

BRIEFING NOTE

Coordinated macroeconomic policy for an uncertain world: A preview of the 2026 MTBPS

1. Introduction

Ahead of the 2026 Medium Term Budget Policy Statement (MTBPS) on 21 October 2026, the National Treasury should be assessing whether its existing fiscal strategy hampers or advances structural transformation and sustainable development, required by South Africa to escape from its current low growth trajectory. According to the South African Reserve Bank (SARB), the South African economy has been in the [downward](#) phase of the business cycle¹ since April 2022. This is [characterised](#) by chronically low gross domestic product (GDP) growth and increasing unemployment.

Low growth has been a consistent feature of South Africa's macroeconomy in the post-Global Financial Crisis period, with the period December 2013 to April 2017 being the longest downward phase since 1994. The current fiscal strategy is also matched by rising unemployment. Statistics South Africa (StatsSA) data shows that during the period between January 2013 and June 2026, the fiscal strategy has been [dominated by](#) spending restraint ('consolidation'), and the unemployment rate² [increased](#) from 36.1% to 43.8%. Real GDP growth from 2013 to 2025 [averaged](#) 0.9%. This average growth rate was below the population growth rate during the same period, which means there has been a sustained [decline](#) in GDP

¹ A business cycle is a long-run feature of the macroeconomy. It is defined by boom (expansionary) phases wherein there is a significant growth in output and employment and bust (contractionary) phases where there is slow or negative growth in output and employment.

² The expanded unemployment rate ('Labour Underutilisation 3' in Stats SA publications) denotes the portion of the labour force that are willing to work but are unable to find it. Thus it includes active work-seekers long-term and more legally binding to and discouraged workers.

per capita, and thus a collapse in standards of living for the population. The index of manufacturing volume [declined](#) at a compounded annual growth rate of -0.68% during the period from 2013 to 2025. This highlights a perilous collapse in the country's productive capacity, a condition inconsistent with the country's desire to achieve structural transformation.

The National Treasury's recent fiscal strategy has prioritised achieving primary budget surpluses³ with the aim of lower borrowing costs. The government has [obtained](#) three consecutive primary surpluses between the 2023/24 and 2025/26 fiscal years, with a fourth primary surplus projected for 2026/27. The attainment of, and commitment to, further raising these surpluses has led major credit rating agencies such as Standard & Poor⁴ and FitchRatings⁵ to [upgrade](#) South Africa's long-term debt credit rating from 'BB-' to 'BB' in 2025 and 2026. The projected higher primary surpluses and lower projected debt-to-GDP ratio also led Standard & Poor to [elevate](#) the country's 'fiscal assessment' score from 6 to 5, affirming the fiscal strategy. Despite these credit rating upgrades, the real yield on long term government debt only decreased marginally from 5% to 4.9% between 2024 and 2025. This briefing note questions whether a 0.1 percentage point decline in the cost of government borrowing is worth depriving social services tens of billions of rands.

In this respect, this briefing note posits that the current fiscal strategy (the pursuit of primary surpluses at all costs) is inadequate as it does not sufficiently address South Africa's pressing development challenges of de-industrialisation and structural unemployment, but instead exacerbates inequalities and vulnerabilities. The Institute for Economic Justice (IEJ) challenges the National Treasury's argument that the fiscal strategy will lead to debt stabilisation. In addition, the IEJ stresses that even if such stabilisation were to be achieved, it may not necessarily trickle down to the rest of the public through an economy-wide lower cost of credit or on its own encourage the level and kind of capital inflow that will lead to higher fixed investment and employment gains as some research shows.⁶

This note argues that the necessary conditions for sustainable, broad-based social and economic development are sustainable industrial development to diversify value chains and exports. It argues that fiscal policy should support such structural transformation while also funding the accumulation of strategic reserves for energy and food buffer stocks to reduce vulnerabilities ([Section 2](#)). Greater and effective spending in, among other social services, education, healthcare, and housing, is needed to improve the human development index ([Section 3](#)) and progressively fulfill the state's human rights obligations. In this regard, a framework for coordinating monetary, fiscal, and sustainable industrial policies geared towards

³ Primary surpluses occur when the revenue collected is higher than all non-interest spending.

⁴ Standard & Poor (S&P) upgraded South Africa's long term local currency rating from 'BB' to 'BB+' in November 2025

⁵ FitchRatings upgraded South Africa's long term debt credit rating from 'BB-' to 'BB' in June 2026.

⁶ For instance, Woldu, G. T. and Szakálné Kanó, I. ([2023](#))'s paper argues that fiscal adjustment does not necessarily generate the private investment response envisaged by the crowding-in argument following debt reduction interventions.

investment- and employment-led growth becomes a necessity for South Africa ([Section 4](#)). From the IEJ's standpoint, the fiscal strategy should make a meaningful contribution to advance these outcomes.

