

SOUTH AFRICA BUDGET

2026-27



A CareEdge Analysis

Executive Summary

A Structural Shift in Public Finances

- South Africa's FY27* Budget was presented on 25 February 2026.
- **Growth** is estimated to be higher in 2025 at 1.4%, and the ongoing structural reforms may support the medium-term outlook, with growth expected to average 1.8% between FY27-FY29. Further, there is consensus within the government of national unity (GNU) that the transition towards becoming a higher-growth economy can only be achieved through targeted reforms and investments.
- **Tax revenue** collections were higher by ZAR20 billion compared to budget estimates in FY26. The government had previously intended to raise an additional ZAR20 billion in FY27; however, the FY26 tax overshoot has deemed this unnecessary. For FY27, tax collections growth will moderate to 6.7% YoY from 8.2% in FY26. Inflationary adjustments have been made to the personal income tax (PIT) thresholds, and the value-added tax (VAT) registration thresholds for small businesses have been increased. These adjustments will lead to more moderate growth in PIT and VAT tax revenues in FY27, while benefiting both consumers and small businesses. Nonetheless, tax increases have been proposed for the fuel levy, the road accident levy, some excise duties and other indirect taxes.
- **Expenditure** was ZAR 10 billion lower compared to budget estimates in FY26, mainly due to underspending by some government departments and lower debt service costs. For FY27, expenditure growth is expected to moderate by 3.5% from 7.9% in FY26. Debt service costs will grow by 2.8% YoY in FY27, compared to 9% in FY26, due to lower borrowing costs, improved market confidence, and a diversified financing strategy.
- **Fiscal metrics:** The better-than-expected revenue and expenditure outcomes in FY26 will see the government realise a primary surplus of 1% of GDP from 0.8% in FY25. The fiscal deficit for FY26 is now estimated at 4.5% of GDP, unchanged from FY25. For FY27, the primary surplus and budget deficit are projected to fare better at 1.4% and 4.0%, respectively. Overall, debt-to-GDP is seen peaking in FY26 at 78.9% of GDP and is projected to decrease to 77.7% of GDP in FY27.

*FY27 refers to 2026/27

Note: FY represents April to March

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- **Coalition tension has subsided and policy objectives prioritized:** Following last year's postponement of the Budget, due to tensions within the GNU over a proposed value-added tax (VAT) hike, the National Treasury (NT) has followed through with 2 consecutive Budgets, displaying fiscal consolidation. This outcome demonstrates the government's intent to maintain fiscal discipline. Further, the easing of tensions within the GNU has also paved the way for policy continuity, paving the way for improved sentiment.
- **A positive shift:** South Africa could be at an inflection point, where tangible efforts to reduce bottlenecks are evident in terms of growth outcomes as well as public finances. This could be the needed structural shift towards a sustained growth and fiscal consolidation path.
- **Sustainability remains key:** Nonetheless, despite these commendable achievements, the road ahead remains challenging, and the sustainability of fiscal discipline is key. The government must continue to display continued expenditure restraint and accelerated structural reforms.
- As such, advancing the Targeted and Responsible Savings (TARS)* initiative remains critical, and the details of a fiscal rule as an anchor to public finances remain critical (we will await details for the same in this year's MTBPS). The NT must also walk a tightrope when allocating guarantees or bailouts to struggling state-owned enterprises (SOEs) and municipalities. Lastly, the better revenue outturn for FY26 was largely due to the commodities cycle. As such, better growth outcomes must be achieved through structural reforms to ensure sustained revenue outcomes.

*The 2025 MTBPS introduced the Targeted and Responsible Savings (TARS) initiative, which aims to identify savings through the reduction, merger, or closure of low-priority and underperforming programmes and the implementation of tighter verification processes for social-grant eligibility.

Key Projections

	Unit	FY25 A	FY26 RE	FY27 P	FY28 P	FY29 P
GDP at current market prices	ZAR Billion	7,399	7,757	8,188	8,615	9,077
Real GDP growth*	%	0.6	1.8	1.5	1.8	2.0
Fiscal balance	% of GDP	-4.5	-4.5	-4.0	-3.5	-3.1
Revenue	% of GDP	27.8	28.8	28.6	28.6	28.8
Expenditure	% of GDP	32.3	33.2	32.6	32.1	31.9
Debt	% of GDP	77.0	78.9	77.3	77.0	76.5
Borrowing Requirement#	% of GDP	4.1	5.2	3.3	3.5	3.2
Debt service cost	% of GDP	5.2	5.4	5.3	5.2	5.2

Source: National Treasury, FY27 Budget (A=Actual; RE=Revised Estimate; P=Projection)

Note: Data compiled represent general government.

*Note: Calendar year growth will differ from Fiscal year.

#Borrowing requirement comprises of fiscal balance, redemptions and Eskom's debt relief, which is offset by any cash injections

