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BUDGET 2026 PREVIEW The Consolidation Moment?

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BUDGET 2026 PREVIEW

The Consolidation Moment?

Public Economy Project
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PUBLIC ECONOMY PROJECT | WITS UNIVERSITY | SOUTHERN CENTRE FOR INEQUALITY STUDIES

Introduction

South Africa enters the 2026 Budget cycle in a more stable, but still fragile, macroeconomic environment. Global growth has proven more resilient than expected, commodity prices have provided an uneven windfall, and domestic growth has stabilised after several volatile years. The formal adoption of a 3% inflation target has begun to anchor long-term expectations and lower borrowing costs, improving the arithmetic of debt stabilisation.

Yet the foundations remain narrow. Global trade is slowing amid geoeconomic fragmentation, commodity price strength appears partly cyclical and sentiment-driven, and domestic growth remains modest and consumption-led rather than investment-driven. Unemployment remains unsustainably high and fiscal space constrained.

The 2025 Medium-Term Budget Policy Statement (MTBPS) was characterised by a response to this altered macroeconomic environment. With lower projected nominal GDP — the cash value of economic activity, which determines tax collections — under the 3% inflation target, the entire fiscal framework had to adapt to a new monetary regime in order to preserve debt stabilisation. The adjustment burden fell predominantly on expenditure: non-interest spending was projected to decline in real terms in 2026, with real per capita core spending[1] falling materially in the budget year. The MTBPS reaffirmed a path of fiscal consolidation aimed at achieving sustained primary surpluses — that is, budget surpluses before interest payments — and stabilising debt, but it did so through strong front-loaded expenditure compression.

As the country approaches Budget 2026, the question is not merely whether stabilisation can be projected, but whether it can be implemented and sustained. The outlook for debt stabilisation has improved relative to a year ago, but its credibility ultimately hinges on the social feasibility of sustained expenditure compression, continued coalition consensus within the Government of National Unity (GNU), and the ability of Targeted and Responsible Savings (TARS) to convert expenditure reviews into durable fiscal space in a low-growth environment.

Global backdrop: resilience amid fragmentation

Global economic growth has remained more resilient than expected following the trade disruptions and policy uncertainty that dominated 2025. According to the IMF's January 2026 World Economic Outlook, global output is projected to expand by 3.3% in 2026, which is broadly unchanged from the estimated growth for 2025, and slightly stronger than the forecast in late 2025. Upward revisions are largely due to a revised outlook for the United States and China, offsetting weaker momentum elsewhere and leaving the global aggregate largely stable.

Global trade and fragmentation

South Africa enters the 2026 Budget cycle in a more stable, but still fragile, macroeconomic environment. Global growth has proven more resilient than expected, commodity prices have provided an uneven windfall, and domestic growth has stabilised after several volatile years. The

[1] Core spending is main budget non-interest expenditure excluding capital transfers to state-owned companies (i.e. "payments for financial assets"), skills development levy and fuel levy sharing with metros.

formal adoption of a 3% inflation target has begun to anchor long-term expectations and lower borrowing costs, improving the arithmetic of debt stabilisation.

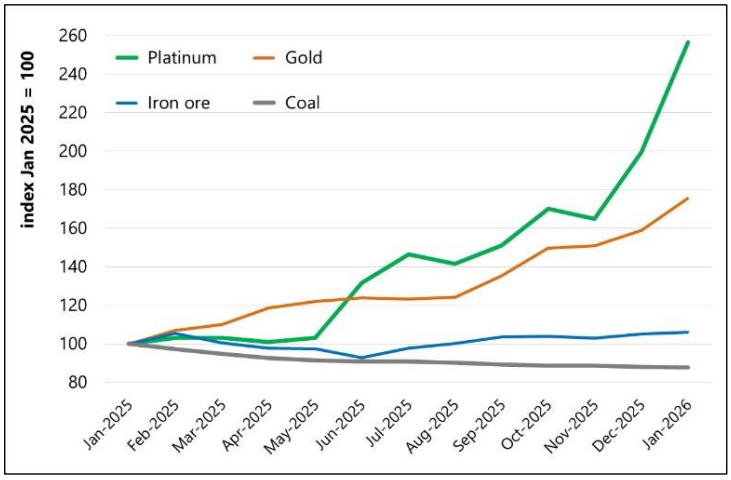
This matters for South Africa because slower global trade growth limits export volume expansion and constrains logistics-intensive sectors, even if headline global GDP growth appears stable.