2. Sustained growth requires structural transformation

The National Treasury's [approach](#) to debt stabilisation creates a shallow foundation for economic recovery, leaving in place the structural features of South Africa's economy that underpin high unemployment, excessive inequality, and stagnant growth. The National Treasury has prioritised systematically reducing spending growth. This, it is argued, will reduce the borrowing requirement such that gross outstanding debt will grow at a slower rate than GDP, thus reducing the debt-to-GDP ratio.

To achieve this, the National Treasury has instituted the Targeted and Responsible Savings (TARS) initiative and seeks to propose a legally-binding fiscal anchor,⁷ to limit spending across national departments and therefore slow the pace of debt accumulation. In addition, fiscal consolidation is argued to reduce borrowing costs through improved market sentiment, thereby also improving the overall fiscal position. Alongside this, market-centric reforms (various forms of privatisation) are presented to have the potential to unlock the conditions for growth.

This note shows how this approach cannot secure the type of sustainable and inclusive growth that South Africa needs to meaningfully impact the lives of millions of the most marginalised. Firstly, it misdiagnoses the impediments to growth in South Africa, which are not only microeconomic blockages, but structural features of the economy. The IEJ contends that the National Treasury's fixation on privatising state assets is unwarranted and that the focus on microeconomic reform should instead be expanding access for the public and reducing consumer costs.

Furthermore, the planned microeconomic reforms will not be enough for growth to take off, as growth is constrained by structural features of the economy (for example, deindustrialisation) and policy impediments (such as high real interest rates regime and deficient domestic demand). Secondly, it places too much weight on achieving debt-to-GDP stabilisation via cuts to spending, and too little weight on utilising fiscal policy to grow the economy. Thirdly, it places too great a faith that reductions in government borrowing costs will result in private sector investment (through a reduction in private sector borrowing costs and less 'crowding out'). Fourth, it ignores other (monetary policy) measures needed to directly lower borrowing costs.

In this section, we argue that the South African government needs to embark on broad structural transformation via a progressive use of fiscal instruments, including the support of

⁷ The proposed new fiscal anchor comes on top of existing fiscal anchors - the expenditure ceiling and the primary surplus. The important difference is that this new fiscal anchor will be set in law and therefore will be legally binding to the Executive and Parliament. The Treasury favours a principle-based fiscal anchor that will require administrations to demonstrate and defend the sustainability of their fiscal plan.

diversifying export structures to be less concentrated on raw commodities, increasing value addition in the production of minerals and agricultural products, and ramping up reserves of key imported inputs, with a view of expanding production of alternatives. This would enable faster GDP growth, with less sensitivity to external developments, and lower or stabilise the debt-to-GDP ratio.

Fiscal tools are essential to achieving such structural transformation. Tax-incentives, guarantees, subsidies, and preferential state procurement, accompanied by reciprocal control mechanisms, for instance, can enable export diversification and import substitution. However, these fiscal tools may be rendered ineffective in building industrial capacity if state capacity is too weak, as proved, for instance, by the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP).

In the REIPPPP case the IEJ [found](#) that pervasive tariff evasion and weak enforcement of local content requirements have driven an influx of imported equipment, and have made local production less competitive, leading local manufacturers to close factories and lay-off workers. The government cannot simultaneously [underfund](#) state agencies such as SARS, in the National Treasury's quest to reduce the debt-to-GDP ratio, and expect programmes like REIPPPP, whose effectiveness depends on a capable SARS, to succeed. This illustrates a policy misalignment between fiscal objectives and industrial development objectives and calls for better coordination between macroeconomic, industrial, labour, social, and environmental policies.

This is even more urgent in the current context of mounting externally-induced crises. The [macroeconomic assumptions](#) that underpinned the National Treasury's optimistic growth outlook over the medium term expenditure framework (MTEF) (2026/27 - 2028/29) are now vastly changed. The Brent crude oil price is now [projected](#) at \$89 per barrel compared to \$61.6 in [January](#) 2026, and global demand from the country's major trading partners is [estimated](#) to be slightly lower as a result of the conflict in the Gulf.

The SARB has [downgraded](#) its growth projections from 1.4% to 1.2% for 2026. More broadly, the structure of the economy continues to leave economic growth highly sensitive to external shocks, such that when a global commodity price supercycle [ensues](#), such as during the early to mid-2000, GDP growth can [rise](#) considerably. Similarly, a global oil shock and a decline in commodity prices as we are witnessing in 2026 can [subdue](#) the economy. The economy can only start to grow sustainably once the government has dealt with these structural vulnerabilities.

