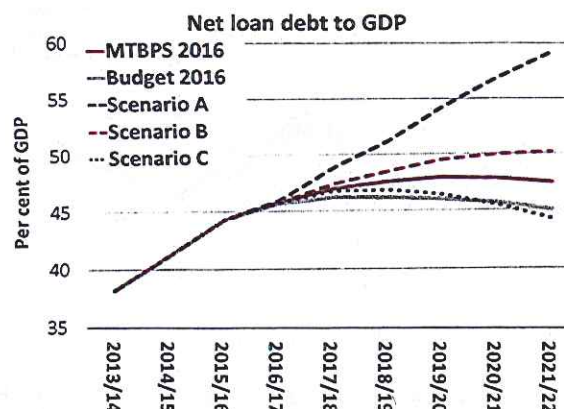
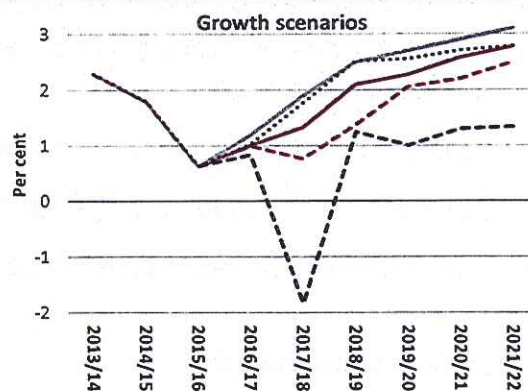
Source: National Treasury



3

Risk scenarios and fiscal outcomes

- The fiscal risk statement published in the MTBPS is one way to take uncertainty into account
- It shows several growth scenarios:
 - A: long term decline in trend growth
 - B: heightened global turbulence
 - C: stronger export response
- Assuming that spending remains the same we can then project the debt trajectory associated with each scenario.

