

# The relevance of alternative definitions of the budget deficit in fiscal policy analysis

Davina Frederika Jacobs<sup>1</sup>,  
Niek Johannes Schoeman<sup>2</sup>,

## Abstract

This paper investigates the usefulness of conventional definitions of the budget deficit in fiscal sustainability analysis. Various alternative definitions are explored and used in an intertemporal budget constraint analysis. A necessary and sufficient condition for sustainability is that as  $n$  approaches infinity, the discounted value of the expected debt/GDP ratio converges to zero. This is also known as the transversality condition, meaning that no new debt has to be issued to meet interest payments (fiscal sustainability). The following hypothesis was set and tested by this study: is the conventional budget balance, as generally accepted and used, still relevant for South Africa? The paper found that several possible alternatives are available but it must be viewed from their applicability to the South African context. Several were not suitable for South Africa – only because of a serious lack of available data to make them operational. The paper also highlights the need for reforms in government financial information in South Africa.

JEL Classification Numbers:

H62

Keywords:

Budget deficit; fiscal indicators; fiscal stance

---

<sup>1</sup> Economist, IMF

<sup>2</sup> Author to whom correspondence should be addressed : Department of Economics,  
University of Pretoria  
Tel: +27 12 420-3455  
Fax: +27 12 362-5207  
E-mail: njschoem@hakuna.up.ac.za

