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**THE SIGNIFICANCE OF AUTOMATIC FISCAL STABILISERS
IN SOUTH AFRICA**

by

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I dedicate this thesis to my wife, Marilet.

Jan A. Swanepoel

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SUMMARY

THE SIGNIFICANCE OF AUTOMATIC FISCAL STABILISERS IN SOUTH AFRICA

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When setting and monitoring fiscal targets, there is a need to take explicit account of the cyclical position of the economy and its effect on the budget. Most of the discussion on fiscal policy in South Africa deals only with long-term sustainability issues, largely ignoring the effects of the economic cycle. As a result, serious policy mistakes can occur if purely cyclical improvements in the public finances are treated as if they represent structural improvements, or if structural deterioration is interpreted as a cyclical effect.

This study considers the countercyclical role of South African fiscal policy during the period 1970 to 2000. More specifically, it presents theoretical and empirical analysis of the significance of automatic fiscal stabilisers in the South African economy and calculates the cyclically adjusted budget balance that can improve fiscal policy-making and analysis. The study compares results for South Africa with six other developing countries (Chile, Mexico, Indonesia, India, Mauritius and Romania) and macroeconomic stabilisation and the potential role of automatic fiscal stabilisers in the New Partnership for Africa's Development (NEPAD) are also investigated.

This study highlights the need for continued caution in the use of discretionary policy, greater focus on making automatic fiscal stabilisers more effective in South Africa and the integration of better measures of fiscal balance into the discretionary policy process. Automatic fiscal stabilisers could also play an important role as a complement to countercyclical monetary policy and the operation of monetary policy

could be facilitated by the predictable and automatic responses from automatic fiscal stabilisers. Budget rules could play an important role in developing countries and specifically in African countries. If applied flexibly, fiscal rules could be regarded as restoring at least a moderate countercyclical role in these countries through the operation of automatic fiscal stabilisers. Although automatic fiscal stabilisers are likely to be less important in African countries due to structural reasons, the combination of appropriate rules, taking into account the impact of the business cycle on the public finances and vigilance against the dangers of inappropriate discretionary policy, may make a valuable contribution to Africa's development.

OPSOMMING

**DIE BETEKENISVOLHEID VAN OUTOMATIESE FISKALE
STABILISEERDERS IN SUID-AFRIKA**

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Die sikliese posisie van die ekonomie en die impak daarvan op die begroting moet eksplisiet in ag geneem word wanneer fiskale teikens vasgestel en ontleed word. Die meeste gesprekke oor fiskale beleid in Suid-Afrika handel slegs oor langtermyn volhoubaarheidskwessies, sonder om die effek van die ekonomiese siklus in ag te neem. Die gevolg hiervan is dat ernstige beleidsfoute kan ontstaan indien suiwer sikliese verbeterings in die owerheidsfinansies as strukturele verbeterings benader word, of indien strukturele agteruitgang as 'n sikliese effek geïnterpreteer word.

Hierdie studie beskou die anti-sikliese rol van Suid-Afrikaanse fiskale beleid gedurende die tydperk 1970 tot 2000. Dit verskaf in die besonder 'n teoretiese en empiriese analise van die betekenisvolheid van outomatiese fiskale stabiliseerders in die Suid-Afrikaanse ekonomie en bereken die siklies-aangepaste-begrotingsbalans wat fiskale beleidmaking en analise kan verbeter. Resultate vir Suid-Afrika word vergelyk met dié van ses ander ontwikkelende lande (Chili, Mexiko, Indonesië, Indië, Mauritius en Romenië) en makro-ekonomiese stabilisering en die potensiële rol van outomatiese fiskale stabiliseerders in the Nuwe Venootskap vir Afrika se Ontwikkeling (NEPAD), word ook bestudeer.

Die studie beklemtoon die noodsaaklikheid om voortdurend te waak teen die gebruik van diskresionêre beleid, 'n groter fokus om outomatiese fiskale stabiliseerders meer doeltreffend te maak in Suid-Afrika en die integrering van verbeterde maatstawwe in die diskresionêre beleidsproses. Outomatiese fiskale stabiliseerders kan ook 'n

belangrike ondersteunende rol speel in anti-sikliese monetêre beleid en die werking van monetêre beleid kan verbeter word deur die voorspelbare en outomatiese reaksies van outomatiese fiskale stabiliseerders. Begrotingsreëls kan 'n belangrike rol speel in ontwikkelende lande en in die besonder in Afrika-lande. Indien dit buigsaam toegepas word, kan fiskale reëls geag word om ten minste 'n matige anti-sikliese rol in hierdie lande deur die werking van outomatiese fiskale stabiliseerders te bewerkstellig. Outomatiese fiskale stabiliseerders blyk minder belangrik te wees in Afrika-lande weens strukturele redes. Desnieteenstaande, kan die kombinasie van gepaste reëls, met inagneming van die impak van die besigheidsiklus op die openbare finansies en die uitskakeling van ontoepaslike diskresionêre beleid, 'n waardevolle bydrae maak tot Afrika se ontwikkeling.

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