



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

SOUTH AFRICA

Strengthening Fiscal Frameworks

February 2026

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Government of Switzerland (State Secretariat for Economic Affairs – SECO)

High-Level Summary Technical Assistance Report
Fiscal Affairs Department

High-Level Summary Technical Assistance Report: South Africa: Strengthening fiscal frameworks

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: FAD worked with the National Treasury to develop proposals for strengthening South Africa's fiscal framework and incorporating the management of fiscal risks. Successful implementation of a fiscal framework incorporating a debt target and numerical fiscal rules would help support consolidation efforts aimed at rebuilding fiscal buffers. By improving fiscal credibility, it would also create the potential for ratings upgrades and reduced borrowing costs, supporting confidence and economic growth. Strengthening supporting public financial management frameworks would underpin successful implementation.

JEL Classification Numbers: H6, H81
Keywords: fiscal policy, fiscal rules, fiscal frameworks, government debt

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Background

Despite the authorities' intention to stabilize debt over many years, public debt has increased at one of the fastest rates amongst emerging market economies over the past decade, reaching over 75 percent of GDP by 2025. By restoring fiscal credibility and putting debt on a sustained downward path, South Africa could rebuild fiscal buffers, reduce borrowing costs, and stimulate private investment. Without adjustment, negative shocks could push debt onto a rapidly increasing path, undermining investor confidence and limiting room for fiscal policy to support the economy when needed to ensure sustainable delivery of frontline services.

Failing to turn the corner on debt also has a high cost. Debt servicing costs now account for around one fifth of revenues. These costs, well above the average of Sub-Saharan Africa of around 12 percent, and above the average for emerging market peers, limit room for critical spending on social and development needs. Much needed public investment has been outpaced by debt interest costs that have grown five times faster over the past fifteen years.

Recognizing these challenges, the government has reaffirmed its commitment to stabilizing debt, and is consulting on an appropriate fiscal anchor. At the request of the National Treasury (NT), a team from the IMF's Fiscal Affairs Department (FAD) travelled to Pretoria in September 2024 to provide advice on strengthening the fiscal framework.

Summary of Findings

Operational numerical fiscal rules help governments achieve fiscal targets by supporting budget decision-making, providing planning guidance and reinforcing objectives, while navigating fiscal risks. Over 100 countries across the world have adopted fiscal rules. The adoption and adherence to fiscal rules have been shown to promote fiscal sustainability, improve transparency, and signal commitment to financial markets. The FAD team worked with NT to develop options for fiscal rules that would constrain real expenditure growth and secure improvement in the primary balance until the debt reduction targets are reached.

International experience suggests that a combination of clear fiscal policy objectives, a publicly articulated fiscal strategy, an independent fiscal institution that supports accountability, and supportive operational numerical fiscal rules can help countries successfully implement fiscally sustainable policies. Well-defined escape clauses offer flexibility and can help to support the longevity of fiscal rule frameworks. By permitting deviations from fiscal rules in justifiable circumstances, well-defined escape clauses allow fiscal policy to respond to economic shocks with temporary support measures in an orderly way. There may be extraordinary circumstances that justify a temporary breach of the fiscal rules.

Summary of Recommendations

Setting a credible interim target for debt as a share of GDP would guide fiscal strategy. There are large gains to be had from stabilizing debt and developing credible plans to achieve debt to GDP of 70 percent by the early-2030s. This could be an interim target on the way towards achieving further debt reduction

and a sustainable long-term debt anchor of 60 percent of GDP, which would create a buffer for fiscal risks. Successful implementation of this plan would improve fiscal credibility and create potential for credit ratings improvements and reduced interest costs that can help support confidence and growth.

Establishing a principles-based fiscal framework in legislation is an appropriate first step toward policy credibility and debt reduction objectives. Successful implementation by incorporating a debt target and numerical fiscal rules would support consolidation efforts aimed at rebuilding fiscal buffers. It would be beneficial to adopt a “Fiscal Strategy Statement” covering the term of government and used to articulate government’s debt reduction targets and approach to deliver these targets. This could be further supported by a legal requirement that government report against the fiscal strategy in the Medium-term Budget Policy Statement (MTBPS), and that one of South Africa’s independent fiscal institutions report to Parliament on government’s compliance.

Successful implementation of the government’s fiscal strategy requires strong supporting public financial management institutions. Strengthening the government’s ability to identify and secure decisions to reprioritize expenditure, including to meet urgent and unforeseen expenses, are key to successful implementation. Strong management of fiscal risks remains of paramount importance to securing South Africa’s fiscal sustainability given the history of negative budget shocks from state-owned companies. Going forward, the NT should have access to sufficient information and the ability to monitor and contribute to the management of fiscal risks of state-owned companies given their importance to fiscal policy. Strengthening long-term fiscal forecasting capacity and reporting is also recommended.

There is no one-size-fits-all approach to escape clauses, but to prevent it from being triggered too easily, there should be clear principles established, potentially within the Public Financial Management Act (PFMA), defining the specific conditions for activation. Activation should be justified by the Minister of Finance and approved by Parliament. Additionally, the Minister should be required to present a plan for returning to compliance with fiscal rules and update the fiscal plan as necessary.