MTBPS

MEDIUM TERM BUDGET POLICY STATEMENT

2026

A FISCAL SUSTAINABILITY FRAMEWORK FOR SOUTH AFRICA

Policy proposal and draft legislation for public comment

National Treasury

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

A NATION THAT WORKS FOR ALL

2030 NDP

A fiscal sustainability framework for South Africa

1. INTRODUCTION

The Minister of Finance announced in the 2026 *Budget Review* that, to sustain fiscal discipline, government would introduce a proposal for a principles-based fiscal anchor in the 2026 *Medium Term Budget Policy Statement* (MTBPS) after thorough consultation in Cabinet and Parliament, and with the public.

This document explains government's proposed fiscal sustainability framework, which embeds a commitment to sustainable public financial management in law and requires each new administration to table a plan to achieve this objective. It outlines the proposed legislative and institutional reforms to implement the fiscal sustainability framework and ensure government is held accountable for it.

The framework is an institutional reform meant to complement and enhance the existing medium-term budget framework. The proposal is for a statutory standard of fiscal sustainability and a duty to explain, rather than a numerical target. Each government will set its own fiscal objectives in its fiscal plan. And it will have a duty to explain and account for its proposals and their implementation.

Government intends to table the bill setting out this framework during 2027 following extensive public consultation. The publication of this paper accompanies the draft text of the bill. The bill defines fiscal sustainability as follows: "the ability of the state, under reasonable macroeconomic and fiscal assumptions, to meet its present and future expenditure and debt-service obligations and to manage its fiscal risks, without undermining macroeconomic stability and without requiring an unrealistically large or abrupt future correction to revenue or expenditure."

2. THE PROPOSAL IN BRIEF

Alongside the 2025 Budget, government published a discussion document on fiscal anchors to identify a way to embed the gains of fiscal consolidation and avoid a return to the cycles in which permanent commitments made during an economic boom result in a prolonged period of deficit reductions during low growth. In 2026, the Minister of Finance announced that government would adopt a principles-based approach. This long-term institutional reform aims to strengthen the focus on fiscal sustainability in public financial management. The reform will obligate each administration to conduct medium-term fiscal planning over its term of office, while preserving fiscal discretion consistent with its electoral mandate.

Alongside the 2026 MTBPS, government is releasing a draft bill for public comment (ahead of tabling it in early 2027), which:

- Formally defines fiscal sustainability in law.
- Creates a duty for each administration to prepare a fiscal plan through which it sets its overarching taxation and spending principles, macro-fiscal objectives and targets.
- Sets out the duties of the Minister of Finance to explain day-to-day fiscal policy choices along with minimum reporting requirements.
- Requires the Financial and Fiscal Commission (FFC) to scrutinise the fiscal plan and the macro-fiscal proposals of the administration in line with the requirements of the fiscal sustainability standard.
- Strengthens Parliament's hearings process on the fiscal framework to ensure consistency with the fiscal sustainability standard and the fiscal plan.

Government proposes that each new administration following a general election approve a fiscal plan within 60 days of taking office. The Minister of Finance must then submit the plan to Parliament for its consideration and noting. The plan must set out the administration's fiscal strategy and the indicators it will manage against.

Specifically, government proposes that:

- A general fiscal sustainability standard and the requirements for its implementation be set out in the Public Finance Management Act (PFMA, 1999).
- Section 32 of the PFMA be amended to require every new Cabinet to approve a fiscal plan and the Minister of Finance to submit it in Parliament. The plan should explain the government's direction, priorities, assumptions, risks and chosen operational indicators. It must detail how the government will choose to define and achieve a sustainable fiscal position, including the financial year by which it will do so. Under this framework, a government may plan for debt to rise to a higher level for a mandated purpose, provided it explains its chosen debt path and why the administration believes this path to be sustainable.
- The government has a duty to explain if the fiscal path deviates from the plan.
- The MTBPS and Budget Review provide a detailed account of implementation, including the official fiscal path, and explanations of important changes.
- The FFC publishes independent assessments of the plan, and of each MTBPS and Budget Review, as well as a short note when a material deviation or shock requires one.
- Parliament scrutinises the plan and its implementation through an amended Money Bills and Related Matters Act (MBRMA, 2009), supported by the Parliamentary Budget Office.

