2027 POLICY BRIEF

FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

POLICY BRIEF NO. 2

Budget & Fiscal Federalism Series

Evaluating budget transparency using fiscal indicators in South Africa

Executive Summary

This research seeks to critically analyse the budget process against the constitutional principle of transparency enshrined in Section 215 of the South African Constitution using data. A set of fiscal indicators reflecting this principle are developed in order to quantitatively evaluate whether the budget process in South Africa is transparent from a constitutional perspective.

The findings reveal that transparency goes beyond the mere disclosure of fiscal information, to also ensuring the quality of the information provided. The analysis on the size of deviations in the adjustment budgets reveals a pattern of substantial and volatile adjustments, which may indicate deeper issues of policy uncertainty and a culture of fiscal reactivity. The cross-institutional comparison on growth forecasts raises concerns regarding the accuracy of the National Treasury's predictions and underlying economic assumptions, undermining the credibility and transparency of the budget.

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FOCUS AREA	Budget transparency & fiscal indicators
RELATED	Constitution s213 · s214 · s215 · PFMA · MFMA

THE FINANCIAL AND FISCAL COMMISSION

The Financial and Fiscal Commission is a constitutional institution that makes recommendations to organs of state on financial and fiscal matters. As an institution created in the Constitution of the Republic of South Africa, it is an independent juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) (as amended) and relevant legislative prescripts.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government.

Through focused research, the Commission provides proactive, expert and independent advice on the intergovernmental fiscal relations system, using evidence-based policy analysis to ensure the realisation of constitutional values.

The Commission reports directly to Parliament and the provincial legislatures. Government must respond to the Commission's recommendations at the tabling of the annual national budget each February.

Commissioners are appointed by the President: the Chairperson and Deputy Chairperson, three provincial representatives, two representatives of organised local government, and two other persons.

Evaluating budget transparency using fiscal indicators in South Africa

Background

The budget process is guided by its constitutional framework and is meticulously regulated under specific legislation, most importantly the Public Finance Management Act ("PFMA") and the Municipal Financial Management Act ("MFMA"). Section 215(1) of the Constitution provides that the budgets of all three spheres of government must promote transparency, accountability, and the effective financial management of the economy, debt and the public sector. Since South Africa's democratic transition in 1994, a series of budget reforms have been implemented to balance institutional decision-making and promote rational budgeting for effective public expenditure that improves service delivery. The national budget plays a central role in how the government fulfils its political, economic, social and administrative functions (Norton & Elson, 2002; Gibran & Sekwat, 2009).

Research findings

1. The meaning and scope of budget transparency

Ensuring fiscal transparency, a fundamental component enabling accountability, hinges on numerous activities beyond merely disclosing financial and fiscal information. Transparency in fiscal policy decision-making cannot be restricted to the disclosure of fiscal information; information should also be of high quality, be subjected to public and parliamentary scrutiny and include mechanisms for overseeing fiscal risks (International Budget Partnership, 2017; International Monitoring Fund, 2014). The Organisation for Economic Cooperation and Development (OECD) assert that budget transparency requires the full disclosure of all relevant fiscal information in both a timely and systematic manner (The Organization for Economic Co-operation and Development, 2002).

> *"There is a strong relationship between budget transparency, fighting corruption and economic development, even amongst countries with diverse cultural and political landscapes."*
>
> — BENITO & BASTIDA, 2009

2. Evaluating budget transparency using fiscal indicators

In addition to ensuring fiscal transparency, the Constitution also importantly requires the budget to promote "the effective financial management of the economy, debt and the public sector" (Section 215). The following fiscal indicators are employed to evaluate the principles of budget transparency and the effective management of debt and the public sector: deviations in the adjustment budget; and projections of real GDP growth (%).

