

# The nexus between government revenue and macroeconomic objectives in a developing country: A case of South Africa

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## ABSTRACT

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The state of the economy, public confidence, fiscal policy choices as well as administrative efficiency all play an important role in revenue outcomes. Over the last decade, the South African economy has endured prevailing challenges of a weak economic growth, growing public sector wage bill that has exacerbated spending, widening budget deficit, and excessively growing public debt levels among others. Amidst these challenges, the country's revenue collection has continued to perform below expectations, fuelling increased vulnerability. The significance of acquiring and generating more revenue has become evident, especially during the ongoing Coronavirus pandemic and worsening socio-economic indicators which are all but painting gloomy economic prospects. Having an understanding of the nexus between the revenue and macroeconomic objectives of the government is crucial for the formulation of sustainable fiscal policy as well as the realisation of long-term growth and development. The primary objective of this study is therefore to analyse the relationship between government revenue and macroeconomic objectives in the South Africa. The study followed a quantitative research approach using quarterly time series data from 1995Q1 to 2020Q2. The analysis entailed descriptive and econometric analysis. Specifically, an Autoregressive Distributed Lag (ARDL) model was employed to determine the long and short run effects of government revenue and macroeconomic objectives in South Africa. The choice of this estimation model was driven by the consistency in the results it produces while at the same time, allowing the use of data regardless of its stationarity (I(0), I(1) or a combination). In addition, the Toda Yamamoto Non-Granger causality test was employed to determine causality between the selected variables.

**Keywords:** government revenue; non-tax government revenue; macroeconomic objectives; government spending; South Africa