

# Budget Dialogue 2018

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16<sup>th</sup> of May 2018

# Introduction

## □ Budget Background

- International Uncertainty
- National Economic Stagnation
- Vulnerable Fiscal Position

## □ Main Budget Decisions

- Fiscal Consolidation
- Prioritize Higher Education

## □ The Long Term View of Fiscal Policy

- Evaluating Fiscal Policy
- Budget 2018 and NDP Growth Objectives

# Global Uncertainty



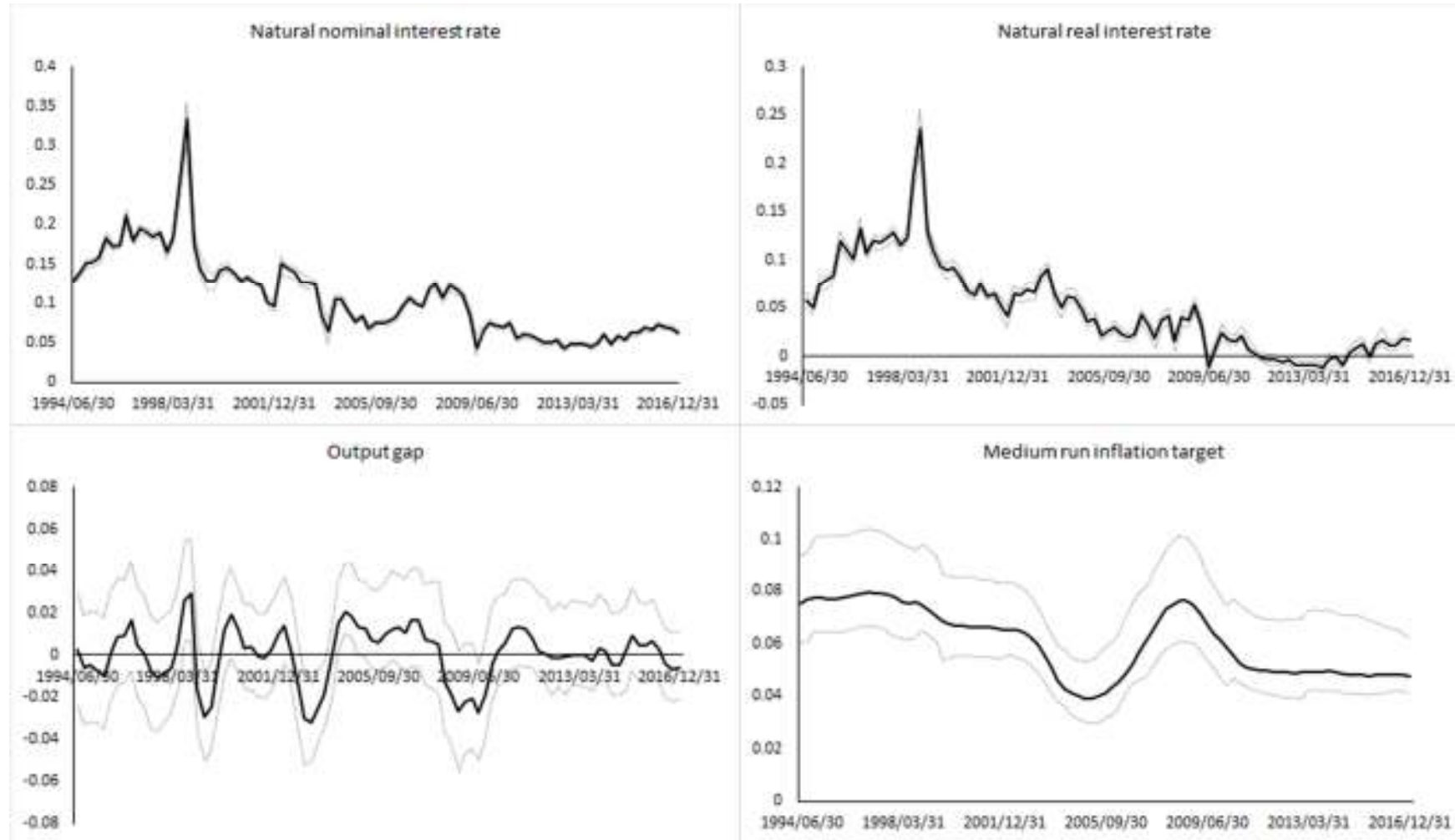
## IMF Forecasts of Global Growth

Great Uncertainty

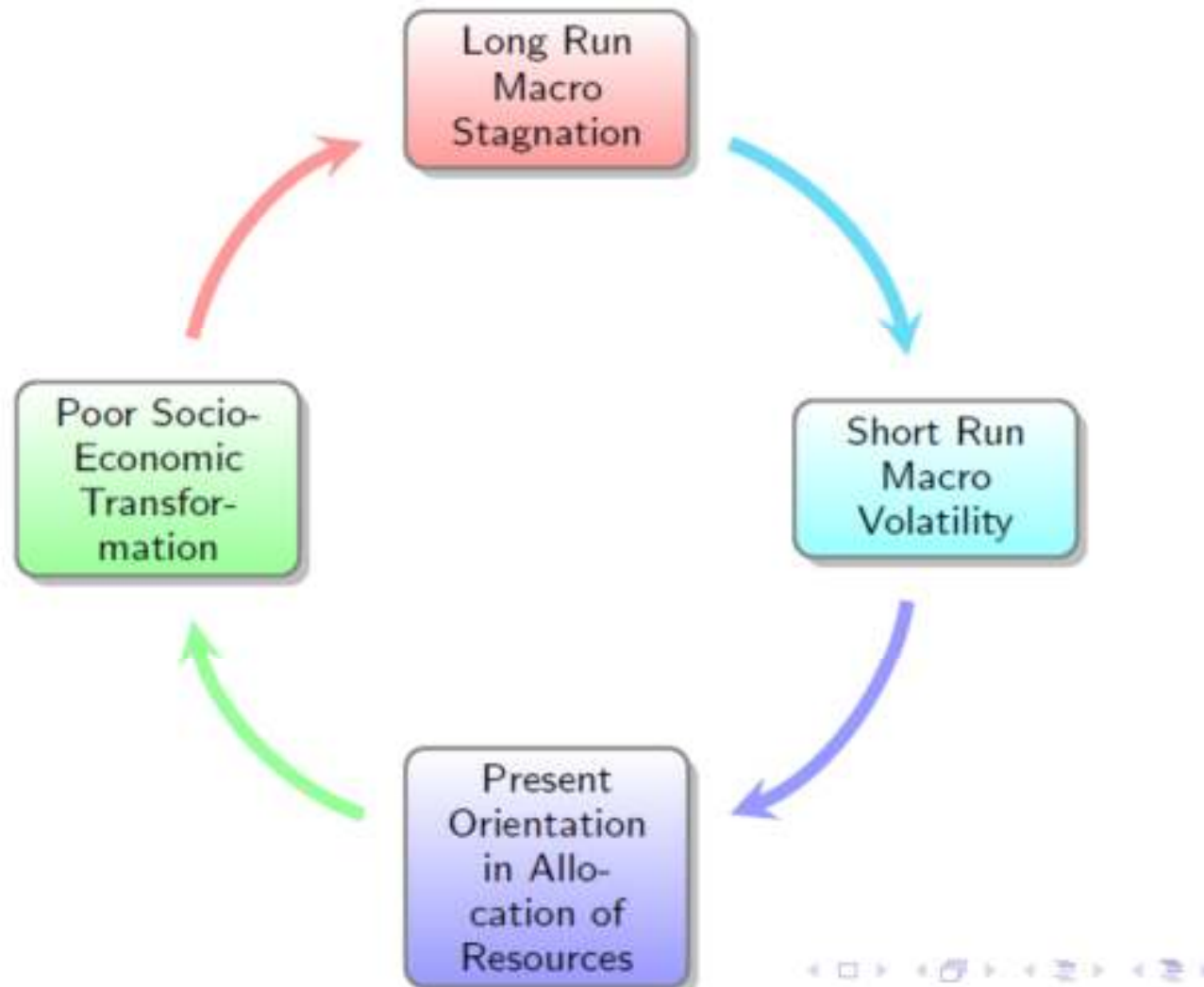


- Financial Market Turbulence
- Policy Uncertainties
- Trade Disruptions
- Geopolitical Tensions

