

The macro signal

Medium-term budget policy statement review

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Revenue resilience supports growth initiatives



Consolidated revenue

R53 billion overshoot

Tax collections exceeded expectations

The overshoot was driven by a R17.1 billion upward revision to gross tax revenues for fiscal year (FY) 2026/27, higher mining royalties and the transfer of surplus cash in public entities.



Consolidated expenditure

R47.2 billion overshoot

Exceeds February estimates

The overshoot was led by higher spending allocations to local and provincial equitable shares, disaster relief and general fuel levy sharing with metros.



Fiscal balance

-3.9% of GDP

Deficit narrower for FY2026/27

Higher revenue and an improved primary balance have slightly narrowed the expected deficit from the February consolidated budget projection of -4% of GDP.



Gross debt balance

78.2% of GDP

FY2026/27 – peaked in FY2025/26

A stronger primary balance, projected to reach 2.9% of GDP by FY2029/30, supports debt stabilisation. Debt is expected to moderate to 76.6% of GDP by FY2029/30.



Real economic growth

1.2% in 2026

Downgraded amid Middle East conflict

Despite the downward revision from 1.6%, Treasury remains on track to meet its fiscal objectives. Structural reforms offer medium-term growth potential, although constraints remain.



Headline inflation

4.4% in 2026

Revised higher on energy prices

The Middle East conflict has added to inflationary pressures, particularly through higher energy prices. Inflation is expected to moderate, but risks remain tilted to the upside.

Our view



Market impact

Broadly positive

The rand and SA bonds rallied on the news of a cut in issuance (a reduction of R600 million in fixed-rate bonds and R100 million in inflation-linked bonds), alongside a new bond buyback programme.



Consumer impact

Households remain under pressure

Fuel-price relief of R3/l for diesel and R1.5/l for petrol for November, as well as relief, though lower in December, offers some cushioning. However, household finances remain strained.



Credit ratings

Upgrades possible

Strengthening primary surpluses could drive additional positive action from S&P and Moody's, while Fitch may require further evidence of sustained progress.



The bottom line

Despite higher gross debt than what was announced in the February 2026 budget, government remains committed to building its primary surpluses and reducing its debt ratio over the medium term, which should strengthen investor confidence and support further sovereign rating gains. Nevertheless, firmer fiscal fundamentals remain vulnerable to a modest growth profile.

Fiscal outlook

Revenue outperformance driven partly by gross tax revenue overruns

- National Treasury estimates that gross consolidated revenue will exceed the February 2026 Budget projection by R53 billion in FY2026/27. Better-than-expected revenue performance is supported by stronger corporate income tax (CIT) receipts, partly reflecting elevated precious-metal prices and improved profitability in the mining sector, alongside firmer collections from value-added tax (VAT) and personal income tax (PIT). The gross tax revenue estimate was revised upwards by R17.1 billion relative to the February Budget, despite the shortfall in fuel levy receipts.
- Higher revenues are expected to support infrastructure projects, alleviate spending pressures, reduce debt-service costs and the debt-to-GDP ratio as well as increase the contingency reserve.
- Corporate income tax revenue is expected to exceed the February Budget estimate by R34.2 billion in the current fiscal year. However, the durability of these gains will depend on commodity-price developments and corporate profitability, particularly in the mining sector.
- Higher VAT collections (R12.6 billion overshoot) are supported by resilient household consumption and relatively moderate VAT refund pressure, while personal income tax collections (R1.5 billion overshoot) reflect a better outcome than what wage settlements have suggested. The strength of VAT and PIT collections indicate that the revenue improvement extends beyond commodity-related gains, although the sustainability of these trends will depend on underlying economic activity and employment conditions.
- Treasury revised the tax-to-GDP ratio to 26.4% for FY2026/27, from 26% in the February Budget, reflecting stronger revenue collection relative to nominal GDP. The ratio is expected to rise to 26.8% in FY2029/30.
- The South African Revenue Service's (SARS) compliance and enforcement initiatives continued to support revenue mobilisation. SARS had collected tax debt of R52.4 billion out of a projected R126 billion overall for FY2026/27 by the end of September 2026. SARS' work to disrupt the illicit trade of alcohol and tobacco continues. A more detailed update will be provided in the budget next year.
- Treasury forecasts a higher tax buoyancy (how much tax revenue increases for a unit increase in GDP) for this fiscal year of 1.53, up from 1.08 in the February Budget. This is projected to decline to 1.18 (previously 1.10) in FY2027/28. In the Question-and-Answer session, Treasury acknowledged that the performance in personal income taxes has been more robust than what wage settlements would have suggested in the past five years.
- Fuel levy receipts are expected to underperform by R30.9 billion, reflecting the temporary fuel levy relief implemented between April and June 2026. In response to renewed fuel price pressures, government is shifting R10 billion that was previously allocated to the Central Energy Fund to the National Revenue Fund to be available for fuel levy relief. The fuel levy will be reduced by R3/l for diesel and R1.50/l for petrol between 4 November and 1 December 2026. Thereafter, the diesel levy will be reduced by R1.50/l and the petrol levy will be cut by R1/l until 5 January 2027.