Commodities and price dynamics

Commodity price conditions have become more volatile. During 2025, and continuing into early 2026, prices for several key South African export commodities — including gold, coal and platinum group metals — have remained elevated. Overall, this reflects a combination of risk sentiment, supply constraints, and narrow demand drivers, rather than a broad-based global expansion.

Figure 1: Commodity Prices Support the Outlook

Price index of key SA commodities



Source: World Bank Commodity Markets; Public Economy calculations

This matters for the fiscal outlook because price improvements driven by investor sentiment or policy-induced scarcity — rather than sustained demand — are inherently volatile and temporary. Policymakers must therefore distinguish cyclical windfalls from structural shifts and avoid making long-term expenditure commitments based on temporary revenue gains.

Global financial conditions: higher yields, higher volatility

Global financial conditions remain broadly accommodative, but volatility has increased. Sovereign bond yields in advanced economies have risen over the past year, driven less by stronger growth prospects than by higher term premia — the extra return investors demand for holding long–dated bonds — associated with fiscal concerns and policy uncertainty. Elevated bond yield volatility has become a defining feature of the current environment, with implications for government borrowing globally.

For emerging market and developing economies, these dynamics pose clear risks. Higher global yields and shifting capital flows increase refinancing pressures for countries with significant external debt and financing needs. Although the depreciation of the US dollar during 2025 provided some relief for dollar-denominated debt burdens, this has not fully offset the tightening impulse from elevated global yields.

Implications for South Africa

Taken together, the global outlook points to stable but fragile external conditions. Global growth is sufficient to avoid a sharp deterioration in demand, but trade deceleration, commodity price volatility, and tighter global financing conditions constrain upside risks. For South Africa, this implies limited external support for faster growth and continued exposure to shifts in global financial sentiment, reinforcing the importance of domestic growth and fiscal dynamics in shaping the macro-fiscal outlook heading into Budget 2026

Domestic macroeconomic outlook: stabilisation, not (yet) acceleration

South Africa's economic performance has stabilised relative to the volatility of recent years. The economy expanded for four consecutive quarters, marking the longest uninterrupted growth phase since 2018. Updated estimates suggest that the economy grew by around 1.3% in 2025, slightly higher than projected in the 2025 Medium-Term Budget Policy Statement. This improvement reflects a combination of more stable electricity supply, incremental improvements in logistics performance, and supportive commodity prices.

However, the composition of the growth remains uneven. Household consumption is estimated to have grown by about 3% in 2025, significantly outpacing the performance of the overall economy, and was the primary driver of expansion. In contrast, fixed investment and government consumption are estimated to have contracted over the year, subtracting from growth. Higher sustained growth will depend on stronger and more durable investment recovery, particularly in infrastructure and network industries. State-led investment remains constrained by weak state-owned enterprise balance sheets and continued fiscal consolidation. Continued support for growth from household consumption will depend on a faster and sustained recovery of the labour market.

Exchange rate strength and improved financing conditions

The rand strengthened markedly through 2025, appreciating from above R18.50 per US dollar early in the year to around R17 per dollar by year-end, averaging approximately R17.90 for the year. This appreciation occurred alongside broader dollar weakness and improved risk sentiment toward emerging markets, but also reflected an improvement in sentiment towards South Africa.