2.1. Export diversification and strategic import substitution

South Africa needs to rebalance its ongoing dependence on foreign demand and external supply of key products in order to realise stable and high GDP growth. GDP growth [needs](#) to average at least 6% over the next 10 years just to create about 10 million jobs by 2035. [Exports](#)

are 31.4% of GDP, with [development strategies](#) published by the Department of Trade, Industry and Competition (DTIC) looking to increase this share.

The [Asian Tigers](#) and China show that export orientation can be a viable growth strategy. However, the [resurgence](#) of [industrial policy](#), especially among developed countries which are vital export markets, like the [United States](#), has seen countries start to prioritise the development of domestic industries, presenting a significant risk for South Africa and other countries looking to pursue export-led growth models. Export-led models also have other drawbacks. Palley ([2011](#)) shows that the export-led growth often leads developing countries to adopt a race-to-the-bottom that negatively impacts wages, labour standards, and corporate tax revenues. Exports, however, remain a priority, as they ensure foreign currency earnings that combat a [balance-of-payments constraint](#) to stable growth. In sum, export-orientation must be moderated with a focus on building sustainable domestic demand and increasing regional integration ensuring a sufficiently large market for locally-produced goods.

South Africa should utilise climate and energy transitions as avenues to expand value chain diversification and sustainable industrialisation. The country's export basket is [mainly](#) composed of raw minerals ([dominated](#) by platinum group metals (PGMs), coal, gold, and iron ore) and agricultural products that are susceptible to unpredictable commodity cycles. SARB researchers [show](#) that commodity price cycles have been historically (1990 - 2020) correlated with the country's GDP growth cycles.

For instance, vehicles comprised a further 15.6% [share](#) in the country's total exports in 2025. Vehicle exports are [dominated](#) by internal combustion engine cars, whose consumption in South Africa's biggest export market, the European Union, is under pressure due to the [push](#) for new energy vehicles⁸ (NEV) consumption and China's [drive](#) for a greater market share in the NEV global market. It may be necessary for the state to scale-up fiscal support for NEVs so that the country remains internationally competitive and increase domestic demand to create a bigger market for auto producers. The global demand for critical minerals to enable decarbonisation, recognised in South Africa's [Industrial Development Strategy \(2026\)](#), offers an opportunity to simultaneously diversify the export basket, upgrade value chains, and to advance sustainable industrial development.

Recurrent geopolitical crises which have disrupted the supply and affordability of food and energy, from the Russia-Ukraine war to the ongoing US-Israel war of aggression on Iran should serve as the impetus for the state to reduce its over-reliance on imported, yet economically strategic resources. The Minister of Finance [revealed](#) that "South Africa relies heavily on imported fuel with approximately two thirds of liquid fuel consumption met through imports and a significant amount sourced from the countries in the Gulf". SARB research [shows](#) that this dependence on imported fuel can be partly explained by the closure of domestic oil refining

⁸ New energy vehicles are cars that are partially or fully powered by alternative forms of energy (such as batteries) rather than fossil fuels (for example, petrol and diesel).

plants since 2019. The ongoing conflict in the Gulf, and its resultant disruption of global supply chains, has already hit households through [an elevated cost-of-living](#) crisis. In this regard, the [Cabinet's Strategic Petroleum Stocks Policy](#) must be accompanied by an immediate revival of domestic refining capacity, and a continued phasing out of fossil fuels in favour of renewable energy alternatives.

Beneficiation, agro-processing, and localisation provide viable pathways to decent employment, increased value chain upgrading and export sophistication, and can potentially lead to higher, and more stable GDP growth. The state is integral to the establishment and competitiveness of firms in these industries in that it can reduce the high start-up (i.e., acquisition of land and hiring a skilled workforce), and recurring costs (i.e., wages and insurance) these firms face. The state can also foster a skilled workforce through Technical and Vocational Education and Training (TVET) colleges, reducing search and training costs for firms. Additionally, the state can release state-owned land for commercial use, provide performance-based incentives, and negotiate trade agreements, the latter would further open up the export market.

All of this requires fiscal resources. The success of the Automotive Production Development Plan (APDP)⁹ provides an example of such. Through the APDP, the state has granted hundreds of billions in fiscal support to the automotive production industry in the form of tax rebates, refunds, and cash grants. This allowed the automotive industry to be a source of [high-wage, high-skill employment](#) for regions such as Gauteng and Nelson Mandela Bay, and to [generate](#) R291 billion in export earnings in 2025.

State procurement can similarly be used to revitalise labour-intensive manufacturing sector industries like the clothing and textile sector by focusing on the purchase of products that have significant amounts of goods that can be sourced locally. For example, the [tender](#) for the provision of school uniforms in Mpumalanga requires 100% local content. This requires the state to have greater capacity to enforce local content requirements and support local production. If this is successful, this can allow state procurement to have significant multiplier effects as it will drive demand for inputs in upstream industries.

