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

Presentation to the University of the Free State Business School
Pieter Roux
09 February 2017
Lecture outline

- 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
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)
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• Money can be withdrawn from the NRF only in terms of a money bill, i.e. an appropriation by an Act of Parliament, or as a direct charge against the NRF, provided for in the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?

Constitutional 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

**Constitutional 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.

Constitutional mandate (contd.)
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
The law making process

- Treasury Policy drafting
  - Internal memos, In-year consultations with all stakeholders
- Minister of Finance
- Cabinet memos, including cluster Briefings and consultations
- Draft legislation
  - Parliament
  - Portfolio committee
- Portfolio hearings, public hearings, Parliamentary debate and vote
The macroeconomy
Circular flow in the macroeconomy

INJECTIONS

TRADE

Exports X

Imports M

GOVERNMENT

Net Taxes T

Government Spending G

Net saving S

Investment I

BANKS

Factor payments

Consumption of domestic goods & services

Inner flow

Households

Firms
## Table 2.2 Macroeconomic performance and projections, 2012 – 2018

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

*Source: Reserve Bank, 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)

### Table 3.2 Consolidated fiscal framework, 2012/13 – 2018/19

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</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>907.6</td>
<td>1 008.1</td>
<td>1 100.0</td>
<td>1 223.1</td>
<td>1 324.3</td>
<td>1 436.7</td>
<td>1 571.6</td>
</tr>
<tr>
<td>% of GDP</td>
<td>27.3%</td>
<td>27.9%</td>
<td>28.6%</td>
<td>30.0%</td>
<td>30.2%</td>
<td>30.2%</td>
<td>30.4%</td>
</tr>
<tr>
<td><strong>Non-interest Expenditure</strong></td>
<td>950.1</td>
<td>1 034.5</td>
<td>1 116.5</td>
<td>1 245.6</td>
<td>1 308.9</td>
<td>1 403.4</td>
<td>1 509.6</td>
</tr>
<tr>
<td>% of GDP</td>
<td>28.6%</td>
<td>28.7%</td>
<td>29.0%</td>
<td>30.6%</td>
<td>29.6%</td>
<td>29.5%</td>
<td>29.2%</td>
</tr>
<tr>
<td><strong>Interest Payments</strong></td>
<td>93.3</td>
<td>109.6</td>
<td>121.2</td>
<td>135.3</td>
<td>154.3</td>
<td>168.7</td>
<td>185.6</td>
</tr>
<tr>
<td>% of GDP</td>
<td>2.8%</td>
<td>3.0%</td>
<td>3.2%</td>
<td>3.3%</td>
<td>3.5%</td>
<td>3.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td>1 043.4</td>
<td>1 144.1</td>
<td>1 237.7</td>
<td>1 380.9</td>
<td>1 463.3</td>
<td>1 572.1</td>
<td>1 695.2</td>
</tr>
<tr>
<td>% of GDP</td>
<td>31.4%</td>
<td>31.7%</td>
<td>32.2%</td>
<td>33.9%</td>
<td>33.3%</td>
<td>33.1%</td>
<td>32.8%</td>
</tr>
<tr>
<td><strong>Budget Balance</strong></td>
<td>-135.9</td>
<td>-136.0</td>
<td>-137.8</td>
<td>-157.9</td>
<td>-139.0</td>
<td>-135.3</td>
<td>-123.6</td>
</tr>
<tr>
<td>% of GDP</td>
<td>-4.1%</td>
<td>-3.6%</td>
<td>-3.6%</td>
<td>-3.9%</td>
<td>-3.2%</td>
<td>-2.8%</td>
<td>-2.4%</td>
</tr>
<tr>
<td><strong>Primary Balance</strong></td>
<td>-42.6</td>
<td>-26.4</td>
<td>-16.6</td>
<td>-22.6</td>
<td>15.4</td>
<td>33.4</td>
<td>62.0</td>
</tr>
<tr>
<td>% of GDP</td>
<td>-1.3%</td>
<td>-0.7%</td>
<td>-0.4%</td>
<td>-0.6%</td>
<td>0.4%</td>
<td>0.7%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

Source: National Treasury
### 7.8 Total national government debt,\(^1\) 2012/13 – 2018/19

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<tr>
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</thead>
<tbody>
<tr>
<td>domestic debt</td>
<td>1 241.1</td>
<td>1 441.1</td>
<td>1 632.1</td>
<td>1 822.9</td>
<td>2 003.7</td>
<td>2 179.9</td>
<td>2 352.0</td>
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<tr>
<td>non loan debt</td>
<td>124.6</td>
<td>143.7</td>
<td>166.8</td>
<td>232.8</td>
<td>229.9</td>
<td>242.7</td>
<td>254.9</td>
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<tr>
<td>National Revenue Fund bank balances</td>
<td>-184.1</td>
<td>-205.3</td>
<td>-214.7</td>
<td>-251.3</td>
<td>-230.2</td>
<td>-227.8</td>
<td>-224.6</td>
</tr>
<tr>
<td>total debt (^3)</td>
<td>1 181.6</td>
<td>1 379.5</td>
<td>1 584.2</td>
<td>1 804.4</td>
<td>2 003.4</td>
<td>2 194.8</td>
<td>2 382.3</td>
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<tr>
<td>percentage of GDP:</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>gross loan debt</td>
<td>41.0</td>
<td>43.9</td>
<td>46.8</td>
<td>50.5</td>
<td>50.9</td>
<td>51.0</td>
<td>50.5</td>
</tr>
<tr>
<td>net loan debt</td>
<td>35.5</td>
<td>38.2</td>
<td>41.2</td>
<td>44.3</td>
<td>45.7</td>
<td>46.2</td>
<td>46.2</td>
</tr>
<tr>
<td>foreign debt</td>
<td>3.7</td>
<td>4.0</td>
<td>4.3</td>
<td>5.7</td>
<td>5.2</td>
<td>5.1</td>
<td>4.9</td>
</tr>
<tr>
<td>percentage of gross loan debt:</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>foreign debt</td>
<td>9.1</td>
<td>9.1</td>
<td>9.3</td>
<td>11.3</td>
<td>10.3</td>
<td>10.0</td>
<td>9.8</td>
</tr>
</tbody>
</table>

\(^1\) Longer time series is given in Table 10 of the statistical tables at the back of the Budget Review.

\(^2\) Estimates include revaluation based on National Treasury’s projections of exchange rates.

\(^3\) Loan debt is calculated taking into account the bank balances of the National Revenue Fund (balances of government’s accounts with the Reserve Bank and commercial banks).

Source: National Treasury
How everything comes together
How well is the Treasury doing?
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 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
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
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

“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
Conclusions

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


Any questions?
Thank you!

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