THE ROLE AND IMPORTANCE OF NATIONAL TREASURY POLICY-MAKING FOR THE SA MACROECONOMY

Presentation to the University of the Free State Business School

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- Introduce the National Treasury
- The macroeconomy
  - The fiscal framework
  - The budget framework
  - The monetary policy framework
- How well is the Treasury doing?
- Further reading list
- Questions and open discussion

Lecture outline

Introduction to the National Treasury

- **Parliament** (National Assembly and Council of Provinces – S42), the provinces and local authorities. These form the three spheres of government
- **The President** – elected by Parliament and accountable to Parliament and the Constitution. The President, and ministers or deputy ministers who are not members of parliament, may address parliament but may not vote (S55)
- **The Minister of Finance -** appointed by the President (S91) but accountable to Parliament (S92). The Minister of Finance is the only member of the Executive (in fact the only person) who may introduce a money bill or a S214 bill (S73)

Constitutional mandate

Money Bills

S77 defines a money bill as a bill that

- appropriates money
- imposes national taxes, levies, duties or surcharges
- abolishes or reduces, or grants exemptions from, any national taxes, levies, duties or surcharges; or
- authorises direct charges against the NRF, except a bill envisaged in S214 authorising direct charges (this reference is to the Division of Revenue Bill)

The National Revenue Fund

- S213 specifies a National Revenue Fund into which ALL money received by the national government must be paid, except for money reasonably excluded by an act of parliament
- Money can be withdrawn from the NRF only in terms of a money bill, i.e. an appropriation by an Act of Parliament, or as a direct charge against the NRF, provided for in the Constitution, for example a province's equitable share of revenue raised nationally (S213(3))
- What about Nkandla?

Constitititutional mandate (contd.)

- **Procurement -** S217 demands a government procurement system that is (1) fair, (2) equitable, (3) transparent, (4) competitive and (5) cost-effective. It also allows for preferential allocation of contracts and for the protection an advancement of persons disadvantaged by unfair discrimination.

- **The Financial and Fiscal Commission (S221)**
  - The president appoints the FFC from a list drawn up in consultation with premiers and organised local government.
  - The FFC functions in terms of an Act of Parliament.
  - The FFC is independent and subject only to the Constitution and the law.
  - They may make recommendations on a wide range of matters relating to government finances (including the Provincial Equitable Share formula)
  - A full account of their recommendations and its acceptance is on their website

Constitititutional mandate (contd.)

Constitititutional mandate (contd.)