INDEX

1 Macroeconomic Backdrop

6-7

2 Structural Reforms

8-12

3 Budget Overview

13-22

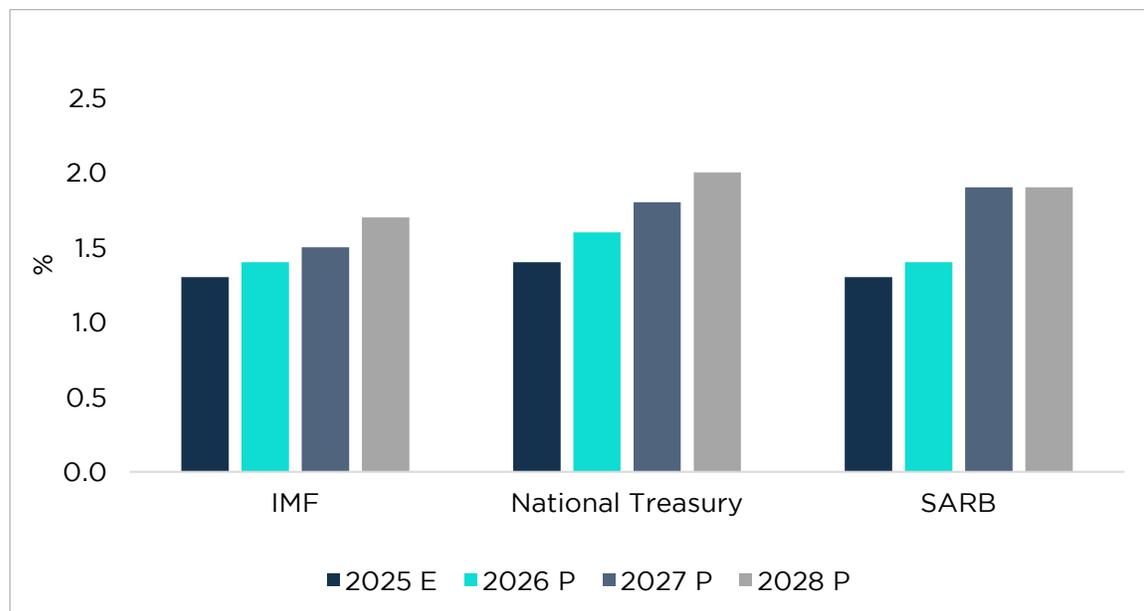


Macroeconomic Backdrop



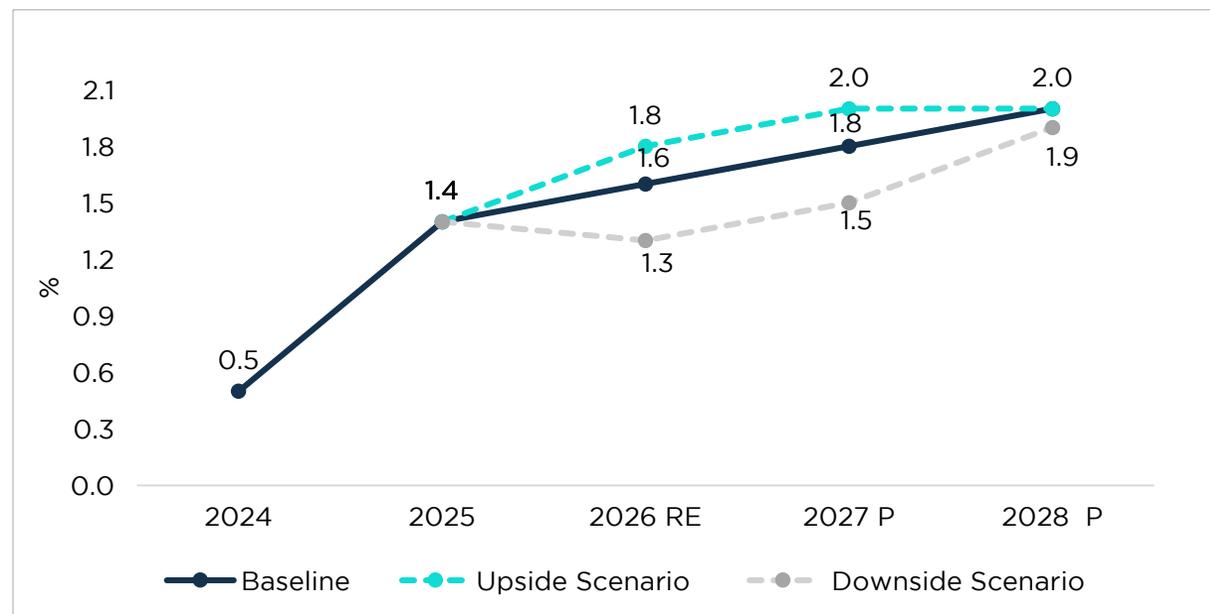
South Africa Economic Outlook

GDP Growth Projections



Source: National Treasury, FY27 Budget; IMF, Article IV (February 2026); South Africa Reserve Bank

GDP Growth Scenarios



Source: National Treasury, FY27 Budget (RE = Revised Estimate; P=Projection)

Baseline growth: The NT estimates growth at 1.4% in 2025, with medium-term growth projected to average 1.8%. Consumption is expected to be supported by increasing disposable income, looser monetary policy over the medium term and improved sentiment. The investment will be supported by lower interest rates and centred on projects in energy, water, and transport.

Upside scenario: Easing geopolitical tensions and stability in global trade will see South Africa benefit from lower oil prices, reduced borrowing costs and increased appetite for South African assets.

Downside scenario: Escalating geopolitical tensions and disruptions in global trade will create negative supply shocks and raise commodity prices. Overall, this will lead to tighter monetary conditions, which may hinder demand for SA assets and weigh on growth.