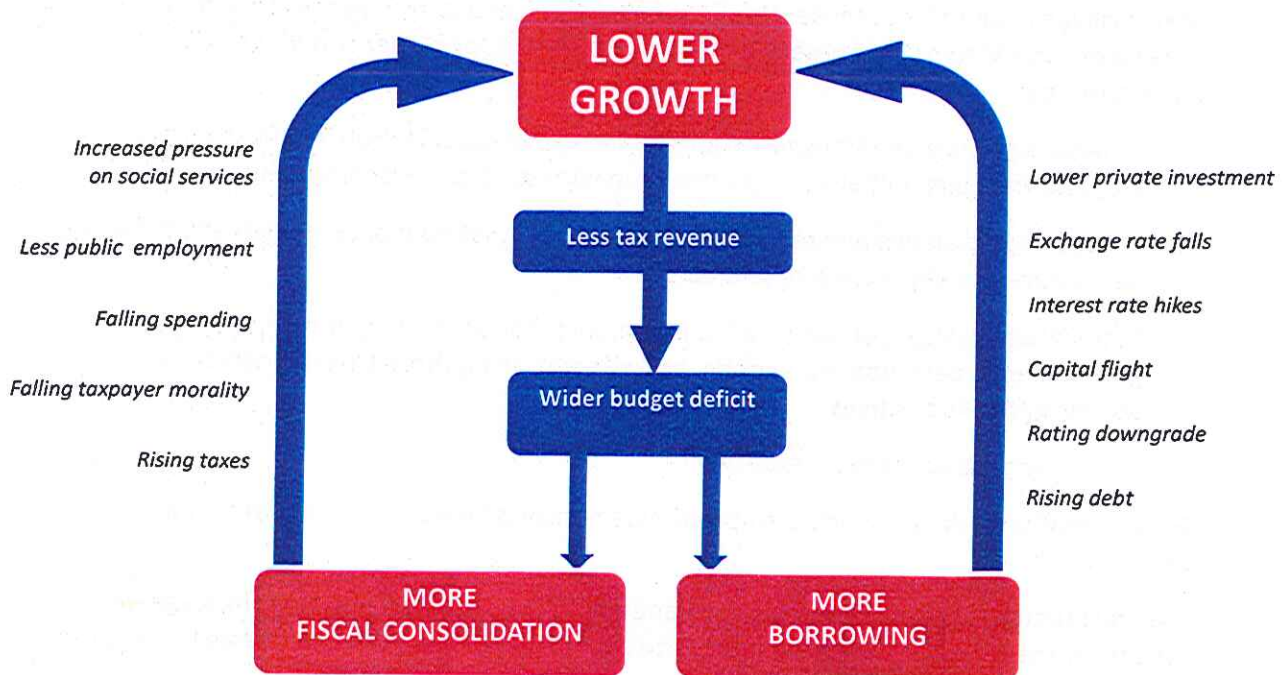


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Fiscal challenge: Avoiding a low growth trap

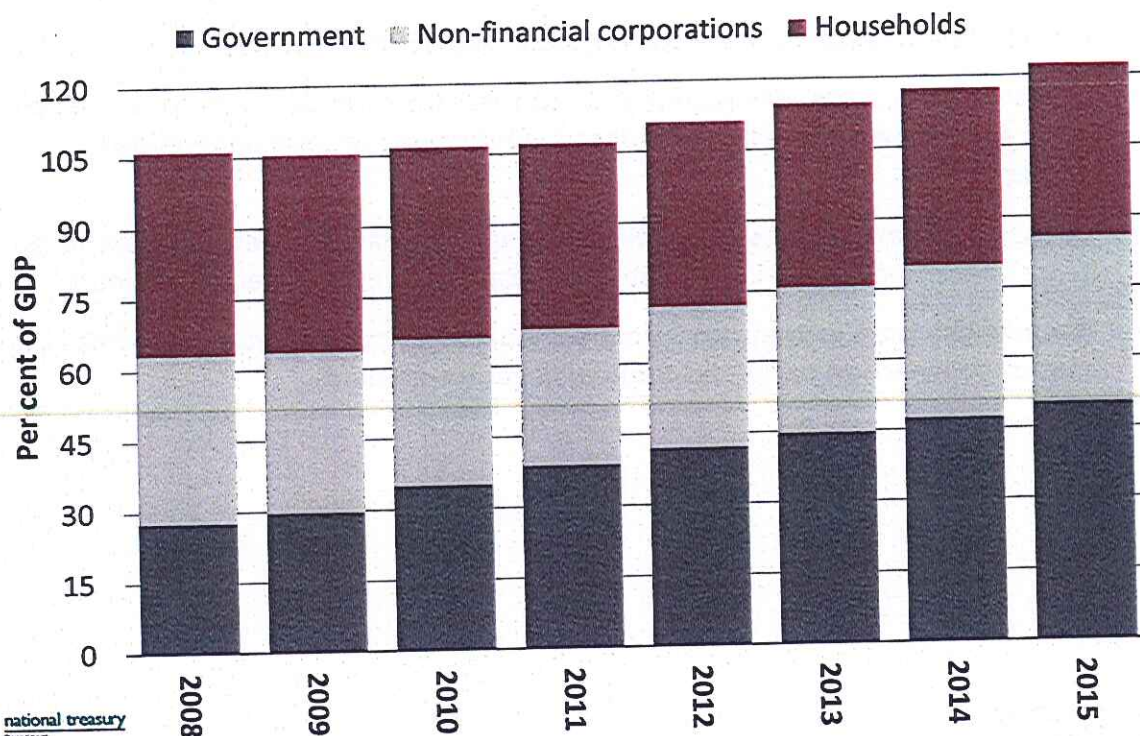
- The MTBPS makes it clear that challenge we face is to avoid a low-growth trap
- Further deterioration of the economy could lead South Africa into a low-growth trap.
- In this scenario, weak GDP growth produces less tax revenue. Fiscal consolidation that is too aggressive may bolster confidence, but further may also undermine the economy.
- Taking no action could result in ratings downgrades, capital flight, rapid exchange rate depreciation and a spike in interest rates, resulting in even lower growth outcomes.
- **To avoid this trap, government proposes a balanced consolidation. This needs to be supported by action to rebuild confidence for investment.**