Table 1 provides empirical results on percentage deviations in allocations across four selected budget votes between the period 2015/16 – 2025/26 (Main budget versus the Medium-Term Budget Policy Statement (MTBPS) adjustment budget). The data reveals a pattern of extreme volatility and substantial adjustments that fundamentally undermine this principle. The Public Enterprises vote has seen the most substantial adjustments amongst all departmental votes over the period under review. The substantial upward adjustment by 2281 per cent in 2018/19 was driven by a R5 billion special appropriation to settle debt obligations of South African Airways (SAA). Further significant adjustments continued in the following fiscal years, 2019/20 and in 2020/21, of 217 per cent and 105 per cent, respectively, driven by the bailouts of Eskom debt.

TABLE 1

Deviations in Adjustment Budgets (Selected Votes), 2017/18FY – 2025/26FY

VOTE	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Public Enterprises	0%	2281%	217%	105%	0%	38%	-9%	0%	–
Communications (– 2019)	0%	0%	203%	–	–	–	–	–	–
Telecommunications and Postal Services (2015–2019)	221%	334%	0%	–	–	–	–	–	–
Communications and Digital Technologies (since 2020)	–	–	–	-3%	5%	7%	-6%	0%	39%

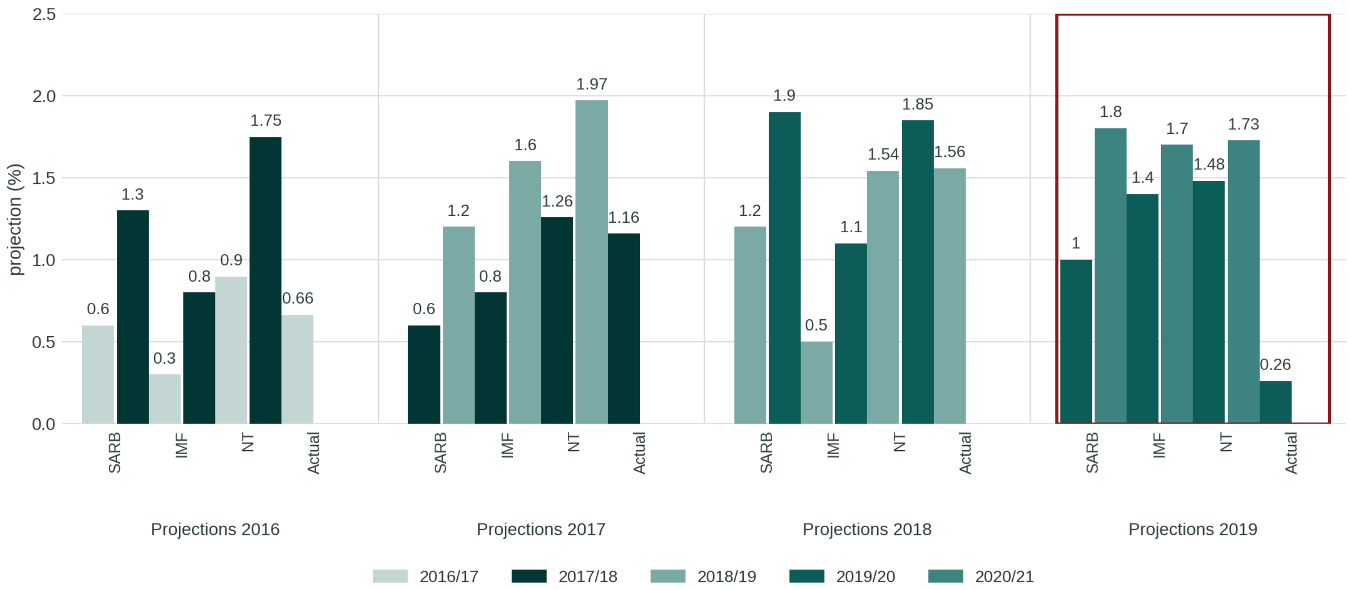
Source: National Treasury Budget Reviews, Medium-Term Budget Policy Statement (MTBPS) 2017 to 2025 and Author's Calculations

The votes for Communications (discontinued after 2019) and Telecommunications and Postal Services (operational from 2015 to 2019) exhibit patterns that, while less extreme than Public Enterprises, raise distinct concerns regarding fiscal planning and departmental coordination. The evidence suggests that the challenge lies not only in poor fiscal planning but potentially in a broader state failure to coordinate departmental functions and monitor implementation. A credible budget is one where initial allocations are reliable, minimising the need for significant adjustments.

