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Beyond the Peak: Confronting South Africa's Structural Budget Crisis

An essay on the fiscal, debt-service and implementation challenges confronting South Africa's national budget

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Essay Synopsis

For the first time in seventeen years, South Africa's debt to GDP is set to stabilise instead of continuing its relentless rise (Godongwana:2026). This is despite a near complete collapse of fiscal discipline at municipal level, with 116 councils approving unfunded budgets for 2024/25 (Daily Maverick:2026). The present essay will argue that South Africa's fiscal policy challenge has shifted from a deficit to an implementation and institutional discipline problem.

Introduction

South Africa's National Treasury has had to balance the need to maintain fiscal sustainability with the demands of a highly unequal society with a large unemployment problem. For the past decade, it has tilted the balance towards unsustainable deficit financing, as expenditures continued to outpace revenues with the debt-to-GDP now set to stabilise at 78.9% in 2026 before slowly declining to 76.5% in 2028/29 (Kobo:2026). The essay will discuss the challenges of balancing the budget and address the concerns surrounding the lack of fiscal discipline at the municipal level before concluding with recommendations on how to resolve the impasse.

The National Deficit and the Cost of Debt

South Africa's consolidated budget deficit was 4.5% of GDP in 2025/26 and is forecast to narrow to 3.1% in 2028/29 (Godongwana:2026). Interest payments on the debt remain a huge drain on the national treasury, accounting for over 20% of revenues in 2025/26, crowding out productive spending on health, education and infrastructure despite the overall deficit being reduced by 1.4% of GDP to 0.9% in 2025/26 before rising to 2.3% in 2028/29 (Africa Investment Advisory:2026). This is illustrated in Table 1 below.

Table 1 below.

Table 1: Key South African fiscal indicators, 2025/26 vs 2028/29 (projected)

Indicator	2025/26	2028/29
Consolidated budget deficit (% of GDP)	4.5%	3.1%
Gross government debt (% of GDP)	78.9%	76.5%
Primary balance (% of GDP)	+0.9%	+2.3%

Source: Compiled from Godongwana (2026) and Kobo (2026).

As Table 1 shows, all three indicators move in the same direction: the deficit narrows, debt as a share of GDP falls, and the primary balance strengthens. This consolidation has, however, relied more on expenditure restraint than on the inclusive growth needed to make debt reduction self-sustaining.

Municipal financial distress

Local government paints a more sobering picture: in 2024/25, 116 of the 257 municipalities adopted unfunded budgets, committing over R288 billion they simply have no realistic means of raising, in breach of the Municipal Finance Management Act (Daily Maverick:2026). By December 2025, municipalities were R161 billion owing to creditors, including R110.5 billion to Eskom and R30.7 billion to water boards (Business Day:2026), and Treasury has withheld equitable-share transfers from 69 non-compliant municipalities, and is piloting arrangements for Eskom to take over billing in the worst-affected councils (Taung Daily News:2026), while non-payment threatens to undermine infrastructure maintenance across the country, and 16 municipalities have failed to pay even over employees' pension contributions, a criminal offence (Herald:2026).

A comparative perspective

South Africa's debt ratio remains comfortably below the roughly 112 per cent projected for developed markets in 2026, but has overtaken the emerging-market average of about 77.3 per cent (Momentum Investments 2026), which is set to widen as peers' ratios rise while South Africa's falls. Its 4.5 per cent deficit is also narrower than the IMF's 6.1 per cent emerging-market average (Momentum Investments 2026). While this is encouraging, it depends on maintaining the current discipline amidst volatile global borrowing conditions.

Conclusion

This essay set out to examine South Africa's national budget challenge and found that it has shifted in character, rather than disappeared. South Africa's fiscal trajectory has genuinely improved: debt is stabilising, the primary balance in surplus, the deficit narrowing (Godongwana:2026). The more urgent problem is in execution, a municipal funding model allowing 116 councils to pass unfunded budgets and run up R161 billion in arrears (Daily Maverick:2026; Business Day:2026). Restoring fiscal credibility therefore requires discipline in Pretoria matched by accountability at local level.

Recommendations

In my view, restoring the credibility of South Africa's public finances requires several complementary steps stricter enforcement of section 18 of the Municipal Finance Management Act, making the withholding of equitable share transfers an automatic, rules-based consequence of unfunded budgets rather than a discretionary intervention (Herald:2026); expansion of the debt relief programme for distressed municipalities, but with continued relief contingent on independently verified compliance milestones rather than self-reported progression (Taung Daily News:2026); a growing share of the primary surplus ring fenced for productive infrastructure investment at the national level rather than allowing consolidation to be achieved solely through capital budget cuts (Africa Investment Advisory:2026); stronger consequence management for irregular and wasteful expenditure at municipal level, including the personal liability provisions already available under the MFMA but rarely enforced (Daily Maverick 2026); and structural reform to energy security, logistics and regulation, since sustainable debt reduction depends on outgrowing debt through higher growth, not only on servicing it (Kobo:2026). I believe this is a workable approach, since it builds on consolidation already under way rather than requiring a change in fiscal direction.

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