Fiscal dilemma in a low growth, high debt environment



Building confidence to leverage private balance sheets

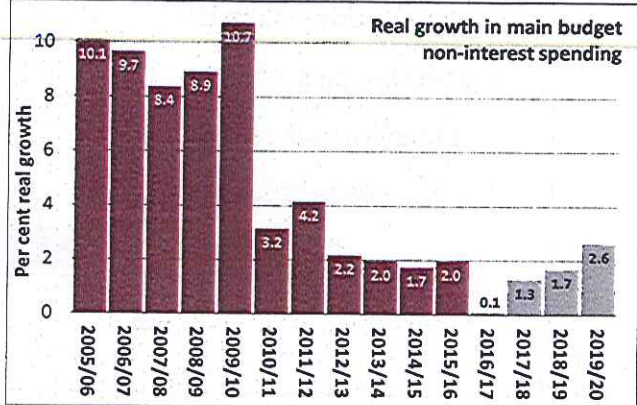
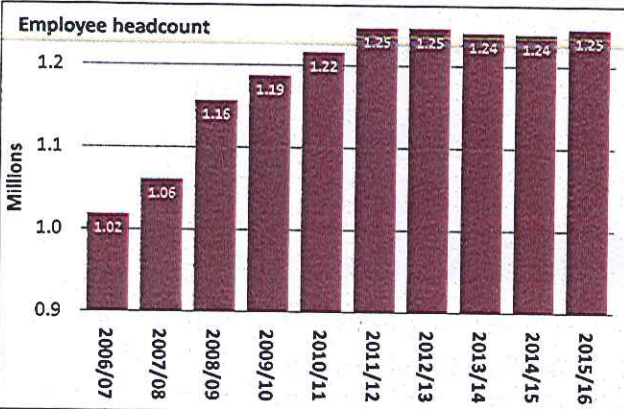
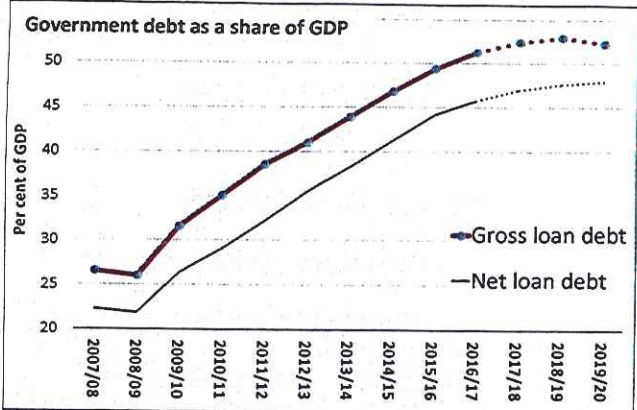
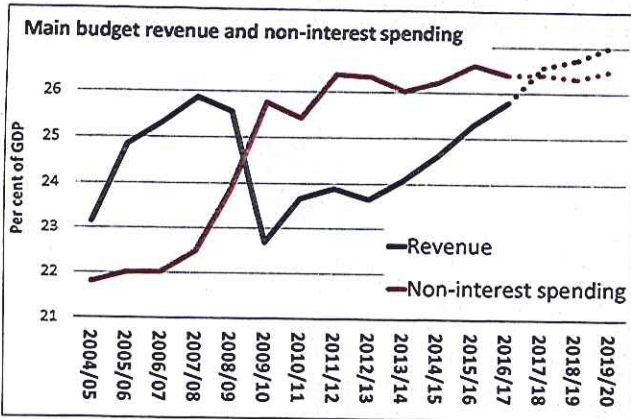
Gross debt of South African institutions as a share of GDP