Structural Reforms – Key updates



Transport & Logistics

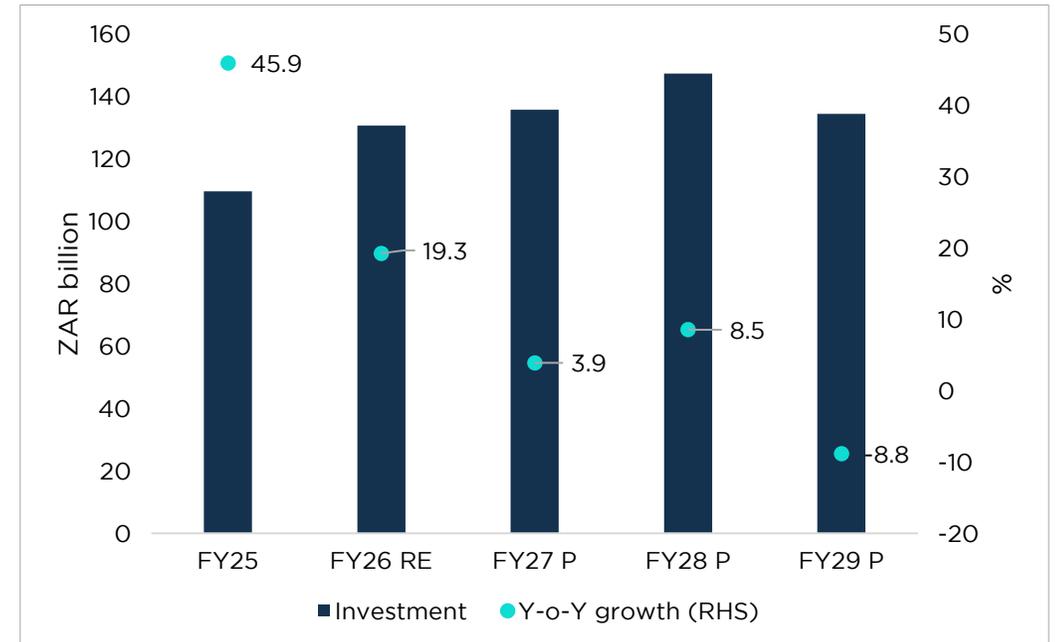
Public investment in the transport and logistics sector is projected to grow by 3.9% YoY in FY27, following growth rates of 45.9% and 19.3% in FY25 and FY26, respectively. New measures announced for the sector in the FY27 Budget include:

- SANRAL will enhance the long-term resilience of the road network, with annual maintenance on around 27,000 KM and resurfacing 2,000 KM of roads.
- PRASA will continue its corridors recovery programme and modernise key infrastructure to grow annual passenger trips from 77 million to between 250 and 450 million over the medium term.
- Transnet will develop its coal and iron ore corridor projects to restore rail capacity to 77 million tonnes for coal and 60 million tonnes for ore.
- Seven of the 11 private train operators allocated slots on the railway network will start operations in the first quarter of 2027

Over the medium term, 40.1% of earmarked funds for infrastructure development are directed towards the transport and logistics sector.



Public Sector Investment in Transport and Logistics



Source: National Treasury, FY27 Budget (RE=Revised Estimate; P=Projection)

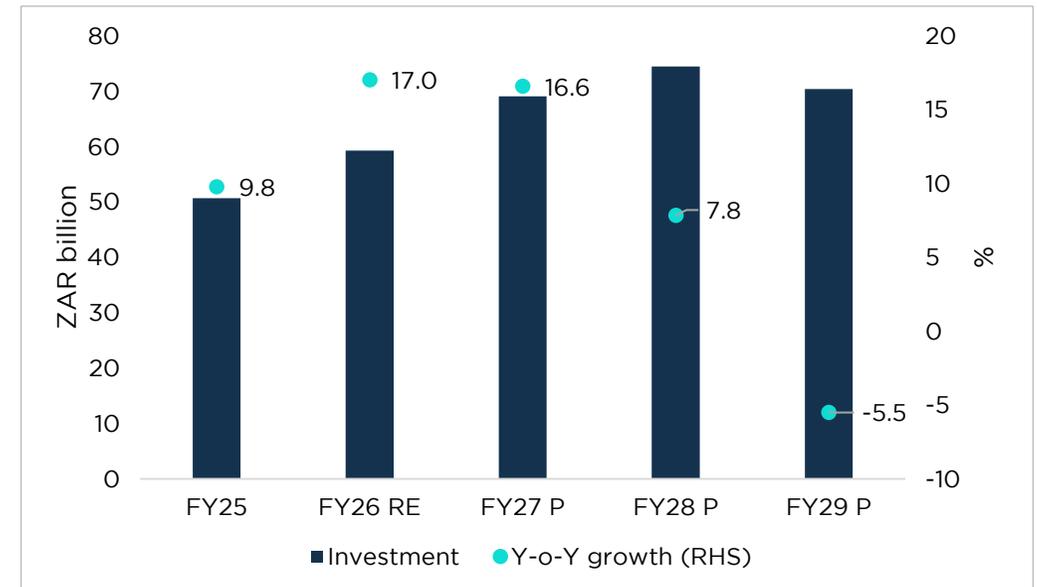
Energy

Investments in energy will grow by 16.6% YoY in FY27, slightly lower than the rise of 17.0% in FY26. New measures announced for the sector in the FY27 Budget include:

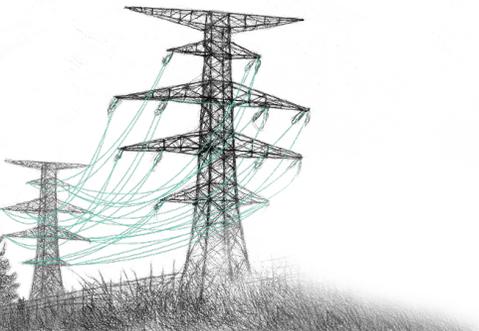
- The Renewable Energy Independent Power Producer Procurement Programme has delivered signed agreements for 9,771 megawatts of renewable energy generation and battery energy storage capacity.
- Proposals for new transmission infrastructure will be released in the third quarter of FY27.
- The Credit Guarantee Vehicle (CGV) will be incorporated as a company soon, together with a development partner.
- The incorporated CGV will apply for a license from the Prudential Authority and is expected to become operational later this year.

Committed funds for the energy sector over the next 3 years will represent 20% of total public infrastructure investments.

