

Stakeholder Engagement:
PBO Uganda, Policy
implementation



Budget
Office

Parliamentary

Outline

- Introduction
- Budget Process
- Parliamentary Process
- Mandate of the Parliamentary Budget Office

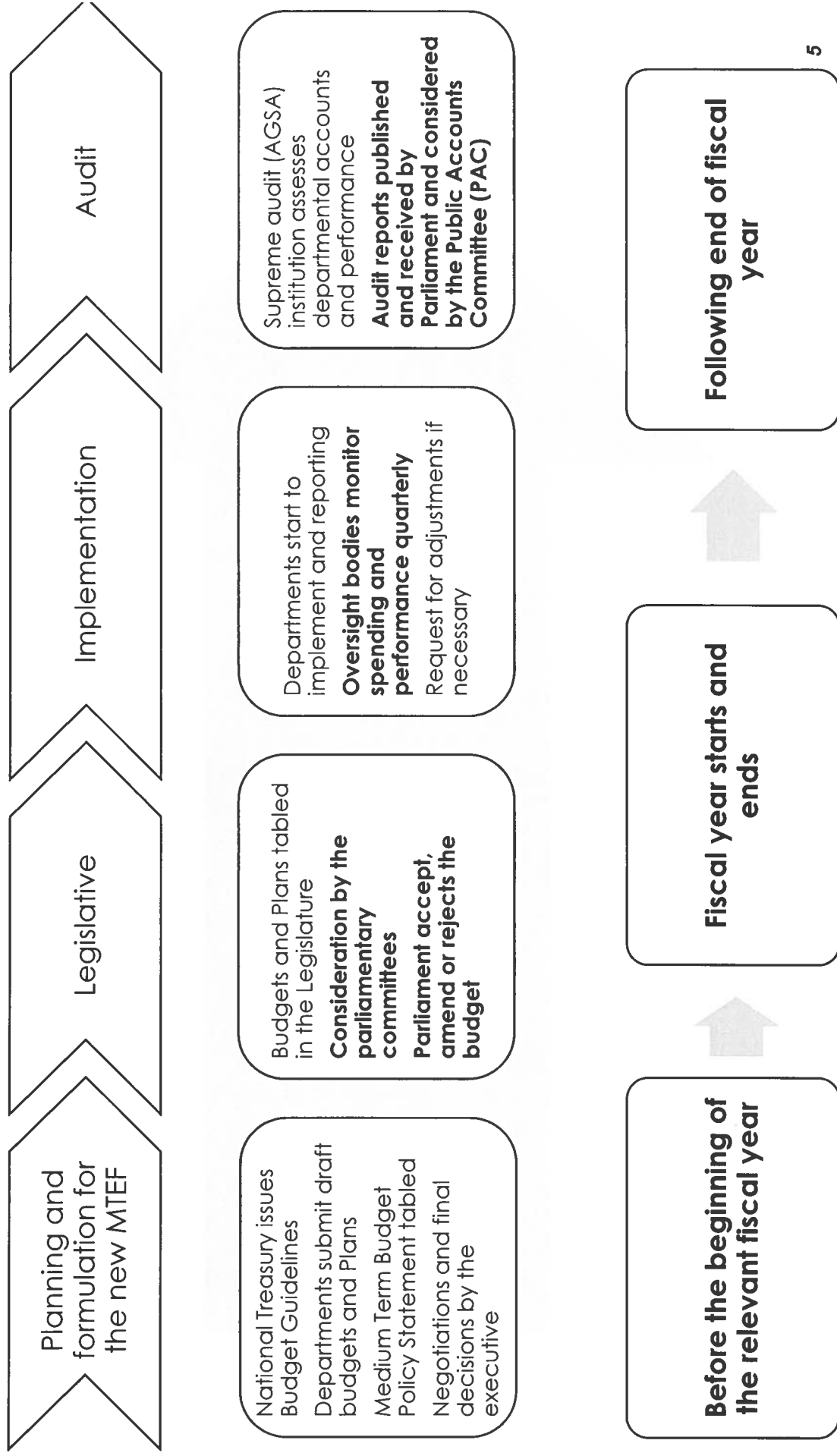
Introduction

- Welcome
- House rules
 - IDs required to enter Parliament
- Programme starts at 10:00
 - Understanding the budget process
 - Roles and responsibilities
 - Mandates
- Tea break
- Lunch break
- Summarise
- Rest of the week the programme starts at 09:00
- A different theme will be discussed every day
 - Economic analysis
 - Public Finance
 - Policy implementation

Budget Process

Guided by the Public Finance Management Act (PFMA)

Overview of the planning and budgeting process guided by the Public Finance Management Act



Legislative Phase

Minister of Finance

- The annual tabling of the national and provincial budgets, including the fiscal framework and tax and revenue proposal;
- Introduction of the Division of Revenue Bill and the Appropriation Bill in the National Assembly
- Committees
- Assesses the documents
- Obtains inputs from the FFC and Parliamentary Budget Office
- Holds public hearings
- Invites state agencies, and labour organisations e.g., the HSRC, Cosatu to provide inputs
- How could oversight improve this process?
- Consider what should be debated
- Make the rules
- Ensure that national priorities are reflected in the budget
- Ascertain whether budget programmes are still relevant to accommodate the outcomes and actions required by the MTSF

Implementation Phase

Executive

- All Government institutions submit in-year monitoring reports to National Treasury (Provincial Treasuries in Provinces) and the Department of Planning Monitoring and Evaluation (Premier's Offices at Provincial Level)
- The executive reports quarterly on expenditure and performance to the legislatures
- The executive tables annual reports in the Legislature
- Parliament
- Parliamentary committees monitor in-year and year-end monitoring process
- This process also includes site visits and taking part in public hearings
- Rigorous in-year monitoring by Parliament minimises poor performance by executives at year-end

Parliamentary Process

Guided by the Money Bills Amendment Procedure and Related Matters Act

Overview of Parliament's oversight role

- To ensure that government's vision, policies and plans and the associated budget processes are aligned with government's constitutional obligations and benefit society
- To prevent illegal and unconstitutional conduct on the part of the government
- To hold the government answerable on how money is spent
- To assess whether government's budget transforms society and promotes equity and reduces poverty and unemployment
- To protect the rights and liberties of citizens
- To detect and prevent abuse
- To make government operations more transparent and increase public trust in the government
- To include public participation and opinion in its oversight role

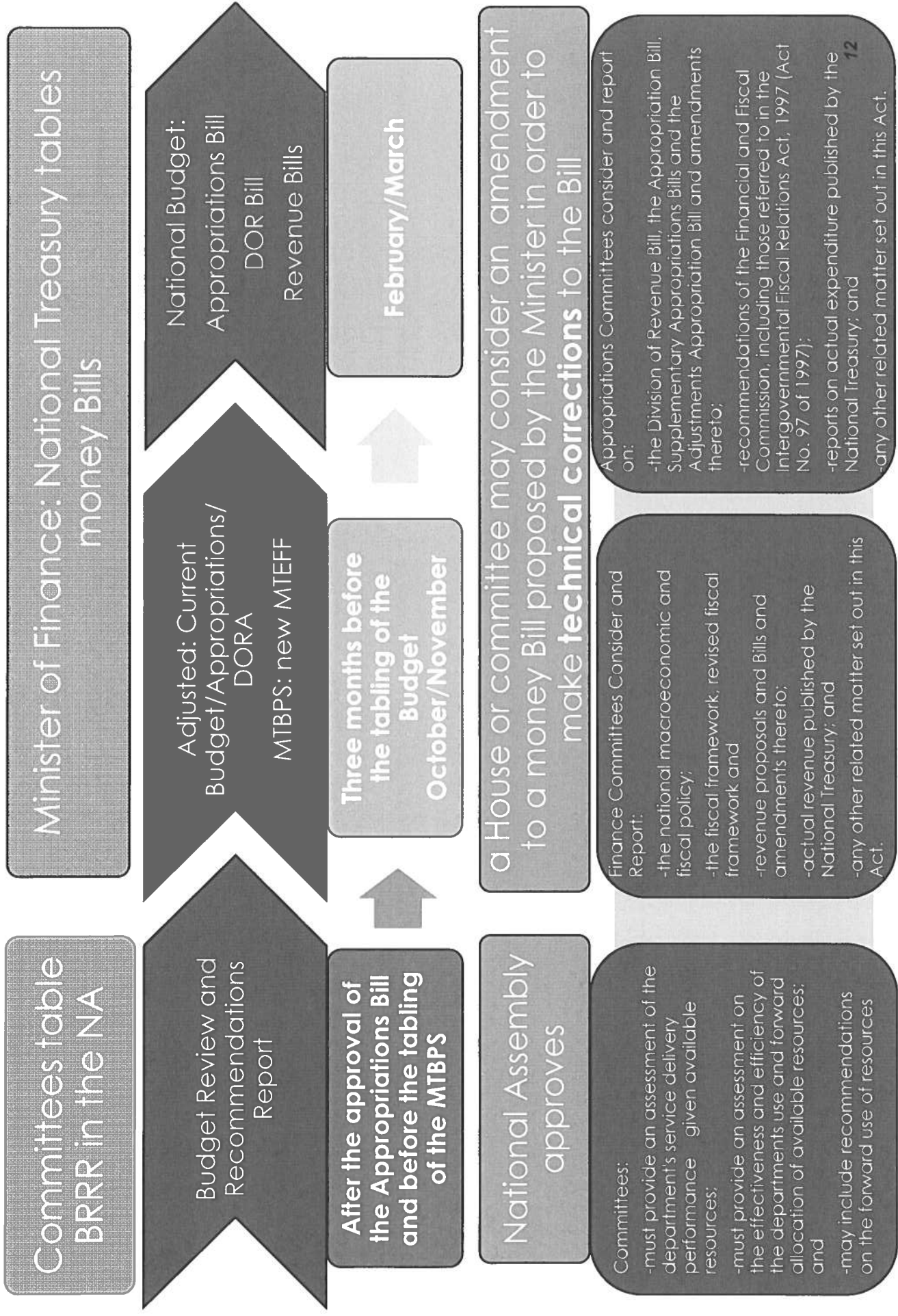
Money Bills Amendment Procedure and Related Matters Act

- Parliament's role in the budget process is guided by the Money Bills and Related Matters Act 2009, as amended in 2019
- The Act came into effect in April 2009
- It gives Parliament powers to make recommendations on the budget and other money bills
- Each House must establish a committee on finance to consider and report on:
 - The national macro-economic and fiscal policy
 - Amendments to the fiscal framework, revised fiscal framework and revenue proposals and Bills
 - Actual revenue published by the National Treasury
 - Any other related matter set out in this Act.

Money Bills Amendment Procedure and Related Matters Act (cont.)

- Each House must establish a committee on appropriations to consider and report on:
 - Spending matters
 - Amendments to the Division of Revenue Bill, the Appropriation Bill, Supplementary Appropriations Bills and the Adjustments Appropriations Bill
 - Recommendations of the Financial and Fiscal Commission
 - Reports on actual expenditure published by the National Treasury
 - Any other related matter set out in this Act
- The Act established a Parliamentary Budget Office (PBO)

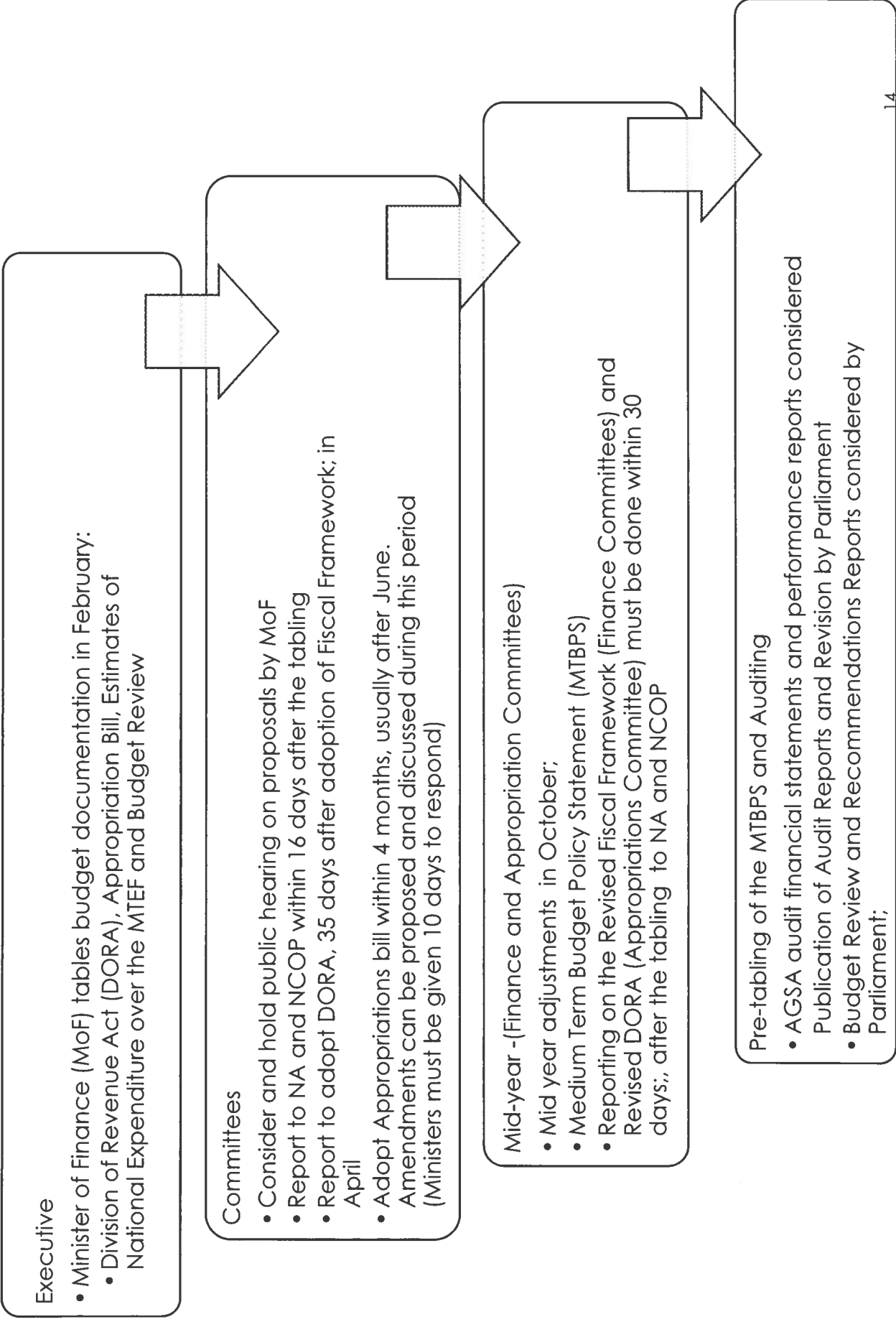
Budget amendments procedure



Budgetary Review and Recommendation Reports

- Portfolio Committees are required to annually compile and submit a BRRR for tabling in the National Assembly for each department after the adoption of the Appropriation Bill and prior to the adoption of the reports on the MTBPS
- The BRRR must be informed by a Committee's interrogation of amongst others
 - Service delivery outcomes based on the Department and Committees (e.g. oversight visits or projects reviews) reports
 - National departments' medium-term estimates of national expenditure
 - Strategic priorities and measurable objectives outlined in National Treasury published reports
 - Annual reports, the reports of the Committee on Public Accounts relating to the department
 - Observations made during oversight visits, public participations inputs

Timeframe for Committees



Mandate of the PBO

Guided by the Money Bills Amendments Procedure and Related Matters Act

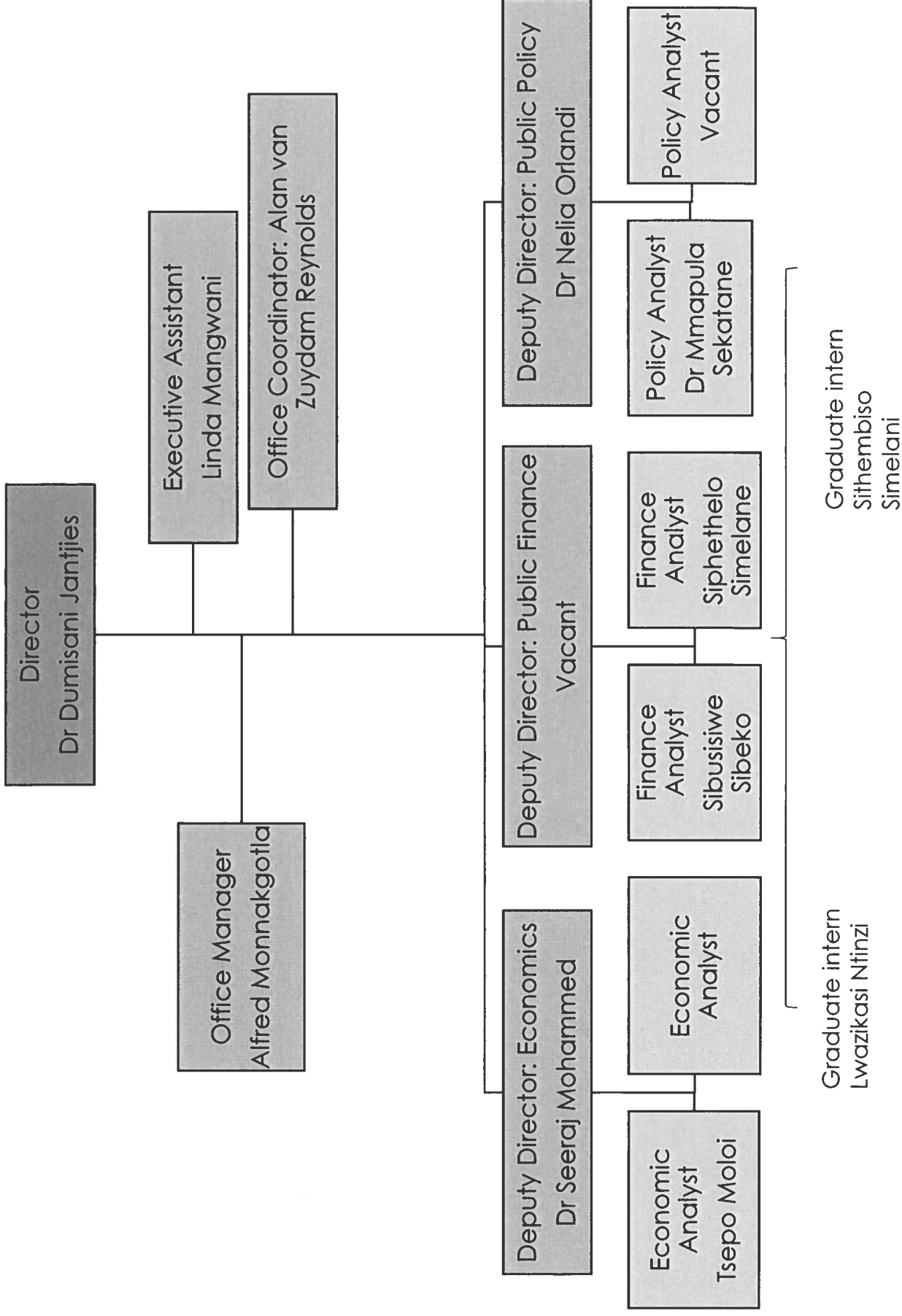
Money Bills Amendment Procedure and Related Matters Act (cont.)

- Established the PBO as a *juristic person*;
- The Director is the Accounting Officer of the PBO, and accountable to Parliament; Executive Authority
- The Director, in consultation with the Advisory Board (2 House Chairs and 4 Chairs of Finance and Appropriations Committees) determine the structure and conditions of service of the PBO;
- The transfer of funds to PBO from Parliament will be in accordance to the Financial Management Act of Parliament;
- The PBO may obtain information from any organ of state or person that derives funds from the National Revenue Fund;

Mandate of the PBO

- The Parliamentary Budget Office was established in terms section 15 of the Money Bills Amendment Procedure and Related Matters Act, 2009 (Act No. 9 of 2009), which provides for the procedure to amend money Bills before Parliament.
- Review and analyse the documentation tabled in Parliament by the Executive (Minister of Finance) in terms of the Money Bills Amendment Procedure and Related Matters Act, 2009 (Act no. 9 of 2009), as amended by Act 13 of 2018.
- Analyse and advise on proposed amendments to the fiscal framework, the Division of Revenue Bill, and money Bills and on policy proposals with budgetary implications
- Monitor and synthesise matters on reports tabled and adopted in a House with budgetary implications, with particular emphasis on reports by other committees
- Keep abreast of policy debates and developments in key expenditure and revenue areas
- Conduct research on request by the Houses, other committees or members of Parliament on matters related to the budget and other money Bills ¹⁷

Organisational Structure



Cooperate Functions

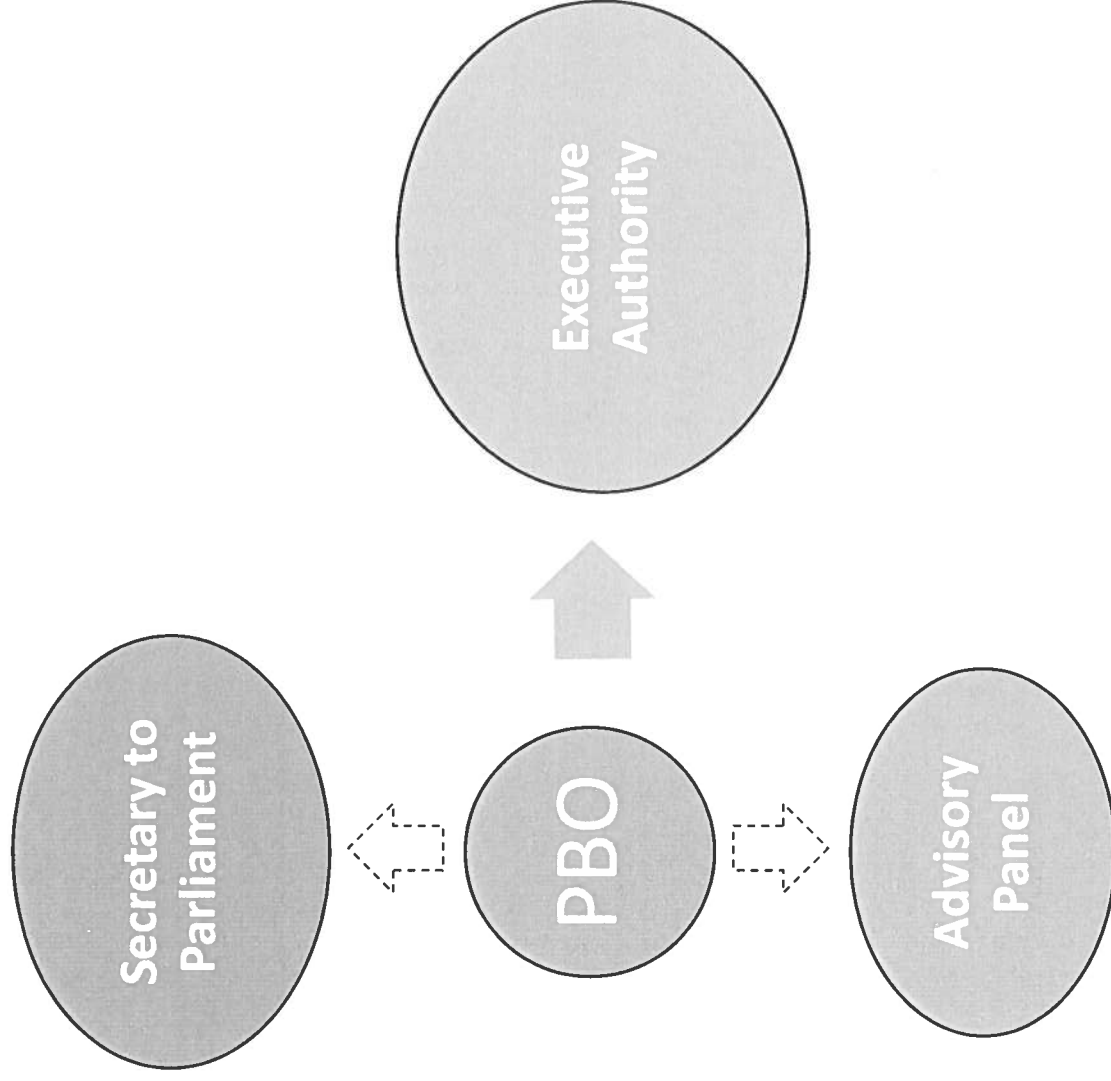
Money Bills Act (MBA) prescribed requirements

- The South African PBO is required to produce & submit the following key documents to Parliament
 - Business plan and 3-year rolling budget estimates
 - Annual report submitted by no later than August of each year to Parliament
 - A range of financial accountability requirements prescribed by the Act

Institutional operating framework

- The RSA currently operates through a Service Level Agreement (SLA) within Parliament
- The RSA Parliament provides the following infrastructure and services to the PBO
 - HR
 - Payroll
 - legal services
 - SCM
 - Finance
 - Internal & external auditing
 - Risk management
 - Performance management
 - Asset Management
 - Infrastructure & Facilities management
 - ICT & other critical services

