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|  | **logo**  **RESEARCH-UNIT-RGB-HEADER**  **FISCAL RESPONSILITY BILL, 2020**  **COMMENTS MATRIX**  **PRIVATE MEMBERS (DA) RESPONSES TO COMMENTS ON THE FRB PUBLISHED BY PARLIAMENT ON 6 MARCH 2020**  **DRAFT FOR DISCUSSION PURPOSES ONLY**  **This document sets out the MP’s formal response in respect of comments submitted by stakeholders on the version of the Fiscal Responsibility Bill 2020 .** |  |
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**LIST OF COMMENTATORS**

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|  | **Agency/ Organisation** | **Contact Person** |
| 1. | SAICA | Dr Sharon Smulders |
| 2. | Free Market Foundation | Mr Chris Hattingh |
| 3. | National Treasury | Mr Edgar Sishi |
| 4. | Business Leadership South Africa | Ms Busisiwe Mavuso |
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| 6. | COSATU |  |
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| **RESPONSES TO COMMENTS ON THE FISCAL RESPONSIBILITY BILL, 2020** | | |
| **Reviewer** | **Issue** | **Response** |
| **PUBLIC SUBMISSIONS** | | |
| SAICA | SAICA is concerned about debt trajectory over the medium term and the effect this will have on the citizens of the country. They also agree that there is a need for a Bill of this nature to ensure that our national spending is managed appropriately and focused on economic and social priorities and not being redirected unnecessarily to pay local and overseas bondholders.  Exemption:  The bill sets a very low threshold on exemption for the fiscal rule.  **Proposed amendments:**  SAICA proposes that “an exemption should only be possible through a legislative amendment process which will ensure that the proposal is not easily undermined and that should compel a public consultation process”. An emergency bill in a crisis can be tabled.  Definition:  The terms “extra-budgetary government institution’’, “government institution” and “social security fund” are defined in the Bill, yet these definitions are not mentioned in any other section in the Bill.  **Proposed amendments:**  SAICA supports inclusion of terms into the bill but clarity should be provided**.**  Fiscal rules:  The bill proposes different fiscal rules depending on the percentage of debt to GDP – between 50% and 55%; between 55% - 60% and <60%.  **Proposed amendments:**   * ‘The range of the debt to GDP percentages should be amended as currently the Bill refers to “between” and “greater than” resulting in a debt to GDP percentage of 50%, 55% or 60% not being catered for in the legislation * Greater procedural and transparency rules need to be * implemented at the provincial and local levels of government. Furthermore, the move to GAAP by municipalities should be implemented as soon as possible to ensure * Output needs to be aligned to budgets and future budgets need to be aligned to strategic projects * Budgets and budget increases should be awarded based on compliance and performance levels to ensure service delivery   Report on compliance  The bill states that MOF should table a report on fiscal rules indicating whether rules were complied with or not in the relevant period. If not complied, MOF must provide recovery plan.  **Proposed amendments:**   * MOF should include in the recovery plan the time needed to achieve compliance. * The bill should include penalties to discourage fiscal breaches when targets are not met. Liberal escape clauses, non-credible sanctions and enforcement mechanisms should be avoided * borrowed funds must be ring-fenced for specific purposes – with concomitant deadlines and appropriate levels of expectations in the event borrowed funds are not used for specified purposes. |  |
| Free Market Foundation | * The FMF supports the spirit of this Bill and believes that, if enacted, it will set government fiscal behaviour on a relatively more stable, economic growth-friendly path.   Proposals for consideration:   * Any excess surplus funds must be returned to citizens through tax rebates. * Governance and delivery of services as well, as the potential of losing rate payers to other more attractive and better-run locales will encourage that provincial and municipal governments improve their financial standing and professionalism. * Any and all borrowed funds must be ring-fenced for specific purposes – with concomitant deadlines and appropriate levels of expectations in the event borrowed funds are not used for specified purposes. * The increasingly long list of SOEs must be whittled down. Those of greatest national importance, such as Eskom, must be limited in their scope and provision of services, allowing the private sector to deliver better-priced services to those citizens who choose to buy from them. |  |
| National Treasury | “National Treasury’s view is that tying policy to the specific range of 50 and 55 per cent of debt-to-GDP will produce significant volatility in fiscal decision-making. This is because small changes to debt projection assumptions can have a very significant impact on the long-run debt outlook (see for example, how much the IMF debt projections can be revised over one year)”  **Worsen the conduct of fiscal policy**   * Tying policy to the specific range of 50 and 55 per cent of debt-to-GDP will produce significant volatility in fiscal decision-making * Small changes to debt projection assumptions and underlying forecasts of economic variables such as future rates of economic growth, interest rates, exchange rates and the long-term path of the deficit can have a very significant impact on the long-run debt trajectory. * Fiscal Rule encourages pro-cyclicality of fiscal policy. This would be a