

Futuregrowth Budget Review 2026

A cautious fiscal path with improved debt stabilisation signals

Compiled by the Interest Rates team

Key takeaways

- The 2026 National Budget was more conservative than expected as National Treasury sought to take a more balanced approach to its revenue forecasts.
- The growth outlook was revised slightly higher in the near term, with GDP growth for 2025 increasing to 1.4% from 1.2% and 2026's growth outlook increasing to 1.6% from 1.5%.
- Gross debt-to-GDP is expected to peak at 78.9% (previously 77.9%) in the current FY2025/26 fiscal year, owing to a lower nominal GDP base, but thereafter decreases slightly faster than the MTBPS 2025 projection, reaching 76.5% of GDP in FY2028/29.
- If this is achieved, it will be the first time since the Global Financial Crisis that gross debt-to-GDP will not be higher in the following year than in the current year.
- The expenditure profile remains marginally reduced over the medium term when compared to the 2025 MTBPS and, when coupled with the lower revenue projections, results in a slower consolidation of the main budget balance.
- The 2025 MTBPS initially forecast a main budget balance of -4.5% of GDP in FY2025/26, improving to -2.7% of GDP in FY2028/29. Budget 2026 sees the deficit consolidate slightly more slowly, to -2.9% of GDP.
- The primary surplus still improves, albeit at a slower pace, due to the more gradual consolidation of the main budget deficit.
- Positively, National Treasury seeks to adopt a principles-based fiscal anchor that will require incoming administrations to prepare a medium-term fiscal plan focused on maintaining fiscal sustainability. Details will be provided in the 2026 MTBPS.
- Despite the more conservative budget, nominal bond issuance has been reduced by R450m per week to R2.55bn, whereas inflation-linked bond issuance remains unchanged at R1.0bn per week.

Analyst view

- Markets have responded positively, primarily to the issuance cut.
- The adoption of a legislative, principles-based fiscal anchor will create policy certainty and help drive fiscal sustainability regardless of the administration in charge of government.

Revenue

- Gross tax revenue projections between FY2026/27 and FY2028/29 were revised lower by a cumulative R57.2bn relative to the 2025 MTBPS, owing to the withdrawal of a R20bn revenue increase pencilled in for FY2026/27, in addition to personal income tax relief through the adjustment of Personal Income Tax (PIT) brackets for inflation.
- Treasury has also opted to take a more conservative approach to forecasting potential tax windfalls from recent PGM and precious metals price increases, owing to the lack of similar price action in the broader commodity basket, which includes iron ore and coal.
- Main budget revenue (i.e. gross tax revenue + non-tax revenue – SACU payments) has been revised higher by R10bn in FY2025/26, but is cumulatively lower by R32bn over the medium term.
- PIT, the largest revenue source, is projected to remain under pressure over the medium term and fall short of the 2025 Budget estimate, due to a combination of subdued private-sector wage growth and the proposed personal income tax relief.

Analyst view

- The shift in tax revenue projections is conservative in our view. We see upside to corporate income tax if the increase in PGM and precious metals prices proves to be more sustainable, or if South Africa's terms of trade continue to improve.
- We also see upside from continued SARS efficiency gains and the potential for increased collections from SARS' undisputed tax book.
- What is concerning is that the PIT revenue base is beginning to show some strain. PIT alone accounts for almost 40% of total revenue and tends to be a very concentrated source, given that the top 7.7% of taxpayers (those earning above R1 million) contribute nearly 50% of overall PIT revenue.

Futuregrowth Budget Review 2026

A cautious fiscal path with improved debt stabilisation signals

Compiled by the Interest Rates team

Expenditure

- Expenditure priorities focus on supporting infrastructure development, protecting social services and improving the quality of basic services.
- Consolidated expenditure grows by 3.9% on average over the medium term, with 60% of non-interest expenditure allocated to the social wage (basic education, health, social grants and community development).
- R1.07 trillion has been allocated to infrastructure spending over the next three years, which is the fastest-growing expenditure category at 9.7% year-on-year growth.
- Debt-servicing costs remain a significant component of spending but are set to ease on the back of lower borrowing costs (down R10.6bn over the medium term). Currently, 21.3% of revenue is absorbed by debt servicing, and this is expected to ease to 20.2% by FY2028/29.
- Total expenditure remains largely in line with MTBPS 2025, with main budget expenditure revised a cumulative R5bn lower and consolidated expenditure R3bn higher over the medium term.
- Efforts are being made to contain the public sector wage bill and reduce longer-term wage pressures, with R3.7bn allocated to an early retirement programme. A ghost worker audit is also underway to verify 4,323 suspicious employees in government's Public Employment and Salary Administration System.

