



National budget preview: Holding the fiscal line while politics pulls



Strengthening the fiscus through sustained structural change

South Africa's (SA) economy is showing signs of recovery, with the International Monetary Fund (IMF) projecting a 1.4% growth rate for 2026 driven by steady consumer spending and policy shifts. Significant progress has been made on key economic reforms, with consistent gains in freight logistics. Despite a brief stall in energy restructuring, presidential intervention has refocused efforts on creating an autonomous electricity grid. However, cooling inflation and modest growth pose a risk to tax revenue in the medium term, leaving the budget sensitive to global shocks and slower investment.



Closing the infrastructure gap to maximise export value

Gold and platinum prices have reached historic levels, fuelled by geopolitical instability and a landmark shift in central bank reserves away from traditional assets. Despite this price surge, SA's ability to maximise export revenue remains hampered by infrastructure bottlenecks. While freight reforms and private sector involvement are moving forward, progress across key rail and port corridors remains inconsistent. Consequently, stagnant export volumes continue to limit the potential fiscal windfall from mining royalties, making sustained economic gains dependent on urgent logistics improvements.



Turning the tide on the government budget deficit

The fiscal outlook has improved since late 2025, with revenue collections outperforming expectations and spending contained. This stronger footing, aided by the conclusion of Eskom's direct support and measured reserve drawdowns, should reduce borrowing and support bond market stability. Although social grant extensions and infrastructure needs pose risks, stronger tax administration and technology-driven efforts to curb illicit trade broaden the revenue base and provide a buffer for medium-term sustainability and growth.



Infrastructure reform and the shift toward privatisation

Infrastructure is at the heart of the national growth strategy, anchored by the reconfigured Budget Facility for Infrastructure (BFI). The first successful launch of the infrastructure bond, which was more than twice oversubscribed, signals strong market confidence in this new funding model. Instead of relying on new taxpayer-funded bailouts, the government is prioritising efficient project delivery and the mobilisation of private capital. Ongoing support for state-owned entities is now strictly tied to achieving operational milestones and sustainable debt management.



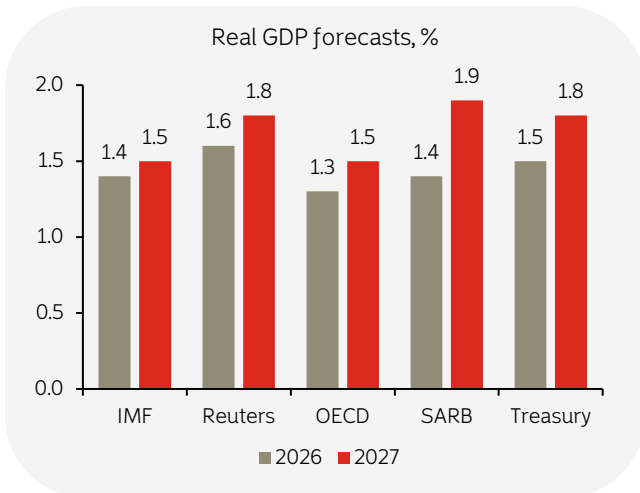
Securing a sustainable sovereign rating trajectory

SA is pivoting toward stability by prioritising primary surpluses and tighter spending over aggressive austerity. While debt-to-GDP (gross domestic product) is expected to plateau, the nation's fiscal health remains a tale of two comparisons. While SA currently outpaces several advanced economies in deficit reduction, it lags behind some emerging market peers due to sluggish growth and a still-heavy, but declining, interest burden. Though rating agencies acknowledge this progress, structural fiscal threats like struggling state-owned enterprises and the collapse of municipal finances remain slow-burning risks.

