2

2026 BUDGET REVIEW

ECONOMIC OUTLOOK

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CHAPTER 2

ECONOMIC OUTLOOK

In brief

- The economy is expected to grow by 1.6 per cent in 2026, up from 1.4 per cent in 2025.
- Real GDP growth is forecast to reach 2 per cent by 2028, supported by continued momentum on structural reforms, improving confidence, lower interest rates and higher investment.
- A lower inflation target and improved management of the public finances have helped to boost investor confidence and reduce borrowing costs.
- Removing obstacles to reform and speeding up the pace of critical change in electricity, transport and water would unlock higher rates of investment, growth and job creation.

OVERVIEW

South Africa's economic recovery is starting to gain traction. The economy is now expected to have grown by 1.4 per cent in 2025, up from the 1.2 per cent projected in the 2025 *Medium Term Budget Policy Statement* (MTBPS). Real GDP growth is forecast to average 1.8 per cent from 2026 to 2028. Improved macroeconomic stability, progress on reforms and South Africa's removal from the Financial Action Task Force grey list have bolstered investor confidence and contributed to a sovereign credit rating upgrade by S&P Global. Consequently, borrowing costs have fallen, supporting the medium-term growth outlook.

The economy continues to face structural constraints, including elevated unemployment, transport bottlenecks and infrastructure backlogs. Sustained growth requires faster implementation of reforms especially in energy, water and transport, continued fiscal prudence, and improved public-sector service delivery and efficiency. The growth strategy continues to focus on:

- Maintaining macroeconomic stability
- Implementing structural reforms
- Boosting state capability
- Raising the level of public infrastructure investment.

BUILDING GROWTH MOMENTUM

Maintaining macroeconomic stability

Macroeconomic stability is a necessary foundation for sustained growth and investment. Government has enhanced stability by delivering on its plan to stabilise public debt in the current financial year. This commitment to fiscal prudence strengthens policy credibility, supports lower risk premiums and frees resources for allocation towards growth-enhancing and developmental priorities. Government's commitment to South Africa's sound monetary policy framework has reinforced this progress.

In November 2025, the Minister of Finance announced a new, lower inflation target of 3 per cent, with a 1 percentage point tolerance band, which is expected to anchor inflation expectations at a lower level and reduce inflation over time. This has supported confidence, reflected in improved sovereign credit ratings. Lower and more stable inflation will support real household incomes and consumer spending, while reducing borrowing costs and strengthening the environment for longer-term investment and growth.

Maintaining stability will require continued discipline in public finances, maintaining the application of effective monetary policy and improving the efficiency of public spending.

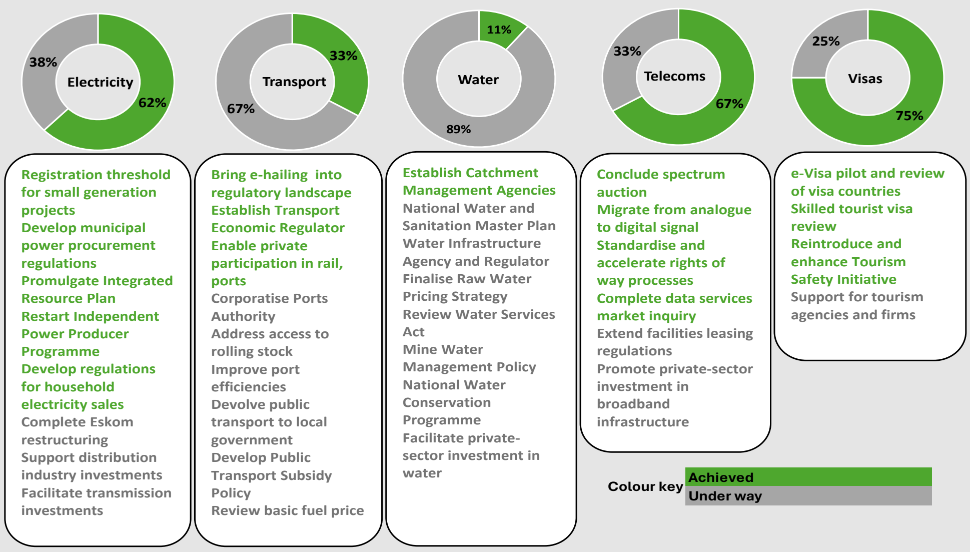
Accelerating implementation of growth-enabling reforms

The box below shows the progress of reforms originally proposed by the National Treasury, most of which are implemented through Operation Vulindlela (OV).

