Box 3 Observations on the evolution of South Africa's fiscal position[1]

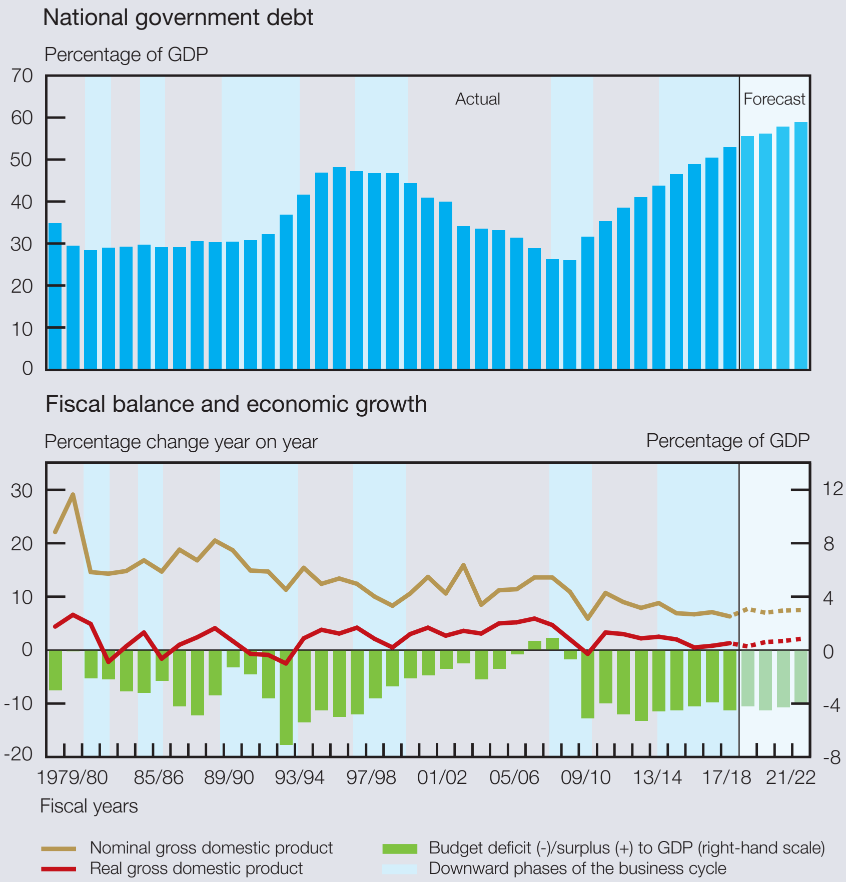
South Africa's current precarious fiscal position represents the outcome of both domestic and global economic developments over an extended period. At present, national government's gross loan debt[2] as a percentage of gross domestic product (GDP) is at an all-time high, and the sustainability thereof, among other factors, will require increased domestic economic activity.

The increase in debt since the global financial crisis and the concomitant 2008–09 economic recession in South Africa show the effect of countercyclical domestic fiscal stimulus. The gap that opened up between total expenditure and total revenue relative to GDP was aggravated by weak domestic economic activity suppressing tax revenue. This resulted in persistent and sizable budget deficits which cumulatively added to the stock of debt. The increase in debt fed a vicious debt-service cost cycle which contributed to higher total expenditure, as reflected in the increasing gap between total and non-interest expenditure, and the budget deficit. This is also reflected by the significant and widening difference between the budget and primary[3] balances.

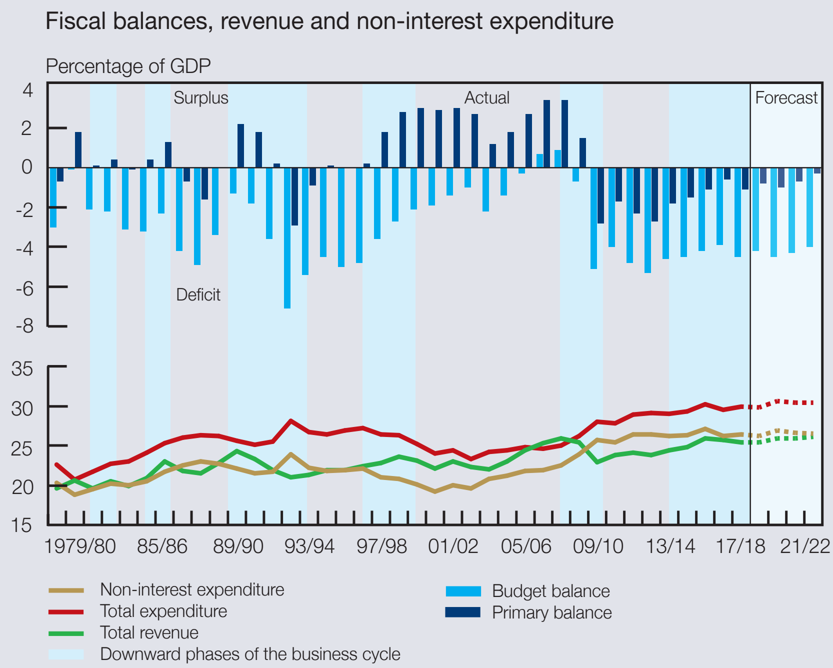
1 National government data sourced from National Treasury.