Strengthening the fiscus through sustained structural change

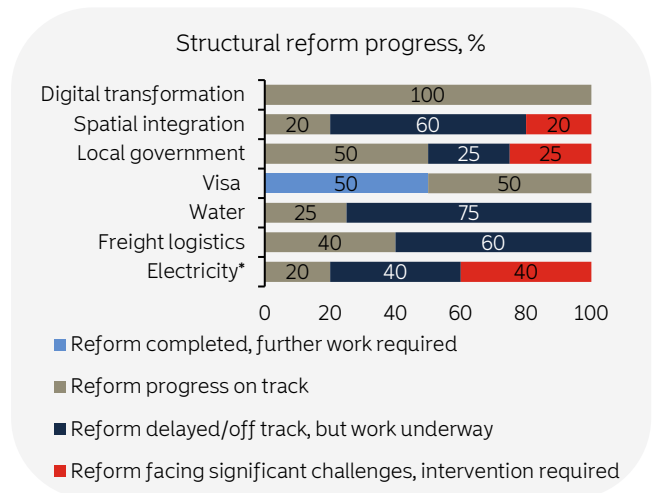
Some growth momentum is expected off a low base, with the IMF projecting 1.4% real economic growth in 2026, supported by resilient private consumption and structural reforms. Risks to growth include slower structural reform implementation, persistent global headwinds and weaker private investment, all of which could temper growth and revenue generation. The latest Business Leadership SA Reform Tracker for the fourth quarter of 2025 shows that the overall reform score has risen nearly 24% since March 2024, when the tracker began following progress on 245 deliverables in the economy, criminal justice and governance. Of these, 34 were ranked as complete, while 192 were rated as being in progress with 19 having stalled. The tracker had flagged a setback in electricity sector reform, where December's revised strategy threatened to keep transmission assets within the utility rather than transfer them to an independent system operator. However, in his State of the Nation Address (SONA), President Cyril Ramaphosa intervened, tasking a dedicated team under the National Energy Crisis Committee with implementation and reaffirming the plan to establish a fully independent transmission entity. Nominal GDP growth, which includes the effects of lower expected inflation, dampens the projections for tax buoyancy ratios given a lower year-to-date (YTD) value than National Treasury's November 2025 expectations.

Chart 1: A broad institutional view that growth is expected to improve off a low base



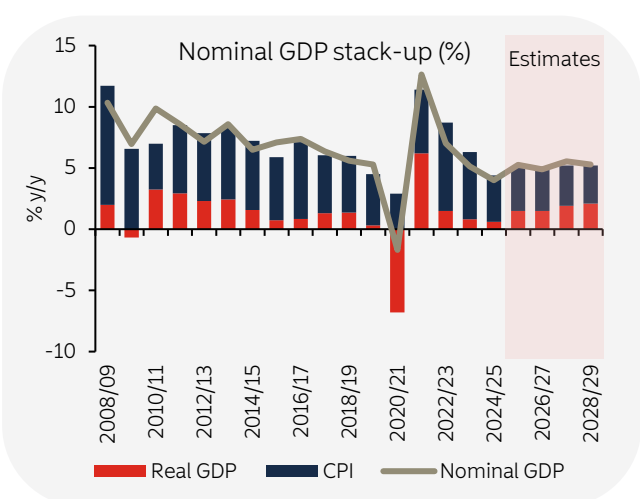
Source: IMF, Organisation for Economic Cooperation and Development, Reuters, Treasury, South African Reserve Bank (SARB), Momentum Investments

Chart 2: Freight logistics reforms have recorded consistent gains



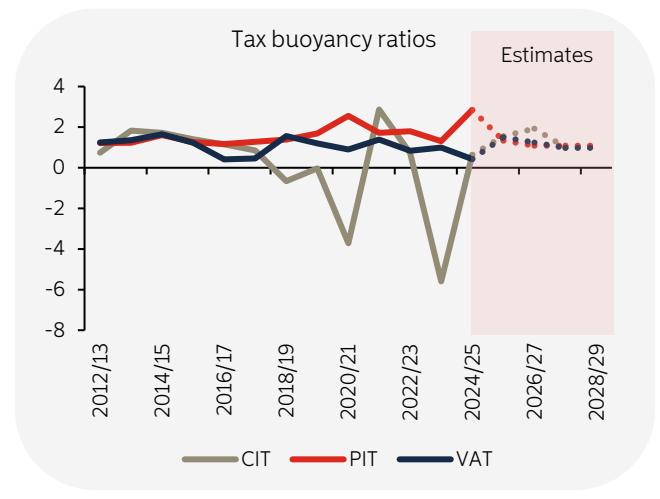
Source: RMB Morgan Stanley, BLSA, Momentum Investments
*Electricity sector reform expected to improve in next reading (SONA announcement)

