national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001 | 40 Church Square, Pretoria, 0002 | Tel: +27 12 315 5111

@Treasury_RSA National Treasury RSA National Treasury of South Africa @treasuryrsa | www.treasury.gov.za

SPEECH BY THE DIRECTOR-GENERAL DR DUNCAN PIETERSE

RMB MORGAN STANLEY BIG FIVE INVESTOR CONFERENCE 14 SEPTEMBER 2026

Thank you for inviting me to address you this morning and congratulations to the team on the 20th anniversary of the RMB Morgan Stanley Big Five Investor conference.

This conference has provided an important platform over the two decades for South Africa's public and private sector leaders to engage frankly with investors. We always appreciate such engagements, and the opportunity they give us to make the investment case for South Africa.

Since we enter our traditional closed period next week, today is probably our last engagement with investors before the Medium-Term Budget Policy Statement which the Minister of Finance will present on Wednesday 21 October. And I wanted to share some thoughts with you on where we are, and where we want to get to.

I will focus on these in four areas:

- First, I want to start by framing our fiscal strategy, providing an update on our progress and emphasising why fiscal credibility is so important to us.
- Second, I will share the progress have we made on the proposal to anchor sound fiscal principles in law and maintain our progress to restore fiscal credibility.
- Third, I want to talk about our efforts to address the challenges in local government.
- And fourth, I will provide an update on our efforts to restructure South Africa's electricity industry in a way that lifts economic growth and lowers electricity prices.

Building a fiscal track record

Starting with our fiscal strategy: we believe we can safely say that we remain on track to deliver on our fiscal targets, even though the outlook for growth and inflation has shifted since the current Middle East war began.

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-wider margin.

We have now run primary surpluses for three consecutive years and are on track to deliver a fourth. This is the first time we have achieved this since the global financial crisis. Before that crisis the government had achieved primary surpluses for more than a dozen years, which enabled it to slash debt and debt service costs and opened the space for a huge increase in spending on social services and infrastructure.

After the global financial crisis, the government ran primary deficits for 13 consecutive years. In a weak economy, that caused debt to triple and debt service costs to soar, crowding out critical social spending, eroding our fiscal credibility, and losing South Africa its investment grade credit status.

When government revenue exceeds non-interest expenditure, there is a surplus available that can be used to meet our debt obligations and, importantly, to reduce the amount of debt that needs to be financed over time. That is what allows debt to stabilise as a percentage of GDP and, ultimately, to start declining.

A growing primary surplus is a critical anchor of our fiscal strategy because as debt declines, the resultant fiscal credibility translates into higher growth and job creation by creating the enabling conditions for greater investment. This year, we are projecting a primary surplus of around R131 billion. That is R100 billion larger than three years ago.

The primary balance is arguably a stronger measure of how prudently the public finances are being managed than the debt-to-GDP ratio. This is because the primary balance is entirely within government's control. It is the product of government's revenue and spending choices. So, it is a true test of whether we deliver on our undertakings.

By contrast the debt-to-GDP ratio is vulnerable to shifts in economic growth and inflation, because the denominator of the ratio, nominal GDP, is influenced by many other factors beyond our control. In fact, our efforts to contain the debt-to-GDP ratio in recent years, have been successful despite very large downward revisions of nominal GDP, demonstrating our commitment to fiscal credibility.

We remain confident, however, that the debt-to-GDP ratio has stabilised in 2025/26 in line with our strategy. And that it will decline over the medium term.

When businesses and investors have confidence in a country's fiscal path, they demand a lower risk premium to hold its assets. And when that risk premium is lower, the cost of borrowing and therefore the cost of capital, declines across the economy.

That matters for businesses that want to expand and employ more people.

It matters for households that need to take on longer-term credit.

It matters for small and medium-sized businesses that need finance to invest and grow.

So, when we talk about fiscal sustainability, we are not simply talking about balancing the government's books. We are talking about creating the conditions for higher economic growth and faster job creation.

Fiscal sustainability is not an abstract objective.

It is about lowering the cost of capital, supporting investment and growth, protecting jobs, and ensuring that we have the resources to protect the most vulnerable in society.