Analyst view

- The increased focus on infrastructure spending is positive and should contribute to continued reform momentum and economic development.
- The focus on containing the public sector wage bill, which accounts for 32.1% of consolidated expenditure in FY2025/26, should bode well for longer-term expenditure containment.
- When combining the public sector wage bill with debt-servicing costs (16.3% of consolidated expenditure) and transfer payments (34.2% of consolidated expenditure), we arrive at approximately 80% of total spending, which leaves very little fiscal space for discretionary priorities.
- All told, Budget 2026, like MTBPS 2025, signals a deliberate shift in expenditure priorities away from non-discretionary items such as debt-servicing costs and the wage bill, toward more discretionary expenditure items such as capital investment.

State-Owned Enterprises (SOEs)

- The no-bailout stance remains.

Analyst view

- The absence of additional bailouts to any individual SOE continues to be a positive development.

Debt metrics and issuance

- The gross borrowing requirement drops sharply in FY2026/27 to R380bn, benefiting from an additional R56bn GFECRA transfer, but then rises to R568.7bn in FY2027/28 as a large redemption wall materialises.
- Treasury has cut weekly nominal bond issuance by R450m per week to R2.55bn, following a R750m nominal bond issuance reduction announced after MTBPS 2025.
- Inflation-linked bond issuance remains unchanged at R1.0bn per week. This is consistent with the lower inflation target and the potential to reduce borrowing costs by funding at a lower real yield.
- Weekly T-bill issuance will increase by R500m per week.

Analyst view

- A confluence of stronger near-term revenue performance, lower projected debt-service costs and an unanticipated and sizeable near-term GFECRA transfer has given Treasury the capacity to reduce weekly fixed-rate nominal bond issuance once again.
- Redemption risk increases quite significantly from FY2027/28 to FY2029/30, which may prompt Treasury to either increase the size of nominal bond switch auctions, target alternative funding sources such as T-bills or FRNs, or increase nominal bond issuance at a later date.
- The SAGB issuance cut and simultaneous increase in T-bill issuance implies a reduction in the overall duration of National Treasury's debt book. This should support continued flattening of the yield curve, which is useful when implementing switch auctions.

Futuregrowth Budget Review 2026

A cautious fiscal path with improved debt stabilisation signals

Compiled by the Interest Rates team

Real percentage growth (unless otherwise indicated)	2025			2026			2027			2028		
	2025 MTBPS	2026 Budget	Change									
Household consumption	2.6%	3.1%	0.5%	1.6%	1.8%	0.2%	2.0%	2.0%	0.0%	2.2%	2.2%	0.0%
Government consumption	0.9%	0.3%	-0.6%	2.4%	2.4%	0.0%	0.0%	0.0%	0.0%	0.3%	0.3%	0.0%
Gross fixed capital formation	-1.0%	-2.0%	-1.0%	2.6%	2.4%	-0.2%	3.2%	3.3%	0.1%	3.9%	3.9%	0.0%
Gross Domestic Expenditure	2.0%	2.2%	0.2%	2.0%	2.0%	0.0%	1.9%	1.9%	0.0%	2.1%	2.1%	0.0%
Exports	-2.0%	-2.0%	0.0%	1.5%	1.6%	0.1%	2.4%	2.4%	0.0%	2.9%	2.9%	0.0%
Imports	0.7%	1.0%	0.3%	3.1%	3.0%	-0.1%	2.7%	2.9%	0.2%	3.1%	3.1%	0.0%
Gross domestic product	1.2%	1.4%	0.2%	1.5%	1.6%	0.1%	1.8%	1.8%	0.0%	2.0%	2.0%	0.0%
Consumer price inflation (CPI)	3.3%	3.2%	-0.1%	3.7%	3.4%	-0.3%	3.3%	3.3%	0.0%	3.2%	3.2%	0.0%
Current account balance (% of GDP)	-1.0%	-0.9%	0.1%	-1.8%	-1.0%	0.8%	-2.0%	-1.2%	0.8%	-2.0%	-1.3%	0.7%

