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2026 BUDGET REVIEW
**A FISCAL TURNING
POINT IN A RESILIENT
ECONOMY**



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- The economic outlook has improved moderately, and the public finances have reached an important milestone.
- Real GDP growth of 1.4 per cent is estimated for 2025, rising to 2 per cent in 2028.
- The debt ratio will stabilise in this financial year and decline thereafter. This will reduce medium-term debt-service costs as a share of revenue and support the sustainable provision of public services.
- Inflation declined to 3.2 per cent in 2025 compared with 4.4 per cent in 2024, helping to improve affordability for households and keep interest rates lower.
- Growth-enhancing reforms have progressed in energy, transport, telecommunications and visa provision. But overcoming obstacles to implementation, higher investment and improvements in basic services remain critical to creating jobs and reducing poverty.
- Budget reforms are under way to make government more efficient and cut wasteful programmes and activities.

OVERVIEW

The 2026 Budget marks the achievement of important fiscal policy goals. The economy has proven resilient, reforms to increase growth have made notable progress and confidence is being restored.

Government is delivering on its pledge to rebuild the health of the public finances, as initially set out in the *2023 Budget Review*. Public debt is stabilising this financial year and will decline thereafter, enabling government to protect funding for key public services. Lower borrowing costs and an improved inflation outlook following the decision to reduce the inflation target to 3 per cent will also encourage private investment and job creation. Medium-term fiscal policy is anchored by the primary budget surplus, which means revenue exceeds non-interest spending. This surplus continues to grow over the next three years, placing public debt on a sustainable path.

The R20 billion tax increase provisionally announced for the 2026 Budget is withdrawn. Government remains on track to achieve its fiscal targets over the medium term without burdening taxpayers with further increases or harming the nascent economic recovery.

The economy is estimated to have grown by 1.4 per cent in 2025, up from 0.5 per cent in 2024. A fourth consecutive quarter of growth indicates emerging optimism about economic prospects, more reliable energy and logistics provision, stronger public finances and lower borrowing costs.

Nevertheless, structural constraints continue to limit economic growth and investment. Growth remains well below the levels needed to meaningfully reduce unemployment and generate sufficient revenue to expand social and economic services. Critical reforms to increase GDP growth, improve government efficiency and scale up public investment have been prioritised to add momentum to the economic recovery.



The 2026 Budget also signals a fundamental shift in the effort to fix local government. For over a decade, intergovernmental flows have masked financial weaknesses in subnational government. With 63 per cent (162) of municipalities in financial distress in 2023/24, and provinces struggling to balance compensation costs and service delivery, this approach has reached its limit. As outlined in Chapter 6, government is now moving from oversight to active structural intervention.

Although the global economy has also demonstrated resilience, risks are elevated. In this environment, South Africa needs to look to domestic drivers to spur the economy. A key focus remains improving the performance of major state-owned companies to ensure that electricity, logistics and passenger transport enable rather than constrain growth. More rapid action to overcome obstacles to reform will support the economy and development.

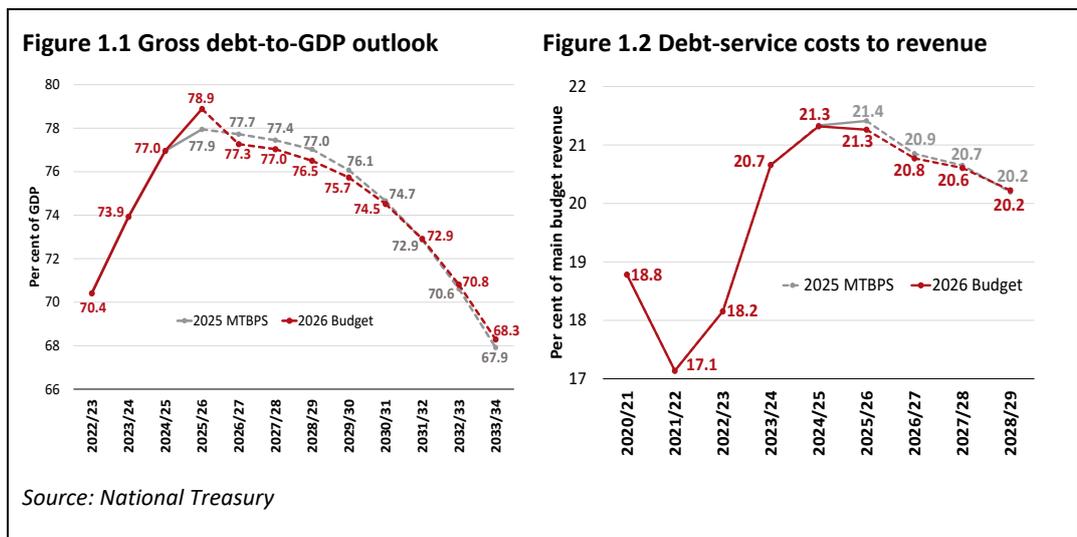
FISCAL OUTLOOK



Fiscal policy balances the need to narrow the budget deficit and reduce debt with the obligation to protect public services and support the economy. Low growth and high debt-service costs have made this balance difficult, but it remains the most sustainable policy stance. Government remains on course to restore the health of the public finances.