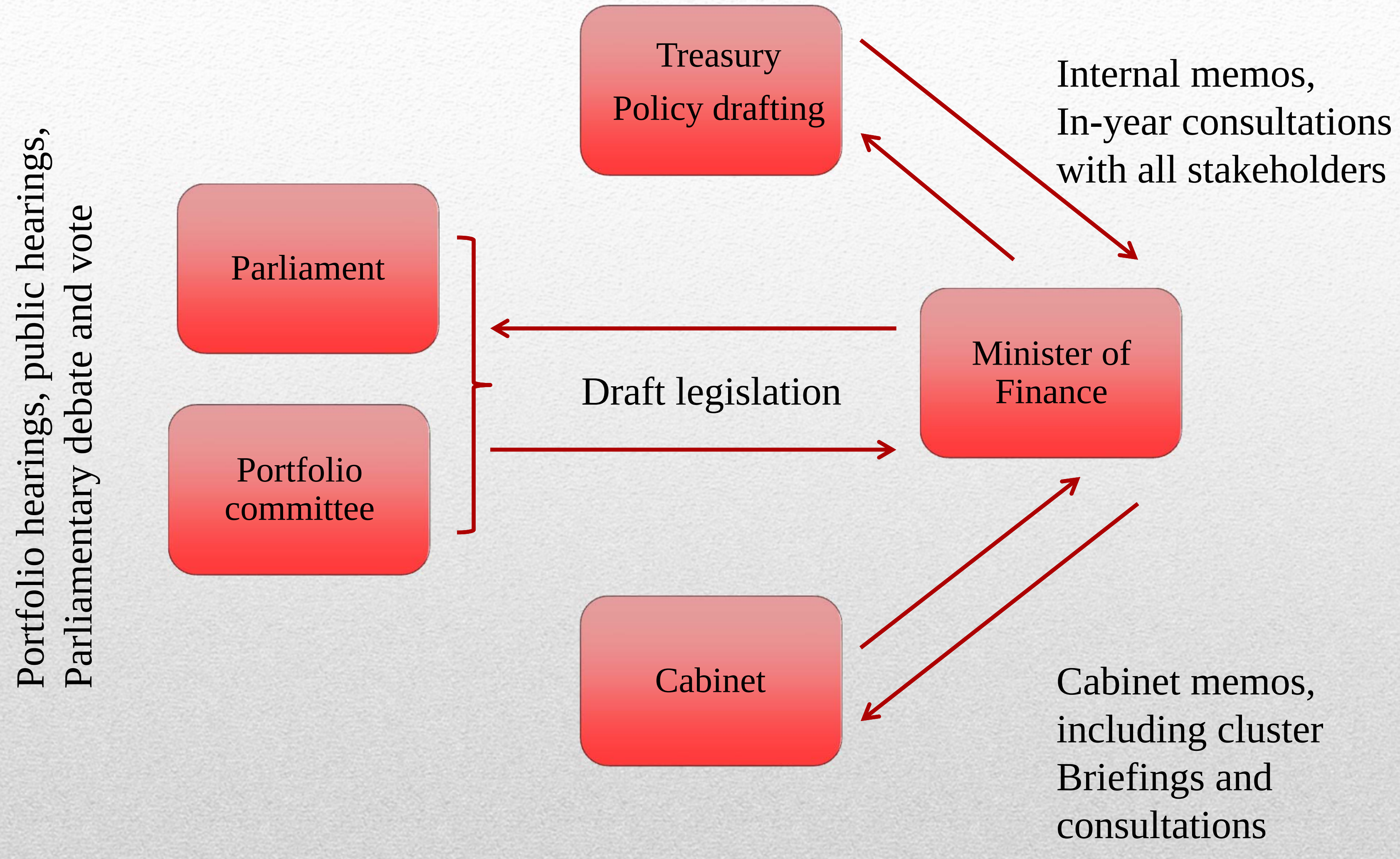
The South African Reserve Bank

- S223 designates the SARB as the central bank of the Republic.
- It is regulated by an act of parliament.
- Its primary objective is defined by S224, i.e. to protect the value of the currency in the interest of balanced and sustainable economic growth.
- In pursuit of this objective it functions independently, but it must consult regularly with the minister of Finance.

S188 assigns the functions of the Auditor-General

- MUST audit and report on the accounts, financial statements and financial management of all three spheres of government and all institutions required by legislation to be audited by the AG
- MAY audit any institution funded from the NRF, a PRF or municipality or ANY institution authorized to receive money for a public purpose
- MUST make all reports public

