INSTITUTE FOR ECONOMIC JUSTICE
RESEARCH POLICY ADVOCACY

STATEMENT

Budget cuts and proposed fiscal rules must be reversed to realise SONA ambitions

18 February 2025

The President's ambitious targets are unlikely to be realised should the Minister of Finance deliver a budget that maintains the status quo of budget cuts and a narrow fixation on debt stabilisation as seen through the proposal for a new fiscal rule.

During the State of the Nation (SONA), the President laid out the Government of National Unity's (GNU) agenda for the next five years, as set out in the Medium Term-Development Plan (MTDP). Among others, the President set a target of 3% GDP growth by 2027 to help address South Africa's challenges. Such an ambitious target requires a complementary fiscal policy. This is a fiscal policy that maximises the policy tools available to target unemployment, poverty, and inequality. At the same time, fiscal policy must be sustainable so that, among other things, the government can borrow on reasonable terms.

South Africa's debt trajectory has been concerning and this has implications for its ability to borrow and service debt. The past decade has featured an accelerated rise in debt-to-GDP, higher interest rates on government debt, and a downgrading of our sovereign credit rating. These worrying trends, coupled with low GDP growth have made the National Treasury resort to expenditure cuts to maintain fiscal sustainability. Budget cuts, however, are likely to compromise the GNU's vision for inclusive growth and to build a capable state. Importantly, the attempt to entrench spending cuts through a binding fiscal rule as a way to stabilise debt will lead to more problems than solutions.

Over the last few years, National Treasury has pursued a primary budget surplus – where revenue is higher than expenditure. In 2024, this was achieved, on the back of historical budget cuts to the social wage and public investment in infrastructure. In addition to this there the MTBPS 2024 committed to stabilising debt for the next ten years. Notwithstanding that our current debt levels are in line with our counterparts, it is not clear at which level will "debt stabilise" and what will be the impact of this commitment on resourcing public goods and services and the economy in the long run. The National Treasury is yet to conduct a human rights impact assessment of this fiscal strategy nor has it provided evidence of its impact on economic growth.

The latest policy brief from the IEJ shows that rather than help address debt concerns, a new fiscal rule would reduce the quality of fiscal policy, whilst further closing democratic participation in the budget-making process.

The brief further shows that:

- Despite their popularity, compliance with fiscal rules is weak. In addition, independent and powerful fiscal institutions are important to facilitate adherence.
- The impact of fiscal rules is mixed; where there seems to be an impact, there is no evidence of a causal relationship between fiscal rules and debt outcomes.
- Growth has been much more effective than fiscal rules in improving debt dynamics.
- Fiscal rules are no substitute for prudent, long-term, consensus-based budgeting.

What should be done?

Previous budgets have not been supportive of the agenda laid by the President and have failed to resource key priority areas. The IEJ proposed six key pillars that should guide South Africa to a sustainable fiscal path. These should be taken up if we are to see a budget that will help realise the vision of the GNU.

These key pillars include; maintaining the social wage expenditure, raising maximum available resources by cutting tax rebates for high-income earners and the wealthy, centering the state in investment to social and economic infrastructure development and not the private sector, targeted spending in key sectors of the economy, and a reviewing of inefficient spending.

Ultimately, the Minister of Finance needs to view the budget as a tool to transform society's most pressing needs rather than balancing arbitrarily set targets such as debt through imposing a fiscal rule or continued budget cuts. This is counter-productive as it contributes to poor economic growth, and will increase the debt-to-GDP ratio while harming the most marginalised.

[ENDS]

For media inquiries, please contact:

Dalli Weyers | dalli.weyers@iej.org.za | 082 460 2093

The Institute for Economic Justice (IEJ) is a progressive economic policy think tank committed to advancing economic justice, systemic change, and the equitable distribution of resources to ensure rights realisation and planetary wellbeing.

www.iej.org.za