Trends in the fiscal balances and debt

Since 2021/22, the main budget deficit has declined from 5.1 per cent of GDP to a projected 4.5 per cent in 2025/26 and is projected to narrow further to 2.9 per cent in 2028/29. In 2023/24, the primary balance swung from deficit to surplus for the first time since the 2008 global financial crisis. It will grow to 2.3 per cent of GDP in 2028/29. As a result, debt as a share of GDP will decline over the next three years and the cost of servicing that debt will reduce from 21.3 per cent of revenue in 2025/26 to 20.2 per cent in 2028/29. These developments reflect a determined approach to repair the public finances while creating a foundation for stronger and sustainable economic growth.



The debt stabilisation point is higher than anticipated, as shown in Figure 1.1. This is due in part to lower inflation and therefore weaker nominal GDP. The stock of debt is also affected by government's decision to take advantage of positive market sentiment by increasing its cash holdings in 2025/26 to better navigate large redemptions due over the medium term.

In the current year, most key fiscal metrics – revenue, the deficit and debt-service costs – are better than were projected at the time of the 2025 *Medium Term Budget Policy Statement* (MTBPS) in nominal terms.

As announced in the 2025 MTBPS, government is managing risks by increasing spending in 2025/26 for strategic public infrastructure projects, including passenger rail and rehabilitation projects at Transnet.

Revenue collection for the current year is stronger than expected at the time of the 2025 Budget. The expected outcome for tax and non-tax revenue for 2025/26 is revised to R1.98 trillion in the latest estimates, up from R1.95 trillion in the 2025 Budget, due to steady economic growth and commodity price increases.

Last year's Budget announced that R20 billion in tax increases would be proposed in the 2026 Budget to fund new and persistent spending pressures. Given the opportunity presented by higher-than-expected in-year revenues and the projected achievement of key fiscal targets, this proposal is withdrawn. Medium-term revenues are forecast to remain stable, and the tax-to-GDP ratio will average 26.1 per cent through to 2028/29.

The 2026 Budget maintains the broad medium-term spending plans and fiscal trajectory outlined in the 2025 MTBPS. Consolidated government expenditure is expected to grow from R2.58 trillion in 2025/26 to R2.89 trillion in 2028/29. As outlined in Chapter 5, greater emphasis is now being placed on improving the efficiency of state expenditure. Departments will need to be more deliberate in motivating their budgets rather than simply increasing them by inflation each year, with a focus on providing evidence-based assessment for the continuation of programmes and projects.



Entrenching sound fiscal principles in law

In 2026, the National Treasury, in consultation with Cabinet, will undertake detailed analytical work to prepare legislation to anchor sound fiscal principles in law.

Adopting such an approach is intended to avoid unsustainable practices that damage national development. In particular, the proposal is informed by recent experience. Since 2008/09, government's debt ratio has more than tripled. Debt-service costs have risen from 8.8 per cent of revenue to 21.3 per cent in 2025/26, crowding out other spending. It has taken a large-scale consolidation effort to rein in debt for the benefit of all South Africans.

To build confidence and maintain the gains of fiscal consolidation without resorting to painful spending cuts or tax increases, the National Treasury will propose a principles-based obligation to anchor fiscal sustainability in law. It will require each new government to table a plan to ensure that the fiscal position is sustainable throughout its term of office and that an appropriate fiscal metric is selected to measure compliance. Chapter 3 outlines the overall fiscal strategy and provides more discussion on this proposal.

ECONOMIC STRATEGY



Chapter 2 outlines the four elements of government's economic strategy:

- **Macroeconomic stability** has been enhanced by the consistent focus on stronger public finances and the reduction of the inflation target to 3 per cent.
- Led through Operation Vulindlela, **structural reforms** have helped to increase private-sector participation in strategic areas of the economy, such as freight rail. Chapter 2 reports on the progress of these reforms and highlights areas where more rapid action is required to overcome obstacles.
- Reforms to build **state capacity** focus on improving effective delivery of public goods and services. Over the next three years, Operation Vulindlela will expand to support improved performance in municipalities. Government is also taking steps to arrest and reverse deteriorating local government finances.
- Government is increasing funding for strategic capital projects and is reforming institutional arrangements to accelerate **delivery of infrastructure** projects.