Transparency in this context extends beyond ensuring that fiscal information is published; spending estimates also need to be accurate, consistent and reliable. The recurrence of large, volatile deviations in adjustment budgets points to a culture of fiscal planning that is reactive rather than proactive, and piecemeal rather than strategic. The outcome is that transparency is compromised, undermining the credibility of the budget process but also obscuring lines of accountability.

FIGURE 1

Comparative Growth Forecasts (%): 2016/17 – 2020/21



Source: National Treasury Budget Review, SARB and IMF projections

Figure 1 shows the comparative forecasts for the fiscal years 2016/17 to 2020/21. In the years preceding the pandemic, the National Treasury's GDP growth forecasts were consistently positioned at the upper bound of comparative estimates, typically exceeding those of the SARB and the IMF. This persistent bias suggests that the National Treasury's forecasting model may be underpinned by assumptions that are systematically more favourable than those adopted by peer institutions. Essentially, this pattern indicates a persistent optimism that was not shared by other credible forecasters.

FIGURE 2
Comparative Growth Forecasts (%): 2020/21 – 2024/25

Source: National Treasury Budget Review, SARB and IMF projections

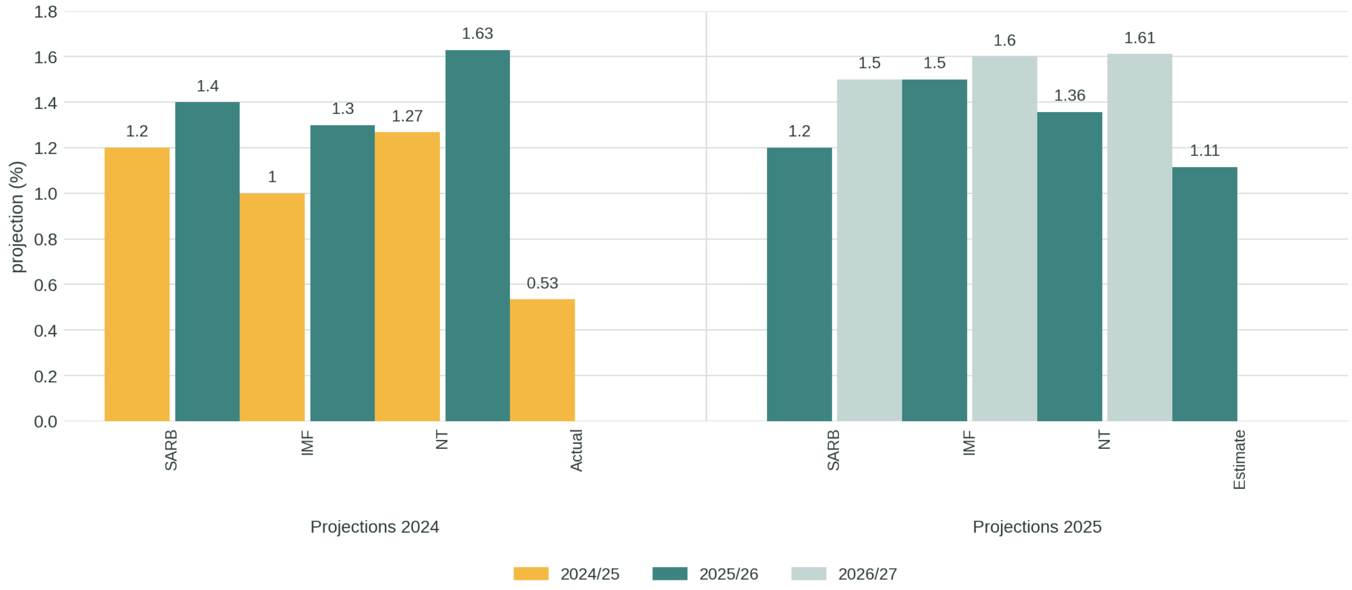
Figure 2 shows the comparative forecasts for the fiscal years 2020/21 to 2023/24. As expected, the pandemic year represented a significant outlier due to heightened levels of uncertainty. However, the pattern of systematic over-optimism cannot be attributed solely to the unpredictability of the pandemic, as it was evident in the preceding years of relative economic stability and tends to continue in the post-pandemic recovery period.