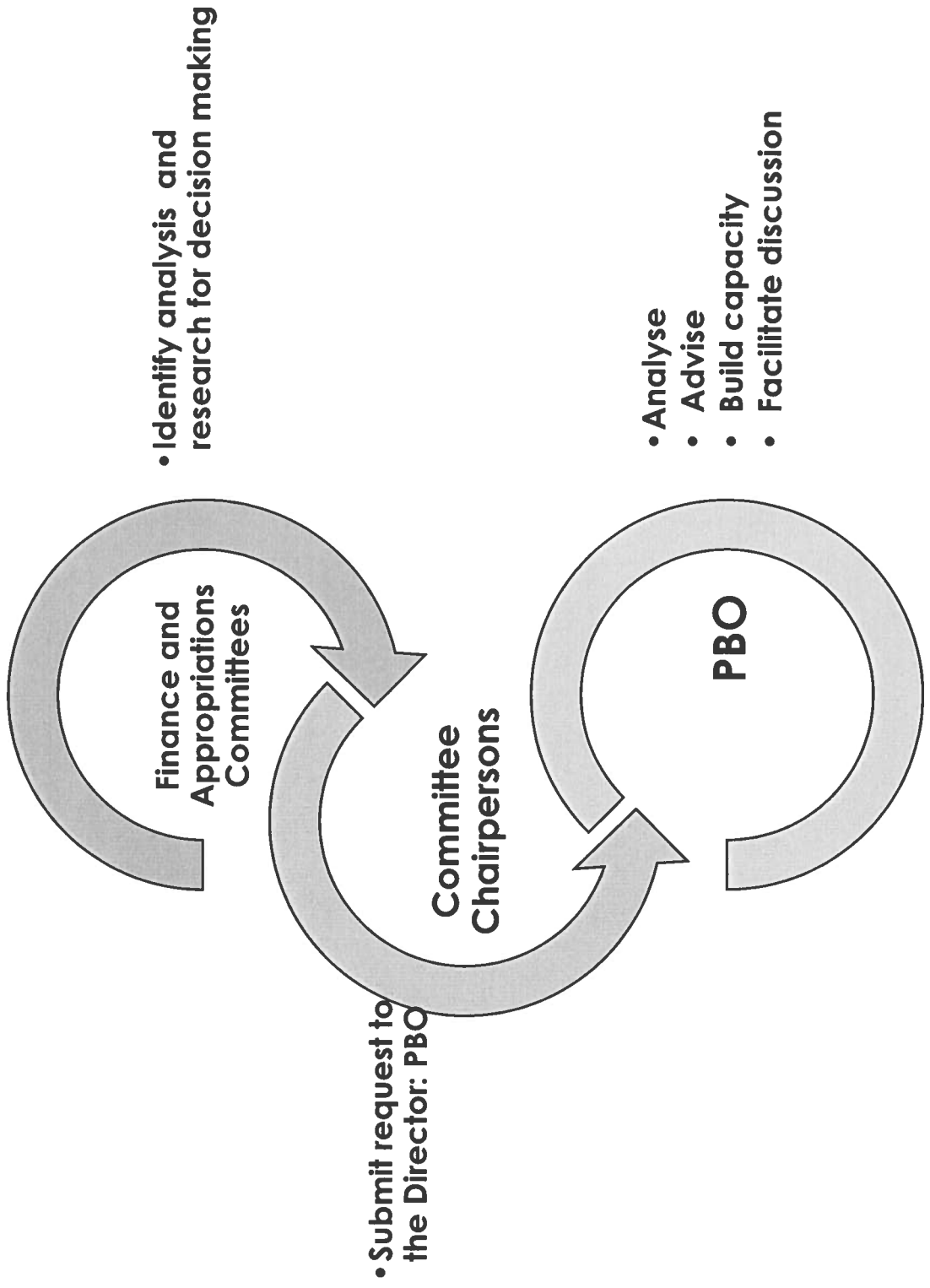
Reporting lines



Strategic Functions

Economic Stream	Public Finance Stream	Public Policy Stream
<ul style="list-style-type: none"> • Macroeconomic evaluation • Economic projections • Tax review and analysis • Fiscal Framework review and analysis • Provide advice of proposed amendments to the Fiscal Framework • Fiscal projections • Revenue studies 	<ul style="list-style-type: none"> • Microeconomic evaluations • Spending trends review and analysis • Spending projections • Baseline studies • Provide advice and analysis on proposed amendments to the DOR Bill and the Appropriation Bill • DOR Bill review and analysis • Appropriation Bill review and analysis • Monitor legislative proposals with financial implications - Bill costing • Monitor reports adopted by the Houses with financial implications • Monitor committee reports adopted by a House with financial implications 	<ul style="list-style-type: none"> • Policy analysis • Policy implementation analysis • Outcomes analysis vs spending trends • Monitor policy proposals with financial implications • Monitor policy debates and development in key expenditure and revenue areas • Policy Evaluation

Workflow



Strategic and Annual Performance Plan

- Vision
 - Building an effective Parliamentary Budget Office that contributes to strengthening the oversight capacity of Parliament.
- Mission
 - To provide independent economic and fiscal advice to Parliamentary Committees ensuring informed recommendations in exercising oversight of Public Finances.
- We aim to make an impact on
 - Improved oversight by Parliamentary Committees, through the provision of support to Committees that informs their processing of the Budget and money Bills and enhances their understanding of public finances
- Strategic outcomes: 2 Programmes
 - To provide strategic leadership and corporate services support functions to the office to enable the PBO to achieve its strategic and operational objectives
 - To provide independent, objective and professional analysis and advice to the Finance and Appropriations Committees on matters related to the budget and other money Bills tabled in Parliament ²³

PBO Outputs

Description of the Output

Pre-Budget and Pre-MTBPS briefs	Provides analysis to Parliament about the status of the economy and public finance and government performance before the presentation of the National Budget (February) and Medium Term Budget Policy State (October);
Budget and MTBPS analysis	Subsequent to the presentation by the Minister of Finance and before Parliament adopt or amend or reject the budget and MTBPS proposals, the PBO provides analysis on economic and fiscal issues to be take into account;
Policy Analysis on National Development Plan-	Several analysis on the implementation of the National Development Plan, vision 2030 (NDP) in terms of content, context and progress made with the implementation.
Quarterly Economic and Fiscal Briefs	Quarterly Economic Brief, the PBO provides parliament with an analysis of the economic outlook as the economic performance affects public finances outlook. Fiscal Brief appraise MPs on the status of the of government's performance in relation to the budget allocated, and these updates are given within six months (pre-MTBPS) of the financial year and just after the end of a financial year.
In-year revenue forecast and Forecast Audits	In-year revenue forecast, within the first six months of the financial year, PBO provides an estimate of whether government revenue targets for that year will be realised. The PBO estimates are based on historic trends and including first five months of the year's outcomes being forecasted. Forecast Audits, annually provides an analysis of the government growth estimates. This analysis gives indications of the likelihood of realising forecasted growth given historic performance of the forecasts.
Briefs on Taxation and Revenue Matters	On request from finance committees, PBO provides an analysis of taxation proposals made during the budget reviews.
Research and Analysis Requests from Committees	During the financial year Committees may request an analysis on a particular issue with public finance implication. E.g., Votes budget analysis, SOEs financial analysis, Electricity generation technology choices: Costs and considerations, Public Sector Wage Bill, Free Fee HE Costing Analysis, Business incentives for development

Our outputs continuously adapt to the environment to ensure that....

- Link the budget with economic growth, unemployment and inequality
- Simplify Complex budget information
- Enhance budget transparency
- Enhance credibility of budget process
- Increase accountability
- Encourage fiscal discipline in public spending
- Ensure efficiency and effectiveness
- Identify weaknesses in the process
- Capacitate Parliament to exercise its oversight functions

Framework for budget presentation:

Fiscal frameworks

- Legislative mandate: Money Bills Act
- Adopting the fiscal framework
- When amending the fiscal framework, a money Bill or taking any decision in terms of this Act, Parliament and its committees must—
 - Ensure that there is an appropriate balance between revenue, expenditure and borrowing
 - Ensure that debt levels and debt interest cost are reasonable
 - Ensure that the cost of recurrent spending is not deferred to future generations
 - Ensure that there is adequate provision for spending on infrastructure development, overall capital spending and maintenance
 - Consider the short, medium and long -term implications of the fiscal framework, on the long-term growth potential of the economy and the development of the country
 - Take into account cyclical factors that may impact on the prevailing fiscal position
 - Take into account all public revenue and expenditure, including extra-budgetary funds, and contingent liabilities

Framework for budget presentation: Fiscal frameworks

Activity	Responsible person	Due date
Brainstorm	All	24 February 2022, 09:00
Provide draft Framework	Nelia	24 February
Prepare slides	Team	24-27 February/ 1-3 March
Submit slides coordinator before 10:00	Team	27 February/ 3 March
Consolidate slides and circulate	Coordinator	27 February/ 3 March
Finalise/Dry-run	Team	28 February/ 4 March
Submit to committee before 12:00	Director/Office coordinator	28 February/ 4 March
Present 09:- 12:00	Team	1 March / 8 March 2022

- Introduction
- Policy priorities and funding structure
- Restructuring of the economy
- Changes to the Fiscal framework
- Revenue trends
- Changes to the Tax System

Framework for budget presentation: Division of Revenue and Appropriations Bill

DORA

- Introduction
- Background
- Division of revenue in context
- Funding structure of the different spheres of government
- Performance on service delivery

Appropriations

- Fiscal strategy guiding the 2022 Appropriations and Special Appropriations
- Monitoring the South African Economic Reconstruction and Recovery Plan
- Revisions to the estimated proportions allocated per economic classification
- Adjustments to main budget non-interest expenditure since 2020 Budget
- Revisions to the consolidated government expenditure
- Social Grants: Social protection expenditure
- Composition of spending in the 2021 Appropriations per vote
- Improving composition of spending
- Proportion of spending on programme 1: Administration
- Special Appropriation Bill
- Programmes available in the 2021/22 Budget to respond to Covid
- Real per capita spending declines
- Fiscal risks
- Global risks
- AGSA calls for act on accountability

Framework for MTBPS presentation:

Fiscal frameworks

Introduction : Discussion of government's key economic interventions at the time, e.g., justifying more fiscal consolidation and discussion of structural reforms in 2021 and rebuilding the economy since 2020.

Econ Outlook:

- Global outlook
- Domestic outlook
- Sector performance and outlook

Fiscal Policy, consisting of subheadings

- Medium-term fiscal strategy
- Expenditure performance and outlook
- Revenue performance and outlook
- Main budget framework
- Consolidated budget framework
- Financing and debt management strategy
- Risks to the fiscal outlook

Expenditure Priorities:

- Revisions to medium-term expenditure priorities
- Spending priorities by function group
- Division of revenue

Stakeholders

- Research structures
- Government Departments
- Labour Organisation
- Finance and Fiscal Commission
- Civil Society
- International networks include:
 - The OECD Network of Parliamentary Budget Officials
 - Independent Fiscal Institutions
 - The Global Network of Parliamentary Budget Offices The networks meet annually to share experiences with respect to the design, mandate and functions of PBOs
 - The African Network of PBOs

Data

- National Treasury Database
- Administrative data
- Statistics South Africa
- Banks
- S&P Global (HIS: Information and Insight)

Communication

- Director
- Office coordinator manages all output communication
- Parliamentary structures
- Parliament Website
- Parliamentary Database

Our support

Office to remain a strong and independent voice within the budget process in support Parliament's role of fiscal oversight, to ensure four fundamentals are attained and maintained

- Our research, analysis, reports and briefs are reported and presented in a form that is accessible (readable) or understandable by an average MP
- Good balance between responding to Committees' or MPs research or analysis requests, and ability for the office to initiate own analysis or research
- The Office has a fair, clear, transparent and practical workflow and analysis methodology in doing its analysis and research work
- Office continues to be highly respected and remain independent, objective and professional; include the Director and the team members, in particular by the Executive and MPs

THANK YOU

From the South African PBO team

Stakeholder Engagement:
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implementation



Budget
Office

Parliamentary

Bill

section

Minister

legislature

fiscal

year

Outline

- Background
- Our National Development Plan (NDP), vision 2030
- NDP guides the Budget and Strategic Priorities
- The development of a framework for policy implementation analyses
- The PBO policy implementation model
- Understanding the framework for policy implementation analyses
- The application of the model
- Results from the 2014-2019 Medium Term Strategic Framework (MTSF) analysis
- Recommendations on the current structure
- Operating mechanisms for the 2014-2019 MTSF
- Operating mechanisms for the 2019-2024 MTSF

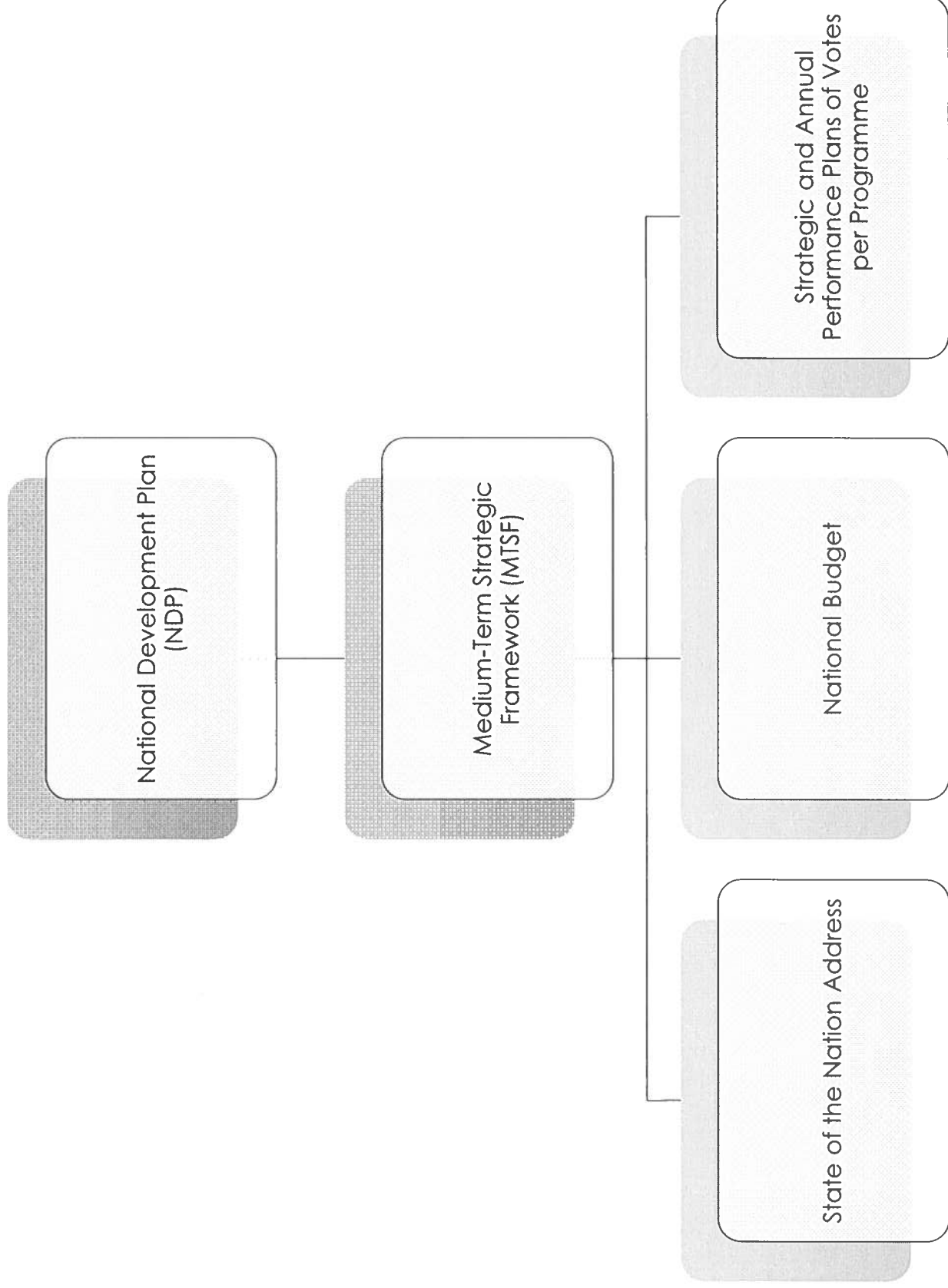
Background

- Despite several administrative and financial management reforms, since 1994, challenges with the successful implementation of policies, strategies and plans delay RSA's ability to reduce unemployment, poverty and inequality.
- Implementation challenges include problems with:
 - The coordination of the planning, budgeting and organisational processes within government departments
 - Budget estimates not expressing policy prioritisation and performance indicators not providing an effective basis for measurement and management
 - In 2009, the South African government, like other governments around the world, acknowledged the need to further reform policies and to resolve challenges over a longer time frame
 - In 2010, South Africa established a National Planning Commission (NPC) to identify and scrutinise key challenges and obstacles that had an impact on the social and economic development of the country
 - In 2011, the NPC released a diagnostic report, which identified the failure to implement previous economic policies and the absence of broad partnerships as the main reasons for slow progress in alleviating unemployment, poverty and inequality.
 - Another problem outlined by the diagnostic report was the high policy turnover. ³

Our National Development Plan, vision 2030

- The diagnostic report directly informed the development of the NDP for South Africa
- The NDP sets out the steps that South Africa needs to follow to overcome its challenges and to achieve the 2030 vision
- The NDP is a long-term plan that is meant to be implemented through three 5-year Medium-Term Strategic Frameworks (MTSFs), monitored by the Department of Planning Monitoring and Evaluation
- The MTSF further offers the executive, researchers and policy implementers an opportunity to create stability and identify blockages for successful implementation
- This is where the policy implementation unit in the PBO fits into the bigger picture of Government's performance
- We analysed the first 5-year implementation plan 2014-2019 MTSF
- This year we assessed the mid-term progress with the implementation of the 2019-2024 MTSF

NDP guides the strategic and budget priorities



The development of a framework for policy implementation analyses

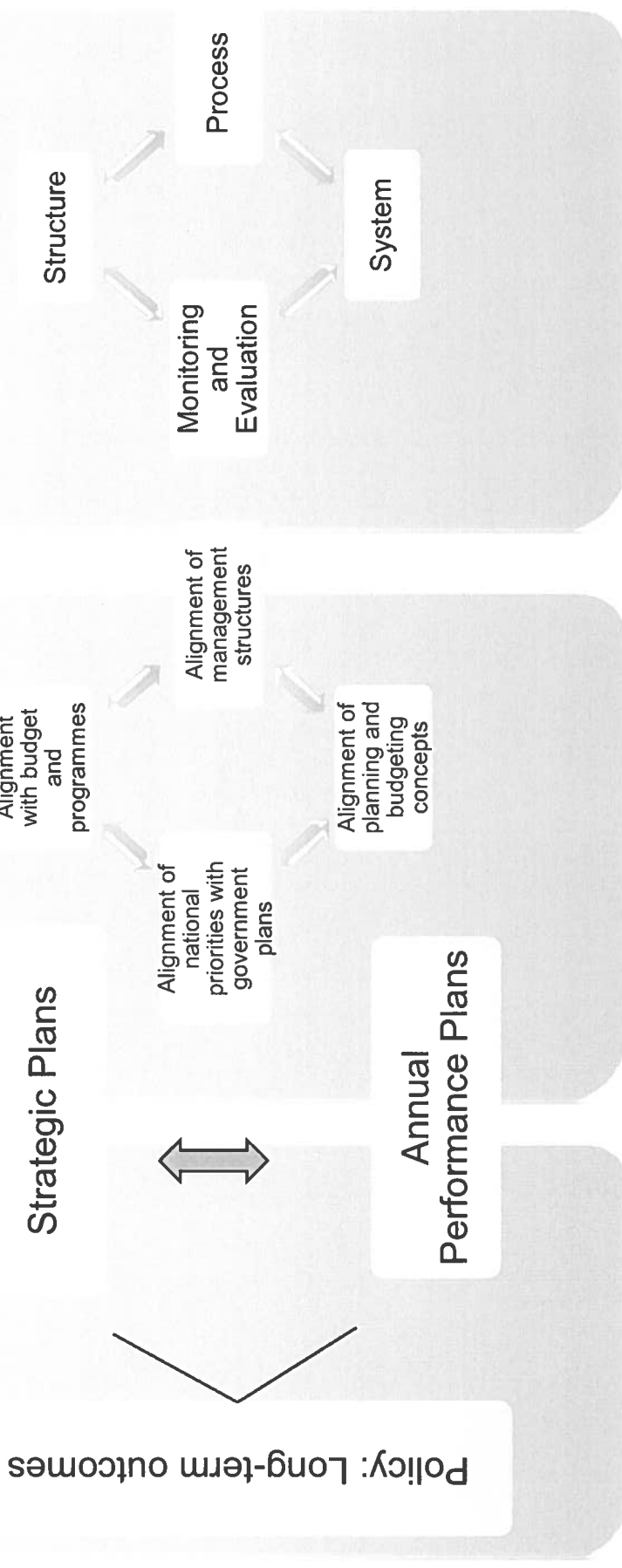
- Our framework/model was informed by:
 - The key public sector reforms and mechanisms to ensure successful policy implementation
 - Since 1994 the reforms include the improvement of the classification system of public finances and creation of a performance-oriented public service.
 - The budget has been fully converted to a programme performance budgeting system, which includes a budget programme structure, with descriptions, objectives, outputs and programme performance indicators, along with financial information over a medium-term expenditure framework (MTEF).
 - The key factors for successful public policy implementation identified by the literature: 5-Cs
 - **content**, relates to the setting of goals and actions to achieve them
 - **context** in terms of the bureaucracy through which implementation occurs.
 - **commitment**: Those responsible for policy implementation must be willing to implement
 - **capacity** of the implementing agent (public sector), the availability of resources such as human resources, financial resources, logistics, technology and a conducive environment such as the political, economic, cultural and social environment.
 - the support of **clients and outside coalitions**

The PBO policy implementation model

From the literature and our experience with policy implementation analysis we added 2-Cs and moved 2-Cs as overarching factors

Legal, Political and Administrative Structures

Content ↔ **Causality** ↔ **Context, Capacity and Control**



Communication, Client and outside Coalition

Understanding the framework for policy implementation analyses

- **Content** relates to policy formulation, specifically with regards to the development of the planning concepts (such as outcomes/goals, objectives/interventions, performance indicators and targets). It further requires alignment with the bureaucracy through which implementation occurs as well as the relevance of these concepts and the relation to each other in terms of logic.
- **Causality** refers to the integration of policy with institutional plans and budgets, and the relationship between the management structures involved in the planning and budgeting processes. (Causality also plays a role in the content of a policy and plans. This causality feature relates to the logic between the planning concepts)
- **Context, capacity and control** refer to mechanisms of a performance-based management system. Such mechanisms should provide the structures and programmes, processes, systems and oversight mechanisms to ensure policy implementation. The control, as a management function and external oversight bodies, includes monitoring and evaluation as well as policy review
- **Communication, and client and outside coalition** are promoted as factors affecting the entire policy implementation process

Application of the model: Content

- The 2019-2019 MTSF was captured in 14 identical frameworks, per national outcome, consisting of goals, sub-outcomes, actions, indicators, baselines and annual targets for specific years over the five-year period.
- Performance reporting was done quarterly through a Programme of Action (POA) report. These reports are a consolidation of all the planning concepts, including the responsible institution (as reflected in the MTSF), performance information and the systems used for data collection.
- The outline and availability of these reports made them the preferred source of information for the evaluation of the content.
- In the absence of technical descriptions for the planning concepts for the implementation of the NDP, the planning concepts were evaluated against the legal framework for policy implementation in the South African public sector

Application of the model: Content

Outcome	Percentage of relevant indicators	Percentage of indicators with baselines	Percentage of SMART targets for 2017/18
Outcome 1: Quality Basic Education	95%	64%	100%
Outcome 2: A Long and Healthy Life for All South Africans	86%	70%	83%
Outcome 3: All people in South Africa are and feel safe	84%	69%	86%
Outcome 4: Decent employment through inclusive economic growth	52%	55%	13%
Outcome 5: A skilled and capable workforce to support an inclusive growth path	95%	50%	75%
Outcome 6: An efficient, competitive and responsive economic infrastructure network	79%	72%	21%
Outcome 7: Comprehensive rural development and land reform	89%	91%	98%
Outcome 8: Human Settlements	97%	61%	
Outcome 9: Responsive, accountable, effective and efficient developmental local government system	100%	75%	
Outcome 10: Protect and Enhance Our Environmental Assets and Natural Resources	100%	100%	96%
Outcome 11: Create a better South Africa, contribute to a better and safer Africa in a better world	94%	61%	79%
Outcome 12: An efficient, effective and development-oriented public service	87%	82%	79%
Outcome 13: An inclusive and responsive social protection system	93%	91%	83%
Outcome 14: Nation Building and Social Cohesion Alignment and Progress	91%	65%	92%
Total	87%	73%	66%

Application of the model: Causality

The purpose of this section is to ensure:

