national treasury

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SPEECH BY THE DIRECTOR-GENERAL AT THE ABSA CONSUMER CONFERENCE ON

4 AUGUST 2026

Good morning everyone and thank you for inviting me to address the annual Absa Consumer Conference of 2026. It's a pleasure to be here and to be able to engage with the investor and corporate community.

I have been asked to talk about fiscal policy and reform momentum and I thought we could address this topic through three headline questions:

- First, we provided an update on our fiscal strategy in February but given geopolitical upheavals of the past few months, the obvious question is whether we are still on track to deliver on that strategy?
- Second, what progress have we made to create an environment for higher rates of investment, growth and job creation, particularly through investment in public infrastructure?
- Third, can we fix local government and get municipalities to deliver the services that households and businesses need?

RESTORING FISCAL CREDIBILITY

Let's start with the first question: Are we on track with our fiscal strategy, despite the fallout of the war in the Middle East that began just three days after the February Budget? The short answer is yes. And our view is we can stay on track despite the current global challenges.

For the past three years our fiscal strategy has been anchored by two objectives: one, to stabilise the debt to GDP ratio in the 2025/26 fiscal year and then reduce it. Two, to run growing primary surpluses – where revenue exceeds non-interest spending by an ever-rising margin.

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We have now run primary surpluses for three consecutive years, enabling us to stabilise the debt to GDP ratio as these surpluses have been bigger and bigger every year. Geopolitical tensions since February have raised inflation and reduced global and therefore local growth prospects. That has made it more challenging to deliver on our fiscal targets, while ensuring that we protect critical social spending. But the test of our fiscal credibility is our ability to deliver even when the fiscal framework is stress-tested by events beyond our control.

After more than a decade in the fiscal wilderness, in which fiscal targets were constantly missed and debt and debt service costs kept rising, the government is now demonstrating it can deliver on its fiscal promises. We have seen the implications of renewed fiscal credibility in lower borrowing costs for government, which lowers borrowing costs for everyone in the economy, households and businesses alike. Another consequence of a stronger fiscal position has been a more stable and resilient currency, which helps to contain inflation and help us better manage the cost of borrowing in dollars.

Better macroeconomic management, including the new 3 per cent inflation target announced by the Minister of Finance in November last year, have prompted positive ratings actions from the three major global credit rating agencies.

The ratings actions are particularly striking because they go against the global ratings trend, which has been overwhelmingly negative since the start of this year. S&P upgraded South Africa’s rating soon after the Medium Term Budget in November, becoming the first rating agency to do so in 16 years. But it was in May this year, after the current Middle East war began in February, that Moody’s upgraded its outlook on South Africa. Fitch then unexpectedly upgraded the rating without the usual step of putting it on positive outlook first; and S&P affirmed its rating and its positive outlook.

This is an endorsement of our view that we are on track with the fiscal strategy, despite global upheavals. All three rating agencies expect debt to stabilise. And while the ratings are still in sub-investment grade territory, they are on an upward trend for the first time since before the 2008 global financial crisis. That helps to lower borrowing costs across the economy and contributes to a more favourable environment for investment and job creation through a lower cost of capital.

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We ended the 2025/26 fiscal year in March on a positive note, outperforming the projections in the February Budget. The primary surplus came in at 1.1 per cent against a Budget estimate of 0.9 per cent. The main budget deficit came in at 4.3 per cent against our February estimate of 4.6 per cent.

Not only did we end the previous fiscal year on a positive note, but the current year has continued to exceed our expectations. We have just released the monthly numbers for June, which is a big month for corporate income tax collections and our revenue collections are running ahead of our Budget estimates for the year to date. Tax revenue collections over the first quarter of the current fiscal year (April to June 2026) grew at 9.2 per cent compared to the same period a year ago. This buoyant revenue growth has taken place despite much lower fuel levy collections due to the fuel levy relief announced a few months ago. Provisional corporate tax collections over the first quarter of the current fiscal year grew at 25.2 per cent compared to the same period in 2025/26, with the mining, finance and manufacturing sectors the most significant contributors.

These robust revenue collections will help to buffer the fiscal framework. But we are also firmly focused on making government spending more efficient and more effective. And we are implementing the reforms to do this. We embarked on what we call the Targeted and Responsible Savings initiative in 2025 to identify underperforming or low priority programmes which could be reduced or phased out. Savings will be redirected to higher priority spending needs. This initiative yielded an initial R12 billion of savings in the latest fiscal year but we expect this to ramp up over the medium term. The National Treasury is also using data-driven analysis to identify so-called 'ghost workers' and verify social grant recipients, all of which is yielding additional efficiency savings. These developments alongside operational and financial improvements at key state owned entities such as Eskom and Transnet, will help us to stay on course to deliver on our fiscal strategy.

