



Medium-term budget preview: Windfalls, warnings and waiting for a ratings lift



Striking gold in the fiscal ledger

South Africa's (SA) revenue receipts have exceeded expectations, fuelled by buoyant commodity prices. Gold has rallied on safe-haven demand amid geopolitical tensions, while platinum prices have risen due to persistent supply shortages. These gains have boosted mining's share of corporate income tax (CIT), with tax collections running ahead of National Treasury's targets. Steady personal income tax (PIT) inflows, together with buoyant value-added tax (VAT) receipts and lower government bond yields have improved the fiscal outlook, creating space for a reduction in weekly bond issuance.



Rebuilding the country's growth engine

SA's growth revival depends on advancing structural reforms and revitalising infrastructure across its key network industries. Growth forecasts point to a rise toward 2% by 2027 as energy and logistics constraints ease. Political uncertainty and policy ambiguity, however, continue to weigh on business confidence and private sector investment. Progress is most visible in the energy sector, where deregulation has enabled the private sector to strengthen supply, while operational improvements and increased private participation are expected to drive further gains in logistics.



The tug of war between spending priorities and fiscal prudence

Public finances remain trapped between the opposing demands of fiscal prudence and social support. Civil servant wages, debt-service costs and social transfers together consume more than two-thirds of total spending, leaving little fiscal room to manoeuvre. A firmer grip on government's wage bill marks tentative progress, yet structural pressures, such as the long-term affordability of health care and other social priorities, endure. Demographic headwinds and deep inequality push fiscal demands beyond government's revenue-raising capacity, forcing difficult trade-offs.



Weak links in the fiscal chain

State-owned enterprises (SOEs) and municipalities continue to weigh heavily on fiscal sustainability. With over 700 entities under state control, rationalisation offers substantial scope for savings and improved efficiency. These institutions have drained public resources, with chronic financial weakness and recurring rescues having crowded out growth-enhancing expenditure. At the municipal level, rising debt burdens and poor audit outcomes reveal entrenched governance failings, leaving Treasury's broader fiscal repair efforts at risk.



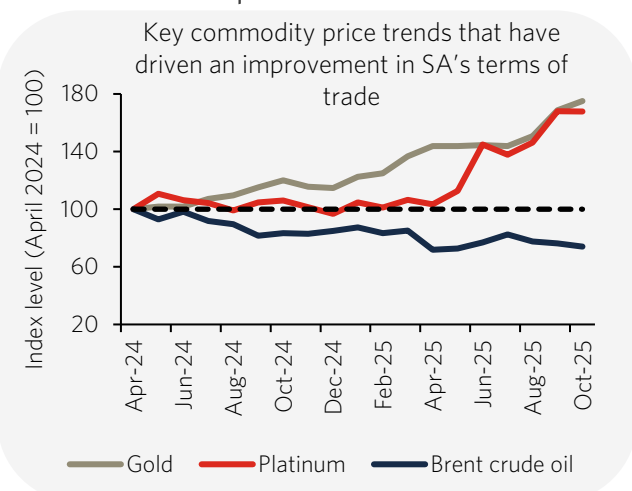
A cautious repricing of SA's fiscal fortunes

Easing government bond yields have offered the fiscus some relief, tempering interest costs after years of relentless increases. Still, debt-service payments remain among the fastest-growing budget items. Weak growth and uneven revenue collection have entrenched a cycle of deficits, forcing hard choices between higher taxes and deeper spending cuts that risk undermining already fragile service delivery. Encouragingly, markets are taking notice of gradual progress but continued fiscal discipline is necessary for an improvement in sovereign ratings.