- The alignment of planning and budgeting concepts
- The degree of the incorporation of MTSF indicators into annual performance plans or the alignment of national priorities with government plans
- The suitability of programme structures to provide the legal framework for implementing the national policy priorities
- The alignment of structures (components) involved in the planning, budgeting and reporting processes

Application of the model: Causality

Outcome	Percentage of MTSF indicators reflected in APPs
Outcome 1: Quality basic education	25%
Outcome 2: A Long and healthy life for all South Africans	47%
Outcome 3: All people in South Africa are and feel safe	62%
Outcome 4: Decent employment through inclusive economic growth	36%
Outcome 5: A skilled and capable workforce to support an inclusive growth path	16%
Outcome 6: An efficient, competitive and responsive economic infrastructure network	33%
Outcome 7: Comprehensive rural development and land reform	31%
Outcome 8: Human settlements	25%
Outcome 9: Responsive, accountable, effective and efficient developmental local government system	22%
Outcome 10: Protect and enhance our environmental assets and natural resources	37%
Outcome 13: An inclusive and responsive social protection system	53%
Outcome 14: Nation building and social cohesion	30%
Average	36% ¹²

Application of the model: Causality

Outcome	Lead Department	Vision	Purpose of the vote
Outcome 1: Quality Basic Education	Basic Education	X	✓
Outcome 2: A Long and Healthy Life for All South Africans	Health	X	✓
Outcome 3: All people in South Africa are and feel safe	Defence and Military Veterans	X	X
Outcome 4: Decent employment through inclusive economic growth	Trade and Industry	✓	✓
Outcome 5: A skilled and capable workforce to support an inclusive growth path	Higher Education	X	✓
Outcome 6: An efficient, competitive and responsive economic infrastructure network	Presidential Infrastructure Coordinating Commission	X	X
Outcome 7: Comprehensive rural development and land reform	Rural Development and Land Reform	X	✓
Outcome 8: Human Settlements	Human Settlements	X	✓
Outcome 9: Responsive, accountable, effective and efficient developmental local government system	Cooperative Governance and Traditional Affairs	✓	✓
Outcome 10: Protect and Enhance Our Environmental Assets and Natural Resources	Environmental Affairs	X	✓
Outcome 11: Create a better South Africa, contribute to a better and safer Africa in a better world	International Relations and Cooperation	✓	X
Outcome 12: An efficient, effective and development-oriented public service	Public Service and Administration	X	✓
Outcome 13: An inclusive and responsive social protection system	Social Development	X	✓
Outcome 14: Nation Building and Social Cohesion Alignment and Progress	Arts and Culture	X	✓
Total		3	11

Application of the model: Context, capacity and control

- The purpose of this section is to explore the legal requirements for the use of relevant information systems or processes for reporting on performance information, including reporting on the NDP, in the public sector
- The Framework for Managing Programme Performance Information in RSA recognises policies as accountability documents
- This recognition necessitates regular reporting to oversight bodies. In specific to Parliament, provincial legislatures, municipal councils and the public to track government performance, and to hold government accountable for service delivery.
- The collection and reporting on performance information also assist managers at each stage of the planning, budgeting and reporting cycle to implement a results-based approach to managing service delivery. The approach; therefore, makes sure that the focus of planning and managing is on the achievement of results.
- The status of reporting on the implementation of the NDP and the process or systems used to collect data were assessed from the Programme of Action report for the fourth quarter of 2017/18.
- The analyses of the system used for the implementation of the NDP showed that:

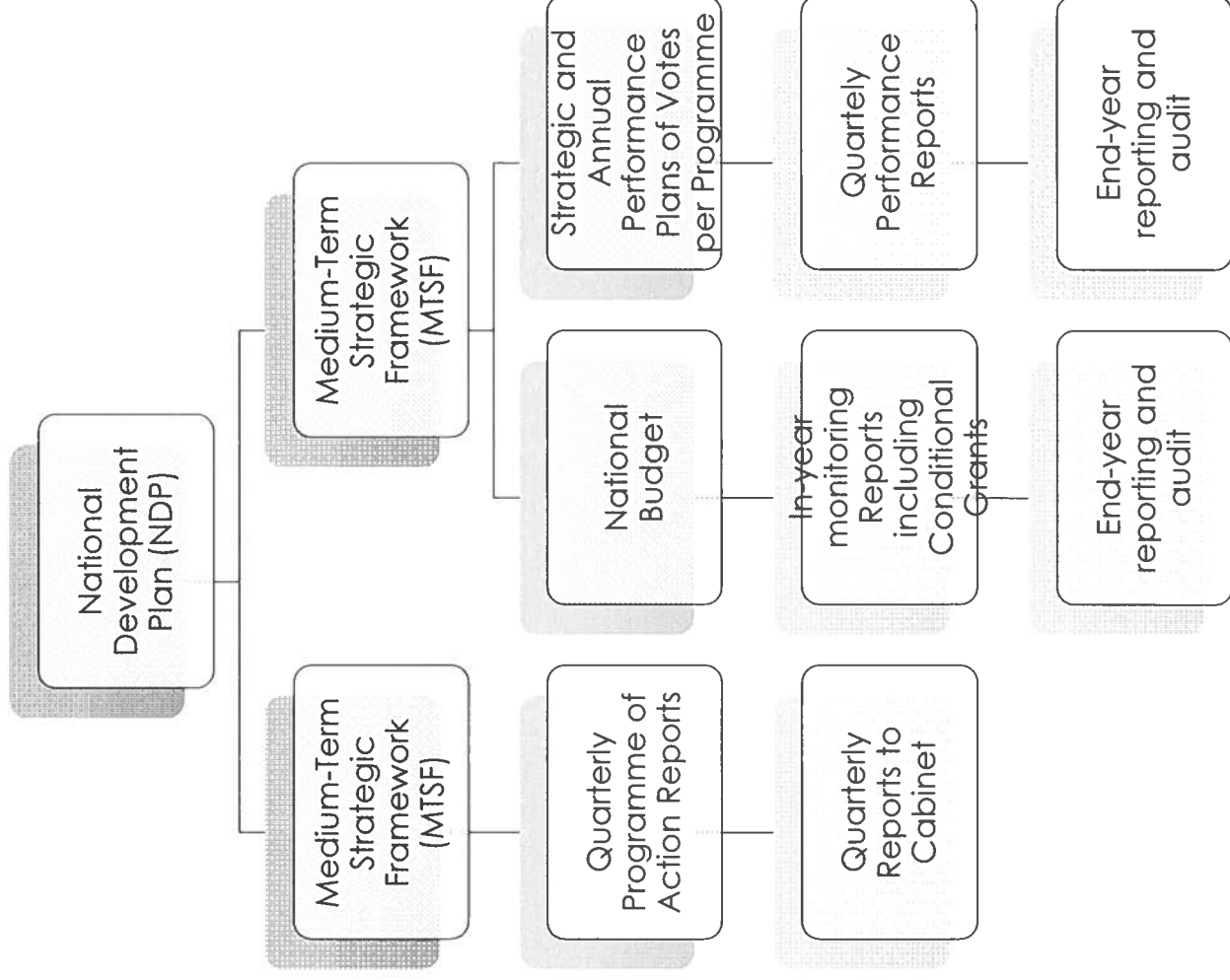
Application of the model: Context, capacity

Outcome	Percentage of reporting on targets in 2017/18	Percentage of Indicators linked to a system or process
Outcome 1: Quality Basic Education	100%	39%
Outcome 2: A Long and Healthy Life for All South Africans	100%	58%
Outcome 3: All people in South Africa are and feel safe	99%	27%
Outcome 4: Decent employment through inclusive economic growth	95%	6%
Outcome 5: A skilled and capable workforce to support an inclusive growth path	86%	29%
Outcome 6: An efficient, competitive and responsive economic infrastructure network	97%	0%
Outcome 7: Comprehensive rural development and land reform	98%	0%
Outcome 8: Human Settlements		6%
Outcome 9: Responsive, accountable, effective and efficient developmental local government system		25%
Outcome 10: Protect and Enhance Our Environmental Assets and Natural Resources	94%	27%
Outcome 11: Create a better South Africa, contribute to a better and safer Africa in a better world	100%	8%
Outcome 12: An efficient, effective and development-oriented public service	74%	7%
Outcome 13: An inclusive and responsive social protection system	78%	17%
Outcome 14: Nation Building and Social Cohesion Alignment and Progress	76%	0%
Total	92%	19%

Application of the model: Control

Outcome	% Achieved 2014/15	Number of Targets	Targets Achieved	% Achieved 2017/18	Targets Partially Achieved	% Partially Achieved 2017/18
Outcome 1: Quality Basic Education	37%	25	10	40%	7	28%
Outcome 2: A Long and Healthy Life for All South Africans	45%	24	13	54%	3	13%
Outcome 3: All people in South Africa are and feel safe	29%	70	56	80%		0%
Outcome 4: Decent employment through inclusive economic growth	45%	56	33	59%	3	5%
Outcome 5: A skilled and capable workforce to support an inclusive growth path	52%	8	5	63%		0%
Outcome 6: An efficient, competitive and responsive economic infrastructure network	46%	38	27	71%	1	3%
Outcome 7: Comprehensive rural development and land reform	0%	47	33	70%	1	2%
Outcome 8: Human Settlements	13%	0				
Outcome 9: Responsive, accountable, effective and efficient developmental local government system	64%	0				
Outcome 10: Protect and Enhance Our Environmental Assets and Natural Resources	29%	55	40	73%	7	13%
Outcome 11: Create a better South Africa, contribute to a better and safer Africa in a better world	44%	34	21	62%		0%
Outcome 12: An efficient, effective and development-oriented public service	39%	24	21	88%	1	4%
Outcome 13: An inclusive and responsive social protection system	40%	69	49	71%	5	7%
Outcome 14: Nation Building and Social Cohesion Alignment and Progress	42%	37	34	92%	1	3%
Total	38%	487	342	70%	29	6%

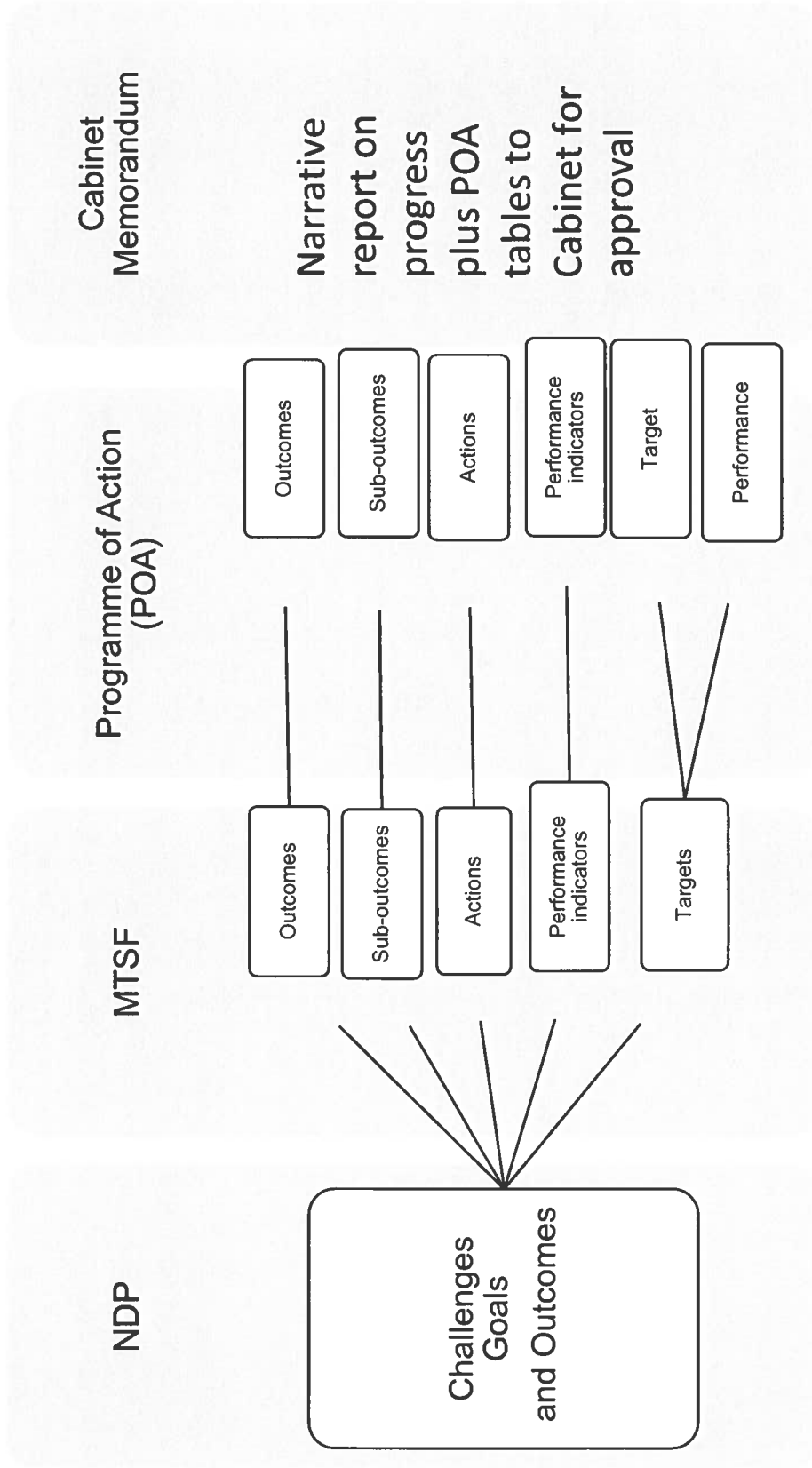
Application of the model: Control



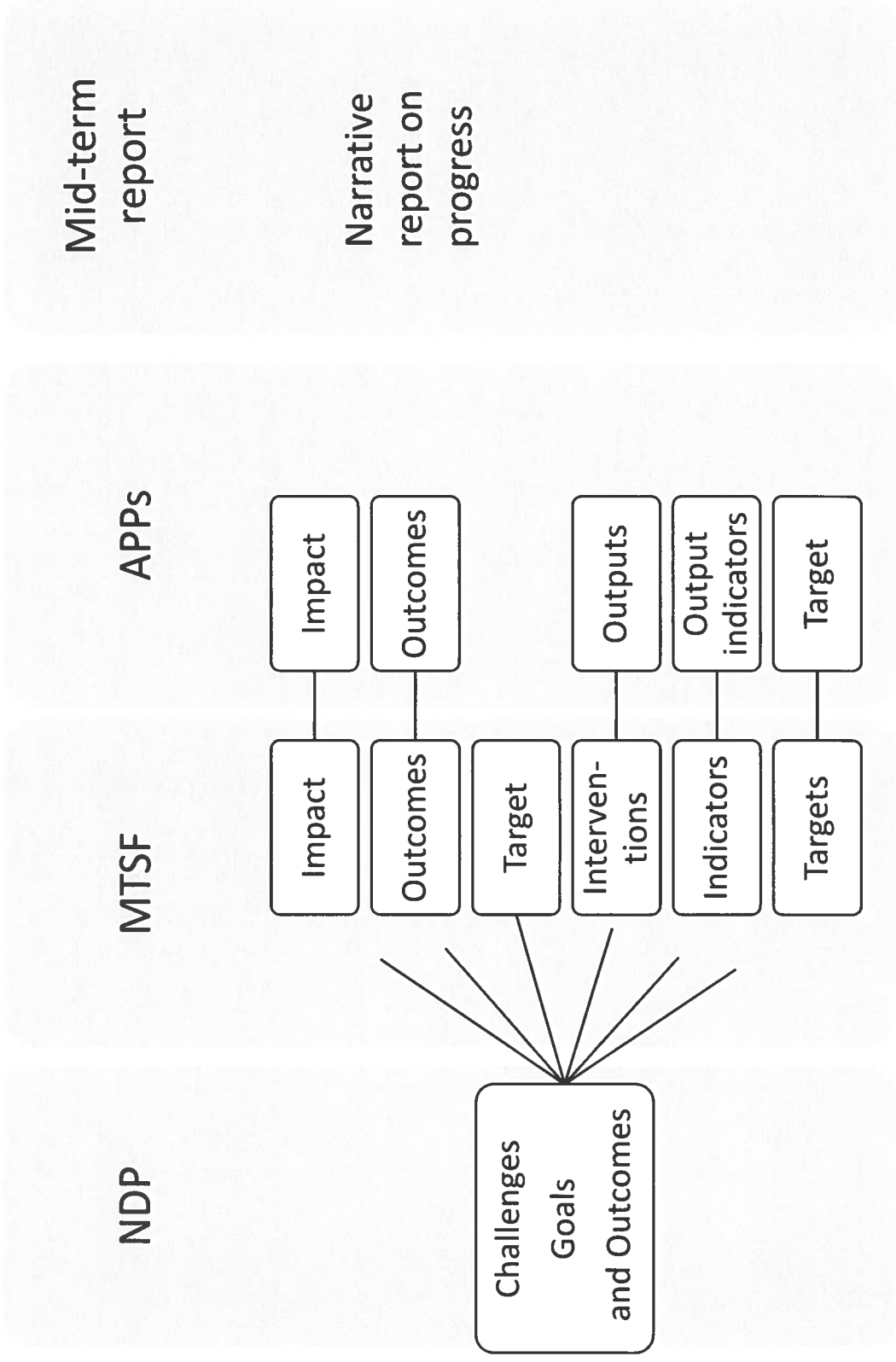
Results from the 2014-2019 MTSF analysis

Content of the 2014-2019 MTSF	Non-alignment of planning concepts
	Performance indicators based on national mandates
	Statistical data
	Baselines not always available
Causality assessment	Terminology confusing
	NDP not always linked to budget
	36 % of MTSF performance indicators reflected in APPs
	Programme structures not always suitable for MTSF sub-outcomes
Context, capacity and control analysis	Reporting on targets between 74% and 100%
	Data collection process or system availability between 6% and 58%
	Performance in 2014/15 was 38 % and 70 % 2017/18
	Separate system for the implementation of the NDP
	No auditing

Operating mechanisms for the 2014-2019 MTSF



Operating mechanisms for the 2019-2024 MTSF



THANK YOU

From the South African PBO team

**PBO Economic Cluster:
Economic analysis of the budget**



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Budget
Office

Parliamentary

Bill
year
section
public
Minister
fiscal
legislature

Outline

Welcome dear Ugandan colleagues

- Introduction
- Background
- Economic analysis of the Budget – MTBPS 2022
 - Macroeconomic overview
 - Fiscal framework (Pre and post budget)
 - Revenue and taxes
 - Government spending
- Conclusion
- Quarterly Economic Bulletin

Introduction

- The South African Parliamentary Budget office has 3 clusters/sections
 - we are from the economics cluster
- Our focus in the Economics Cluster is on economic, particularly macroeconomic and macrofinance, analysis of events in the global and domestic economy.
- We have a developmental approach to fiscal analysis
- We analyse the economic impact of choices made by the government in its planning, policymaking and budgeting
- South Africa has socio-economic rights as part of its constitution
- Parliament, including this current sixth Parliament, has made efforts to reduce unemployment, poverty and inequality (UPI) in South Africa a central part of its vision and mission
- The vision of the 6th Parliament states:

“Our vision is to be an activist and responsive people’s parliament that improves the quality of life of South Africans and ensures enduring equality in our society.”

Introduction

- In the economics cluster of the PBO, our approach to fiscal policy and economic analysis with regard to the budget is to consider the impact on socio-economic rights and to take account of underlying economic sector dynamics
- We look beyond the targets generally used by the National Treasury – which focuses on fiscal measures and tools
- We see measures such as deficit/GDP and debt/GDP as important indicators but not as ratios that should cause the government to self-constrain itself in pursuit of socio-economic rights and inclusive economic development
- We focus on the need for the budget to support building state capacity and to empower a developmental state to address the key socio-economic problems in the economy and to support structural economic transformation
- The size of the deficit and debt has to be understood within the context of the impact government spending and investment in the economy has on the economy
- We are concerned that a narrow focus on budgetary related variables causes the government to miss the important role that the government plays in terms of reducing UPI, improving people's lives, improving services and infrastructure and the impact that these measures have on stability, productivity and economic development
- In a country where serious global and domestic risks can cause sudden large-scale economic damage, the socio-economic returns to efforts to build resilience, stability and inclusive development is priceless

Introduction

- We are moving away from reporting progress to assessing progress
- We look at the impact of fiscal consolidation on the impact of government's expenditure plans
- We try to assess the government's plans and efforts at structural reforms rather than tell Parliament what government departments have reported
- We disentangle the plans and resources used by the government to create conditions for more private investment and economic activity from the government's expenditure on the "social wage" where these are conflated
- We critique the government's structural reforms and argue for structural economic transformation that takes into account the dysfunctional ownership patterns and extreme concentration of the economy
- We argue that reforms could exacerbate the dysfunction in the economy
- We also refer to the impact of openness of the economy and integration with global trade & financial markets

Introduction

- How do we discuss the fiscal framework and debt with regard to UPI?
- We present the government's aggregated accounts but we also attempt to link them to a discussion about socio-economic rights, addressing UPI and building societal resilience
- We also discuss government expenditure (consumption, inv., and COE) within the context of direct (macroeconomic) impacts on size of GDP, investment, employment etc. as well as the indirect impacts in terms of stimulating or constraining demand and the effect on the behavior of the private sector
- Impact of expenditure to alleviate suffering – Covid, July 2021 protests, floods
- SOEs – how is the government budget spending helping to ensure energy/electricity and water security and efficiency of transport services?
- These discussions should go beyond contingent liabilities and debt but look to how fixing up SOEs could improve productivity and fiscal sustainability
- This discussion of SOEs should also look at benefits of on budget and contingent liabilities wrt SOEs role in reducing UPI and building societal resilience (and not just as a cost to government) – e.g., provision of basic services and infrastructure that improves health and education as well as overall productive efficiency

Introduction

- Our work is built on understanding events in the global economy and the underlying dynamics of the South African economy
- We regularly monitor the economic situation of
 - Households (consumption, debt, inequality, poverty, gender concerns)
 - investment and private businesses (particularly the large corporations that control most of the markets in South Africa)
 - Unemployment
 - The balance of payments (current and financial account)
 - Sovereign debt
 - Decision by the Reserve Bank – interest rates and regulatory
- We produce a Quarterly Economic Bulletin that presents the quarterly updates on macroeconomic data and try to provide a broader context for the quarterly changes
- We see the QEBs as feeding into our work on the Budget and Medium Term Budget Policy Statements
- We hope that by providing quarterly updates to MPs that they have better insight into economic events, the budget , and particularly the economic analysis we provide on the government’s fiscal choices

Quarterly Economic Brief

Overview

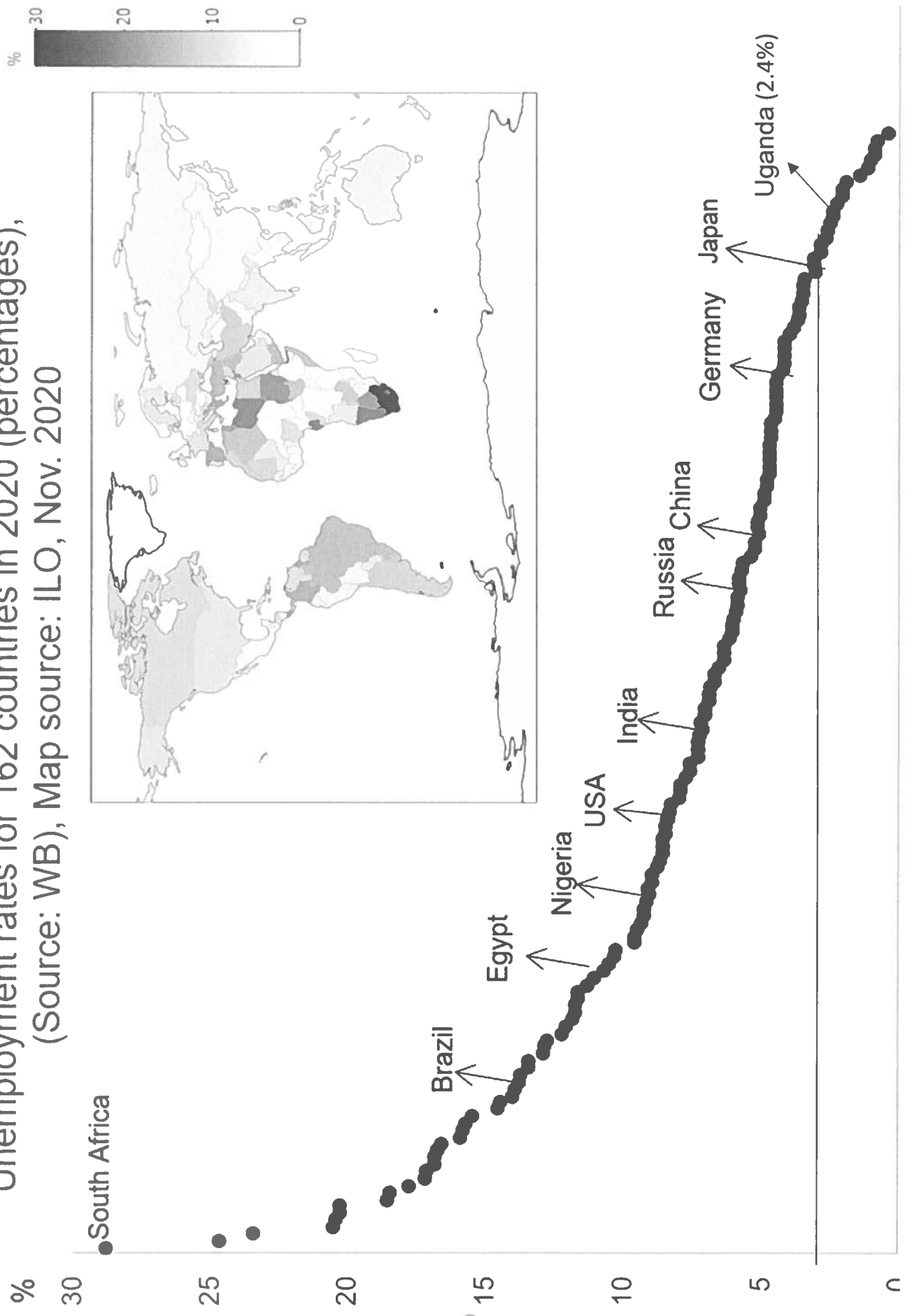
- The PBO provides quarterly analysis of economic developments for Members of Parliament following the release of quarterly economic data by Stats SA, the South African Reserve Bank and the National Treasury, and discusses implications of these developments for public finances
- Publication dates are aligned to parliamentary terms
- It covers the following sections:
 - Global outlook
 - Gross Domestic Product
 - Employment
 - Exchange rate
 - Sovereign debt
 - Current account
 - Inflation and monetary policy
 - Public finances
 - Domestic Outlook
- Box on current economic affairs



