Mismatch between economic stimulus package and policy, says commission

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There is a mismatch between the objectives of the economic stimulus package and the economic policies, according to the Financial and Fiscal Commission (FFC).

Representatives from the commission on Tuesday briefed Parliament's standing committees on finance and appropriations in a joint sitting about the mini budget.

The FFC highlighted that the mini budget was drawn up within an environment characterised by "extremely low growth, escalating public debt and low levels of investment", and noted that growth which has been revised down to 0.7% will not auger well for government's efforts to tackle poverty, unemployment and inequality.

The commission welcomed the economic stimulus package announced by President Cyril Ramaphosa in September.

However, Dr Hammed Amusa, the FFC's programme manager in the macroeconomics and public finance unit, explained that there is a contradiction between the objectives of the economic stimulus package and the path of fiscal consolidation being followed.

Amusa said that the commission requests more coherence in terms of policy and developmental objectives.

"There should be a coordinated, coherent and consistent policy trajectory between sector policies in line with the developmental objectives and the fiscal stance of the country," the FFC said in the report submitted to MPs. The current fiscal policy trajectory sends "inconsistent" investment signals, the FFC flagged.

According to the FFC, a stimulus package in terms of fiscal policy involves lowering taxes and increasing spending - while the fiscal policy in SA has been one of contracted spending and increased taxes in the form of VAT.

The FFC also highlighted that stimulus interventions implemented in a "structurally deficient economy" will not yield desired results.

Further to the stimulus package – which is reliant on increased infrastructure spend – Amusa said that the growth and employment effect from public infrastructure spend has been muted due to poor execution and inefficiencies.

Other recommendations made by the FFC for SA's economic challenges include:

1. Addressing structural bottlenecks

The FFC recommends that structural reforms focus on boosting private investment, reviving product market competition, correcting the mismatch of skills and tackling corruption.

Speaking specifically about skills development, Amusa said it should take into account SA's comparative advantage. A comparative advantage is a country's ability to carry out an economic activity more efficiently than another activity. The FFC views structural reforms on skills to be done haphazardly, without considering areas of SA's economic advantage, said Amusa.

2. Build fiscal space

The FFC said fiscal space could be built through conservative debt levels, reducing the wage bill, fighting corruption and addressing governance and business models of state-owned enterprises, among other things.

Amusa further stressed that the potential to unlock long term growth depended on the ability to strengthen the link between debt and public investment. "The commission is of the view that if debt is used to finance growth, it creates a virtuous cycle," he said.

Debt should be used for growth enhancing abilities, rather than expenditure, he added.

3. Review of budget programmes

A review of budget programmes is necessary with the aim of promoting growth, the commission recommended. This is important as smaller economies lack fiscal levers that bigger, developed economies have access to. Larger economies can tap into reserves or access capital markets for additional funding.

The FFC further called on government to manage its debt portfolio to minimise debt service costs and sovereign credit risk.

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