

**ieri**Institute for Economic
Research on Innovation

TSHWANE UNIVERSITY OF TECHNOLOGY

Planning & Budgeting in South Africa: Some Reflections on Practices & Prejudices

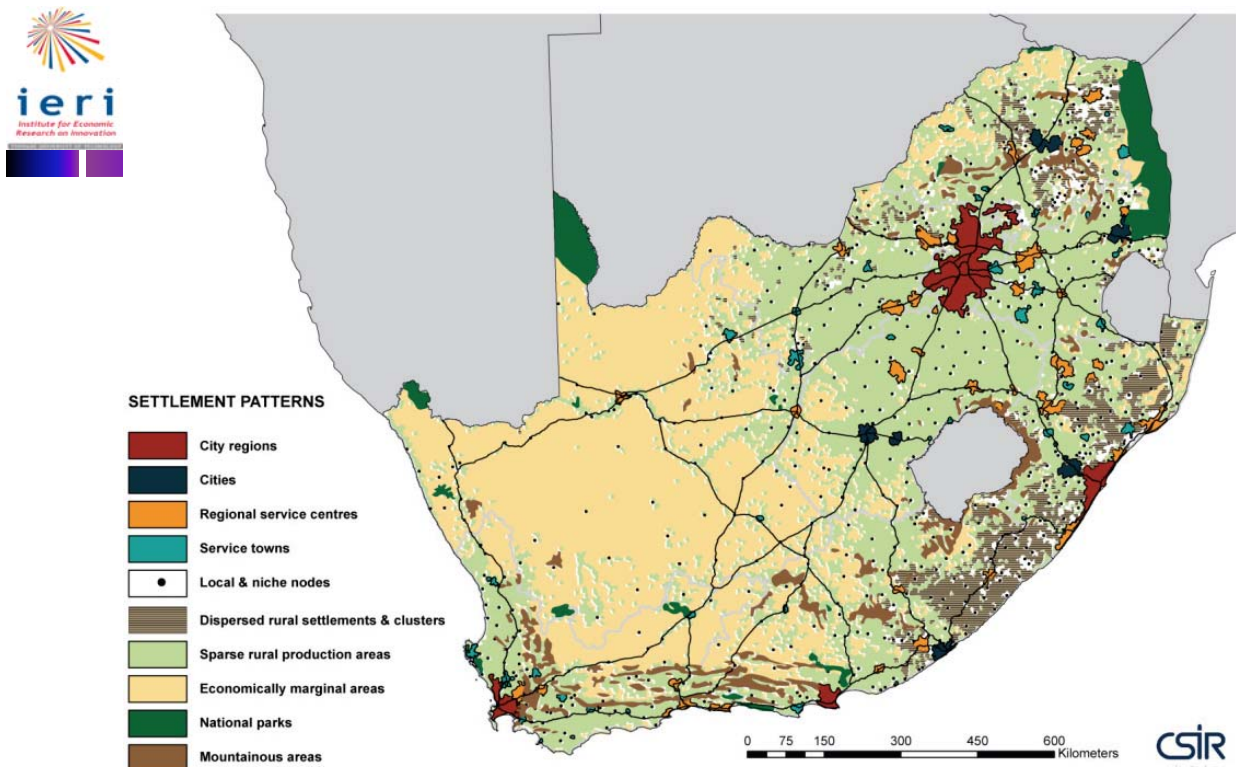
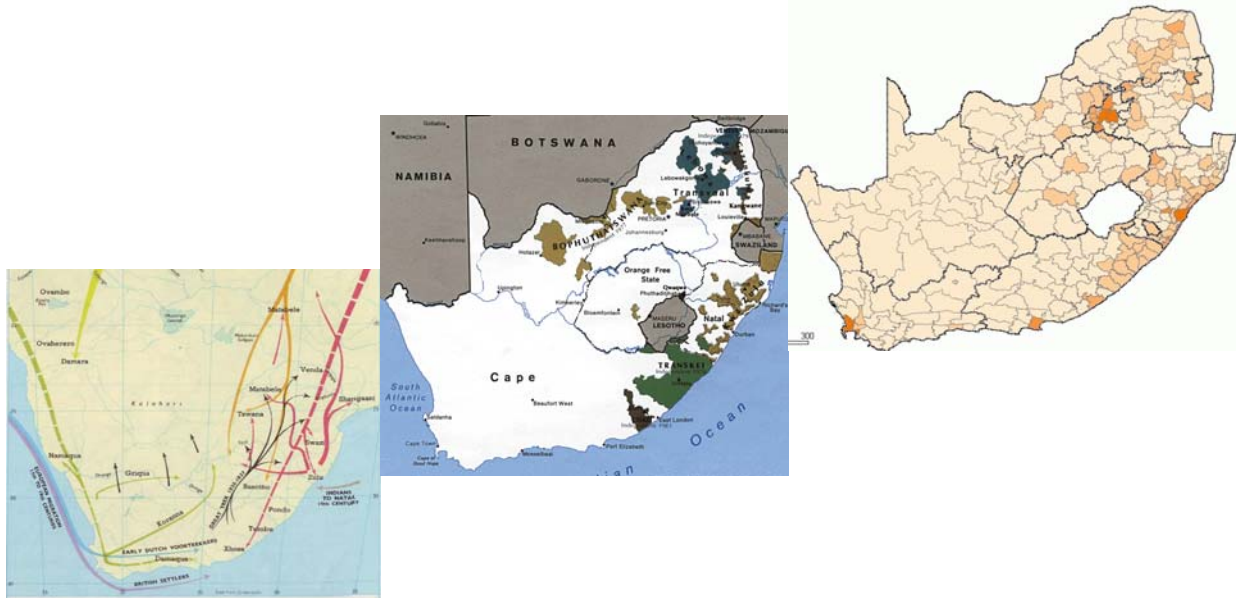
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World Economy Research Centre

9th March 2012, Havana, Cuba**ieri**
Institute for Economic
Research on Innovation

Outline of Presentation

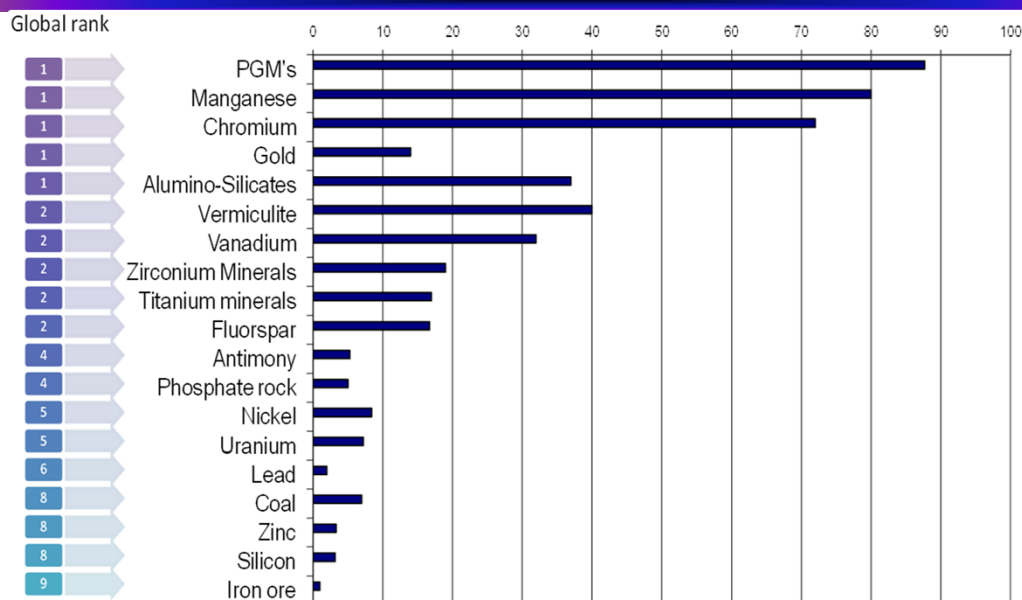
1. Introduction
2. Periodisation of Revolution & Reform
3. Policy, Planning & Budgeting Cycles
4. Performance Monitoring & Evaluation
5. Reflections & Challenges