Background: Overview of the South African economy

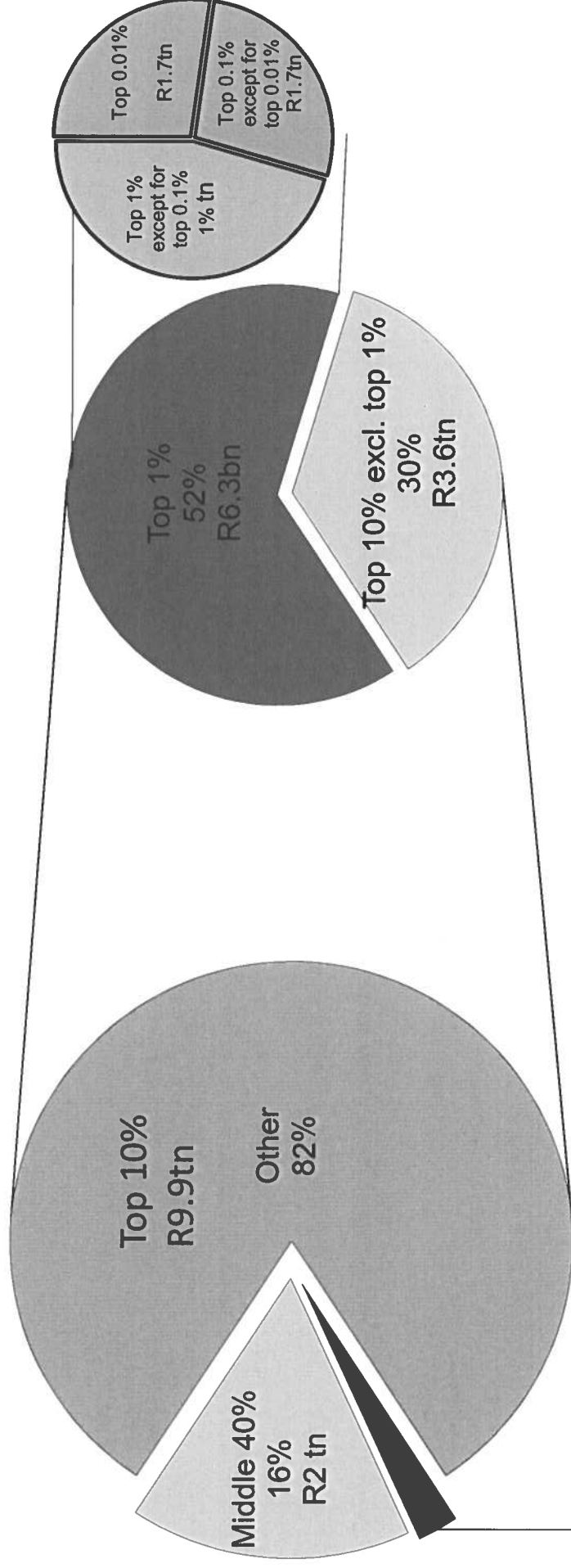
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Unemployment rates for 162 countries in 2020 (percentages),
(Source: WB), Map source: ILO, Nov. 2020



Wealth distribution in SA, 35.6m adults in 2017

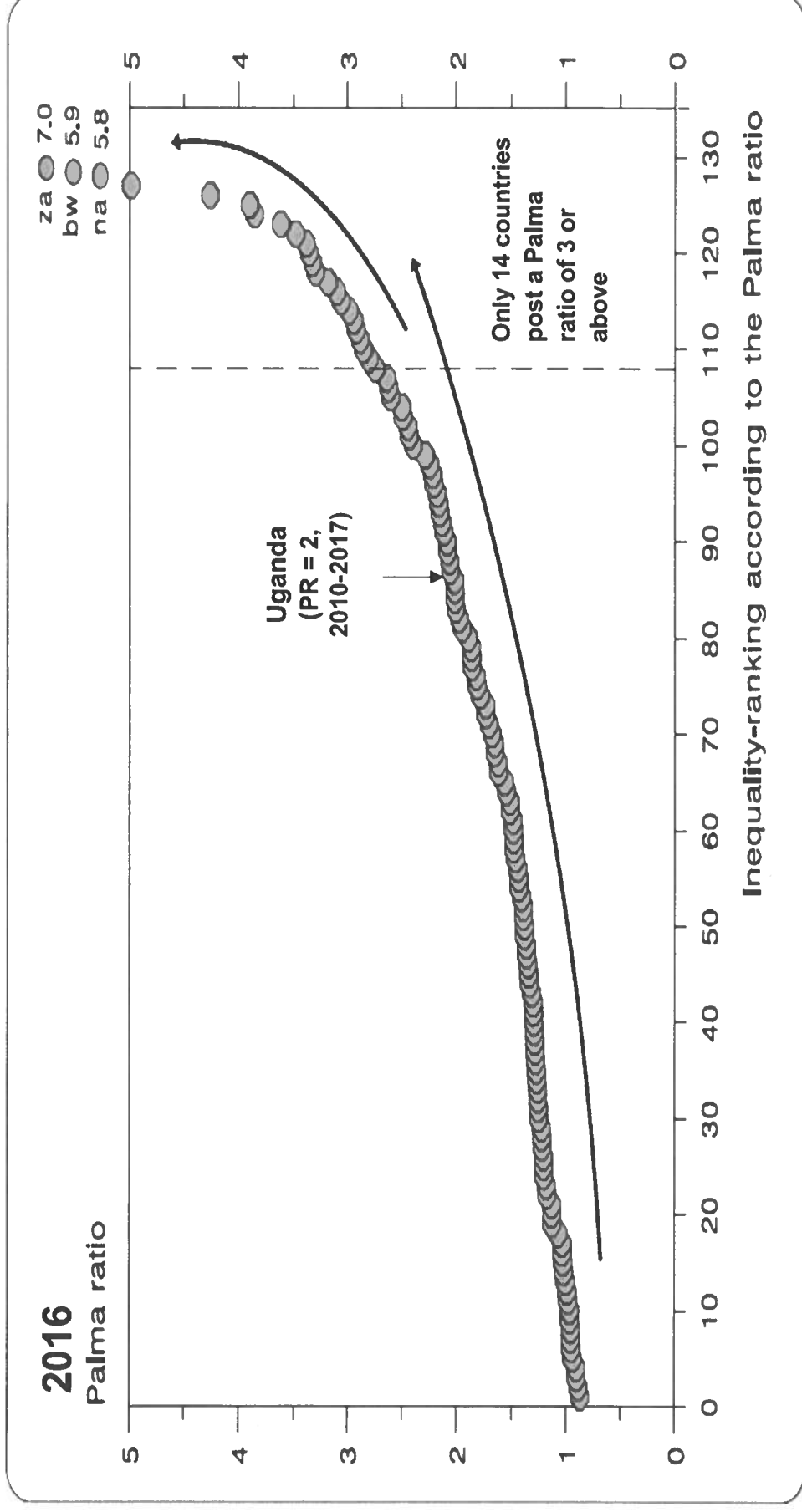
Source: Chatterjee et al World Inequality Lab (2021)



	population	wealth in RTrillions	Wealth share
Bottom 50%			
-R0.3Tn			
Top 0.01%	3560	R1.7	14.90%
Top 0.1% except for top 0.01%	32040	R1.7	14.90%
Top 1% except for top 0.1%	320400	R2.9	24.90%
Top 10% except for top 1%	3204000	R3.6	30.90%
Middle 40%	14240000	R2.0	16.90%
Bottom 50%	17800000	-R0.3	-2.50%
Total adult population	35600000	R11.6	100% .00

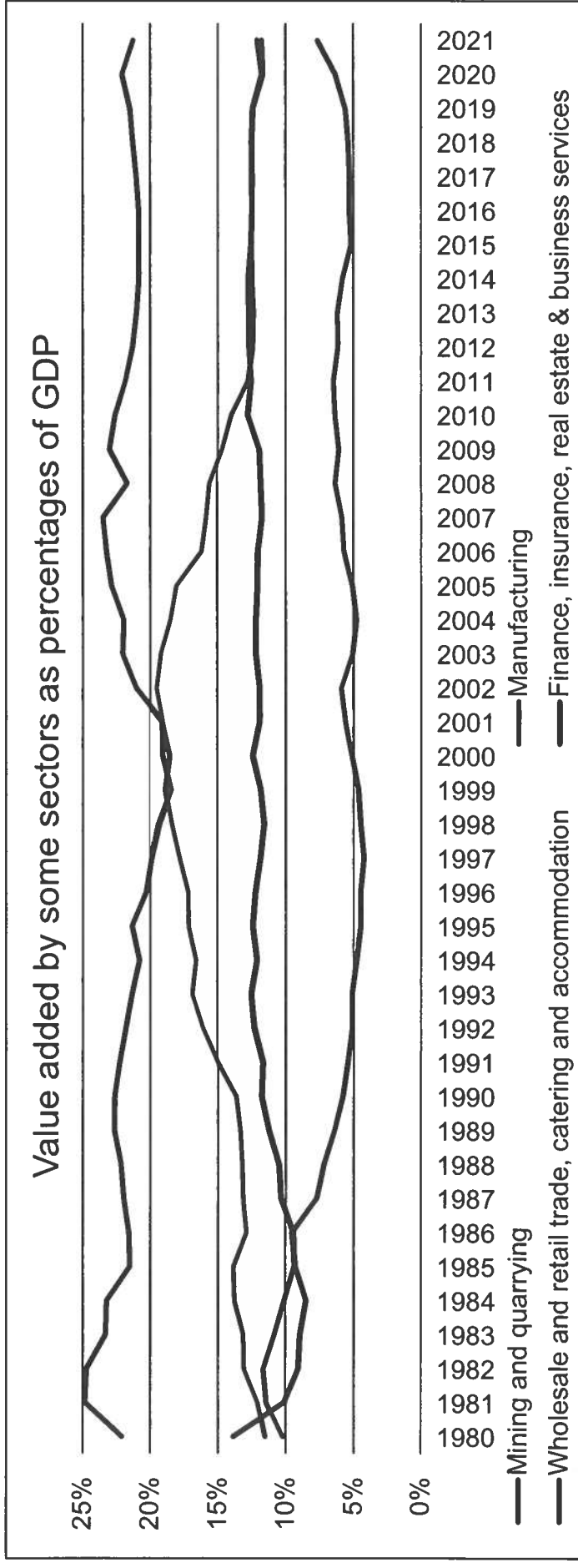
Inequality – comparing Palma Ratio across countries

- The Palma ratio & Gabriel Palma's use of it to analyse inequality globally is particularly useful for understanding the level of inequality in a country
- Palma's ratio is a calculation of the share of disposable income of the top decile as a ratio of the bottom 4 deciles (i.e., top 10% divided by bottom 40%)
- He categorises countries according to inequality. He finds huge diversity in inequality
- He describes South Africa as having obscene inequality



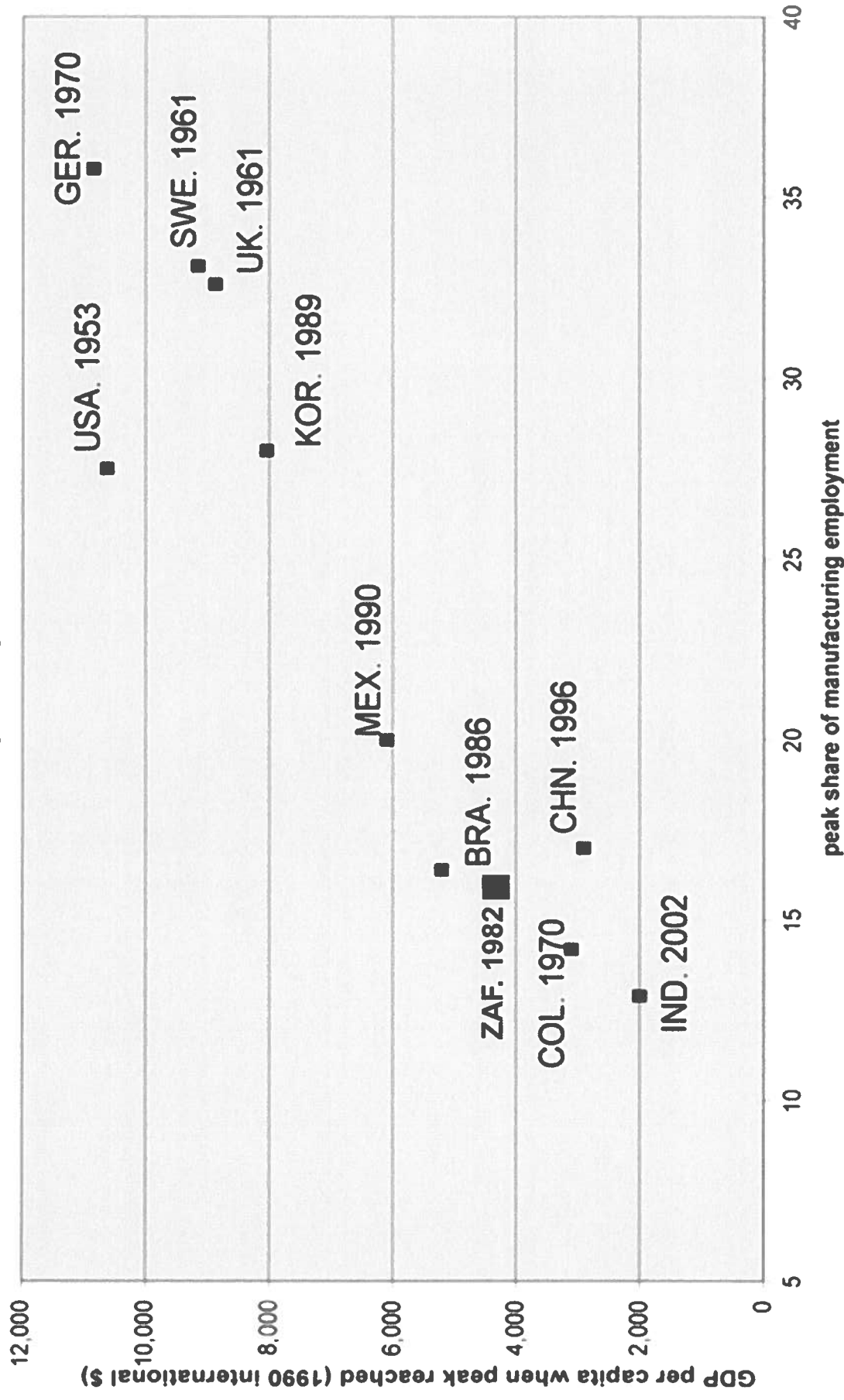
The structure of the SA economy since the 1980s

- The contribution to GDP of high value adding sectors such as manufacturing (particularly manufacturing not linked to mining and minerals processing) has declined since the late 1980s
- Economic diversification outside of the core sectors has not taken place
- Firms in domestic supply chains have not developed requisite capabilities in manufacturing to drive structural economic transformation (Andreoni et al., 2021)
- Market power of large firms within value chains such as food processing, metals and machinery, and chemicals and plastics, remains entrenched (Comp. Commsn, 2021)



Premature deindustrialisation and growth

Peak shares of manufacturing employment as a share of total employment relative to per capita income



The South African economy is very concentrated:

The Top 100 firms by JSE Mkt Capitalisation

	1990	2000	2010	2020
Top 100 market cap (billions, Rands)	317	1 495	5 779	15 151
Percentage of total JSE market cap	83%	91%	94%	97%

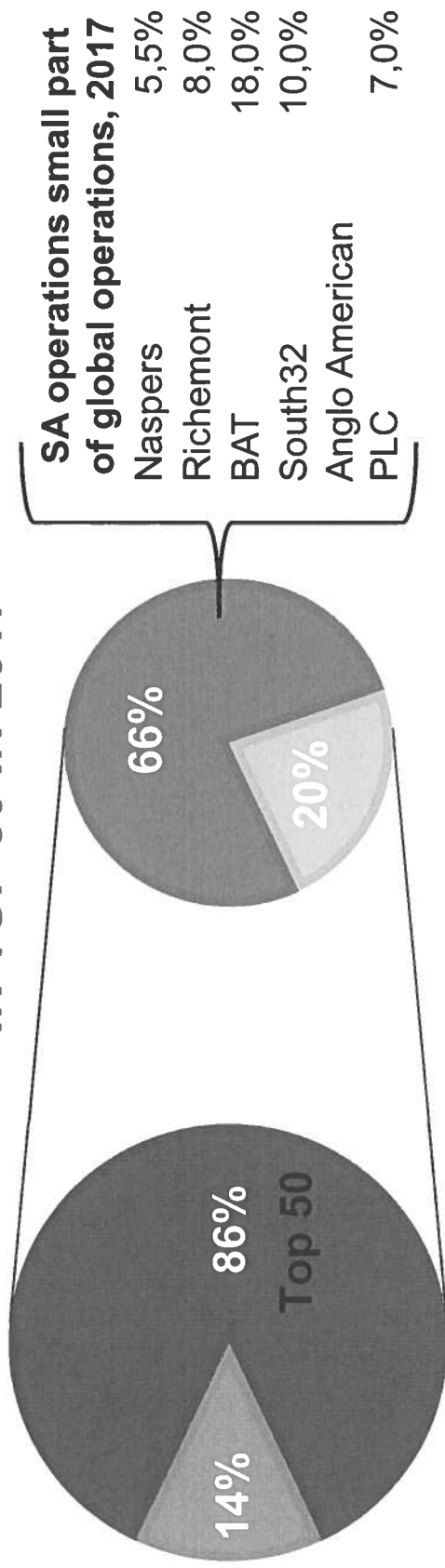
- The top 100 have made up a very high proportion of total JSE market capitalisation
- The largest 10 companies accounted for 38 per cent of the total capitalisation of the top 100 companies in 1990 and 70 per cent in 2020
- A pattern of accumulation of non-fixed assets (which can include financial portfolios) has been rewarded by the market through higher valuation of company shares, without corresponding increases in productive fixed investments
- Ownership diversified away from the major groups that formed the core of the of the mining and minerals and closely linked sectors (MEC)
- However, the subsidiaries over which these MEC groups exercised control and influence have in many cases remained as lead firms
- The factors that underpinned and entrenched their dominance in sectors have not been eroded, partly because arrangements have remained in place after 1994 (such as long term rights to key mineral resources, or the regulatory favour still enjoyed by lead firms such as Sasol (Mondliwa and Roberts, 2019)

Financialisation & the large corps since the 1990s

- The global economy and South Africa have become increasingly financialised
- In 2021, the JSE top 100 group consisted of 43 cross/dual listed companies
- Despite high levels of corporate profitability by international standards, the SA economy is trapped in a cycle of low fixed investment and growth, suggesting lack of reinvestment of profits in the real economy (Bosiu et al., 2017a; Zalk, 2021)
- There has been significant stagnation of private sector GFCF from the period after the global financial crisis in the late 2000s,
- Investments of lead firms (top 100 by JSE market cap) have increased but these have been in the form of:
 - Large-scale merger activity and international listings
 - 130 transactions recorded since 2010 valued at about R280 billion (in real terms) involving the JSE top 100 firms acquiring foreign companies (Who Owns Whom)
 - External acquisitions and new investments consistent with a pattern of internationalisation of South African capital
- The implication is that lead firms raise capital from the domestic economy to fund more international investments rather than local productive investments
- In 2020, 15 of the 17 real estate companies in the JSE top 100 (by assets) had most of their assets outside South Africa

Disconnect between financial markets and real economy in SA

JSE TOP 50 & SHARE OF CROSS LISTED COMPANIES IN TOP 50 IN 2017

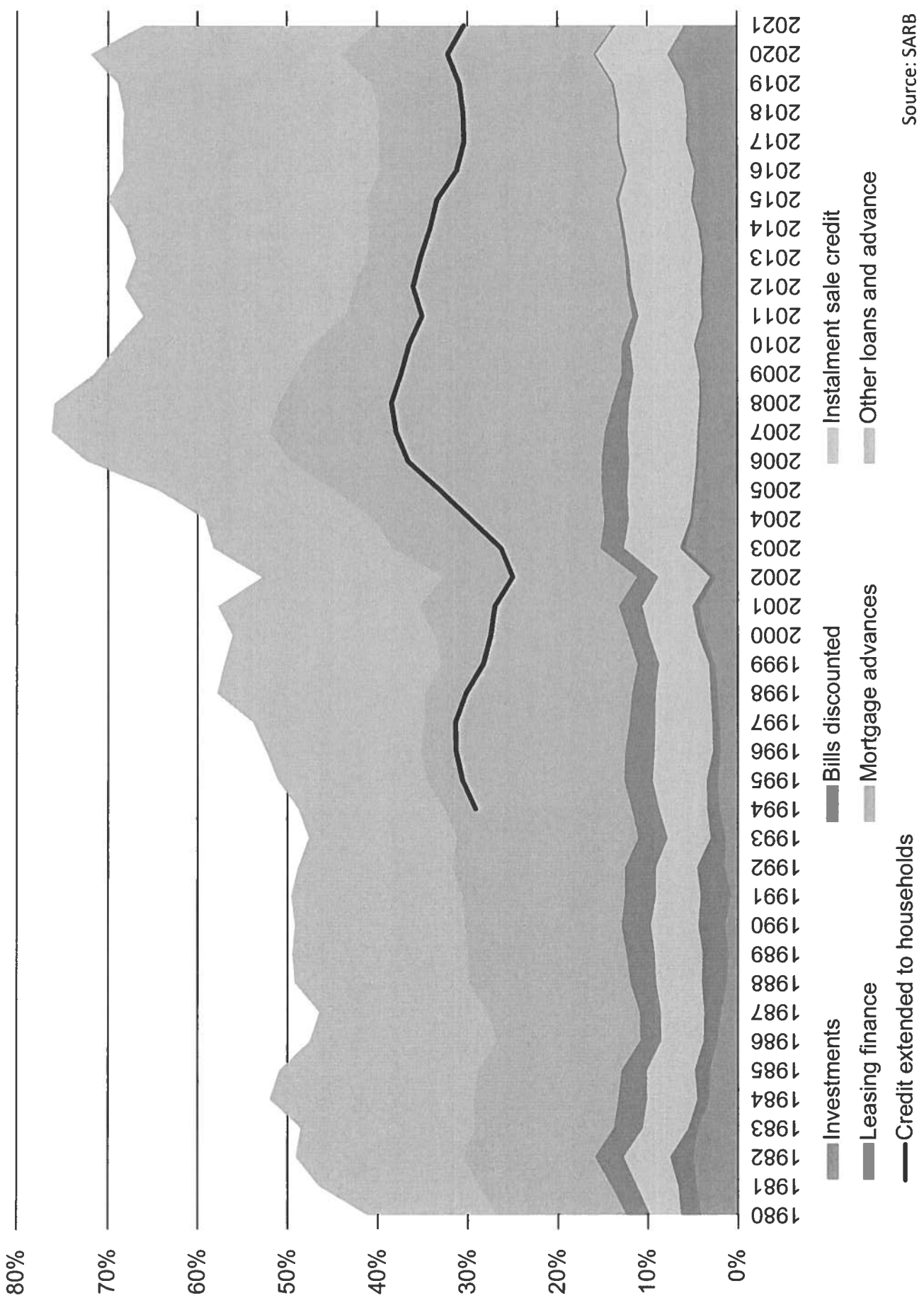


- Rest of JSE
- 23 of top 50 were cross listed
- Rest of top 50 (not cross listed)