ZAR billion		2025/26			2026/27			2027/28			2028/29		
		2025 MTBPS	2026 Budget	Change	2025 MTBPS	2026 Budget	Change	2025 MTBPS	2026 Bud	Change	2025 MTBPS	2026 Budget	Change
Economic Data	Real GDP Growth	1.5%	1.8%	0.3%	1.5%	1.5%	0.0%	1.9%	1.8%	-0.1%	2.1%	2.0%	-0.1%
	Headline CPI	3.5%	3.3%	-0.2%	3.6%	3.4%	-0.2%	3.3%	3.2%	-0.1%	3.1%	3.1%	0.0%
	GDP	7787.6	7756.7	-31	8169.1	8188.1	19	8621.6	8615.1	-7	9076.0	9077.3	1
Main Budget	Expenditure	2 322	2 327	5	2 386	2 383	-3	2 480	2 475	-4	2 584	2 581	-3
	Revenue	1 969	1 978	10	2 091	2 082	-9	2 208	2 191	-17	2 336	2 321	-16
	Budget Balance	-353	-349	4	-295	-301	-6	-272	-285	-13	-248	-260	-13
	Budget Balance/GDP	-4.5%	-4.5%	0.0%	-3.6%	-3.7%	-0.1%	-3.2%	-3.3%	-0.1%	-2.7%	-2.9%	-0.2%
	Non- Interest Expenditure	1 900	1 907	6	1 950	1 951	1	2 024	2 024	-	2 112	2 112	-
	Int Payments	422	421	-1	436	432	-4	456	451	-4	472	469	-3
Int Payments as % of expenditure	18.2%	18.1%	-0.1%	18.3%	18.1%	-0.1%	18.4%	18.2%	-0.1%	18.3%	18.2%	-0.1%	
Consolidated Budget	Expenditure	2 589	2 579	-10	2 666	2 670	3	2 770	2 768	-2	2 883	2 893	11
	Revenue	2 226	2 232	6	2 354	2 345	-8	2 484	2 467	-17	2 623	2 613	-10
	Non- Interest Expenditure	2 167	2 158	-9	2 230	2 237	7	2 314	2 317	3	2 411	2 424	13
	Interest Payments	422	421	-1	436	432	-4	456	451	-4	472	469	-3
	Budget Balance	-363	-347	16	-312	-324	-12	-286	-301	-15	-260	-281	-21
	Budget Balance/GDP	-4.7%	-4.5%	0.2%	-3.8%	-4.0%	-0.1%	-3.3%	-3.5%	-0.2%	-2.9%	-3.1%	-0.2%
Debt Metrics	Gross Loan Debt	6 070	6 119	49	6 349	6 326	-23	6 677	6 636	-41	6 991	6 944	-47
	Net Loan Debt	5 928	5 915	-14	6 220	6 178	-42	6 555	6 515	-40	6 885	6 838	-47
	Gross Loan Debt (% GDP)	77.9%	78.9%	0.9%	77.7%	77.3%	-0.5%	77.4%	77.0%	-0.4%	77.0%	76.5%	-0.5%
	Net Loan Debt (% GDP)	76.1%	76.3%	0.1%	76.1%	75.4%	-0.7%	76.0%	75.6%	-0.4%	75.9%	75.3%	-0.5%
Funding Requirement	Domestic Short Term Loans	39	40	0	29	27	-2	46	45	-1	36	36	0
	Domestic Long Term Loans	352	388	36	257	243	-14	412	407	-5	324	323	-1
	Total Domestic Issuance	391	427	36	285	269	-16	458	452	-6	360	359	-1
	Foreign Loans	94	111	16	77	54	-23	91	86	-6	93	87	-5
	Changes in cash & other balances	83	25	-57	16	57	41	10	31	21	3	19	16
	Total Funding	568	563	-5	378	380	2	559	569	10	456	465	9