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SPEECH BY THE DIRECTOR-GENERAL, DR DUNCAN PIETERSE, AT THE CITI EMERGING MARKETS MACRO AND CREDIT CONFERENCE

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INTRODUCTION

On Wednesday 25 February 2026, the Minister of Finance tabled a budget that marked a turning point for South Africa's public finances. The debt to GDP ratio stabilised for the first time since before the 2008 global financial crisis and we posted a third consecutive primary surplus. We demonstrated clearly that we could deliver on our fiscal targets as well as our structural reform agenda. The benefits of latent improving fiscal credibility were already evident in the form of lower borrowing costs and a stronger currency.

Three days after the budget, a war broke out in the Middle East. For a fiscal authority in the middle of rebuilding fiscal credibility, an energy supply and price shock of this magnitude is a major test of the resilience of our fiscal framework.

Naturally, we have been receiving many questions about whether we can stay on track to deliver on our fiscal targets, despite the headwinds of the current conflict. Our view is that the true test of our institutional strength, of fiscal credibility, is to deliver on our fiscal objectives through the cycle, including in times of stress.

As it happens, two of the major ratings agencies have already answered the question of whether we can remain on track on our behalf. And their answer is very positive.

Moody's put South Africa's rating on positive outlook about two weeks ago and a week later S&P affirmed its positive outlook on South Africa. This comes after S&P upgraded our rating by one notch in November and put us on positive outlook for a further upgrade.

Both agencies pointed to the potential for further improvements in South Africa's fiscal performance, and the continued execution of structural reforms, as reasons for the positive outlook. Both agencies see us reducing



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debt over the next three years, as we have committed to do. And while they have reduced growth forecasts, they still see the growth rate improving as structural reforms continue to advance.

The ratings are of course still in sub-investment grade territory – but for the first time in more than a decade we are seeing a turnaround in the downward ratings trend. That is especially remarkable because it comes at a time when the global sovereign credit trend is overwhelmingly negative. South Africa is the only G20 country with a positive outlook from Moody's and one of only two G20 countries with a positive outlook from S&P.

We are of course encouraged by the affirmation from the rating agencies that we are on the right track.

Let me spend some time outlining why, in our view, the current conflict will not derail South Africa's medium term fiscal trajectory.

FISCAL STRATEGY

Recent fiscal outcomes beat forecasts

This March, we ended the previous fiscal year on a positive note, outperforming the projections in the Budget. We achieved a third consecutive primary surplus, at 1.1 per cent against a Budget estimate of 0.9 per cent (up from 0.5 per cent three years ago). In addition, tax and non-tax revenue was higher than expected at the time of the Budget and spending was lower (including on debt service costs). In our view, this shows the government's capacity to mobilise revenue and contain expenditure as needed to reach its targets.

Debt has now stabilised and is forecast to decline this year and over the medium term. The primary surplus is forecast to grow. The main budget deficit – which came in at 4.3 per cent against our February estimate of 4.6 percent – is projected to fall to 3.1 per cent by 2029.

For the past three years our fiscal strategy has been anchored by two objectives: one, stabilising and then reducing the debt to GDP ratio; and, two, a rising primary surplus – where revenue exceeds non-interest spending.

These twin objectives have served as our de facto fiscal anchors and will be reinforced by a formal fiscal rule, announced at the Medium Term Budget Policy Statement in October. This will provide a permanent, binding



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mechanism to lock in the fiscal gains achieved in recent years, strengthening policy credibility and further lowering our risk premium.

Relief measures rolled out in response to the Middle East conflict are fiscally neutral

In response to sharply rising energy costs, the Minister of Finance granted fuel levy relief for three months from April to June, at an estimated cost to the fiscus of R17.2 billion. This will be funded by the fiscal outperformance from the previous year and will therefore be fiscally neutral. We set a precedent for this when we cut the fuel levy from April to August 2022, after Russia invaded the Ukraine: the revenue foregone was well below the relief provided.

We have made it clear that any additional relief measures, including those contemplated by other government departments, will be managed within existing budgets.

There are near-term fiscal buffers

Even if spending risks materialise, we benefit from stronger buffers going into this conflict. Growth was improving, the current account was balanced, the Rand was on a solid footing and from a fiscal point of view a turnaround was underway, which meant that bond yields were compressed. On the revenue side, additional upside exists from revenue collection efficiencies, as well as our conservative commodity price assumptions, especially on platinum group metals. Neither of these is fully factored into the medium-term forecasts.

