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Financial and Fiscal Commission raises main risks to Budget 2018

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Cape Town - Some of the main risks to the implementation of Budget 2018 are continued weak economic growth, high unemployment, the extent of corruption and wasteful expenditure, uncertainty about public sector wage increases and the impact of fee-free higher education.

These concerns were raised by the Financial and Fiscal Commission (FFC) at a joint meeting of the select and standing parliamentary committees on appropriation and finance on Tuesday.

Professor Daniel Plaatjies, chair of the FFC, said there are three key factors identified in the 2018 fiscal framework. These are the muted economic growth outlook, the anticipated revenue shortfall of R48.2bn and fee-free higher education announced for those from low-income households.

In the view of Plaatjies, the key risk to address from the FFC's perspective is the threat to the stability of the fiscal system.

"We noticed the improvement in the sentiment of the country's growth prospects, with the 2018 economic outlook trying to strike a balance in a fragile environment," said Plaatjies.

Yet, the FFC feels not enough was done to make use of the opportunities offered by growth in the global economy. In the view of the FFC this was partly due to policy uncertainty in SA.

In its presentation to the joint committees the FFC also raised the issue of constraints due to rigidities in export growth, despite opportunities offered by the depreciation of the real exchange rate. This was especially the case in exports of labour intensive production.

Underlying constraints on a domestic level included consumption weakness by South African households. Domestic demand is seen as largely inefficient to pick up the slack in external demand. The high indebtedness of SA households causes them not to spend a lot.

Another domestic constraint is the low and declining rate of saving in SA. According to the FFC domestic savings are too low to finance additional investments, due to households and government spending more than their income.

Due to consumption and investment being weak, it impacts economic growth.

The main message the FFC wanted to send out to the joint committees was that although government had managed to put some brakes on the trajectory since Budget 2017, it did not manage to put on as much as promised.

One of the recommendations by the FFC is that municipalities are carefully monitored to ensure they spend the monies allocated to them.

Another issue raised by the FFC is that it feels the amount of the contingency reserve for fiscal risks is not sufficient for the budget outlook. It would rather like to see a policy of setting the contingency reserve at a sustainable level to face social demands.

As for the public sector wage bill, the FFC emphasised that in order to bring the compensation budget under control, one needs to rethink the approach to labour. In the view of the FFC there needs to be a link between the increase in the salaries of officials and an increase in their productivity.

The FFC regards the measures proposed in Budget 2018 as not necessarily being pro-growth, but rather necessary steps to first consolidate on a fiscal level before the economy can start to grow.

In his last input as a member of the standing committee on finance, newly appointed Minister of Tourism Derek Hanekom said he thinks that, given the difficulties and challenges, Budget 2018 presented "an excellent piece of work".

"The main item debated is the desirability of the 1% increase in VAT. This does not mean it will not impact the poor. In my view, there is scope for cautiously looking at maybe extending the list of VAT-exempted items," said Hanekom.

"At the same time, you cannot exempt everything and still have meaningful VAT. The challenge is to make VAT minimally regressive."

ANC MP and chair of the standing committee on finance, Yunus Carrim, agreed that one should look into what can be done to reduce the effects of the VAT increase on poor and low-income earners.

In Carrim's view there is also still far too much wasteful expenditure and corruption. He would like to see how a focus on these aspects could help to reduce government costs.

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