2.2. Structural transformation is needed to amplify microeconomic reforms

Microeconomic reforms to revive network industries (ports, rail, electricity, and water), housing delivery, and local government capacity, can set a sound foundation for growth, but will not by themselves propel the economy towards a higher growth path. These micro reforms have been pursued under the [Operation Vulindlela](#) programme since 2020.¹⁰ After years of degeneration, Eskom appears to be in recovery on the back of [improved](#) generation performance (mainly due

⁹ The APDP was preceded by the Motor Industry Development Plan ([MIDP](#)).

¹⁰ Operation Vulindlela is a state [programme](#), co-led by the Presidency and the National Treasury which aims to transform network industries and other sectors primarily through corporatisation of state owned enterprises and allowing the private sector to play a larger role in the ownership, management, or operation of industries that were previously dominated by the state.

to large improvements in maintenance), with liquidity and profitability [boosted](#) by the government's [debt relief program](#). Freight rail declined rapidly in the last decade, with Trade and Industrial Policy Strategies (TIPS) reporting that the share of freight carried by rail has [fallen](#) from 22% in the mid-2010s to under 15% in 2025. As of 2025/26, Transnet [returned to profitability](#) (at R4.6 billion) for the first time in four years and operational performance [improved](#) year-on-year.

The recent successes of state-owned enterprise (SOEs) suggests that microeconomic reforms do not need to lean heavily on a private-centric model of service provision. The logic of Operation Vulindlela is that increased private sector participation in areas previously wholly owned by the state will lead to greater competition, which should lead to lower costs and improved operational performance. However, the steady recovery of SOEs has been on the back of improvements in SOE management and oversight, enhanced maintenance, and fiscal injections (debt relief programmes). This has demonstrated that greater competition is not a necessary condition for better operational performance.

The true test for Operation Vulindlela will be its effect on the cost structure of the economy and widespread access for the public. The cost of basic services (water, electricity, sanitation) has skyrocketed over the last decade. Ledger and Mathibela ([2025](#)) reveal that from 2010 to 2020 the average municipal tariffs for water and electricity increased above the rate of inflation in that period, at 213% and 177% respectively. The prevalence of low median monthly wages, estimated by the Department of Employment and Labour at R6,764 in 2025, and an unemployment rate in excess of 40% means the consumption of costly basic services leaves households with little income to spend, depressing domestic demand.

For the industrial sector (manufacturing, mining, and utilities), Setshedi and Mah ([2025](#)) found that higher electricity prices negatively impact industrial electricity consumption, especially among industries with thin margins who cut back or relocate production to manage operating costs in the long run. Bayliss ([2003](#)), who studies water privatisation episodes in Africa, warns that too often the preoccupation with ownership – that is moving the utility into private hands – has come at the cost of wider goals, such as expanding access of the service to poor households. In order to increase growth, micro reforms will need to lower the cost structure of the economy while simultaneously expanding access, which can allow for higher household expenditure, increased industrial output, and decent employment.

Structural transformation is the key ingredient to enable the revival of network industries to propel the economy towards a higher growth path. Cheap and reliable network industries will assist to reduce the cost structure of the economy. However, recent external shocks which [muted](#) GDP growth in 2026 show that Operation Vulindlela alone will not resuscitate growth. SARB data indicates that fixed capital stock (in constant 2015 rands) has declined from a peak in 2008 to such an extent that industrial capacity in 2025 was the same as that of 2004.

In this context, increasing value-addition is an imperative which when combined with a reduced cost structure can make South African producers more internationally competitive. Consequently, local production can get greater market share both domestically and offshore, leading to a higher, more stable economic growth path. In the final analysis, absent sustainable industrialisation, South Africa's external vulnerabilities will continue to undermine growth and the reduction of debt-to-GDP ratio even if microeconomic reforms succeed.

3. Underinvestment in social services undermines growth

Under conditions of low or inconsistent growth, the current fiscal strategy requires ever higher primary surpluses (see Figures 3.5 and 3.6 from the [2026 Budget Review](#)),¹¹ which, absent increased resource mobilisation, implies ongoing cuts to social services. Our contention is that this sets off a cycle of underinvestment in the economy that ultimately undermines medium-term GDP growth and traps the economy in its current low-growth trajectory.