That is why maintaining a credible fiscal path — and continuing to build a primary surplus — remains so important to us.

We have always maintained that the test of our fiscal credibility is our ability to deliver even when the fiscal framework is tested by events beyond our control. Credibility is not about having a good excuse for missing your fiscal targets. It is about meeting or exceeding those fiscal targets even under very difficult circumstances.

It has helped that we ended the 2025/26 fiscal year in March on a positive note, outperforming the revenue and expenditure projections in the February Budget. The current year has continued to exceed our expectations. The latest monthly revenue numbers show collections running comfortably ahead of Budget estimates despite the fuel levy relief. This reflects strong growth in corporate income tax collections.

Robust revenue will help to buffer the fiscal framework. But we are also firmly focused on making government spending more efficient and more effective.

We embarked on the Targeted and Responsible Savings initiative in 2025 to identify underperforming or low-priority programmes which could be phased out, with savings redirected to higher priority spending. We are also using data-driven analysis, including a ghost worker audit, to yield additional efficiencies. These developments alongside operational and financial improvements at Eskom and Transnet will help us to stay on course to deliver on our fiscal strategy.

We have seen the real-world benefits when government shows it can deliver on its fiscal promises. Even though bond yields have jumped globally in recent weeks, South Africa has fared less badly than many other markets. And the rand has remained strong against major currencies.

Our borrowing activities have proceeded very well this year, supported by strong floating rate note and non-competitive auctions, a successful tap of our new infrastructure bond and lower discounts than in recent years. Between the solid performance of our switch auctions and minor changes to our instrument mix, we believe that we are well prepared for the larger than usual redemptions over the next few years.

We have also already managed to secure all the foreign funding we had budgeted for the current fiscal year, mostly at highly concessional rates which bring down borrowing costs in our hard currency portfolio. We have signed loan agreements with a range of international development finance institutions at attractive concessional rates – most recently loans of 300 million Euros from Germany and France to support our Metro Trading Services reform.

In some cases, our bond spreads have tightened to levels comparable to emerging market peers with investment grade ratings, so the bond market is also showing confidence in our ability to deliver on our fiscal strategy.

Legislating fiscal sustainability

We want to lock in those gains with a more durable commitment by government to sound management of the public finances.

One recommendation of our 2024 Macroeconomic Policy Review was that government should revisit the inflation target and align it more closely with our peers and trading partners. The Minister of Finance announced a lower inflation target in last year's MTBPS. We are now taking the next step, which is to strengthen the fiscal side of our macroeconomic policy framework.

The 2024 Review recommended that government consider adopting a principle-based fiscal anchor that would commit it to achieving fiscal sustainability in a transparent and accountable way.

We said in February that we would prepare legislation to anchor sound fiscal principles in law, to build confidence and maintain the gains of fiscal consolidation without resorting to painful spending cuts or tax increases.

When we presented our plans in February, we indicated that we do not believe that legislating a hard numerical rule is appropriate. Instead, we prefer an anchor based on the principle of fiscal sustainability. Legislation has been drafted, the technical work is complete, and we will be ready to provide an update on the 21st of October.

Our proposal will ensure that future governments do not repeat the costly fiscal mistakes of the past.

Fixing municipalities

Allow me to turn now to two of the key structural reforms that government is implementing to boost economic growth led by Operation Vulindlela -- electricity and local government. Reforms in these two areas are crucial to attract investment and improve the delivery of services to households and businesses.

The reform process is always difficult and contested. We have therefore not been too surprised at the robust debate which government's efforts to fix local government and push ahead with the restructuring of the electricity industry has generated. But we remain resolute.

Higher economic growth depends on implementing far-reaching reforms in both those sectors, as well as in other priority sectors such as water and logistics.

The financial health of local government has steadily deteriorated, as has the ability of many municipalities to provide adequate services such as water and electricity for their residents.

