ECONOMIC policymaking is testing enough in today’s globalized world for those who are duly elected or appointed, and are supported by the accoutrements of office. But Maria Ramos started drafting macroeconomic policy options for South Africa in the 1980s while undercover as a member of a then illegal organization, traveling between continents with hidden briefing papers. It was just another stage in her preparations to serve in South Africa’s first majority government, which took office in 1994 facing the daunting task of reconciling the resources of a chronically weak economy with the expectant demands of the newly enfranchised.

Ramos joined the government a year after it gained power, when its drive to restore fiscal sustainability began to generate real friction from entrenched interest groups and big-spending ministries. First as deputy director-general for financial planning in the Finance Department, and then as director-general of the Treasury, Ramos’s studied practicality and penchant for detached analysis qualified her well for a role as a planner and ideas formulator for economic ministers sorely in need of workable options.

Earlier experience as a firebrand student and academic in South Africa’s liberal hothouse at the University of the Witwatersrand had laid Ramos’s solid political foundations as a supporter of and activist for majority rule. When these progressive instincts combined with her subsequent endeavors as a researcher and commercial bank economist, she embodied a formidable force that promised quick results to face the daunting task of reconciling the resources of a country to do that, and in a relatively short space of time. “

Ramos was quite involved in shaping a lot of the debate as part of the economics policy team in the ANC. I did a lot of commuting between London and Johannesburg, and a lot of commuting between teaching and negotiating. At one point I was teaching monetary theory to honors students and negotiating the clauses on the independence of the central bank, so it was an exciting time for me and the students. By the time we went into government there was a body of work and thinking. Of course, none of us had any experience of what it meant to run a government.”

Dual role
Ramos continued her dual role, but in the open this time. “I approached Maria,” Erwin recalls. “She was a fairly clear choice, being a senior policy planner who had sat in on some of the government transition meetings, and having banking experience. I didn’t have to twist her arm too hard. She had been working with all of us for a long time.”

Entering government, Ramos was shocked. “The surprise for all of us was just the realization that as a country we were in pretty bad shape. Our fiscal position was fairly precariously. We were spending massively more on education than on servicing debt. That borders on the unsustainable. If we had maintained that trajectory, our projections showed that two years down the line this would reverse and we would be spending more on debt than education in a country where that should be the other way around. We actually needed to create the fiscal space to be spending more on education, health, and social infrastructure than on anything else. Basic rationality tells you that you can’t get there without taking some really tough decisions, and what’s been remarkable about South Africa is that it’s had the political leadership with the courage to take those really tough decisions and not to shy away when the time came.”

Ramos had found her niche. Someone behind the scenes who had to draw up the tough policy options needed for fiscal stability, and place them before the executive branch of government. As director-general of finance, the responsibility fell to her. “Our job as civil servants was to put the options before the minister and cabinet and to work out the different choices and potential outcomes. South Africa was able to build a solid base from a tax point of view, to reform its revenue services, to put in place the institutions of fiscal governance, and shift its fiscal spending patterns away from debt servicing to actual, proper investment in social services. I often think that as South Africans we don’t really recognize how hard it is for a country to do that, and in a relatively short space of time.”

The scale of South Africa’s fiscal rebalancing during the 1990s can be appreciated from the chart. From a national government balance of –5.7 percent of GDP when the ANC took power in 1994, the fiscal position swung to a small surplus in 2007. This achievement is all the more significant given the new government’s long list of spending commitments as it sought to fulfill its campaign promises (see Box 1). Ramos and her colleagues found a way to the government to finance the Reconstruction and Development Programme on which it had fought and won the election, while at the same time tightening fiscal policy enough to aim realistically for a balanced budget within a decade.

“My job was to assemble and retain a team of really smart people,” Ramos recollects. “Some of them are still there. We also changed people’s perceptions of working for a government department: that it’s a professional place where we do probably underestimated how difficult the separation was going to be when you had been that involved.” The doctorate remains unfinished.