The National Treasury's move from a counter-cyclical¹² fiscal policy stance to fiscal consolidation has been justified by the SARB [research](#) that the effect of government spending on economic growth, known as the 'fiscal multiplier', is extremely low, at around zero in 2019. Backed by the SARB and [internal](#) research, the National Treasury has argued that since the fiscal multiplier is low, restraining the growth of government spending should have an insignificant effect on economic growth. Moreover, the National Treasury has blamed low fiscal multipliers on the composition of government spending. The National Treasury posited that investment (increasing fixed assets) is [more](#) growth-enhancing than consumption (compensation of public service workers, maintenance, and social grants). The National Treasury motivated for the [faster](#) increase in investment (9.7%) [compared](#) to consumption (current payments at 4.4% and transfers and subsidies at 2.8%) over the medium term on the unjustified [premise](#) that consumption spending "entrenches deficits and debt without stronger long-term growth".

In this section, we show that firstly, social spending above and beyond its growth-enhancing features must be raised to realise constitutionally-enshrined socioeconomic rights and build resilience at household level. Moreover, reducing social spending undermines human capital, which is key to long-run growth. Secondly, we show that fiscal multipliers are partly a policy choice that the government can change through better allocation of resources. Given this, we argue that the government should ensure greater and more efficient socioeconomic spending to raise human capital development and long-term growth.

¹¹ Lower GDP growth, in the absence of greater revenue mobilisation, will mean lower revenues. Given the Treasury's fiscal strategy of consolidation, this will imply that non-interest spending growth must be reduced in order to reach a primary surplus that is large enough to stabilise or reduce the debt-to-GDP ratio.

¹² Where the government maintains or increases spending during periods of low economic growth in order to stimulate private spending

3.1. Public services and social assistance

Fiscal policy plays a fundamental role in creating a social floor which ensures that people can survive and thrive, even when the labour market does not provide adequate opportunities for paid work. The state, in fulfilment of this constitutional imperative, is obligated to provide social grants, free basic services (water, electricity, sanitation, and refuse) to low-income households who face multiple and intersecting forms of deprivation, and poor access to education, healthcare, safety, and other basic necessities. By slowing the hiring of public servants in an attempt to contain the public service wage bill,¹³ the government punishes the rest of the public, particularly women who bear the cost of adjustments, for its failures to obtain lower wage settlements, through poorer service delivery.

The chronic underinvestment is all too clear in present statistics. In education, the [teacher-to-learner ratio](#) for public schools was 1:34 in 2025; compared to an average of [1:14 for OECD countries](#) in 2022. In healthcare, the doctor-to-patient ratio was 1:2,230 and the nurse-to-patient ratio was 1:762 (or 1.3 nurses per 1,000 people) for [2025](#), compared to an average of [9.2 nurses per 1,000 people](#) in the OECD in 2023. Furthermore, the Minister of Health [projects](#) a shortage of 97,000 health workers by 2030.

Inadequate budget allocations for social services place an unaccounted tax on women, children, and elderly people. As public services and social infrastructure crumble, women are compelled to sacrifice leisure time, work-seeking, and education and training opportunities to provide uncompensated care, effectively subsidising the reproduction of South Africa's labour force on their backs. This falls particularly heavily on black women who head the majority of households in South Africa.

3.2. Efficacy and efficiency of government spending

A responsible approach to prioritising social expenditure relies on a disaggregated evaluation of the impact of government spending, a commitment to ramp up high-impact spending as well as reduce low-impact spending, and putting in place mechanisms to improve the quality of spend before funds are simply cut.

Existing disaggregation of the impact of social spending illustrates that National Treasury's budget cuts are driven more by ideology than evidence. Nzimande *et al.* ([2025](#)), for instance, found that expenditure on education, environmental protection, and housing can crowd in private investment over the long run. Meanwhile, Baduza *et al.* (forthcoming) find that a R1 increase in spending on social assistance increased GDP by R5.53, over the period 2000 - 2025. This is because lower-income households are able to increase their consumption, leading firms, in the long-run, to increase private investment. Despite this, the National Treasury has prioritised reducing access to social grants. Both studies imply that cuts to core social and infrastructure spending may weaken long-run growth, while also compromising debt-to-GDP

¹³ This is done through a combination of early retirement and hiring freezes.

stabilisation. The absence of such disaggregated studies conducted by National Treasury itself indicates its willingness to rely on existing biases (for instance, that investment spending is 'productive' and social expenditure 'unproductive') rather than be evidence-led.

Budget reforms, in the form of TARS and a proposed principle-based fiscal anchor, therefore need to be embedded within a system of greater transparency and accountability across executive and oversight bodies, in order to succeed as tools to enhance spending efficiency. The National Treasury routinely fails to collect the requisite information on costing and delivery that is needed to improve the 'value for money' of public expenditure.