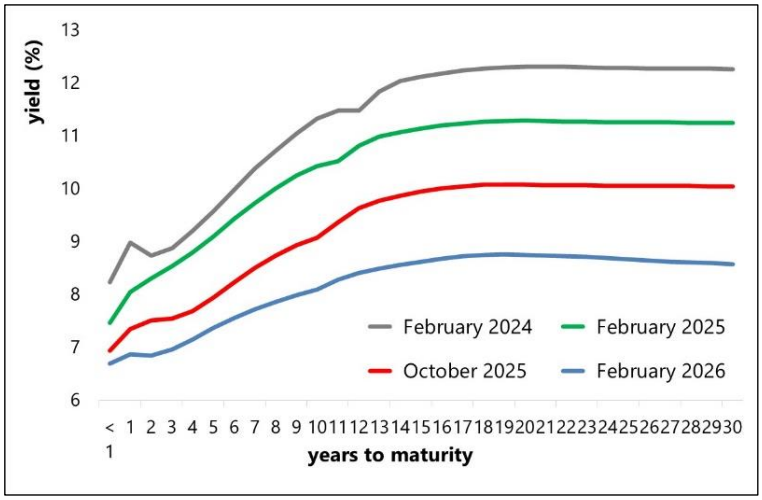
A firmer exchange rate lowers import costs and helps contain inflation, supporting household purchasing power. At the same time, it can moderate export competitiveness, particularly where price strength is not underpinned by rising volumes. The rand remains sensitive to shifts in global risk appetite, commodity price volatility, and domestic political developments. As such, recent gains should be viewed as supportive but still potentially reversible.

South Africa's financing conditions have also improved. The formal adoption of a 3% inflation target has contributed to a repricing of long-term inflation expectations. When markets anticipate lower and more stable inflation, the compensation required for holding long-dated bonds declines.

This shift is evident in the government bond yield curve, which has moved downward and flattened between February 2024 and February 2026 (Figure 2). Both short- and long-dated yields have fallen materially, with longer maturities declining alongside the short end. The flattening suggests that markets are pricing in a structurally lower inflation environment

Figure 2: Improved Financing Conditions

South Africa's yield curve



Source: Bond Exchange of South Africa; Public Economy calculations

and more anchored long-term expectations, rather than merely anticipating near-term monetary easing.

For the fiscal outlook, this development is consequential. Lower long-term yields reduce the cost of newly issued debt and moderate refinancing pressures as existing bonds mature. While global financial conditions remain volatile, the decline and flattening of the yield curve have eased borrowing costs relative to earlier projections and provide support to the medium-term debt trajectory.

The 2026 outlook: modest improvement

Looking ahead, updated forecasts point to a modest improvement in real growth to around 1.5% in 2026, broadly in line with government projections, and implying no material upward revision to the real growth outlook in the 2026 Budget Review.

Table 1: Real GDP Forecasts: Limited Upward Revision

Real GDP growth outlook - calender year	2025	2026	2027	2028
National Treasury - Budget 2025 - May	1.4%	1.6%	1.8%	-
National Treasury - MTBPS 2025- November	1.2%	1.5%	1.8%	2.0%
South African Reserve Bank - November 2025	1.3%	1.4%	1.9%	1.9%
South African Reserve Bank - January 2026	1.3%	1.4%	1.9%	1.9%
International Monetary Fund - January 2025	1.5%	1.6%	-	-
International Monetary Fund - October 2025	1.1%	1.2%	1.5%	1.7%
International Monetary Fund - January 2026	1.3%	1.4%	1.5%	1.7%
World Bank - January 2025	0.8%	1.8%	1.9%	-
World Bank - June 2025	0.7%	1.1%	1.3%	-
World Bank - January 2026	1.3%	1.4%	1.5%	-
*Growth projections correspond to publication date and not forecast date				

Household consumption is expected to continue providing near-term support. Investment is projected to recover moderately in 2026, but structural constraints — including municipal capacity weaknesses and persistent bottlenecks in logistics — remain binding. As a result, the outlook is better characterised as one of cautious stabilisation rather than acceleration.