Striking gold in the fiscal ledger

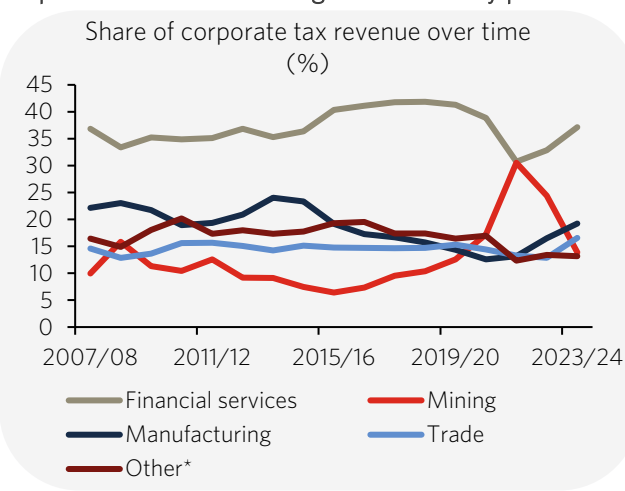
SA's revenue trajectory has gained momentum from buoyant commodity prices and stronger tax buoyancy, setting the stage for a modest overshoot relative to the forecasts in the 2025 National Budget. Gold prices have surged on the back of economic uncertainty, geopolitical tension and central banks' strategic diversification away from the United States dollar, attracting safe-haven flows amid persistent global inflation and market volatility. Platinum has likewise advanced, underpinned by structural supply deficits, renewed investor appetite and firm demand from the automotive and jewellery sectors. Stronger commodity prices have likely supported mining-related tax receipts, helping fiscal year-to-date (YTD) CIT receipts run ahead of Treasury's full-year target, though the lumpy December inflows, related to company financial year ends and provisional taxes, will provide a clearer signal of corporate profitability. Net VAT collections are tracking at more than twice Treasury's forecast, supported by resilient domestic demand and slower refunds, though the latter trend has recently reversed. PIT collections are broadly on target. Together with lower bond yields easing debt-service costs and the SA Revenue Service's (SARS) compliance drive gaining traction, the fiscal arithmetic points to a credible case for a measured reduction in weekly bond issuance.

Chart 1: Commodity price movements offer some relief for SA's fiscal position



Source: Bloomberg, Momentum Investments

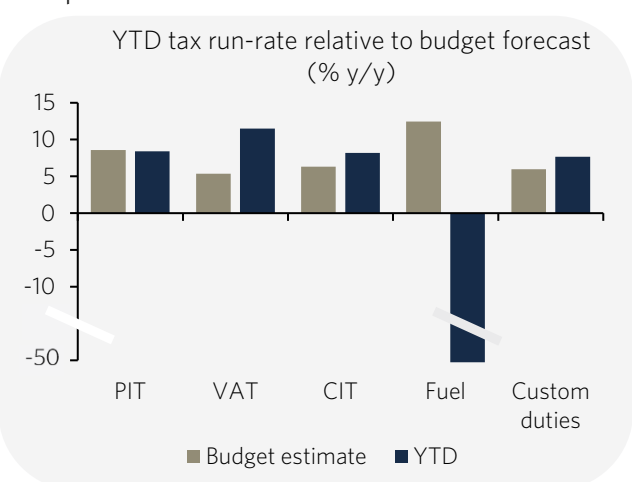
Chart 2: SA's mining sector contribution to CIT expected to rebound on higher commodity prices



Source: SARS, Momentum Investments

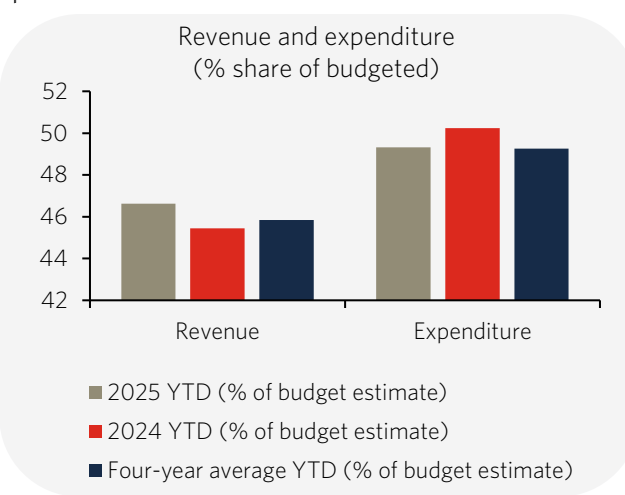
* Includes agriculture, utilities, construction, transport, community services and other