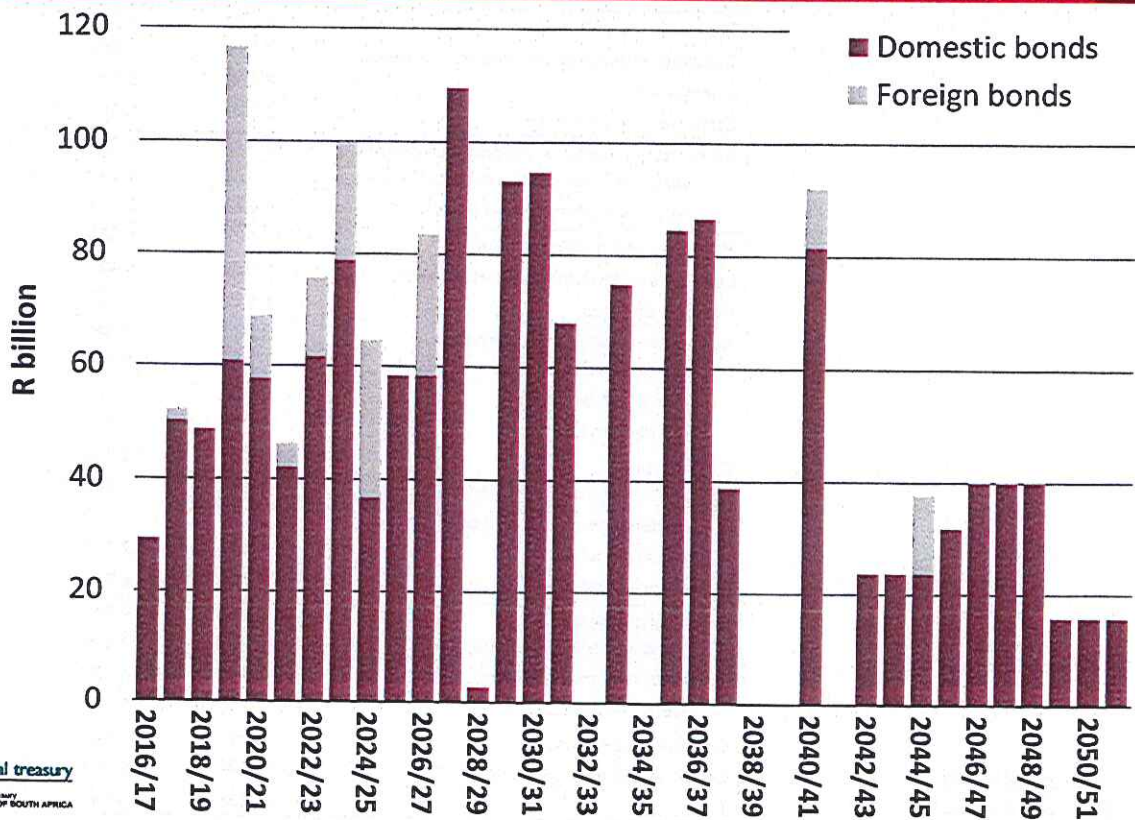
A package of actions to restore confidence

- Maximising the benefits of these developments for the economy depends on decisive actions to restore confidence. Government is creating conditions for higher confidence and investment by:
 - Finalising a regulatory framework for private-sector participation in infrastructure projects, including initiatives in partnership with state-owned companies
 - Addressing legislative and regulatory uncertainties that hold back investment in mining, agriculture and key technology sectors
 - Rationalising, closing or selling off public assets that are no longer relevant to government's development agenda, and strengthening those that are central to achieving NDP objectives
 - Concluding labour market reforms.
- Government is working in partnership with business and labour to build a foundation for faster growth.
- The Presidential Business Working Group and the CEO Initiative are generating targeted support to the economy by creating funds to support small business and offering internships to 1 million young work seekers.