Chapter 9 – The Auditor-General



The law making process

The macroeconomy

Circular flow in the macroeconomy

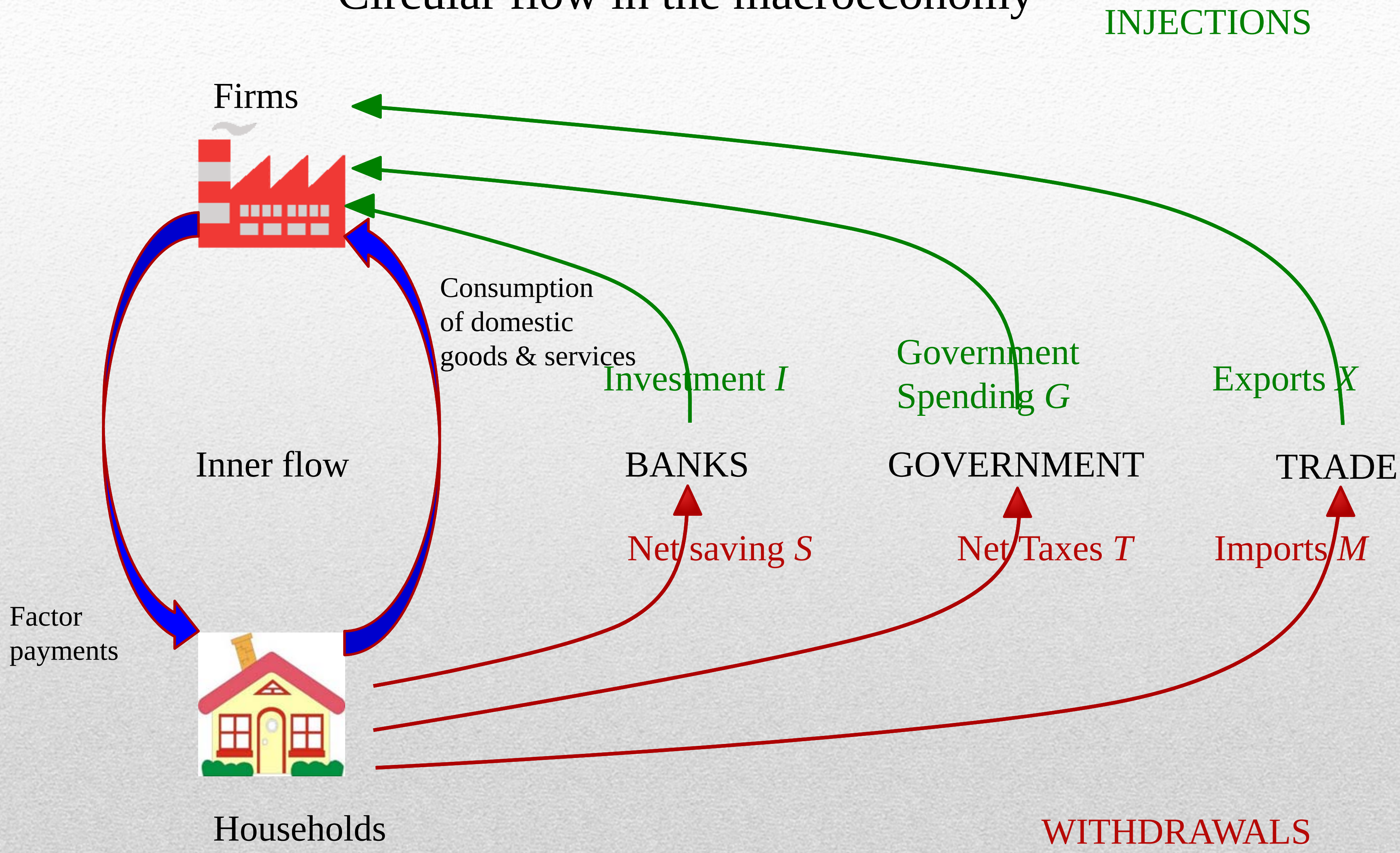


Table 2.2 Macroeconomic performance and projections, 2012 – 2018

Calendar year	2012	2013	2014	2015	2016	2017	2018
Percentage change		**Actual**		**Estimate**		**Forecast**	
Final household consumption	3.4	2.9	1.4	1.4	0.7	1.6	2.2
Final government consumption	3.4	3.3	1.9	0.4	1.2	-0.2	0.2
Gross fixed capital formation	3.6	7.6	-0.4	1.1	0.3	1.4	2.7
Gross domestic expenditure	3.9	1.4	0.6	0.1	1.1	1.7	2.2
Exports	0.1	4.6	2.6	9.5	3.0	4.6	5.2
Imports	6.0	1.8	-0.5	5.3	3.7	4.5	4.9
Real GDP growth	**2.2**	**2.2**	**1.5**	**1.3**	**0.9**	**1.7**	**2.4**
GDP inflation	5.5	6.0	5.8	4.0	6.7	6.3	6.0
GDP at current prices (R billion)	**3 262.5**	**3 534.3**	**3 796.5**	**3 998.9**	**4 305.9**	**4 657.5**	**5 052.8**
CPI inflation	5.7	5.8	6.1	4.6	6.8	6.3	5.9
Current account balance (% of GDP)	-5.0	-5.8	-5.4	-4.1	-4.0	-3.9	-3.9