Public Sector Investment in Energy



Source: National Treasury, FY27 Budget (RE=Revised Estimate; P=Projection)



Water & Sanitation

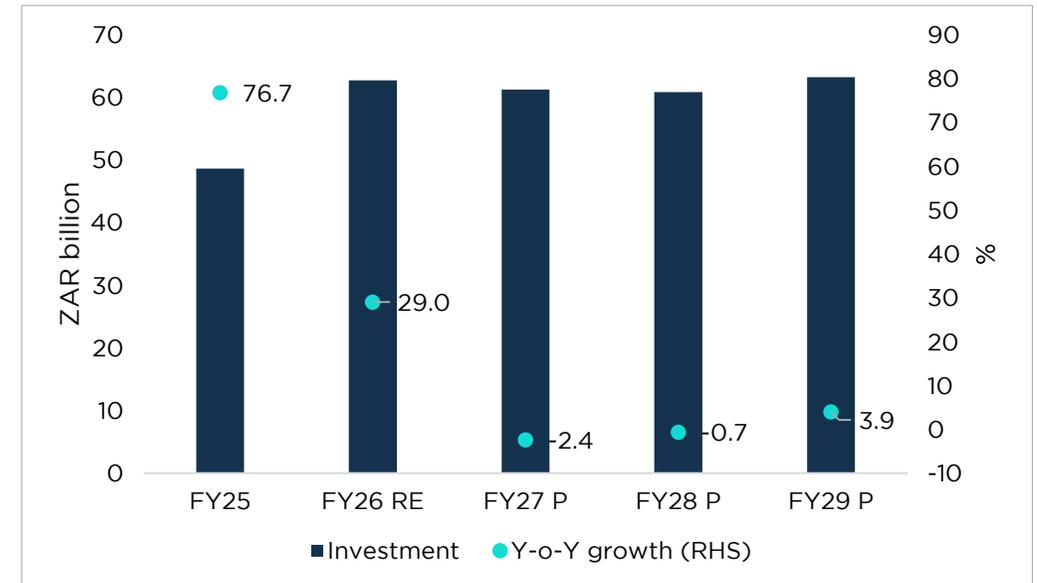
Investments in the Water and Sanitation sector are projected to decrease by 2.7% YoY in FY27, following an increase of 76.7% and 29.0% in FY25 and FY26, respectively. New measures announced for the sector in the FY27 Budget include:

- The National Water Resources Infrastructure Agency will support increased maintenance and investment in water infrastructure.
- Investments in the water sector will be directed towards:
 - high-impact bulk water augmentation schemes,
 - refurbishment of ageing infrastructure, and
 - completion of strategic projects that support economic hubs, agriculture, and household water supply.
- The National Water Crisis Committee has been set up to restore service delivery.

17.4% of all public sector investments are budgeted to go to the Water and Sanitation sector over the medium term.



Public Sector Investment in Water and Sanitation



Source: National Treasury, FY27 Budget (RE=Revised Estimate; P=Projection)

Municipal Reforms

Measures

- With 63% of Municipalities in financial distress in FY24, 29 municipalities are under mandatory financial recovery plans. The government is aiming to **revitalize these municipalities to ensure sustainable long-term financial planning**, with a comprehensive review of the local government fiscal framework underway.
- There is an allocation of ZAR 27.7 billion to reform metro trading services (electricity, water, sanitation, and solid waste), aimed at preventing revenue diversion and reducing maintenance backlogs.
- **A Split-delivery model** will be introduced to address underspending, misuse of funds, and capacity constraints in non-metro municipalities and municipalities with proven capacity will continue receiving direct funding, while alternative delivery mechanisms will support those with weaker implementation capacity.
- There is a **Municipal Debt Relief Programme** for municipalities owing Eskom ZAR 85.2 billion in December 2025. A Distribution Agency Agreement will be introduced under which Eskom will take over electricity distribution should municipalities refuse to meet the programme's conditions. Under this scenario, these municipalities will also owe Eskom for the entire liability.