Implications for South Africa's public finances

The domestic outlook suggests that growth conditions have improved relative to recent years, but remain modest. Real GDP expansion is positive but insufficient to materially address the unemployment crisis, while nominal GDP growth — critical for revenue performance — remains exposed to commodity prices and exchange rate movements. For public finances, nominal GDP growth — the cash value of economic output — matters more than real growth, as revenue collection and expenditure are denominated in nominal cash terms.

Whilst low global and domestic inflation combined with a stronger rand, currently provide supportive conditions for government's revised 3% point-target for inflation, existing debt servicing and expenditure will have to be paid from revenue that could experience a nominal slowdown. Recent buoyancy therefore reflects cyclical and policy effects rather than a structurally higher nominal growth path. This places continued emphasis on the relationship between growth, revenue buoyancy, and expenditure restraint in shaping the fiscal outlook for 2026.

The macroeconomic stabilisation described above forms the backdrop to Budget 2026. Yet the fiscal framework now depends less on cyclical tailwinds and more on the credibility of sustained expenditure restraint.

Looking towards the 2026 Budget

MTBPS 2025: Responding to an altered inflation environment

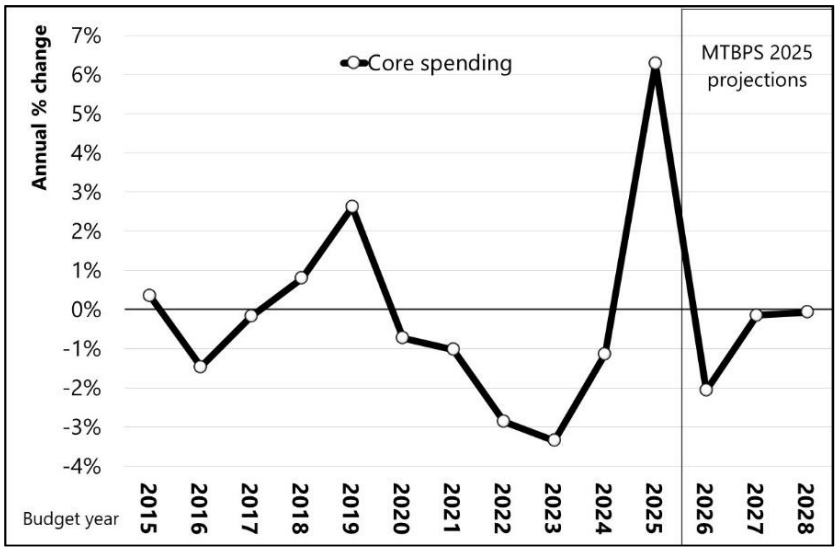
Following the 2025 Budget wherein government presented an easing of the austere path for public spending announced in the 2024 MTBPS, the 2025 MTBPS redoubled the country's commitment to a path of fiscal consolidation in pursuit of debt stabilisation. Driven by the Minister of Finance formalising the central bank's move to a lower inflation target, the 2025 MTBPS presented a fiscal outlook that attempted to adjust to an environment of permanently lower GDP inflation, projecting debt peaking in the first year of the MTEF and declining thereafter. Whilst this shift strengthened monetary credibility and lowered borrowing costs, it simultaneously compressed nominal GDP growth, making fiscal consolidation more difficult.

The structurally lower inflation environment, which reduces nominal GDP even when real activity remains broadly stable, meant that government's fiscal plans needed to adjust to lower nominal revenue collection, automatically worsening the debt-to-GDP ratio — because the denominator (GDP) grows more slowly. With the strongly contested 2025 Budget process revealing very limited political appetite for increases to taxes, the heavy-lifting of consolidation outlined in the 2025 MTBPS again fell on public spending more than on revenue. The 2025 MTBPS projected non-interest spending to fall in real terms in 2026, and to grow marginally over the rest of the MTEF. When core spending is considered on a real per capita basis, the 2025 MTBPS forces a real per capita reduction in spending of 2% for 2026 — meaning that after adjusting for inflation and population growth, the average resources available per person fall – and marginal reductions over the rest of the MTEF.

