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Fiscal commission cautions against using debt for expenditure

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CAPE TOWN — A warning about the government's use of debt to fund current expenditure such as wages was sounded by the **Financial and Fiscal Commission** in its comment on the 2010-11 budget yesterday.

The commission's concern emanated from the increase in debt service costs relative to other items in the budget by Finance Minister Pravin Gordhan on Wednesday, as well as from the rapid increase in the public sector wage bill. It has urged the government to restrict long-term borrowing to the financing of infrastructure investment to secure a better life for future generations.

The national government's net loan debt is to rise sharply from R526bn at end-2008-09 to R1,3-trillion in 2012-13. Consolidated government debt service costs are to rise from 2,4% of gross domestic product, or R57,6bn, in 2009-10 to 3,2%, or R104bn, in 2012-13. Gordhan said in his budget speech that last year's round of salary increases had placed "immense pressure" on the budget. The public sector wage bill had almost doubled in five years.

"This scenario might imply that significant amounts of the debt service costs increases are driven by personnel expenditure," said commission chairman Bethuel Setai.

"If this is indeed the case, it would be important that this development is reversed as soon as possible. Large amounts of debt that are driven by current consumption as opposed to the financing of capital assets are known to ultimately compromise economic growth and destabilise the domestic financial system."

Setai noted a trend for the national government to get a greater share of the budget compared with provincial and local government, which he said reflected the shift of functions such as education, crime and social security to national level. Allocations to national departments are expected to show an annual average growth of 4,7% compared to the average annual real growth of 2,2% in noninterest government spending over the next three years.

Caution was also necessary to ensure that support for the poor did not come at the expense of growth. The government had to make sure that as the economy emerged from recession, the poor were able to provide for themselves.

The commission has called for an urgent review of funding for the public transport sector, saying it lacks a coherent fiscal strategy.

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