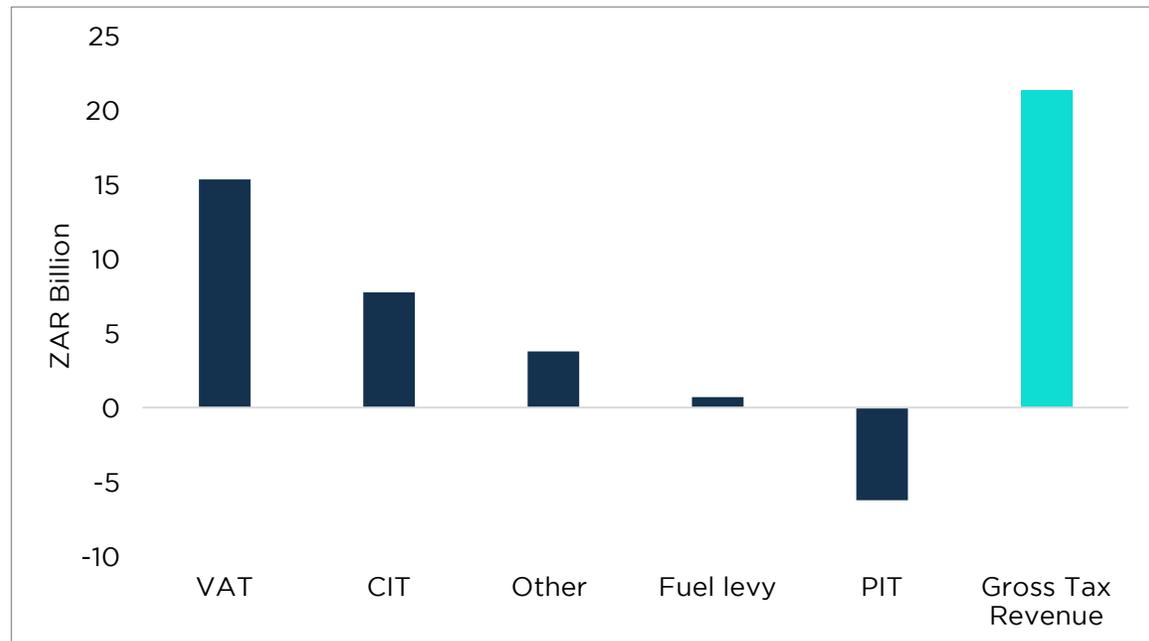


Budget Overview



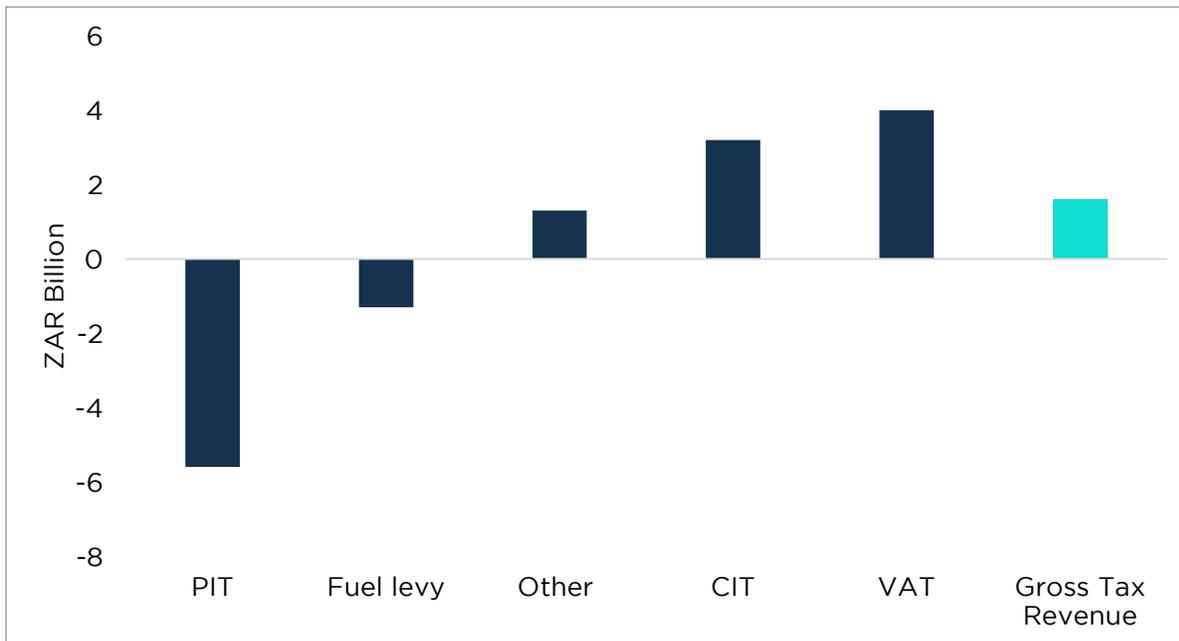
FY26 Budgeted vs Actual: Revenue

Differential in gross tax revenue compared to Budget estimates



Source: National Treasury, FY27 Budget

Differential in gross tax revenue compared to MTBPS estimates



Source: National Treasury, FY27 Budget

- Overall **tax revenue** in FY26 exceeded the Budget estimate by ZAR 21.3 billion and the MTBPS estimate by ZAR 1.97 billion.
- The outperformance was mainly driven by VAT collections, supported by resilient household spending and improved VAT administration.
- Record high metal prices also supported mining companies' profitability, which in turn enhanced corporate income tax (CIT). A jump in mineral and petroleum royalties, buoyed by the commodity price boom, also supported non-tax revenue.

Revenue Projections

Gross Tax Revenue by Components

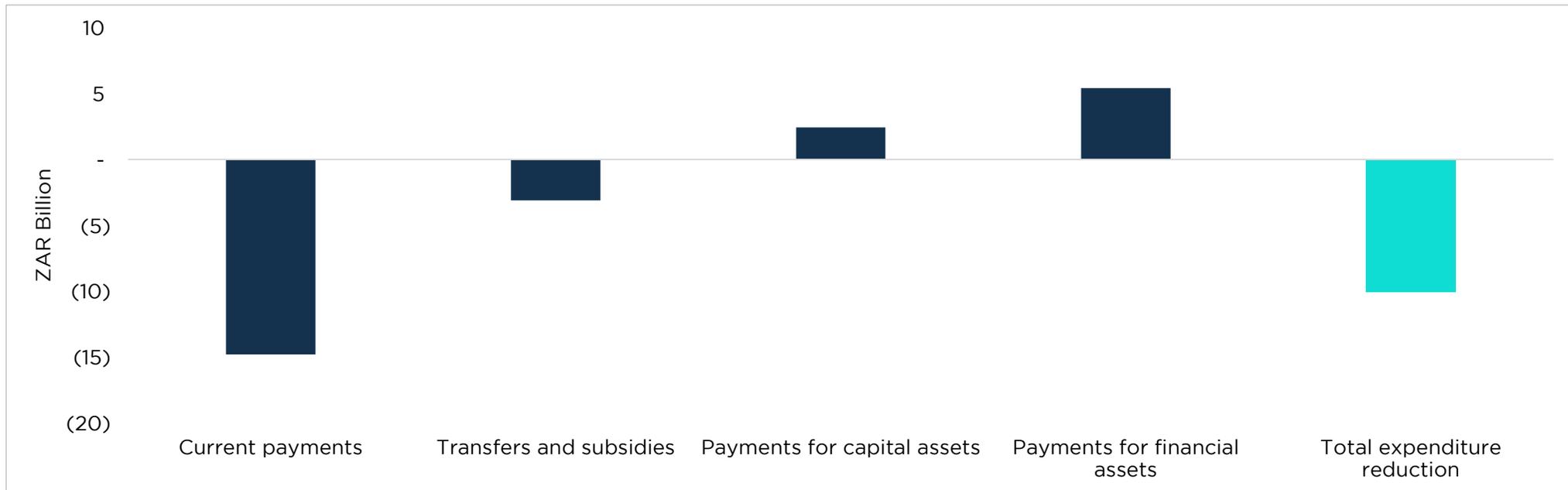
	FY25 A	FY26 RE	FY27 P	FY28 P	FY29 P
ZAR Billion (Unless Specified)					
Gross Tax Revenue	1,855	2,006	2,127	2,249	2,376
YoY (%)	6.6	8.2	6.0	5.7	5.7
PIT	730	786	845	896	947
YoY (%)	12.5	7.7	7.5	6.0	5.8
CIT	319	347	364	383	406
YoY (%)	1.8	8.7	5.1	5.1	6.0
VAT	458	498	521	552	581
YoY (%)	2.3	8.7	4.8	5.8	5.2
Fuel Levy	86	97	105	110	116
YoY (%)	-6.1	13.3	7.8	5.2	5.4
Excise duties	60	62	66	69	73
YoY (%)	11.5	4.5	5.1	5.6	5.4

