

National budget review

25 February 2026

Fiscal arithmetic quietly winning



Initial impressions

- Despite the complexities of governing under a nascent Government of National Unity (GNU) and fresh off last year's dramatic fiscal hiccup, when coalition tensions over a proposed value-added tax (VAT) hike forced a historic postponement of the budget speech, National Treasury has stayed firmly on course to deliver a peak in the debt ratio for the current fiscal year (albeit it at a higher level) and expecting a reduction thereafter.
- Government debt is still projected to **stabilise in the current fiscal year (FY)**, at an upwardly-revised 78.9% of **gross domestic product (GDP)**. This outcome underscores persistent fiscal discipline amid ongoing economic headwinds and political navigation challenges, paving the way for continued gains in investor confidence.
- The upward revision in the government debt ratio for FY2025/26 from 77.9% in the medium-term budget is the result of a **reduction in nominal GDP** forecasts owing to still modest real growth forecasts and a marked revision lower in inflation, associated with the lower inflation target announced in November 2025. However, the rand amount of gross government debt increased by R30 billion relative to the 2025 national budget and R50 billion relative to the 2025 medium-term budget, as Treasury decided to take advantage of stronger investor demand in markets and increased issuance in FY2025/26.
- Treasury remains steadfast in its fiscal consolidation efforts, aiming to **lock in a primary surplus** throughout the medium-term expenditure framework (MTEF) and targeting 2.3% of GDP by FY2028/29 (previously 2.5%).
- Updated medium-term projections from Treasury now dovetail neatly with consensus. Treasury's 1.8% real GDP growth average between 2026 and 2028 aligns precisely with the median consensus in the Reuters February 2026 Econometer poll but is slightly below our estimate of 1.9%. Treasury's revised estimate for headline inflation between 2026 and 2028 is, similarly, in line with the Reuters' estimate and our forecast of 3.3%.
- Treasury estimates that the **gross tax revenue overshoot for the current fiscal year** will reach R21.3 billion (relative to the estimates presented in the 2025 national budget and R1.7 billion relative to the medium-term budget). The R21.3 billion includes a R15.3 billion **overshoot on value-added tax (VAT)**, R7.8 billion overrun on **corporate income tax** and a surplus of R4.2 billion on dividends tax. Personal income tax (PIT) is nevertheless running R6.2 billion behind last year's national budget estimates. The bulk of the overrun will be used to fund infrastructure.
- Gross tax revenues are expected to be R14.8 billion lower in FY2026/27 and R37.9 billion lower in FY2027/28, relative to the estimates outlined in last year's national budget.
- SA's **consolidated budget deficit ratio is expected to narrow** from 4.5% of GDP for FY2025/26 to 3.1% of GDP by FY2028/29. Government's forecasts compare favourably with a 4.9% fiscal deficit projected for developed markets (DM) in 2026, which is expected to narrow marginally to 4.8% by 2028, as estimated by the International Monetary Fund (IMF) in its October 2025 Fiscal Monitor. The IMF predicts that the fiscal deficit ratio for emerging markets (EM) will narrow from 6.1% to 5.6% over the same period.

- Treasury estimates the gross government debt-to-GDP ratio will peak at a marginally higher 78.9% (previously 77.9% in the medium-term budget) in FY2025/26 before declining to 76.5% (previously 77%) by FY2028/29. This compares with an expected debt ratio of 77.3% for EMs in 2026, rising to 81% in 2028. Nevertheless, SA's debt ratio is still significantly lower than the 111.8% estimated for DM in 2026, rising to an estimated 115.5% by 2028, as forecasted by the IMF.
- The **government debt ratio** itself holds up reasonably against global standards, yet the dramatic 55.9 percentage point (pp) **escalation from FY2008/09 levels**, combined with 3.1pp more of GDP eaten by interest payments, continues to put SA behind many EM peers. Yet, this pattern looks set to flip. If Treasury's projections materialise, SA's government debt ratio will stabilise this year and start edging lower over the medium term, unlike the ongoing rise seen across a number of DMs and EMs.