The benefits of this strategy have started to become evident. Enhancing monetary policy certainty and consistent delivery on the fiscal strategy have prompted a virtuous cycle, especially in the period following the tabling of the 2025 MTBPS. South Africa received its first sovereign credit rating upgrade by one of the major agencies since 2009. Lower inflation and stronger public finances have boosted confidence and reduced risk, leading to lower borrowing costs and stronger investment conditions.

Much work is needed to improve the delivery of public goods, but the recent removal of South Africa from the Financial Action Task Force grey list illustrates the depth of capacity that can be assembled. Government will build on this success in other areas.

Public investment in priority projects



Annexure D provides a detailed outline of key public infrastructure projects approved and under way, and associated reforms to mobilise private finance and support rapid, effective delivery. Infrastructure investments in the public sector are distributed across the three spheres of government and in public entities and state-owned companies. Over the next three years, total planned infrastructure expenditure will amount to R1.07 trillion, of which 54.1 per cent, or R577.4 billion, will be executed by state-owned companies and public entities, with funding pooled from the national budget, own revenue and private investors. Boosting infrastructure investment will spur longer-term economic growth by removing constraints in areas such as transport, energy and water, and in the short term by raising demand for workers and inputs.

In 2025, government issued its first sovereign infrastructure and development finance bond, raising R11.8 billion at favourable rates that reflect strong market interest in financing public investment projects. These funds will be ring-fenced for strategic capital projects, based on a rigorous assessment process by the Budget Facility for Infrastructure.

During 2025/26, the facility approved five projects with a total value of R49.5 billion, of which it will fund R21.9 billion.

Table 1.1 Public-sector infrastructure expenditure and estimates – summary

R billion	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	MTEF
	Outcomes			Revised estimate	Medium-term estimates			Total
Energy	38.7	46.1	50.6	59.2	69.0	74.4	70.3	213.6
Water and sanitation	35.4	27.5	48.6	62.7	61.2	60.8	63.2	185.2
Transport and logistics	86.4	75.1	109.6	130.7	135.8	147.4	134.4	417.6
Other economic services	18.9	48.1	21.4	24.6	21.9	21.9	21.7	65.4
Health	11.9	13.1	13.6	15.8	14.5	14.4	14.6	43.5
Education	21.1	14.5	19.8	19.1	18.7	20.2	19.5	58.5
Human settlements ¹	14.3	21.3	17.2	18.1	15.5	16.2	16.7	48.4
Other social services	3.3	0.5	3.5	4.6	3.7	3.1	3.1	9.8
Administration services ²	9.0	10.7	7.4	10.5	8.8	9.3	6.3	24.4
Total	238.8	256.9	291.7	345.2	349.0	367.6	349.7	1 066.4
National departments	13.2	14.2	13.8	16.1	12.8	13.6	13.8	40.2
Provincial departments	60.1	73.2	71.5	78.9	74.1	71.6	72.2	217.8
Local government	64.7	56.8	72.0	71.0	68.9	67.4	69.5	205.7
Public entities ³	26.8	26.4	25.9	40.2	41.9	46.9	43.1	131.9
Public-private partnerships	6.0	6.8	7.1	7.8	8.2	8.3	8.7	25.2
State-owned companies ³	67.9	79.4	101.4	131.2	143.2	159.9	142.4	445.5
Total	238.8	256.9	291.7	345.2	349.0	367.6	349.7	1 066.4

1. Human settlements includes public housing and bulk infrastructure amounting to R48.4 billion over the MTEF period

2. Administration services include infrastructure spending by the departments of International Relations

and Cooperation, Home Affairs, and Public Works and Infrastructure, and Statistics South Africa and their entities

3. Public entities are financed by capital transfers from the fiscus and state-owned companies are financed from a combination of own revenue and borrowings

Source: National Treasury

Other infrastructure delivery reforms are proceeding steadily. The National Treasury and the Development Bank of Southern Africa are laying the groundwork for the Infrastructure Finance and Implementation Support Agency. Public-private partnership regulations for national and provincial governments have been revised, and amendments to the municipal regulations will be concluded in June 2026. A performance-based conditional grant was introduced in 2025 to reform metropolitan trading entities responsible for services such as electricity, water, sanitation and waste management and to ensure they re-invest revenues from services into infrastructure. This has been allocated R27.7 billion over the medium term.