Financialisation & large corporns since the 1990s

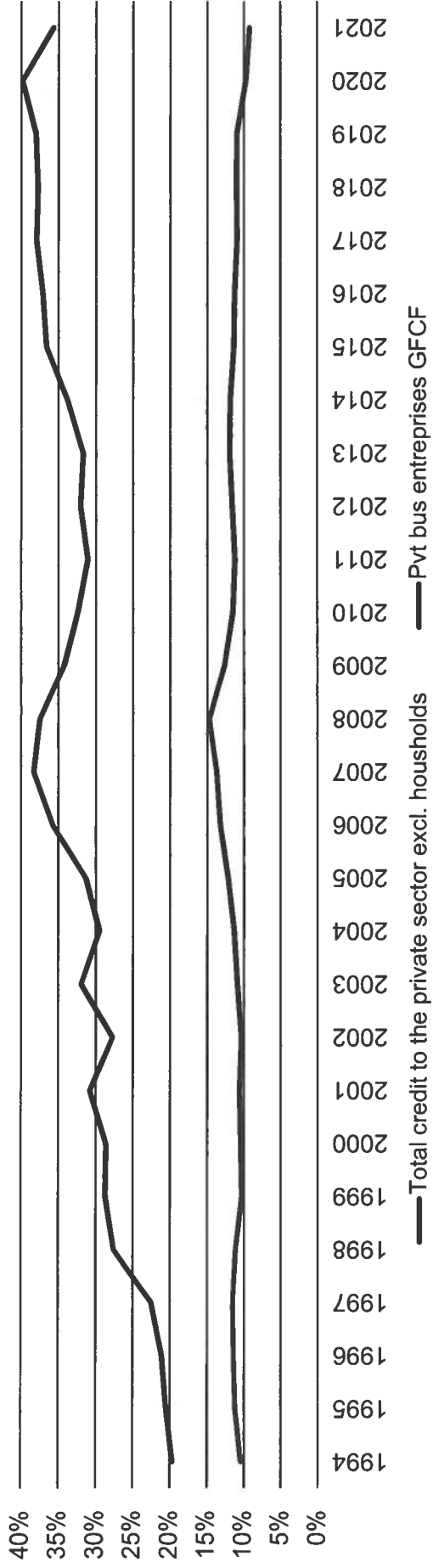
- There has been a 'delinking' of investments in the financial markets and the real economy
- Financial markets have been leveraged to fund speculation rather than productive investment (Karwowski, 2015; Bowman, 2018).
- The stock of debt of the top 100 JSE firms has remained high over the past three decades – it increased from 56% of total assets in 1990 to 83% in 2020.
- In other words, an increasingly large share of returns is used in service of debt
- Firms have invested significantly in short-term liquid assets
- Dividend payments have increased substantially relative to capital expenditure since the mid-2000s (to 82 per cent of the value of capital expenditure in 2019)
- The value of financial assets (including debt and equity held) has far exceeded real economy productive investment in South Africa and across the world
- The growth in value in stock markets is in stark contrast to stagnant domestic investment in productive assets

Total credit extended to the private sector by all monetary institutions

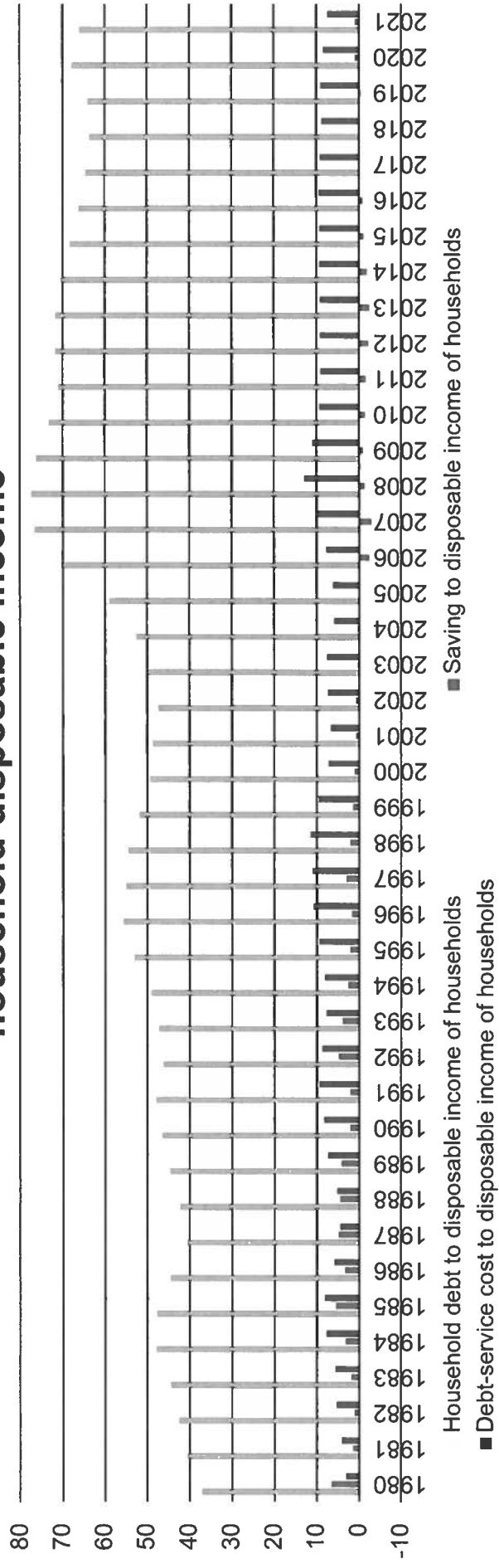


Source: SARB

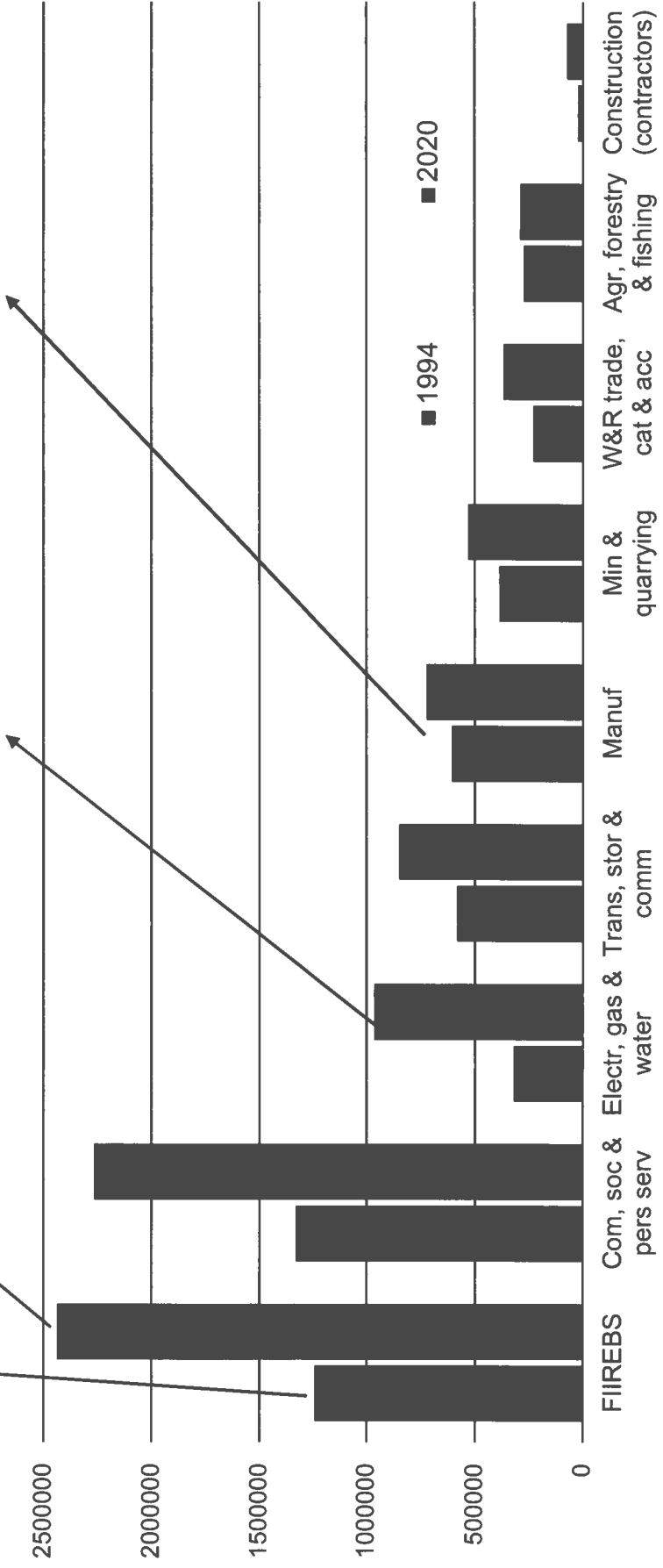
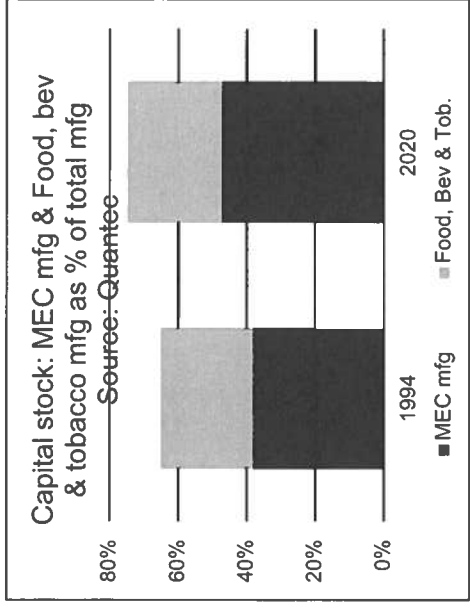
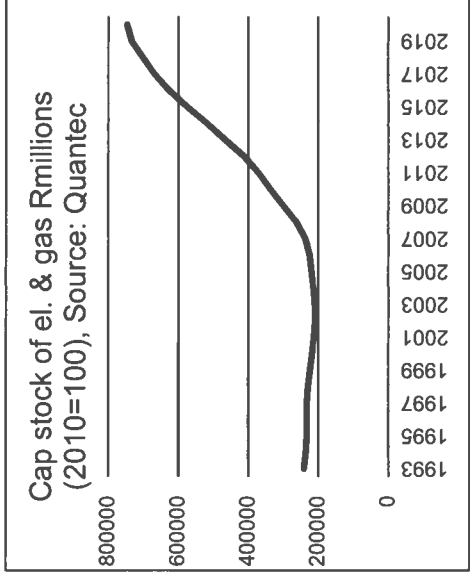
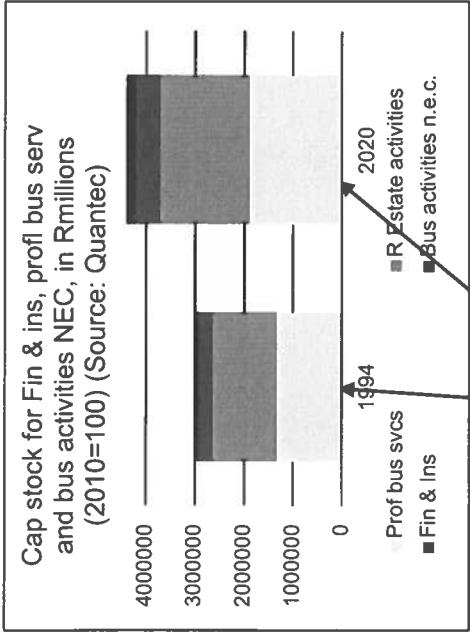
Credit extended to priv sector excl. households vs investment by priv bus. enterprises



Household debt, saving and debt service cost as percentage of household disposable income

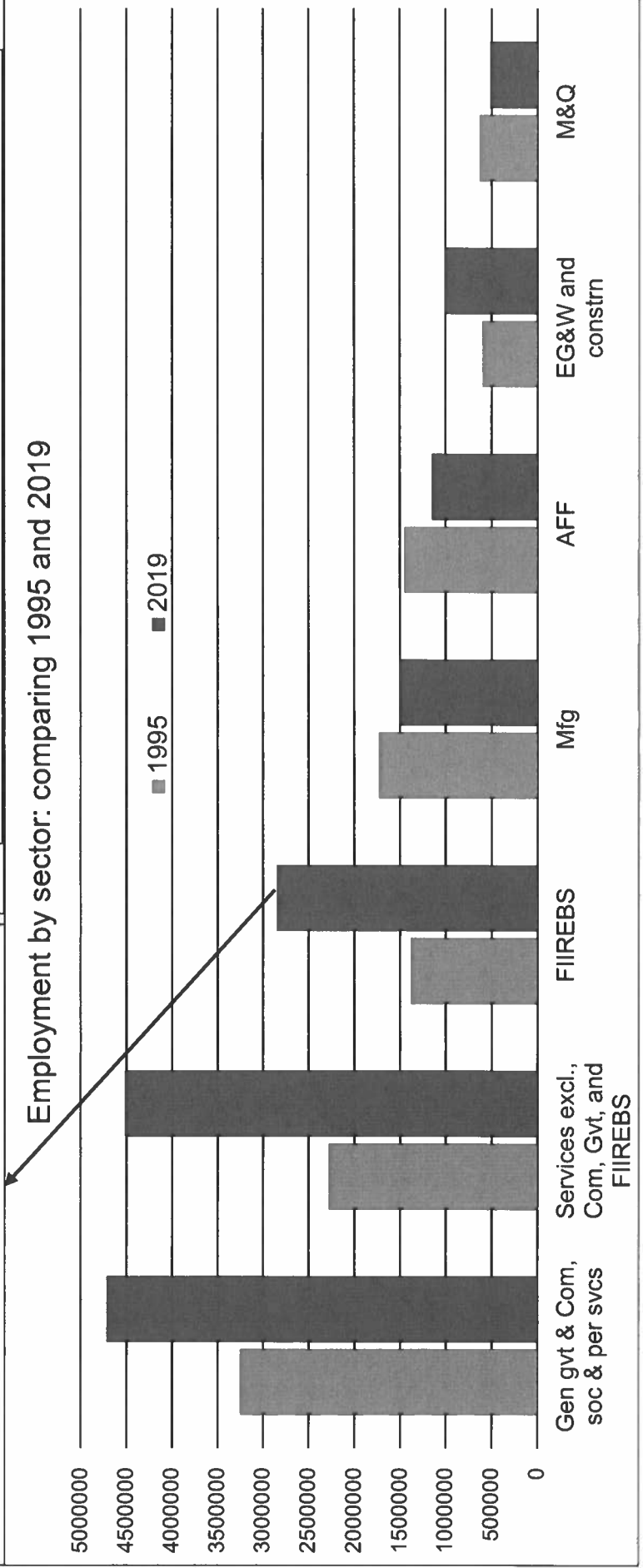
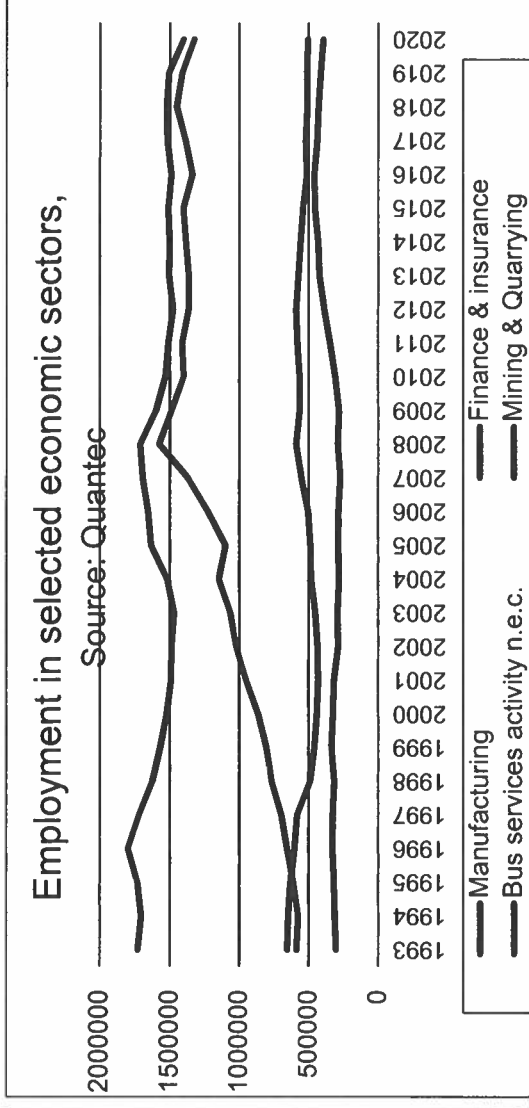
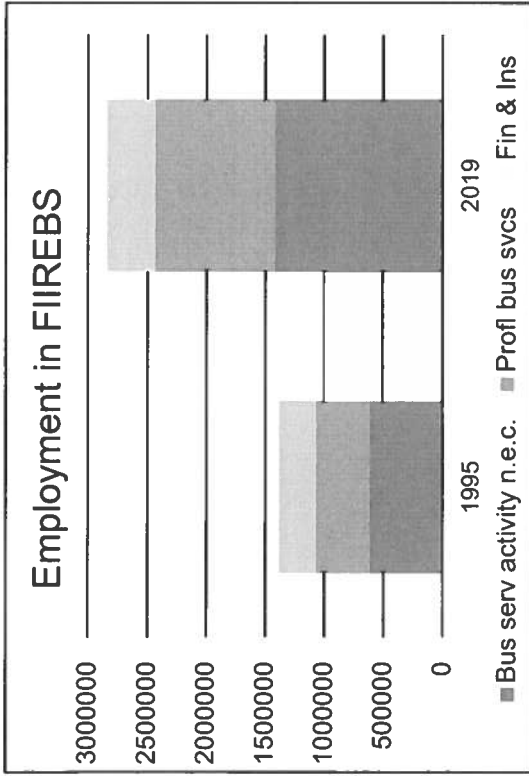


Capital stock of different sectors, 1994 & 2020

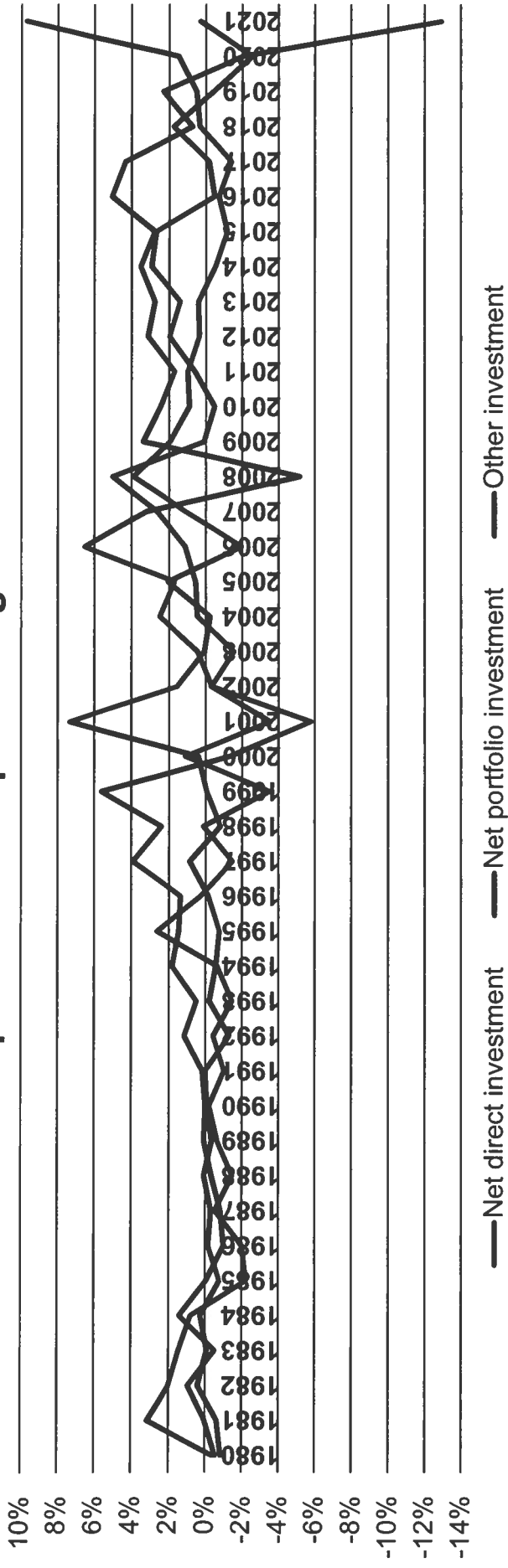


Capital stock of different economic sectors, Rmillions, 2015=100, Source: SARB

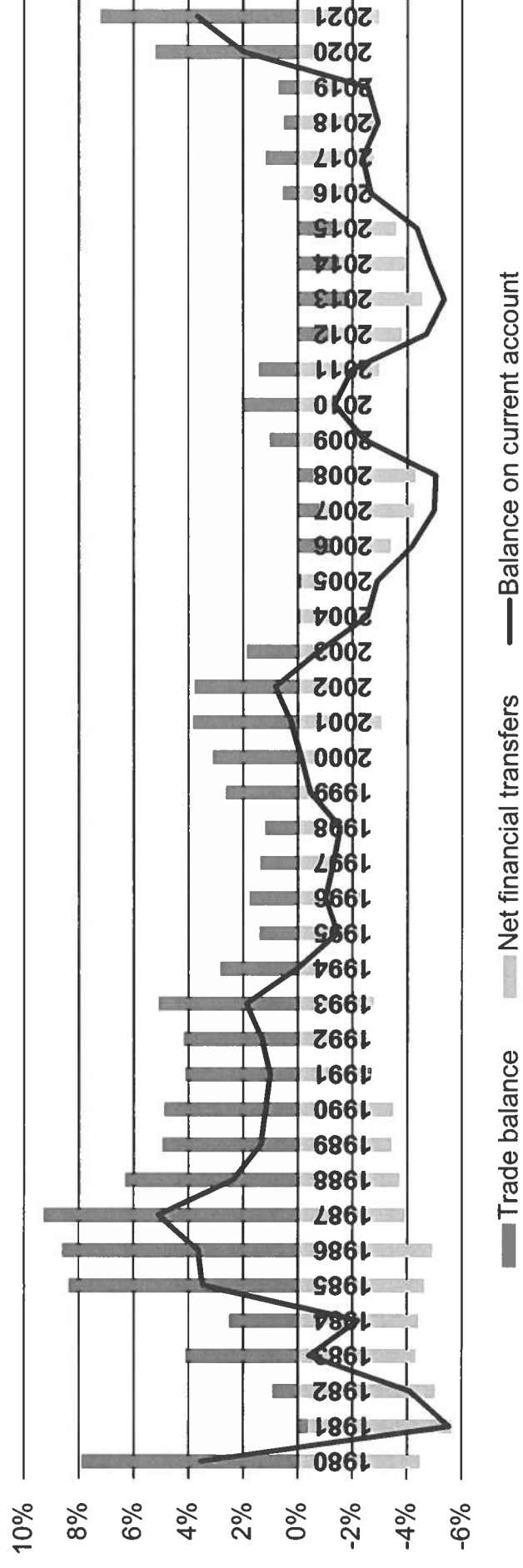
Employment for different sectors



Net capital flows as percentages of GDP



Current account dynamics (percentages of GDP)



Structural reforms vs structural transformation

- Widespread consensus that the extraordinarily high levels of unemployment, poverty and inequality are unsustainable
- There are also longstanding views that there is a need for structural transformation of the South African economy but not agreement on what that entails.
- Too much of the discussion does not adequately take into account
 - macroeconomic factors and
 - finance, cross-border financial flows and financialisation
- The National Treasury, most mainstream academics and media commentators in SA use neoliberal economic ideology:
 - supply-side policies,
 - a reduced role for the state,
 - monetary policy administered by an independent central bank solely aimed at keeping inflation low and
 - a view that fiscal policy is ineffective, inflationary and growing government debt that crowds out private sector investment.

Structural reforms vs structural transformation

- The observance of orthodox economic thinking means that they:
 - believe in a dichotomy between financial and real markets
 - make an overly artificial separation of microeconomics and macroeconomics.
 - treat economics and economic policies as if history does not matter, and
 - Treat uncertainty as not important when it is in reality
- Therefore, they explain economic outcomes and develop policies without examining broader social issues that impact on the evolution of institutions and the related path dependence of the economy
- Makes them unable to understand the macroeconomic, financial and other structural factors that impact on investment and employment

Government's structural reforms

- Main interventions
 - fixing network industries,
 - reducing red tape,
 - increasing labour market deregulation for flexibility and
 - use of competition policy to increase competition.
 - mention industrial policy
- These structural reforms do not aim to transform the structure of the economy
- They are based on a simplistic calculus that actions within certain sectors and reducing red tape will cumulatively add several points to GDP growth
- The aim of the NT's microeconomic, supply-side approach is to improve conditions and reduce costs to business for more economic activity
- The government's definition of structural economic concerns has deliberately been interpreted in a narrow sense where the problems are identified as related to government actions and regulations, red tape and worker organisation.
- Somehow, the intensification of competition policies was not seen as adding to red tape.

