



BRIEFING TO THE STANDING AND SELECT
COMMITTEES OF FINANCE ON THE 2012 FISCAL
FRAMEWORKS AND REVENUE PROPOSALS

29 February 2012

For an Equitable Sharing of National Revenue

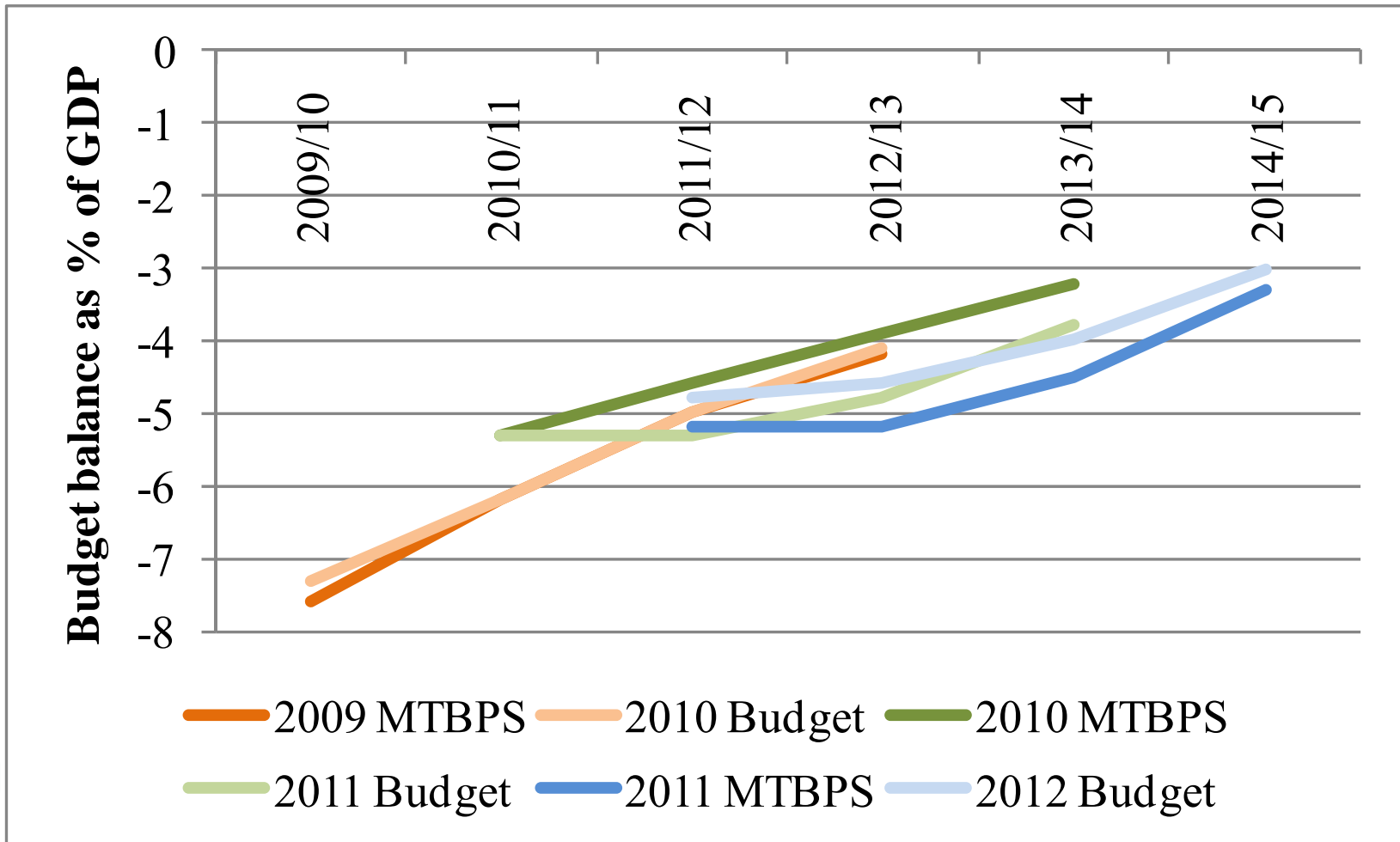
BACKGROUND

- Submission made in terms of S4(4c) of MBPARMA (Act 9 of 2009)
 - Requires Parliamentary Committees to consider any recommendations of FFC during their deliberations on Money Bills
- Also made in terms of FFC Act of 1997
 - Requires that FFC responds to any requests for recommendations by any organ of state on any financial and/or fiscal matter(s) relevant to its mandate
- Submission consists of seven sections

A BRIEF REVIEW OF 2012 FISCAL FRAMEWORK

- National budget of R1.1-tn
 - National: 47.1%; provincial: 44.5%; local: 8.4%
- Expenditure ↑ R55.9-bn relative to MTEF baseline
 - R844.5-bn allocated to infrastructure
 - R6.2-billion has been added to spending plans for job creation
- Allocations to provinces: revised ↑ by R15-bn to PES and R4.4-bn to conditional grants
- Allocations to LG: revised ↑ by R2.2-bn to LES and R3.1-bn to conditional grants

MEDIUM-TERM BUDGET DEFICIT PROJECTIONS



MACROECONOMIC OUTLOOK AND RISKS: ECONOMIC GROWTH

- SA economy negatively affected by the uncertain global economic climate
 - Exposure to Eurozone economies through trade and financial markets
- Real economic growth: ↑ from 2.8% in 2010 to 3.1% in 2011
 - Reflective of ongoing economic recovery
 - However, current as well as projected economic growth = sluggish and posing a real threat to NGP and NPC targets
- SA economic growth figures revised ↓
 - Expected: 3.1% for 2011 (FFC forecasts: 2.9-3%)

MACROECONOMIC OUTLOOK AND RISKS: ECONOMIC GROWTH (CONT.)