The austere path for public spending, combined with a notable upwardly revised outlook for revenue (2025: R19.7bn) allowed government to project primary surpluses over the MTEF, and announced the imminent realisation of its long-standing fiscal objective of debt stabilisation, with debt peaking in 2025 (77.9% of GDP) and declining over the MTEF.

Figure 3: Front-Loaded Real Spending Compression

Real core spending per capita



Source: National Treasury budget data; Stats SA, Public Economy Project calculations

Ambitious intent

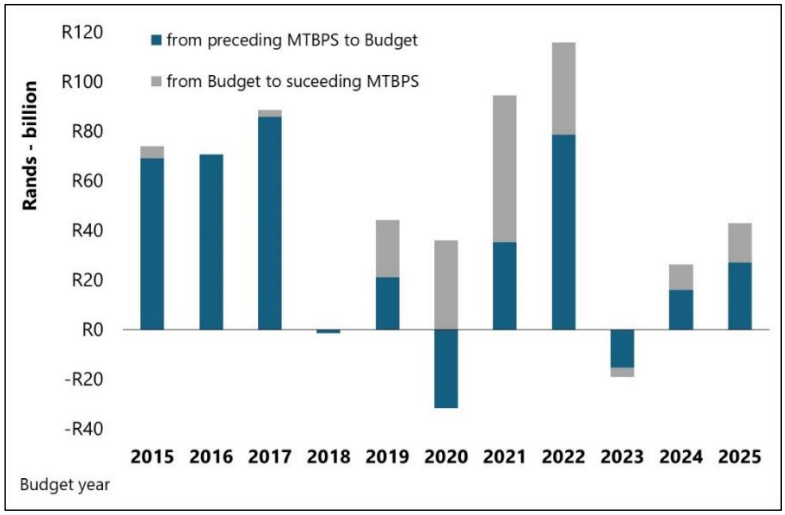
The MTBPS is ultimately a statement of intent rather than the budget to be delivered, as implementation depends on government giving practical effect to the intended path for public spending. It remains to be seen whether the government can deliver upon its real cuts for spending for 2026.

A review of recent fiscal cycles reveals a pattern of front-loading expenditure compression in MTBPS projections, followed by upward revisions in the subsequent Budget and, to a lesser extent, in the Adjustments Budget at the time of the MTBPS.

This suggests a disjuncture between the fiscal ambitions of the state and realities faced by line departments responsible for the day-to-day delivery of public goods. Furthermore, several key expenditure areas, such as the future of the SRD grant (beyond March 2027), still require resolution that will materially affect the future path of public spending. For the 2026 budget, however, the significant inclusion of "provisional allocations not appropriated" (R60bn in 2026), while such allocations reduce transparency, may provide some space to absorb additional expenditure pressures.

Figure 4: MTBPS Compression vs Budget Outcomes

Adjustments to non-interest expenditure



Source: National Treasury budget data; Public Economy Project calculations

Buoyant revenue collection

Revenue performance has been strong relative to last year, but not uniformly stronger than MTBPS projections. Corporate income tax (CIT) collections grew by 8.8% over the first nine months of the year, exceeding the updated annual growth projection in the MTBPS. This performance reflects improved corporate profitability, supported by economic stabilisation and elevated precious metal prices that strengthened mining sector earnings. Personal income tax (PIT) revenue grew by 7.2% over the same period, reflecting a policy-driven increase in effective tax rates from the 2025 Budget not providing inflation adjustments to income tax brackets, resulting in fiscal drag — where taxpayers move into higher brackets as nominal incomes rise. PIT growth, although positive, remains below the year-to-date rate projected in the MTBPS, and reflects overall weakness in South Africa's labour market.