# Local Stagnation



# South African Negative Feedback Loop



# Budget 2018 – An Emergency Budget

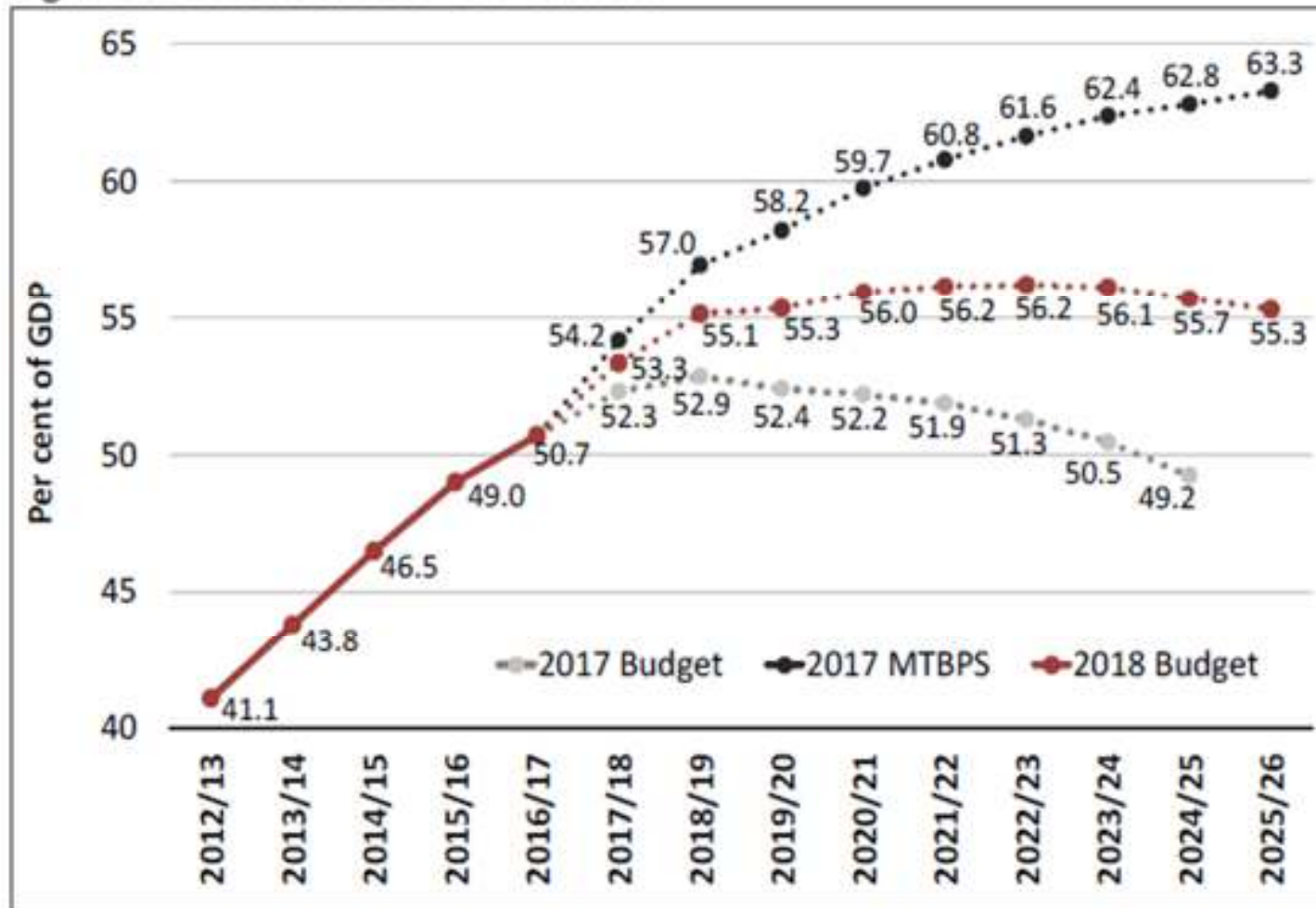
- **Major Spending Adjustment**
  - R85 Billion Reduction over the medium run (26 billion on this budget)
  - R57 Billion for Fee-Free Higher Education (12.4 Billion on this budget)
- **Increase in Taxes**
  - VAT Increase (R23 billion)
  - Other taxes (R13 billion)
- **Getting SOE Under Control**

A Necessary Passage

Growth and Transformation cannot be built  
on Debt and Uncertainty

# Debt Prediction

Figure 1.1 Gross debt-to-GDP outlook



Source: National Treasury

# Economics under Uncertainty

## Two Principles of Economics Under Uncertainty

- Act Conservatively, be prudent
- Build Up Insurance against unknowns
- Build Resilience



# Fiscal Prudence

What does a prudent fiscal policy require?

