Business Day

Credibility of SA’s fiscal policy ‘needs to be enhanced’

by Linda Ensor, 06 March 2013, 08:35

THE Financial and Fiscal Commission has urged the government to take steps to enhance the credibility of its fiscal policy to ward off any future downgrades of its sovereign debt by credit rating agencies.

The commission — set up by the constitution to make recommendations on government finances, made a submission to Parliament’s two finance committees during public hearings on the 2013-14 fiscal framework on Tuesday.

Commission director Ramos Mabugu said greater strides should be made in shifting expenditure towards investment in infrastructure, eradicating wasteful expenditure and pruning the public sector wage bill. Sovereign downgrades raise borrowing and debt service costs, the fastest-rising item on the national budget. They represented a critical challenge to fiscal sustainability, Mr Mabugu said.

The other critical challenge, he said, was the need to stabilise public debt, which will increase sharply over the next three years.

He said the commission did not believe recent downgrades of South Africa’s credit rating were warranted as its sovereign debt was still in a "healthy position, with very little exposure to foreign debt and with average maturity of debt being quite high".

There were no signs the government would abandon its commitment to its countercyclical fiscal policies. However, he believed the Treasury’s programme of switching to near-dated debt with longer-term maturity bonds in order to reduce the state’s current debt burden was "likely to put pressure on bond yields as investors will likely seek to be compensated for increased risks associated with deteriorating economic conditions and a wide budget deficit. Hence, although South African bonds are still oversubscribed, extending the duration of public debt combined with higher yields could result in increased costs for government in future."

Mr Mabugu considered the budget deficit, which climbed to 5.2% of gross domestic product in 2012-13, was "the single biggest strategic risk facing South Africa".

The fiscal downturn meant that a prolonged period of consolidation in public expenditure would require difficult choices in future. "In trying to balance the competing needs of fiscal sustainability and promoting growth, budget 2013 has not drastically changed the composition of spending relative to the 2012 medium-term budget policy statement.

"Within the confines of lower growth in expenditure, government has reprioritised resources so as to ensure that growth-friendly expenditure (despite being somewhat lower) is maintained."

Business Unity South Africa (Busa), the Federation of Unions of South Africa and the South African Institute of Chartered Accountants also made submissions at the public hearings. Busa special policy adviser Prof Raymond Parsons said: "The budget and the National Development Plan are essential road maps to achieve South Africa's socioeconomic goals, but the 'message' needs to get more traction in the public and private sectors."

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