Structural reforms – we’ve been down this dangerous road before

- Dani Rodrick (who was key member of the NT’s ‘Harvard Group’ in 2007) with reference to current proponents of structural reform says:

...the policy prescribers, it seems, suffered from selective memory. Structural reform as a remedy for slow (or no) growth has been around since the early 1980s. At the time the World Bank began to insist on economy-wide liberalizing reforms as the *quid pro quo* for developing countries in Asia, Africa and the Middle East in return for “structural adjustment” loans. These policies were then extended and codified in Latin America during the 1990s under the umbrella of the Washington Consensus. Many of the former socialist economies adopted similar policies (in some cases, voluntarily) when they opened up their economies during the 1990s.... That experience shows that structural reforms yields growth only over the longer term, at best, more often than not, the short-run effects are negative. (“The elusive promise of structural reform”, *Milken Institute Review*, 2nd quarter 2016, p.28)

- The supply-side focus of the structural reforms is a policy choice that are in line with contractionary fiscal framework

The cost of not understanding the problem

- The result has been low investment, declining levels of productive capital stock, growing unemployment and more precariousness of employment
- Macroeconomic policies – fiscal conservatism and inflation targeting – supports rentiers and financialisation and undermines long-term productive investment and employment – **it disempowers “value creators”**
- Government’s solution to these economic difficulties is to focus on business and to improve business confidence
- They are playing the losers game related to some confused version of new classical rational expectations theory where they want to prove that their policies are credible and that they will cut expenditure and reduce debt
- They offer supply-side structural reforms
- However, given the structural problems and financialisation of the economy their efforts to show credibility exacerbates the structural problems
- Their proposed structural reforms will reinforce the status quo and possibly make things worse – **it further empowers “value destroyers”**
- Poor GDP performance and pressure to spend more (given the multitude of risks facing the world – climate change disasters, social unrest because of hunger and poverty and generally related to inequality, health crises/pandemics etc) – so governments attempts to appear credible end up making them miss targets and look not credible

Budget economic analysis

Background: Budget economic analysis

- The PBO has voiced concern over the past few years that the credibility of the fiscal framework is at question because:
 - The approach in the MTBPS continues to narrowly view risks to the fiscal framework as focused on fiscal targets such as the deficit & debt to GDP
 - It could go much further to alleviate the suffering of millions of households and build their resilience to potentially serious risks while at the same time boosting aggregate demand and economic growth
 - Fiscal consolidation has contributed to increased anger and heightened risk of social and economic instability as inadequate spending on social support and infrastructure has exacerbated hunger
 - The majority of South African households have been living through a cost of living crisis since before the 1994 democratic elections
 - It also ignores potentially huge costs to the economy and the government associated with serious risks, such as the Covid-19 pandemic
 - Other serious risks include geopolitical conflict, domestic protests, climate change events, the possibility of new pandemics, global recession and the heightened likelihood of a financial and economic crisis

Background: Budget economic analysis

- The poor performance of the SA economy, which predates the Covid-19 crisis, is due to the interrelated structural weaknesses of the economy and extreme levels of unemployment poverty and inequality (UPI)
- A path towards fiscal sustainability should take into account these underlying dynamics of the economy
- It should ensure resources for measures to transform the structure of the economy and to alleviate suffering associated with UPI
- SA's extreme inequality is a great constraint on economic growth and development
- Fiscal policy can be a more effective tool for redistribution in an unequal society and increased social security can provide automatic stabilisers to risks and shocks
- Fiscal policy can also support economic development and transformation, including diversified, value-adding industrialisation and productive services
- In short, fiscal policy can be an essential policy in South Africa's policy toolbox to move it onto a new, inclusive, more stable and sustainable economic growth path
- The social and economic returns of reducing inequality are high and will support fiscal sustainability, for example:
 - Healthier and happier households that are resilient to serious risks facing the globe
 - Improved economic structure supported by higher labour productivity
 - Better education outcomes and skills development
 - More opportunity, lower UPI and reduced crime and corruption

Background: Budget economic analysis

- Economic interventions, e.g., to support investment and exports, are reported but often without showing progress on the targets set for the planned outputs
- It is unclear from reporting whether support for district development initiatives, township and rural enterprises and small, medium & micro enterprises is showing results
- It is unclear when they are expected to start making noticeable contributions to key macroeconomic variables such as investment, employment, inequality and GDP
- The extent to which lack of structural transformation of the economy and the level of concentration and market dominance impede success of government economic plans and interventions should be examined
- The extent to which structural reforms will benefit the dominant business corporations and whether this will crowd out other businesses should also be examined

Economic analysis of the Budget

Macroeconomic overview and risks to growth and development

Fiscal framework

Revenue and taxes

Government spending

Macroeconomic overview and risks to growth and development

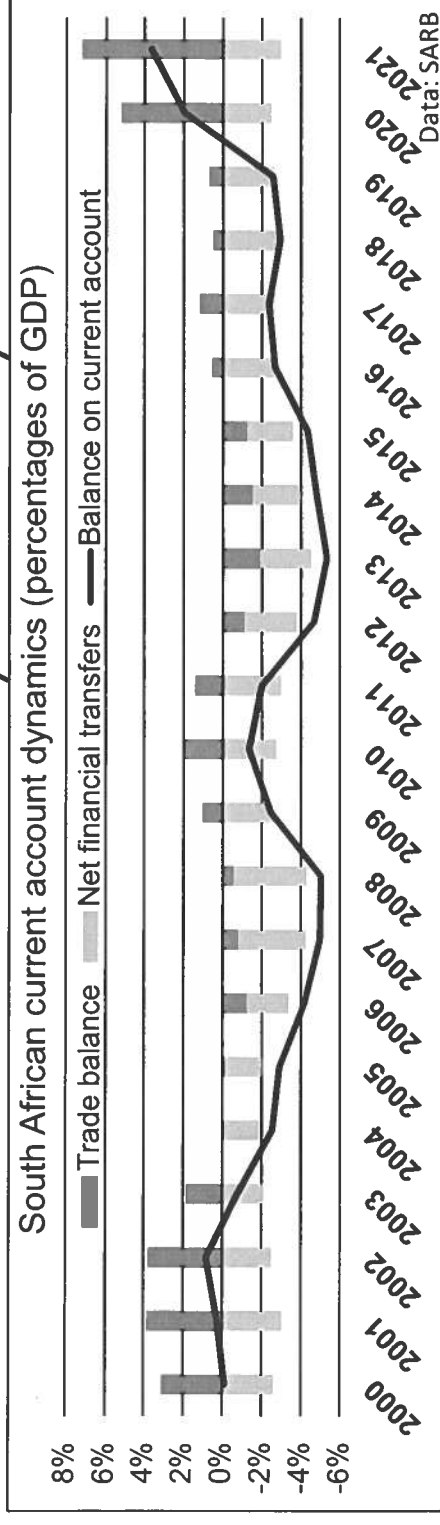
Global outlook

South African growth outlook

Global outlook: A dangerous combination of fiscal and monetary austerity

- The United Nations Conference on Trade and Development warns in its Trade and Development Report 2022 that tighter monetary and fiscal policy choices in advanced economies increases the risk of a global recession and prolonged stagnation
- They warn that these actions may inflict worse damage than the financial crisis in 2008 and the COVID-19 shock in 2020
- These constraints on growth are in addition to the ongoing problems caused by the continued Covid-19 pandemic, the ongoing war in Ukraine, global supply chain problems and high energy, freight and fertilizer costs
- There has been widespread implementation of higher interest rates to fight inflation by curbing demand, decreasing investment levels and increasing unemployment
- At the same time there has also been a widespread return to fiscal austerity across the globe
- The increased interest rates have caused massive outflows of capital from developing countries, including South Africa
- According to SARB Monthly Reports, SA has had cumulative negative non-resident total net purchases of shares and bonds up to Aug. 2022

Global outlook: A dangerous combination of fiscal and monetary austerity



- The impact of capital outflows on developing countries induce them to increase interest rates not only out of fear of inflation but also to attract foreign capital inflows
- South Africa has generally attracted short-term capital inflows rather than FDI
- The combination of higher interest rates and volatile cross-border capital flows poses serious risks to macroeconomic stability in developing countries
- South Africa is at risk because it has had annual current account deficits since 2003, except for 2020 and 2021
- This current account deficit has predominantly been due to net financial transfers on the current account and not the trade balance
- Maintaining a primary fiscal surplus and reducing government debt will not improve South Africa's current account situation and prospects for growth because of the overwhelming impact and vulnerability to destabilizing, volatile short-term foreign capital flows and the high interest rate regime it requires

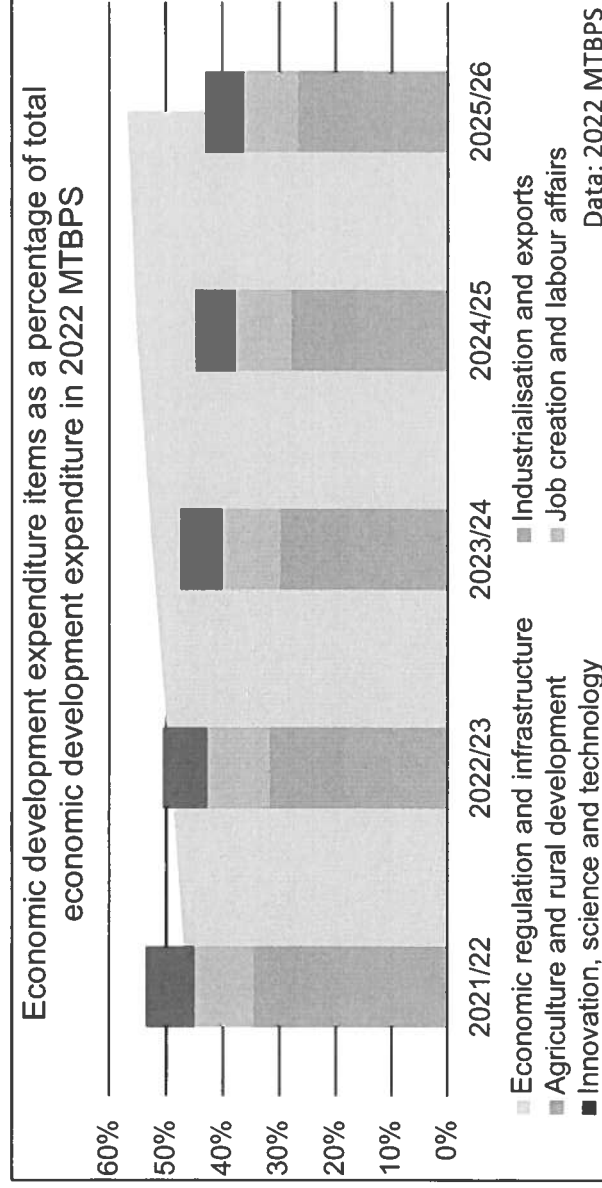
South African growth outlook

GDP growth outlook - calendar year*	2022	2023	2024
National Treasury - Budget 2022	2,1% ↓	1,6% ↓	1,7%
National Treasury - MTBPS 2022	1,9%	1,4%	1,7%
South African Reserve Bank - January 2022	1,7% ←	1,8% ↓	2,0% ↓
South African Reserve Bank - September 2022	1,9%	1,4%	1,7%
IMF - World Economic Outlook - January 2022	1,9% ↓	1,4%	-
IMF - World Economic Outlook - October 2022	2,1%	1,1%	
Reuters Consensus Forecast - January 2022	2,0% ↓	1,8% ↓	2,0% ↓
Reuters Consensus Forecast - September 2022	1,9%	1,5%	1,8%

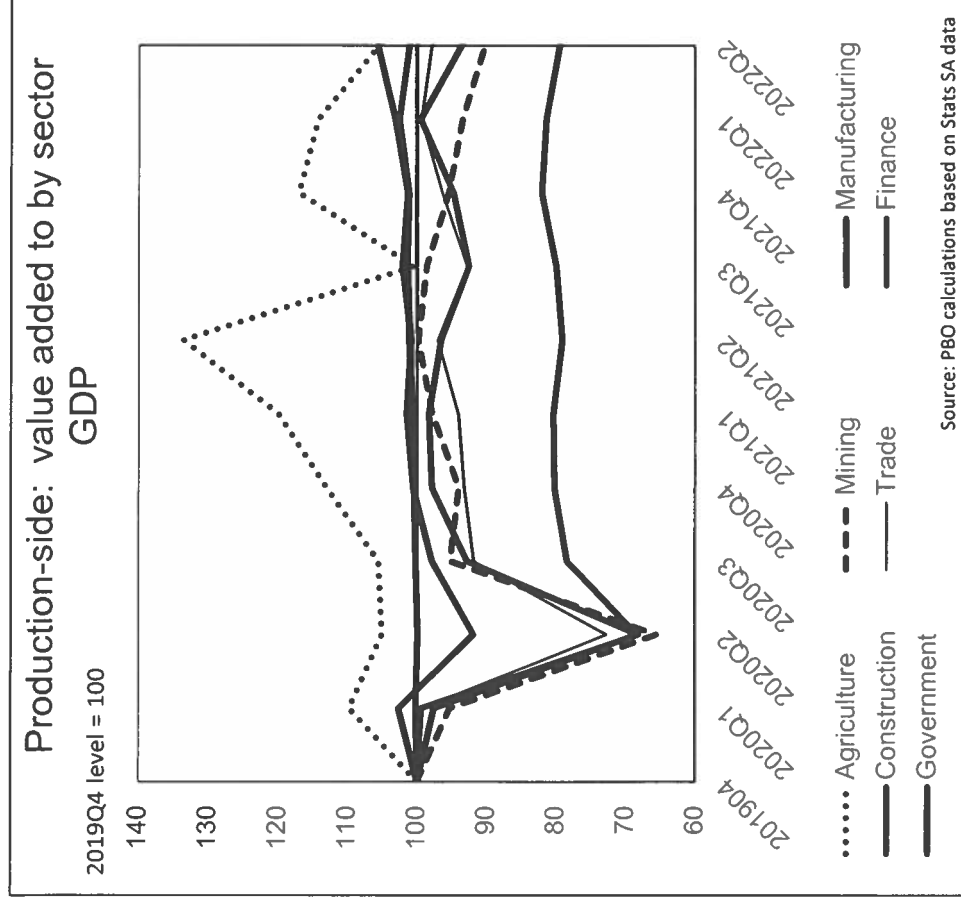
*Growth projections correspond to publication date and not forecast date

Data: National Treasury, South African Reserve Bank, International Monetary Fund

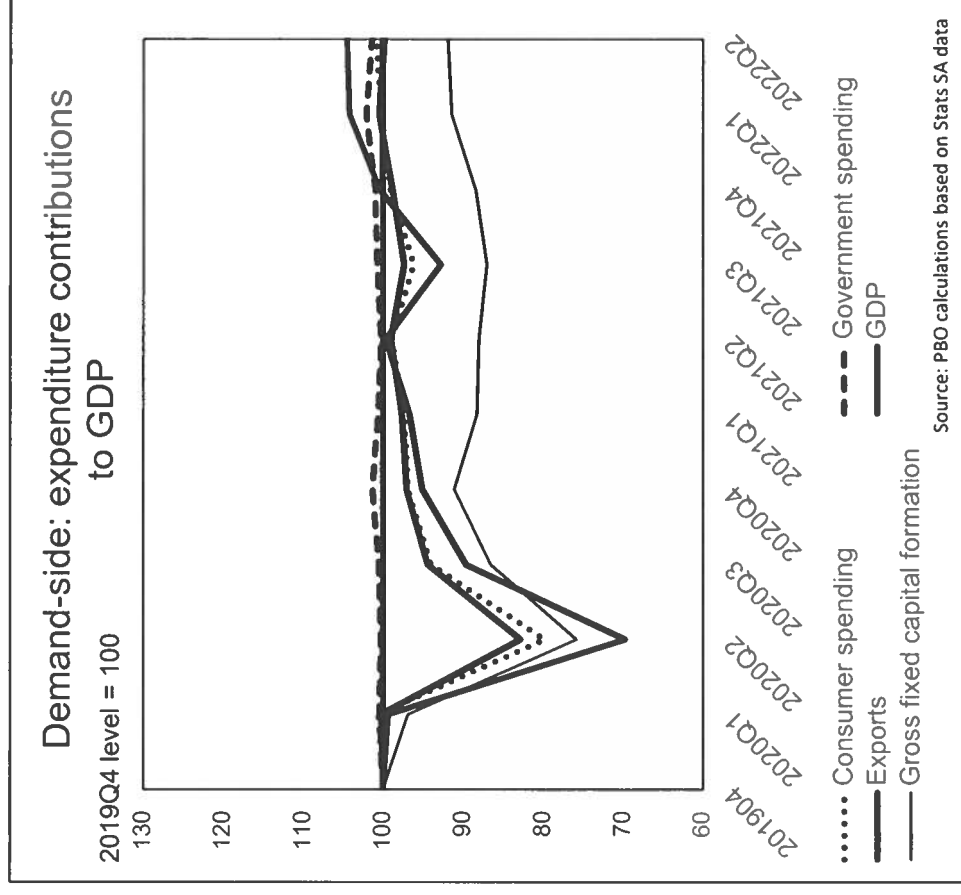
- South Africa's economic outlook over the medium term is relatively poor
- There is little support for economic development in the 2022 MTBPS
- The increase in infrastructure expenditure is offset by declining shares for the rest
- Aggregate demand and investment will in all likelihood remain low
- Econ. structure will remain highly concentrated and inadequately diversified
- Therefore, efforts to fight inflation and reduce government debt levels will likely hurt small businesses and the poorest households much more than they help



South African economic performance: Divergent economic performance across sectors



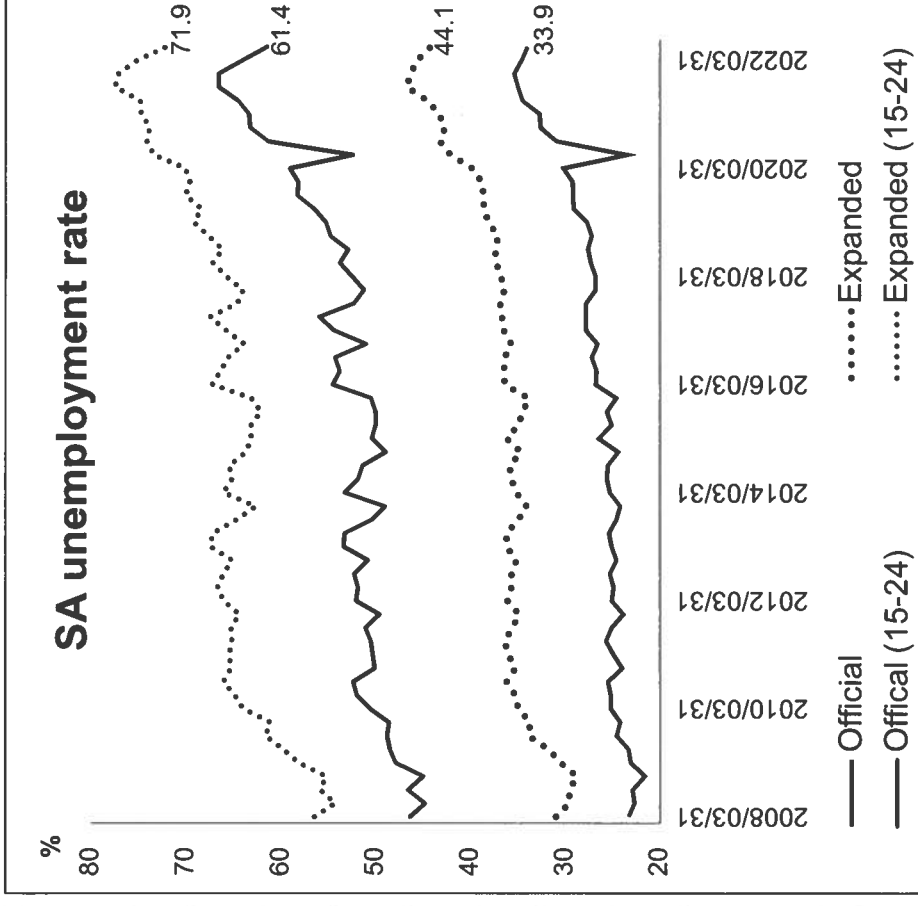
- Except for agriculture, finance and government spending, all other sectors remain below pre-pandemic levels



- In terms of expenditure on GDP (demand-side), gross fixed capital formation remains 10 per cent below pre-pandemic levels

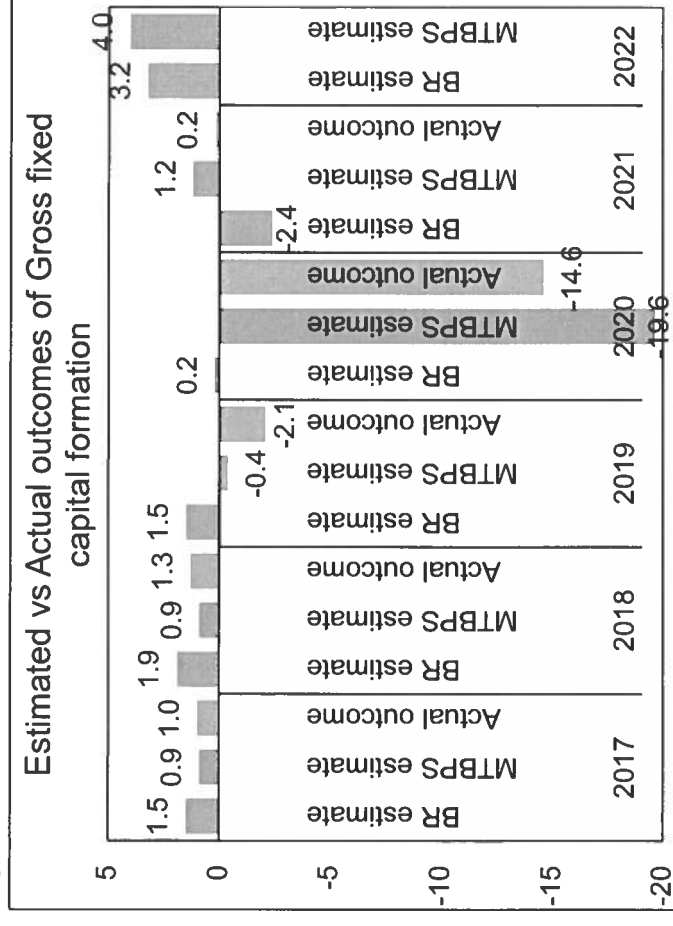
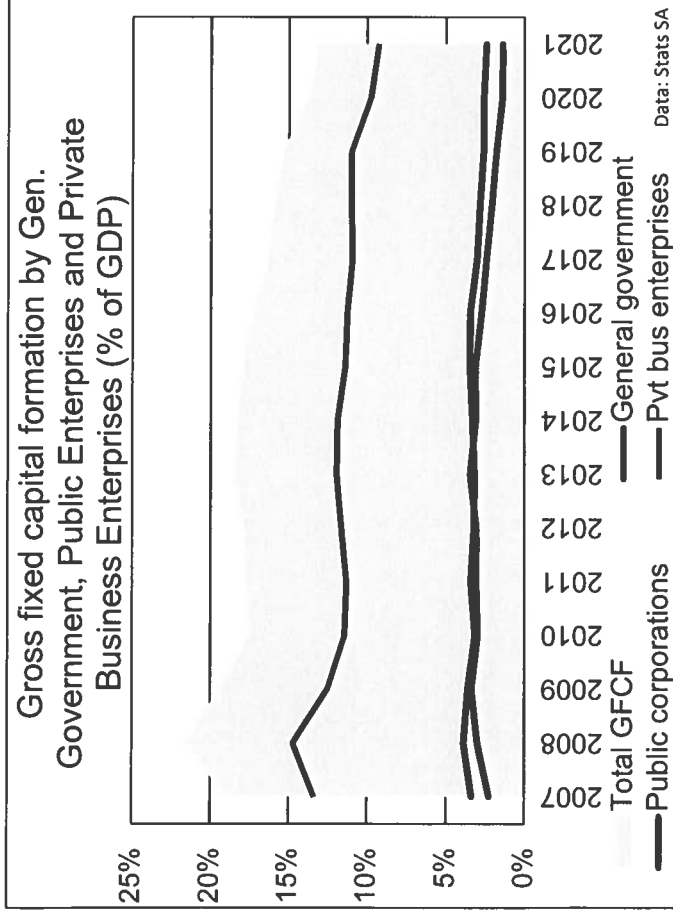
Labour market – jobs lost/gained per sector

(’000s)	21Q2 vs 19Q4	22Q2 vs 19Q4
Total (formal & informal)	-1 363	-685
Agriculture	-24	-11
Mining	-31	-22
Manufacturing	-306	-213
Utilities	-1	-16
Construction	-128	-174
Trade	-162	-86
Transport	-43	-105
Finance	-319	-108
Community & social services	-391	29
Private households	-92	-162