Table 2: Revenue Performance Relative to MTBPS Projections

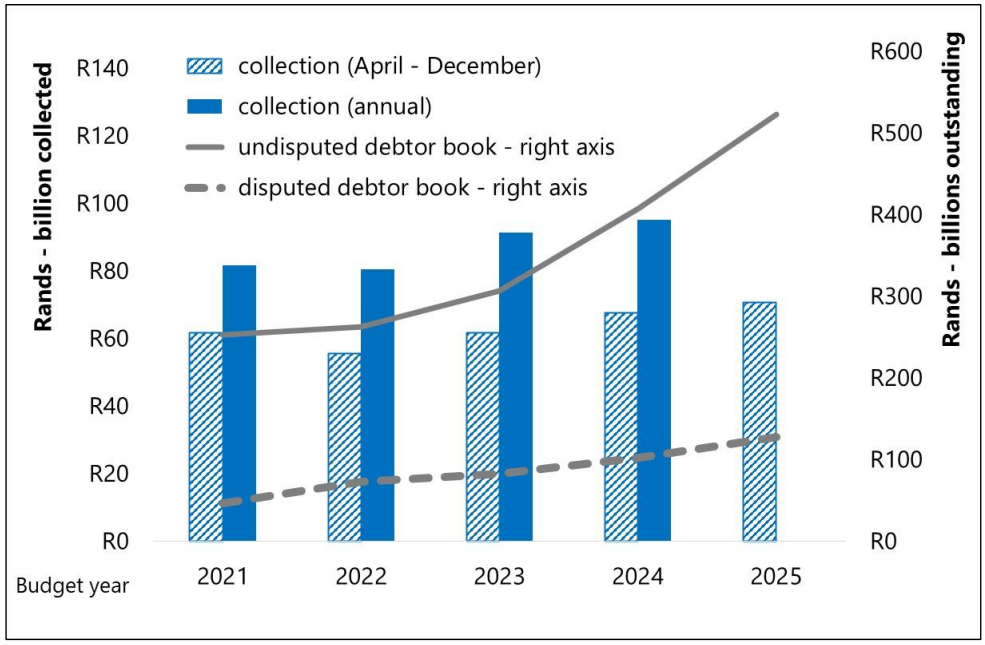
	2024			2025				
	Outcome	Year to date (April - December 2024)		MTBPS 2025	Year to date (April - December 2025)			
	R millions	R millions	share of preliminary outcome	R millions	R millions	share of MTBPS projection	projected annual growth y/y	Year to date growth - actual
Personal income tax	729 911	521 693	71.5%	791 757	559 251	70.6%	8.5%	7.2%
Corporate income tax	318 739	230 354	72.3%	343 426	250 716	73.0%	7.7%	8.8%
Value-added tax	457 789	322 173	70.4%	493 579	351 632	71.2%	7.8%	9.1%
Specific excise duties	59 680	39 332	65.9%	60 375	40 447	67.0%	1.2%	2.8%
Ad valorem excise duties	6 970	5 216	74.8%	7 850	5 862	74.7%	12.6%	12.4%
Fuel levy	85 883	62 222	72.5%	98 612	70 985	72.0%	14.8%	14.1%
Total tax revenue (gross)	**1 855 270**	**1 317 542**	71.0%	**2 005 291**	**1 430 525**	71.3%	8.1%	8.6%
Less: SACU payments	**(89 874)**	**(67 406)**	75.0%	**(73 552)**	**(55 164)**	75.0%	-18.2%	-
plus: non-tax revenue	**44 390**	**-**	-	**36 926**	**-**	-	-	-
Total tax revenue (net of SACU payments)	**1 809 786**	**1 250 137**	69.1%	**1 968 665**	**1 375 361**	69.9%	8.8%	10.0%

Taken together, recent revenue strength has supported near-term fiscal metrics, including the projected debt trajectory. The durability of this support will depend on the persistence of commodity prices, exchange rate conditions, and the broader nominal growth environment.