The proposal uses public explanation and institutional oversight to hold government accountable for the framework. It requires the framework to be published and the FFC to assess it, as well as parliamentary hearings and reports. It does not give the FFC any power to approve or reject the Budget, judge a missed indicator as an automatic legal breach, or require the Budget to be rejected and re-tabled.

3. BACKGROUND TO THE REFORM

South Africa lacks a legal framework binding government to ensuring fiscal policy is sustainable. The most visible outcome of the absence of this framework has been the gross loan debt ratio, which tripled between 2009 and 2025, and debt-service costs that increasingly crowded out core service delivery objectives. Allocations favouring current over capital expenditure, unaffordable wage settlements and the bailouts for state-owned companies also demonstrated an inability to commit to a time-bound fiscal programme for debt stabilisation.

The 2024 *Macroeconomic Policy Review* came to three conclusions that have informed the proposed reform. First, discretionary annual or even multi-year fiscal targets are at times too fragile to survive political and electoral cycles: they can be revised, deferred or abandoned without consequence, as demonstrated by the record since the global financial crisis. Second, as long as South Africa's real cost of borrowing exceeds its rate of economic growth, debt stabilisation cannot be carried by automatic debt dynamics alone, and will depend on the fiscal authorities of the day making choices to manage the public finances sustainably. Third, while fiscal sustainability is not the only objective of fiscal policy, it is nevertheless appropriate and in line with responsible stewardship of the country's public finances to underpin macroeconomic stability and long-term economic growth, and improve debt dynamics.

The review findings are consistent with the wider body of domestic empirical work from the National Treasury's research programme, SA-TIED.

The review recommended the adoption of a framework that makes fiscal management more transparent and accountable, improves long-term planning and incentivises good fiscal risk management.

Building on extensive evidence and consultation by the National Treasury over the past two years, government proposes a fiscal sustainability framework that locks in the lessons and gains of the past decade. It is expected to strengthen policy credibility and help lower borrowing costs for government and the economy. The framework will support macroeconomic stability and higher economic growth, and allow earlier detection of unsustainable fiscal choices, helping government protect its priority programmes that support economic and social development.

4. A STATUTORY FISCAL SUSTAINABILITY STANDARD

Government proposes establishing a principles-based fiscal sustainability standard in the PFMA like that employed in New Zealand and Australia, rather than a single numerical target. Each administration will set out its fiscal objectives, strategy and chosen indicators in a fiscal plan. The plan will guide reporting, independent assessment and parliamentary scrutiny of the government's fiscal choices.

The standard applies to fiscal policy and its management. It does not prescribe an annual debt ratio, deficit ceiling or single route to adjustment, although a government could choose to impose such a rule on itself as part of the fiscal plan. The sustainability standard is intended to discipline aggregate decisions and reporting. It is not intended as an item-by-item legal test of individual appropriations, programmes or borrowing transactions. The proposed framework does not narrow what a government may choose. It raises the salience of the choices being made and subjects them to greater democratic scrutiny.

4.1 Fit with South Africa's existing public finance management framework

The proposed framework builds on South Africa's existing procedural framework under the Constitution, the PFMA, the MBRMA and parliamentary procedures. It codifies established good practice and requires stronger disclosure by the Executive of the fiscal choices being made and the empirical rationale.

The proposal also separates the durable statutory standard from the operational indicators that will give effect to it. This gives future administrations the discretion to select appropriate fiscal instruments – such as cyclically adjusted balances, the public-sector balance sheet or the consolidated fiscal accounts – as fiscal targets, as government's analytical capacity improves or as the economic conditions and political consensus of the time dictate, without requiring the underlying law to be reopened each time.

Government proposes that the PFMA carry most of the reform, rather than tabling new fiscal responsibility legislation. This is because the proposed reforms are procedural, and the PFMA is already government's procedural fiscal responsibility statute.

