Business Report

FFC concerned by climbing debt ratios

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Johannesburg - The Financial and Fiscal Commission (FFC) has raised concerns about the sustainability of government debt as South Africa’s debt to gross domestic product (GDP) ratio has begun to rise again.

The commission’s chairman, Bongani Khumalo, said yesterday that while current public debt levels were not of concern, there was potential vulnerability if interest rates rose.

For the current fiscal year to March next year, interest payable on government debt is estimated at R100 billion, or close to 10 percent of the government’s annual expenditure.

“Seeing what is happening globally and looking at our own growth rates, it’s a question of time before interest rates are raised in South Africa as well,” Khumalo explained.

“Right now we are using 10 percent of government expenditure to service debt. If rates increase, that obligation will increase as well.”

But asked whether the government could afford to allocate more than 10 percent of its revenue to service debt and whether increased debt obligation would not attract the unwanted attention of rating agencies, he said affordability was about how the market perceived a borrower.

“The fundamentals in terms of fiscal management and policy are in place. But we need to be realistic. Our biggest challenge is growth,” he said.

The FFC made its submission for the division of revenue for the 2015/16 fiscal year in Parliament yesterday.

The commission said the rising public debt levels could compromise the ability of the government to meet other expenditure needs.

But while it was concerned about South Africa’s vulnerability because of its debt exposure, the commission still recommended that the government borrow more.

South Africa’s public debt-to-GDP ratio increased from 23 percent in 2008 to over 40 percent in 2013, mainly because of infrastructure programmes before and beyond the 2010 World Cup. This ratio is expected to increase moderately over the next few years, as government deficits continue.

Khumalo said the jury was still out on whether to move beyond 40 percent as by current international standards, South Africa’s debt was still relatively small. There was a debate on whether 40 percent or 60 percent of GDP was reasonable.

But if South Africa continued borrowing to fund consumption as opposed to its developmental agenda, a problem would arise as future deficits would widen. Khumalo said that other options being explored to fund social spending were looking at tax elasticity and economic growth.

Mike Schüssler, the chief economist at economists.co.za, said with public debt at current levels, but more importantly the sluggish economic growth, it was “a done deal” that South Africa would suffer a rating downgrade or two this year.

“(The) government will be forced to borrow because it has already committed to spend… The tax losses that we had because of the mining strike will have to be made up for by borrowing,” Schüssler said.

http://www.iol.co.za/business/news/ffc-concerned-by-climbing-debt-ratios-1.1697605#.U42ATk2KBFo