Government has embarked on an integrated package of local government reforms which spans four broad categories:

First, enforcement and compliance. We said in the February Budget that we were going to intervene more actively to support a sustainable turnaround in municipalities. In June the Minister of Finance suspended equitable share transfers to 69 municipalities as a corrective measure to address the mismanagement of public funds. We are allowed, by law, to suspend these transfers for 30 days without parliamentary approval. While the Minister announced at the end of July that the transfers would be released, in our view this initiative was a success.

Many of the affected municipalities signed payment agreements with their creditors. They put procedures in place to manage irregular expenditure and prevent it recurring. However, they must still correct the serious financial and governance weaknesses the process identified. The Minister may take action again in future. We have implemented a structured compliance programme and deadlines to monitor effectiveness.

We are also taking action to ensure that government itself pays what it owes to municipalities. This week, the National Treasury is writing to national departments with outstanding balances to municipalities to verify those amounts and to make arrangements to settle outstanding balances. Where non-payment of municipal accounts persists, the National Treasury will engage those accounting officers to ensure that their debt to municipalities is settled.

However, we are painfully aware that these steps can only be a short-term remedy. More fundamental reforms to local government are urgently needed to support a sustainable turnaround.

So a second category of reforms includes interventions to improve the way municipalities manage the delivery of basic services – such as water, electricity and sanitation - and the revenue they collect for these.

The National Treasury has launched two important projects – the Metro Trading Services reform and the smart meters grant programme - to turn around municipal revenue collection and boost infrastructure investment. We have also introduced changes to the grant framework to strengthen infrastructure delivery in our municipalities. We will soon publish public private partnership regulations for local government to unlock private sector investment in the infrastructure required to deliver basic services.

Through the Budget Facility for Infrastructure and the new infrastructure agency we launched earlier this year, called IFISA, we are working to improve the preparation of infrastructure projects so that they can be more easily financed and more effectively delivered.

A third category of reforms is to overhaul the legislation and regulations governing local government. We will publish amendments to the Municipal Finance Management Act later this year to address recurring weaknesses in municipal financial management. The amendments aim to identify financial stress earlier, support firmer action where failure persists, and assign clearer responsibility for corrective measures in municipalities.

The final category of reforms aims to effect longer term structural changes to South Africa's system of local government. 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 local government fiscal framework.

These structural reforms to the local government landscape will take time to implement and they will require political will. But, like restructuring of the electricity industry and fixing South Africa's logistics industry, the reforms are non-negotiable if we want to increase investment, job creation and economic growth in South Africa.

Unbundling Eskom

Let me turn now to the final question and provide an update on our efforts to restructure South Africa's electricity industry in a way that lifts economic growth and lowers electricity prices.

You may know that government's intention to create a more competitive electricity market has a long history, which goes back to the early days of the newly democratic South Africa.

That was when the government decided to unbundle Eskom, as part of a restructuring of the industry to promote access to affordable and sustainable electricity.

The 1998 White Paper on Energy Policy said Eskom would be restructured into separate generation and transmission companies over time. It also said that open access to the country's transmission lines was a prerequisite for a competitive market.

In the decades since that 1998 White Paper, more than 100 countries have reformed their electricity sectors and restructured their vertically integrated utilities, including all 27 European Union member states as well as many of our peer emerging markets such Brazil, China, India and Turkiye. That leaves Eskom as one of the world's only large, vertically integrated electricity suppliers.

Let's look at the Indian case: over the past three decades, India has transformed from a country without reliable electricity, where most industries relied on in-house diesel generators, to one with a national, power transmission company which has played a significant role in India's transition from a poor country to a middle-income country with one of the fastest growing economies in the world.

In 1989, India amalgamated the transmission assets of six of the country's power generating entities to create POWERGRID. The company remains state owned and is now one of the world's largest transmission utilities, regarded as one of the best managed globally. It has hugely expanded the grid and introduced innovative technologies. In addition, there was a massive decline in wholesale electricity tariffs after the introduction of a competitive wholesale market. It has therefore played a pivotal role in India's growth by providing reliable and affordable power.