Two examples make this clear. The National Treasury admitted to lacking any information on the value-add of [consultants](#) – whose services are nearly R15 billion over 2026/27 to 2028/29 – and the average unit cost breakdown of [supplies](#) purchased by metropolitan municipalities,¹⁴ in response to questions posed by Parliament. By contrast, the intense scrutiny of the Social Relief Distress (SRD) grant shows that when there is political will, the Cabinet is able to [commission](#) studies and gain the necessary information to assess the 'value for money' of a programme. A key area of inquiry should be the value-addition of government outsourcing. This will allow the state to identify areas where prices are overinflated and service provision could be made cheaper through competition, or in-sourcing and building state capacity.

Within the framework of prioritising budget surpluses, the National Treasury appears to be driving an agenda in which programmes that can improve socioeconomic conditions and economic growth prospects are failing to be adequately resourced. Public Employment Programmes (PEPs) such as Basic Education Employment Initiative (BEEI) [helped](#) combat the excessive rates of youth unemployment by providing young people with training and income at the height of the Covid-19 pandemic in 2020-21. However, the government has since significantly [reduced](#) funding for BEEI, removing work opportunities for youth. This is because the objective of the TARS initiative and the fiscal anchor proposal is to restrict government spending sufficiently to stabilise or reduce the debt-to-GDP ratio, even where more spending may be beneficial for the economy including through building state capacity (SARS, NPA, StatsSA, and the DTIC).

Gender-responsive budgeting (GRB), another budget reform instituted by the government emphasises the need for significantly increased spending on schools, hospitals, and housing infrastructure. From the GRB perspective, this spending can systematically address inequalities such as women and children spending a disproportionate amount of time conducting activities that are unpaid yet are crucial to the market economy and to household wellbeing. As the IEJ's [assessment](#) of the 2026 Gender Budget Statement highlights, increased investments in public

¹⁴ This happened on two occasions. The [first](#) case that was referred to was the Buffalo City Municipality, the second largest metro in the Eastern Cape. The [second](#) case referred to was the City of Tshwane, the City of Johannesburg, and the City of Ekurhuleni, which are the three largest metros in Gauteng.

services and social assistance must be accompanied by clear objectives and measurable outcomes.

Seven years into the implementation of GRB, its potential to shape fiscal priorities remains insufficiently reflected in mainstream budget discussions. There is a need to prioritise the implementation and oversight of the existing GRB framework to ensure that departments are well equipped to rigorously analyse and plan allocations to secure the progressive realisation of dignity and welfare of all marginalised people, in particular women. The current approach, guided by the logic of TARS, budget surpluses, and a fiscal anchor, constrains GRB's transformative potential, demoting it to a check box exercise, preventing any meaningful resource redistribution that makes a substantive dent to inequality.

Budget reforms should also identify areas where the government's decade-long budget cuts have made potentially impactful programmes to be ineffective and put in place measures to improve the efficacy of spending. For instance the TARS initiative [enabled](#) the National Treasury to reallocate spending, reduce the MTEF spending baseline, and consequently attain its target primary surplus on the back of revoking [R3 billion](#) in social assistance for eligible beneficiaries.¹⁵ Greater support rather than merely punishment – such as the recent [withholding](#) of the equitable share to select, underperforming municipalities – should be extended to areas of state which are struggling to spend well.

4. Macroeconomic coordination and resource mobilisation

Building on [Section 2](#), which argued for the need for sustainable industrialisation and resilience, and [Section 3](#) above, which showed why public services need to be funded and delivered efficiently, this section argues that industrial development and socioeconomic development require macroeconomic coordination. A macroeconomic coordination framework, anchored around the goal of full employment and structural transformation,¹⁶ can increase fiscal space, and improve localisation and sustainable industrialisation, which will ultimately result in higher, more stable, and employment-rich economic development.

4.1. Macroeconomic stabilisation and the cost and flow of capital

A whole-of-government approach is needed to secure the kind of macroeconomic stability that will support job-intensive economic growth.

Fiscal consolidation and monetary tightening could possibly achieve a narrow form of macroeconomic stability in the form of a lower debt-to-GDP ratio and lower inflation. However,

¹⁵ This refers to people who failed the flawed 'income verification' process for social grant recipients, a measure that was declared [unconstitutional](#) by the North Gauteng High Court in 2025

¹⁶ Full employment is when everyone who wants a job at the prevailing wage is able to obtain it. It is not synonymous with a 0% unemployment rate, as cyclical unemployment (where workers are short-term unemployed due to economic stagnation or recessions) and voluntary unemployment (where workers quit jobs due to a lower-than-desired remuneration package) may still exist.

previous [IEJ research](#) and [Section 2](#) of this note question this assumption. For instance, it is quite likely that the planned for debt-to-GDP stabilisation will not materialise on the basis of lower-than-projected growth, and blamed on the external environment. Regardless, the achievement of this sort of narrow macroeconomic stability would leave the country on weaker foundations for growth to take-off as it will have been achieved on the back of underinvestment in state capacity, economic and social infrastructure, and human capital.