Geo-physical Context

South Africa is the world's
richest country in terms of the
value of its mineral reserves,
estimated at US\$2.5 trillion
- Citigroup(2010)

SA Mineral Reserves (2008)



SA in Future World Minerals

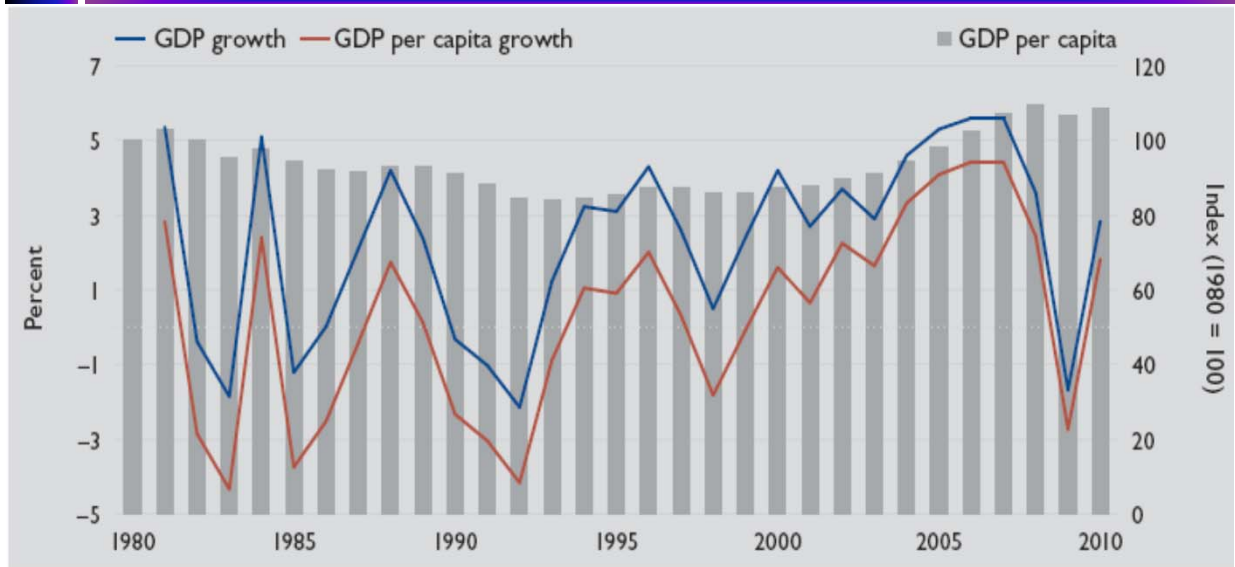
Mineral	Unit	RESERVES			PRODUCTION 2009			LIFE
		mass	%World	Rank	Mass	%World	Rank	Years
Alumino-silicates	Mt	51	*	*	0.265	60.2	1	192
Antimony	kt	350	16.7	3	3	1.6	3	117
Chromium Ore	Mt	5500	72.4	1	6.762	*	1	813
Coal	Mt	30408	7.4	6	250.6	3.6	7	121
Copper	Mt	13	2.4	6	0.089	*	*	146
Fluorspar	Mt	80	17	2	0.18	3.5	5	444
Gold	t	6000	12.7	1	197	7.8	5	30
Iron Ore	Mt	1500	0.8	13	55.4	3.5	6	27
Iron Ore - including BC	Mt	25000	~10	*	55.4	3.5	6	451
Lead	kt	3000	2.1	6	49	1.2	10	61
Manganese Ore	Mt	4000	80	1	4.576	17.1	2	874
Nickel	Mt	3.7	5.2	8	0.0346	2.4	12	107
PGMs	t	70000	87.7	1	271	58.7	1	258
Phosphate Rock	Mt	2500	5.3	4	2.237	1.4	11	1118
Titanium Minerals	Mt	71	9.8	2	1.1	19.2	2	65
Titanium- including BC	Mt	400	65	1	1.1	19.2	2	364
Uranium	kt	435	8	4	0.623	1.3	10	698
Vanadium	kt	12000	32	2	11.6	25.4	1	1034
Vermiculite	Mt	80	40	2	0.1943	35	1	412
Zinc	Mt	15	3.3	8	0.029	0.2	25	517
Zirconium	Mt	14	25	2	0.395	32	2	35

SA Mineral Production & Exports

(2009)

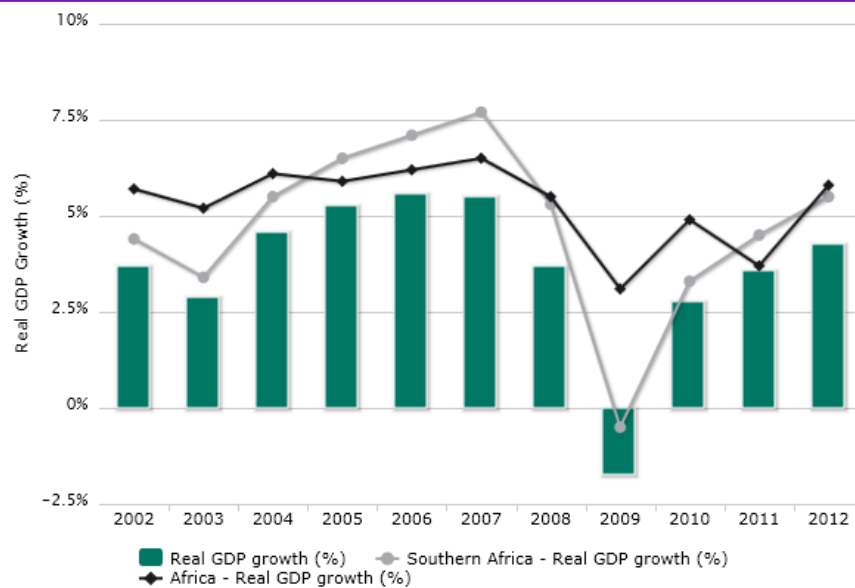
COMMODITY	Unit	RESERVES			Unit	PRODUCTION			Unit	EXPORTS		
		Mass	%	Rank		Mass	%	Rank		Mass	%	Rank
Aluminium*		*	*	*	kt	1025			kt	538	3,1	7
Alumino-silicates	Mt	51	*	*	kt	265	60,2	1	kt	109		*
Antimony	kt	350	16,7	3	t	3 000	1,6	3	t	*	*	*
Chromium Ore	Mt	5 500	72,4	1	kt	6 762			kt	1035		
Coal	Mt	30 408	7,4	6	Mt	250,6	3,6	7	Mt	60,5	6,4	5
Copper	Mt	13	2,4	14	kt	89	*	*	kt	27	*	*
Ferro-chrome		*	*	*	kt	2 346	39,2	1	kt	2 621	56,5	1
Ferro-Mn/Fe-Si-Mn		*	*	*	kt	392	*	*	kt	411	*	*
Ferro-silicon		*	*	*	kt	148,9	2,9	6	kt	82,0	2,1	1
Fluorspar	Mt	80	17	2	kt	180	3,5	5	kt	*	*	*
Gold	t	6 000	12,7	1	t	197	7,8	5	t	180	*	*
Iron Ore	Mt	1 500	0,8	13	Mt	55,4	3,5	6	Mt	44,6	4,7	5
Lead	kt	3 000	2,1	6	kt	49	1,2	10	kt	47	1,9	14
Manganese Ore	Mt	4 000	80,0	1	kt	4 576	17,1	2	kt	3 978	26,6	2
Nickel	Mt	3,7	5,2	8	kt	34,6	2,4	12	kt	27,3	*	*
PGMs	t	70 000	87,7	1	t	271	58,7	1	t	251	*	*
Phosphate Rock	Mt	2 500	5,3	4	kt	2 237	1,4	11	kt	0	*	*
Silicon Metal		*	*	*	kt	38,6	2,8	6	kt	38,4	3,5	6
Silver		*	*	*	t	77,8	0,4	20	t	70	*	*
Titanium Minerals	Mt	71	9,8	2	kt	1 100	19,2	2		*	*	*
Uranium	kt	435	8	4	t	623	1,3	10		*	*	*
Vanadium	kt	12 000	32,0	2	kt	11,6	25,4	1	kt	11,9	*	*
Vermiculite	Mt	80	40,0	2	kt	194,3	35	1	kt	164,6	*	*
Zinc	Mt	15	3,3	8	kt	29	0,2	25	kt	5	0,1	24
Zirconium	Mt	14	25	2	kt	395	32	2		*	*	*