Revenue gains allocated to higher expenditure on infrastructure

- Consolidated expenditure is projected at R2 716.9 billion in FY2026/27, slightly higher than R2 669.7 billion in the February budget. This adjustment reflects an increase in equitable share allocations to local (water and sanitation, electricity and solid waste management) and provincial (health and education) government and an increased allocation to infrastructure.
- The stronger revenue outlook provided Treasury with additional fiscal room. This outcome will support a pipeline of projects approved through the Budget Facility for Infrastructure and an increase in the contingency reserve of R10 billion for drought response and other potential risks.
- Expenditure efficiency and the reprioritisation of low-priority or underperforming programmes remain important elements of the consolidation effort. R38.1 billion in medium-term savings (including savings generated from eradicating social grant fraud (R13.1 billion), pausing the human settlements development grant (R7.8 billion), eliminating duplication/increasing efficiencies (R11.7 billion) and unused cash surpluses (R5.5 billion)) under the Targeted and Responsible Savings (TARS) initiative will be redirected to socio-economic priorities.
- Strengthened verification measures in the social grants system will result in the number of beneficiaries declining from 17.8

million in FY2026/27 to 17.1 million by FY2029/30. The Social Relief of Distress grant will continue for another year until further work is completed on integrating the grant with labour market activation and skills development initiatives.

- Government continues to roll out initiatives to manage the public-service wage bill. An audit process has revealed 4 323 “ghost workers” in the payroll system, while Treasury is also working with the Financial Intelligence Centre to investigate high-risk officials. More details will be outlined in the February 2028 National Budget.
- Treasury’s early retirement programme is expected to yield net savings (after accounting for initial exit costs) of R4.3 billion in FY2027/28, R4.4 billion in FY2028/29 and R4.6 billion in FY2029/30. These savings can fund more than 7 100 additional posts in critical frontline areas.
- Following the withdrawal of PEPFAR (US President’s Emergency Plan for AIDS Relief) funding, Treasury will reallocate R556.7 million to sustain HIV and AIDS services.

A narrower budget deficit and primary surpluses revised higher

- Consolidated revenue is projected to grow by 2.7% in FY2026/27 (real terms) and consolidated expenditure by 0.6% (real terms). This divergence supports a narrower consolidated budget deficit.
- The consolidated budget deficit is projected at 3.9% of GDP in FY2026/27, compared with 4% in the February Budget, before narrowing to 2.5% by FY2029/30.
- The fiscal stance remains contractionary over the medium term. The main budget deficit is projected to narrow from 3.7% of GDP in FY2026/27 to 2.5% by FY2029/30 and decline by R103.5 billion between FY2025/26 and FY2029/30.
- The primary budget balance, which excludes interest payments, is projected to record a surplus of R139.9 billion, equivalent to 1.7% of GDP, in FY2026/27. A sustained primary surplus indicates that revenue exceeds non-interest expenditure, reducing the need to borrow to fund day-to-day government operations. The primary surplus is projected to increase to 2.9% of GDP by FY2029/30, supporting debt stabilisation.