Monthly numbers for April – the first month of the new fiscal year – confirm that outperformance relative to the Budget has continued, with tax revenues R5.9 billion higher than we forecast in the budget, a year-on-year increase of 10.1 per cent.

Expenditure is largely insulated from higher inflation

In addition, expenditure remains well anchored and largely insulated from higher inflation. The public sector wage bill accounts for almost a third of spending over the medium term (32.1 per cent). This is de-risked to a large extent by the current public-sector wage agreement which applies until 2027/2028.



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Social grants is another large proportion of spending, but here we actually anticipate spending to be around R2 billion lower due to enhanced verification of beneficiaries. Grants are indexed annually to inflation but incremental adjustments can be absorbed through savings and re-allocations if necessary.

Other spending has mostly been adjusted downwards for this year in line with structurally lower inflation, and a contingency reserve of R5 billion is in place if needed for this year.

The Targeted and Responsible Savings programme we introduced last year requires departments to identify underperforming or low priority programmes and entities that can be closed or phased out. This has already begun to yield spending efficiencies and we expect further savings over the medium term.

Debt dynamics have structurally improved

In line with Treasury's objectives, debt is expected to have peaked in 2025/26 and to decrease to 76.5 per cent by 2028/29.

We have seen borrowing costs come down in response to our progress on fiscal consolidation, as well as our decision last year to reduce South Africa's inflation target. Between the 2025 and 2026 Budgets, the domestic government bond yield curve shifted downward by 240 basis points on average across maturities.

Our five-year Eurobond spreads have actually narrowed since February, from 170 basis points on the eve of the war to 106 basis points currently.

As you know, our issuance remains primarily domestic, reducing vulnerability to global headwinds. And while we have reduced the average term to maturity of our debt to 11.7 years, this is still long by global standards so the pass through from current global conditions is limited.

SOE finances are turning around, reducing the risk of further calls for fiscal support

In terms of SOE performance, Eskom is on track to post its second consecutive year of full-year profits. After eight years of losses it made a full year profit of R16 billion in 2025 and R24.3 billion in the first half of 2026.

This is due to operational improvements, higher tariffs, and stricter conditionality on the debt relief we extended to Eskom. The last material tranche of that relief was in the previous fiscal year and beyond R10 billion in the fiscal framework a few years from now, we envisage no further support for Eskom will be needed as its operational performance continues to improve.



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South Africa has now recorded more than 365 days without interruptions to electricity supply. Eskom has managed to post profits despite large municipal arrear debt. Its standalone credit profile has improved. We are now shifting from stabilisation of electricity supply and Eskom profitability to electricity market reform, a topic I will return to later.

Transnet continues to be loss-making but the losses have narrowed and early turnaround results are encouraging, with freight volumes increasing. Transnet's borrowings are materially smaller than Eskom's (R156.7 billion against R362.7 billion at Eskom) and it has a comprehensive five-year guarantee programme in place which fully covers its debt redemptions and liquidity needs. No equity injection will be required. As with Eskom, in the case of Transnet we are now shifting from stabilising operations, to investment in infrastructure and changing the market structure.

The improved financial situation at both Eskom and Transnet has reduced risks of contingent liabilities crystallising.

MACRO OUTLOOK

Medium term growth prospects have improved

Adding to our confidence on the fiscal targets is that we now have greater confidence that South Africa's medium term growth trend will become strong enough to support fiscal consolidation – and, with structural reforms, to address our severe unemployment and inequality challenges.

GDP accelerated sharply in the second half of 2025 and the growth rate for the year, at 1.1 per cent, was double the previous year. The February Budget projected a path to 2 per cent by 2028, underpinned by supply-side improvements in energy availability and logistics volumes which will drive higher investment, exports and corporate profits.

We obviously will be updating our forecasts in the light of the latest global headwinds, but South Africa's improved growth outlook rests primarily on structural tailwinds not cyclical challenges.

Fixed investment data already show an inflection point with two consecutive quarters of expansion in 2025 after a long period of negative growth. This signals rising investor confidence and early returns from reforms.



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Agricultural exports have had an excellent start to 2026, increasing by 11 per cent in the first quarter from the same period in 2025 due to higher volumes and better prices. This is despite the uncertainties of global trade, higher tariffs, and domestic logistical challenges.

The Middle East crisis has raised global concerns about the availability of fertiliser and put upward pressure on prices. South Africa imports more than three quarters of its fertiliser and but it can diversify its sources and is unlikely to experience a shortage. Higher costs could raise agricultural production costs and feed into higher food prices (as could El Nino later this year). Our farmers are, however, in good shape for the current planting season.