Structural reforms: From planning to progress

The growth strategy published by the National Treasury in 2019 targeted five areas to raise long-term growth: modernising network industries, increasing competition and small-business participation, promoting labour-intensive sectors, improving industrial and trade policy, and boosting export competitiveness. It was estimated that with full implementation, growth could be raised by 2.3 percentage points over 10 years. OV was established to implement a subset of these reforms. Progress on this subset is reflected below.

Figure 2.1 Summary of progress on reform strategy



Source: National Treasury assessment

The impact of completed reform activities includes:

- Over 23 900 megawatts (MW) of private investment, mostly in renewable energy.
- Improvement in Eskom operations, with load-shedding suspended since May 2025.
- Stabilisation of freight rail volumes.
- A 51 per cent reduction in the cost of a 1.5 GB data bundle.
- A decrease in average days needed to obtain a water use licence from 300 to 90.

Work continues on the full suite of reforms, including the second phase of OV.

Progress in key areas and focus areas to unlock progress

Significant progress has been made in transforming the electricity sector to meet current and future demand, and to support the long-term transition towards cleaner energy, while encouraging private investment. Since the 2025 MTBPS, the National Transmission Company of South Africa's market operator licence has been approved by the National Energy Regulator of South Africa (NERSA) – a necessary step in establishing a competitive electricity market. The regulator approved grid capacity allocation, which will ease administrative constraints that have delayed new generation investments. NERSA has also published regulations on transmission infrastructure, which are expected to unlock private investment in new transmission infrastructure.

Four additional electricity generation projects were announced under the seventh bid window of the Renewable Energy Independent Power Producer Programme, adding 890 MW and bringing total bid window capacity to 3 940 MW. The additional projects will add an estimated R16 billion in investment and over 4 000 jobs once constructed. Five projects under the programme completed construction in December 2025 and are now contributing 440 MW to the grid.

Transnet continues to increase rail freight volumes, reporting 81.4 million tons transported in the six months to September 2025 compared with 78 million tons over the same period in 2024. Private-sector participation is gathering pace. Transnet has signed a 25-year agreement with a private partner to upgrade and develop the Durban Container Terminal Pier 2, supporting investment in equipment and technology and raising handling capacity from 2 million to 2.8 million twenty-foot equivalent units (the standard unit of measure in containerised shipping). Seven of the 11 private train operating companies allocated slots on the freight network will start operations in the first quarter of 2027.

The National Water Resources Infrastructure Agency is expected to begin operations in 2026, supporting increased maintenance and investment in water infrastructure. Cabinet approved the National Water Amendment Bill in 2025. A National Water Crisis Committee has been established, centralising the coordination of implementation of water sector reforms and restoring service reliability.

In tourism, simplified applications facilitated visas for nearly 40 000 group travellers from China and India, contributing to an estimated 3 000 jobs. The introduction of the Electronic Travel Authorisation system, which enables online visa applications, biometric capture and real-time approvals, is expected to boost tourism from key growth markets.

Notwithstanding this progress, in several areas, implementation has been slow due to the complexity of reforms, and associated legislative and administrative processes. In the energy sector, limited availability and administrative delays have slowed allocation of grid capacity, and policy uncertainty has affected key enabling areas such as wheeling and trading of electricity. In transport, litigation slowed the conclusion of the port private-sector participation transaction. Similarly, delays in finalising policy matters and procurement arrangements weigh on private investment. The pace of legislative processes has slowed water sector reforms.