EFFICIENCY AND SAVINGS

Targeted and Responsible Savings

The initial outcomes of the Targeted and Responsible Savings (TARS) initiative are outlined in Chapter 5. This initiative has helped elevate a different dimension of the budget process by forcing departments to engage with programme efficiency and effectiveness when seeking funds for different priorities. An example is the scaling down of the *public transport network grant*, which enabled the shifting of funds towards passenger rail services without increasing the total spending ceiling. Overall, the first round of this process has identified R12 billion in wasteful or ineffective programmes. Over the medium term, government intends to realise more savings.



Early Retirement Programme

Government has begun implementing its Early Retirement Programme to rejuvenate the public-sector workforce and manage compensation costs. Since the programme commenced in October 2025, 7 687 applications have been approved, while R3.7 billion of the available amount has been drawn down. The estimated net saving from this programme is R5.5 billion, of which R2.6 billion will be realised in 2026/27, R1.4 billion in 2027/28 and R1.5 billion in 2028/29.

Ghost worker audit



The phenomenon of non-existent or ineligible individuals receiving state salaries has been one of the most striking weaknesses of public financial management. A sophisticated verification process is under way to address this. Preliminary results from national and provincial departments have been verified with the Department of Public Service and Administration and the audit has flagged 4 323 high-risk cases where payroll system fraud may be involved. As outlined in Chapter 5, further steps are being taken to verify these cases.

SUMMARY OF THE 2026 BUDGET

Economic outlook

Real GDP growth for 2025 is estimated at 1.4 per cent, compared with 1.2 per cent at the time of the 2025 MTBPS. Household consumption remains resilient, while exports will benefit from stronger commodity prices over the medium term. Chapter 2 outlines the economic outlook.

Table 1.2 Macroeconomic outlook – summary

Real percentage growth	2025	2026	2027	2028
	Estimate	Forecast		
Household consumption	3.1	1.8	2.0	2.2
Gross fixed-capital formation	-2.0	2.4	3.3	3.9
Exports	-2.0	1.6	2.4	2.9
Imports	1.0	3.0	2.9	3.1
GDP growth	1.4	1.6	1.8	2.0
Consumer price index (CPI) inflation	3.2	3.4	3.3	3.2
Current account balance (% of GDP)	-0.9	-1.0	-1.2	-1.3

Source: National Treasury, Reserve Bank and Statistics South Africa

Fiscal outlook

The consolidated budget deficit continues to decline over the medium-term expenditure framework (MTEF) period, narrowing from 4.5 per cent of GDP in 2025/26 to 3.1 per cent in 2028/29. Gross loan debt stabilises this year at 78.9 per cent of GDP. Debt-service costs continue to rise in nominal terms, from R420.6 billion in 2025/26 to R469.3 billion in 2028/29, but as a percentage of revenue they also peak in the current financial year and then decline. Chapter 3 presents the fiscal outlook.

Table 1.3 Consolidated government fiscal framework

R billion/percentage of GDP	2025/26	2026/27	2027/28	2028/29
	Revised estimate	Medium-term estimates		
Revenue	2 231.7 28.8%	2 345.4 28.6%	2 467.3 28.6%	2 612.7 28.8%
Expenditure	2 578.9 33.2%	2 669.7 32.6%	2 768.1 32.1%	2 893.4 31.9%
Budget balance	-347.2 -4.5%	-324.3 -4.0%	-300.8 -3.5%	-280.7 -3.1%

Source: National Treasury

Revenue trends and tax proposals

Chapter 4 reviews revenue trends and tax proposals. Gross tax revenue in 2025/26 is estimated to reach R2.01 trillion, which is R21.3 billion above 2025 Budget estimates. Over the MTEF period, tax revenues will rise from R2.13 trillion in 2026/27 to R2.38 trillion in 2028/29, and the tax-to-GDP ratio will average 26.1 per cent. After two years with no inflationary relief, personal income tax brackets and medical tax credits will be fully adjusted for inflation. Other tax thresholds and limits are also adjusted for inflation.

Table 1.4 Impact of tax proposals on medium-term revenue¹

R million	2026/27	2027/28	2028/29
	Effect of tax proposals		
Gross tax revenue (before 2026 Budget tax proposals)	2 126 962	2 248 628	2 376 153
2026 Budget proposals ²	–		
Direct taxes ³	–		
Personal income tax			
Inflationary adjustment to tax brackets and rebates	–		
Inflationary adjustment to medical tax credits	–		
Indirect taxes ³	–		
Fuel levy			
Below inflation adjustment to general fuel levy	-1 000	-1 052	-1 109
Above inflation adjustment to carbon fuel levy	1 000	1 052	1 109
Specific excise duties			
Inflationary increase in excise duties on alcohol and tobacco	–		
Net impact of tax proposals	–	–	–
Gross tax revenue (after tax proposals)	2 126 962	2 248 628	2 376 153

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation

2. In-year tax increase with no carry through

3. Includes carry-through effect of tax policy proposals

Source: National Treasury

Medium-term spending plans

Chapter 5 provides details on expenditure plans and policy. Consolidated government spending increases from R2.58 trillion in 2025/26 to R2.89 trillion in 2028/29, an annual growth of 0.6 per cent in real terms.