Ex Ante Fiscal Surpluses Proportional to the Level of  
Uncertainty Faced

This means that a planned “reduction” of debt is a necessary condition for long run fiscal sustainability that covers the possibility of negative external shocks

Fiscal Rule : Consider Permanent Income only for  
Spending Decisions

# Fiscal Credibility

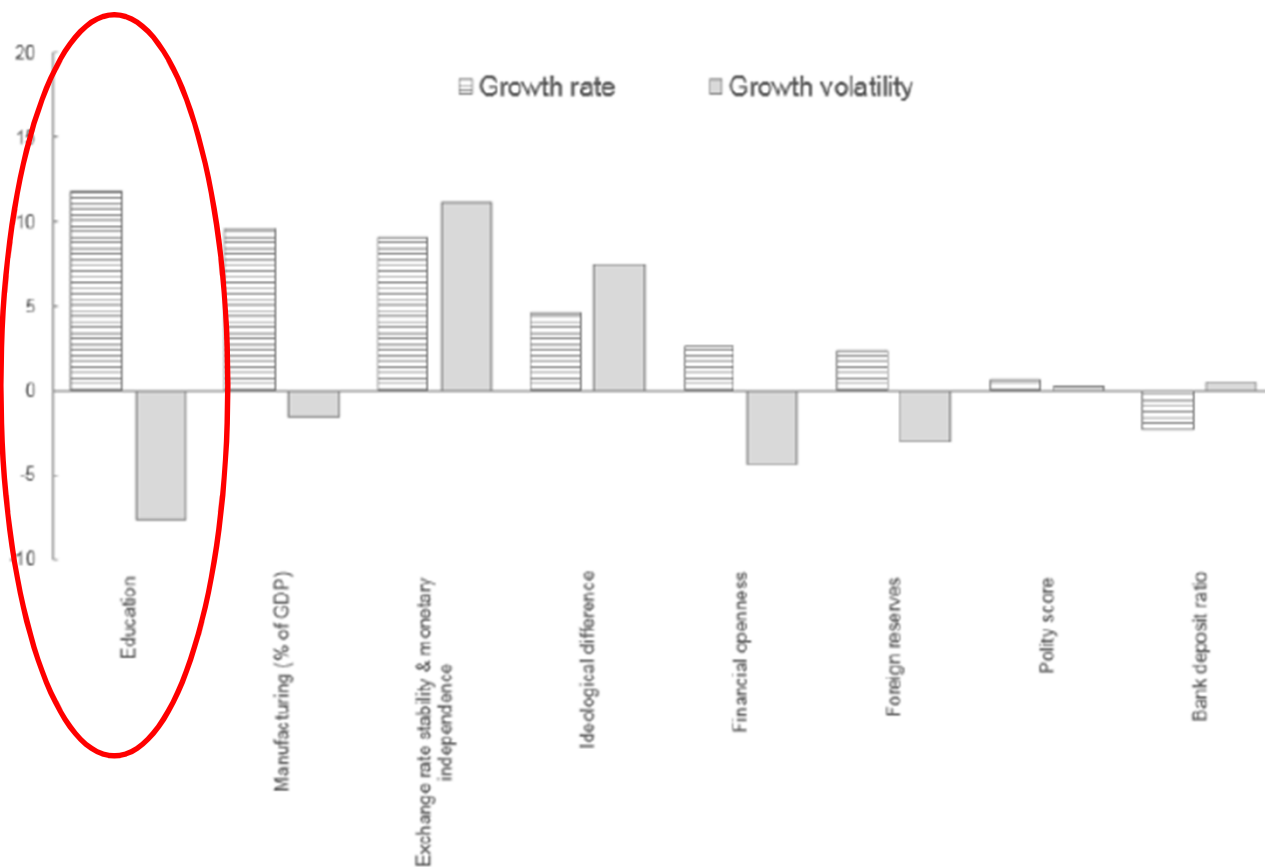
Fiscal policy as an institutional process.

The South African budgetary process is very transparent (1st in World Open Budget Index Survey)

Does the South African budget process have enough safeguards to protect fiscal sustainability against short term demands of increased budget allocation?