Chart 3: Commodity outperformance drove CIT, while a slowdown in refunds helped to boost net VAT receipts



Source: Treasury, Momentum Investments

Chart 4: Government revenue running slightly ahead of schedule, while expenditure is lagging last year's pace

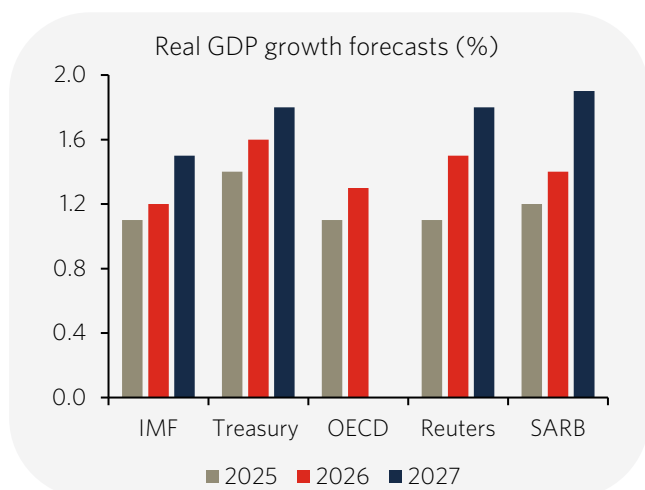


Source: Treasury, Momentum Investments

Rebuilding the country's growth engine

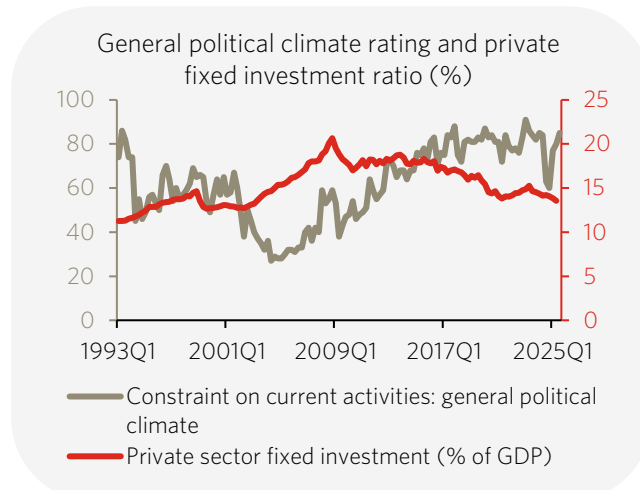
SA's economic recovery hinges on progress in structural reforms and infrastructure revitalisation in the country's key network industries. Pedestrian growth forecasts signal a gradual uptick amid easing constraints in the next years. Consensus projections for real GDP point to acceleration toward the 2% mark by 2027, buoyed by energy stability and logistics gains. Lingering political uncertainty and policy confusion have nevertheless eroded business confidence. This has held back private sector fixed investment, capping the near-term economic upturn. Government has, however, made significant strides in improving the operating environment for businesses. The biggest shift is evident in the private sector's participation in energy generation after government removed the license requirement for energy projects and improved grid access for third parties. The Independent Power Producer (IPP) dashboard shows that private renewable energy registrations have cumulatively surpassed 16 000 MW by October 2025, underpinning the country's improved supply outlook. In logistics, Transnet's freight rail volumes have stabilised at 162 million tonnes in 2024/25 and is expected to improve from here, given higher involvement in the rail network by the private sector, operational efficiencies and a focus on core business operations, such as rolling stock maintenance.