South African GDP Performance



Source: Statistics South Africa, World Bank World Development Indicators data, and World Bank staff calculations.

GDP Growth in South Africa





2011 GDP Findings

- ❑ Real gross domestic product at market prices increased by 3.1% (2011)
 - ❑ following an increase of 2.9% (2010)



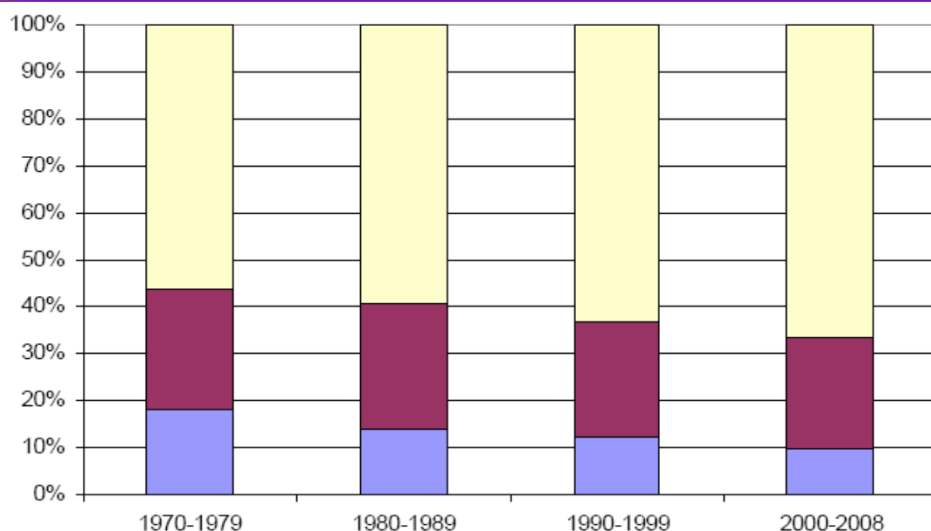
2011 GDP Findings 2

- ❑ Nominal GDP estimated at R3 trillion in 2011 (R303 billion more than in 2010)
 - ❑ Finance, real estate and business services R565 billion (R43 billion);
 - ❑ General government services - R434 billion (R49 billion);
 - ❑ Wholesale, retail and motor trade, catering and accommodation industry - R386 billion (R44 billion);
 - ❑ Mining and quarrying industry expanded by to R260 billion (R33 billion)

2011 GDP Findings 3

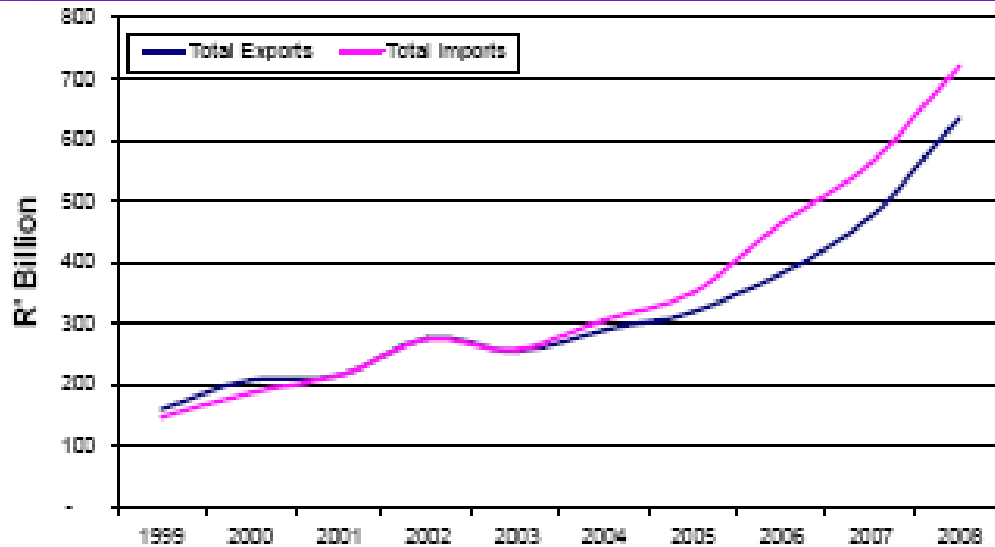
- ❑ Structure of the economy by nominal value added (2011):
 - ❑ Finance, real estate and business services – 21.2 %
 - ❑ General government – 16.3%
 - ❑ Wholesale, retail and motor trade, catering and accommodation – 14.5%
 - ❑ Manufacturing industry – 13.4%