Effect on the economy and financial markets

- Government has run two scenarios on its baseline view for economic growth, which reaches 2% by 2028:
 - **Global upside:** Easing geopolitical tensions and stability in global trade policies → SA benefits from muted oil prices, lower volatility, increased investor appetite for EMs and reduced borrowing costs → real SA GDP growth expected to average 1.9% between 2026 and 2028.
 - **Global downside:** Escalation in geopolitical tensions and supply chain disruptions create negative supply shocks and raise commodity prices → higher global inflation → delayed monetary policy easing and tighter financing conditions → delays in domestic monetary policy easing cycle → growth expected to average 1.6% between 2026 and 2028.
- A **contractionary budget** in the medium term means that the government will extract more from the economy through taxes than it will reinvest through spending over this period. This is reflected in the **main budget deficit decreasing by R88.4 billion** between FY2025/26 and FY2028/29. Nominal GDP is forecasted to grow by 17% between FY2025/26 and FY2028/29. During this time, the government expects an increase in nominal (consolidated) expenditure growth of 12.2% and an increase in nominal (consolidated) revenue growth of 17.1%.
- **Currency and fixed income markets traded firmer** after the 2026 national budget on news of a growing primary surplus, an expected deceleration in government's debt ratio over the medium term and a slowing ratio of debt-service costs to revenue, as Treasury remains committed to maintaining a fiscally prudent stance. Moreover, an announcement to **cut fixed-rate issuance by R450 million per week**, while keeping inflation-linked bond auction sizes unchanged, was favourably received by the bond market.



Juggling issuance cuts now with large redemptions in the medium term

- Stronger macroeconomic management has translated into a more supportive funding environment with a firmer rand, lower government bond yields and **cheaper government borrowing**.
- Government issued its first sovereign **infrastructure and development finance bond**, raising R11.8 billion between April 2025 and January 2026. These funds are to be **ring-fenced for projects** vetted by the Budget Facility for Infrastructure.
- Treasury announced that a **credit guarantee vehicle** will be incorporated as a company in the coming months to aid investment in **energy transmission**. It is expected to be operational before the end of this year.
- The main budget deficit for FY2025/26 declined by R12.4 billion relative to last year's national budget due to a stronger revenue performance and lower debt-servicing costs.

- Government's gross borrowing requirement is anticipated to decrease from R563.4 billion in FY2025/26 (estimated at R568 billion in the medium-term budget) to R465 billion by FY2028/29 (R455.8 billion in the medium-term budget). Government continues to utilise its **bond-switch programme** to exchange shorter-dated for longer-dated bonds to **manage redemptions**.
- Cash and other balances are expected to dip from R25.4 billion FY2025/26 to R18.5 billion in FY2028/29.
- **No changes** to the previous disbursement of the Gold and Foreign Exchange Contingency Reserve Account (**GFECRA**).
- A major fiscal risk lies in government's **substantial debt redemption schedule over the coming years**. A significant portion of debt matures within the next decade, with large bond maturities concentrated in the late 2020s and early 2030s, with annual peaks exceeding R400 billion in FY2031/32 and similar high levels in the years running up to FY2031/32.
- This front-loaded maturity profile could intensify refinancing pressures, particularly if global financial conditions tighten, market sentiment deteriorates or borrowing costs rise further, adding strain to the fiscus and underscoring the critical need for sustained fiscal consolidation.



Tax developments and expenditure trends

- In the absence of stronger economic growth, maintaining fiscal stability while advancing developmental priorities will hinge on more efficient resource allocation, enhanced public sector governance and decisive structural reforms to unlock revenue potential without raising the tax burden.
- Treasury's projections do not yet incorporate the prospective gains from the South African Revenue Service's (SARS) enhanced debt recovery initiatives, leaving room for positive surprises. Substantial success in higher revenue collections has obviated the need for the R20 billion additional tax revenue pencilled in in the previous budget. Although collections on complex cases trail the schedule so far this fiscal year, SARS has bolstered capacity with new hires to close the gap.
- Better outcomes on the revenue side allowed government to allow for a **full inflation adjustment of PIT brackets and medical tax credits** after two years of no inflationary relief. If government did not allow for an adjustment in PIT brackets, it would have collected R13.7 billion in additional revenue.
- **Fuel taxes** are going up by **21c/l** → the general fuel levy will be increased by less than inflation (9c) to R4.10/litre from 1 April 2026, alongside a 7c/l rise in the Road Accident Fund levy to R2.24/litre (in line with inflation) and a 5c/l increase in the carbon fuel levy.
- In the media and economist question-and-answer (Q&A) session, Treasury noted that it had not fully factored in the higher commodity price movements for mining companies and, as a result, there could be further upside realised from company income taxes for the current and following fiscal years. Mining royalties were nevertheless adjusted higher.
- The tax-to-GDP ratio (**tax burden**) has been **revised higher** and is expected to increase from an upwardly revised 25.9% in FY2025/26 to 26.2% in FY2028/29, partly owing to an improvement in collections.
- Treasury forecasts a **higher tax buoyancy** (how much tax revenue increases for a unit increase in GDP) for this fiscal year (FY2025/26) of 1.69 from 1.54 in the medium-term budget. This is projected to decline to an unchanged 1.06 in FY2028/29.
- The **VAT registration threshold for small businesses** has also been **increased** from R1 million to R2.3 million, easing the cost of doing business for small enterprises.
- Excise taxes: Treasury has not concluded discussions on taxes on alcohol, so this budget acts as a holding budget and **adjusts excise duties in line with inflation**.
- Illicit trade: Continued efforts between SARS, the Border Management Agency, the SA Police Service and the defence force to stop illicit trade in tobacco.