While this kind of macroeconomic stability has led financial speculators to [favour](#) rand-denominated assets since 2024, it has arguably not attracted the kind of long-term capital needed to support fixed investment and job creation, with inflation-adjusted gross capital fixed formation [contracting](#) by 2.2% in 2025. The more fundamental issue from a developmental perspective, is whether enough capital is flowing into productive industries to stimulate decent employment and sustainable growth.

An expanded, coordinated toolkit for mitigating inflation, boosting and directly investment flows, reducing the cost of capital, and managing exchange rate volatility, can allow monetary and fiscal policies to achieve a broader-based macroeconomic stability able to serve as the foundation for sustainable and inclusive growth. For instance, fiscal and monetary operations, including concessional lending and fiscal recapitalisation, can support the expansion of the lending portfolio of and access to cheap credit for [development finance institutions \(DFIs\)](#).

This would empower DFIs to fund long-term, green projects that boost capital formation, alleviate the climate crisis, and create decent jobs. The National Treasury could also finance the purchase of reserves of oil by the Department of Mineral Resources, to replenish stocks following the [unauthorised sell-off](#) of South Africa's fuel reserves in 2015. Similarly, the National Treasury can finance the purchase and storing of food reserves (such as grains). As IEJ research [conveys](#), a food buffer stocks policy is used by many countries in Asia, Africa, and in the past by Europe and the U.S., and if properly implemented can mitigate sharp food price rises.

To complement these measures the SARB could consider capital controls, in addition to foreign exchange buffers, open market operations, and repo rate adjustments as tools of managing the exchange rate. A [study](#) by SARB researchers found that between 1985 and 1995, the enforcement of capital controls – a dual exchange system that separated current account ('commercial') flows from capital account ('financial') flows – was successful in restricting the spillover of the more volatile 'financial' rand to the more stable 'commercial' rand, the latter of which had stronger ties with real economic activity. Collectively, this expansion of the toolkit for inflation and external balance management can aid the goal of price stability while leaving adequate policy space for the SARB and the National Treasury.

A lower cost of credit for businesses and households therefore requires coordination between fiscal, monetary, and industrial authorities. But cheaper credit will only stimulate fixed investment

if it is accompanied by policies that ease household and business levels of indebtedness, increase domestic demand, and direct credit to productive sectors. For instance, fixed investment may fail to grow sufficiently even in the face of lower cost of credit due to debt overhang and insufficient demand. Debt overhang occurs when economic actors cannot take on new loans to expand assets due to interest payments for old loans consuming too much cash flow. In South Africa, households have excessively high debt levels,¹⁷ which reduces the income available for spending, thus constraining demand.

Together, what this illustrates is not that macroeconomic stability should be deprioritised, but rather that: a. A narrow understanding of macroeconomic stability (low debt, low inflation) does not lay the foundation for sustainable and inclusive growth; b. Achieving the sort of macroeconomic stability that we do need requires a multidimensional approach, coordinating across an expanded toolkit of policy levers.

4.2. Resource mobilisation and fiscal space

In the same vein, a more efficient and progressive tax collection system can create greater fiscal space. IEJ research has [illustrated](#) that within the ‘sound tax principles’ of equity and efficiency [espoused](#) by National Treasury,¹⁸ and in-line with international evidence, it is possible to increase revenue in a manner that will have insignificant negative effects on economic growth and generate tax revenue that can be spent on growth-enhancing initiatives. This includes through the reduction of tax breaks for pension funds and medical aid contributions that are given to individuals that earn above R750,000 annually; a net wealth tax, between 1-3%, for individuals with net wealth over R50 million; and a financial transactions tax on the speculative trading of financial assets. Notwithstanding these tax policy changes, the National Treasury should continue to draw from the Gold and Foreign Exchange Contingency Reserve (GFECRA), which has a balance of R308 billion as of July 2026, and to consider the use of pension assets to finance infrastructure programmes on concessional terms.

The global rise of digitisation also presents an opportunity for greater tax revenue, but needs an agile tax system and strategic diplomacy from the state to respond to challenges of tax avoidance and evasion. Domestic demand for digitalised services in [e-hailing](#) (transport), and [e-commerce](#) (retail),¹⁹ have increased. However many of the corporations that dominate digitalised services are headquartered in the Global North countries yet derive much economic value from their operations in South Africa and other Global South countries. Existing Double

¹⁷ Household debt relative to disposable income [peaked](#) between 76% and 89% around 2008, while debt-service costs reached about 10.9% of disposable income as interest rates rose. The ratio subsequently declined, falling from 72.6% in 2010 to 62% in 2025, showing increased household financial vulnerability.