Work is under way to unblock these delays. Technical support continues to be provided to conclude the corporatisation of the National Ports Authority. Outstanding regulatory processes on the Network Statement, designing of private-sector projects in logistics, and submission of market rules for the competitive electricity market to the regulator are being completed. In the electricity sector, a dedicated task team has been established to create a fully independent state-owned transmission entity. Ongoing interventions to address delays and overcome obstacles will support an improved GDP outlook in the years ahead.

Boosting state capability

Effective reform implementation depends on a capable state. Phase II of Operation Vulindlela is prioritising reforms to arrest and reverse deterioration in local government that sap economic activity and affect millions of people on a daily basis.

Reforms under way include shifting to a utility model for water and electricity services, with metro trading services reforms having commenced. This model emphasises running these services like businesses that are accountable to government and the public. To date, government has allocated performance-based grants to seven qualifying municipalities to strengthen management accountability, financial transparency, cash flows and infrastructure maintenance in water, sanitation and electricity services.

The National Assembly has passed the Public Service Amendment Bill, which marks a step towards standardising and professionalising the appointment of senior officials in local government.

Chapter 6 reports on a number of other reforms expected to result from an update of the White Paper on Local Government and a review of the local government fiscal framework. In a number of cases, the National Treasury is invoking powers granted to it under section 216 of the Constitution to reverse financial deterioration in consistently non-performing municipalities.

Accelerating infrastructure investment

South Africa’s infrastructure deficit limits productivity and raises the cost of doing business, particularly through transport bottlenecks, water insecurity and uneven municipal service delivery. Accelerating investment, while improving project execution and maintenance, is critical to crowd in private capital and expand productive capacity.

Over the medium term, public-sector infrastructure spending amounts to R1.07 trillion. Investment will be supported by a pipeline of projects across energy (20 per cent), water (17.4 per cent) and transport infrastructure (39.2 per cent). Annexure D provides a detailed update on infrastructure reforms.

GLOBAL OUTLOOK

The International Monetary Fund forecasts global growth of 3.3 per cent in 2026, similar to the 2025 outcome, with prospects continuing to diverge across regions. Advanced economies are expected to grow moderately. The United States is expected to benefit from lower domestic interest rates and strong technology-related investment, while growth in parts of Europe remains constrained by weak manufacturing, demographic pressures and energy-related adjustment costs owing to the Russia-Ukraine war.

Emerging market and developing economies are expected to continue growing faster than advanced economies, supported by resilient domestic demand in India and a gradual recovery across Sub-Saharan Africa. China's growth is expected to moderate as it transitions from investment-led expansion towards a more consumption-driven model – a shift that will influence global trade and commodity demand over the medium term.

Global trade volumes reflect increased trade frictions and the ongoing reconfiguration of value chains. In this context, strengthening South Africa's domestic growth drivers and diversifying its trading portfolios will help to sustain resilience and reduce vulnerability to external shocks.

Global inflation is expected to continue to decline in 2026, driven by lower energy prices, easing supply constraints and slower goods price inflation.

Table 2.1 Economic growth in selected countries

Region/country	2024	2025	2026	2027
Percentage	Actual	Estimate	Forecast	
World	**3.3**	**3.3**	**3.3**	**3.2**
Advanced economies	**1.8**	**1.7**	**1.8**	**1.7**
United States	2.8	2.1	2.4	2.0
Euro area	0.9	1.4	1.3	1.4
United Kingdom	1.1	1.4	1.3	1.5
Japan	0.1	1.1	0.7	0.6
Emerging and developing countries	**4.3**	**4.4**	**4.2**	**4.1**
Brazil	3.4	2.5	1.6	2.3
Russia	4.3	0.6	0.8	1.0
India	6.5	7.3	6.4	6.4
China	5.0	5.0	4.5	4.0
Sub-Saharan Africa	**4.1**	**4.4**	**4.6**	**4.6**
Nigeria	4.1	4.2	4.4	4.1
South Africa[1]	0.5	1.4	1.6	1.8
World trade volumes	**3.6**	**4.1**	**2.6**	**3.1**

1. National Treasury forecast
Source: IMF World Economic Outlook, January 2026

Globally, improved risk sentiment, supported by easing monetary conditions in major economies and strong performance in technology-related sectors, has lifted equity markets and encouraged investors to seek higher-yielding assets, while providing support to commodity prices.