Chart 5: Pedestrian economic growth poised for a gradual recovery as structural reforms progress



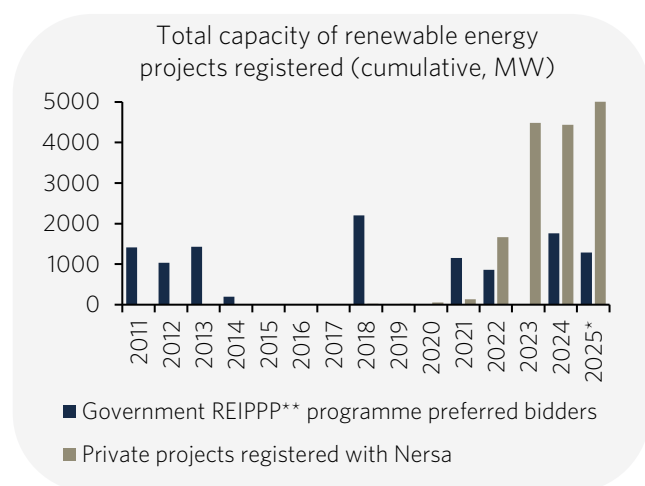
Source: SA Reserve Bank (SARB), Organisation for Cooperation and Development (OECD), International Monetary Fund, Treasury, Reuters, Momentum Investments

Chart 6: Political uncertainty drags business confidence lower and weighs on fixed investment



Source: Bureau for Economic Research, Statistics (Stats) SA, Global Insight, Momentum Investments

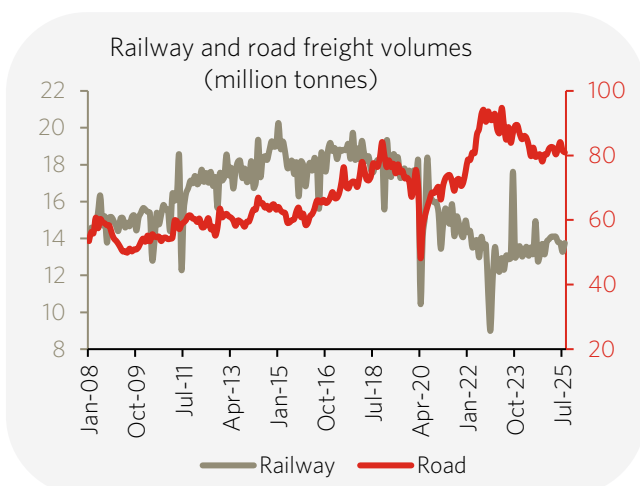
Chart 7: Private sector energy projects are registering more capacity



Source: DataDesk, Momentum Investments

* Data until October 2024, ** Renewable Energy IPP Programme

Chart 8: Railway volume decline stabilises amid operational improvements at Transnet