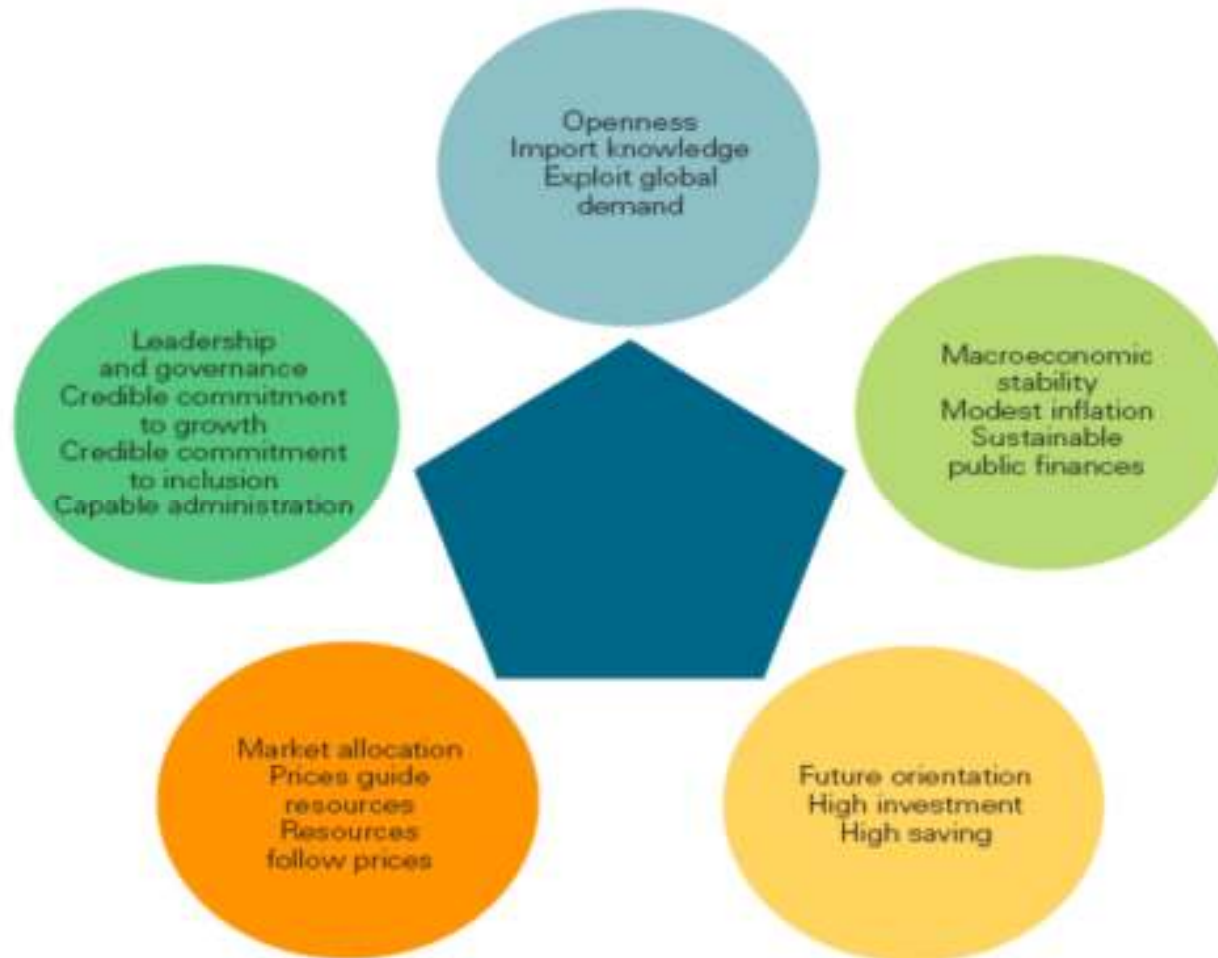
Long Term Planning vs Short Term Policy Response

# Building a Resilient Economy



Source: Asian development Bank

# Economic Growth



Spence Commission: Characteristics of Sustained High Growth Cases

# Policies for Growth

- ❑ All policies should have a bias for openness: in openness there is more opportunities of innovation and growth (managed changed).
- ❑ All policies should have a bias for change, by favouring new entrants against established position of rent: the incumbent cannot be the driving force of future economic growth.
- ❑ All policies should have a future generation bias, by favouring the interests of the young. This means moving resources from subsidizing present consumption and rent extraction to accumulation of skills, technological upgrading and future consumption.

# South African Negative Feedback Loop

