

# BRIEFING NOTE

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## From Stability to Full Employment: A transformative agenda for Budget 2026

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### 1. Introduction

The 2026 National Budget comes at an opportune moment to drive meaningful structural change. Buoyed by the modest but real improvement in economic conditions in 2025, the Minister of Finance and National Treasury should begin to aggressively tackle the country's longstanding challenges of unemployment, poverty, declining investment, and low growth. As [the President acknowledged in the SONA](#), “[w]e are still far from where we need to be”. This has been starkly highlighted by the latest [unemployment figures](#), which show that over 12 million people are unemployed (42.1% of the labour force) and over 3 million or 45.1% of those aged 15-34 are not in employment, education or training ([NEET](#)), with women more excluded than men.

In light of the the modest improvement in economic conditions seen over 2025, the Minister of Finance and National Treasury policymakers might view the current path as one of safety, stability, and incremental improvement. They would be wrong. There is nothing stable about [17.8 million people being food insecure](#), or over 12 million unemployed. Ahead of the 2026 National Budget, our message is clear: without a radical shift in our fiscal and macroeconomic policy, the economy will not improve sufficiently to bring about lasting change for all. Assuming a labour force growth rate of 2.6% annually, if the economy managed to create 5 million jobs in the next 10 years, there would nevertheless be 2.5 million *more* unemployed people than there are today, and the unemployment rate would remain above 40%. This illustrates the chronically low labour force absorption rate in the economy, and the need for economic planning that is drastically more ambitious.

In this Briefing Note, we argue that while the choice of short-term ‘stability’ above all else is tempting, the current very narrow conceptualisation of that ‘stability’ (focused almost exclusively on lower debt, lower inflation, and opening private sector participation) will not generate an economic basis for genuine prosperity. Instead, the government should seize the moment to enact a bold and uncompromising full employment agenda, underpinned by a developmental macroeconomic policy, that drives public investment and industrial planning.

As proven by the experiences of [developed](#) and [developing](#) countries alike, this is the only path to transformative growth.

As a starting point, the Minister of Finance should table in the 2026 National Budget, spending over the next three years that is commensurate with what is needed to tackle the levels of underdevelopment and unemployment in South Africa. To support this, the National Treasury should begin to publish a transparent full employment budget annex that shows how each major expenditure decision affects employment, distribution, and care burdens.

## 2. Fiscal position

National Treasury has used the very narrow metrics prioritised by credit ratings agencies and financial markets as its key barometer to gauge the country's fiscal performance. [These institutions have set a clear directive](#) for the Treasury: continue down the same fiscal path and you will be rewarded. For the government, this means no new support for State Owned Enterprises (SOEs), debt stabilisation through reductions in real non-interest spending, and higher primary surpluses (where government spends less than it raises in revenue, despite the large gap between spending and actual needs). Indeed, on the back of two consecutive primary surpluses in 2023/24 and 2024/25, and with the expectation that the government will continue to restrain spending until 2028, [Standard & Poor upgraded](#) South Africa's sovereign debt credit rating last year. This is despite the current approach yielding weak growth and little employment creation which risks driving the country into a downward social spiral.

With moderate improvements in the fiscal position linked, among other things, to the commodities boom and better revenue collection, the National Treasury is in a better position to undertake greater public spending in areas which have been severely underfunded. The improved economic outlook opens up opportunity for substantial investment in the economy through the fiscus. By contrast, continuing to focus on a narrow version of 'stability' which centres lower debt-to-GDP levels through budget cuts, will place fiscal policy into a corner, and strip it of its transformative capacities.

Underinvestment in the South African economy is a choice that the National Treasury is making. We often hear the refrain that there is limited fiscal space, and little money for competing spending priorities. But better resource mobilisation can significantly enlarge the public purse. We need more effective and progressive taxation that targets [wealth from high net-worth individuals](#) and [profits from large corporations](#). In addition, we need a revision and expansion of the current [resource tax framework](#) - in place since 2010 - to ensure that the formula is progressive and countercyclical, in service of local beneficiation, energy transitions, climate goals, and broad community benefit.

We can also mobilise large pools of existing capital. Since 2024, the Gold and Foreign Exchange Contingency Reserve (GFECRA), has been deployed to create room for more spending. Government could do the same with the [Government Employees Pension Fund \(GEPF\)](#), which boasts over a trillion rand in assets, including by channeling a portion of the assets into public developmental bonds. Similar prescribed asset investment should be required from the private sector. Additional revenue can be found by reducing or removing medical aid and retirement-linked tax breaks for high-income individuals.

The National Treasury also needs to work in concert with other entities such as SARB, SARS, and the Competition Commission to build corporate tax integrity. This requires strengthening corporate tax compliance by resourcing specialised audit capacity within SARS to tackle base erosion, mispricing, [illicit financial flows](#), profit-shifting, and aggressive avoidance.