From a fiscal perspective we believe we have turned the corner. A new era of fiscal sustainability will create the basis for higher economic growth and job creation. However, to take full advantage of this opportunity, fiscal credibility must be combined with the reforms required to support higher economic growth and investment and faster job creation.

UNLOCKING INVESTMENT AND GROWTH

Let me know turn to the second question: how can we address our sluggish economic growth rate? A critical lever to attain higher growth is to significantly lift the level of infrastructure investment, which will also provide more and better-quality public services.

Infrastructure investment spurs growth in the short term, by raising demand for inputs and workers. But it also builds the productive capacity to sustain longer term growth.

The capital required to finance South Africa's very large infrastructure requirement has become cheaper over the past year, thanks to declining government bond yields, a resilient currency and upgrades to our credit ratings. Government's efforts to rein in the public debt and rebuild fiscal credibility have made this possible.

But much more is needed to unlock investment flows and ensure that projects are delivered successfully.

Government cannot do it alone. We have therefore embarked over the past two years on a series of reforms to mobilise private sector financing and expertise for infrastructure investment. At the same time, we are implementing reforms within the public sector to improve project preparation and delivery. And we are committing public money to catalyse infrastructure investment and crowd in private finance.

The 2026 Budget showed a crucial shift in government's own spending priorities, from shorter term consumption 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 in the current budget, increasing by almost 10 per cent a year over the medium term, well above the overall 3.9 per cent increase in consolidated spending.

We believe that private investment can multiply government's capital spending, and we know that there is significant private appetite for investment in infrastructure. Government's growth strategy aims to leverage that. Under Operation Vulindlela we are opening sectors such as energy and logistics to private participation.

It is now almost six years since government embarked on the Operation Vulindlela reforms. On Friday we published, on our website, an Operation Vulindlela progress report as well as a document outlining some of Operation Vulindlela's achievements and future plans. We are the first to acknowledge that progress on reforms could be faster but at the same time we know that remarkable progress has been made, often in contested and challenging circumstances. These reforms are providing a platform for higher growth in years to come.

Recent months have seen notable progress in our ability to crowd in new forms of funding for public investment. Following the R11.8 billion raised in the debut issuance of the new Infrastructure Bond on 8 December 2025, we conducted our first auction tapping these instruments on the 8th of July. R5 billion was on offer, but total bids of R17.8 billion were received and we decided to allocate R4.4 billion.

Both Infrastructure Bonds on auction cleared close to market, which is remarkable for new and relatively illiquid instruments. These outcomes demonstrate strong interest from institutional investors to support government's public investment ambitions. The next Infrastructure Bond auction will take place on 21 October 2026, with the auction calendar available on our Investor Relations website.

These are the first steps in creating a new asset class that will build a market in infrastructure financing over time. The money will support priority national projects under government's Budget Facility for Infrastructure (or BFI), with the public funding leveraging additional private investment. The BFI, which now has four annual bid windows, has approved R104 billion of projects since inception. This includes the R11.2 billion to Transnet to repair the iron and coal corridors as well as improve the efficiency of the Durban container terminal. This investment by the government has been structured to unlock R18 billion in private-sector capital to improve the productive capacity of South Africa's port and rail system.

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 activities. These new funding instruments also give the government greater funding optionality, reducing pressure on our traditional sources of domestic funding and helping to build further fiscal buffers.

The National Treasury, with technical assistance from the World Bank, is also making good progress on establishing a new credit guarantee vehicle or CGV. This listed entity will mobilise private finance at scale for mega-projects such as the expansion of South Africa's electricity transmission network. We have appointed an interim board for the CGV and are currently finalising the requirements to license and list the entity.

Public-private partnership (PPP) regulations for national and provincial governments have been revised to streamline procedural requirements, close regulatory gaps and clarify institutional roles. A massive boost to the PPP pipeline, where there are now 63 PPP projects at different stages of development, will help meet the country's infrastructure needs. This year, the redevelopment of six ports of entry (Lebombo, Oshoek, Beitbridge, Maseru Bridge, Ficksburg and Kopfontein) will be finalised as a PPP worth R12.5 billion. Each port of entry will be redesigned and constructed, including installing infrastructure for broadband connectivity.

The current budget also contains significant investments over the next few years in our commuter rail system. This will reduce transport costs for working families and job seekers and address traffic congestion in major urban centres. Over the next few years Prasa will benefit from a proposed R23.1 billion investment in signalling systems across the network, a R7.4 billion increase to its operations budget to allow it to continue opening new lines and a R5.7 billion in-year allocation to ensure its rolling stock programme continues to deliver new trains as the signalling investments allow more trains onto the network.

South Africa's ailing, ageing infrastructure has long weighed on its ability to attract investment and grow our economy. The reforms under way will help to lift that weight and position the country for faster growth.