National Treasury's growth projection, in its 2024 projection for the 2025/26 year, registered at 1.6 per cent, compared to SARB and the IMF which projected 1.4 and 1.3 per cent growth, respectively. While the real outcome of GDP growth registered lower than all three institutions expected, National Treasury's more optimistic forecast in comparison once again demonstrates that domestic and global economic conditions, including risks, may not have been realistically captured in its growth forecast.

Figure 3 shows growth projections for the 2024/25 to 2026/27 fiscal years, allowing for an assessment of whether the National Treasury has adjusted its forecasting methodology in response to past inaccuracies or whether the pattern of systematic over-optimism persists. However, a similar pattern emerges, with National Treasury forecasts on the upper-bound of growth projections.

FIGURE 3

Comparative Growth Forecasts (%), 2024/25 – 2026/27



Source: National Treasury Budget Review, SARB and IMF projections

Overall, the analysis provides empirical insights into the reliability of forecasts in the Budget, which is a critical component of the principle of budget transparency. Given that economic forecasting is highly technical and nuanced, it is not expected that projections will be entirely accurate, and some degree of deviation is acceptable. However, concern arises when growth is consistently overestimated year after year, as this may indicate unrealistic assumptions are being adopted.

Beyond the quantitative divergences, there is also a qualitative distinction between the projections. SARB and the IMF provide detailed information on the assumptions underpinning their growth forecasts, including explicit assumptions regarding exchange rate fluctuations, commodity price trajectories, and global demand conditions. The Budget discloses less information about the specific assumptions embedded in its forecasting model; rather, the National Treasury’s assumptions appear to remain largely qualitative.

Conclusion

The constitutional imperative that budgets promote transparency, accountability and the effective management of public debt and the economy imposes concrete obligations on the executive to provide a main budget that accurately reflects known fiscal commitments and to incorporate foreseeable pressures into forward and strategic-level fiscal planning.

Budget transparency goes beyond the disclosure of fiscal information to also ensure the quality of the information provided. The analysis on the size of deviations in the adjustment budgets reveals a pattern of substantial and volatile adjustments, which may indicate deeper issues of policy uncertainty and a culture of fiscal reactivity. A consistent and concerning pattern also emerged across the three forecast cycles of GDP growth in the institutional cross-comparison, whereby the National Treasury's real GDP growth forecasts are systematically higher than those of the SARB and IMF. This pattern, while it does not provide evidence of deliberate misrepresentation, raises serious concerns regarding the transparency and reliability of the National Treasury's economic assumptions.

The Commission recommends that:

1. To enhance transparency of the Budget in line with Sections 214 and 215 of the Constitution, the National Treasury must prioritise enhancing the reliability of fiscal forecasts. To achieve this, Treasury should consider leveraging independent validation mechanisms, supported by constitutional institutions, that will assist the legislature in reviewing fiscal forecasts.

2. The National Treasury should ensure that reliable fiscal indicators and forecasts in the Budget Review directly inform the Division of Revenue Bill and Appropriation Bill, under Sections 213 and 214 of the Constitution, as this will improve policy certainty, support budget execution and strengthen the integrity of the budget.

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