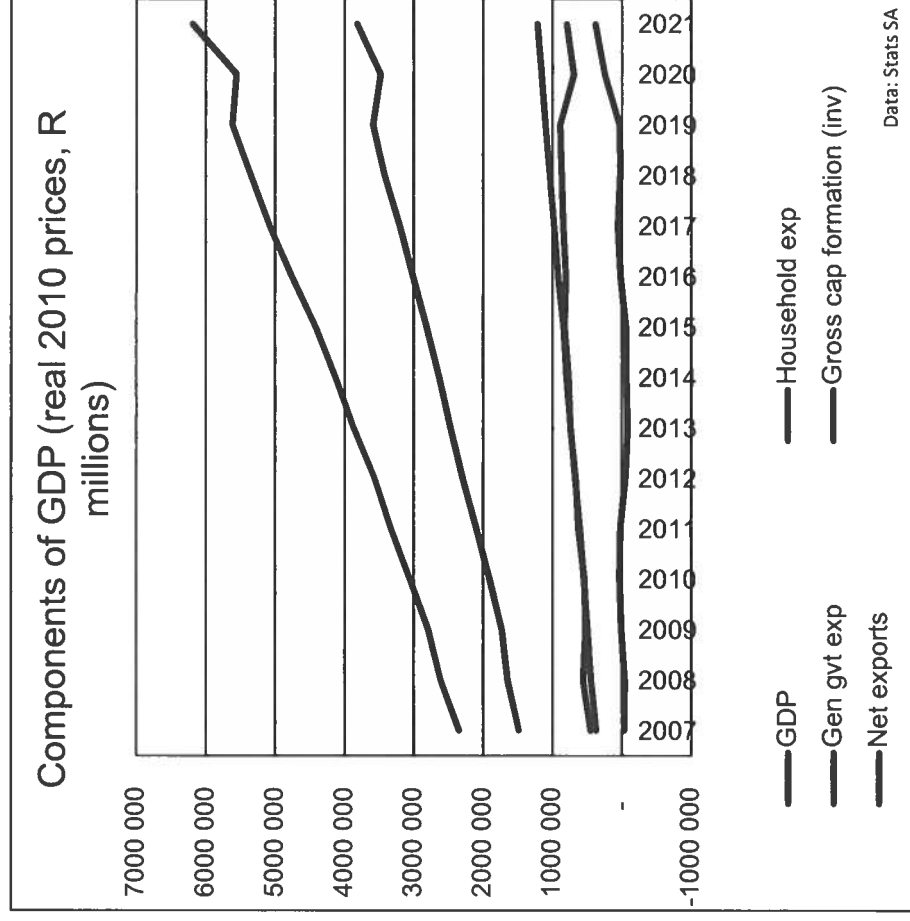
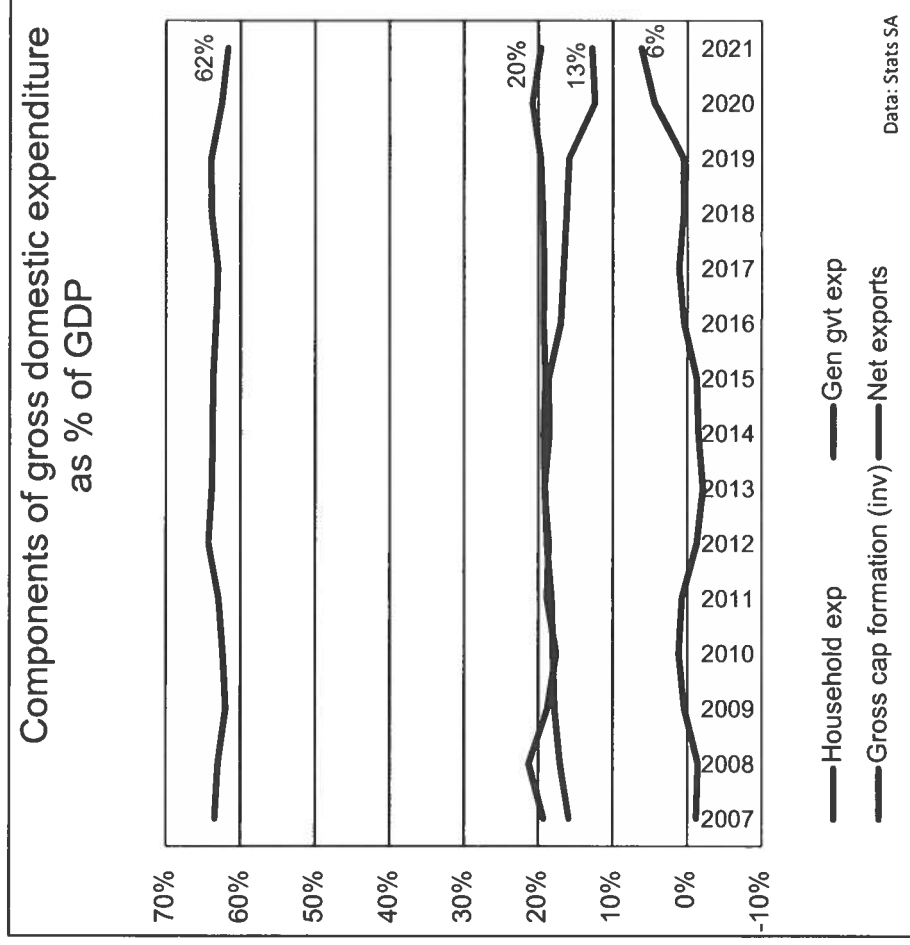
- 685 000 jobs were lost between 2019Q4 and 2022Q2
- None of the economic sectors, except for community & social services, have fully recovered the jobs lost during the pandemic
- The construction and transport sectors continue to shed jobs despite the economy operating without any trade restrictions

Investment landscape in South Africa



- The NT bases much of its GDP growth forecast over the MTEF on higher investment
- Infrastructure spend is expected to increase from R66.7bn in 2022/23 to R112.5bn in 2025/26
- However, NT's track record on forecasting investment growth has been poor (e.g., in each of the 3 years before Covid-19, investment growth was overestimated in the Budget Reviews)
- Private investment has been below 12 per cent of GDP since 2015 and, despite the infrastructure fund launched in Aug. 2020, not a single mega infrastructure project has occurred
- Public investment remains weak at below 5 per cent of GDP each for general government and public enterprises, while private investment declined to below 10 per cent of GDP in 2021 (well below the NDP target of 10 per cent and 20 per cent of GDP, respectively)
- A lack of state capacity to deliver infrastructure projects as well as the insufficient progress in addressing structural constraints do not bode well for the fixed investment outlook

GDP growth requires government support for more consumption by struggling households and expenditure on investment in infrastructure



- Expanded government expenditure in support of poor households, improving service delivery and upgrading services infrastructure can support structural economic transformation and increase growth

Structural transformation vs structural reform

- Improved market sentiment related to lower government debt levels and work on structural reforms is not enough for economic recovery and growth
- The South African economy has much deeper structural problems than those outlined in the 2022 MTBPS: electricity, inefficient network industries, high cost of doing business and concentration, crime and corruption
- In fact, most of what the 2022 MTBPS identifies as structural weaknesses are actually the symptoms of deeper, long-standing structural problems
- These structural problems arose in large part because of inadequate investment, technological upgrading and employment in an economy with large extractive, outwardly focused dominant corporations
- The economic sectoral structure is weak with an inadequately diversified industrial base that is too capital, energy and carbon intensive with low-levels of value-added
- The financial sector may be sophisticated but it has not been associated with productive investment and capital formation and it is associated with misallocation of capital and de-industrialization
- The sectoral reforms will not reduce the high levels of economic concentration across most sectors of the economy, including financial services
- The structural reforms may further entrench structural weaknesses, including market dominance of corporations that have been dominating the economy

Fiscal framework

Pre-budget fiscal framework

Revenue forecasting

Fiscal outlook

In-year revenue projections

- The model is based on what the Canadian and UK budget offices use. It has proven to be as accurate if not more accurate for in-year estimates than elasticity-based models and other more complex models
- The model is based on the compilation of monthly revenue data by line item for the past 5 years and the year to date
- Profiling historical monthly data allows for the identification of monthly trends
- South Africa's monthly trends show clear and generally consistent patterns across most line items. This allows for the use of the model to project current year outcome
- We have found the model to have predictive power after 5 months of data
- Line items that deviate often from a pattern or do not have a clear pattern (i.e. stochastic) are excluded from the estimation process to avoid spurious estimate. e.g. Sacu payments. Government's original estimates are included for these line items
- As section 32 reports focus on main budget, only main budget is estimates and the Budget or MTBPS estimates are added to the model's output.
- PBO's pre-MTBPS estimates over the years have been close to Treasury's MTBPS projections

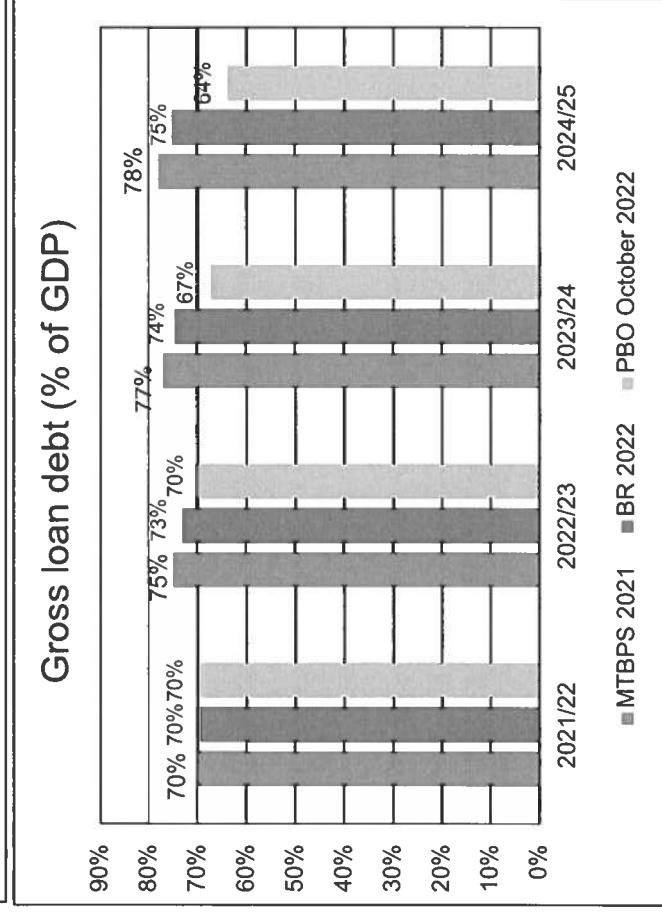
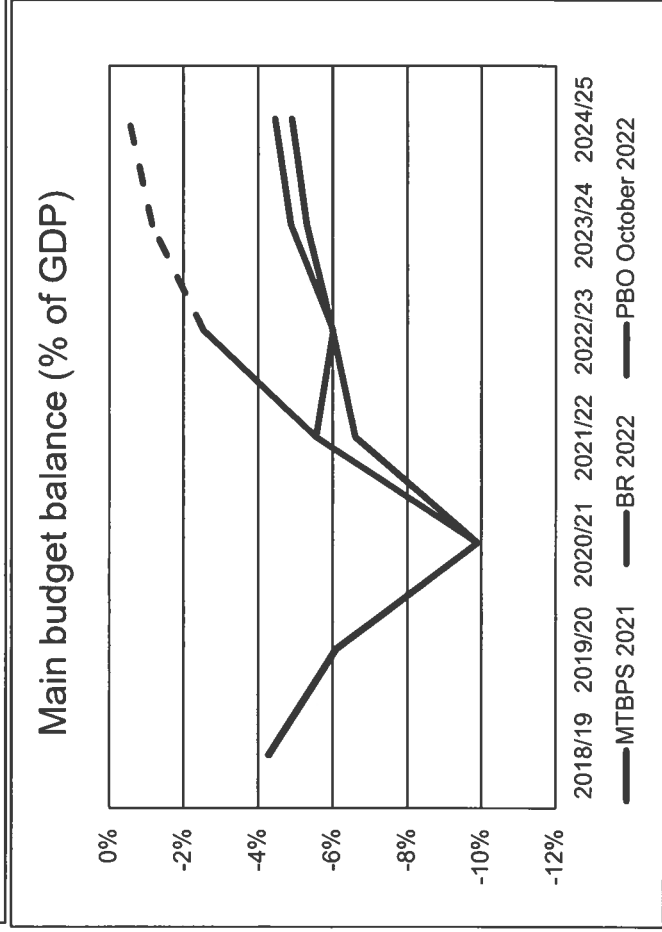
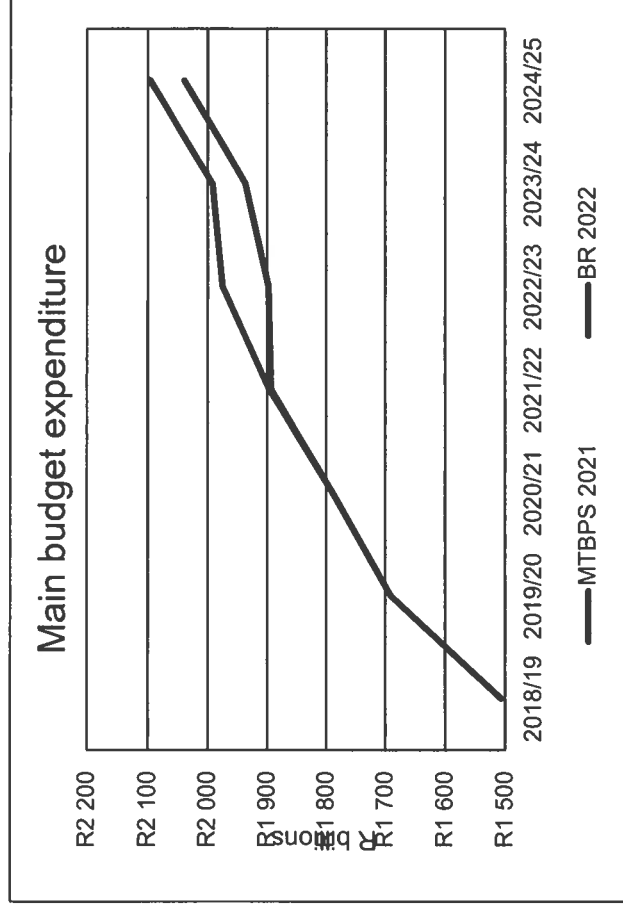
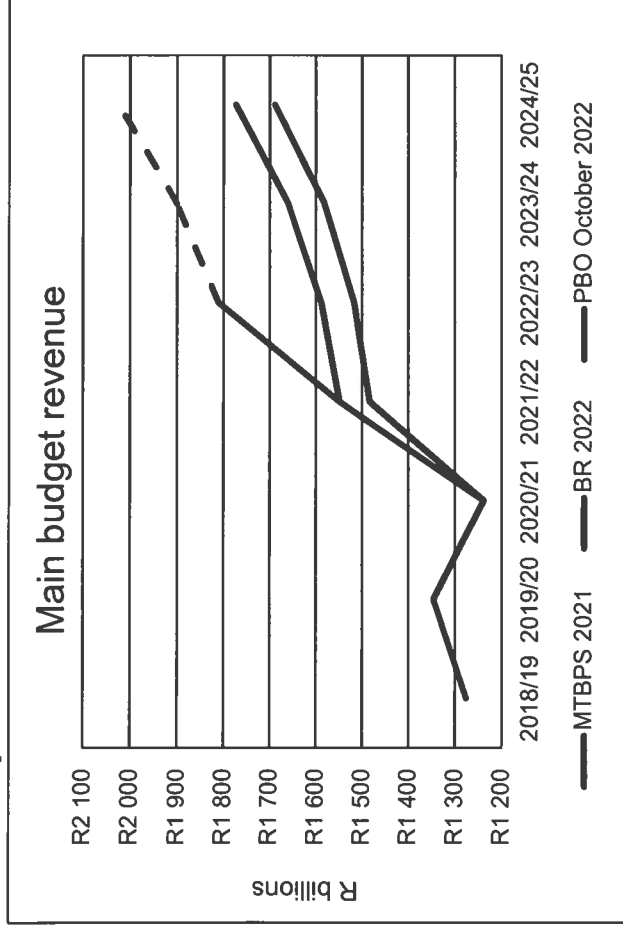
Revenue collection seems likely to exceed estimates from the 2022 Budget Review (BR)

R million	NT Budget Review 2022	PBO Pre-MTBPS Projections 2022 ^{1,2}	Surplus (shortfall) compared to NT BR projections
Personal income tax	587 907	597 868	9 961 ↑ 1,7%
Corporate income tax	269 931	406 884	136 953 ↑ 50,7%
Skills development levy	20 619	21 515	895 ↑ 4,3%
VAT	439 681	512 004	72 324 ↑ 16,4%
Other tax revenue	280 309	283 625	3 316 ↑ 1,2%
Gross tax revenue	1 598 447	1 821 896	223 448 ↑ 14,0%
SACU payments	-43 683	-43 683	0 0,0%
Main budget revenue	1 588 044	1 811 492	223 448 ↑ 14,1%
Main budget expenditure	1 975 257	1 975 257	0 0,0%
Main budget balance	(387 213)	(163 765)	223 448 ↓ -57,7%
Main budget balance (% of GDP)	-6,0%	-2,5%	- ↑ 3,5%
Gross loan debt (% of GDP)	72,8%	70,0%	- ↑ -2,8%

1. Monthly revenue and expenditure generally do not follow a smooth profile, therefore year-to-date growth rates are not reliable predictors of annual growth rates.

2. Projections are from PBO's in-year revenue and expenditure model. PBO uses historical monthly profiles of revenue data available in Section 32 reports to project full-year main budget outcomes. PBO's model is based on methodologies employed by other independent fiscal institutions.

Improved fiscal outlook relative to BR 2022

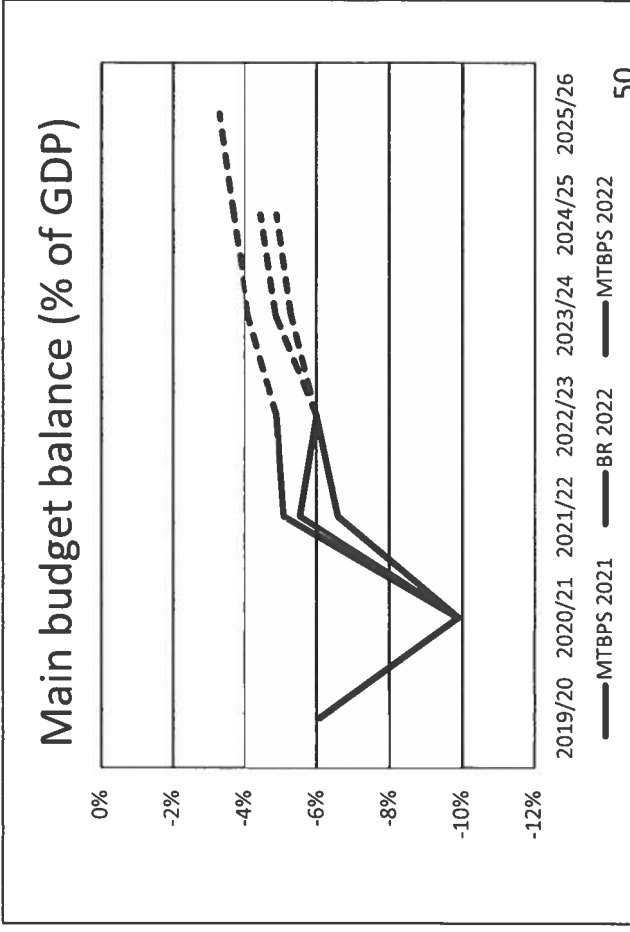
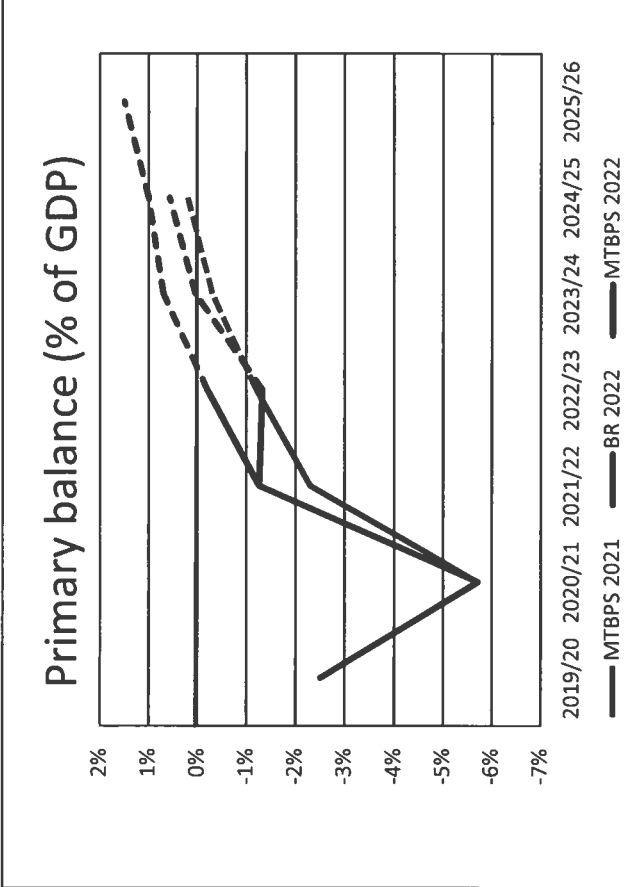
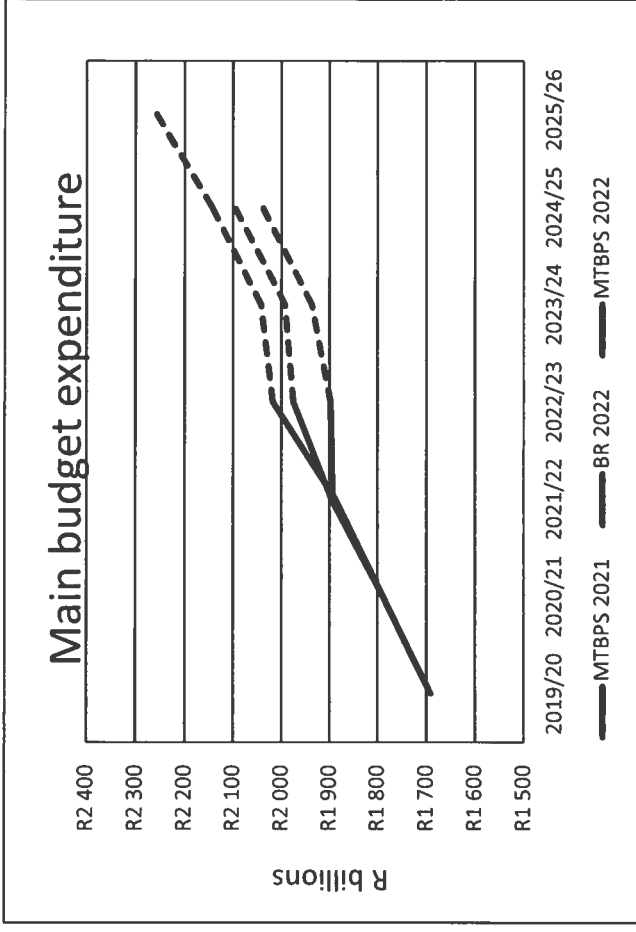
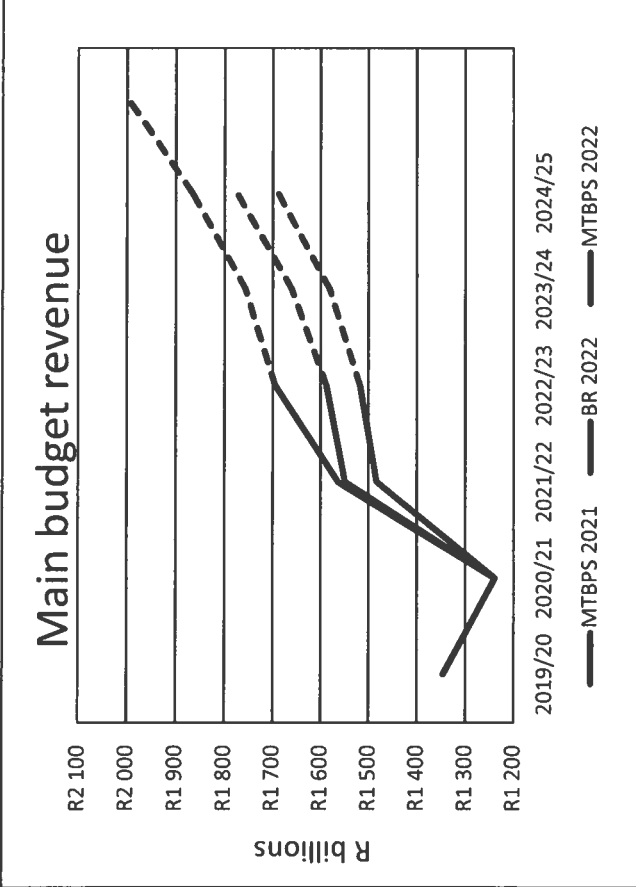