- Infrastructure identified as key driver for economic growth and job creation in SA
 - Somewhat paradoxical that public sector infrastructure spending has been revised ↓ since 2011 MTBPS for categories of economic services as well as justice and protection services
 - Infrastructure investment for financial services largely unchanged and for social services ↑
 - Cuts in infrastructure investment directed towards investment in social services

MACROECONOMIC OUTLOOK AND RISKS: JOB CREATION

- 2012 budget unmistakably aimed at growth and job creation: expenditure and revenue proposals reflect government's pursuit of progressive developmental policies
 - NGP and NPC 2030 Vision
- Public sector employment growth is not a robust way to sustained job creation
- Key to realising sustained and inclusive economic growth is for government to create high quality education systems

MACROECONOMIC OUTLOOK AND RISKS: NHI

- Preparation for NHI: steps will be taken over MTEF to improve public health administration, accelerate hospital revitalisation programme and pilot district-based primary health services
 - NHI Grant introduced to cover NHI pilot projects
 - Commission
 - Pilot route taken by Government is a sensible way of going about such a reform
 - Already provided inputs on the green paper process
 - Commented on NHI proposals in its response to the 2011 MTBPS

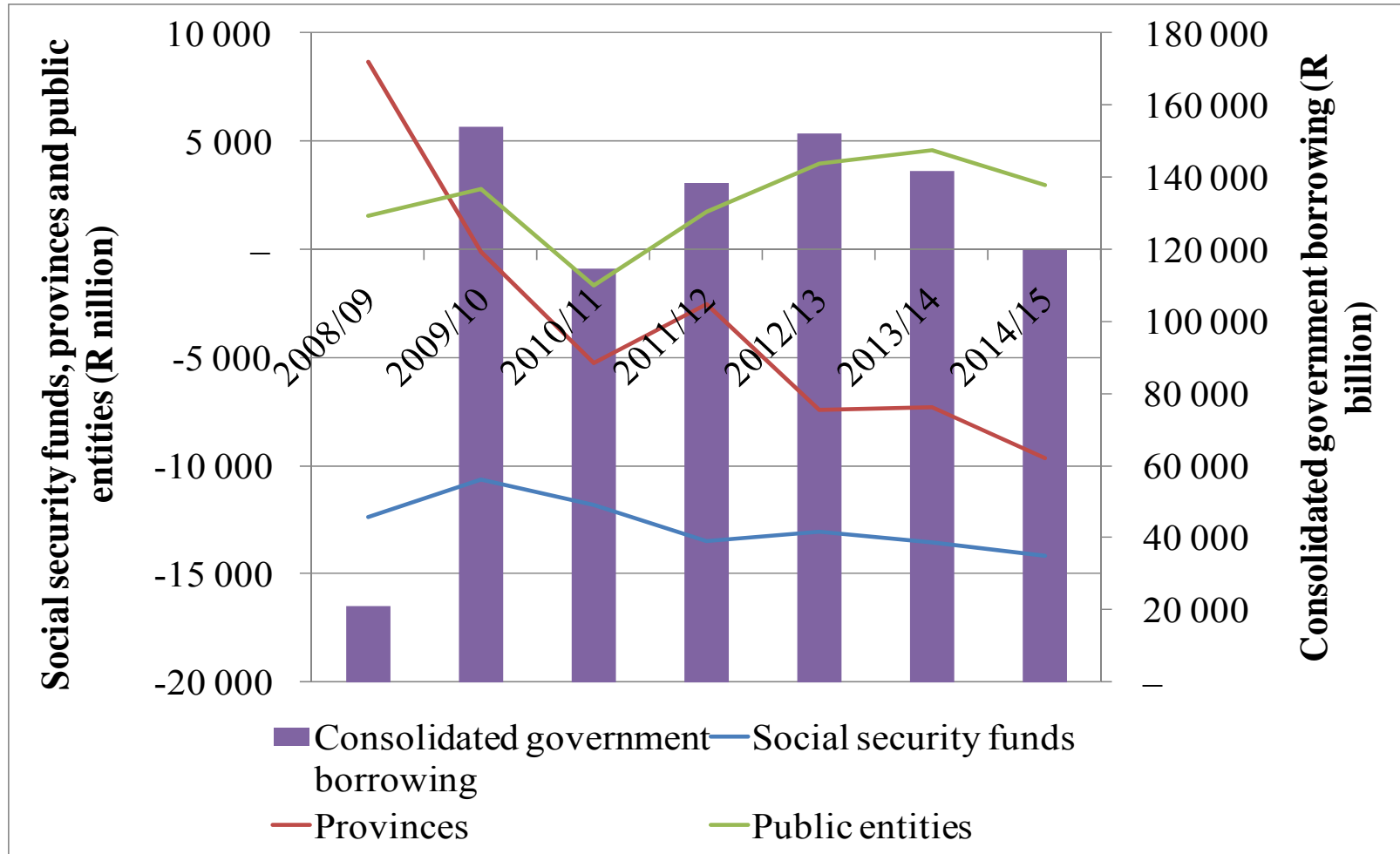
MACROECONOMIC OUTLOOK AND RISKS: OIL PRICE