- Government proposes to raise non-interest expenditure (main budget) by R0.9 billion in FY2026/27 (relative to the medium-term budget, but scale it back by R5.2 billion relative to last year's national budget). It is expected to remain steady in FY2027/28 relative to the medium-term budget (but R14.2 billion lower than last year's national budget estimate).



Prioritising redistribution without compromising fiscal discipline

Core redistributive objectives stay fully intact

- The budget continues to prioritise redistribution, with 60% (down marginally from the previous medium-term budget figure of 61%) of consolidated non-interest spending allocated to health, education, housing, transport, social protection, employment and local amenities between FY2026/27 and FY2028/29.
- The SA Social Security Agency **tightened income verification rules to reduce fraud in social grants** → 35 000 fraudulent cases found.
- Child support grant increases by a real 0.2pp in FY2026/27, while old age grants will rise by a real 0.3pp in the same period.
- **No decisions have been made on utilising medical tax credits** to fund the National Health Insurance (NHI) plan, given the negative impact on low and middle-income consumers. In the Q&A session, Treasury noted that the amount they could collect through targeting upper-income earners would be relatively small. Treasury fully adjusted medical tax credits for inflation, further benefiting consumers.
- The **Social Relief of Distress grant** will be re-examined in the context of a more sustainable livelihood grant, but a provision was made for a continuation of the grant in the **provisional allocations** in the outer two years of the MTEF.
- PEPFAR funding (AIDS relief funding): **Provinces are repurposing** some of their funding to meet obligations.

Evolving spending mix prioritising investment

- Nominal growth in capital outlays is expected to average 9.9% (real: 6.7%) between FY2026/27 and FY2028/29, while growth in the compensation of employees is expected to increase on average by 4.4% (real: 1.2%) during the same period.
- The current three-year wage agreement will come to a conclusion in FY2027/28. This provides some certainty over budget allocations for the next two fiscal years, with increases linked to inflation.
- Cabinet's **early retirement programme** will achieve **R5.5 billion** in net savings (**7 687 applications** approved over the medium term in the first phase).
- 4 323 High-risk cases of ghost workers flagged (potential **ghost workers** reduced from an earlier estimate of 8 854, but the difference has been verified for multiple payments, e.g. in health) → no cost to fiscus calculated as yet.

Interest bill weighs down progress

- The overall debt-service burden keeps fiscal space narrow, sidelining investment in sustainable growth drivers. With costs still estimated at **20.2% of main budget revenue** by FY2028/29 (down from 21.3% in FY2025/26, but up from 8.8% in FY2008/09), development objectives face ongoing limits. Treasury nevertheless points to easing pressures from reduced borrowing costs in the medium term.
- The interest bill was revised lower by a cumulative R1.6 billion between FY2026/27 and FY2028/29 since the medium-term budget. Debt-service costs are expected to grow at a nominal average of 3.7% (real: 0.5%) between FY2026/27 and FY2028/29 → this real increase is **slower** than the average anticipated real growth in (consolidated) revenue of 2.2%.

- The interest bill is expected to slow from 5.3% of GDP in FY2026/27 to 5.2% in FY2028/29. As a share of consolidated expenditure, the interest bill will rise from 16.2% of expenditure FY2026/27 to 16.3% in FY2027/28 before dropping back to 16.2 in FY2028/29. Relative to consolidated revenue, the interest bill will drop slightly from 18.4% of revenue in FY2026/27 to 18% in FY2028/29.
- By FY2028/29, government will be spending **R1.3 billion a day** to service its debt pile.
- In the MTEF, average nominal growth in debt-service costs has slowed to the **fourth-fastest growing category of expenditure** at 3.9%, following economic development (6.2%), health (4.4%) and social development (4.4%).



Ongoing growth-enabling reforms in SA's key network industries and municipalities

Energy:

- **No new debt relief for Eskom** → R80 billion will be disbursed by March 2026 and R10 billion in FY2028/29.
- The Renewable Energy Independent Power Producer Procurement Programme has delivered signed agreements for **9 771 megawatts** of renewable energy generation and battery energy storage capacity.
- Final request for proposals for **new transmission infrastructure** will be released in the **third quarter of FY2026/27**.
- Bid submission deadline extended for **new gas-fired generation capacity** to 29 May 2026.

Logistics:

- Transnet plans to invest R76.6 billion for rehabilitation to enable private sector participation in iron ore, manganese, coal, chrome, container and automotive intermodal corridors.
- Transnet's total guarantee facility = R196.3 billion.
- Transnet has signed a 25-year agreement with a private player to develop the Durban Container Terminal Pier 2.
- Seven of the 11 private train operators allocated slots on the railway network **will start operations in the first quarter of 2027**.
- SA National Roads Agency Limited plans to invest R155.6 billion over the next three years to strengthen 1 200 kilometres of road, resurface 6 000 kilometres of road and maintain 26 802 kilometres of the national road network.

