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DETERMINANTS OF BUDGET DEFICIT IN SOUTH AFRICA: A BOUNDS COINTEGRATION

Abstract:

This study examine the determinants of budget deficit in South Africa from 1994Q1 to 2018Q2. Data was collected from the South African reserve bank and Organisation for Economic Co-operation and Development. The Bounds cointegration was employed to analyse the determinants of budget deficit. The findings showed that there is a positive and significant relationship between the lag 4 of national government deficits and national government deficit itself. There is a negative and statistically significant relationship between real exchange rate and national government deficit. Lastly, there is a positive and statistically significant relationship between gross domestic product and national government deficit. It is recommended that, for national government deficit to be reduce, the current national government deficit needs to be reduce, the real exchange rate increased and the growth stabilise.

Keywords:

Budget Deficit, gross domestic product, government expenditure, gross fixed capital formulation, unemployment, South Africa.

JEL Classification: H30, C32