The MBRMA will also be amended to require referral of the plan to parliamentary committees and hearings on it. It will add requirements that the tabled fiscal framework demonstrate consistency with the plan, and that the committees report on this consistency and state how they took the FFC's assessment into account.

4.2 The legal definition

The draft bill proposes inserting the following broad definition of fiscal sustainability in section 1 of the PFMA: "the ability of the state, under reasonable macroeconomic and fiscal assumptions, to meet its present and future expenditure and debt-service obligations and to manage its fiscal risks, without undermining macroeconomic stability and without requiring an unrealistically large or abrupt future correction to revenue or expenditure."

The definition has four characteristics:

- Intertemporal, requiring government to consider whether the fiscal commitments it makes today are affordable into the future without abrupt tax changes.
- Ability-based, requiring an administration to demonstrate its ability to fulfil its financial commitments.
- Risk-based, requiring government to account for macroeconomic shocks, contingent liabilities and other fiscal risks before they crystallise.
- Realistic, requiring reasonable assumptions and ruling out a strategy that depends on an unrealistically large or abrupt future correction.

The draft definition has been crafted broadly so that an incoming government can set its own measures of sustainability and its own targets in its fiscal plan. It may use gross debt, a broader balance-sheet measure or debt-service costs, provided its strategy meets all four elements. The breadth allows the framework to evolve as data improves and economic circumstances change, rather than leaving fiscal policy stuck on a single measure.

The force of the definition comes from the duty to explain to Parliament. Every fiscal framework tabled in Parliament must state how it is consistent with the chosen fiscal sustainability measures in the fiscal plan. If it is not, the Minister of Finance must give reasons and set out corrective measures (proposed section 7(5) of the MBRMA). The framework creates duties to explain and account, not to achieve a specified outcome.

5. A FISCAL PLAN FOR EACH CABINET

Within 60 days of forming a government, an administration must approve a fiscal plan that guides fiscal policy until it is replaced. This strategic document operationalises the statutory sustainability standard and sets out fiscal objectives that the administration wishes to achieve. It builds on government's existing planning architecture. However, the fiscal plan is not required to be fully costed or modelled because it is a strategic document setting a high-level direction. The fiscal plan must set out the administration's principles for spending and taxation policy, targets and indicators against which it will deliver on its programme within resource constraints, and the trade-offs it intends to make.

5.1 A high-level strategy, not a second Budget

The fiscal plan does not replace the MTBPS, Budget Review or medium-term expenditure framework. Instead, it enhances the existing parliamentary hearings process by requiring regular comparison of the fiscal framework against the fiscal plan laid before Parliament at the start of each administration's term of office.

Parliament will hold public hearings and consider committee reports on the plan, without a separate vote to approve it. The plan is not a money bill and does not propose any tax or spending measures, which is why Parliament is not asked to vote on it. The aim is for the parliamentary process to increase the accountability of the Executive to prepare the most credible plan. Parliament will produce a report on the plan, which the Executive can use to strengthen the plan. The Executive can be asked how the report was considered.

Section 32A(4) of the draft bill requires the fiscal plan to set out:

- The fiscal direction Cabinet intends to follow over its term and how the plan gives effect to fiscal sustainability.
- The targeted paths for public debt, the main budget balance and the primary balance over the term.
- Where public debt is projected to rise as a share of GDP, the financial year by which government expects it to return to a stable or declining path and the strategy for achieving that return.

The plan must also set out the items below. The statements on principal assumptions and on core services are proposed, but they are not one of the bill's requirements:

- The operational indicators the administration chooses to be assessed against, such as a debt trajectory range, a primary balance path, an expenditure growth rule or an interest-to-revenue threshold, with clear definitions.
- The composition of spending, including capital and current expenditure, and its expected effect on economic growth.

- Any material debt-financed investment, its expected benefits, its principal delivery and cost risks, and its effect on the debt path.
- The principal assumptions and fiscal risks, including how buffers will be built against anticipated shocks.
- Planned reforms to expenditure management, procurement or the governance of public entities.
- A statement on core services, the social wage and rights-related spending.

