Submission on Revised Fiscal Framework and Revenue Proposals (2026 Medium Term Budget Policy Statement)

Institute for Economic Justice
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1. Is our fiscal strategy appropriate?







- Suppose we reach our fiscal targets:
  - reducing the debt-to-GDP ratio over the next three years
    - lower government borrowing costs
    - improved investor sentiment
- Would this set South Africa up for high employment growth, greater access to quality public services, poverty reduction, and industrial-led growth?
- Even as inadequate budget allocations lead to poor outcomes in the provision of education, healthcare, social protection, infrastructure?
- Our evidence suggests that this fiscal strategy is unlikely to deliver the purported stability nor yield structural transformation as set out in the **National Development Plan (NDP)**

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1. Is our fiscal strategy appropriate?

Two reasons why the current fiscal strategy is untenable for South Africa's developmental prospects:

1. Elevating spending restraint, debt reduction, and primary budget surpluses, as objectives above all else, in the manner that the National Treasury has done (and seeks to enshrine in law) creates **perverse outcomes**. The perverse outcomes are characterised by budget decisions or models of service provision that **clash with other policy goals**.
2. The primary tool that the National Treasury uses to reduce the debt-to-GDP ratio, higher primary surpluses, is not enough to **sustainably reduce debt levels** over the long run and, by itself, is unlikely to generate the benefits sought by the National Treasury (higher investment and job creation).

Realistically, a fiscal strategy of consolidation can only deliver what we have seen since 2013:

- Occasional revenue overruns when commodity prices unexpectedly rise.
- Stagnant growth in the spending baseline. This is done through marginal increases (see ECD subsidy and SARS), spending reallocations (such as GBVF funding), and budget cuts (such as in Public Employment Programmes).
- Increasing reliance on private-centric models of service and infrastructure provisions like PPPs or wholesale privatisation in providing water infrastructure, the power grid, freight transportation; and low-income housing (see Operation Vulindlela).

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2. Perverse outcomes of spending restraint

Since the operating logic of our fiscal strategy is spending restraint rather than fulfilling policy objectives, this has produced perverse outcomes where, in Treasury's attempt to manage allocations, they inadvertently undermine policy goals. Three examples demonstrate this:

Example 1: **Social protection and GBVF**

- The government's social grants should have increased coverage. But the Treasury views this as too expensive.
- Treasury puts up draconian conditions which prevent millions of eligible beneficiaries from receiving grants (SRD & child support).
- The Treasury uses these supposed "savings" to increase GBVF spending, creating a false-trade off between women's economic security and empowerment, and women's protection from violence.

Example 2: **Privatisation of public goods and services**

- The country has large infrastructure shortages (in housing, electricity, water, etc.). The Treasury says the fiscus cannot afford this.
- The Treasury pushes for this infrastructure to be provided through the private sector (i.e., PPPs or full privatisation)
- This Increases fiscal risk (due to guarantees); makes services more expensive and less accessible (due to user costs)

Example 3: **Public sector wage bill**

- Public sector workers acquired above-inflation wage increases. Treasury came to view their compensation as too expensive.
- To stop the growth of the public sector wage bill, the Treasury elected to institute hiring freezes and early retirement programs.
- The result? Higher teacher-to-learner ratios; higher nurse-to-patient ratios; and high vacancy rates in national government departments and agencies (see 2026 BRRRs). These have contributed to poor quality of service delivery.

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3. A disaggregated approach to budgeting

The government's argument that "low" fiscal multipliers (see van Rensburg *et al.* (2021) and Kemp (2020)) justify spending restraint (see National Treasury (2024)) is not valid. These studies *only* show that the government may be **misallocating spending**, or that spending has low impact due to **other impediments** (i.e., project implementation, weak network industries, and lack of structural transformation). These studies do not support the Minister of Finance and National Treasury's argument for a policy of fiscal consolidation.

A disaggregated evaluation (item-by-item) of public spending shows that even when the overall fiscal multiplier is low, certain expenditure items have a significantly positive impact on GDP growth. These need to be scaled up.

- ❏ Studies by Nzimande *et al.* (2025) and Baduza *et al.* (forthcoming) show that fiscal spending on education, environmental protection, housing, and social protection exhibit high and positive long-term multipliers.
- ❏ 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, in response to questions posed by Members of Parliament. This shows that the Treasury does not even collect the information necessary to make budget decisions informed by the goals of cost-effectiveness and skills-transfer.