Post-budget fiscal framework analysis

Fiscal outlook

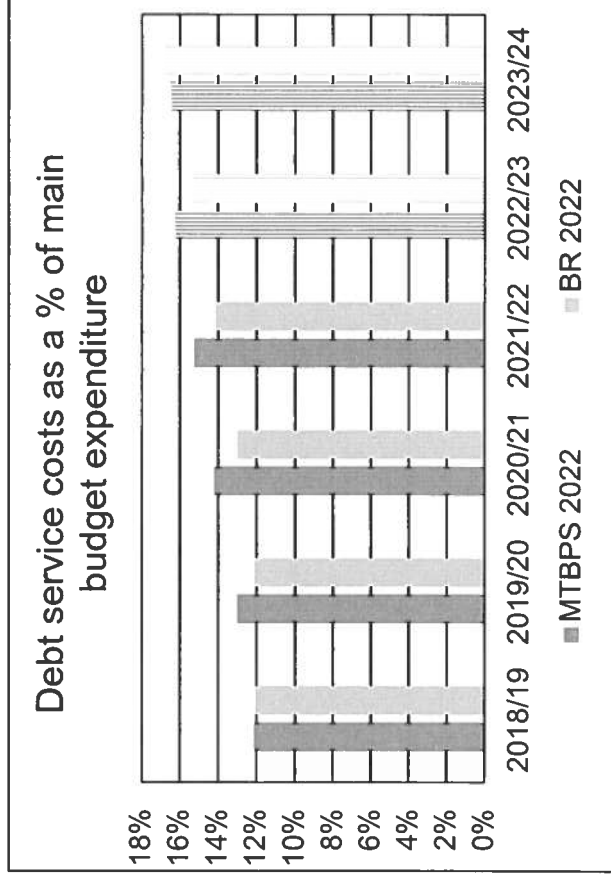
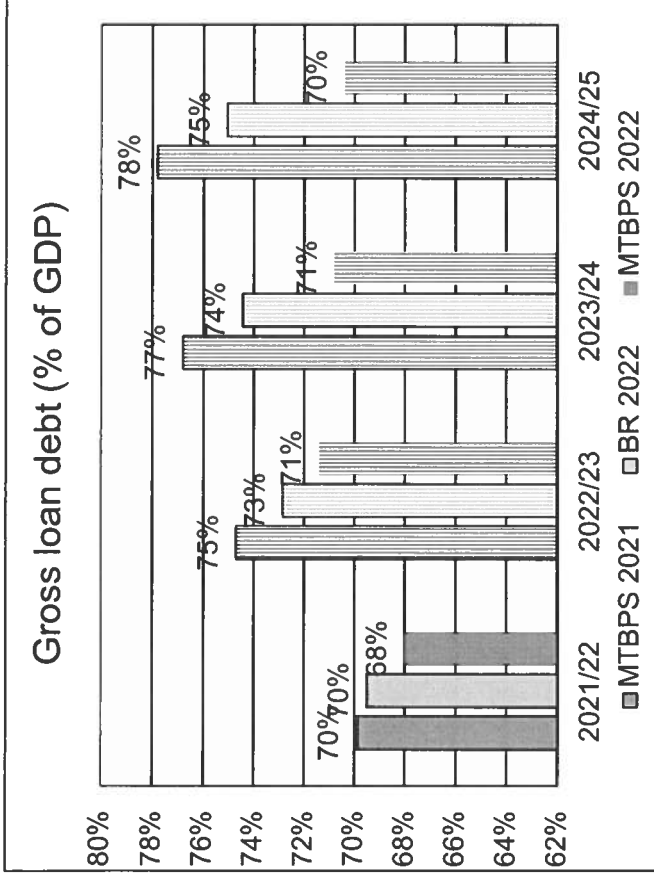
Government debt

Higher-than-expected revenue improves fiscal outlook



Debt is expected to decline but risks remain elevated

- Better revenue projections have led to increases in the primary balance and higher nominal GDP amidst higher inflation
- Gross debt as a share of GDP is expected to remain around 71 per cent over the MTEF
- The National Treasury indicated that it will allocate some of the revenue above what they estimated in the 2022 Budget towards reducing the gross borrowing requirement
- However, elevated long-term government bond yields and low GDP growth pose risks to the government's current medium-term plans to maintain these debt to GDP levels
- Given this strategy, important questions are:
 - Should expenditure not increase to give more help to starving children & struggling communities during this cost of living crisis
 - Will more expenditure and debt not earn large future returns if spent on increasing resilience and reducing risks while boosting aggregate demand and GDP



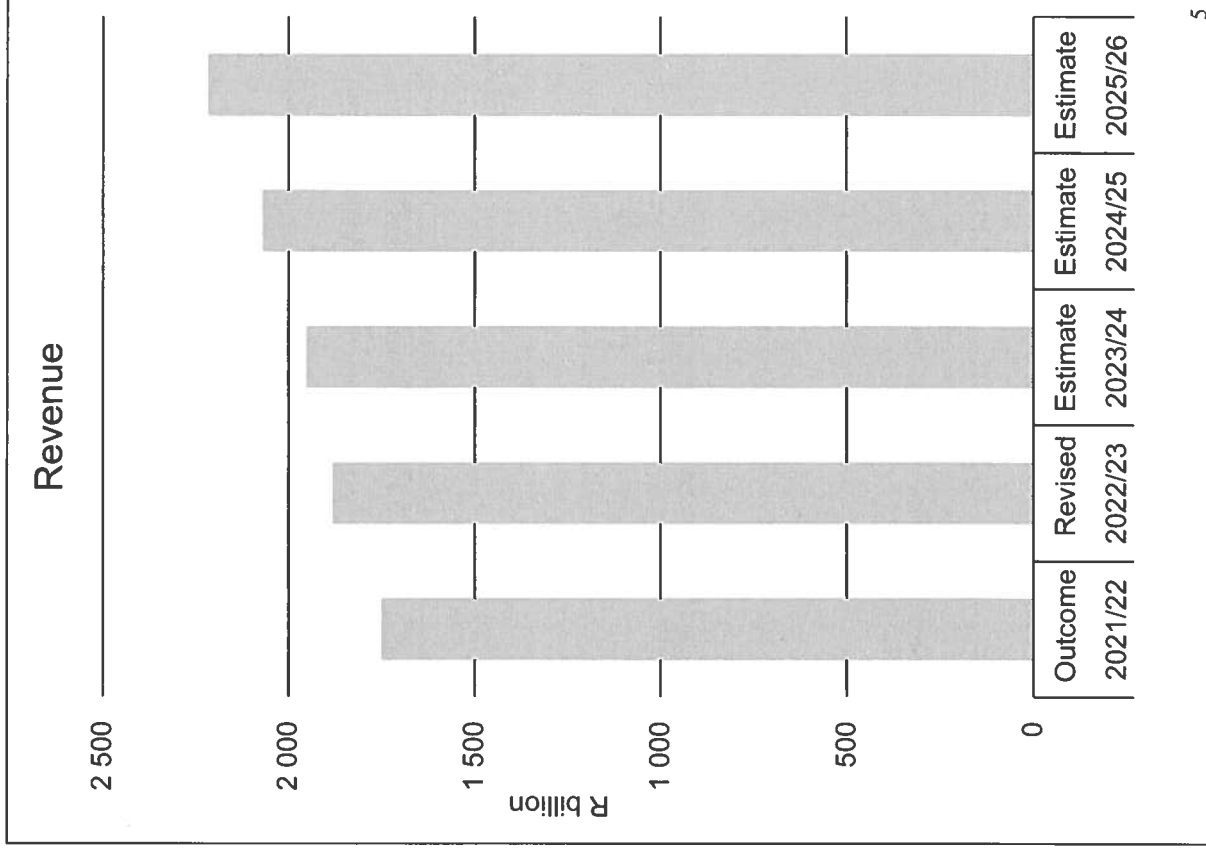
Revenue and taxes

Domestic resource mobilisation

Revenue collection has increased

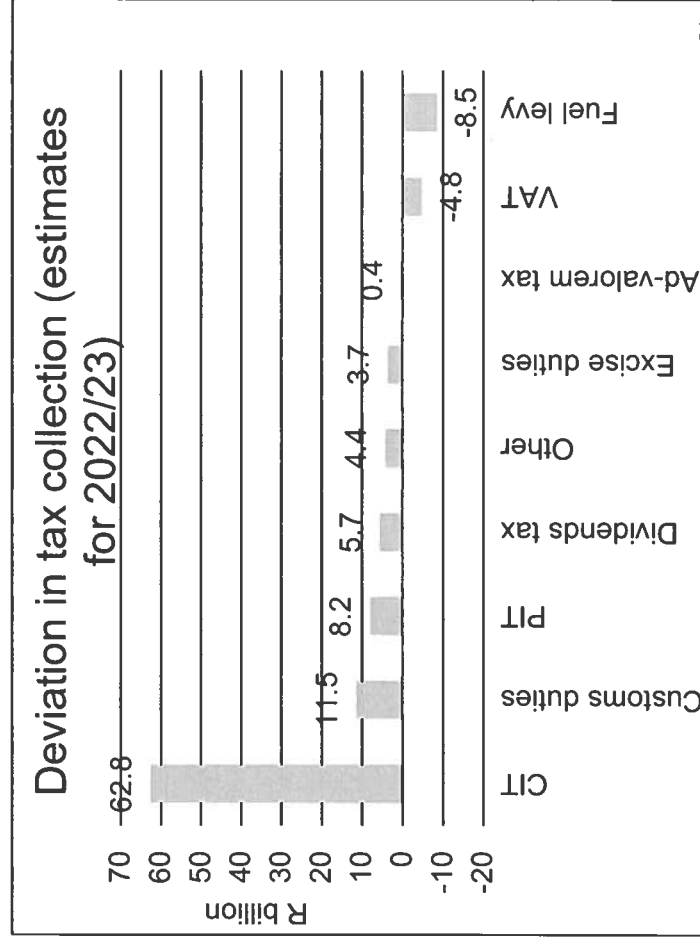
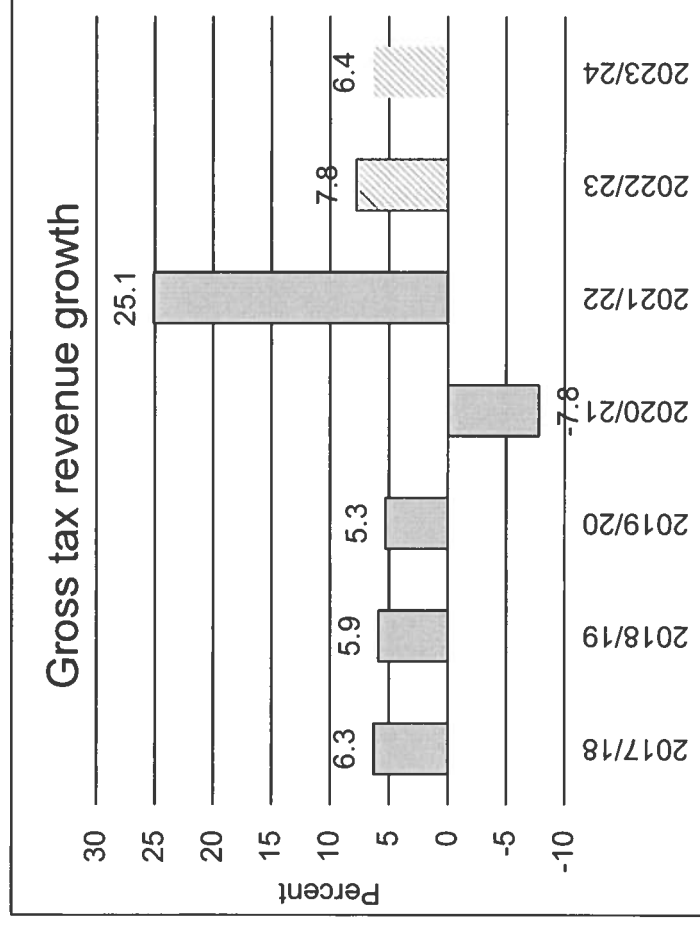
Maximising domestic resource mobilization and redistribution

- Few revenue-raising mechanisms are proposed for the medium term, yet strong emphasis is placed on “trade-offs”
- Revenue is expected to exceed non-interest expenditure, yet at the same time there will be declines in per capita spending
- Meeting the developmental needs of South Africa requires maximising domestic resource mobilisation
- Tax is an important tool for the redistribution of income and wealth, more so when there is extreme structural inequality
- The tax base reflects extreme levels of UPI and failure to structurally transform the economy, which fiscal policy should be used to address



Revenue collection is higher than pre-COVID projections

- Both the tax-to-GDP ratio and nominal revenue collections are now expected to be higher than pre-COVID projections
- All other tax instruments have been revised upward relative to Budget 2022, except for VAT and General Fuel levy
- Government projects an average growth rate of 6.6 per cent on gross tax revenue over the medium term and that recent higher tax revenues due to higher commodity prices will decline over the next two years



Are there additional sources to increase revenue?

- SA has a relatively broad tax base compared to most middle income countries (See additional slides)
- Greater domestic resource mobilisation can be achieved through further progressive tax reforms, leveraging development finance, and non-traditional monetary policy tools (beyond interest rates), amongst others
- Significant reforms are being implemented in SARS to maximise tax revenue collection
- **Potential tax interventions that could maximise domestic revenue**
- An Excess Profits Tax could be implemented on companies that have used the inflation upsurge to boost profit and makeup for COVID-19 losses
- Windfall taxes for sectors benefiting from the commodity price boom
- Failure to reach a global consensus on international tax reform for digital tax leads to a situation where South Africa should unilaterally introduce domestic taxes on revenues from digital economy activity
- Systematic review of tax incentives and removal of ineffective incentives
- Progressive measures to tax wealth

Government spending

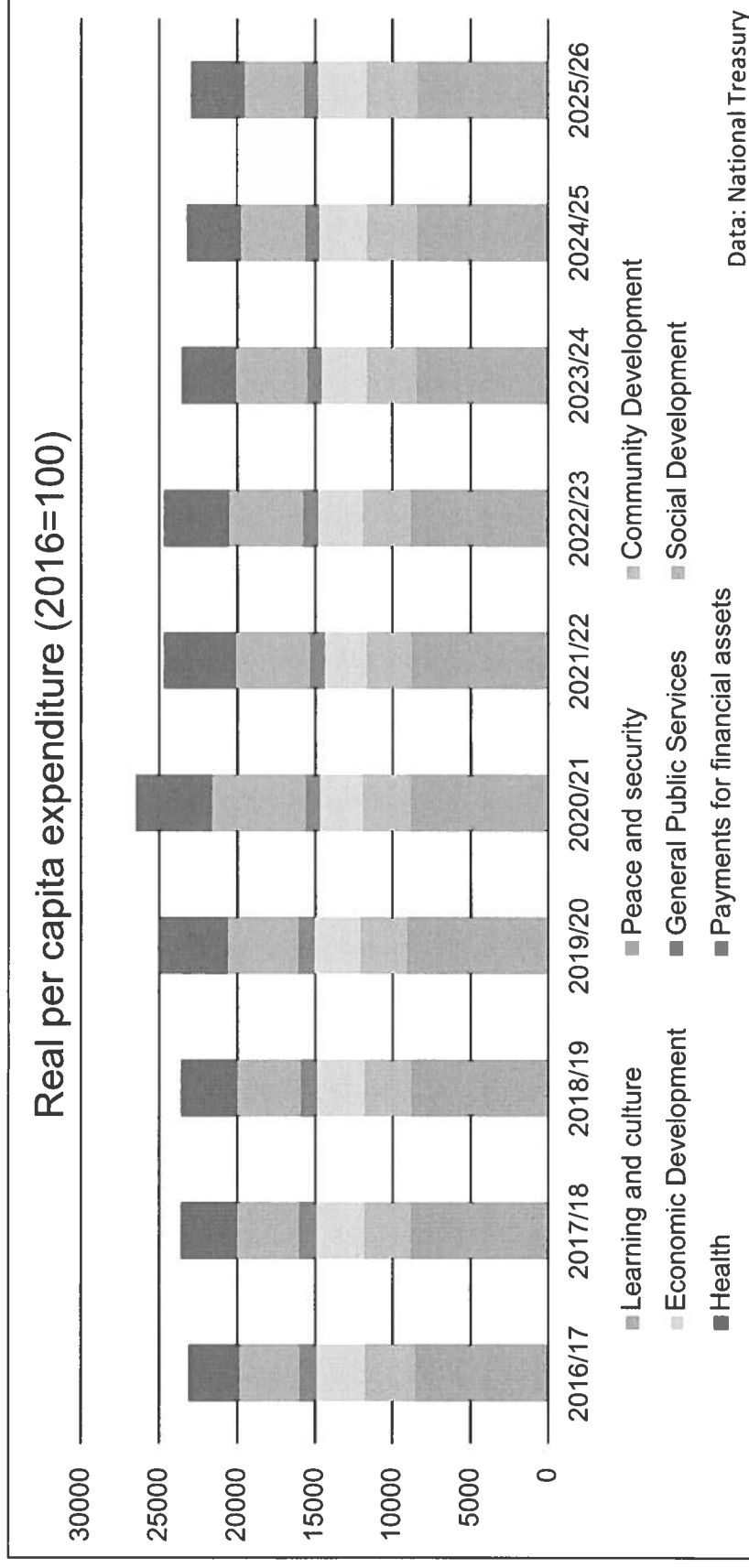
Real per capita spending

Consolidated wage bill and headcounts

Infrastructure spending

Real per capita spending per function group

- Total real expenditure per capita expenditure declines in the medium term
- In 2016/17 total real expenditure per capita was R23 116, by 2025/26 this will decline to R22 964
- In the MTBPS speech, it is stated that government is prioritising education and health, however, proposed real spending declines over the medium term for both areas



Consolidated wage bill and headcounts

National Public Entities:

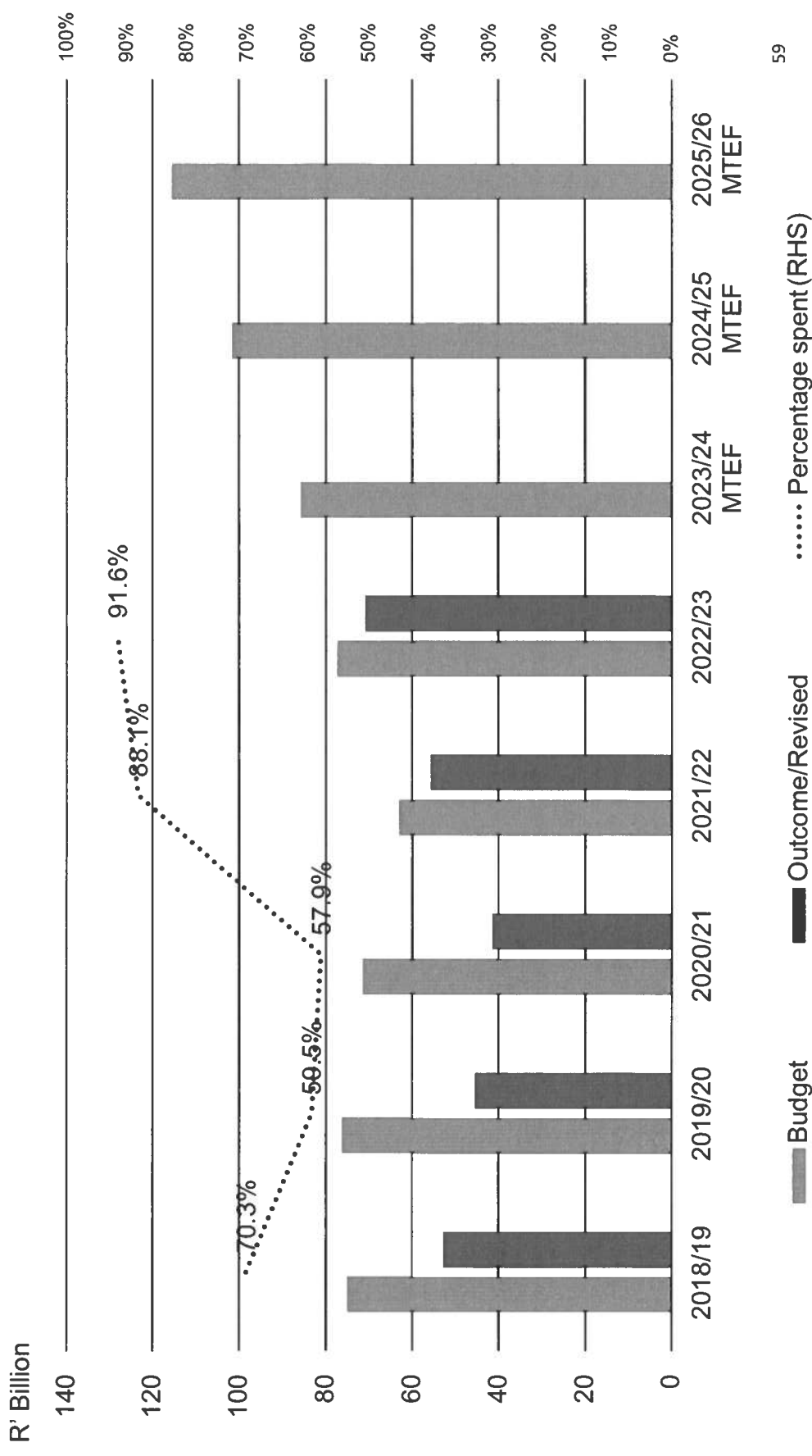
- Compensation of public entity employees is generally not included in the Budget numbers
- They are mainly included in transfers

R million	2015/16	2018/19	2021/22	Average annual growth 2015/16 – 2021/22
		Outcome		
National departments				
Salaries and wages	136 387	165 433	181 628	4.9%
Headcount	427 160	408 962	395 267	-1.3%
Average unit cost	0.319	0.405	0.460	6.3%
National public entities				
Salaries and wages	44 813	56 423	62 829	5.8%
Headcount	109 285	104 377	117 619	1.2%
Average unit cost	0.410	0.541	0.534	4.5%
Provinces				
Salaries and wages	288 910	358 278	416 458	6.3%
Headcount	893 221	883 730	912 856	0.4%
Average unit cost	0.323	0.405	0.456	5.9%
Local government				
Salaries and wages	81 757	105 152	130 032	8.0%
Headcount	314 446	329 918	342 048	1.4%
Average unit cost	0.260	0.319	0.380	6.5%
Total				
Salaries and wages	551 867	685 286	790 948	6.2%
Headcount	1 744 112	1 726 987	1 767 790	0.2%

Source: National Treasury, Statistics South Africa

Infrastructure spending: Budget versus outcome

- Actual spending was below 70 per cent of the amount budgeted between 2018/19 and 2020/21
- The revised estimate for 2022/23 is 91.6 Per cent below budget



Conclusion

- Total real per capita expenditure declines over the medium term in the 2022 MTBPS,
- Even though the 2022 MTBPS states that the government is prioritising education and health, expenditure on these decline in real terms over the medium term
- The focus on the share of the social wage in total expenditure should change to focusing on its actual size after accounting for inflation and population growth
- Fiscal policy and the fiscal framework have to take into account current socio-economic conditions, including the extreme levels of structural UPI
- These extreme levels of UPI and lack of resilience in SA households are exacerbated by the current global cost of living crisis and serious global and domestic risks
- The fiscal framework must grapple with how it can reduce the severity of these socio-economic problems and risks and the credibility problem they could pose to it
- In other words, fiscal sustainability should not narrowly focus on achieving budget surpluses and reducing government debt to GDP because decisions about the fiscal framework affects broader societal and political stability
- Further, the approach where the government narrowly focuses on fiscal ratios and points to structural reforms to increase economic growth that it hopes will trickle down to struggling households should be replaced by an approach where fiscal policy is seen as an important part of a policy toolbox to transform the economy

Conclusion

- This toolbox of policies includes improving social security and fixing holes in the social security net that excludes adults as well as economic policies to transform the structure of the economy
- The developed countries' pursuit of tighter monetary and fiscal policies seems to put them in danger of recessions that may culminate in a global recession
- Whether there is a recession or not the likelihood that household consumption, economic growth, and private sector investment and employment creation will be negatively affected is very high
- In this situation government expenditure into the economy and the consumption and investment that this expenditure generates may be the only domestic source of GDP growth
- Therefore, the choice to reduce debt rather than invest more on social transfers and the social wage to build more resilience to cost of living crises and other risks pushes South Africa towards implementing pro-cyclical fiscal policy at a time when increased government spending may be the only component of GDP that can support growth

Conclusion

- The extension of the SRD grant is welcomed but the future of this type of support should have been addressed in the MTBPS.
- As argued in the PBO's pre-MTBPS presentation, now that adults have been receiving social security support it will be hard, and potentially destabilising, to stop providing this form of relief from severe, structural UPI
- There are multiple additional sources of revenue that could increase the government's revenue base that should be thoroughly explored
- The PBO found that progress with the MTSF has been uneven with many departments reporting slow progress on annual targets
- For Priority 2: Economic Transformation and Job Creation, the PBO is concerned that important targets are absent from departmental APPs and in some cases progress is reported on interventions not achievement of targets
- Government's contingent liabilities and exposure to poorly performing state enterprises requires ongoing examination
- The potential cost to the government of plans for Eskom and its restructuring over the medium term and beyond should be presented to Parliament