BUDGET JUSTICE COALITION SUBMISSION TO THE NATIONAL TREASURY ON FISCAL ANCHORS PROPOSAL

15 December 2025

About the Budget Justice Coalition

This submission has been developed collaboratively by members of the Budget Justice Coalition (BJC). The purpose of the BJC is to collaboratively build people's understanding of and participation in South Africa's planning and budgeting processes – placing power in the hands of the people to ensure that the state advances social, economic and environmental justice, to meet people's needs and wellbeing in accordance with the Constitution.

The organisations who make up the BJC are: Alternative Information and Development Centre (AIDC), the Children's Institute at UCT (CI), Corruption Watch (CW), Equal Education (EE), Equal Education Law Centre (EELC), HEALA, the Institute for Economic Justice (IEJ), Legal Resources Centre (LRC), Oxfam SA, Pietermaritzburg Economic Justice and Dignity Group (PMBEJD), the Public Service Accountability Monitor (PSAM), the Rural Health Advocacy Project (RHAP), SECTION27, Ilifa Labantwana, Treatment Action Campaign (TAC), Centre for Child Law (CCL), Youth Capital, 350.org, Open Secrets, Public Affairs Research Institute (PARI), Amandla.mobi, Black Sash, My Vote Counts as well as friends of the coalition.

For further information, contact:

Lisa Higginson (BJC Researcher): higginsonlisa@yahoo.com
Bongani Xezwi (BJC Organiser): budgetjusticesa@gmail.com

Introduction

The Budget Justice Coalition welcomes the opportunity to comment on the proposed fiscal anchor. Fiscal policy - including the decision to introduce fiscal anchors - is not only a technical exercise, it is a democratic process that affects every household and community. Our position is grounded in the belief that fiscal policy must reflect the needs and voices of the people most affected by public spending decisions and build a public sector capable of effecting the realisation of constitutional rights for all South Africans. We acknowledge the significant pressures that rising interest costs place on the budget. However, we have consistently raised serious concerns about the proposed fiscal anchor in prior engagements, and do so again in this submission. The underlying issue is not debt, but stagnating economic growth - the macroeconomic framework should therefore acknowledge this and the direction of policy should improve to address that and not exacerbate the underlying problem.

The BJC is concerned that a rigid, debt-focused fiscal anchor may unintentionally limit Parliament's ability to allocate resources to essential services, weaken democratic participation in budgeting, and cement long-term austerity. We believe a more balanced framework is possible, one that is foregrounded in the best interests of ordinary South Africans, supports stability and protects social and economic rights.

The Minister of Finance, in their speech tabling the Medium Term Budget Policy Statement (MTBPS) for 2025, indicated that National Treasury was pursuing a "principles-led approach". This approach ("Type I in the National Treasury's fiscal anchors discussion document") implies a substantially bigger role for Parliament than is currently the case. Specifically, Parliament will be entrusted with holding an administration accountable for their 'fiscal plan'. This could be a welcome improvement in democratising fiscal policy. However there are some outstanding issues.

First, current definitions of fiscal and debt sustainability by the Treasury focus too narrowly on debt metrics – debt-to-GDP, revenue-to-debt service costs. This approach must be expanded to be inclusive of underlying social and environmental factors. The persistent crises in unemployment and climate change – which engender other issues such as crime and food supply – must be accounted for in the assessment of fiscal sustainability. Second, a bigger role for Parliament may require increasing the capacity of members of Parliament to assess fiscal and debt sustainability as well as giving them more time within the budget process to make this assessment.

We therefore propose that Treasury reconsider the introduction of the fiscal anchor and rather take more direct steps to manage debt repayment costs and address administrative and other challenges in the public service that impede better outcomes, and rethink its economic growth strategy to prioritise people in the fiscal framework. Should the anchor be seen as an absolutely necessary intervention, (a position we reject), we propose a dual anchor approach:

1. A social floor that guarantees minimum, ring-fenced funding for essential services and rights-based spending; and
2. A flexible debt-stability path that supports fiscal responsibility without undermining growth or rights.
3. Introduction of participatory human rights impact assessments and poverty and inequality tracking to ground fiscal decisions in lived realities, ensuring that macro-fiscal constraints are compatible with constitutional rights and social equity.

Understanding the Problem Correctly: High Borrowing Costs and Low Growth

Treasury's discussion document identifies rising debt as the central risk to South Africa's fiscal sustainability. However, evidence shows that South Africa does not have an unusual level of debt compared to similar countries. Our debt-to-GDP ratio is close to the average of other upper-middle-income countries.