Source: Reserve Bank, National Treasury

Macroeconomic constraints

ble 3.2 Consolidated fiscal framework, 2012/13 – 2018/19

billion/percentage of GDP	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
		Outcome		Revised estimate		Medium-term estimates	
evenue	**907.6**	**1 008.1**	**1 100.0**	**1 223.1**	**1 324.3**	**1 436.7**	**1 571.6**
	27.3%	*27.9%*	*28.6%*	*30.0%*	*30.2%*	*30.2%*	*30.4%*
on-interest expenditure	950.1	1 034.5	1 116.5	1 245.6	1 308.9	1 403.4	1 509.6
	28.6%	*28.7%*	*29.0%*	*30.6%*	*29.8%*	*29.5%*	*29.2%*
terest payments	93.3	109.6	121.2	135.3	154.3	168.7	185.6
	2.8%	*3.0%*	*3.2%*	*3.3%*	*3.5%*	*3.6%*	*3.6%*
xpenditure	**1 043.4**	**1 144.1**	**1 237.7**	**1 380.9**	**1 463.3**	**1 572.1**	**1 695.2**
	31.4%	*31.7%*	*32.2%*	*33.9%*	*33.3%*	*33.1%*	*32.8%*
udget balance	**-135.9**	**-136.0**	**-137.8**	**-157.9**	**-139.0**	**-135.3**	**-123.6**
	-4.1%	*-3.8%*	*-3.6%*	*-3.9%*	*-3.2%*	*-2.8%*	*-2.4%*
rimary balance	**-42.6**	**-26.4**	**-16.6**	**-22.6**	**15.4**	**33.4**	**62.0**
	-1.3%	*-0.7%*	*-0.4%*	*-0.6%*	*0.4%*	*0.7%*	*1.2%*

urce: National Treasury

- Fiscal policy
  - How much taxes will be collected?
  - What will total government expenditure amount to?
  - What is the shortfall (to be funded with debt) or surplus (to be saved or used to pay off debt)

e 7.8 Total national government debt,[1] 2012/13 – 2018/19

of period	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
ion		Outcome		Estimate		Medium-term estimates	
estic debt	1 241.1	1 441.1	1 632.1	1 822.9	2 003.7	2 179.9	2 352.0
gn debt[2]	124.6	143.7	166.8	232.8	229.9	242.7	254.9
s loan debt	**1 365.7**	**1 584.8**	**1 798.9**	**2 055.7**	**2 233.6**	**2 422.6**	**2 606.9**
National Revenue Fund bank ces	-184.1	-205.3	-214.7	-251.3	-230.2	-227.8	-224.6
oan debt[3]	**1 181.6**	**1 379.5**	**1 584.2**	**1 804.4**	**2 003.4**	**2 194.8**	**2 382.3**
ercentage of GDP:							
ross loan debt	*41.0*	*43.9*	*46.8*	*50.5*	*50.9*	*51.0*	*50.5*
et loan debt	*35.5*	*38.2*	*41.2*	*44.3*	*45.7*	*46.2*	*46.2*
oreign debt	*3.7*	*4.0*	*4.3*	*5.7*	*5.2*	*5.1*	*4.9*
ercentage of gross loan debt:							
oreign debt	*9.1*	*9.1*	*9.3*	*11.3*	*10.3*	*10.0*	*9.8*

nger time series is given in Table 10 of the statistical tables at the back of the Budget Review

mates include revaluation based on National Treasury's projections of exchange rates

loan debt is calculated taking into account the bank balances of the National Revenue Fund (balances of ernment's accounts with the Reserve Bank and commercial banks)

e: National Treasury

National debt

- How everything comes together

The "real" budget in pictures

able T.5 Main budget expenditure ceiling,[1] 2013/14 – 2019/20

R million	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
2014 Budget Review	935 071	1 014 222	1 091 253	1 168 284			
2015 Budget Review		1 006 905	1 081 214	1 152 833	1 250 086		
2015 MTBPS		1 001 789	1 077 527	1 152 833	1 250 086	1 354 422	
2016 Budget Review		1 001 874	1 076 705	1 152 833	1 240 086	1 339 422	
2016 MTBPS			1 074 992	1 144 353	1 229 742	1 323 465	1 435 314

Non-interest spending financed from National Revenue Fund, excluding skills development levy, special appropriations in 2015/16 for Eskom and New Development Bank, debt management and Gold and Foreign Exchange Contingency Reserve Account transactions

- Did the Treasury do what it promised to do?
- What does this say about executive support, or otherwise, for the Treasury and Min of Finance?
- Is it true that political pressure will escalate expenditure?

