

The Ages of South African Fiscal Policy - 1970-2012

September 2013

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Abstract

We study the different phases of South African fiscal policy both in its formulation and its macroeconomic impact. Firstly we analyse the rhetoric of successive South African Treasury Ministers in their budget speeches pointing out the shifts in policy priorities and policy framework. This periodization is confirmed using a Point Changing VAR approach on a large set of South African variables. Finally we use a Large Bayesian Var framework to show that in the identified sub-periods it is the different combination of expenditure policy, tax policy and monetary response that determine the macroeconomic effect of fiscal policy.

Keywords: Fiscal Policy, South Africa, Point Change VAR, Large Bayesian VAR

J.E.L. Classification: E62, C32

1 Introduction

This paper analyses the evolution of fiscal policy in South Africa and identify the impact of government expenditure and taxation shock on the South African economy using a combination of Bayesian techniques. The South Africa fiscal experience is interesting because in a relatively short period of time has been subjected to a radical changes of structure of expenditure and revenues. On the revenue side, we have seen an increase reliance in income and consumption taxes and a shift away from corporate and trade taxes. On the expenditure side, the significant shift is towards social security and social protection away from military spending and the administrative costs of Apartheid.

The paper is organized as follows. In the following section we review the different periods of South African fiscal policy, from the 70's to the present. The main objective is to give us a timeline of significant shifts in policy which will help us in interpreting the time series analysis. In section 3 we use a Bayesian Point Change VAR to identify three different periods of the South African economic dynamics characterized by changes in fiscal policy volatility and its relation with the volatility in the economy overall. In section 4 we estimate a Large Bayesian VAR for each of the periods identified in section 3 and we compare the different effect of fiscal policy shocks. We will show that the change in composition of government fiscal expenditure is the most likely candidate in explaining the larger multiplier effects in the period after the end of Apartheid. Section 5 concludes

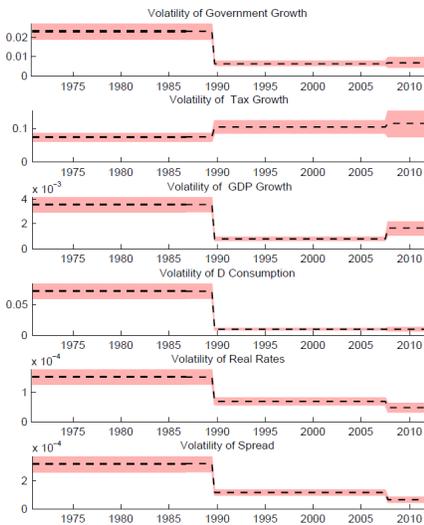
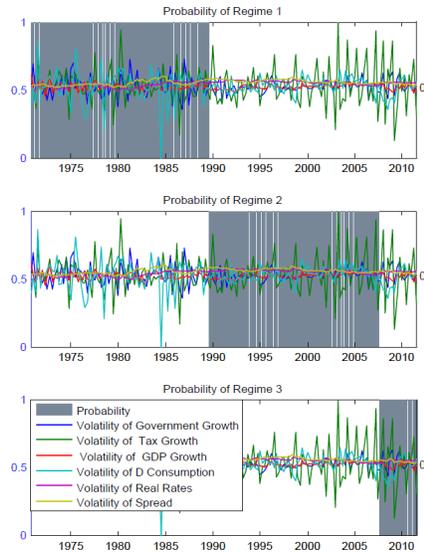
2 Fiscal Policy in South Africa: An Historical Review

South Africa fiscal policy has a clear change in approach and instruments.

3 Fiscal Policy Regimes Identification: A Point Change VAR approach

First we study the periodization of South African fiscal policy

- 3 regime 3 lag change point VAR
 - Gov. Expenditure Growth,
 - Tax Growth, GDP Growth,
 - Durable Consumption,
 - Real Interest Rates,
 - Spread.



4 A Large Bayesian VAR to Identify Fiscal Policy Effects

- Fiscal shocks over this three periods using a large information approach to control for fiscal foresight and anticipation. .
- Recursive identification and a Large BVAR with Minnesota priors
- Variables in Large VAR:

'Government Consumption', 'Government Investment', 'Taxes', 'Debt', 'Global Economic Activity', 'GDP', 'Total employment in the Public sector' 'Employment in Manufacturing' 'Total remuneration per worker' 'All monetary institutions: Total credit extended to the private sector' 'Oil Price' 'Durable Goods Consumption' 'Non-durable Goods Consumption' 'Services Consumption' 'Change in inventories' 'Sa Imports Of Goods

5 Conclusions