- Traditional role in SA: often offsetting positive benefits of rising commodity prices and posing a risk to fiscal framework
- Current threat to SA economy: possible oil supply shortages and what these imply for the price of oil
 - Developments in Iran and the Euro zone
 - Need for SA government to explore alternative strategies and contingency financing
 - Broader effects given that transport is a big contributor to government strategy for rural development

MACROECONOMIC OUTLOOK AND RISKS: PUBLIC DEBT

- Commission commends National Treasury on debt management efforts in a volatile global environment
 - Uncertainty surrounding global economic recovery – should SA be conserving fiscal space?
 - Debt set to increase beyond 40% of GDP
 - Recent downgrading of SA sovereign debt
 - Constrained public finances, sluggish economic growth
 - MTEF
 - Share in total debt: foreign debt ↓, domestic debt ↑
 - Real terms: domestic debt ↓, foreign debt more volatile
 - Debt service costs ↓
 - Debt service ratio ↑ (expenditure increases are being financed by debt)

MACROECONOMIC OUTLOOK AND RISKS: BORROWING REQUIREMENT



MACROECONOMIC OUTLOOK AND RISKS: ADMINISTERED PRICES

- Prices such as such as electricity, medical aid, education and municipal services continue to impact on resource allocation with NB implications for FF
 - Electricity prices = complex, do not respond to market conditions
 - Economic transformation agenda: whether or not to target specific sectors of the economy with subsidies as opposed to operating with a unified tariff across all sectors
 - Sharp vs. gradual increases
 - Stability of FF: NB to introduce certainty about outlook for electricity tariffs for a significant period of time

REVENUE: CHANGES SINCE 2011

MTBPS

- Modest personal income tax relief amounting to R9.5-bn
- The tax burden on companies revised ↑
- Taxes on international trade and transactions revised ↓
- Revenue estimates consistent
 - Differences between outcomes and MTBPS/budget become smaller as the forecast horizon decreases

EXPENDITURE: CHANGES SINCE 2011

MTBPS

- ↓ revisions for general public services, public order and safety, local government, housing and community amenities, recreation and culture, as well as social protection.
 - Commission notes ↓ revision of housing
 - Possibly compromise Government's outcome on human settlement
- Significant ↑ revisions for economic infrastructure as well as science and technology → knowledge economy
 - Infrastructure: adjusted ↓ over MTEF
 - Government's commitment to investment in infrastructure (shift in infrastructure investment towards social services)
- Revenue estimates consistent



– Differences between outcomes and MTBPS/budget become smaller as the forecast horizon decreases

IMPROVING THE FISCAL FRAMEWORK: FISCAL GUIDELINES

- Principles of countercyclicality, LT debt sustainability and intergenerational equity emphasised in 2012 budget = form of fiscal guidelines
 - Continued commitment by government to consolidate the budget while adhering to these three principles in MTBPS and budget can enhance government's credibility
 - Important issue for consideration in strengthening FF: whether there should be legislative requirements for government to run balanced budget or whether this is implied in the PFMA/MFMA?

IMPROVING THE FISCAL FRAMEWORK: LT FISCAL PLANNING

- Commission's proposals in 2010 and 2011
 - A “multi-pronged” strategy to take LT fiscal concerns into account in the ST to MT planning
 - Public debate on LT fiscal challenges – implied intergenerational tradeoffs, degree of risk aversion, etc.
 - Government should be required to publish analysis of distributional impact of new policies
- Commission in favour of LT fiscal reporting
 - Likely to further enhance the quality and transparency of public sector reporting and strengthen public confidence in public sector financial management

CONCLUSION

- Consistency of government's projections
- Rising price of oil and administered prices could dampen an otherwise positive economic outlook for SA
- The efficiency and effectiveness of resource use must receive more attention
 - Performance based budgeting systems and incentives
- Commission supports the strategic phase of budget making with a document such as the long-term fiscal report
- Government needs to take a very clear policy position on the tolling of roads



THANK YOU.

*Financial and Fiscal Commission
Montrose Place (2nd Floor), Bekker Street,
Waterfall Park, Vorna Valley, Midrand,
Private Bag X69, Halfway House 1685*

www.ffc.co.za

Tel: +27 11 207 2300

Fax: +27 86 589 1038