Improving and strengthening municipal financial, operational, and administrative capabilities, and fine-tuning the relevant legislation to improve implementation, would mobilise revenue while improving service delivery and fiscal sustainability. Currently, municipal consumer debt exceeds R400 billion, but collection rates average around 70%, well below the 95% benchmark, indicating substantial unrealised revenue. Therefore, municipal revenue reform should focus less on raising tariffs and more on fixing revenue collection.

Having increased revenue and mobilised resources using this range of public instruments, the government will be in a much better position to pursue transformative growth. Below, we outline the key aspects of a transformative growth agenda.

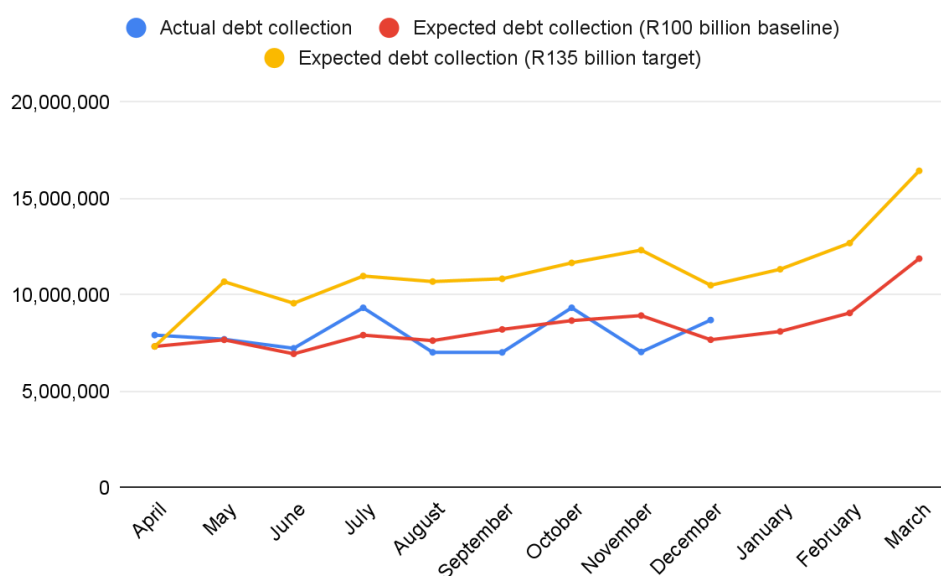
### **3. Rebuilding state capacity**

Rapid economic development, particularly in comparable economies in the Global South, has happened because of a capable, strong, developmental state, both through the mobilisation of direct state economic ownership, as well as the regulation of private sector investment to channel it into strategic areas. Where states did not own, they directed. This process involves the state collaborating with and contesting private business, and setting policy and regulatory frameworks that deliberately advance a developmental agenda.

In South Africa, there is understandable discomfort with the prospect of greater state involvement in the economy, due to historical mismanagement, particularly of state-owned enterprises, and the consequential erosion of trust in recent years. Between 2019/20 and 2022/23, the public's trust [declined](#) for 10 out of 15 government institutions. Building a capable, developmental state in our context requires restoring trust and generating democratic buy-in.

To achieve this, there needs to be - among other priorities - a deliberate policy of radically reducing outsourcing practices and building the capacity of the state to in-source. [Research](#) shows that there is a tendency for the state to pay inflated prices to private companies providing outsourced services (sometimes more than three times the market rate). Moreover, outsourcing practices have been linked to systemic corruption and patronage that the government is still battling to weed out.

Figure 1: SARS debt collection, 2025/26



Source: National Treasury SARS debt collection data

The state's capacity rests on its ability to collect taxes. While the additional allocation of R7.5 billion to SARS, to improve revenue collecting capacity, is welcome, it is yet to yield the projected results. Figure 1 shows that the SARS debt collection programme is likely to significantly undershoot the target of R135 billion (yellow line). This is important for tax policy as the Minister of Finance said that the National Treasury would propose new tax measures to the amount of R20 billion if the debt collection programme does not reach its target. If the programme fails to meet its target and additional taxation is considered, it is imperative that any new tax measures are progressive, as proposed in Section 2, rather than resorting to a VAT increase which will most negatively impact poor and low-income households.