Average Share of Value Added at Basic Prices by Main Economic Sectors



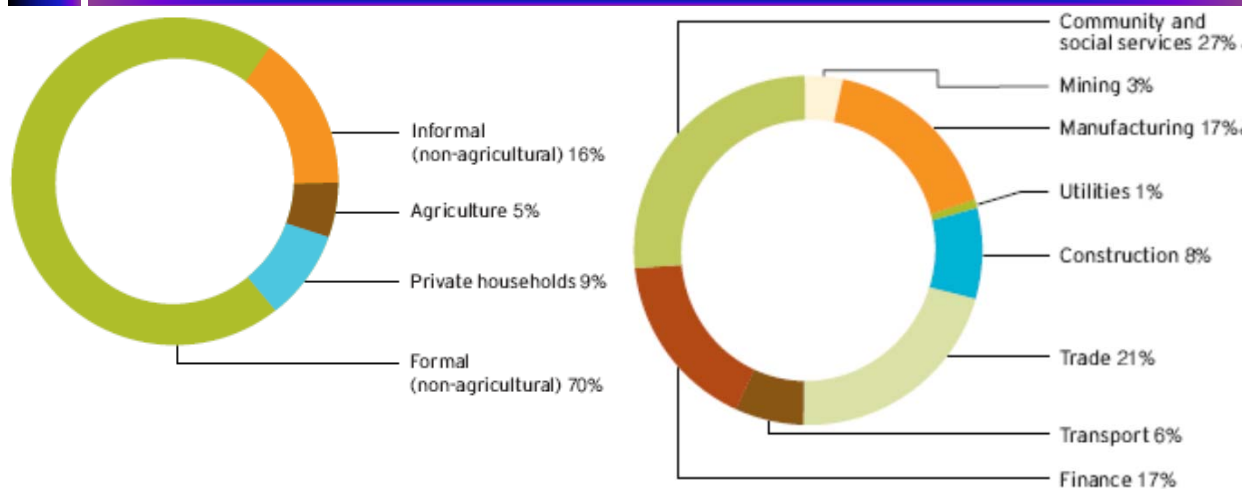
Source: CAMCO & TIPS, 2010

South Africa's Total Imports & Exports

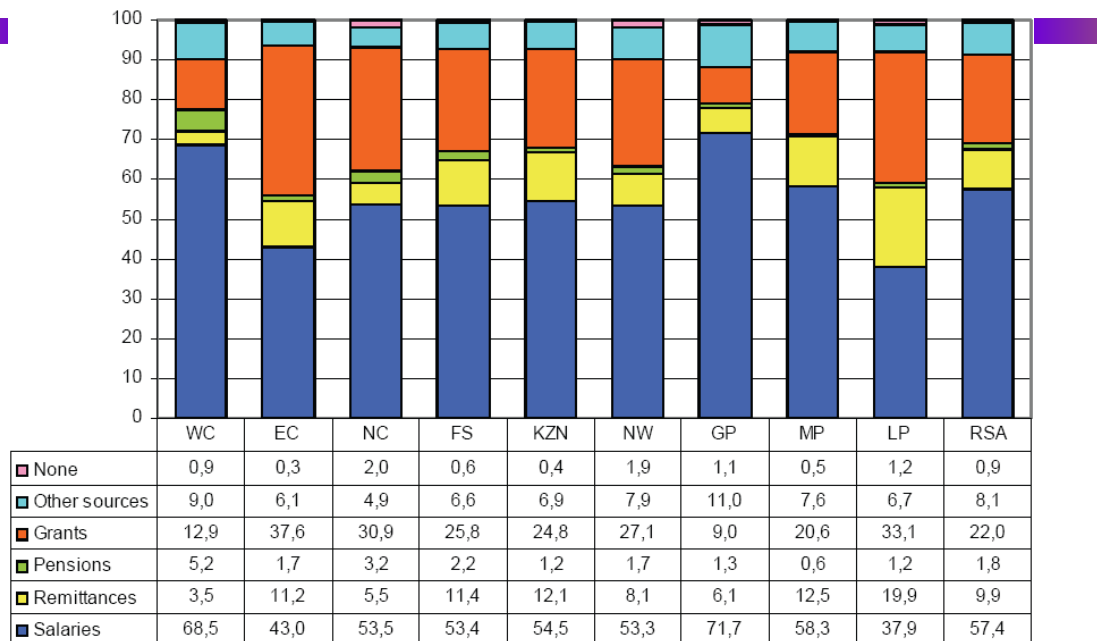


Source: CAMCO & TIPS, 2010

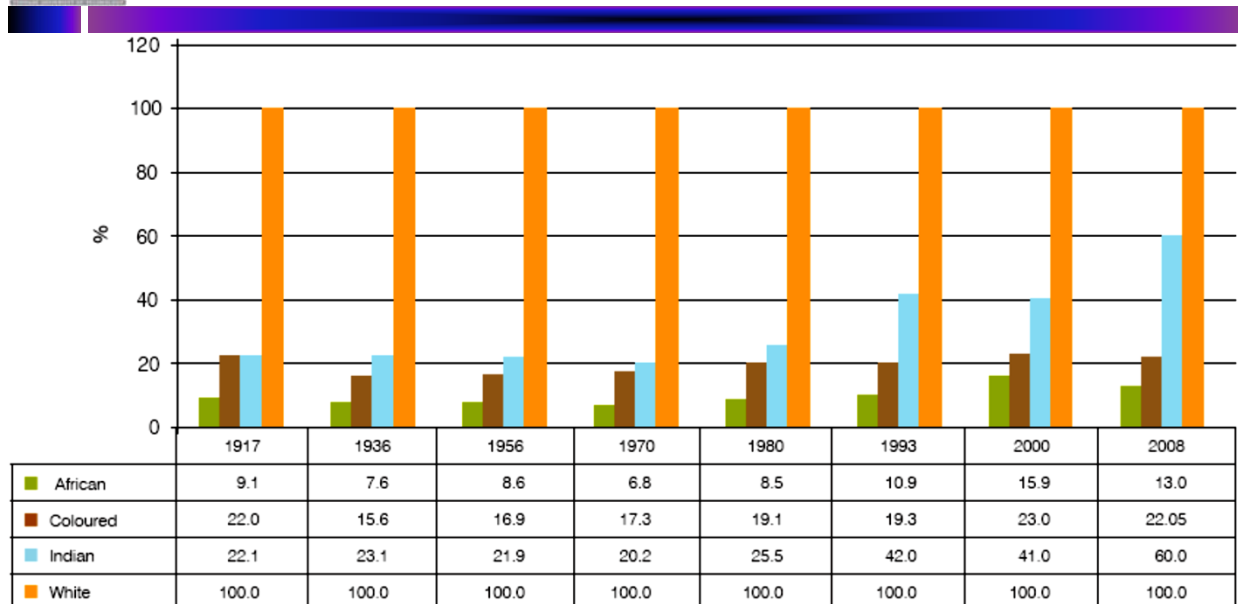
Employment in SA (2010)



Sources of Household Income (2010)



Annual per capita personal income by race





Employment Issues

- ❑ *Out of a possible 32 million working age South African's:*
- ❑ 13.1 million people employed
 - ❑ 9.5 (Formal), 2.2 (Informal), 0.6 (Agricultural), 1.1 (Private Households)
 - ❑ Median monthly earnings of R2, 900
 - ❑ 30% Unionised
 - ❑ 4.2% underemployed
- ❑ 4.3 million unemployed
 - ❑ Majority under 35 years old
 - ❑ 60% not completed secondary education
- ❑ 14.6 million people not economically active
 - ❑ 2.0 million discouraged work seekers
 - ❑ 10 million < 35 years old

Sources: STATSSA (2011)



Main Traditions

- ❑ **Conventional/ Conservative**
 - ❑ *Apartheid represented Separate Development based on the Scientific Racism ...*
- ❑ **Liberal**
 - ❑ *Apartheid constrained Capitalist Development ...*
- ❑ **Radical**
 - ❑ *Apartheid built South African Capitalism ...*



Early Historical Periodisation

	Until 1652	Until late 19 th Century	1910	1948	1970s
Political Economy	Hunter-Gatherer, Agrarian, Mining,	Slavery, Articulation of Modes of Production	Settler Colonialism	Racial Capitalism	Racial Capitalism
Ideology	Feudal/ Communal	Multiplicity coexisting and competing	Imperial	Grand Apartheid	grand Apartheid
Public Management	Traditional	Autonomous though increasingly engaged	Undemocratic Imperial	Undemocratic Conservative	Undemocratic Increasingly autocratic
Economic Policy		Acquisition through violence	Dependency	Affirmative Action & Empowerment	Import Substitution Industrialisation