Debt and funding dynamics

Debt ratio revised higher but still expected to roll over from its recent peak

- The gross debt-to-GDP ratio is estimated to have peaked at 78.4% of GDP in FY2025/26 (lower than 78.9% in the February Budget), marking progress towards the debt-stabilisation objective set by Treasury three years ago.
- Gross government debt is projected at R6.3 trillion in FY2026/27, equivalent to 78.2% of GDP, nearly a percentage point higher than the February Budget estimate of 77.3%. The debt-to-GDP ratio is expected to decline gradually to 76.6% by FY2029/30. While the decline is gradual, the shift from rising to a declining debt ratio is an improvement.
- Although debt stabilisation represents progress, the high debt burden continues to constrain fiscal flexibility and leaves the public finances exposed to adverse economic and financial developments. A sustained decline in the debt ratio will be important for creating fiscal space over time.
- Debt-service costs were revised higher by R9 billion for FY2026/27 due to the higher gross borrowing requirement and interest rates. Nevertheless, debt-service costs are estimated at 18.4% of consolidated revenue in FY27/28 (unchanged from February) and expected to decline to 18.2% of revenue in FY2028/29. The expected reduction in debt-service costs as a share of revenue would create space for government to allocate more resources to developmental priorities and to build buffers against fiscal shocks.
- By FY2029/30, government will be spending R1.4 billion a day to service its debt pile.
- Domestic and global interest rates remain important determinants of government borrowing costs. Improved fiscal credibility could support lower sovereign risk premiums over time, while elevated global inflation, uncertainty around monetary policy and renewed market volatility could offset some of these benefits.

Dynamic funding mix

- The gross borrowing requirement is estimated at R434.2 billion in FY2026/27, up by R54.2 billion from the February 2026 Budget.
- Government plans to raise R613.4 billion through domestic short-term instruments, R5.1 trillion through domestic long-term borrowing and US\$613.7 billion through foreign-currency-denominated instruments.
- As part of its long-term borrowing strategy, government will be issuing up to R5 billion in infrastructure bonds on a quarterly basis. These funds will be ringfenced for the pipeline of projects approved under the Budget Facility for Infrastructure.
- The allocation from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) has been split into R35 billion for FY2026/27, R11 billion for FY2027/28 and R10 billion for FY28/29.
- Government continued to face refinancing risks arising from the maturity profile of its debt. Large redemptions over the coming years could increase funding requirements, particularly if global financial conditions tighten or investor demand weakens. Treasury's funding strategy and the average maturity of government debt will remain important in assessing this exposure. Government continues to utilise its bond-switch programme to exchange shorter-dated for longer-dated bonds to manage redemptions but has in addition announced bond buybacks.

Macroeconomic outlook

Middle Eastern conflict drives economic growth forecasts lower

- Treasury revised its economic growth forecasts downwards, citing the adverse effects of the Middle East conflict that began in February 2026. Real GDP growth is projected at 1.2% in 2026, compared with 1.6% in the February 2026 Budget, 1.6% in 2027 (previously 1.8%) and 1.8% in 2028 (previously 2%).
- Treasury's growth forecasts are slightly higher with the Reuters October median consensus of 1.1% in 2026, 1.5% in 2027 but match the expected 2% in 2028. They are broadly in line with our forecasts of 1.2% in 2026 but higher than our expected 1.5% in 2027.
- Treasury estimates that growth could be 3.1 percentage points higher by 2034 if government maintains progress on its reform agenda.
- The growth outlook remains important for the fiscal framework, as stronger economic activity supports employment, household incomes, corporate profitability and tax revenue. Conversely, weaker-than-expected growth could constrain revenue collection, complicate fiscal consolidation and slow the decline in the debt-to-GDP ratio, even if expenditure remains contained.

Higher energy prices add to inflation and cost-of-living pressures

- Treasury revised its inflation forecasts upwards, reflecting higher oil prices and fuel costs associated with the Middle East conflict. Headline inflation is projected at 4.4% in 2026, 3.8% in 2027 and 3.2% in 2028, compared with 3.4%, 3.3% and 3.2%, respectively, in the February 2026 Budget. However, the moderation path is maintained.
- Treasury's inflation estimates are broadly in line with the Reuters October 2026 median consensus forecasts of 4.3% in 2026, 3.9% in 2027 and 3.3% in 2028 and above our forecast of 4.2% in 2026 and 3.7% in 2027.
- Rand strength has partly offset imported inflationary pressures.
- Higher inflation can support nominal tax collections, but it also raises the cost of public procurement, infrastructure delivery, compensation and social spending.

Alternative economic scenarios based on productivity gains and geopolitical risks

- Treasury assessed alternative economic scenarios to illustrate how changes in key assumptions could affect the baseline outlook. Under the baseline, real GDP growth is projected to reach 2% by 2029.