2 Domestic rand-denominated debt accounts for more than 90% of national government's gross loan debt.

3 The primary balance is the budget balance excluding interest payments (debt-service cost).

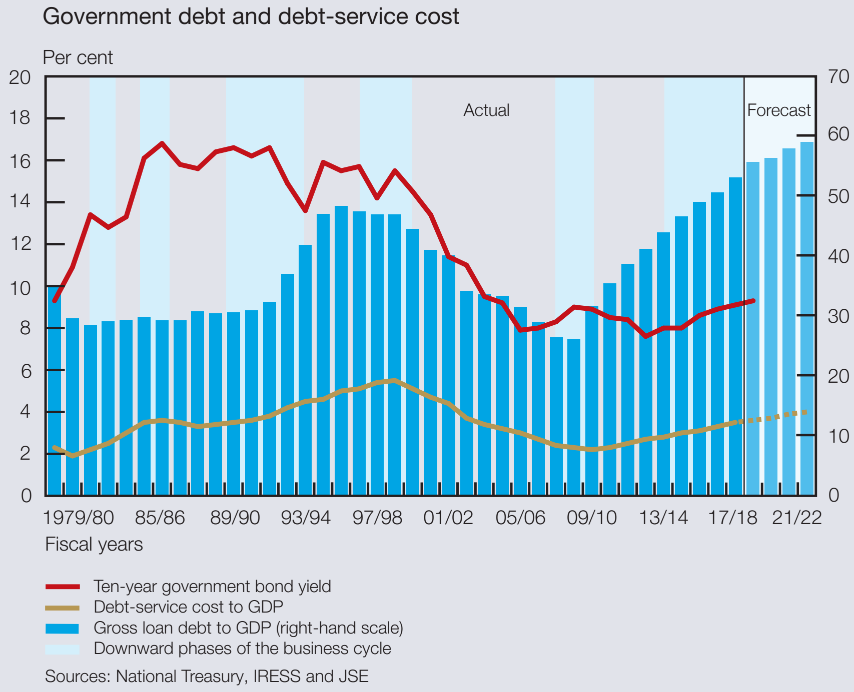


Sources: National Treasury and Stats SA



Source: National Treasury

Debt-service cost as a ratio of GDP has increased consistently from a low of 2.2% in fiscal 2009/10 to 3.7% in fiscal 2018/19. However, the sharp decline in the yield on South African rand-denominated government bonds since fiscal 1998/99 was followed by a broadly sideways movement since the global financial crisis in 2007/08, which alleviated the interest burden to some extent. This trend in the yield on government's rand-denominated bonds partly reflected global monetary policy easing in the wake of the global financial crisis as well as lower domestic inflation.



Going forward, the fiscal space is expected to remain constrained. Even though improved domestic economic activity is expected over the fiscal 2019/20–2021/22 forecast period, gross loan debt is still projected to increase further in the near term before stabilising at 60.2% of GDP in 2023/24. With total revenue and non-interest expenditure expected to grow at an average of 8.3% and 7.6% respectively, the primary deficit as a ratio of GDP is projected to narrow. However, debt-service cost, at just more than 10.0% of total expenditure, remains the fastest-growing spending category and is expected to increase by 10.7%, on average, and to average 3.8% as a ratio of GDP.

From a historical perspective, the period before the global financial crisis was at first characterised by an increase in gross loan debt as a ratio of GDP from around 29.0% in the early 1980s to 48.2% in fiscal 1995/96. In the period following democracy in South Africa in 1994, the ratio of gross loan debt to GDP decelerated to a low of 26.0% in fiscal 2008/09, supported by strong real GDP growth and improvements in revenue collection. These developments also contributed to a narrowing of the budget deficit over time and eventually resulted in small budget surpluses in fiscal 2006/07 and fiscal 2007/08 as well as persistent primary surpluses at the time. These outcomes also reflected the decline in debt-service cost as a ratio of GDP from a peak in fiscal 1998/99.