SARS debt collection and additional tax measures?

In the 2025 MTBPS, the Minister of Finance indicated that additional resources had been allocated to the South African Revenue Service (SARS), partly to strengthen debt collection and enhance compliance. The expectation was that improved administration and recovery efforts could raise between R20 billion and R50 billion annually over time, potentially eliminating the need to introduce additional tax measures of R20bn in the 2026 Budget.

Figure 5: Debt Recovery Not Accelerating



Source: National Treasury/SARS data; Public Economy Project calculations

Recent SARS data covering April to December 2025 show that cash collected from debt increased by 4.5% year-on-year over the first nine months of the fiscal year. This modest growth has occurred despite a significant expansion in both the undisputed and disputed book of debtors. Whilst debt recovery flows are inherently more volatile than recurring taxes, the data to date do not indicate a marked acceleration in collections.

If current trends persist through year-end, SARS is likely to collect approximately R100 billion from debt in 2025/26 — a modest increase of roughly R5 billion relative to the previous year. This would fall materially short of the medium-term expectations associated with the additional resourcing of the revenue authority.

This matters for the fiscal outlook because projected improvements in revenue performance partly underpin the path toward sustained primary surpluses. If enhanced compliance and debt recovery efforts yield less than anticipated, additional revenue measures or stricter expenditure restraint may be required to maintain the consolidation trajectory. At this stage, however, conclusions remain provisional given the partial-year nature of the available data, as well as the stronger-than-anticipated collection in Corporate Income Tax.

PEP Outlook for Public Finances

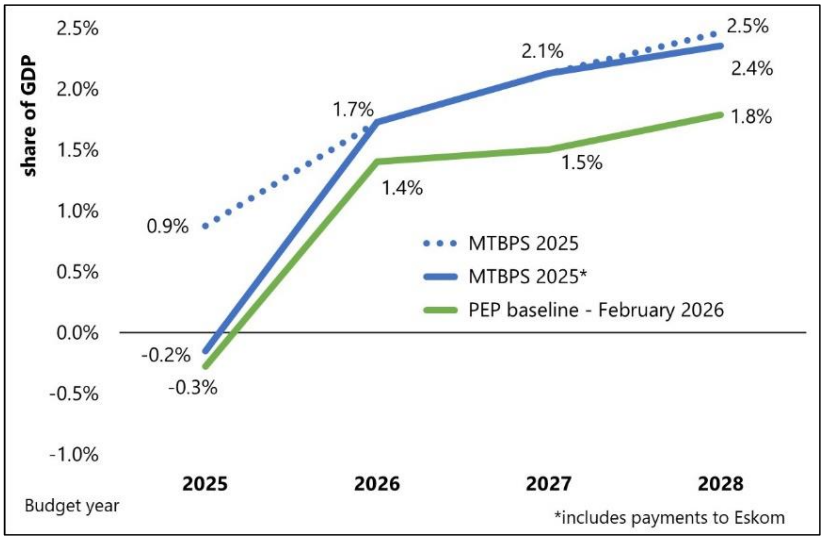
The Public Economy Project's projection ahead of the 2026 Budget Review is based on updated economic and Budget data, as well as emergent expenditure pressures. While government expenditure is projected to moderate, declining in real per capita terms, over the medium term, supported by ongoing spending reviews and stated efforts to improve efficiency, the PEP projection assumes that the austere path outlined in the 2025 MTBPS may still require some additional allocations over the medium term.