Centralised state, racial tri-cameral parliament, majority of the country’s population excluded from any form of participation

Four provinces, five “self-governing” territories, and four nominally independent TBVC states.

A public infrastructure serving small white minority to first-world standards; real economic data hiding in the figures of nine homelands.

Debt standstill and no access to international financial markets, inflation above 20% in the mid ‘80s, and still at 11% in 1995.

Lending Rate in South Africa averaged 11.64 percent from 1950 until 2017, reaching an all time high of 25.50 percent in August of 1998

Fiscus split between two government departments, one responsible for making and executing tax policy, collecting taxes and drawing up the budget, and another for overseeing the spending of other government departments.

Fiscal management in 1994

- Fiscal decentralization negotiated as part of the settlement to unify South Africa – 3 spheres
- Consolidating the administrations of 4 provinces and 9 homelands
- Setting up structures for 9 provinces and 284 municipalities
- Modernizing the budget process at the same time as creating institutions in support of fiscal decentralization
- High profile failures included the Johannesburg Metro in 1997, and regular overspending by all provinces

Challenges of 1996 Constitution

- Strong executive support, and centralised oversight role
- Strong institutional memory, professional staff and solid succession planning
- Robust internal policy making processes
- Public Finance Management Act of 1999
- Municipal Finance Management Act of 2003
- Financial and Fiscal Commission established in 1997
- Integrated multi-year budget cycle, comprehensive reporting system and parliamentary oversight
- Rank in terms of openness and budget transparency as rated by the International Budget Partnership
- National Treasury now firmly established as one of the anchoring institutions of our Constitutional democracy

Strong Institutional response

Pres Zuma accuses Treasury of blocking progress with economic transformation – 2 February 2017

Pres Zuma blames “monopoly capital stooges” for Nene fiasco – 22 December 2016

“National Treasury is working against the development and empowerment of black people.” – *Mzwandile Manyi, president of the Progressive Professionals Forum*, 9 September 2016

All finance ministers have been captured by white monopoly capital – Julius Malema 5 September 2016

“National Treasury is the axis of our development agenda,” Van Rooyen said after being sworn in in the capital Pretoria on Thursday. “We need to demystify some of the myths that are coming through around the functionality of this important department. It must be accessible. ” - Des van Rooyen on 10 December 2015

Nenegate 9 December 2015

Treasury recently in the news

- The key pillars of Public Expenditure Management (World Bank Handbook 1998) are:
  - (i) Fiscal Discipline, (ii) Allocation of resources in accordance with priorities, and (iii) Efficient and Effective use of resources in the implementation of priorities
- The crafters of our Constitution have applied their minds to ensure that the nation's financial affairs are managed in an open and transparent manner by the institutions that form the basis of our democracy
- The National Treasury has earned international recognition for its management of the macro economy on behalf of South Africans.
- How much can the Treasury do? The macro economy vs. the real economy

Conclusions

Alam, Asad, Renosi Mokate, and Kathrin A. Plangemann, editors. 2016. Making It Happen: Selected Case Studies of Institutional Reforms in South Africa. Directions in Development. Washington, DC: World Bank. Doi 10.1596/978-1-4648-0768-8. License: Creative Commons Attribution CC BY 3.0 IGO

Pippa Green: Choice not fate: The life and times of Trevor Manuel, Penguin Books, Johannesburg 2008

State-Building in South Africa after Apartheid: The History of the National Treasury - Working Paper by Joel Pearson, Sarita Pillay and Ivor Chipkin, Public Affairs Research Institute 2016

Ismail Momoniat: Fiscal decentralisation in South Africa, in “Managing fiscal decentralisation”, ed. Ehtisham Ahmad and Vito Tanzi, Routlege London 2002

For further reading

Any questions?

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Thank you!