Chart 3: When inflation falls, the denominator (nominal GDP) for government's debt ratio slows



Source: Treasury, Momentum Investments

Chart 4: Revenue responsiveness shifts as nominal growth slows in a disinflationary cycle

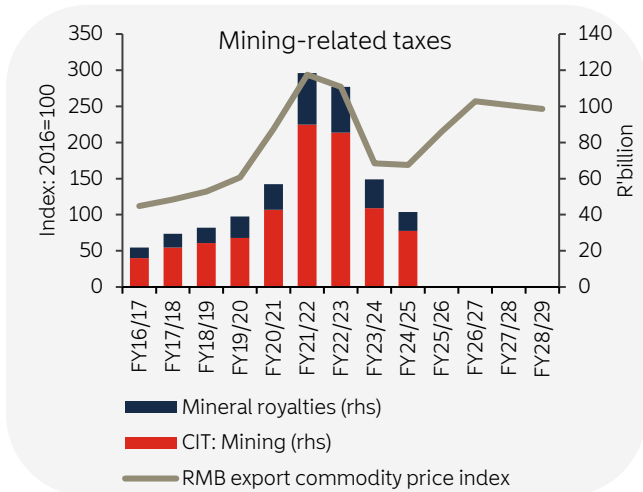


Source: Treasury, Momentum Investments, CIT = corporate income tax, PIT = personal income tax and VAT = value-added tax

Closing the infrastructure gap to maximise export volumes

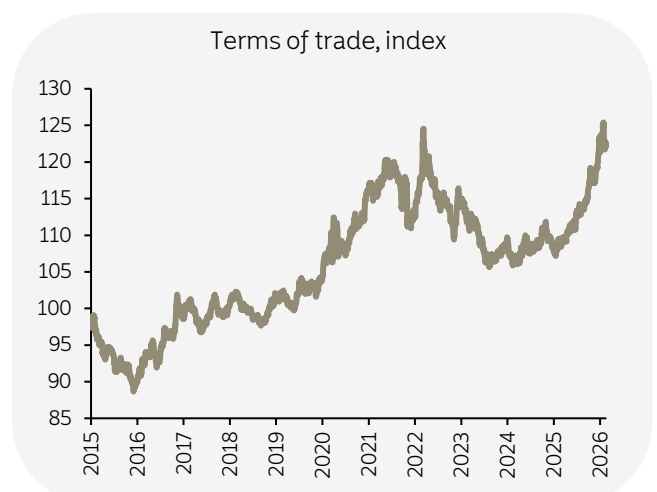
International gold prices have surged to multi-decade highs, supported by persistent geopolitical tensions, safe-haven demand amid economic uncertainty and sustained central bank accumulation, particularly among emerging markets seeking to diversify reserve assets. In 2025, central banks held more gold than United States treasuries for the first time since 1995, underscoring a meaningful shift in reserve composition. While retail investors have recently taken profits at elevated levels, contributing to short-term volatility, we believe the longer-term diversification trend remains intact. Research from the Bank for International Settlements (*working paper, November 2020*) suggests that, under conditions of elevated yield sensitivity or exchange rate risk, gold allocations of between 20% and 50% can be justified within reserve portfolios, reinforcing the case for structural demand. Platinum prices have also strengthened amid persistent supply deficits. Yet SA has struggled to translate higher prices into materially higher export volumes. Although freight reforms and greater private participation in key corridors are underway, capacity improvements have been uneven. For the fiscal outlook, higher gold and platinum prices support mining profits and royalties, but stagnant volumes have tempered the potential revenue windfall. The upside remains conditional on logistics reform delivering tangible export gains.