¹⁸ In the context of tax policy, equity refers to two concepts: horizontal and vertical equity. Horizontal equity means that actors with the same resources must be treated equally, while vertical equity means that tax treatment must scale tax measures proportionately with the resource-endowment of different actors. Efficiency, meanwhile, means that tax policy must not impede economic growth.

¹⁹ In the transport industries, dominant companies include Uber and Bolt; in the retail sector, examples include Amazon and Shein.

Tax Agreements (DTAs) overwhelmingly favour the taxing rights of source countries (i.e., where these companies are headquartered) over resident countries (where operations happen and the economic value is actually derived). The proposed United Nations (UN) Framework Convention on International Tax Cooperation is an attempt by Global South countries, particularly in Africa, to use a relatively equitable platform (the UN) to establish a framework for a more equitable distribution of these taxing rights, as well as to limit illicit financial flows and profit-shifting perpetrated by multinational corporations.

The South African state needs to commit significantly more financial, diplomatic,²⁰ and technical support on international tax issues. The National Treasury needs to further capacitate the tax and customs authority (SARS), while the SARB may need to consider the use of capital controls to curb illicit financial flows and profit-shifting. Beyond issues of international tax, the UN framework advances issues such as automatic exchange of information between countries, public country-by-country reporting, and a Global Asset Registry, which could open up space for wealth taxes with reduced risk of capital flight.

Furthermore, the state should look at de-linking from the existing multilateral framework in the form of the OECD Two-Pillar solution. The IEJ and its partners have [criticised](#) the Two-Pillar system as inadequate for South Africa. This is because it prescribes a corporate income minimum tax for multinational corporations (MNCs) that is too low (at 15%, compared to the average OECD statutory corporate income tax rate of [24.2% in 2026](#)), and a threshold for inclusion of MNCs of 750 million euros (around R15.4 billion in 2024), which excludes hundreds of MNCs operating in South Africa. As anticipated by this critique, the National Treasury [reports](#) that only R2 billion was gained from implementations of the Two-Pillar solution in 2025/26, against an initial estimate of R8 billion.

In addition to tax policy, IEJ research [indicates](#) that monetary policy can play a key role in increasing fiscal space. Financing for the climate responses and energy transitions has largely centered on taking loans from international finance institutions (IFIs) which are ultimately a liability on the fiscus.²¹ These IFI loans have eroded policy sovereignty, as the National Treasury has [accepted](#) far-reaching policy conditionalities, and have introduced additional fiscal risk as the loans have been [taken](#) on interest rates and currencies linked to the macroeconomic policies of the European Union and the United States. Instead, the IEJ [proposes](#) that the financing costs of the climate responses and energy transitions can be determined and absorbed by the SARB and the National Treasury, and further bolstered by development finance institutions, while reducing fiscal risk and protecting policy sovereignty. The SARB through [direct and indirect credit allocation policies](#) can increase financing for worker-centric climate responses and energy transitions-linked projects, with the National Treasury absorbing significantly less

²⁰ This can include leveraging its presence in the G20 and other multilateral forums, such as BRICS and IBSA, to build support for a more equitable international tax system, as well as coordinating its negotiating positions with the positions of the Africa Group, where complementary.

²¹ While the money acquired from IFI loans is meant to be distributed to various departments and projects, the debt, as seen in different loan agreement documents, is ultimately the liability of the national government.

liability or risk, and minimising the risk of higher user fees, thus opening fiscal space for socioeconomic spending now and in the future.

5. Conclusion

The upcoming MTBPS in 2026 and the National Budget in 2027 should lay the groundwork for a fiscal strategy that advances employment-led sustainable industrial development over the next 10 years. The ongoing recovery of network industries, enabled by fiscal support, is a critical ingredient to make this possible. What remains missing is a decisive shift in macroeconomic policy, in general, from stability-centric to structural transformation-oriented paradigms. Fiscal, monetary, and industrial policy must be coordinated towards structural transformation and the overriding objectives of full employment, growth, and industrial development.

This requires a fiscal strategy which aggressively mobilises resources for the government to have greater spending power, allowing for significantly more investment and increases in the number of nurses, police officers, teachers, and better delivery of all basic services. This fiscal strategy must aid monetary policy in the goal of attaining price stability, freeing up the use of the various policy instruments at the disposal of the SARB to ensure that the manufacturing sector, in particular, receives cheap credit to increase production in sustainable industries that will diversify the country's value chains, export basket, and increase decent employment while reducing inequalities and poverty. Part of the net effect of macroeconomic coordination organised around employment creation will be faster output growth, which will help stabilise the debt-to-GDP ratio, contributing to macroeconomic stability. Thus a virtuous cycle based on investing in South Africa and her people can be achieved, rather than one premised on shifting the costs of macroeconomic adjustment onto the most vulnerable in our society.



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