- Scenario 1 – In Treasury’s upside scenario, productivity gains leave growth higher at 2.3% by 2029 as the economy benefits from a successful implementation of reforms and higher levels of public and private investment.
- Scenario 2 – In Treasury’s secondary upside scenario, whereby the quality of public investment spending improves, real GDP growth averages 1.8% over the medium term, relative to the 1.6% rate assumed under the baseline, and reaches 2.2% by 2029.
- Scenario 3 – The downside scenario is based off a reignition of tensions in the Middle East in the first half of 2027, leaving international oil prices above US\$100 per barrel. Treasury expects these conditions to result in real GDP growth averaging 1.5% in the medium term (reaching 1.9% in 2029), with inflation reaching 4.4% in 2027, rather than the 3.8% rate assumed in the baseline.

Structural reforms

Energy: Focus shifts to transmission

- The electricity market is due to launch in 2027 to enable more competitive pricing. Draft rules for electricity trading and tariff reform have been published by the energy regulator.
- The establishment of an independent transmission system operator will enable generators to compete on equal terms. A report on the transaction structure and implementation plan will be published before the end of the year.

Logistics: Encouraging private sector participation

- An institutional separation of the National Ports Authority and Rail Infrastructure Manager from Transnet will enable competition to operate at the port terminals and open access to private train operators.
- Efforts are forging ahead to establish a transport regulator by April 2027.

Water reform efforts concentrated on managing the immediate crisis

- Government continues to aim its efforts towards managing the immediate crisis, while infrastructure improvements and regulation continue in the background.
- An independent regulator has yet to be established.

Municipal regulatory and governance overhaul

- Proposed changes to the Municipal Finance Management Act allow for early interventions to address weak financial and operational mismanagement.
- Officials, political office bearers and board directors will be made personally liable for unauthorised and wasteful expenditure.
- National Treasury will be responsible for appointing Chief Financial Officers in an effort to broaden its powers over financial controls at municipal level.
- By the end of July 2026, 38 out of the 69 municipalities, in which equitable share transfers were withheld, had concluded repayment plans. The remainder were not required to submit a repayment plan based on the specific issues those municipalities faced.
- Seven out of the eight metros are participating in the Metro Trading Services Reform Programme, in which water and electricity revenues are ringfenced for infrastructure.
- Cabinet has approved the White Paper on Local Government, which will aid in professionalising senior appointments.

Policy and regulatory changes

Fiscal anchor proposal marks the most extensive reconfiguration of the public finance system since 1999

- Treasury announced its proposal for a principles-based fiscal anchor which is intended to strengthen fiscal sustainability, transparency and accountability. New Zealand and Australia are examples of principles- or standards-based approaches.
- Government released draft legislation in October for public comment, with the final legislation expected to be tabled in Parliament in 2027.
- Under this framework, each administration is expected to prepare a fiscal plan, in line with its electoral mandate, to set its fiscal objectives. The plan will then be reviewed by the Financial and Fiscal Commission.
- Treasury's 2025 fiscal anchors discussion document identified two other broad approaches to fiscal rules:
 - Procedural approach, our previous system: Focuses on transparent reporting, parliamentary oversight and formal fiscal planning processes rather than predetermined numerical ceilings. Brazil and India have procedural elements in their fiscal frameworks.
 - Numerical-rule approach: Establishes explicit limits or targets for fiscal aggregates, such as public debt, budget deficits or expenditure. These rules can strengthen fiscal discipline but may constrain policy flexibility, particularly during economic shocks. This exists to varying degrees of success in the United States, Germany and Armenia.
- A principles-based approach (what is proposed) offers flexibility to respond to economic shocks, but its credibility will depend on clear reporting, effective oversight and a demonstrated willingness to take corrective action when fiscal outcomes diverge from the intended trajectory.
- The risk of the anchor losing credibility would increase if a change in government results in a shift in fiscal priorities or weakens the commitment to fiscal discipline.

Other changes in legislation

Unclaimed benefits

- Draft legislative amendments will be published in 2027.

National online gambling tax

- An announcement of the final design will be made in the February 2027 budget.

Crypto regulations

- Public commentary received suggested that Treasury was taking the wrong approach and should shift away from pre-approvals and rather focus on assessing transactions for legitimacy and tax compliance. The treatment of crypto assets will be guided by recommendations from the Financial Stability Board.
- A second draft will be published (no date confirmed).