Domestically, market performance has been amplified by strength in resource-linked shares amid firm commodity prices, alongside improved local sentiment and portfolio flows, which have supported the rand.

Figure 2.2 Exchange rate (ZAR/USD)

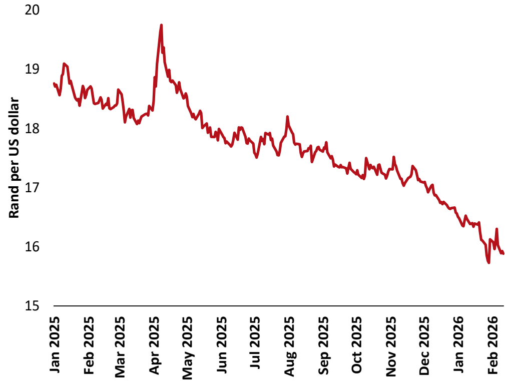


Figure 1.3 South Africa 10-year bond yield

Figure 2.4 FTSE/JSE All Share Index

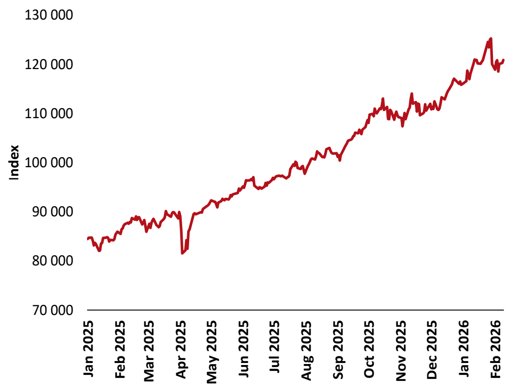
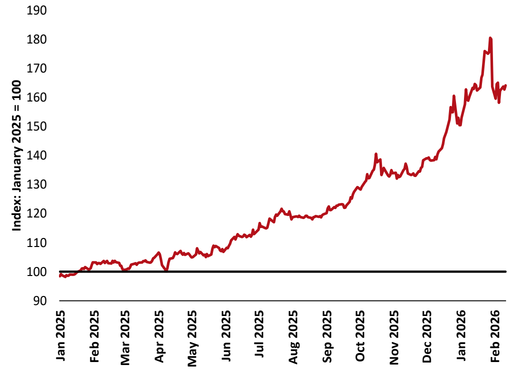


Figure 2.5 South Africa's top export commodity price index



Source: National Treasury calculations, JSE, LSEG and Bloomberg

DOMESTIC OUTLOOK

The National Treasury projects economic growth of 1.6 per cent in 2026, following an estimated 1.4 per cent growth in 2025. The 2025 growth outcome is an upward revision from 1.2 per cent growth projected at the time of the 2025 MTBPS. This reflects better-than-expected growth in the second half of 2025, supported by sustained activity in services alongside improved confidence and stronger household balance sheets. This momentum is expected to carry through into 2026.

Real GDP growth is projected to average 1.8 per cent over the medium term, reaching 2 per cent in 2028. Although household consumption is forecast to ease from the high growth estimated for 2025, it is expected to contribute the most to medium-term growth, supported by further gains in real purchasing power, moderately stronger wage growth, easing inflation, wealth gains from rising asset prices, improved consumer sentiment and better credit conditions. Additional support for growth is expected to come from private-sector investment – encouraged by a relatively resilient global environment – and easing domestic supply constraints. A continued recovery in rail and port capacity is also expected to boost foreign trade volumes over the medium term.