The real challenges are:

- High interest costs, driven by domestic interest rates and external conditions;
- Slow economic growth, which reduces tax revenue;
- Increasing labour participation rates matched by declining absorption rates across the country; and
- Structural weaknesses, which reinforce long-term unemployment and low wages -with young people and more specifically young black women being highly vulnerable in the market[1]
- Declining public spending, combined with poor outcomes that have not been accurately diagnosed (corruption, austerity, inappropriate processes, skills, capacity and capability gaps, performance and integrity, oversight failures…)
- Extreme levels of inequality weaken domestic demand by concentrating income among higher earners with lower propensities to consume, thereby undermining inclusive and sustainable economic growth.

Cutting spending is the incorrect leverage point as it does not address these issues. In fact, reducing spending on essential services and infrastructure slows the economy

[1] https://www.statssa.gov.za/publications/Report-02-11-02/Report-02-11-022024.pdf

further, and erodes state capacity to respond to growing social and economic crises. This is evident in the outcomes from fiscal consolidation over the past decade, and even the Minister himself has conceded that austerity has not reduced debt levels (or repayments) as predicted. When growth slows, the debt-to-GDP ratio cannot stabilise. A sustainable fiscal framework must therefore support economic recovery, not weaken it.

Why a Rigid Fiscal Anchor Is Not the Right Tool

The BJC maintains that the fiscal anchor proposal fails to adequately understand the challenges which have led to unsustainable debt scenarios, and that the proposed anchor is not the right tool to address the problem. Here we outline our core concerns with the proposal.

1. **Fiscal anchors do not reliably reduce debt or interest costs:** International evidence shows mixed results. Many countries with fiscal rules continue to struggle with debt and borrowing costs so both an incorrect leverage point and ineffective. Compliance is often low, even in wealthy countries with strong institutions. Attempts to meet strict rules frequently lead to creative accounting or shifting expenditure off-budget, reducing transparency.

2. **Debt-focused rules can lock in long-term austerity**: A rule that requires a permanent primary surplus, or a strict spending ceiling, forces reductions in public services, even during economic downturns or national emergencies. South Africa's own expenditure ceiling since 2012 shows that expenditure cuts have not stabilised debt. They have, however, constrained service delivery and deepened inequality. The impacts are evident in:
    - basic education,
    - healthcare delivery,
    - social protection,
    - local government services,
    - public employment programmes, and
    - the care economy.

3. **Fiscal anchors restrict democratic participation:** When key budget decisions are predetermined by rigid rules, the ability of Parliament, social partners, and communities to shape fiscal policy is reduced. This weakens public accountability and can erode trust in the budget process. Fiscal policy must remain flexible enough to reflect democratic choices and constitutional obligations.

4. **Fiscal anchors are poorly suited to a shock-prone environment**: South Africa faces frequent shocks, including economic, climate-related, social, and global. Rules that limit counter-cyclical spending leave the country unable to respond effectively when shocks strike.

5. **Legal and constitutional concerns:** Parliament holds the constitutional authority to make appropriation decisions. A binding fiscal rule that restricts expenditure may conflict with these constitutional powers and could require a constitutional amendment. This risk has not yet been fully evaluated.

More Effective Ways to Reduce the Cost of Borrowing

If the goal is to stabilise debt, the most direct approach is to lower borrowing costs rather than targeting essential spending. The BJC reiterates its recommendations made through the budget process, and in summary recommends that government consider:

- reviewing the inflation target to reduce interest rates;
- encouraging long-term, lower-cost investment through the Government Employees Pension Fund (GEPF) and prescribed assets;
- using the Reserve Bank's tools to stabilise government bond markets;
- targeted credit policies to support productive investment;
- improving tax progressivity and closing loopholes;
- renegotiating State-Owned Enterprises debt and guarantees;
- strengthening state capacity and procurement systems to improve spending efficiency.

These tools act directly on the drivers of high borrowing costs without harming service delivery, or impeding public participation in the budget process.

Protecting Democratic Participation in Budgeting

The BJC emphasises that budgeting is a public process. Any fiscal framework should:

- protect Parliament's full authority over budget proposals;
- guarantee public participation;
- support transparency;
- allow communities to influence allocations to essential services.