The legal framing of the plan is deliberately broad, setting out the overall categories but not the required detail. A government may add to the above requirements and provide as much detail as it wishes. The plan need not contain a new macroeconomic and fiscal forecast or a fully costed policy programme since it is not a Budget and is not subject to a vote. However, Cabinet may request and release an updated macro-fiscal forecast with high-level projections of the main aggregates (such as the tax-to-GDP ratio, non-interest spending, the primary balance and debt). A credible plan will set out the fiscal paths and other information required by the bill clearly enough to be assessed. Detailed forecasts will remain in the MTBPS and Budget Review.

5.2 The relationship between the fiscal plan and the biannual fiscal framework

The administration's fiscal plan will inform the fiscal framework proposed by government as part of tabling the Budget. The fiscal framework, tabled at least twice a year, is where the strategy articulated in the fiscal plan will be modelled and where the resources for its execution will be provided through the consideration of the budget legislation. As such, in proposing a fiscal framework, the Budget Review and the MTBPS must refer to the fiscal plan and explain how the budget proposals are consistent with the plan or reconcile deviations with the objectives of the administration and the plan's time frame for fiscal correction.

It is the Executive's duty to explain whether current fiscal policy is consistent with the fiscal plan and what changes are proposed to bring about consistency. This duty-to-explain architecture will be contained in the Budget Review and MTBPS framework.

What is new is the scrutiny by the FFC under the proposed amendments to the FFC Act (1997). Previously, FFC scrutiny in the budget process was focused on the division of revenue and equitable share. It is now proposed that the same scrutiny be extended to the full macro-fiscal framework, covering:

- Whether, at the start of the term of office, the fiscal plan is credible and consistent with the requirement of fiscal sustainability.
- Whether each fiscal framework tabled under the MBRMA is consistent with both the plan and fiscal sustainability.
- Whether government's reporting of its implementation of the plan is adequate.

The Minister of Finance and the National Treasury remain responsible for the official government forecasts and budget proposals. The FFC independently assesses them and may use scenarios and projections to test their credibility. Its analysis does not replace the official forecast or give it power to approve or reject the Budget.

To strengthen Parliament's role, government proposes amendments to the current MBRMA to include a new section 6A that requires the National Assembly and the National Council of Provinces to refer the fiscal plan to their finance committees and

to hold joint public hearings on it once it is tabled. In addition, a new section 8(5)(h) of the same act will enable those committees to evaluate the fiscal framework's consistency with the fiscal plan.

5.3 Continuity and revision

The previous fiscal plan remains in effect until the new Cabinet replaces it. If a Budget Review or MTBPS falls within the 60-day transition, the new government must give a short interim statement confirming whether it is continuing or plans to modify or depart from the inherited direction, and when a new fiscal plan will follow.

A new Cabinet appointed after the election of a President under section 86 of the Constitution, whether after a general election or during a term, should table a new plan. Until it does, the preceding plan remains in force. The FFC and Parliament will assess the fiscal framework against it. An ordinary reshuffle of ministers or other personnel does not require a new plan. Government could revise its plan where the strategy or economic position changes materially, but the minister would have to give reasons to Cabinet and Parliament within 14 days, explaining why the change is reasonable and credible. A revised plan must be assessed and scrutinised in the same way as the original.

6. IMPLEMENTATION THROUGH THE BUDGET CYCLE

The reform works within the existing legal framework and structures of government. It uses existing fiscal documents rather than creating a parallel reporting system. The institutions and processes it relies on already exist, other than the FFC's new assessment function. The reform aims to enhance the budget process to build accountability, credibility and longer-term certainty. It does not intend to disrupt the existing fiscal system.

The Budget Review will show how the adopted fiscal framework gives effect to the plan. The MTBPS will provide a forward-looking account of implementation, emerging risks, deviations and any proposed correction or change in direction.

Where the initial plan is high level, the first subsequent MTBPS or Budget Review should provide the quantitative implementation account needed to test it. This should include the official macro-fiscal baseline, a reconciliation with the latest Budget, the definitions and coverage of the chosen indicators, material fiscal risks and downside scenarios, and the treatment and financing of major new commitments.

