Fin24 30 October 2011

DG urges state to cut spending

Oct 30 2011 13:05 Andile Ntingi

Johannesburg - Taxes will go up if state debt does not come down, National Treasury director-general Lungisa Fuzile warned on Friday.

"The government debt levels remain manageable for now. We expect it to be manageable even when it peaks at around 40% of the gross domestic product (GDP).

We expect government debt to level off beyond 2015 if economic growth accelerates.

"But if growth does not reach projected levels, we may have to cut spending on things that do not induce growth. We may also look at increasing taxes," said Fuzile.

He said some of the areas the government may cut spending included accommodation, entertainment, catering, and furniture because this type of spending did not promote growth or improve the quality of services that government provided to the public.

He said any spending cuts would not affect the recipients of social grants, who number more than 13 million people.

According to Treasury documents, government debt had jumped from R627bn (about 27.1% of GDP) in 2008 to R1.2 trillion (39.3% of GDP) this year. Over the next three years, it is expected to rise to R1.7 trillion in 2015, about 42.4% of the GDP.

In response to the global recession, the government hiked its spending to keep the South African economy afloat and prevent it from sinking into a deep hole.

From next year, state spending will reach the trillion rand mark for the first time, climbing to R1.1 trillion from R979bn this year. Last year, the state spent R886bn, and R827bn in 2009.

Fiscal economists also agreed with Fuzile that South Africa was far away from falling into a Greece-type debt quagmire, but warned that the government needed to rein in the escalating wage bill which might pose a threat to the state's financial position going forward.

Fuzile said the increase in the wage bill needed to be curbed and more financial resources redirected towards improving South Africa's transport infrastructure and stimulating the economy to create jobs through supporting the manufacturing sector and industrial development zones.

"I think at director-general level we can live with salary increases that are below inflation but I believe at the lower levels of government, workers must be protected from inflation.

"At the top there must be more sacrifice made and then it must be proportional across the board," Fuzile said.

Wages will account for about 40% of government spending this year, up from 32% last year.

Dawie Roodt, chief economist at Efficient Group, said a debt position of around 40% of the GDP was manageable but there could be trouble if it were allowed to climb above 50%.

He said the R1 trillion spending threshold was a reflection of the state increasing its role in the economy and that rising inflation had also pushed spending to this new threshold.

Roodt said the South African Revenue Service (Sars) had the ability to collect enough revenue to support the new threshold.

"Sars is capable of collecting enough revenue to support the new threshold, but can the taxpayers afford it? The answer is no because the tax burden is high in South Africa.

There is a likelihood that taxes are going to go up on an already overtaxed South Africans," said Roodt.

Treasury documents indicated that government expected to collect more revenue over the next three years. The state anticipated a collection of R890bn next year, swelling its coffers by a whopping R1.1 trillion in 2015.

Bongani Khumalo, the acting chairperson and chief executive of the Financial and Fiscal Commission, also believed that South Africa's current government indebtedness was sustainable and would remain so in the foreseeable future.

"We are very far away from the situation that countries like Greece, Portugal, and Spain found themselves in. We don't want to be like them and fund big consumption spending through debt.

Now they are forced to cut spending," said Khumalo, whose organisation advises the Treasury on intergovernmental fiscal relations and fiscal frameworks.

Greece was battling a €340bn debt (about R3.7 trillion, and 160% of its GDP), but in a deal reached with the European Union this week, bondholders agreed to reduce by about 50% the amount the debt-ridden country would have to pay back.

This year the government expected a shortfall or deficit of R164bn (about 5.5% of GDP) in its budget, which would be financed through borrowing. However as the economy and the revenues improved, the budget deficit was expected to lessen to R134.1bn in 2015, about 3.3% of the GDP.

"South Africa's bond markets, which will be the primary source of financing over the medium term, remain healthy, liquid and deep.

As a consequence of the wider deficit, the main budget borrowing requirement increases to R181.2bn in 2012/13, before decreasing to R150.4bn in 2014/15," Treasury documents said.

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