A measured fiscal consolidation

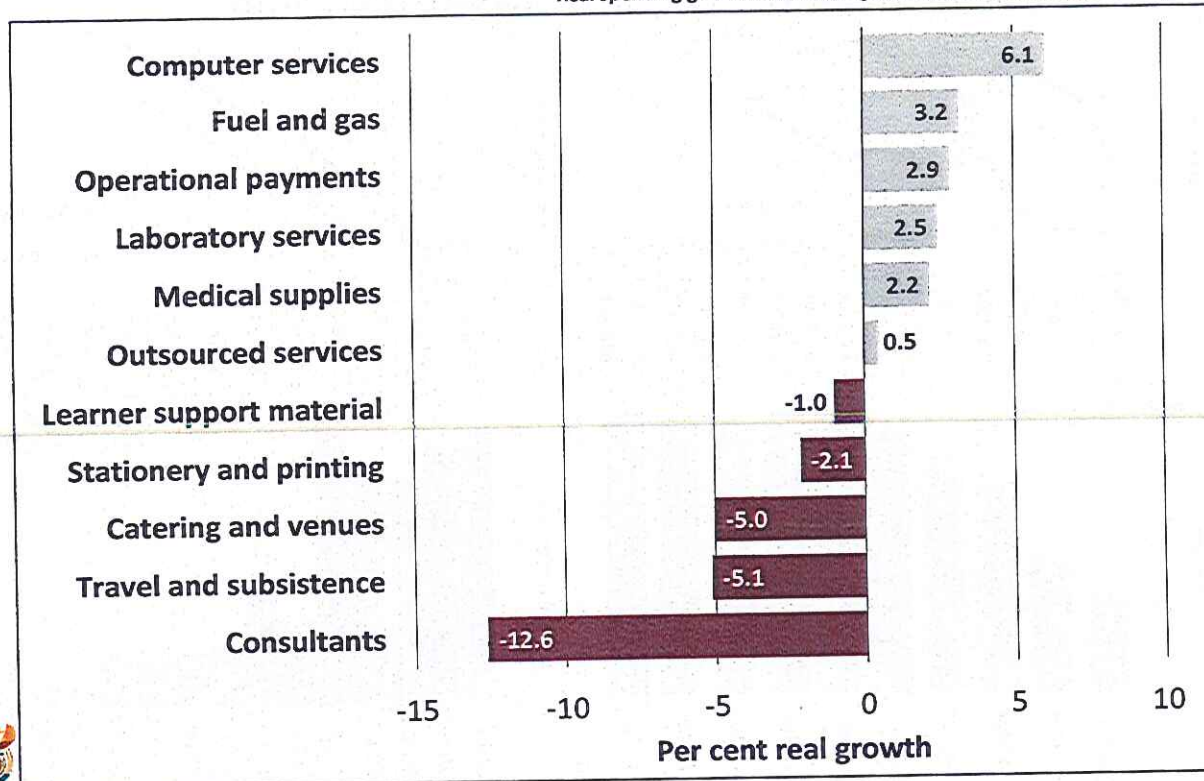


Maturity profile of long-term government debt



Containing spending on non-essentials

Real spending growth in selected goods and services: 2012/13-2015/16



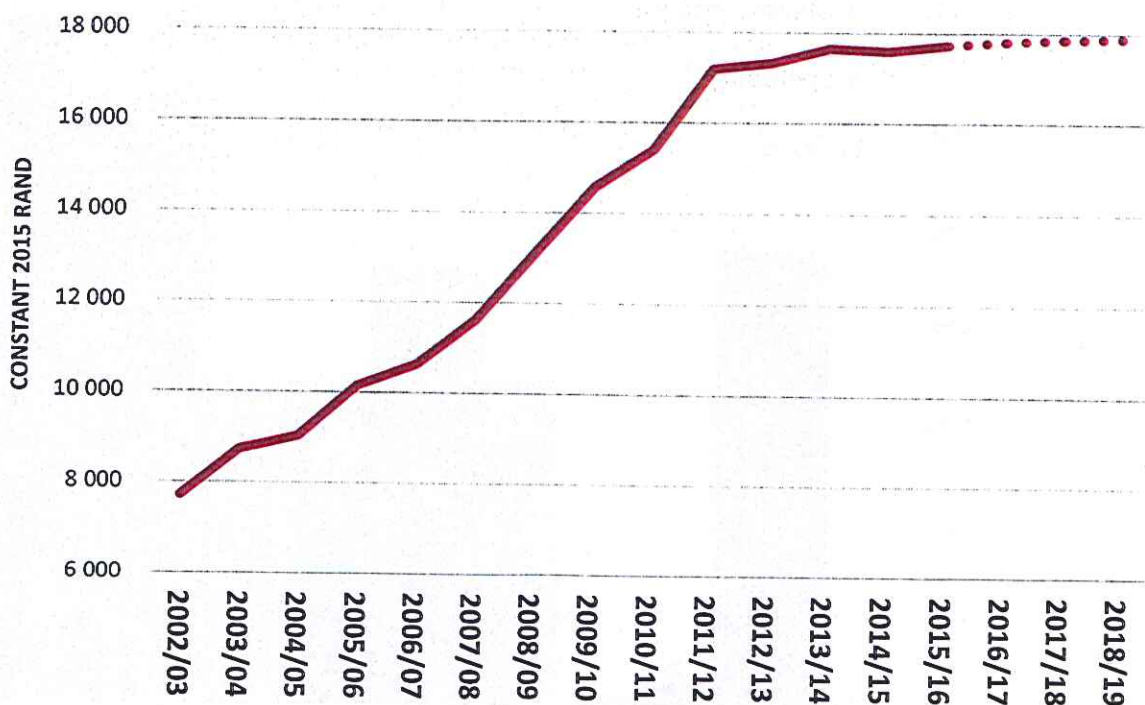
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R million	2012/13	2015/16	Average annual real growth 2012/13-2015/16
	Actual Expenditure	Preliminary outcome	
Travel and subsistence	9 732	9 790	-5.1%
Catering, entertainment and venue rental	1 916	1 936	-5.0%
Consultants	6 900	5 422	-12.6%
Stationery and printing	2 772	3 060	-2.1%
Administrative and operational payments	13 478	17 288	2.9%
<i>Leases of buildings and infrastructure</i>	7 378	11 340	9.3%
<i>Leases of machinery and equipment</i>	2 343	2 454	-3.8%
Medicine and medical supplies	14 983	18 836	2.2%
Learner and teacher support material	3 871	4 421	-1.0%
Fuel, oil and gas	6 617	8 562	3.2%
Agency and outsourced services	9 588	11 454	0.5%
<i>Nutritional services</i>	4 664	5 477	-0.1%
<i>Medical related staff</i>	3 621	4 227	-0.3%
<i>Security services</i>	779	907	-0.4%
Contractors	10 544	15 668	8.1%
<i>Maintenance and repair infrastructure</i>	4 063	5 868	7.0%
<i>Maintenance and repair equipment</i>	4 032	4 909	1.1%
<i>Casual labourers</i>	801	2 279	34.2%
Laboratory services	3 770	4 775	2.5%
Property payments	14 085	18 438	3.6%
<i>Municipal services and payments</i>	6 060	7 609	2.2%
<i>Contracted maintenance</i>	4 830	6 326	3.6%
<i>Guards and security</i>	3 046	3 888	2.7%
Computer services	7 511	10 554	6.1%
Other goods and services	19 468	26 441	4.9%
Total	125 236	156 642	2.0%