Structural reforms are showing results

A major driver of recent confidence, including from rating agencies, has been steady progress in the implementation of structural reforms.

In Energy, we are transforming the electricity sector to achieve energy security and drive down prices. The pipeline of new private renewable energy projects is unprecedented, reflecting the success of reforms to open up the market since government removed the licensing threshold in 2021.

The energy regulator NERSA has registered over 19 Gigawatts of new generation capacity. The new National Transmission Company of South Africa reports 24 gigawatts of projects that are engaged in the grid connection process for connection over the next six years. To put this in context, the current national daily demand for electricity is around 26 gigawatts.

More than half are solar: almost a quarter are wind powered, and significant gas battery storage capacity are also due to come on to the grid.

A task team, which I chair, is guiding the establishment of a fully independent transmission system operator, which will be essential to ensuring that we have a competitive market for electricity that can drive down prices. Last week, our energy regulator, NERSA approved the licence conditions for the market operator – this is a key milestone for the implementation of the wholesale electricity market.



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In logistics, private concessions are being rolled out. The 25-year concession for the Durban Container Terminal Pier 2 became effective in January 2026 and has already translated into operational improvements. Eleven train operating companies have been selected on 41 routes across six of Transnet's freight corridors, with seven expected to commence operations in the second quarter of next year. As a result, we are seeing strong private investment in rolling stock.

Transnet's Infrastructure Manager (TRIM) has been separated from Transnet Freight Rail and the Transnet National Ports Authority is being unbundled. These measures will help to level the playing field for new private investors and drive greater competition in our logistics system. We are already seeing the green shoots of these reforms: 2025 was the strongest year for port volumes since the pandemic and strongest for rail since 2022.

We believe that infrastructure reform is key to boosting growth and job creation and is a particular focus for the Treasury. We have implemented a series of reforms to attract large-scale private investment and to speed up public sector infrastructure delivery and make it more effective.

The Budget shows a crucial shift in government's own spending priorities, towards investments that grow the economy. Spending on new infrastructure, as well as upgrades and refurbishment of existing infrastructure, is the fastest growing item of expenditure, increasing by almost 10 per cent a year over the medium term, well above the overall 3.9 per cent increase in consolidated spending.

A good example are the very significant investments we are making in the commuter rail system. Over the next few years Prasa will benefit from a R23.1 billion investment in signalling systems across the network and a R7.4 billion increase to its operations budget to allow it to continue opening new lines. A further R5.7 billion will ensure its rolling stock programme continues to deliver new trains as the signalling investments allow more trains onto the network.

We have reformed our Budget Facility for Infrastructure (BFI) to make it more effective. The BFI now has four annual bid windows and has approved R104 billion of projects since inception. This includes the current R11.2 billion to Transnet to repair the iron ore and coal corridors and improve efficiency at the Durban Container Terminal, investments which have been structured to unlock a further R18 billion in private capital.



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We also placed our first Infrastructure Bond in December 2025 raising R11.8 billion and as new BFI windows are concluded, projects from these windows will be packaged to issue more infrastructure bonds, making this a permanent feature of government's funding.

A new credit guarantee vehicle, which we have launched with the World Bank, will be operational this year, which will derisk private investment in mega-projects such as new electricity transmission without increasing contingent liabilities through the issuance of government guarantees.

Finally, municipal reforms are crucial to support higher investment, growth and job creation. You will know that the state of some of South Africa's big cities, and its smaller municipalities, has become a serious constraint to economic activity. It is making headlines, particularly with our local government elections coming up in November.

From Treasury's side, we made it clear in the February Budget that we are moving from oversight to active structural intervention in municipalities which are in financial distress. These municipalities not only do not pay their bills, but they also don't use the money they collect in utility charges to re-invest in infrastructure so that they can maintain and expand services.

In March, we launched the Metro Trading Services Reform, which incentivises municipalities to ringfence their trading services such as electricity, water and refuse collection, and ensure the revenues from these services is re-invested in infrastructure to support them. R54 billion has been allocated over the medium term to support this programme.

And we are using the leverage that government has to force defaulting municipalities which don't deliver on the terms of the Eskom debt relief programme to hand over the running of their electricity operations to Eskom.

CONCLUSION

In conclusion, as things stand, we remain focused on the targets we set ourselves to improve the health of South Africa's public finances. Reducing public debt to more sustainable levels will help to enable higher growth by lowering the cost of capital and supporting accelerated investment.



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We only have to look at the numbers to see that a turnaround is under way in South Africa. We are not yet where we want to be and more work lies ahead, especially in the current global environment. But we are on track to get there.

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