Source: National Treasury, FY27 Budget (A=Actual; RE=Revised Estimate; P=Projection)

- The government had previously intended to raise an additional ZAR 20 billion in tax revenue in FY27; however, the FY26 tax overshoot has deemed this unnecessary. Tax revenue is expected to grow by 6% in FY27 from 8.2% in FY26.
- Inflationary adjustments have been made to the personal income tax (PIT), this should see PIT growth moderate to 7.5% YoY in FY27 from 7.7% in FY26.
- VAT growth will moderate slightly to 4.8% YoY in FY27 from 8.7% in FY26. This is in part due to the VAT registration threshold for small businesses having been increased from ZAR 1 million to ZAR 2.3 million, easing the cost of doing business for small enterprises.
- The fuel levy is expected to grow by 7.8% in FY27 from 13.3% in FY26. The strong FY26 growth was largely due to base effects. The levy will increase by 21 cents per litre (c/l), effective from FY27, alongside a 7c/l rise in the Road Accident Fund levy and a 5c/l increase in the carbon fuel levy.
- CIT is expected to grow by 5.1% in FY27 from 8.7% in FY26. The NT has indicated that it has not factored in higher commodity prices for mining companies, which could lead to an upward surprise if metal prices continue to strengthen.

FY26 Budgeted vs Actual: Revenue

Differential in expenditure compared to MTBPS estimates



Source: National Treasury, FY27 Budget

- For FY26, consolidated expenditure was revised down by ZAR10 billion compared to the provision in the MTBPS.
- This was mainly due to underspending by some government departments as well as lower debt service costs.

Expenditure Projections

Expenditure by Economic Classification

	FY25 A	FY26 RE	FY27 P	FY28 P	FY29 P
ZAR Billion (Unless Specified)					
Gross Expenditure	2,390	2,579	2,670	2,763	2,893
YoY (%)	5.9	7.9	3.5	3.7	4.5
Compensation of Employees	760	809	853	891	920
YoY (%)	5.1	6.3	5.4	4.6	3.2
Goods and Services	332	352	363	367	381
YoY (%)	5.4	6.2	3.0	1.1	3.9
Debt Service Cost	386	421	432	451	469
YoY (%)	8.3	9.0	2.8	4.4	4.0
Transfers and Subsidies	779	838	862	883	911
YoY (%)	4.6	7.6	2.9	2.4	3.1
Capital Assets Spending	113	130	135	146	172
YoY (%)	9.2	15.1	3.9	8.1	17.7

Source: National Treasury, FY27 Budget (A=Actual; RE=Revised Estimate; P=Projection)

- Expenditure is expected to grow by 3.5% in FY27, down from 7.9% in FY26.
- Growth in compensation of employees is expected to moderate to 5.4% in FY27 from 6.3% in FY26. Wage growth of government workers was settled with unions at 4.4% for both FY27 and FY28, providing much-needed relief in expenditure. Further, there are other cost-saving measures to contain wage growth, such as incentives for early retirement and savings measures put in place to eliminate ghost workers.
- Debt service costs will grow more slowly in FY27 at 2.8% from 9.0% in FY26. This significant decline reflects lower borrowing costs, improved market confidence and a diversified financing strategy. In addition, the effective interest rate on the debt portfolio in FY27 is estimated to be 30 basis points lower than in the 2025 Budget.