6.1 Revenue, spending and investment

The proposed framework applies to revenue and spending decisions together. Permanent commitments should normally be supported by durable revenue, credible reprioritisation or lasting savings. Temporary revenue gains should not normally finance permanent commitments. A government may choose a different course, but it should explain the reason, why it is consistent with sustainability and the expected effect on the fiscal path.

The framework should neither create an automatic exemption for capital spending nor treat all debt-financed investment as irresponsible. Government should explain the expected growth or service benefit, the delivery and cost risks, and the effect on debt

and debt-service costs. The FFC will assess the credibility of that explanation; the law need not attempt to define a complete test for "growth-enhancing" investment.

Annual reporting should also make visible the composition of adjustment. A fiscal path that improves by deferring maintenance, allowing arrears to build or shifting pressures to public entities or subnational government may not be sustainable when viewed across the state. Most public investment is financed by state-owned companies, public entities and municipalities – the ideal plan will address their borrowing through its treatment of fiscal risks.

The framework preserves room for a government to borrow for investment in a defined and deliberate way. An incoming administration need not start from a blank page. The Budget Review's annexure on public-sector infrastructure (Annexure D in recent years) sets out the inherited pipeline of major projects across the public sector, with their costs and stage of completion. It provides the baseline from which a new administration can decide which projects to keep, reprioritise or add, and how their financing affects the debt path. A credible programme, for instance one vetted through the Budget Facility for Infrastructure, can be financed by debt, provided the Executive explains how the investment is reconciled with the debt trajectory and overall fiscal sustainability. The discipline is the explanation and the reconciliation, not a prohibition.

6.2 Shocks, deviations and changes of course

The sustainability duty continues during recessions, disasters and other major shocks. The proposal imposes a duty on government to explain its detailed approach to managing a shock. It must identify the shock, explain and quantify its fiscal effect, state the support or adjustment it proposes, and publish a credible route forward.

The existing legal framework already enables government to respond to major shocks that occur between fiscal events: section 16 of the PFMA and the unforeseeable and unavoidable expenditure provisions of the annual Appropriation Act permit an immediate response within defined limits. Beyond those limits, the Minister of Finance can table a revised fiscal framework meeting the requirements of the existing fiscal plan and explain the deviation and the return year. This framework does not prevent the minister from holding additional fiscal events where circumstances require. However, the minister is required to state if the proposals are consistent with all the elements of the fiscal plan, including its sustainability standard.

The legislation requires each deviation from the fiscal plan to be classified into one of five types: a shock, a forecast error, a policy change, a fiscal risk realisation or an implementation slippage, with the corrective measures stated. Because the classification and explanation are required in every case, no numerical threshold separating ordinary variation from material deviation is proposed in the legislation.

If government misses its own targets, the Minister of Finance is required to explain this publicly. The FFC tests the explanation, and Parliament holds hearings on it and could require a fuller explanation.

The legal proposal imposes legally enforceable duties to table a fiscal plan, disclose the prescribed information, explain how subsequent fiscal frameworks relate to the plan, explain material departures, and obtain and publish the FFC's assessment. Those duties are legally binding, and failure to perform them constitutes non-compliance with the act.

Failure to achieve an objective, indicator or projected outcome in the fiscal plan, or a departure from the plan, does not by itself constitute non-compliance, invalidate a fiscal framework or require the plan to be replaced. It instead gives rise, where applicable, to duties of disclosure and explanation and exposes the government's choices and performance to greater scrutiny, including by the FFC and Parliament.

The FFC assesses the credibility of the plan and the way it addresses the statutory sustainability standard. Parliament considers the plan, the FFC's assessment and subsequent explanations through the ordinary budget process. Neither the FFC nor Parliament approves or rejects the fiscal plan.

The plan's legal force derives from the framework it creates for disclosure, comparison, independent assessment, explanation and parliamentary accountability. Its effectiveness does not depend on making the plan's projections or indicators legally compulsory.

Parliamentary committees should therefore examine:

- Whether the statutory process and disclosure duties have been performed.
- How the plan and fiscal framework address the statutory sustainability standard.
- Whether the relationship between the plan and the fiscal framework, including any material departure, has been adequately explained.
- The FFC's assessment of the strategy's credibility.