Employment levels in health services

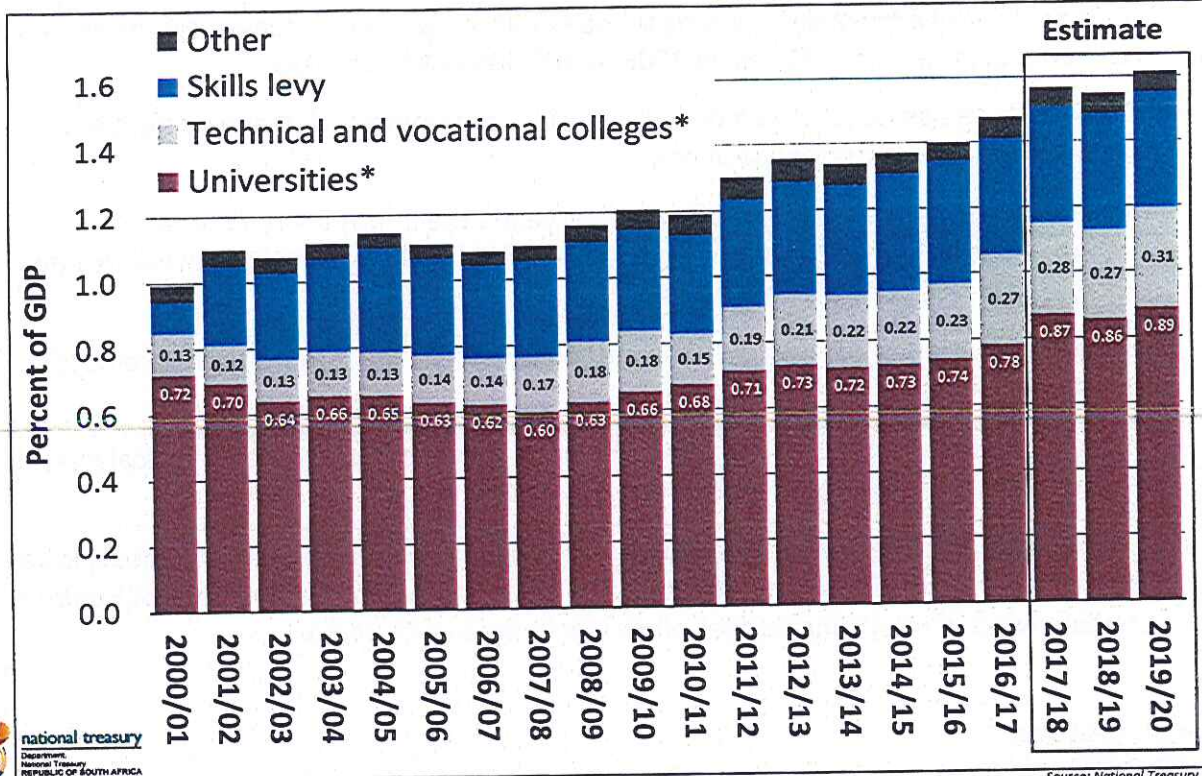
- The number of employees working in the health sector has increased significantly over the past decade from 234,180 in 2006 to 309,386 in March 2016.
- This increase has largely been driven by increases numbers of health professionals, rather than administrative positions.
- While the increase as levelled off in recent years, there was a net increase of approximately 3,000 health professionals between 2015 and 2016 and this included increases in both doctors and nurses.
- However, this does not mean that in particular (often rural) areas, there are not severe shortages of staff.
- The submission from RHAP highlights the need to identify and protect critical posts in such areas where access to healthcare is already limited.
- In principle, National Treasury supports the idea that the prioritisation of posts is best done locally, and will continue to engage with RHAP and the Department of Health in finding ways of managing budget pressures in the health sector.