Rules should support, not replace, democratic debate. The BJC notes slow progress in expanding participation in the budget process (evident in low scores in the 2023 Open

Budget Survey), with some small pockets of progress. The introduction of fiscal anchors, combined with the narrow inflation target (that did not undergo public participation) risks bypassing the voices of those most affected by fiscal decisions. Meaningful participation requires some plausible belief that the inputs will be considered, and shape the budget. This is not possible in an increasingly inflexible framework.

A Better Alternative: A Dual Anchor for Stability and Social Rights

The BJC recognises Treasury's desire for a clearer fiscal framework, but again stresses that a predictable framework risks excluding participation in the budget process. If a fiscal anchor is to be adopted, it should not be designed around a single debt-focused target. Instead, BJC recommends a dual anchor, which balances economic stability with social protection.

Anchor 1: A Social Floor (Ring-fenced Rights-Based Spending)

This anchor sets a minimum level of expenditure that must be protected to meet constitutional rights, including:

- basic education,
- healthcare and public health infrastructure,
- social grants and income support,
- food security and nutrition programmes,
- municipal basic services (water, sanitation, housing, electricity),
- public employment and youth opportunities,
- gender-based violence services,
- critical frontline staff (teachers, nurses, doctors, police, social workers).

This creates certainty for households, workers, and communities, and ensures that a fiscal rule does not undermine social and economic rights. Importantly, non-retrogression of constitutional rights should be upheld and government must prioritise building a public sector that can secure the futures of the millions of people who rely and fund it.

The BJC notes a recent response by National Treasury to a question by Parliament where it states that there will be "monitoring and evaluation of social and developmental indicators alongside fiscal targets, to track whether fiscal policy advances poverty reduction and equity." While we welcome this mechanism to support the progressive realisation of constitutional rights, we are concerned that **poverty and inequality**

tracking is not included in the fiscal framework or budget documentation, and that nationally representative statistics on poverty and inequality have not been made publicly released in almost a decade. Clear listed indicators need to be specified to ensure that there is adequate and appropriate tracking of the relationship between fiscal policy and poverty reduction and equity by National Treasury and Parliament.

BJC members are currently working with representatives from government, civil society, labour, academia, international organisations, trade unions and community-based movements, to define a Social Protection Floor to guarantee everyone a basic standard of living that ensures that no one in South Africa falls below a minimum level of dignity.

We believe that this is necessary, regardless of whether a fiscal anchor is imposed, but strongly believe that this is a necessary complement to any debt-focused anchor.

Anchor 2: A Flexible Debt-Stability Path

Rather than a fixed primary surplus requirement, this anchor would:

- establish a medium-term debt trajectory adjusted for growth and economic conditions;
- allow flexibility during shocks or recessions;
- include periodic review by Parliament;
- link the pace of consolidation to unemployment, service delivery indicators, and GDP growth.
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This ensures fiscal responsibility while avoiding rigid rules that deepen economic downturns.

BJC Recommendations

1. Do not adopt a rigid fiscal anchor based solely on debt ratios or permanent primary surpluses.
2. If an anchor is absolutely necessary, adopt a dual anchor that balances responsibility with rights:
    - a social protection floor that protects and strengthens essential services and the social wage;
    - a flexible debt path that adjusts to growth, shocks, and social needs.
    - participatory human rights impact assessments and poverty and inequality tracking to ground fiscal decisions in lived realities, ensuring that

macro-fiscal constraints are compatible with constitutional rights and social equity.

3. Reduce borrowing costs using direct, practical tools rather than through blunt austerity.
4. Ensure Parliament retains full authority over appropriations, and assess constitutional implications before introducing binding ceilings.
5. Protect public participation and democratic deliberation in all aspects of the fiscal framework and budget process.
6. Focus on job-creating, nation-building growth, social protection and service delivery, as these are essential for long-term growth and debt sustainability.
7. Shift from austerity to strategic, rights-based investment, particularly in education, health, care, and employment programmes.

Conclusion

South Africa needs a fiscal framework that is responsible, fair and responsive to social policy priorities and constitutional rights. A narrow, debt-focused fiscal anchor risks entrenching austerity and undermining constitutional rights. If the anchor is the desired tool, then a dual anchor, by contrast, can provide stability while protecting essential services, supporting inclusive growth, and ensuring that people most affected by fiscal decisions remain at the centre of budgeting.

The Budget Justice Coalition stands ready to work with Treasury, Parliament, and civil society partners to shape a fiscal framework that truly serves the public interest. A people-centred budget is both necessary and within our reach, and essential for restoring hope and rebuilding the social compact