Expenditure Projections

Expenditure by Functions

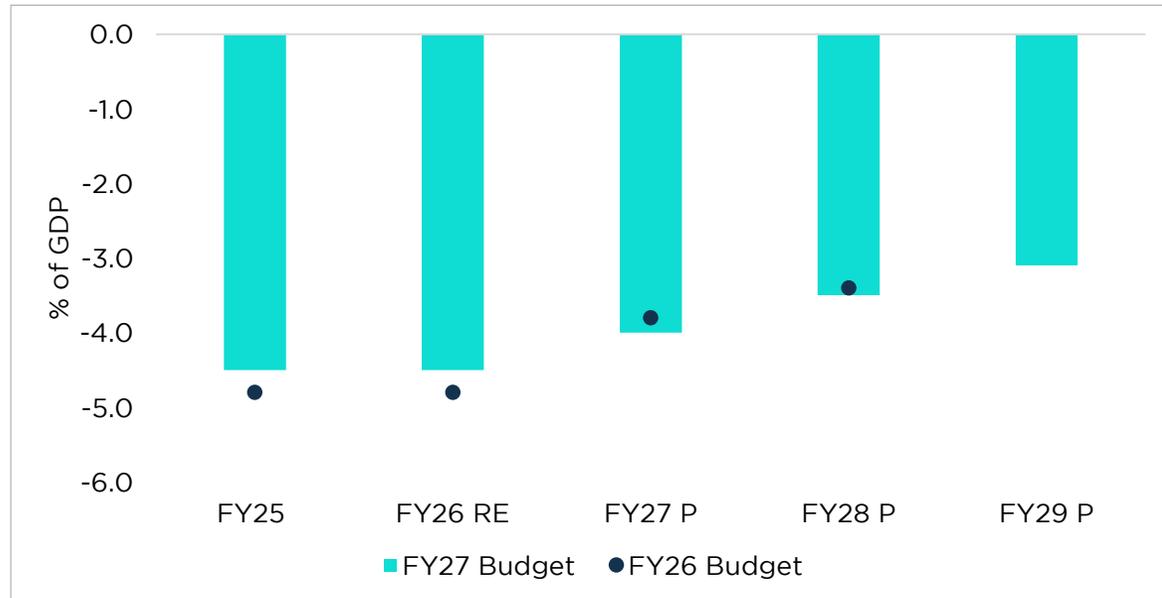
	FY25 A	FY26 RE	FY27 P	FY28 P	FY29 P
ZAR Billion (Unless Specified)					
Learning and Culture	478.7	514.3	527.2	552.2	568.7
YoY (%)	3.4	7.4	2.5	4.7	3.0
Health	277.6	295.4	310.4	323.9	334.3
YoY (%)	4.4	6.4	5.1	4.3	3.2
Social Development	398.4	412.2	446.6	453	466.4
YoY (%)	11.4	3.5	8.3	1.4	3.0
Community Development	266.9	291.0	294.3	308.9	326.8
YoY (%)	4.8	9.0	1.1	5.0	5.8
Economic Development	249.8	269.1	284.0	290.6	319.1
YoY (%)	4.4	7.7	5.5	2.3	9.8
Peace and Security	253.8	268.2	274.6	282.3	291.2
YoY (%)	5.9	5.7	2.4	2.8	3.2
General Public Services	77.3	86.5	84.4	86.2	89.1
YoY (%)	-0.1	11.9	-2.4	2.1	3.4

Source: National Treasury, FY27 Budget (A=Actual; RE=Revised Estimate; P=Projection)

- For FY27, higher provisions were made for education (learning and culture), health and social development, amongst others. However, the increased allocations towards these functions will come from the implementation of the Targeted and Responsible Savings (TARS) initiative, which achieved ZAR 12 billion in savings, which have been reallocated.
- Social development is expected to grow by 8.3% in FY27 from 3.5% in FY26. Within social development, spending on social protection remains the biggest expenditure item, with most of the funds distributed as social grants, the biggest being the social relief of distress (SRD) grant, which will end by March 2027. Following this, spending on social development will begin to decline. This will also be supported by inflation and improved grant targeting and verification. Further, the number of recipients for the childcare and foster care grants is expected to decrease.
- Lastly, the NT plans to increase spending on economic development from ZAR11 million in FY27 to ZAR 164 billion in FY28 and ZAR 193 billion in FY29, amounting to 8% growth over the MTEF. Investments in water infrastructure and roads are prioritised. Capital expenditure remains the fastest-growing expenditure item over the MTEF. This reflects a deliberate shift in spending composition toward infrastructure investment to support much-needed reforms and economic growth.

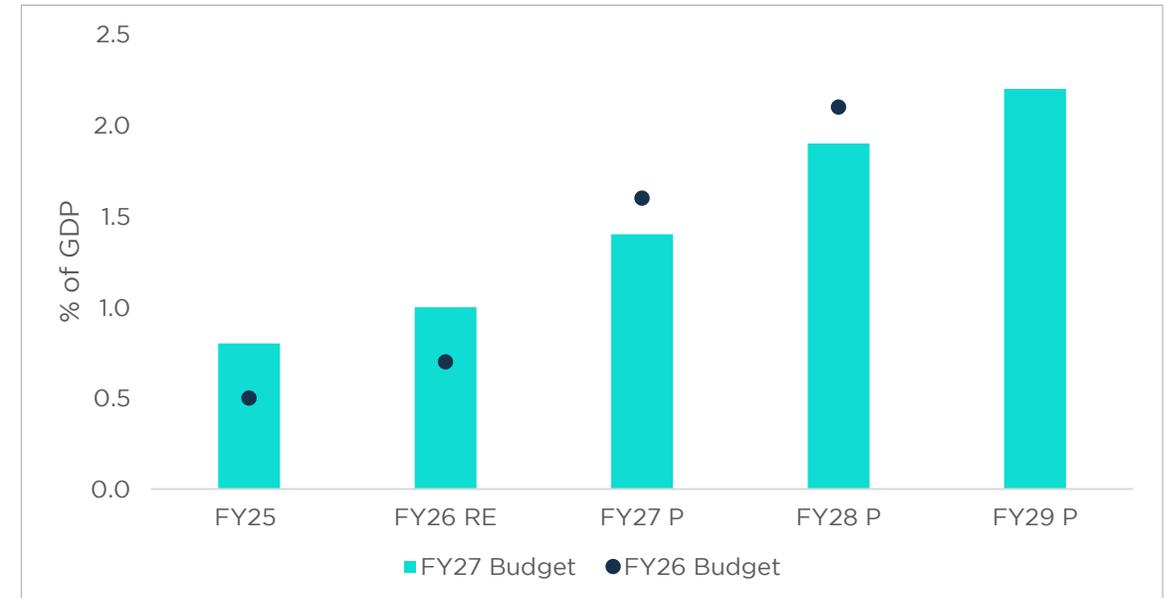
Fiscal Balance and Primary Balance fares better

