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Treasury steadied the ship. Why didn't it drop a bigger anchor to keep it there?

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South Africa's Treasury has strengthened confidence in the public finances by achieving a likely peak in the government debt ratio and maintaining fiscal targets despite weak growth and spending pressures. This progress created an opportunity for a stronger, more durable fiscal anchor than the principles-based framework currently proposed, writes Lisette IJssel de Schepper.

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There was something cheekily opportunistic about the decision by the National Treasury and the South African Reserve Bank (SARB) to lower South Africa's inflation target to 3% last November. Inflation was hovering around that level, and the outlook was relatively benign. What better time to commit to a target that had previously seemed rather ambitious?

It was a clever move. Financial markets rewarded the decision, with the rand strengthening and government bond yields falling to levels last seen before the pandemic.

Inflation has since accelerated, largely because of the massive energy price shock triggered by the war in the Middle East. But the destination remains clear. I have little doubt that the SARB will work to bring inflation back to 3% over time. The recent interest rate increases have already demonstrated its willingness to make difficult decisions in pursuit of that target.

That's the point of an anchor. It doesn't mean there won't be any drift, but it provides a clear reference point and a commitment to return to it.

Fast forward almost a year, and Treasury had another achievement worth locking in. After years of promising that the government debt ratio would stabilise, only to move the goalposts further into the future, the ratio has (hopefully) finally peaked.

Unfortunately, this time Treasury may not have gone quite far enough.

Let me first be clear, last week's Medium Term Budget Policy Statement (MTBPS) was a good one. Financial markets agreed; government bond yields fell sharply after Treasury announced a reduction in weekly bond issuance and a new bond buyback programme.

Despite a deteriorating growth outlook and considerable spending pressures, Treasury has broadly stuck to its fiscal targets. It estimates that government debt peaked at 78.4% of GDP in 2025/26, slightly below February's projection, while the main budget deficit is expected to narrow from 3.7% of GDP this year to 2.5% by the end of the decade.

These are meaningful achievements. Anyone who has followed South Africa's fiscal story over the past decade will know just how elusive debt stabilisation has been.

Treasury has earned some well-deserved credibility. But that is precisely why I find the proposed fiscal anchor disappointing.

Treasury has opted for a principles-based approach rather than a strict numerical fiscal rule. The proposed legislation is not without teeth – more so than the MTBPS itself would suggest. It would require governments to seek to maintain the public debt-to-GDP ratio on a stable or declining path, and each administration would have to publish a fiscal plan setting out its targets for debt and the budget balances. The Financial and Fiscal Commission would independently assess whether these plans are consistent with fiscal sustainability.

These are meaningful steps towards improving transparency and accountability. But there is no binding numerical debt ceiling or common long-term debt-reduction target. In effect, future governments would still have considerable discretion over how quickly debt should fall, or even at what level they should seek to stabilise it.

On the sidelines of the MTBPS technical briefing, Treasury director-general Duncan Pieterse pointed out that South Africa's sovereign risk premium had declined relative to its peers this year, not because government was following a fiscal rule, but because Treasury had delivered on its promises.

"What's important is what you do," he said, "not what you say."

Indeed, Treasury's recent track record is exactly what has helped restore confidence in the public finances. A fiscal rule that is repeatedly broken would do little to improve that credibility. It might even make matters worse.

But surely we cannot rely indefinitely on the discipline of whoever happens to be in charge of the public purse?

The whole point of introducing a fiscal anchor was to make fiscal discipline more durable, and less dependent on the government of the day. The proposed legislation goes some way towards achieving that, but does it provide sufficiently firm guardrails?

Of course, the evidence on fiscal rules is mixed. They can be poorly designed, ignored or circumvented. An excessively rigid rule could also do more harm than good, particularly if

it forced government to cut infrastructure investment or essential services during an economic downturn.

But it need not be a choice between inflexible numerical targets and broad statements of intent.

In a **2025 research report prepared for the BER**, independent economist Robert Botha proposed an approach that distinguishes between the ultimate objective of debt sustainability, an intermediate measurable primary-balance target and an operational rule constraining government consumption expenditure while protecting investment. The **IMF has similarly argued** for a debt anchor supported by operational rules, independent oversight and clearly defined escape clauses.

The lesson from **international experience** is not that numerical rules guarantee fiscal discipline, but that well-designed rules can help reinforce it. Even **New Zealand's largely principles-based framework** requires governments to commit to explicit fiscal objectives.

The bigger concern is perhaps one of timing.

It may sound counterintuitive, but I suspect maintaining fiscal discipline will become more difficult as the fiscal situation improves.

When government debt was rising relentlessly, the need for restraint was obvious. But now that debt has stabilised and revenue is outperforming expectations, the calls to spend more are bound to grow louder. And it is precisely when the pressure to spend more intensifies that a credible fiscal framework becomes most important.

One of the more compelling observations in the BER's research is that the real test of fiscal rules often comes during the good times. When revenue surprises on the upside, does government use the windfall to build buffers and reduce debt, or commit to spending that may prove difficult to sustain when conditions deteriorate?

To Treasury's credit, the proposed framework would make it harder for future governments to ignore debt sustainability altogether. But it stops short of committing them to reducing debt to a more prudent level. And given the considerable political pressure to spend more, that distinction matters.

Indeed, the BER's own research envisaged debt stabilisation as the first step, followed by a commitment to reducing the debt burden over time. Having finally reached that first milestone, surely the next step should be to entrench the second?

Last year, Treasury and the SARB were rather opportunistic in introducing the 3% inflation target when conditions were favourable. And good for them. They recognised a chance to make a meaningful, long-term commitment and took it.

This year, Treasury had a similar opportunity. After years of difficult fiscal consolidation, it was finally time to point to debt stabilisation as an achievement rather than a distant promise.

It has done the hard work of steadying the ship. The pity is that, just as the waters have become a little calmer, it seems reluctant to drop a bigger anchor.

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