#### 4. Proactive and coordinated macroeconomic policy

South Africa needs at least 5-6% pro-employment GDP growth for a decade to meaningfully reduce unemployment, inequality and poverty, and realise a stable and robust economy. This is the only way to get unemployment below 20%, or at least below the non-accelerating inflation rate of unemployment (NAIRU) [estimated](#) at 24.5% in the medium-term. Over the next decade, this will require at least R1 trillion in cheap development financing from SARB and MDBs to support industrial diversification, including in transport and logistics, energy, water, digital infrastructure, local beneficiation, and a national *Food for All* programme focused on lowering food inflation, creating rural employment, and improving nutrition and productivity. In addition, this requires an increase in spending on public employment programmes to provide at least [1.8 million work opportunities in 2026](#) by using the surpluses of R140bn at the Unemployment Insurance Fund (UIF) and R60bn at the sector education and training authorities (SETAs).

The government must use the National Budget as an industrial policy instrument to drive climate-responsive green industrialisation. It can unlock green manufacturing through

simplified local procurement, increased local beneficiation, scaling-up concessional industrial finance, a just transition municipal package, transparency on climate finance, and robust competition policy. In addition, the National Treasury should encourage SARB to support industrialisation without abandoning price stability by adopting a dual policy rate regime to balance domestic demand and lower the cost of capital for development (through, for example, infrastructure bonds, industrial credit and concessional finance, and support for SOEs and green energy). The SARB can also be mandated to recapitalise the DBSA, IDC, and other public banks for infrastructure projects. This approach would contribute to closing the missing link in South Africa's monetary policy, which is a developmental monetary transmission channel, and allow the SARB not only to fight inflation but also to actively transmit cheap, stable, and predictable capital for development. This would lower the entire cost structure of the economy, thereby reducing inflation structurally.

## 5. Strengthening social protection

Despite existing social grant coverage, 66.7% of people remain in poverty, and 17.8 million are food insecure. Even in an optimistic economic growth scenario unemployment will not come down fast enough to radically reduce poverty in the medium term, or to eradicate it over the longer term. Thus, the country needs a permanent, adequate basic income grant for all working-age adults, to complement existing social protection for children, older persons, and persons with disabilities.

The SRD grant (at R370) already provides a platform for this. But right now, its value is way too low, and too many people are [unconstitutionally](#) excluded. A universal basic income will especially benefit unemployed people and caregivers, who have little access to income due to their structural conditions.

Caregivers are the backbone of any economy, and to support them, the National Treasury should also protect real per-capita health and education budgets, including by extending care infrastructure grants to municipalities. Their work functions to reproduce the workforce needed for production. This is especially the case where state institutions are dysfunctional, as is the case in South Africa.

An expanded social protection system has the additional benefit of boosting domestic consumer demand and therefore growth. South Africa's high levels of unemployment and [low median wages](#) keep household demand fragile. Greater domestic demand would also mean companies rely less on the highly competitive world market. Companies will be able to use their productive facilities at full capacity and hire more workers with the knowledge that their product has a reliable local market.

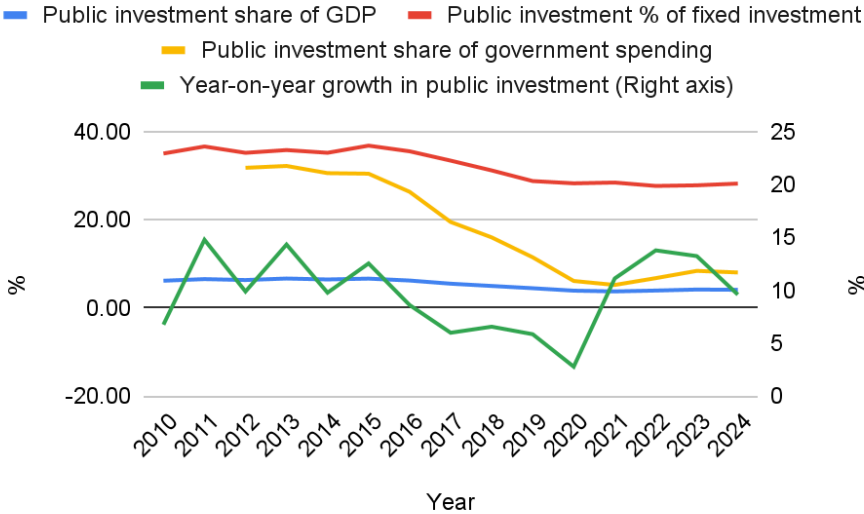
## 6. Public investment in infrastructure and social services

The so-called 'investment strike' has been as apparent in the public sector as in the [private sector](#), although the [latter](#) tends to receive more attention. Figure 2, which details different measures of public investment, shows the trend of declining public investment as a share of GDP, total investment, and government spending between 2010 and 2024. Historically, in periods of recession, governments have stimulated growth by undertaking massive investment drives (countercyclical policy). This stimulates the private sector to invest.

However, South Africa followed the exact opposite logic since 2014, as public investment contracted, in turn undermining private investment. This is known as procyclical fiscal policy, which deepens economic contractions.