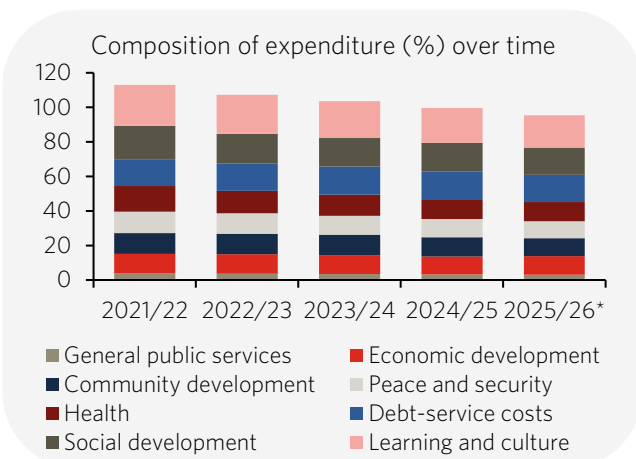
Source: Stats SA, Momentum Investment

Data until August 2025

The tug of war between spending priorities and fiscal prudence

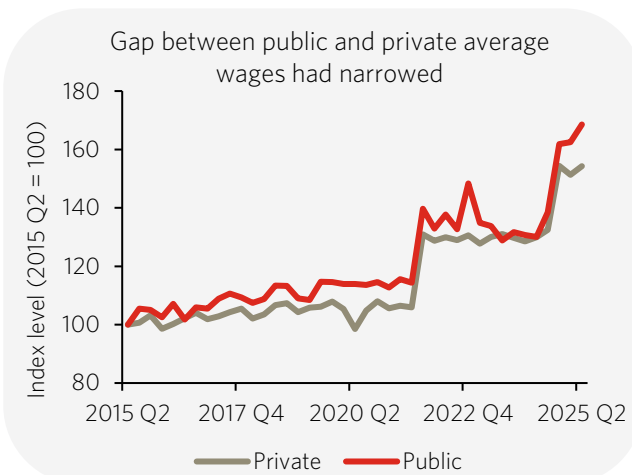
The SA government's spending profile remains dominated by civil servant wages, debt-service costs and social transfers, which together absorb more than two-thirds of total expenditure. Encouragingly, a recent moderation in government bond yields has eased some pressure on interest payments, though debt-service costs have still risen sharply since FY2021/22 — outpacing the growth of GDP, revenue and non-interest spending. The state's firmer grip on the public-sector wage bill has narrowed the gap with private-sector pay growth, signalling tentative progress on fiscal restraint. Yet structural spending pressures endure. The possible phasing out of medical tax credits remains under consideration as part of the feasible funding options for the National Health Insurance (NHI). These spending strains, compounded by weak economic growth and uneven revenue performance, entrench a cycle of fiscal deficits. This leaves policymakers facing uncomfortable trade-offs, between higher taxation and deeper spending cuts, each carrying risks for service delivery, social stability and reform momentum.

Chart 9: Wages, interest costs and social transfers make up more than two-thirds of government expenditure



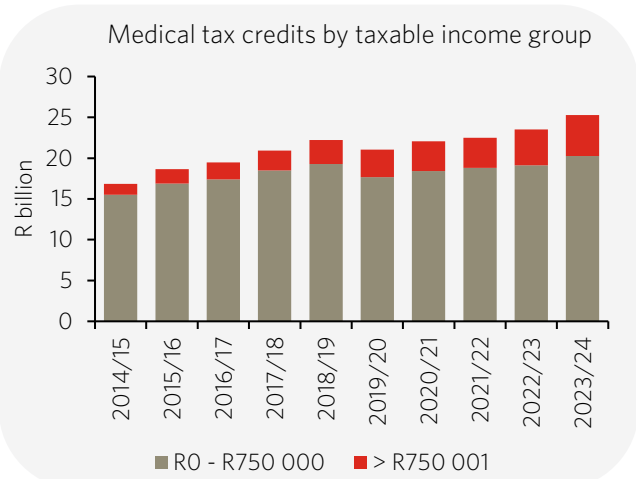
Source: Treasury, Momentum Investments
* Estimate

Chart 10: Government is exercising tighter public control over public sector pay increases



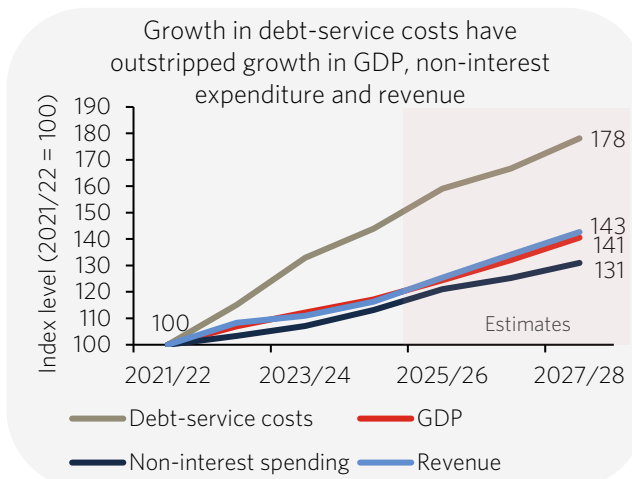
Source: Stats SA, Global Insight, Momentum Investments