Under this proposed framework, political accountability for South Africa's fiscal choices will remain with Cabinet, the political head of the National Treasury and Parliament.

6.3 Parliament, the Parliamentary Budget Office and the government response

It is proposed that the MBRMA be amended to require the fiscal plan and FFC assessments to be referred to the appropriate committees. Parliament will hold hearings, debate the evidence and report its conclusions. The Parliamentary Budget Office remains Parliament's specialist technical advisor, helping committees interpret and test the Executive and FFC material.

Parliament can, in line with section 56 of the Constitution, request that the Minister of Finance, supported by the National Treasury, respond publicly to material FFC findings. Parliamentary committees will consider that response. Parliament should set out the response deadline and the detail and format of the report it requires of the minister. Parliament's existing budget powers remain intact; the fiscal plan itself would be scrutinised without a separate approval vote.

7. INDEPENDENT ASSESSMENT AND PARLIAMENT

7.1 The FFC's role

The FFC is the proposed formal independent assessor. Its role is analytical and advisory. It must test the reasonableness of government's assumptions, risk treatment and classification of deviations. It will provide evaluation reports to Parliament on

whether budget documents are consistent with the plan. Where the FFC questions the official forecasts, it should explain its evidence and reasons.

The FFC's proposed new role sits alongside the Parliamentary Budget Office's existing statutory functions of advising members of Parliament on the Budget, money bills and fiscal policy, rather than displacing them.

7.1.1 FFC publication cycle

The minimum FFC publication cycle comprises:

- An assessment of each new or substantively revised fiscal plan.
- An assessment of each MTBPS.
- An assessment of each Budget Review.
- A short deviation or shock note when a material event requires one.

An early, high-level plan may receive a positive but qualified assessment, with the FFC returning after the first MTBPS to determine whether the promised implementation account substantiates the plan.

7.2 Capacitating the FFC for a credible, new function

Before the first assessment cycle begins, the FFC will require a clear statutory mandate and a dedicated fiscal sustainability function, the independence of which is protected. It will need reliable additional funding, suitable technical governance and sign-off, timely access to the National Treasury's underlying data and assumptions, appropriate access to information under confidentiality rules, and the right to publish in its own name without Executive clearance. Capacity can deepen over time, but the minimum plan, MTBPS and Budget Review cycle must be workable from launch.

8. LEGISLATIVE AND IMPLEMENTATION PATH

8.1 Proposed amendments

The fiscal sustainability reforms involve three statutes:

- The PFMA proposals contain the sustainability standard, the fiscal plan and the requirements for implementation reporting.
- The FFC Act amendments establish the FFC's new assessment role and duty to publish reports. Information access and safeguards for the FFC's work must also be confirmed.
- The MBRMA amendments provide for referral of the plan, public hearings and committee reports. The proposed government response arrangements must still be completed.

Commencement should be coordinated so that the FFC, the National Treasury and Parliament can perform the core cycle from the first statutory plan. The Cabinet in office when the provisions commence then has 60 days to publish its plan. Further capabilities – including deeper long-term analysis, distributional work and wider public-sector risk assessment – can be added as methods, data and capacity improve. Information access, the handling of confidential information, funding, staffing and the

FFC's internal arrangements for reviewing its reports must be settled with the FFC and the National Treasury before the first assessment cycle.

8.2 Next steps

The draft bill will be published for public comment alongside this paper and the 2026 MTBPS on 21 October 2026. Comments are invited until 10 January 2027.

The National Treasury will then consolidate the submissions and publish a summary of the main issues raised and how each was addressed. The revised bill will be submitted to the Office of the Chief State Law Adviser for certification, and then to Cabinet for approval to table it in Parliament. Government intends to table the bill in early 2027.

The consultation should settle three design questions:

- The deadlines for FFC assessments, government responses and parliamentary reports.
- The committee process, and the treatment of confidential or market-sensitive information.
- The plan for commencement, including when the FFC will be ready to perform its first assessment cycle.

Once the act commences, the Cabinet in office will have 60 days to approve its first fiscal plan.

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