A turnaround in public investment is urgently required, especially in critical infrastructure projects such as energy, water security, logistics, and maintenance, as well as in social infrastructure. This can be achieved through multi-year capital injection directed to these sectors and simplified procurement processes to fast-track service delivery. The R1 trillion currently provided over the medium term is a far cry from the minimum R800 billion per year needed to achieve the NDP investment target of 10% of GDP. The current approach is overly reliant on public-private partnerships (PPPs) as the vehicle for infrastructure development.

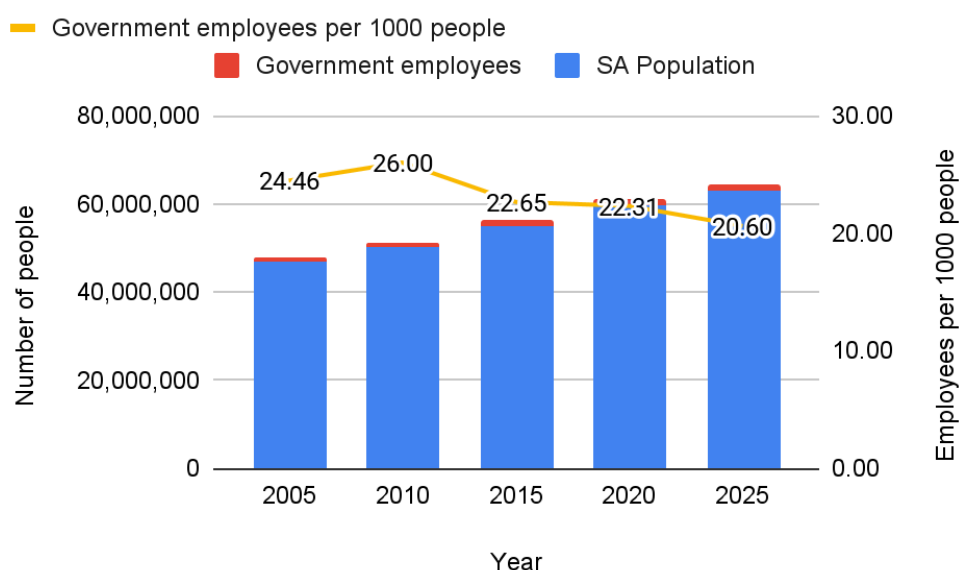
Figure 2: Public investment (including SOEs) in South Africa, 2010 - 2024



Source: SARB online statistical query

The decline in public spending has, inevitably, affected the quality of public services. Figure 3 shows the decline in the public service headcount relative to the population between 2010 and 2025. Fiscal consolidation (cuts in real expenditure) has been lauded by some for stabilising the debt level and thus ‘restoring’ fiscal balances. Yet, it has come at the expense of staffing and resourcing critical services in areas such as health and education, while its impact on debt ratios is contested and controversial. The cutbacks have led to increases in [learner-to-teacher](#) ratios and poor school infrastructure, with 69% of the country’s [public schools](#) lacking a library and 80% lacking laboratories. In healthcare, the number of doctors per 1,000 people has plunged from [0.79 in 2019](#) to [0.54 in 2025](#), trailing far behind peer countries.

Figure 3: Government employees



Sources: StatsSA mid-year population estimates, National Treasury MTBPS (multiple publications)

The consequences of these shortfalls are not evenly distributed. Women, particularly Black women in low-income households, [depend more heavily on public services](#) and absorb shortfalls through unpaid care work, while persons with disabilities and under-served communities face compounded disadvantage. As outlined in the MTEF, selected pilot departments are required to conduct a Gender Responsive Budgeting (GRB) assessment under the Cabinet-approved Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework (GRPBMEAF). This process must be undertaken robustly to demonstrate how expenditure constraints and reallocations affect different population groups, and to ensure that fiscal adjustments undo structural injustice.

## 7. Conclusion

Budget 2026 presents a critical window of opportunity to shift South Africa onto a higher, more inclusive, jobs-intensive growth path, led by public investment. While recent macroeconomic improvements provide modest fiscal breathing room, the structural constraints of mass unemployment, infrastructure failure, weak municipal finances, poor care infrastructure, and deep inequality remain binding, preventing us from moving onto a new growth path. The Budget must therefore move beyond consolidation and short term ‘stability’ toward a developmental fiscal strategy that mobilises progressive revenue, rebuilds state capacity, and directs expenditure toward job creation, climate-responsive green industrialisation, and an expanded care economy. Strengthening municipal revenue systems, capturing resource rents during boom cycles, mobilising public resources, and enhancing tax compliance can raise resources. Anchored in transparency, gender-responsive budgeting, and socioeconomic rights, the proposed measures present a credible pathway to restore public services and fiscal stability, crowd in private investment, and advance a full-employment, low-carbon, redistributive economy.