Chart 11: A phasing out of medical tax credits remains an NHI funding option for government



Source: SARS, Momentum Investments

Chart 12: Debt service costs have grown sharply since FY2021/22

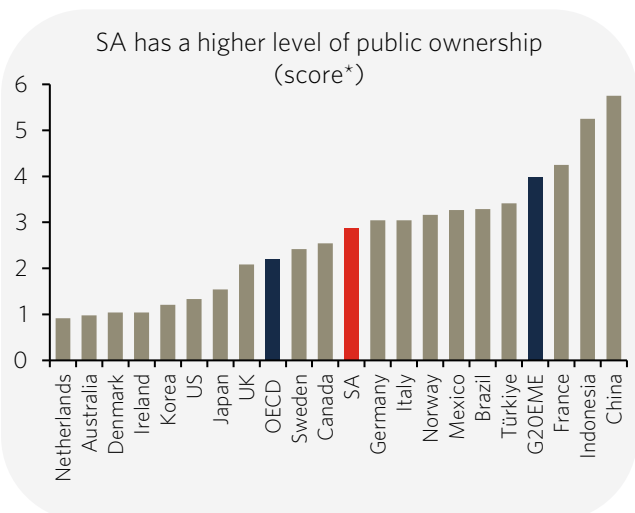


Source: Treasury, Momentum Investments

Weak links in the fiscal chain

SOEs and local governments remain the weak links in SA's fiscal chain. With more than 700 entities under state ownership, ranking higher than most peer economies, restructuring presents a clear opportunity for efficiency gains and fiscal savings. According to the 2025 OECD Economic Survey for SA, nearly R310 billion has been deployed since FY2008/09 to recapitalise SOEs, equivalent to around 27% of GDP, highlighting the scale of fiscal resources absorbed in sustaining these entities. Persistent financial fragility of SOEs has required repeated bailouts, diverting scarce funds from growth-enhancing spending. Local government finances are similarly strained, with debt-to-income ratios in several metros reaching alarming levels, while audit outcomes show systemic governance weaknesses remain entrenched. Without decisive reform to streamline SOEs, strengthen municipal financial management and enforce performance-linked accountability, fiscal consolidation risks being undermined.

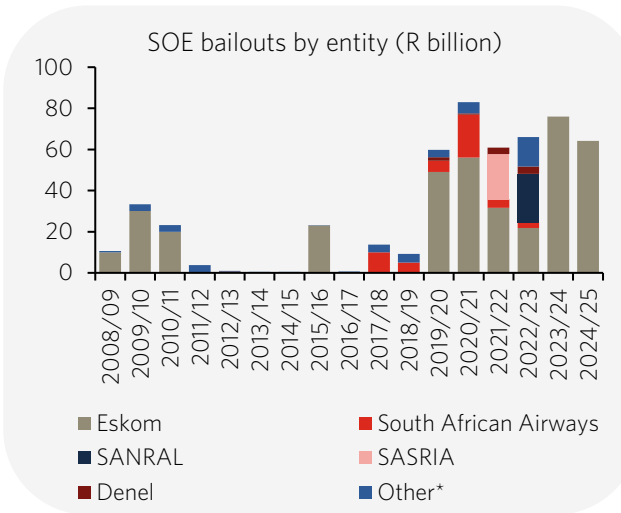
Chart 13: Restructuring SA's more than 700 SOEs holds significant potential for substantial savings



Source: OECD, Momentum Investments

Score measures how widely the state owns or controls enterprises across sectors of the economy