Recent Periodisation

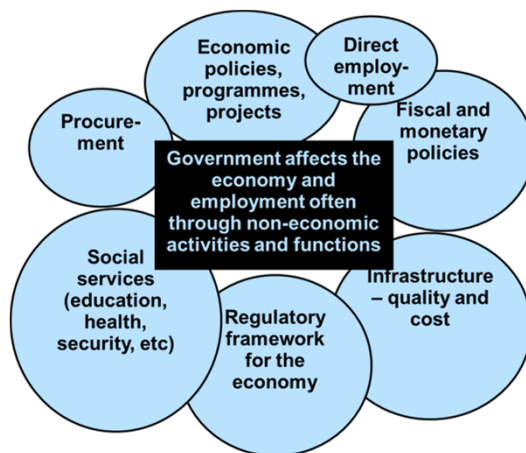
	1980	1990	1994	1997	2001	2007
Political Economy	Siege Economy	Siege Economy	Mixed	Mixed Market-led	Mixed Market-led	Mixed State-led
Ideology	Apartheid	Dual Power	Keynesianism	Structural Adjustment	Neo-liberalism	Neo-liberalism
Public Management	Authoritarian - Military	<i>Negotiations</i>	Democratic Developmental	New Public Management	NPM	NPM
Economic Policy	Normative Economic Model	<i>Normative Economic Model</i>	Reconstruction and Development Programme	Growth, Employment And Redistribution Strategy	Accelerated and Shared Growth Initiative for SA	New Growth Plan

Domestic Economic Diagnosis

- ❑ *The economy does not serve the interests of all South Africans*
- ❑ *Poverty levels are high and inequality is extremely high and persistent*
- ❑ *The economy is shaped by its history as a commodity producer operating in an environment of abundant resources, and is highly resource intensive*
- ❑ *Apartheid distorted the economy in ways that undermine both South Africa's competitiveness and the potential of its people*
- ❑ *Power relations in the economy are highly unequal and this gives rise to outcomes that are highly unequal by international standards*
- ❑ *While there are pockets of excellence, major parts of the economy are uncompetitive, with high rates of concentration, high margins and high cost structures in both the private sector and state-owned enterprises*
- ❑ *The democratic government has failed to significantly alter the pattern of growth and development*

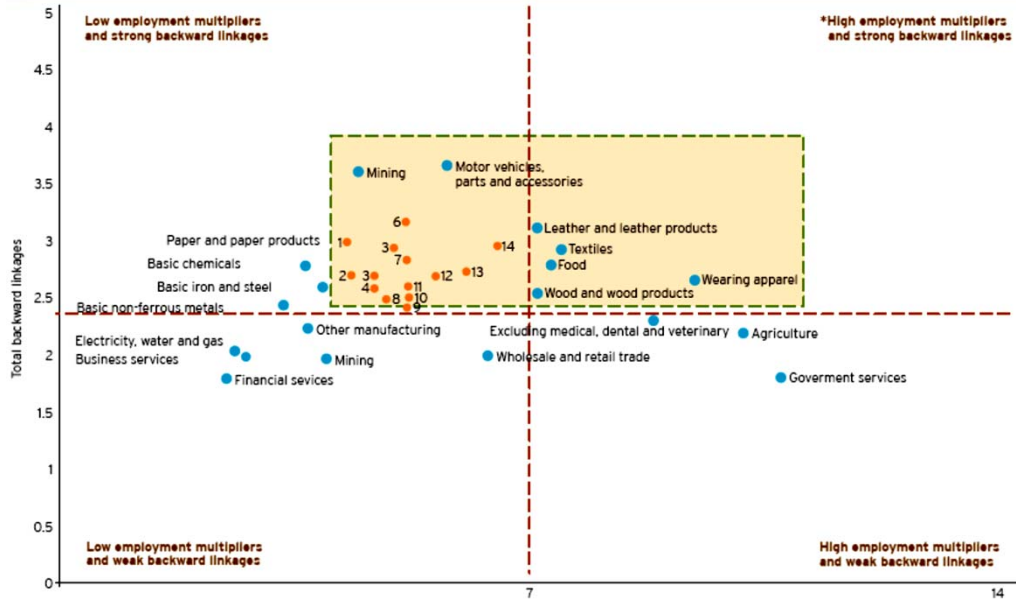
Sources: NPC (2011)

Economic Development



- ❑ Policy Shifts & Change of Focus
- ❑ **RDP**: Shape all government services to support economic inclusion
- ❑ **GEAR**: Macroeconomic stability to encourage investment
- ❑ **AsgiSA**: Skills, infrastructure and competitive currency plus sector strategies
- ❑ **NGP**: Macro and micro package to ensure growth and shift to more employment-intensive growth path; social dialogue to build solidarity and mobilisation

Industrial Policy Action Plan 2



High employment multipliers and strong backward linkages (IPAP2)

- | | |
|---|---|
| 1. Other chemicals and man-made fibres | 8. Non-metallic minerals |
| 2. Furniture | 9. Beverages |
| 3. Plastic products | 10. Glass and glass products |
| 4. Television, radio and communications equipment | 11. Professional and scientific equipment |
| 5. Electrical machinery and apparatus | 12. Metal products excluding machinery |
| 6. Paper and paper products | 13. Machinery and equipment |
| 7. Rubber products | 14. Footwear |



NPC Main Challenges

- ❑ Unemployment;
- ❑ Income inequality;
- ❑ Poor-quality education;
- ❑ Poorly located and insufficient infrastructure;
- ❑ Resource intensity of exports; &
- ❑ Skewed spatial patterns.



NPC Proposed 'Plan' [June 2012]

1. Raising exports in areas where the economy has endowments and comparative advantage;
2. Increasing the size and effectiveness of the innovation system;
3. Improving the functioning of the labour market to make it more labour absorbing;
4. Supporting small business through better coordination of support agencies, development finance institutions, and public and private incubators;
5. Improving the skills base through better education and vocational training;
6. Increasing infrastructure investment to lower costs, raise productivity and broaden economic participation;
7. Reducing regulatory burdens in sectors where the private sector is the main investor; &
8. Improving the capacity of the state to effectively implement economic policy.



NPC Proposed Interventions

- ❑ Expand economic opportunity for all through investing in infrastructure, diversifying exports, strengthening links to faster-growing economies, enacting reforms to lower the cost of doing business, reducing constraints to growth in various sectors, moving to more efficient and climate-friendly production systems, and encouraging entrepreneurship and innovation.