Chart 5: Buoyant export commodity prices point to higher CIT revenue and mining royalties



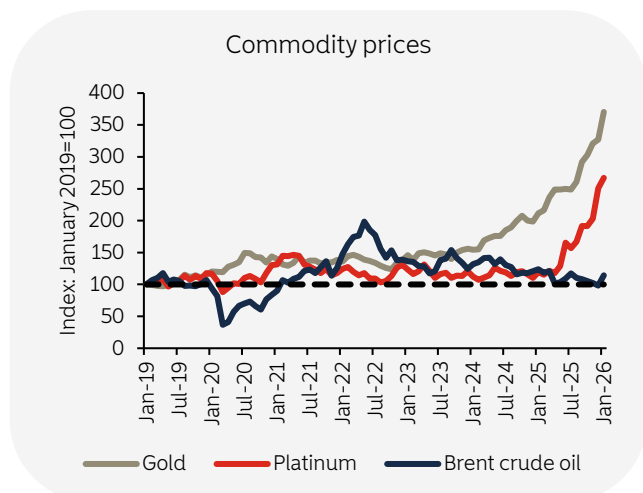
Source: RMB, SARS, Treasury, Momentum Investments

Chart 6: The official terms-of-trade measure has outstripped its prior peak



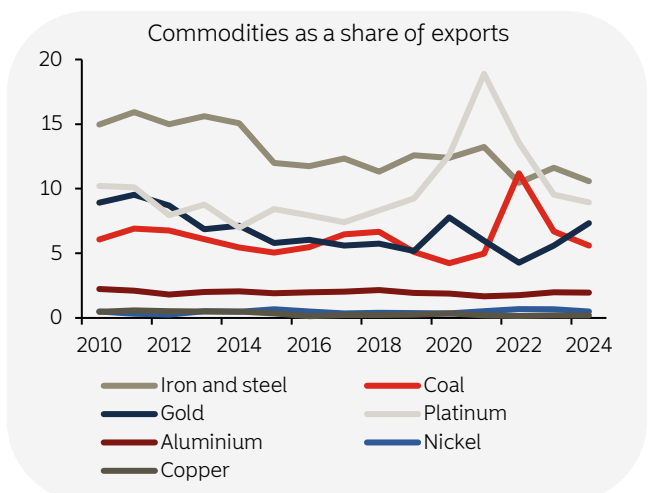
Source: Bloomberg, SBG Securities, Momentum Investments

Chart 7: Gold and platinum prices have soared but SA has not taken full export advantage



Source: Bloomberg, Momentum Investments

Chart 8: Gold and platinum as a share of total exports fell from 19.1% in 2010 to 16.3% in 2024 in value terms

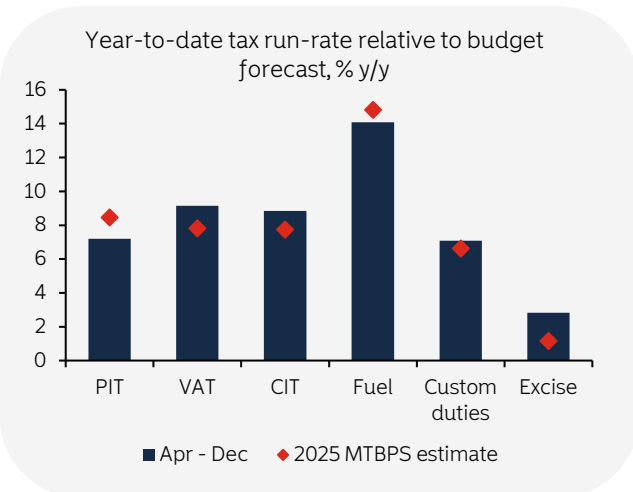


Source: Deutsche Bank, Department of Trade Industry and Competition, Momentum Investments