Table 2.2 Macroeconomic performance and projections

Percentage change	2024	2025	2026	2027	2028
	Actual	Estimate	Forecast		
Final household consumption	1.0	3.1	1.8	2.0	2.2
Final government consumption	-0.1	0.3	2.4	0.0	0.3
Gross fixed-capital formation	-3.9	-2.0	2.4	3.3	3.9
Gross domestic expenditure	-0.6	2.2	2.0	1.9	2.1
Exports	-2.8	-2.0	1.6	2.4	2.9
Imports	-6.4	1.0	3.0	2.9	3.1
Real GDP growth	**0.5**	**1.4**	**1.6**	**1.8**	**2.0**
GDP inflation	3.9	2.5	4.1	3.4	3.3
GDP at current prices (R billion)	**7 352**	**7 642**	**8 085**	**8 506**	**8 965**
CPI inflation	4.4	3.2	3.4	3.3	3.2
Current account balance (% of GDP)	-0.7	-0.9	-1.0	-1.2	-1.3

Sources: National Treasury, Reserve Bank and Statistics South Africa

Employment

The official unemployment rate fell by 1.3 percentage points to 31.9 per cent in the first three quarters of 2025. Total employment reached a high of 17.1 million. However, the labour force absorption rate remains low at 40.6 per cent, below the pre-pandemic level of 43.1 per cent, indicating that only four out of 10 adults are employed or actively seeking work. South Africa's persistently and extremely high unemployment rate reflects the depth of structural constraints in the labour market, where labour force growth exceeds the pace of job creation.

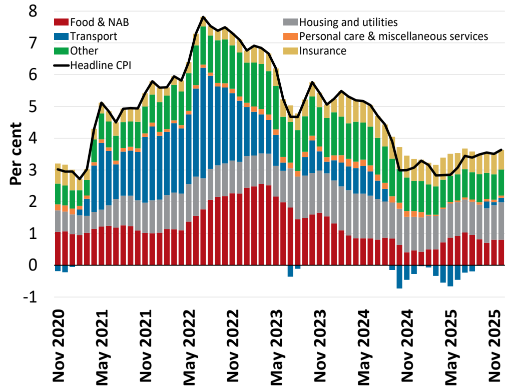
Faster, more inclusive economic growth that expands productive capacity and supports labour-intensive sectors is the key to reducing unemployment. Achieving much higher levels of job creation over the medium to long term requires South Africa to address longstanding regulatory barriers, narrow spatial and infrastructure disparities, reduce high levels of crime, and improve education and training outcomes.

Inflation

Inflation is expected to increase from 3.2 per cent in 2025 to 3.4 per cent in 2026, driven by higher food prices (particularly meat due to supply disruptions linked to foot-and-mouth disease). Inflation is forecast to ease to 3.3 per cent in 2027 and 3.2 per cent in 2028, but risks from geopolitical tensions, exchange rate volatility, administered prices and animal disease outbreaks remain elevated. The reduction of the inflation target to 3 per cent with a 1 percentage point tolerance band will structurally reduce inflation, helping to protect real income levels.

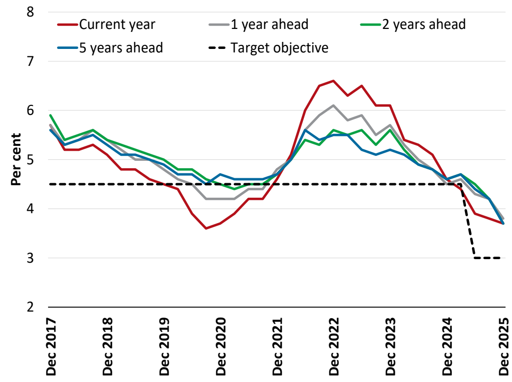
Inflation expectations have declined further, with the Bureau for Economic Research measure falling to its lowest level on record following the 2025 MTBPS announcement (Figure 2.7), indicating that expectations are adjusting to the new target quickly.

Figure 2.6 Headline inflation contributions



Source: Statistics South Africa

Figure 2.7 Inflation expectations



Source: Bureau for Economic Research

Household consumption

Household consumption growth is expected to reach 3.1 per cent in 2025 before moderating to 1.8 per cent in 2026. This reflects a normalisation from previous above-trend growth, as inflation moderates and temporary income boosts from one-off factors such as the two-pot retirement system unwind. From 2026 to 2028, household consumption is forecast to average 2 per cent, continuing to benefit from rising wages, lower inflation, gradual interest rate easing, a stable power supply and improved sentiment.