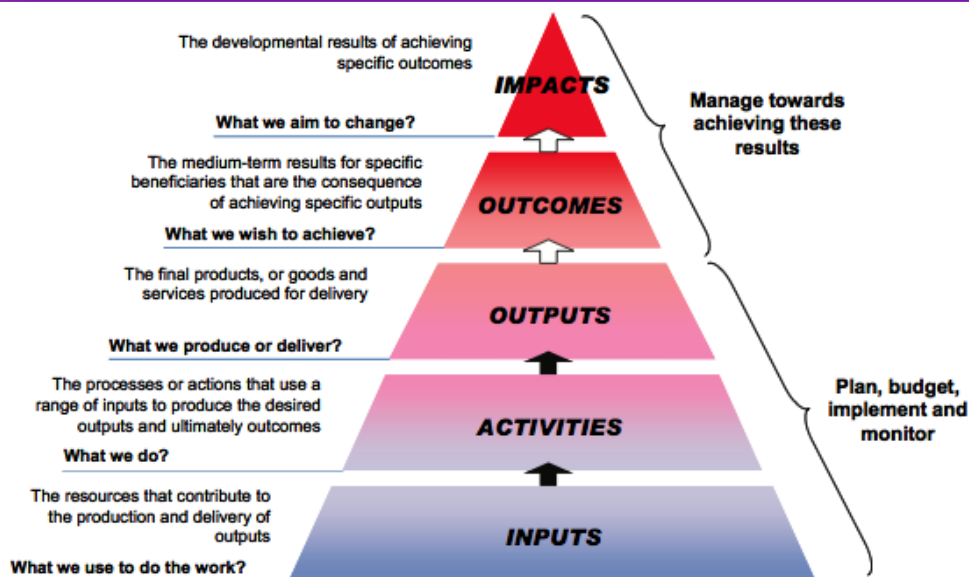
NPC Expected Outputs

- ❑ Improving infrastructure and network services that support industries such as mining and agriculture, as well as new, dynamic industries, will be the focus of a more labour-absorbing growth path.
- ❑ Regulatory reform, improved competitiveness and an enabling investment climate will boost employment and growth prospects.

NPC Expected Outcomes

- Lower living costs and improvements in the skills base will improve the ability of individuals to respond to job openings and economic downturns. Combined with higher labour market participation, earnings moderation will help to lower the level of income inequality.

Results-based Management





National Developmental Outcomes

1. Improved quality of basic education.
2. A long and healthy life for all South Africans.
3. All people in South Africa are and feel safe.
4. Decent employment through inclusive economic growth.
5. A skilled and capable workforce to support an inclusive growth path.
6. An efficient, competitive and responsive economic infrastructure network.
7. Vibrant, equitable and sustainable rural communities with food security for all.
8. Sustainable human settlements and improved quality of household life.
9. A responsive, accountable, effective and efficient local government system.
10. Environmental assets and natural resources are well protected and continually enhanced.
11. Create a better South Africa and contribute to a better and safer Africa and World.
12. An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship

▣ *Presidency (2010)*



34 Delivery Agreements

- ▣ Refined and provided more detail to the outputs, targets, indicators and key activities for each outcome
- ▣ Identified required inputs and clarify roles and responsibilities
- ▣ Spelt out who will do what, by when and with what resources
- ▣ Unpacked each outcome and each output and the requirements to reach the targets
- ▣ Details include:
 - ▣ legislative and regulatory regime
 - ▣ Institutional environment
 - ▣ Decision-making processes and rights
 - ▣ Resources needed and re-allocation of resources where appropriate

▣ *Presidency (2011)*



Performance Monitoring & Evaluation

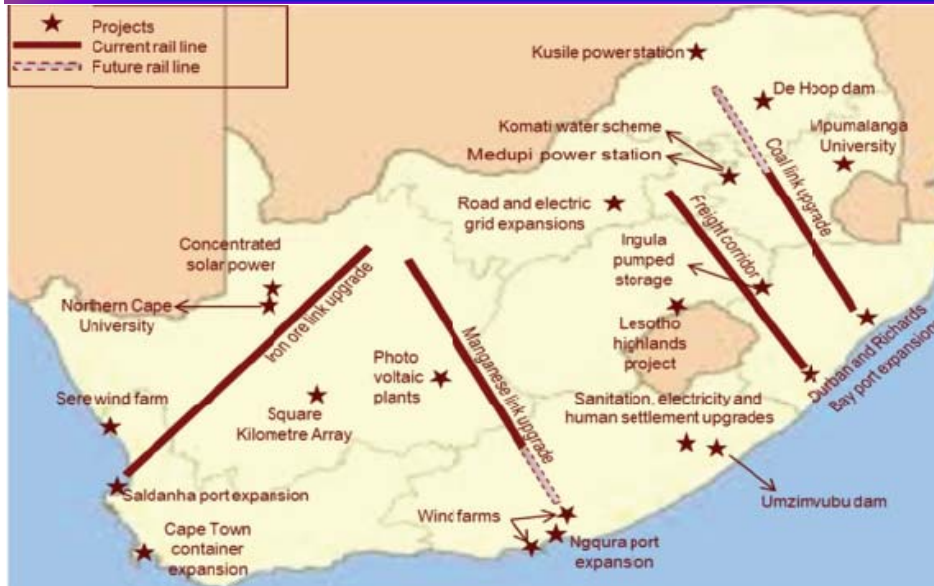
- ❑ Outcomes-based approach for government-wide monitoring and evaluation
- ❑ Evaluation = *The systematic collection and objective analysis of evidence on public policies, programmes, projects, functions and organisations to assess issues such as relevance, performance (effectiveness and efficiency) and value for money, and recommend ways forward*
- ❑ 6 Types: Diagnosis, Synthesis, Design evaluation, Implementation evaluation, Impact evaluation



Role of the SA State (post-2007)

- ❑ Health and education services
- ❑ Household infrastructure
- ❑ Physical and social security services and regulations
- ❑ Support for economic development:
 - ❑ Regulatory frameworks
 - ❑ Economic infrastructure (logistics, energy, water, waste removal)
 - ❑ Skills development
 - ❑ Subsidies, incentives and investments

SA Infrastructure Expansion 2012



Legislative inputs to Budget (2009)

- ❑ *Money Bills Amendment Procedure and Related Matters Act prescribes that the Minister of Finance must submit a report to Parliament at the time of the budget explaining how the Division of Revenue Bill and the national budget give effect to, or the reasons for not taking into account, the recommendations contained in:*
 - ❑ Budgetary Review and Recommendation reports submitted by **Committees of the National Assembly**;
 - ❑ Reports on the Fiscal Framework proposed in the Medium Term Budget Policy Statement submitted by the **Finance Committees**; &
 - ❑ Reports on the proposed Division of Revenue and the Conditional Grant allocation to Provinces and Local Governments set out in the MTBPS submitted by the **Appropriations Committees**.



Parliamentary Budgetary Review & Recommendations

- ❑ Reports must provide an:
 - ❑ Assessment of the department's service delivery performance given available resources
 - ❑ Assessment of the effectiveness and efficiency of the department's use and forward allocation of available resources
- ❑ May include recommendations on the forward use of resources



Parliamentary BRR General Issues in 2012

- ❑ Filling vacant positions
- ❑ Reducing staff turnover
- ❑ Enhancing capacity
- ❑ Use of external consultants
- ❑ Disabled workers
- ❑ Monitoring and evaluation
- ❑ Stronger internal audit and financial controls
- ❑ Engagement with the Auditor General
- ❑ Better supply chain management
- ❑ Prompt payment of service providers
- ❑ Regular and credible reporting
- ❑ Greater coordination across government



Cooperative Governance

- ❑ *Division of Revenue Act determines the equitable division of nationally raised revenue between:*
 - ❑ National government;
 - ❑ 9 Provinces; &
 - ❑ 278 Municipalities.
- ❑ This budget process takes into account the powers and functions assigned to each sphere of government
 - ❑ *Intergovernmental Fiscal Relations Act prescribes the process for determining the equitable sharing and allocation of revenue raised nationally*
 - ❑ Financial & Fiscal Commission