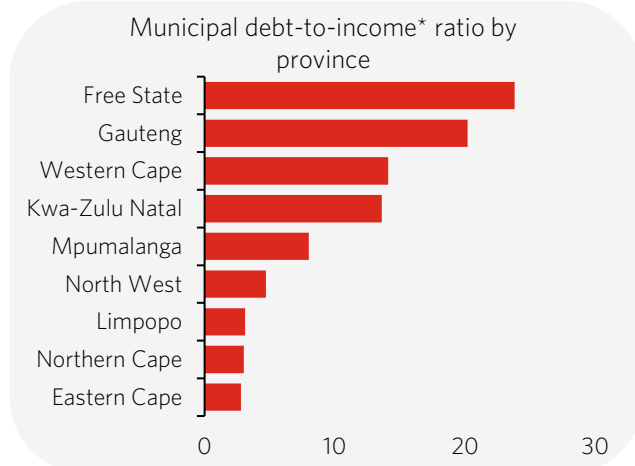
Chart 14: A large portion of public spending has been directed to supporting SOEs



Source: Coder Analytics, Treasury, Momentum Investments

*Includes DBSA, SABC, Transnet, Airports Company South Africa, Land Bank, SA Express, South African Post Bank and SAPO

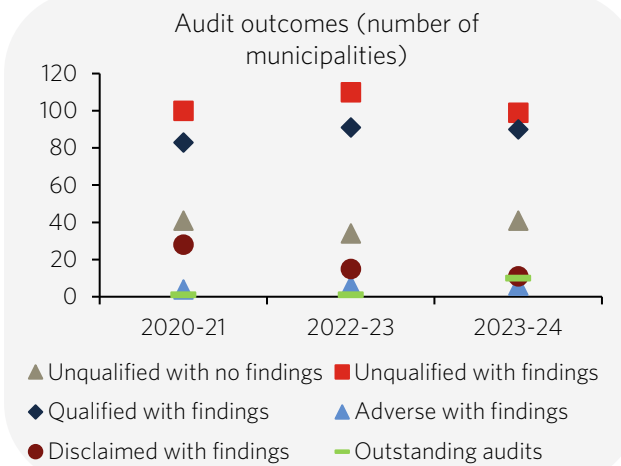
Chart 15: Gauteng's high ratio mainly due to Joburg (28%), Tshwane (20.5%) and Ekurhuleni (16.7%).