In South Africa, changes to our electricity regulatory regime have allowed private investment in renewable energy projects to surge over the past five years, helping to restore a reliable supply of electricity. And the appetite to invest in new renewable power continues to grow. South Africa's current average continuous electricity demand, supplied mainly by Eskom, is around 26 Gigawatts. There are now about 32 Gigawatts of mostly private sector renewable energy projects in the grid connection process. This unprecedented investment by the private sector in electricity generation in South Africa will completely transform our economy and drive down electricity prices.

We must ensure that these new generators have fair and equal access to the grid, and that, once they are on the grid, the system operator dispatches their power on a level playing field with Eskom power.

Our major challenge is to expand and modernise the grid itself, so that it can connect all these new generators and transport that power across the country. It is estimated that more than R440 billion will be required to expand and modernise transmission infrastructure over the next decade. A lot of this will have to come from the private sector.

The restructuring of Eskom to establish an independent transmission company is a key enabler to unlock the massive investment we need in transmission infrastructure, because it removes the inherent conflict of interest in vertically integrated monopolies such as Eskom. In fact, when the government implemented the multi-year R234 billion Eskom Debt Relief package in 2023, the conditions that accompanied that package included the unbundling of Eskom to create a fully independent state-owned transmission company.

It was therefore no accident when the National Transmission Company of South Africa (or NTCSA) was established two years ago as a subsidiary of Eskom. The next step is to secure its independence by transferring ownership and control of the assets to an independent Transmission System Operator, or TSO. The TSO, an independent company with its own balance sheet and transparent cashflows, will be better placed to raise funding in the market at competitive rates and to partner with the private sector to deliver the transmission infrastructure South Africa desperately needs to drive higher growth.

In his State of the Nation address in February the President underlined government's commitment to restructuring Eskom to establish a fully independent, state-owned transmission entity. The President made it clear that this entity would have full ownership and control of transmission assets and be responsible for operating South Africa's electricity market.

In line with this commitment, the President appointed an Electricity Restructuring Task Team. Its mandate is to develop a detailed proposal and implementation plan to deliver an independent state-owned transmission company. The task team, which I co-chair, recently finalised its Phase 1 report, which was endorsed by the President.

Our Phase 1 report sets out a high-level approach to establish an independent TSO in a manner that leaves Eskom no worse off while ensuring that the TSO is financially sustainable and able to invest in the transmission network.

Phase 2 of our work is currently under way. This includes the development of a detailed implementation plan, legal due diligence, and a lender engagement strategy, in addition to implementing no-regret actions to prepare for the restructuring. Our detailed implementation plan is due to be submitted to the President later this year.

We aim to implement the unbundling over the next 18 months and will in the interim put governance and regulatory measures in place to strengthen the NTSCA's independence from Eskom.

State ownership of South Africa's transmission entity will be preserved.

There is, in other words, a clear decision by the President, clear government policy and a timeline to implement it. But reform is always uncomfortable, and we always expected a reform as defining as this one to be even more so.

In our view, as we do this work, it is not the principle that is at issue: there is broad agreement on the need for an independent transmission operator to support a competitive market, as envisaged by the 1998 White Paper.

Where concerns have been raised, it has been about the future of Eskom and the impact of this transaction on the fiscal framework. It is therefore important to emphasise that this transaction will be structured so that Eskom is not worse off, the transmission entity will be financially sustainable, and our fiscal strategy will remain on track.

Our Phase 1 report demonstrates that a carefully designed and implemented transaction can achieve these different objectives. In compiling the report, we have worked closely with the management teams of Eskom and NTCSA. It is clear that they have the right combination of capability and strategic orientation to deliver on this complex reform alongside government and other key stakeholders, including the unions.

Over the last decade or so, the South African government has spent R464 billion of taxpayers' money to support Eskom to remain financially viable during a time that the utility faced significant headwinds. We therefore have no interest in doing anything to compromise the future viability of Eskom. Government will ensure that the unbundling process is carefully sequenced and managed to address all risks.

As we continue to Phase 2 of this critical reform, know that you will hear from us soon, and that we look forward to engaging with you – on electricity, but also, as always, on our public finances and on our initiatives under Operation Vulindlela to get the South African economy growing and to unlock greater levels of investment and much faster job creation.

Thank you.