Fiscal Framework and Revenue Proposals - 2026 Budget

Institute for Economic Justice
10 March 2026

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1. Economic growth and public spending

- South Africa's flawed growth model cannot make a meaningful reduction to unemployment.
  - To meet NDP (2010 - 2030) & MTDP (2024 - 2029) target of investment being 30% of GDP, National Treasury expects an additional **R800 billion per year** in private investment until 2029/30. Domestic and international evidence suggests that this expectation will not be realised.
  - The best case scenario for GDP growth under the National Treasury's 'de-risking' growth model, at an average of **1.8%** to 2028/29, is too little to: (1) create jobs for a labour force whose average growth (2015 - 2025) is **2%** and (2) give the fiscus enough revenue to invest in education, healthcare, and social protection; all of which will decline in inflation-adjusted and per-capita terms over the next three years. This comes on the back of a decade of budget cuts to social spending. The current growth model is a failure in development terms.
  - Given the centrality of credit in consumption and investment, the focus on savings (in the 2026 Budget and the GAIN strategy) as a driver of investment and economic growth is unjustified.

Recommendation: (1) Public investment must be increased by R800 billion per year over the MTEF; (2) Social spending increases must be in line with inflation and population growth; (3) Monetary policy, through the SARB, must be used to direct cheap credit towards strategic industries (directly or through development banks).

2. Revenue mobilisation and debt

- National Treasury fails to mobilise the finance needed to ignite economic growth
  - A population that is largely impoverished cannot afford to go to private schools or to private hospitals when public services are overcrowded. This impoverished population is currently or will be our labour force. Adequately investing in public services is a precondition for a dignified life and for long-term economic growth. Revenue mobilisation, to enable higher spending, is essential for this.
  - Debt stabilisation through across-the-board expenditure cuts has failed to lower debt-to-GDP because lower public spending puts downward pressure on GDP, resulting in unchanged or higher debt-to-GDP level. The debt-to-GDP ratio is expected to peak at a higher level (78.9%) than was anticipated just four months ago in the 2025 Medium-Term Budget Policy Statement (MTBPS) (77.9%), and of course higher than in the 2025 Budget (77.3%) or the 2024-2029 Medium Term Development Plan (at 75.5%).

Recommendation: (1) Increasing tax compliance; using public sector pools of capital (GFECRA & GEPF); redirecting tax breaks given to higher income households to social infrastructure spending; active participation in UN Tax Convention. (2) The Committee must hold the Minister of Finance accountable for the recurring failure to lower debt-to-GDP while continually inflicting damage on the economy through spending cuts; (3) parliamentary approval of loans from international finance institutions (17 sovereign loans of value over R250 billion since 2020)

3. Budget process

- TARS and a new fiscal anchor seek to reduce the level of discretion in fiscal decision-making by forcing policymakers and parliament to choose between different spending items.
  - But pitting different yet inter-dependent spending items could lead to underperformance in the target outcome.
  - Internationally, the most robust explanation for reduced debt-to-GDP is faster economic growth. Moreover, the failure of existing fiscal anchors (e.g., the nominal expenditure ceiling) was due to Treasury's failures to adequately budget for spending towards the recapitalisation of state owned enterprises, the public sector wage bill, and the SRD grant.

Recommendation: (1) The TARS programme must adopt a more rigorous methodology, overseen by Parliament, to determine what constitutes underperforming or wasteful programmes, and factor in consideration of areas where years of budget cuts have made programmes ineffective, and therefore need more, not fewer resources; (2) The National Treasury must build political convergence on spending; any fiscal anchor must be paired with revenue-raising measures (3) The government's version of gender-responsive budgeting must be overhauled to address the core issues underlying the economic marginalisation of women and other marginalised communities, including energy access, income security, unpaid care burdens, food insecurity, unemployment, and precarious work.



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