Infrastructure

Treasury continues to prioritise infrastructure plans

- The Infrastructure Finance and Implementation Support Agency (IFISA) will provide support across the public-private sector

participation (PPP) project life cycle. Out of the 68 PPPs across government, 31 are accounted for by municipal PPPs. The majority of PPPs are concentrated in office accommodation, energy and water and sanitation. Treasury noted the potential investment value of the IFISA stands at more than R217 billion.

- A study by the International Monetary Fund found that SA's public sector infrastructure efficiency gap measures at 40%, which is wider than the average emerging market peer. It estimates that stronger public investment management (including project appraisal and approval, infrastructure maintenance and project delivery) could close up to two-thirds of this gap.
- It has been estimated that natural disasters accounted for US\$410.1 billion (c.2% of GDP) in losses to the SA economy between 2000 and 2024, highlighting the need for building climate resilience.
- The budget highlighted that a quarterly auction (which commenced in July 2026) would provide investors with predictable access to infrastructure bonds. The inaugural bond issued in December 2025 used 10-15 year instruments and raised R14 billion.
- The Credit Guarantee Vehicle (CGV), established to de-risk private investment in critical infrastructure, was registered in August 2026 and has applied for an insurance licence. Government expects the initial capitalisation to support between US\$1.5 billion and US\$2 billion in guarantees and for the CGV to be operational by 2027.

Market and consumer impact

Currency and fixed-income markets rally on cut in bond issuance

- Investors welcomed the announcement of a cut in weekly bond issuance (nominals by R600 million and inflation-linked bonds by R100 million). The proposal for a principals-based fiscal anchor, a higher primary surplus and a downward trajectory in the debt ratio from last year's peak further reinforce Treasury's commitment to fiscal consolidation.

Household finances remain under strain

- Higher fuel and transport costs continued to place pressure on household budgets. With petrol prices above R30/l in October, government is shifting back R10 billion from the Central Energy Fund to the National Revenue Fund to be available for temporary fuel levy relief to provide some cushioning against higher fuel prices and the associated cost-of-living pressures.
- Nevertheless, elevated living costs and borrowing costs continue to squeeze household budgets, eroding real disposable income and potentially weighing on consumption, particularly where wage growth fails to keep pace with inflation.
- In the Question-and-Answer session, Treasury noted that it raised R8 billion this year from two-pot withdrawals (R2.6 billion up on last year).

Sovereign ratings outlook

The case for further upgrades

- SA's recent ratings momentum has been supported by an improved fiscal outlook and progress in structural reforms. Sustained primary surpluses, a turning point in the debt trajectory and the proposal for a principles-based fiscal anchor in the MTBPS could strengthen the case for further sovereign rating improvements, provided these gains are sustained.
- All three major credit rating agencies currently rate SA's foreign-currency sovereign credit rating two notches below investment grade. S&P Global Ratings and Moody's have positive outlooks, while Fitch maintains a stable outlook. The next scheduled reviews by S&P and Moody's on 27 November 2026 followed by assessments in the first half of 2027, could provide opportunities for further positive rating action. An upgrade by either agency would bring SA to one notch below investment grade. Fitch could also revise its outlook to positive if it sees sustained progress in fiscal consolidation and structural reforms, however it has flagged the country's pedestrian economic performance.

Medium-term fiscal risks

- Weaker nominal GDP growth and persistently high financing costs could weaken the fiscal position.
- Weaker-than-expected corporate profitability would reduce revenue relative to the baseline.
- Uncertainty around the legal dispute regarding the Social Relief of Distress Grant (Treasury estimates that the annual funding requirement could go up from R36 billion to R74 billion based on additional beneficiaries) and weather-related damage to infrastructure could raise expenditure risks.
- Although the current multi-year wage agreement covers the period through FY2027/28, future negotiations pose a risk to expenditure further out.
- Government redemptions remain elevated over the medium term, although government is managing these risks through a diversification of funding sources and liability management operations.
- Contingent liability risk has remained broadly unchanged since the February national budget, with risk still concentrated in Eskom and Transnet.
- Implementation risks, pressures on public entities and municipalities as well as the potential for additional spending commitments remain important fiscal vulnerabilities.
- The 4 November 2026 local government elections add a source of political uncertainty. Changes in municipal leadership and coalition arrangements could affect governance, service delivery and reform implementation.

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