Recommendation: Budget reforms – including the Targeted and Responsible Savings (TARS), fiscal anchors, and gender-responsive budgeting (GRB), should be used as means to make spending more effective, rather than to curtail it so as to achieve a target primary surplus. We implore the National Treasury to make government-wide spending reviews to investigate the root causes of underperformance. Only programmes that have been **adequately funded** and have been given **enough time** but still fail to produce results should be scaled down via TARS. The proposed new fiscal anchor requires Parliament to follow a wide-spread and thorough public consultation process. The IEJ will make a submission where we warn that fiscal rules have had mixed success internationally, and risk further entrenching austerity, especially in a low-growth environment.

4. An alternative fiscal strategy

So, what is the alternative?

- An expansionary / counter-cyclical fiscal policy, underpinned by:
  - Greater revenue mobilisation
  - An evidence-based disaggregated approach to budgeting
  - Macroeconomic policy coordination

This alternative fiscal strategy can allow the National Treasury and the government as a whole to simultaneously achieve fiscal sustainability while laying a sound foundation for structural transformation and long-term sustainable growth.

Recommendation: The size of the fiscal envelope, how much South Africa should borrow, and the role of fiscal policy, should not be mechanically determined by a particular debt level. Rather, **the size of the fiscal envelope should be determined by a representative political process that begins with the needs and rights of South Africa's people and our developmental objectives. This should then take into account factors such as the multiplier effects of debt-financed public spending, the effective interest rate on government debt relative to the economic growth rates, the capacity utilisation rates in key economic sectors (for instance, agricultural, energy, and manufacturing), and the ability to equitably collect taxes**. All of these factors are partly **policy choices** of government departments and agencies such as the SARB, ITAC, and the National Treasury. The role of fiscal policy should respond to the constitutional imperatives to ensure that households are able to receive quality and affordable basic services.

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5. Macroeconomic coordination for growth, employment, and stability

National Treasury (see 2026 MTBPS) and the financial press (see BusinessDay (2026)) tells us that our macroeconomic "stability" has led investors to favour South African financial assets such as government bonds. However, the fundamental issue from a developmental perspective, is **whether enough capital is flowing into productive industries to stimulate decent employment and sustainable growth**.

- In so far as this narrow form of macroeconomic stability – a **lower debt-to-GDP ratio** and **lower inflation** – is achieved through fiscal consolidation and monetary tightening, it leaves the country on weaker foundations for growth to take-off as it would have been achieved on the back of underinvestment and depletion of state capacity, economic and social infrastructure, and human capital. This sets up South Africa for **"stability" with no growth or transformation**.
- This need not be the case as it is possible to achieve growth *and* stability. This requires better coordination of macroeconomic policies – fiscal, monetary, trade, labour, and environmental policies – guided by the overriding objective of employment- and investment-led growth.

5. Macroeconomic coordination for growth, employment, and stability

For lower borrowing costs (households, businesses, and government):

Recommendations:

- ❏ Concessional lending and fiscal recapitalisation, to support the expansion of the lending portfolio of, and access to, low-cost credit for development finance institutions (DFIs).
- ❏ Capital controls (such as a dual exchange rate system) to complement existing measures of managing the rand.

For higher, and more effective spending

Recommendations:

- ❏ Government-wide spending reviews to understand the root causes of underperformance
- ❏ Reduction of wholesale outsourcing
- ❏ More effective integration of GRB in the budget process
- ❏ Revenue mobilisation: SA should commit more financial, diplomatic, and technical support on international tax issues (such as UN Tax Convention) to reduce illicit financial flows and increase our taxing rights; reduction of medical aid- and retirement-linked tax breaks for high income individuals; taxation of the speculative trading of financial assets; solidary / net wealth taxes

For long-term and stable growth

Recommendations:

- ❏ Fiscal financing to replenish reserves stocks of crude oil and food supplies such as grain; reviving the oil refinery industry, and supporting the renewables energy industry and its localisation goals.
- ❏ Differentiated and preferential fiscal and monetary support for the minerals beneficiation; agro-processing; and localisation

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THANK YOU!

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