particular problem when the economy performs well when performance is driven by cyclical factors such as a commodity price boom. In this scenario the debt-to-GDP ratio would automatically improve irrespective of discretionary fiscal policy choices   **Little technical justification to several provisions of the bill**   * Why is net loan debt between 50 and 55 per cent an optimal debt-to-GDP ratio for South Africa? * Why specifically a ten per cent reduction to compensation of employees (CoE) should be the only mechanism to resolve a breach of the rule and how should this reduction to CoE be achieved. There are many variables influencing the size of the debt stock   **Rules coverage provisions are insufficient and would not reduce fiscal liabilities**   * By targeting net loan debt and not gross loan debt it creates incentive for future governments to game the rule through a build-up of accruals or other contingent liabilities or by accumulating sufficiently large cash-balances that offset gross loan debt in order to comply with the specific net loan debt provision of this bill. * The rule is silent about the build-up of contingent liabilities and other off-balance sheet instruments which international experience shows is a way governments attempt to circumvent fiscal rules * Does not deal with liabilities at the sub-national level.   **National Treasury’s Recommendations:**  “There are limits to the effectiveness of a fiscal rule:   * Difficult to implement far-reaching fiscal rules because South Africa’s economic growth is persistently weak, and the public finances are managing several large risks beyond the control of fiscal authorities. * The EU, for example, found it difficult to enforce fiscal rules prior to the Covid-19 pandemic and completely abandoned the rules once the pandemic started.   The National Treasury agrees that governments with low fiscal credibility and high levels of debt have less space to withstand shocks and experiment with significant policy changes.  Any fiscal rule must be backed by decisive action to retain confidence and unlock the impediments to investment.  Objectives that should be prioritised above a new fiscal rule include:   * Continuing and supporting the work led by Commissioner Kieswetter of restoring the capability and integrity of the South African Revenue Service. * Restructuring state-owned companies and the broader public sector by putting in place credible leadership and committing to greater market competition and private sector participation in sectors dominated and held back by excessive state control. * Un-burdening the state and the fiscus of contingent liabilities that have no clear contribution to the state’s developmental agenda. * Improving the composition and productivity of spending through spending reviews and Zero Based Budgeting |  |
| Business Leadership South Africa | “BLSA expresses support, as representatives of business, for the move to, inter alia, stabilise national debt through achievement of the objectives of the Bill.   * Further, BLSA encourages the Committee when deliberating on the Bill, to also take note of lessons learnt from other countries such as New Zealand, Australia, Brazil and India that have successfully implemented Fiscal Responsibility Laws ("FRL"). In this regard, we point out that FRL require a broad political consensus to be successful and should not substitute political commitment; * should be structured to address country specific weaknesses in fiscal management, which require improved fiscal transparency and providing the right incentives to role-players in designing and implementing fiscal policy; * Require (i) transparency, i.e. clear and open budget formulation; (ii) accountability, with clear execution procedures, independent audit mechanisms and institutional transparent oversight and (iii) effective enforcement mechanisms, thereby improving the FRL’s effectiveness and credibility; * Should cover all relevant fiscal (and quasi-fiscal) operations of the public sector. The application of a consistent fiscal framework to all levels of government and to public entities and public enterprises that are engaged in significant fiscal activities limits the scope for shifting fiscal policy implementation “off budget”; and * Should, over time, be integrated with public finance legislation by consolidating all or some of FRL provisions into umbrella budget or public finance laws in order to streamline and simplify legislation, constituting good transparency practice” |  |
| Parliamentary Budget Office | PBO notes The experience of poor economic recovery after the 2008 global financial crisis and current experience during the economic crisis caused by the Covid-19 pandemic raises critical questions about the use of top down fiscal rules:   * Fiscal rules may constrain or place unnecessary delays on action to respond to economic crises * The increasing risk of future crises and contagion related to the possibility of future pandemics, climate change related events, financial instability and political turmoil reinforces the case for fiscal flexibility * Government requires flexibility to act not only to respond to crises when they happen but also to mitigate risks and their socio-economic costs * Government expenditure can promote stability in a world prone to instability (and not the assumed stable equilibria) * Fiscal expansion can lead to GDP growth and so lower debt to GDP levels while fiscal constraints can cause GDP growth to decline and in this way cause debt to GDP levels to increase particularly in recessions and crises where private sector household consumption and business investment is likely to remain low   “According to the Memorandum on the Objects of the Fiscal Responsibility Bill, 2020: Until steps are taken to bring South Africa’s debt levels under control in relation to our GDP, South Africa will never be able to allocate funding to areas most in need of support, including basic and higher education, social grants and health care. South Africa must commit itself to sustainable control over the fiscus.”   * There is a view that South Africa must commit itself to sustainable control over the fiscus but fiscal sustainability is not defined * Instead, the Bill includes rules to follow when the net debt to GDP level is 50 per cent or higher   The Bill fails to provide evidence that the proposed rules will ensure that government is “fiscally responsible”   * Unlike an expenditure ceiling, where the fiscal anchor is known and within the control of government, the proposed fiscal rule depends on two variables largely outside of government’s control -nominal GDP and the exchange rate that influences the rand value of issued debt   The proposed fiscal rules will make government’s policy-making and budgetary decisions arbitrary and susceptible to exogenous factors:   * Financial, economic, political and health problems in other countries and regions that affect global and South Africa’s economic performance * Exuberance or negative sentiment in global financial markets that increase exchange rate volatility * Regulatory & policy change in other countries affecting global financial liquidity * Bank and financial crises and contagion * Perpetual revisions to the fiscal framework forced by an arbitrary metric would force repeated revisions to expenditure, adversely affecting the efficacy of government programmes and ability to plan   The Bill fails to provide evidence that large revisions to government spending plans will not increase attendant pressures to (amongst others):   * Increase taxation, * Further cut government spending, and * Reduce public sector COE * The Bill fails to provide evidence that these measures and possible perpetual revisions of budgets are not going to face significant public opposition and increase economic uncertainty and prove to be not socially or politically feasible, thereby further damaging fiscal credibility * Lacks consideration of the likelihood that SA’s GDP performance after the pandemic will be similar to the period before the pandemic means that debt to GDP levels may remain above the 50 per cent threshold, as proposed in the Bill, for a long time   The rules proposed will require substantial across the board reductions in expenditure over the MTEF and possibly well beyond the medium term  The rules suggested in the Bill will very likely continue the 2021 Budget’s lowering of expenditure to “areas most in need of support” beyond the medium term  The rules suggested in the Bill will very probably curtail GDP growth and could lead to worsening of debt to GDP levels even when government achieves a surplus  A rule that legislates foreseeable real cuts to COE will very likely worsen labour relations in the public sector and country as a whole and may lead to worse outcomes and constraints on increasing productivity  The Bill fails to provide evidence for service delivery improvement and economic performance to be brought about implementing the rules |  |
| COSATU | COSATU notes and rejects in the strongest possible terms the DA’s Fiscal Responsibility Bill. Whilst its objectives of tackling national debt are correct  COSATU is deeply alarmed not only by the levels of the national debt and deficit, but also the rapid rising trajectory in their growth  **Proposal**  “What is needed is a sober national debate on the appropriate debt levels and what cuts can we afford and what cuts can we not afford. What is not needed are populist gimmicks that seek to appease the base of any party, including those in guided offices in listed companies wringing their hands at the measly salaries of nurses and cleaners”.  Bill’s inherently flawed in drafting and processing – bill talks to conditions of employment of public servants  **Proposal:** Any such bills must be tabled at the PSCBC, other relevant bargaining councils and Nedlac for engagement as required by law.  COSATU states the Bill blithely ignores the true causes of the fiscal crises and public debt. By solely focusing on the public service wage bill, it implies this is the sole cause and the sole intervention needed  **Proposal:**   * Debate on the wage gap, including the private sector and legislation to slash it. * Slash the exorbitant packages paid to political office bears and management in the state. * Have a single collective bargaining process and agreement for the entire state not only the 800 000 public servants.   In order to address real causes of fiscal crises and public debt, COSATU proposes the following:  **Proposal:**   * Aggressively utilise the Auditing Amendment Act to hold personally liable offending political office bearers, management and officials; * A single online open public procurement system for the entire state; * Banning national and provincial leaders of ruling political parties as well as the spouses and children of Politically Influential Persons from state tenders; * Adequately budgeting the commercial crimes courts and the prioritisation of corruption cases; * Tabling clear turnaround plans for embattled SOEs at Parliament; * Placing competent management in embattled SOEs; * Further reinforcing SARS to tackling tax and customs evasion; and * Ramping up the Economic Recovery and Reconstruction Plan’s local procurement and infrastructure and other economic intervention and stimulus commitments. |  |