FIXING LOCAL GOVERNMENT

Finally, local government. We have all watched as the financial health of local government has steadily deteriorated over the past decade. More than half of our municipalities, 162 in total, are in financial distress. There are high levels of irregular, unauthorised, fruitless and wasteful expenditure and rising levels of non-payment to creditors and third parties, including Eskom, water boards, the South African Revenue Service and pension funds. This threatens the financial viability of bulk service providers and the critical services they provide. Non-payment also gives rise to fiscal imbalances that, if left unaddressed, can threaten the hard-won fiscal credibility the government has gained.

The negative implications of local government mismanagement have started to manifest more broadly and present a significant risk to faster growth. In September 2024, the Department of Water and Sanitation raised the alarm in parliament that two water boards, Vaal Central Water and Magalies Water, were facing imminent bankruptcy. The two water boards supply water to residents in the Northern Cape, Free State and North West. They had stopped paying for raw water due to non-payment by municipalities. This not only threatened to interrupt water supply to three provinces, but it threatened the financial viability of the whole water sector.

Working with the Department of Water and Sanitation, the National Treasury withheld the equitable share payments of the municipalities and released these on 17 December 2024 on condition they settled their debt to the two water boards. This action saved those boards from collapse and ensured that residents in Northern Cape, Free State and North West continued to receive water.

Building on this experience, and in response to broader financial deterioration in local government, this year's Budget signalled a fundamental shift. Government moved from oversight to active structural intervention to support a sustainable turnaround in municipalities.

We have recently taken first steps to put that into practice. In December 2025 the National Treasury embarked on an extensive process of consultation with municipalities in breach of their financial management obligations. These municipalities adopted unfunded budgets, they fail to pay creditors (such as water boards) or third-party contributions (such as employee pension contributions), they did not reduce unauthorised, irregular, fruitless and wasteful expenditure and they did not implement consequence management against implicated officials.

These municipalities were given notice that funding could be withheld if they failed to address this. In fact, persistent failure by municipalities to pay over monthly pension deductions constitutes financial misconduct by officials and is a criminal act by the municipal manager.

That was the background to our decision in June 2026 to withhold the July equitable share transfers to selected municipalities. The National Treasury followed all the processes required by the law. Our action was intended as a corrective measure to get errant municipalities to change their behaviour and put proper governance and oversight in place. It followed years of support, guidance and training by the National Treasury to help struggling municipalities turn themselves around.

Last week, the Minister of Finance announced that the National Treasury would start releasing the remaining transfers that were withheld. This was because the National Treasury cannot withhold the equitable share for more than 30 days without parliamentary approval. In our view, the process was a success. Many of the affected municipalities entered into signed payment agreements with their creditors, with almost R4.2 billion paid by 31 July.

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Despite the release of the equitable share, municipalities must still correct the serious financial and governance weaknesses that have been identified. If they do not, the National Treasury will follow the necessary steps to withhold equitable share transfers again in the future.

This process has highlighted the need for greater scrutiny of municipal finances. We encourage the public to monitor affected municipalities' finances through the dashboards available on the National Treasury website – Muni eMonitor and Go Muni – which transform complex financial data into accessible information.

Withholding equitable share transfers can only be a short-term fix.

The Department of Cooperative Governance and Traditional Affairs is leading the development of a new White Paper on local government. The National Treasury is reviewing the fiscal framework for local government. We also last year launched the Metro Trading Services Reform and are rolling out smart meter initiatives to turn around municipal revenue collection and boost infrastructure investment. The Smart Meters Grant Programme, valued at R2.3 billion, is a key intervention to arrest municipal revenue failure by replacing aging, easily bypassed infrastructure with smart, prepaid technology.

The Metro Trading Services Reform is a R54 billion flagship initiative to address the dysfunction which undermines service delivery and infrastructure investment in the metros. Little of the revenue they collect from trading services such as water, electricity and sanitation is reinvested in the infrastructure needed to support the delivery of those services. The reform we have embarked on will shift to a utility model for water and electricity, where these services will be run like businesses and revenue will be re-invested into the maintenance of critical infrastructure. We also expect it to unlock significant private sector investment into infrastructure in the metros.

Legislative changes to the conditional grant framework have been introduced to strengthen delivery of infrastructure. For example, in struggling non-metro municipalities, infrastructure projects will be delivered by implementing agents such as the Development Bank of Southern Africa. Shortly the National Treasury will publish dedicated public private partnership regulations for local government to facilitate private sector participation in the delivery of basic services to residents.

CONCLUSION

Delivering on our fiscal targets and rebuilding fiscal credibility has done much to support South Africa's macroeconomic stability, but we need higher rates of investment and growth. And we need to fix state capacity at local government level, in particular. None of this is easy. But the steps we are taking will create a more favourable environment for investment and for consumers in coming years.