Alec Erwin, deputy finance minister in the first majority government, recruited Ramos to join the Treasury. “When I became deputy minister we began to look for people with experience in our own policy framework, and that is when I approached Maria,” Erwin recalls. “She was a fairly clear choice, being a senior policy planner who had sat in on some of the government transition meetings, and having banking experience. I didn’t have to twist her arm too hard. She had been working with all of us for a long time.”

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things properly and build capacity. The more we achieved, the higher we set the base for our next effort. And the more we could do, the more fiscal space we had." Ramos’s mathem-atical practicality lar- ised on the idealism that accom-
panied the new administration into the corridors of power (see Box 2).

**Debt management**

"I remember when I walked into the Department of Finance there was no approach to debt management," Ramos recalls. "So we would borrow. At the beginning of the year we said 'This is what we are going to spend, and this is what we are going to collect in taxes, and the difference is the deficit.' So I would say 'Okay, great: now how are we going to bor-
row—where on the yield curve do you want to do this?' And the response was: 'The yield curve—is what is that?' So I would say 'Come on, we are the yield curve, so how are we going to shape this thing?' But people didn’t think like that. They just took what you needed to borrow and divided it by 12."

The Finance Department, it emerged, was carrying a cash buffer of 10 billion rand, or R1.1–1.4 billion, a month as a contingency. The money sat on deposit at the central bank, collecting zero interest. So the government was borrowing on one side of the ledger and paying a prodigious coupon, and the proceeds were sitting unused as a pile of cash. "It was madness," Ramos still ralls. "I asked, ‘Have you ever heard of cash manage-
ment? Let’s do some cash management here and let’s start doing this 12 months ahead of the curve and start talk-
ing to the banks about pushing up capital requirements, and keep a very close eye on leverage ratios."

Ramos acknowledges that the exchange controls that South Africa has maintained at varying levels for the past 30 years meant that individuals and companies had been unable to experiment with some of the fancier financial instruments recently available. "In the period of both but it comes down in the end to a very solid regulatory environ-
ment," she states. She also rebuts claims that competition is restricted in South Africa’s banking sector. "It depends on how you define that competition; we have competitors in different parts of the market. At entry and middle level, there are very profit-
able banks that have superior technology and understand that market well. They give the four clearers a run for our money in that market space."

**Box 1**

**Campaign pledges**

**Box 2**

**Tough decisions**

Maria Ramos and her Finance Department colleagues were charged with putting in front of South Africa’s ministers and cabinet viable options for reaching economic targets with-
out jeopardizing financial stability. Ramos said nothing was sugar coated. "In 1996 we had to put a fiscal policy in place that had to say to the nation that if we wanted to achieve a sustainable economic growth path of 6 percent, this is how we would get there. That was our starting point. People often think that the 1996 statement of growth, employment, and redistribution was about cutting the deficit. That’s not the question we asked. We asked: ‘If we want 6 percent growth, what do we have to do to achieve it?’"

"Very quickly, we came to the conclusion that you can’t get to 6 percent growth when you have a position of fiscal instability. And so we suggested that the national policy statement at that point of about $26 billion. We had debt-to-GDP ratios of around 30 percent, we had debt-
servicing costs reaching the point where they were unsus-
tainably high. So the fiscal position was pretty precarious: the metrics didn’t add up."

"So if you want to get growth there, you have to fix the base. And fiscal sustainability is hard to achieve and it’s easy to lose. That’s what we place before policymakers, before the cabinet. And I have to say that, as hard as it was, when we faced with that, I never came across a politician from the president down who said: ‘No, we can’t do this because it’s going to be unpopular for me.’ What’s been remarkable for me, as a civil servant to see was that politicians from the top down were able to say ‘What is in the best interests of our country? It’s going to be painful, it’s going to be hard’. Those investments continue to pay off today.”

Simon Willson is a Senior Editor on the staff of Finance & Development.