Source: Treasury, Momentum Investments

* Doesn't account for unpaid bills to Eskom and other suppliers

Chart 16: The trend of poor municipal audit outcomes continues

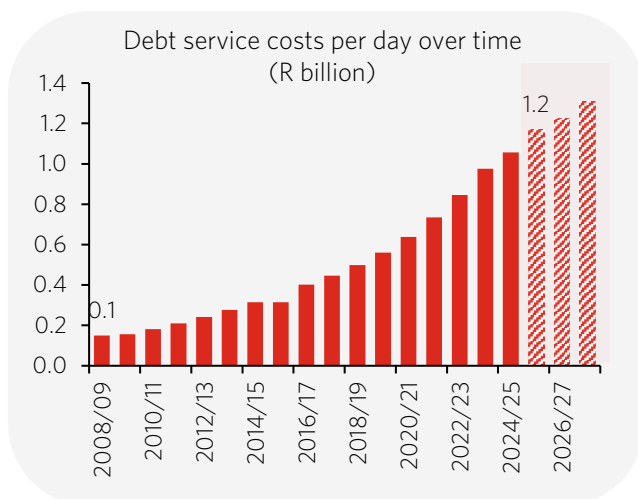


Source: Auditor General SA, Momentum Investments

A cautious repricing of SA's fiscal fortunes

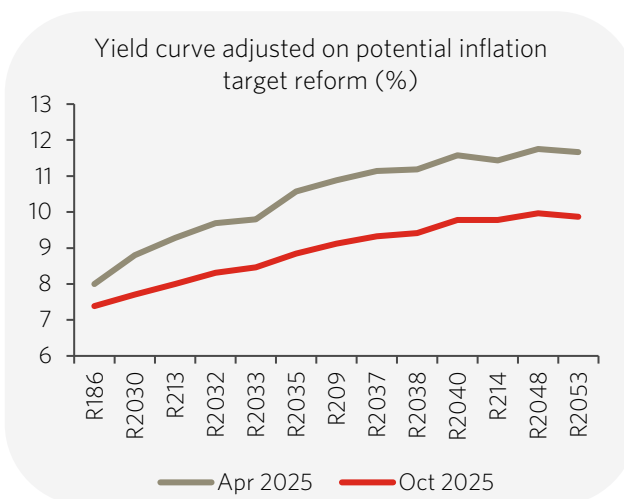
Lower government bond yields have recently provided welcome relief to the fiscus, easing interest costs after years of relentless upward pressure. Yet debt-service costs remain among the fastest-growing items in the budget, absorbing resources that could otherwise fuel growth-enhancing reforms or bolster social spending. These fiscal pressures, compounded by anaemic economic growth and recurring revenue shortfalls, have entrenched a cycle of deficits that force government into difficult trade-offs. This includes contentious debates over higher taxes, as seen in the aborted attempt to raise VAT by two percentage points earlier this year that delayed and reshaped the final budget outcome, or deeper spending cuts that threaten to erode already fragile service delivery and heighten social unrest. Markets, however, are beginning to acknowledge tentative signs of progress. The yield curve has adjusted favourably on communication that the SARB has shifted toward aiming for the lower end of its 3% to 6% inflation target band, while improving fiscal discipline and SA's relatively swift exit from the Financial Action Task Force (FATF) greylist have lifted investor sentiment. Bond markets are increasingly pricing in the possibility of a sovereign ratings upgrade next year, signalling that fiscal credibility, once squandered, can be slowly reclaimed.

Chart 17: Debt-service costs have escalated as SA's debt stock expands



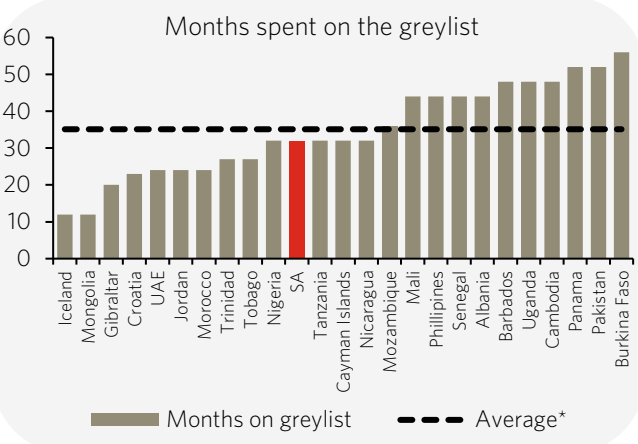
Source: Treasury, Momentum Investments

Chart 18: The yield curve aggressively repriced on news that the SARB is aiming for 3% inflation



Source: SARB, Bloomberg, Momentum Investments

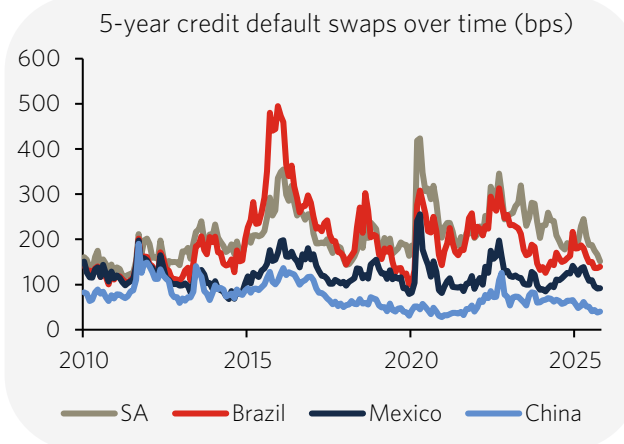
Chart 19: SA spent a lower-than-average time on the greylist before being removed



Source: FATF, Momentum Investments

* Of countries removed from the greylist since 2017

Chart 20: Tighter CDS spreads signal bond markets are increasingly pricing in a sovereign rating upgrade



Source: Bloomberg, Momentum Investments

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