The PEP projection makes the following key assumptions:

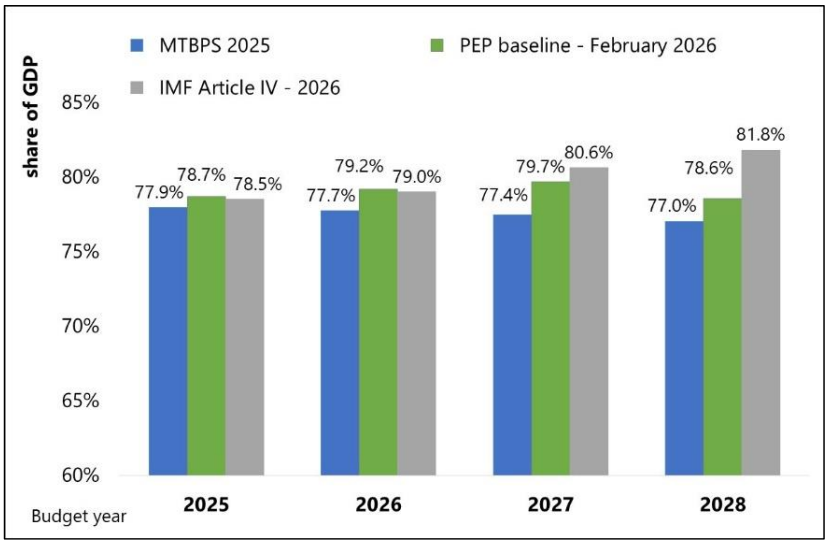
- Eskom support remains included 'above-the-line' — meaning it worsens the budget deficit — in 2025/2026.
- Ongoing financial support for other SOEs is assumed over the MTEF (amounting to approximately R34 billion over the MTEF).
- The SRD grant is extended beyond March 2027 across the MTEF and adjusted for inflation.
- The contingency reserve is fully deployed to offset expenditure pressures.
- Macro assumptions are based on consensus forecasts.
- National Treasury's revenue buoyancy assumptions — the responsiveness of tax revenue to economic growth —from the 2025 MTBPS are applied.
- Non-interest expenditure follows the consolidation path outlined in the MTBPS, subject to the additional pressures noted above.

Figure 6: Will debt stabilise?

a) Primary balance as a share of GDP



b) Gross loan debt as a share of GDP



Source: National Treasury budget data; International Monetary Fund, Public Economy Project calculations

The Public Economy Project's baseline estimates the primary balance only swinging from a deficit to a surplus in 2026, reflecting both the inclusion of financial support to Eskom above-the-line, as well

as several emergent expenditure pressures. Over the medium term, the country is expected to realize a more moderate primary surplus than the government's projections from the MTBPS.

Differing from government's expectation of gross loan debt peaking in 2025 at 77.9% and thereafter gradually declining, the Public Economy Project only expects debt as a share of GDP to peak in 2027 at almost 80%. The International Monetary Fund's most recent outlook[2] for South Africa's debt sees gross loan debt continuing to increase as a share of GDP over the next six years. While improved financing conditions and a flatter yield curve have reduced marginal borrowing costs, the debt trajectory remains primarily a function of sustained primary surpluses rather than favourable market pricing alone.

Conclusion

South Africa approaches Budget 2026 in a more stable macro-fiscal environment than a year ago. Lower inflation expectations, improved financing conditions, and resilient in-year revenue performance have strengthened the arithmetic of consolidation. Debt stabilisation is no longer implausible on paper.

But arithmetic is not durability. The fiscal framework now relies on sustained real expenditure compression in a low-growth economy, buoyant but potentially cyclical revenue, and the institutional capacity to convert expenditure reviews into meaningful savings. The projected real per capita reductions in core spending for 2026 raise material risks for service delivery, particularly in a context of high unemployment and rising demand for the social wage.

The 2026 Budget will therefore test not only the credibility of the consolidation path, but its political, administrative, and social feasibility. If the Government of National Unity can sustain coalition consensus around primary surpluses while implementing Targeted and Responsible Savings in a way that protects critical programmes, debt stabilisation may gradually take hold. The defining test of Budget 2026 is whether consolidation can be sustained without eroding the state's capacity to deliver on its constitutional commitments.

[2] IMF (2026), *South Africa: 2026 Article IV Consultation—Staff Report*, IMF Country Report.