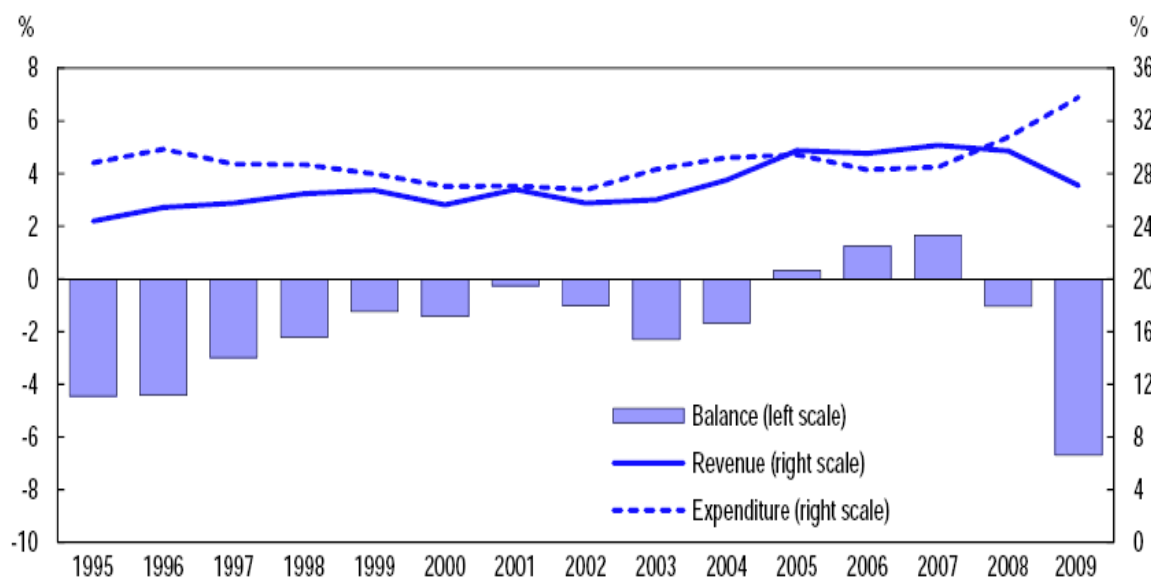
Provincial Equitable Share Weighting (2012)

- ❑ **Education** share (48 per cent)
 - ❑ based on the size of the school-age population (ages 5-17) and the number of learners (grade R to 12) enrolled in public ordinary schools.
- ❑ **Health** share (27 per cent)
 - ❑ based on a combination of a risk-adjusted capitation index for the population, which takes into account the health risks associated with the demographic profile of the population and the relative share of case loads in hospitals.
- ❑ **Basic** share (16 per cent) derived from each province's share of the national population.
- ❑ **Institutional** component (5 per cent) divided equally between the provinces
- ❑ **Poverty** component (3 per cent) reinforcing the redistributive bias of the formula
- ❑ **Economic output** component (1 per cent) based on GDP-R data

Local Government Fiscal Framework

- ❑ Majority of local government revenues are raised by municipalities themselves through their substantial revenue-raising powers, including property rates and service charges
- ❑ Proportion of revenue coming from transfers and own revenues varies dramatically across municipalities:
 - ❑ Poor rural municipalities receiving most of their revenue from transfers
 - ❑ urban municipalities raise the majority of their own revenues
- ❑ Equitable share is an unconditional transfer that enables municipalities to provide free basic services to poor households and covers basic municipal administration costs.

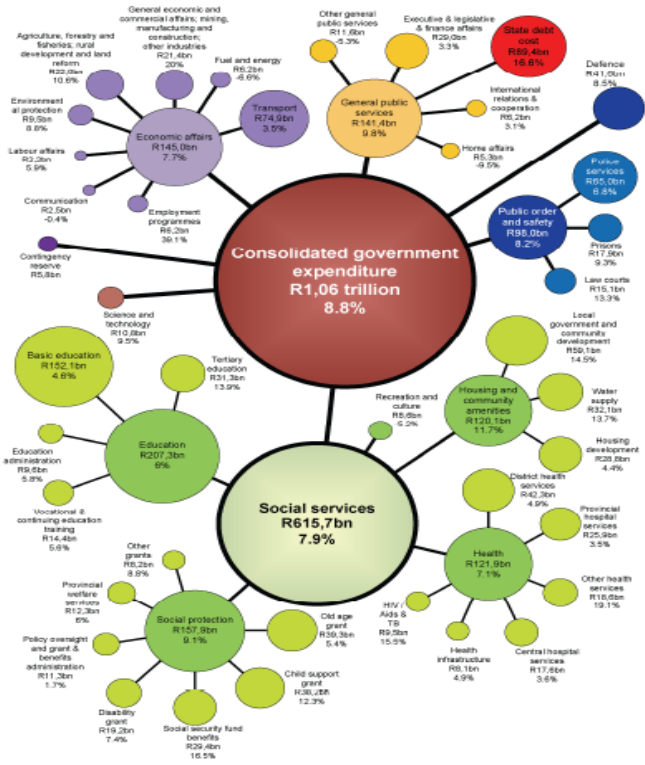
Government Finances





2012 Budget

- ❑ Largest democratic government budget
- ❑ Weight of Social Expenditure over Productive Investments
- ❑ Scourge of Corruption, Maladministration, Regulatory Burden & Increasing Demands for Quality Service Delivery



Division of National Revenue

	2008/09	2009/10 Outcome	2010/11	2011/12 Revised estimate	2012/13	2013/14	2014/15
R million					Medium-term estimates		
Debt-service cost	54 394	57 129	66 227	76 645	89 388	100 806	109 039
Non-interest expenditure	581 560	690 068	738 914	814 554	879 977	953 024	1 030 539
Percentage increase	19.0%	18.7%	7.1%	10.2%	8.0%	8.3%	8.1%
Total expenditure	635 953	747 197	805 141	891 199	969 365	1 053 830	1 139 579
Percentage increase	17.5%	17.5%	7.8%	10.7%	8.8%	8.7%	8.1%
Contingency reserve	—	—	—	—	5 780	11 854	24 000
Division of available funds							
National departments	289 236	345 366	355 189	383 747	412 368	446 220	478 828
Provinces	246 836	293 164	322 822	362 626	384 487	411 092	437 004
Equitable share	201 796	236 891	265 139	291 736	309 057	328 921	349 351
Conditional grants	45 040	56 273	57 682	70 891	75 430	82 171	87 653
Local government	45 487	51 537	60 904	68 180	77 342	83 858	90 707
Equitable share ¹	25 560	23 845	30 541	32 876	37 873	40 582	43 639
General fuel levy sharing	—	6 800	7 542	8 573	9 040	9 613	10 190
Conditional grants	19 928	20 892	22 821	26 732	30 429	33 663	36 878
Total	581 560	690 068	738 914	814 554	874 197	941 170	1 006 539
Percentage shares							
National departments	49.7%	50.0%	48.1%	47.1%	47.2%	47.4%	47.6%
Provinces	42.4%	42.5%	43.7%	44.5%	44.0%	43.7%	43.4%
Local government	7.8%	7.5%	8.2%	8.4%	8.8%	8.9%	9.0%