Basic education: Real spending per learner

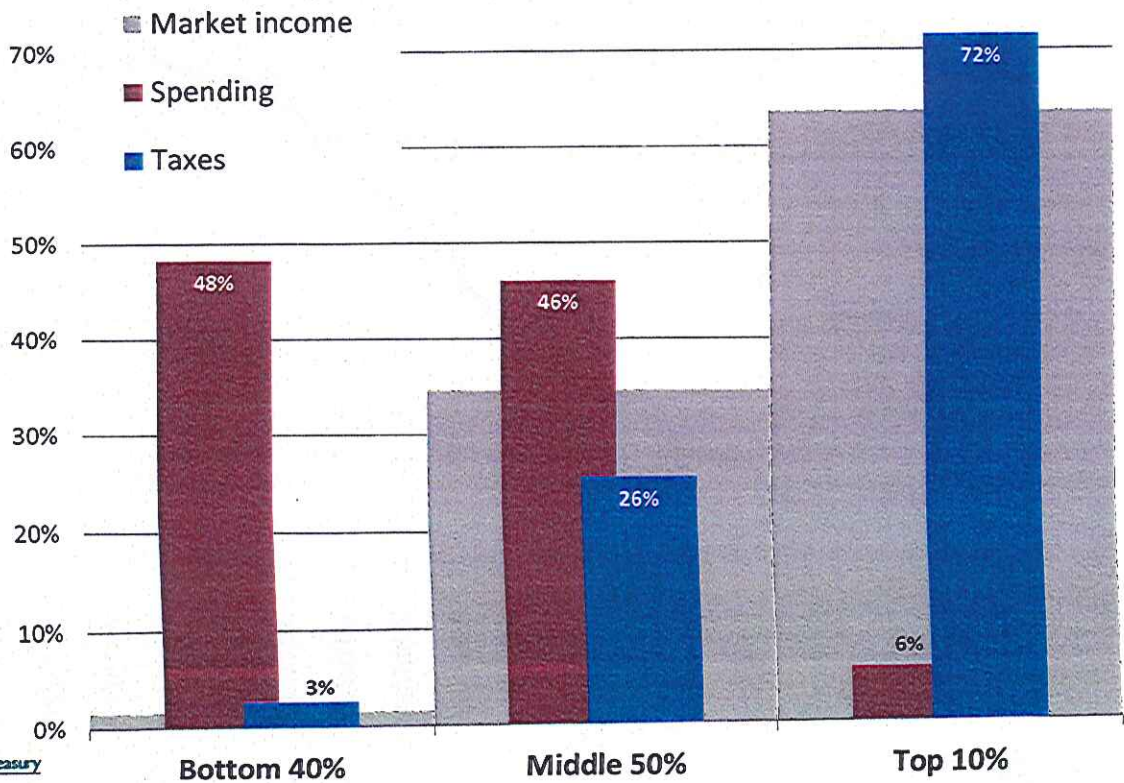


Spending on post-school education

Government spending as a share of GDP



A progressive fiscal system



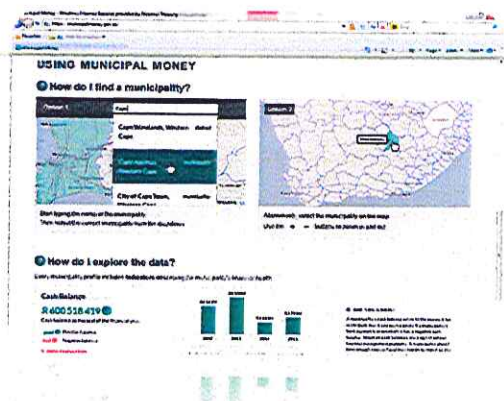
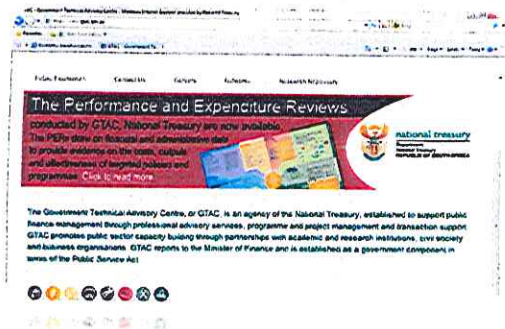
For noting

- Expenditure reviews are available at:
<https://www.gtac.gov.za/Pages/PER.aspx>
- “Municipal money”
<https://municipalmoney.gov.za/>
- A very good book on the history of social spending:

Peter H. Lindert: *Growing public: Social spending and economic growth since the eighteenth century*, Cambridge University Press, 2004.



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Conclusion

- With decisive action, South Africa will emerge from a period of economic weakness. This will enable government to provide greater support to the economy and boost employment.
- Government’s economic reform programme is guided by the NDP and, over the short term, the 9-point plan announced in February 2015. These efforts aim to create a more just society and ensure that the benefits of transformation are shared as broadly as possible.
- Implementation of reforms must be accompanied by efforts to tackle corruption. The benefits of empowerment should be accessible on equal basis, not limited to connected insiders.
- The fiscal framework maintains real expenditure per capita and supports macro stability. The sustainability of the fiscal framework depends on the recovery of economic activity.



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