General Government Fiscal Balance



Source: National Treasury, FY27 Budget (RE=Revised Estimate; P=Projection)

General Government Primary Balance

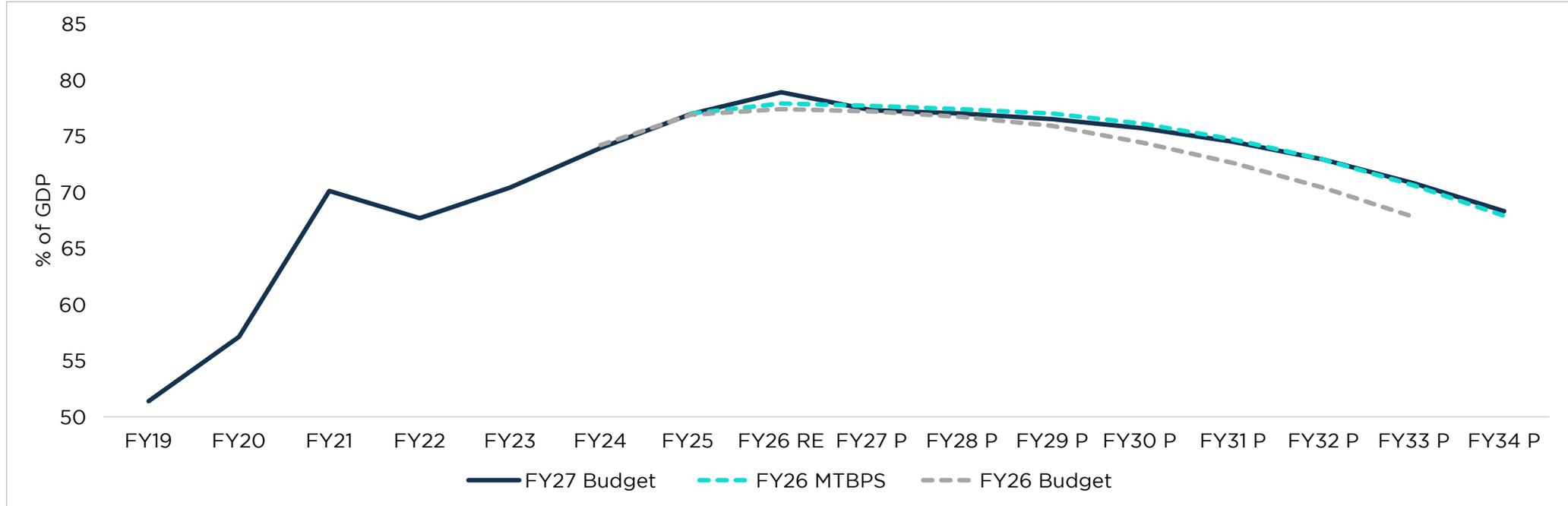


Source: National Treasury, FY27 Budget (RE=Revised Estimate; P=Projection)

- The better-than-expected revenue and expenditure outcomes in FY26 will see the government realise a primary surplus of 0.9% of GDP from 0.8% in FY25. For FY27, the primary surplus is projected at 1.4%, gradually increasing to 2.2% by FY29.
- The fiscal deficit for FY26 is now estimated 4.5% of GDP, unchanged from FY25. For FY27, this will moderate to 4.0% of GDP. Fiscal discipline is expected to continue over the medium term, with the deficit projected at 3.1% by FY29.

General Government Debt, peaking in FY26

General Government Debt



Source: National Treasury, FY27 Budget (RE=Revised Estimate; P=Projection)

- Overall, debt to GDP is seen peaking in FY26 at 78.9% of GDP and is projected to gradually decrease to 77.7% of GDP in FY27.

Borrowing Requirement Elevated due to Redemption Profile

ZAR Billion	FY24	FY25	FY26 RE	FY27 P	FY28 P	FY29 P
Fiscal Balance	307	336	347	324	301	281
Redemptions	144	99	160	135	284	195
Long-term Domestic Bonds	97	61	103	99	260	148
Foreign Loans	47	38	57	36	24	47
Eskom Debt-Relief	76	64	80	-	-	10
GFECRA Settlement		-100	-25	-56	-	-
Total Borrowing Requirement	543	397	563	380	569	465
As a % of GDP	7.6	5.4	7.3	4.6	6.6	5.1

Source: National Treasury, FY27 Budget (RE=Revised Estimate; P=Projection); *Borrowing requirement comprises fiscal balance, redemptions and Eskom's debt relief, which is offset by any cash injections.

- The positive impact of the lower budget deficit on the gross borrowing requirement has been offset by the upcoming loan redemptions.
- In FY26, the borrowing requirement comprises the ZAR 80 billion in debt relief to Eskom, as well as a cash injection from the gold and foreign exchange contingency reserve account (GFECRA) of ZAR 25 billion. The total borrowing requirement is 7.3% of GDP in FY26.
- FY27 marks the end of the Eskom debt relief programme. Further, the government has announced a ZAR 56 billion cash injection from the GFECRA for FY27. As such, the borrowing requirement will come down to 4.6% of GDP.
- However, the bloated redemption profile will keep the borrowing requirement elevated for the remaining years.

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