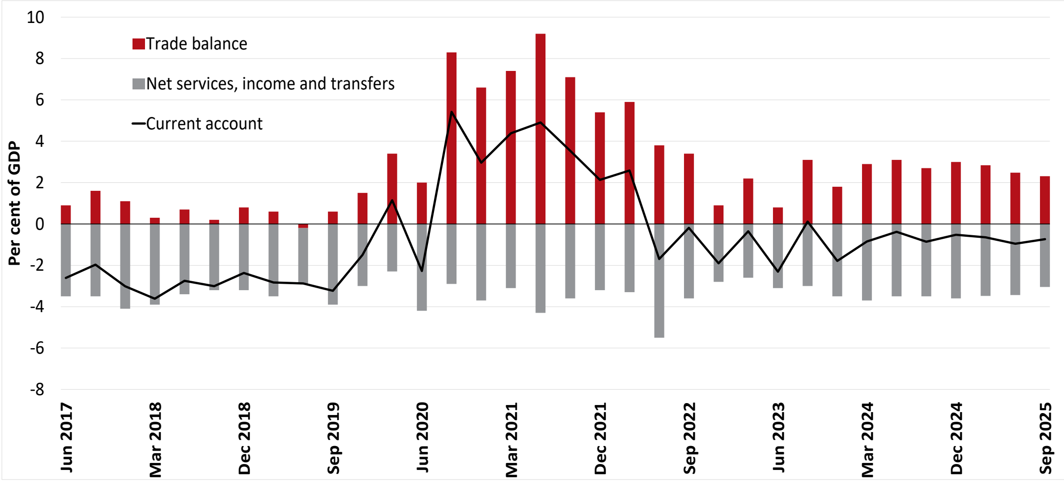
Investment

Resilient global demand, the rally in export commodity prices, easing borrowing costs, strengthening housing demand and improved business confidence will support expected real growth in fixed investment of 2.4 per cent in 2026. This follows contractions of 3.9 per cent in 2024 and 2 per cent in 2025. Over the medium term, growth in fixed investment is expected to average 3.2 per cent, as lower interest rates improve financing conditions and public-sector projects in energy, water and transport move into construction. Private investment is expected to regain momentum from 2027 but is anticipated to remain concentrated in renewable energy, embedded generation and digital infrastructure. A broader recovery will depend on firmer demand, improved confidence and continued progress in addressing electricity and logistics constraints.

Balance of payments

The current account deficit is projected to widen moderately from an estimated 0.9 per cent of GDP in 2025 to 1 per cent in 2026, reaching 1.3 per cent by 2028, mainly reflecting stronger import demand as domestic economic activity and fixed investment recover.

Figure 2.8 Current account balance



Source: South African Reserve Bank

Over the medium term, improved electricity availability and gradual easing of logistics constraints are expected to support export volumes, while the outlook for import growth is underpinned by firmer household demand and energy- and infrastructure-related capital formation.

Macroeconomic assumptions

Demand from South Africa's major trading partners is expected to tick up from an estimated 3.1 per cent in 2025 to 3.3 per cent in 2026, settling at 3.4 per cent in the outer years. This trend is supported by strong investments in technology and accommodative fiscal and monetary policies, despite ongoing trade policy uncertainty. Global demand growth is projected to reach 3.4 per cent in 2028. The export commodity price index has been revised upward over the medium term, driven by gold and platinum group metals.

