

# 2025 FISCAL REFORMS DISCUSSION



English

## EXECUTIVE SUMMARY

**M**acroeconomic stability is an essential precondition for sustainable economic development, but South Africa faces persistent fiscal imbalances between tax revenues and government spending. This has resulted in rapidly rising debt, which has surged from under 24 per cent of GDP in 2009 to 74 per cent in 2024. Over that period, debt service costs have grown from 9 per cent to 21 per cent of tax revenue, reducing fiscal space for essential public services.

The slowdown of average annual growth is a key driver of these outcomes, but the persistence of these imbalances and the rise of debt have increased the risks to long-term economic stability. Increased reliance on domestic financial institutions to fund

government borrowing reduces lending to the private sector. Repeated attempts to stabilise debt have been undermined by delays in fiscal adjustments, leading to higher interest rates and slowing growth. Without intervention, high debt levels will constrain economic growth, deter investment, and continue to elevate borrowing costs.

It is in this context that government is considering whether a formal fiscal anchor could contribute towards returning South Africa to a more sustainable fiscal trajectory. Internationally, fiscal anchors have been used to curb excessive borrowing and improve public sector efficiency. A well-designed anchor can enhance fiscal credibility, strengthen budget discipline, and foster investor confidence, ultimately supporting economic growth and stability.

Fiscal anchors are tools that are sometimes contained in Fiscal Responsibility Laws (FRLs), of which there are three main kinds:

- FRLs that define a set of principles or standards for fiscal policy, with which governments must comply (Type I).
- FRLs that consist of procedural rules governing how fiscal policy is conducted, and defining a set of procedures, formal processes, and reporting requirements relating to fiscal policy (Type II); and
- FRLs that contain hard numerical targets and ceilings for key fiscal policy outcomes such as the deficit, the level of debt, or the rate of growth of spending, etc.

South Africa's Public Finance Management Act, 1999 (Act No. 1 of 1999- "PFMA") and Money Bills and Related Matters Act, 2009 (Act No. 9 of 2009- "MBARMA") are FRLs that conform largely to Type II of the taxonomy. These acts set out procedures and reporting requirements for passing budgets and for developing fiscal policy. If these were to be strengthened with a formal fiscal anchor, the formal architecture of the anchor could take one of two forms:



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- **A Numerical Fiscal Rule:**

This approach would introduce binding limits on debt levels or fiscal deficits. A debt ceiling, for instance, would cap government borrowing at a predefined level relative to GDP, while a deficit rule would limit annual government borrowing. These measures would enhance policy predictability, curb excessive spending, and reassure a range of stakeholders.

However, numerical rules can introduce rigidity, requiring well-defined escape clauses for economic downturns or emergencies. They can also create incentives for future governments to engage in “creative accounting” to achieve the appearance of compliance while avoiding the substance.

- **Parliamentary Procedures Model:**

This approach would not rely on predetermined hard fiscal targets or ceilings. Instead, they would integrate fiscal sustainability principles into the process of tabling and voting on budgets. Each administration might be required, for example, to present a medium-term fiscal plan demonstrating compliance with a set of predefined sustainability standards. Once approved, the administration's fiscal plan would be used as a standard against which its own future budgets would be measured, ensuring greater accountability and oversight.

A well-designed fiscal anchor must strike a balance between discipline and flexibility, ensuring that fiscal policies remain sustainable while allowing necessary adjustments in response to economic fluctuations. The design of a future fiscal anchor –

whether it includes hard numerical targets or ceilings or sets out a formal role for fiscal standards and principles in the design and implementation of fiscal policy – would need to address some key considerations. These include:

- **Ensuring Sustainability:**

The fiscal anchor must be designed to ensure that debt levels remain manageable over time.

- **Balancing Flexibility and Discipline:**

While fiscal rules provide stability, they must allow for necessary adjustments during economic downturns.

- **Institutional Strengthening:**

Strengthening oversight bodies such as a fiscal council might enhance compliance and credibility.

- **Public Transparency:**

Clear reporting requirements would build trust and facilitate informed debate on fiscal policies.

This discussion document aims to contribute to the debate on the most appropriate fiscal anchor for South Africa, ensuring that future administrations and generations are not burdened by the predecessors and forbearers unsustainable fiscal commitments. Government will continue engaging stakeholders to refine the fiscal framework, with potential legislative measures to be considered in the coming years.



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