Macro-economic Projections

Calendar year	2008	2009	2010	2011	2012	2013	2014
		Actual		Estimate	Forecast		
Percentage change unless otherwise indicated							
Final household consumption	2.2	-1.6	3.7	4.9	3.6	3.8	4.2
Final government consumption	4.5	4.7	4.9	4.6	4.1	4.1	4.1
Gross fixed capital formation	13.3	-3.2	-1.6	4.3	4.1	4.5	6.0
Gross domestic expenditure	3.5	-1.6	4.2	4.1	3.9	4.2	4.9
Exports	1.8	-19.5	4.5	6.0	2.9	5.8	6.6
Imports	1.5	-17.4	9.6	9.4	7.2	7.1	8.3
Real GDP growth	3.8	-1.6	2.8	3.1	2.7	3.8	4.2
GDP inflation	8.3	7.7	7.9	7.2	6.1	6.2	6.1
GDP at current prices (R billion)	2 288	2 388	2 881	2 941	3 204	3 628	3 897
Headline CPI inflation	9.9	7.1	4.3	5.0	6.2	5.3	5.1
Current account balance (% of GDP)	-7.2	-4.0	-2.8	-3.3	-4.3	-4.5	-4.4



Consolidated Budget Framework

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Average
	Outcome			Revised estimate	Medium-term estimates			real growth 2011/12 2014/15
R million								
Revenue	683 468	663 736	757 513	830 210	904 830	1 005 871	1 118 183	4.8%
Percentage of GDP	29.7%	27.2%	27.5%	27.7%	27.4%	27.8%	28.0%	
Gross tax revenue	625 100	598 705	674 183	738 735	826 401	913 610	1 019 620	5.7%
Percentage of GDP	27.1%	24.5%	24.5%	24.7%	25.0%	25.2%	25.5%	
Expenditure	708 489	823 323	874 172	972 547	1 058 321	1 149 125	1 239 699	2.9%
Percentage of GDP	30.8%	33.7%	31.7%	32.5%	32.1%	31.7%	31.0%	
Non-interest expenditure	654 095	766 194	807 945	895 903	968 933	1 048 319	1 130 660	2.6%
Percentage of GDP	28.4%	31.4%	29.3%	29.9%	29.3%	28.9%	28.3%	
Debt-service cost	54 394	57 129	66 227	76 645	89 388	100 806	109 039	6.7%
Percentage of GDP	2.4%	2.3%	2.4%	2.6%	2.7%	2.8%	2.7%	
Budget balance	-25 020	-159 587	-116 659	-142 337	-153 491	-143 255	-121 516	
Percentage of GDP	-1.1%	-6.5%	-4.2%	-4.8%	-4.6%	-4.0%	-3.0%	
Primary balance (% of GDP)	1.3%	-4.2%	-1.8%	-2.2%	-1.9%	-1.2%	-0.3%	

Government Revenue

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Outcome			Revised estimate	Medium-term estimates		
R million							
Tax revenue	625 100	598 705	674 183	738 735	826 401	913 610	1 019 620
Percentage of GDP	27.1%	24.5%	24.5%	24.7%	25.0%	25.2%	25.5%
Non-tax revenue ¹	12 616	8 889	13 460	17 579	15 091	17 929	19 016
of which:							
Mineral royalties	–	–	3 555	5 500	6 510	7 490	8 620
Estimate of SACU payments ²	-28 921	-27 915	-14 991	-21 763	-42 151	-37 245	-41 416
Other adjustment ³	–	–	-2 914	–	–	–	–
Provinces, social security funds and selected public entities	74 673	84 058	87 776	95 659	105 489	111 577	120 963
Budget revenue	683 468	663 736	757 513	830 210	904 830	1 005 871	1 118 183
Percentage of GDP	29.7%	27.2%	27.5%	27.7%	27.4%	27.8%	28.0%
GDP (R billion)	2 303.6	2 440.2	2 754.3	2 995.5	3 301.4	3 622.2	3 997.0

1. Includes mineral and petroleum royalties, mining leases and departmental revenue

2. Estimates are based on National Treasury projections. Actual payment will be determined by outcomes of customs and excise revenue collections in line with the SACU agreement

3. Payments to SACU partners in respect of a previous error in calculation of the 1969 agreement

2013+ New Reporting Format

	2012/13	2013/14	2014/15
R million			
Medium-term estimates			
Operating account			
Current receipts	904 745	1 006 060	1 118 332
Current payments	951 637	1 029 817	1 097 977
Compensation of employees	371 170	394 413	417 962
Goods and services	171 339	184 933	197 220
Interest and rent on land	96 070	108 889	117 483
Transfers and subsidies	313 058	341 581	365 312
Current balance	-46 892	-23 757	20 356
% of GDP	-1.4%	-0.7%	0.5%
Capital account			
Capital receipts	188	203	228
Transfers and subsidies	28 029	31 222	34 301
Payments for capital assets	71 198	75 666	82 683
Capital financing requirement	-99 038	-106 685	-116 756
% of GDP	3.0%	2.9%	2.9%
Transactions in financial assets and liabilities	575	-572	-385
Contingency reserve	5 780	11 854	24 000
Budget balance	-152 315	-141 755	-120 016
% of GDP	-4.6%	-3.9%	-3.0%
Primary balance	-62 927	-40 949	-10 976
% of GDP	-1.9%	-1.1%	0.3%
Gross domestic product (GDP)	3 301 374	3 622 155	3 997 026

International Credit Ratings

- ▣ The primary driver behind Moody's decision to change the outlook on South Africa's government ratings to negative is the rising pressure from society at large, as well as from within the ANC and its political partners, to ease fiscal policy in order to address South Africa's high levels of poverty and unemployment. In Moody's view, spending beyond the substantial amounts already budgeted in response to such demands could push debt to levels more commensurate with lower-rated sovereigns. South Africa's direct debt and guarantees for state-owned companies' obligations currently approach or exceed 50% of GDP. Moreover, a substantial proportion of the government budget is already absorbed by wages, social support and debt service, limiting the room for new growth-supportive spending.
- ▣ Secondly, Moody's is concerned that economic growth will be somewhat slower than previously expected in the years ahead due to a weaker global economy, depressing any rebound in South African employment levels over the coming years. This would in turn aggravate existing frustrations over the lack of economic opportunities. Moreover, job creation in this environment would not be enough to absorb new entrants to the labour force nor reduce the already high levels of unemployment. In Moody's opinion, this situation poses risks to political stability over the longer term.
- ▣ Thirdly, Moody's believes that the political leadership's unwillingness to definitively reject demands from certain segments of the political spectrum for more activist policy interventions is harmful to South Africa's economic prospects, in particular private investment. The agency also says that nationalisation of the mines and/or other sectors -- however unlikely to happen -- would not achieve the stated aim of accelerating progress on black economic transformation. Instead, such moves are more likely to do the opposite, reducing the country's attractiveness to both local and foreign investors, and encouraging the outward migration of citizens and businesses. Such actions would in turn raise the risk premium on government debt, further inflating the already-rising costs of debt service.
- ▣ Overall, Moody's believes that the next two years will be especially challenging for South Africa's political system, with the potential for further pressures emerging for the established economic policy framework during this period.

▣ Global Credit Research - 09 Nov 2011

Conclusions

- ▣ Periodisation of Revolution & Reform
 - ▣ Unfinished Revolution – Reconciliation before redistribution
 - ▣ Persistence of Political Economy
- ▣ Policy, Planning & Budgeting Cycles
 - ▣ Performance Monitoring & Evaluation & Planning still in infancy – Learning by Doing ...



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