Table 2.3 Assumptions informing the macroeconomic forecast

	2023	2024	2025	2026	2027	2028
Percentage change	Actual		Estimate	Forecast		
Global demand[1]	3.7	2.6	3.1	3.3	3.4	3.4
International commodity prices[2]						
Brent crude oil	82.3	79.9	68.3	61.6	61.6	63.0
Gold	1 943.1	2 387.2	3 437.9	4 529.3	4 703.6	4 877.1
Platinum	966.6	955.0	1 277.7	2 192.2	2 234.9	2 277.7
Coal	120.6	105.4	88.7	87.1	90.1	94.4
Iron ore	120.3	111.1	103.9	111.1	105.9	101.9
Palladium	1 339.5	982.9	1 152.4	1 787.6	1 840.3	1 880.0
Domestic assumptions[3]						
Food inflation	10.8	4.5	4.1	4.1	3.6	3.5
Electricity inflation	11.8	13.3	9.9	8.3	8.8	8.7
Sovereign risk premium	3.9	3.2	2.9	2.5	2.4	2.3

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, January 2026)
2. Bloomberg futures prices as at 15 January 2026
3. Assumptions presented above are as of 12 December 2025 and 17 December 2025
Source: National Treasury

The sovereign risk premium is expected to ease further, supported by government's sustained commitment to a credible macroeconomic framework, South Africa's removal from the Financial Action Task Force grey list and the European Union list of high-risk jurisdictions, and the recent upgrade of the country's foreign currency sovereign credit rating by S&P Global Ratings.

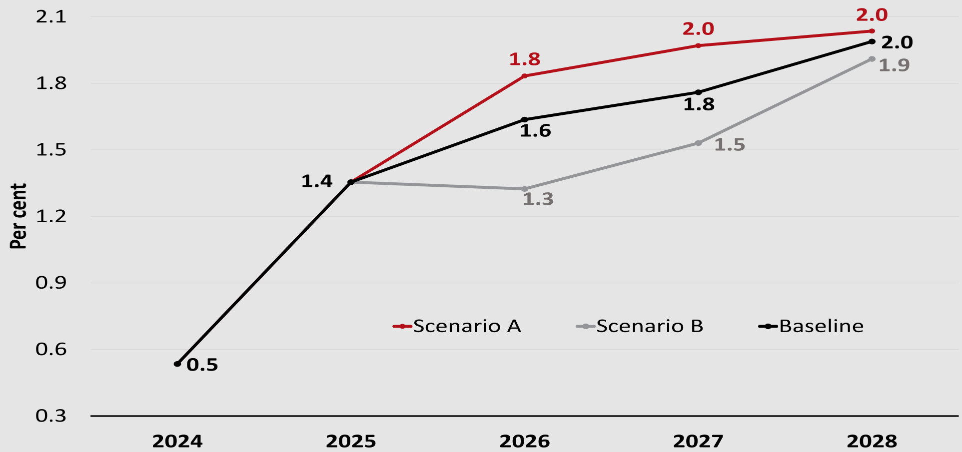
Alternative scenario analysis

The National Treasury has devised two alternative scenarios to the baseline forecast.

The **global upside scenario A** models an improved global environment driven by easing geopolitical tensions and more stable trade policies that reduce uncertainty, improve supply chains and boost productivity. With supply conditions improving, commodity markets stabilise and oil prices remain slightly below baseline in the medium term. Earlier and more decisive monetary easing by major central banks, combined with lower global financial market volatility, strengthens investor appetite for emerging market assets, bolstering emerging market currencies. Stronger global demand and reduced borrowing costs support exports and enhance financing conditions, raising domestic economic growth above the baseline. In this scenario, growth is projected to average 1.9 per cent from 2026 to 2028.

The **global downside scenario B** models an escalation in geopolitical tensions, leading to further supply chain and critical infrastructure disruptions that generate negative supply shocks and heighten uncertainty. These constraints raise prices for key commodities, especially crude oil and gas, while increasing demand for safe-haven assets. This in turn lifts global inflation, delaying monetary policy easing and weakening global growth. Simultaneously, financial market volatility increases, tightening financial conditions and reducing investors' appetite for risk. For South Africa, higher oil prices and a weaker exchange rate raise imported inflation, while elevated risk premiums lead to higher borrowing costs, delaying the domestic easing cycle and slowing consumption and investment. As a result, growth in this scenario averages 1.6 per cent from 2026 to 2028.