Water:

- The National Water Resources Infrastructure Agency will **support increased maintenance and investment** in water infrastructure.
- The National Water Crisis Committee has been set up to **restore service delivery**.
- Treasury has **withheld conditional grants to 12 municipalities that owe water boards**.

Municipalities:

- 63% of Municipalities were in **financial distress** in FY2023/24 → 29 municipalities are under mandatory financial recovery plans

- Government is moving from oversight to **structural intervention**:
 - Changes to legislation
 - Strict headcount controls and **compensation discipline** (merging entities to reduce overhead costs, monitoring overtime and cutting catering/security and fleet costs)
 - Governance arrangements (professionalising the workforce)
 - Technological intervention
- Municipal Debt Relief Programme for municipalities collectively owing Eskom R85.2 billion in December 2025 → 15 out of 71 participants (of the 71 participants, 139 000 smart metres have been installed throughout with plans for another 96 400) have met programme conditions → **Distribution Agency Agreements** will be introduced under which Eskom takes over electricity distribution → should municipalities refuse the conditions of the programme, they will be removed and liable for the entirety of their debts.
- R27.7 billion allocation in the medium term to a performance-linked reform for **metro trading services** (to address the issue that only a small portion of revenue finds its way into capital expenditure) → e.g. out of the R11.9 billion in water revenue received by Johannesburg, only R1.3 billion is allocated to Joburg Water for infrastructure.
- **Split delivery model** → underperforming municipalities will no longer receive funding directly (via capable districts).



Positive momentum in the regulatory environment

- **Fiscal sustainability:** Government will introduce legislation requiring each new administration to table a medium-term fiscal plan to embed fiscal sustainability. This will involve providing evidence-based assessments for the programmes to continue.
- **Public private partnerships (PPPs):** 63 projects underway; procurement of a new vendor for the Gautrain rapid rail system at an advanced stage; new PPP regulations for municipalities will be published on 30 June 2026.
- **Reserve Bank's Payments Ecosystem Modernisation Programme:** Reforms being undertaken to broaden access to digital payment services, drive innovation and reduce cash reliance.
- **Fiscal anchor:** Government will formally propose a **principles-based (rather than numerical) anchor** in the 2026 medium-term budget. The anchor will require each new administration to table a medium-term plan to maintain fiscal sustainability.
- **Targeted and responsible savings (TARS):** R12 billion has been identified and reallocated to strengthening state capacity in the judiciary, border management, defence and Statistics SA. Three provinces (Eastern Cape, Northern Cape and Western Cape) are planning to conduct comprehensive **spending reviews**.
- **Infrastructure asset class:** Government will continue to issue Sukuk bonds and infrastructure bonds, with a new credit guarantee vehicle to enable energy transmission.
- **Collective Investment Schemes (CIS):** Draft recommendation for all investment returns generated by regular CIS and retail investment hedge funds to be taxed as capital, while recommending that qualified investment hedge funds are excluded.
- **Savings:** Government also aims to boost national savings by raising the **tax-free annual investment limit** from **R36 000 to R46 000** as well as by lifting the **limit to retirement fund deductions** from **R350 000 to R430 000**.



Sovereign ratings in a positive direction of travel

- Exiting the Financial Action Task Force (FATF) greylist in late 2025 and being removed from the European Union's high-risk third-country jurisdiction list showcases the power of **institutional commitment paired with political resolve**. The next chapter begins with the FATF's mutual evaluation in the first half of 2026 (to **be finalised in October 2027**), reinforcing that anti-money laundering and combating the financing of terrorism (AML/CFT) improvements must endure to keep delivering reduced costs, greater stability and freer cross-border activity.
 - SA's consolidation and debt stabilisation remain challenged by limited growth and socio-economic strains, yet reforms under Operation Vulindlela show real promise. Network industry improvements (energy, logistics and water) are alleviating bottlenecks, with more private sector engagement expected to drive stronger medium-term growth.
 - These advances notwithstanding, important longer-term fiscal hurdles lie ahead. SA's (gross) debt burden is still significant, amounting to R96 966 (previously R96 520 in the medium-term budget) per capita (total population) in FY2025/26. Meanwhile, Treasury must tread carefully in containing costs amid persistent calls for bailouts or relief from faltering state entities and municipalities, whose stability directly influences the broader business operating landscape.
 - With S&P Global Ratings leading the way via its November 2025 upgrade from BB- to BB (with a positive outlook), Moody's and Fitch upgrades, or at minimum positive outlook revisions, are anticipated ahead as the stabilisation story for SA strengthens.
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