Table 1.5 Consolidated government expenditure by function

R billion	2025/26	2026/27	Average growth
	Revised estimate	Budget estimate	2025/26–2028/29
Learning and culture	514.3	527.2	3.4%
Health	295.4	310.4	4.2%
Social development	412.2	446.6	4.2%
Community development	291.0	294.3	3.9%
Economic development	269.1	283.9	5.8%
Peace and security	268.2	274.6	2.8%
General public services	86.5	84.4	1.0%
Payments for financial assets	21.6	10.8	
Allocated expenditure	2 158.2	2 232.2	3.7%
Debt-service costs	420.6	432.4	3.7%
Contingency reserve	–	5.0	
Consolidated expenditure¹	2 578.9	2 669.7	3.9%

1. Consisting of national and provincial government, social security funds and selected public entities. Refer to Annexure W2 on the National Treasury website for a full list of entities included

Source: National Treasury

Division of revenue

Over the next three years, excluding debt-service costs, the contingency reserve and provisional allocations, 48.2 per cent of nationally raised revenue is allocated to national government, 42.3 per cent to provinces and 9.5 per cent to local government. The division of revenue is outlined in Chapter 6, which also sets out a series of major reforms in subnational government, with a focus on addressing municipal dysfunction.

Table 1.6 Division of revenue

R billion	2025/26	2026/27	2027/28	2028/29
	Preliminary outcome	Medium-term estimates		
National allocations	939.4	951.7	939.9	987.9
Provincial allocations	788.8	810.5	845.9	872.4
<i>Equitable share</i>	649.3	670.3	698.6	720.4
<i>Conditional grants</i>	139.4	140.2	147.2	152.0
Local government allocations	178.3	182.3	189.3	195.3
Provisional allocations not appropriated	–	1.3	38.2	39.2
Total allocations	1 906.5	1 945.8	2 013.3	2 094.8
Percentage shares				
<i>National</i>	49.3%	48.9%	47.6%	48.1%
<i>Provincial</i>	41.4%	41.7%	42.8%	42.4%
<i>Local government</i>	9.4%	9.4%	9.6%	9.5%

Source: National Treasury

Government debt and contingent liabilities

Chapter 7 reviews government debt and contingent liabilities. Gross government debt is projected to reach R6.12 trillion or 78.9 per cent of GDP in 2025/26. Debt stabilises in the current year. Debt-service costs also peak in 2025/26 as a percentage of GDP and revenue.

Table 1.7 Projected state debt and debt-service costs

R billion/percentage of GDP	2025/26	2026/27	2027/28	2028/29
Gross loan debt	6 118.7	6 326.4	6 636.4	6 944.1
	78.9%	77.3%	77.0%	76.5%
Debt-service costs	420.6	432.4	451.4	469.3
	5.4%	5.3%	5.2%	5.2%

Source: National Treasury

Financial position of public-sector institutions

There is significant variation in the financial positions of public-sector institutions. Details are provided in Chapter 8. As outlined in the Fiscal Risk Statement in the 2025 MTBPS, large state-owned companies continue to pose a fiscal risk, with significant contingent liabilities in the form of sovereign guarantees and lingering requests for financial support from government.



Table 1.8 Combined financial position of public institutions

R billion/net asset value	2022/23	2023/24	2024/25
State-owned companies	422.0	398.8	533.4
Development finance institutions	161.8	166.0	165.2
Social security funds	-158.1	-123.2	-94.5
Other public entities ¹	1 138.8	1 248.4	1 372.2

1. State-owned institutions without a commercial mandate and listed in either schedule 1 or 3 of the PFMA

Source: National Treasury

BUDGET DOCUMENTATION

The 2026 Budget is accompanied by several other documents and submissions to Parliament. These include:

- The Budget Speech
- The Division of Revenue Bill
- The Appropriation Bill
- The Estimates of National Expenditure

The following documents are presented electronically:

- The People's Guide to the Budget
- Gender Budget Statement
- Annexure W1: Explanatory memorandum to the division of revenue
- Annexure W2: Structure of the government accounts

These and other fiscal and financial publications are available online at www.treasury.gov.za.