Figure 2.9 GDP growth scenarios



Source: National Treasury

Risks to the outlook

Risks to global growth remain tilted to the downside, largely as a result of geopolitical tensions. A disruption of key shipping routes, for example, could raise transport costs, triggering a broad-based increase in energy prices, raising global inflation and weakening growth. Upside risks include faster adoption of artificial intelligence that boosts productivity, and progress in trade negotiations to reduce tariffs and enhance policy predictability.

Domestic risks to the outlook are also tilted to the downside. Persistent logistics bottlenecks, weak public infrastructure and exposure to climate and weather-related shocks continue to raise the cost of doing business and threaten production and investment prospects. In contrast, faster structural reforms implementation – particularly in energy and logistics – would boost potential growth.

Assessing the National Treasury's GDP forecast errors

Macroeconomic forecasting is central to fiscal planning, and reducing forecast errors is a priority for the National Treasury. Analysis shows that Treasury projections for GDP growth have been broadly aligned with the median and show no systematic bias, with a declining rate of errors over time, even in an environment of high economic volatility.

Figure 2.20 Forecast error comparison in-year*

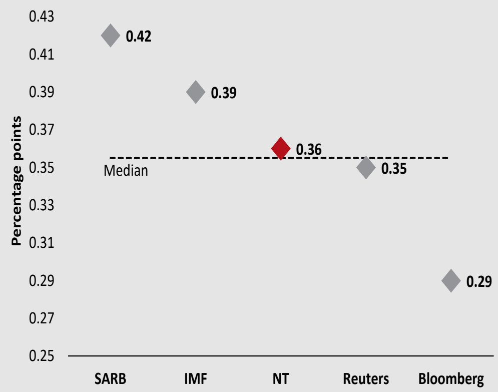
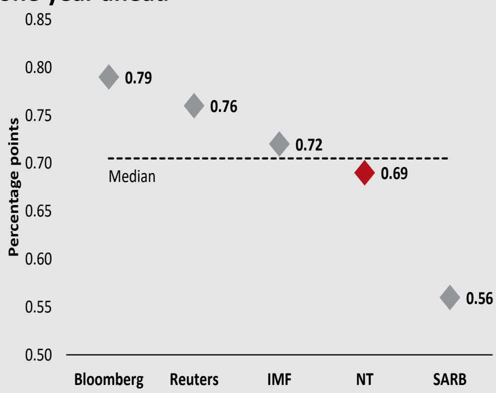


Figure 2.31 Forecast error comparison one year ahead*



**Note: Forecast errors are measured using mean absolute errors. Other forecast error measures yield similar conclusions.*
Source: National Treasury calculations

SECTOR PERFORMANCE AND OUTLOOK

Primary sector performance is led by a strong performance in agricultural production, where lower livestock output due to animal disease has been offset by strong horticultural and seed output, which have benefited from favourable weather conditions. Although mining has benefited from higher prices for gold and platinum group metals, these are unlikely to lead to a reversal of the long-term contraction of South African mining output. The primary sector outlook is supported by stable energy supply, reduced logistics constraints, digitalisation of the mining cadastre and expectations of La Niña rains benefiting the 2026 agricultural season, while biosecurity risks, particularly that of foot-and-mouth disease, remain. The 2026 State of the Nation Address declared a state of emergency and steps will be taken to address the uncontrolled spread of the disease.

In the secondary sector, activity has been weak in electricity, manufacturing and construction. While the sector outlook remains largely anaemic, lower interest rates and alleviation of subsector constraints provide some optimism.

The tertiary sector saw broad-based gains in the first three quarters of 2025. Improving demand, easing inflation and more favourable financial conditions boosted wholesale and retail trade as well as finance and real estate. Favourable demand conditions will continue to support the sector, and progress on Transnet’s recovery plan is expected to improve performance in transport.

CONCLUSION

The economic outlook is gaining momentum, supported by greater macroeconomic stability, easing inflation and steady reform progress. Accelerating reforms in energy, logistics and water – together with stronger state capability and more efficient infrastructure delivery – is essential to unlock higher potential growth.