Turning the tide on the government budget deficit

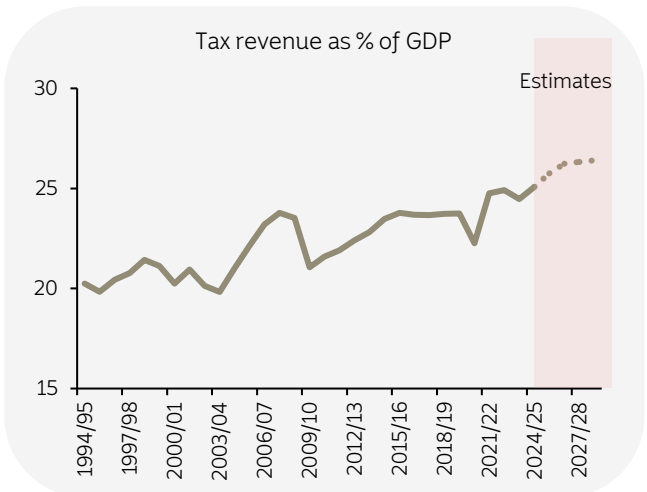
The fiscal picture has improved relative to the November 2025 baseline. Revenue collections are outperforming earlier projections (10.4% YTD vs. 8.9%), while spending growth has been more contained than anticipated (5.8% YTD vs. 8.3%). This combination, together with the conclusion of support to energy utility Eskom and larger drawdowns from available contingency buffers such as the gold and foreign exchange reserves account (GFECRA), should meaningfully reduce gross borrowing needs in the year ahead. In turn, government bond supply to the market could moderate, with scope for smaller weekly auction sizes. Lower government bond yields are also beginning to relieve pressure on debt-service costs. Yet risks to the expenditure envelope remain material. The extension of the Social Relief of Distress grant, as announced in the SONA, introduces medium-term spending questions, even if design reforms are intended to link recipients to employment pathways. Further pressures stem from infrastructure commitments, particularly in water and the perennial risk of additional support to state-owned entities. On the revenue side, fiscal drag through unadjusted tax brackets, stronger compliance efforts, including the use of artificial intelligence to combat illicit trade and the consideration of new revenue streams such as a gambling tax could provide incremental support.

Chart 9: Corporate taxes and net VAT receipts are running ahead of schedule



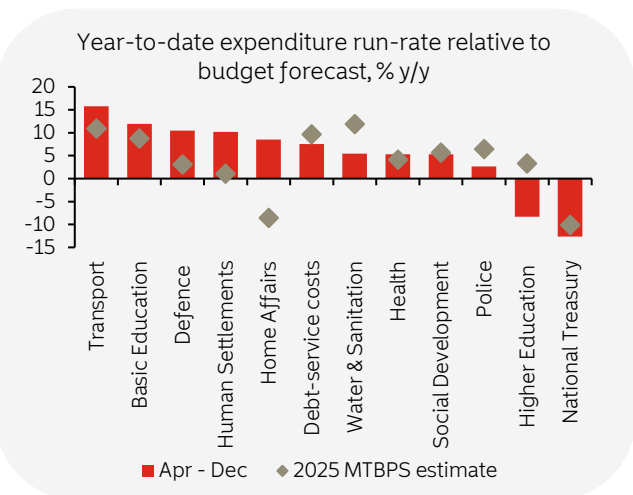
Source: Treasury, Momentum Investments

Chart 10: Expected rise in the tax burden partly owing to an improvement in collections



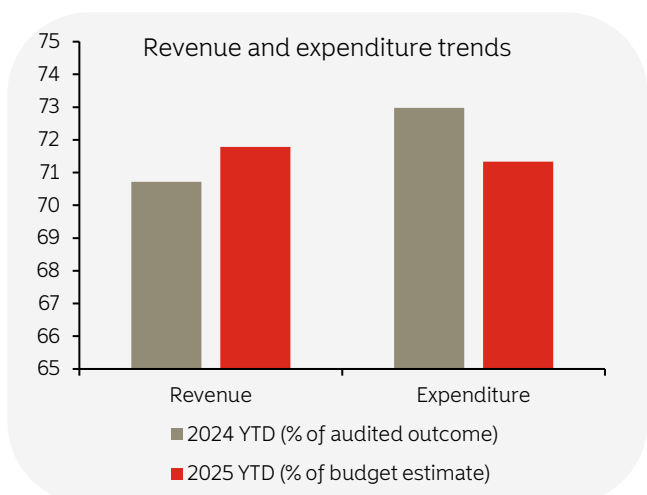
Source: SARS, Treasury, Momentum Investments

Chart 11: Spending running behind schedule in five out of the 12 expenditure categories



Source: SARS, Momentum Investments

Chart 12: Relative to the previous fiscal year, revenue is running ahead and expenditure is trailing on YTD trends

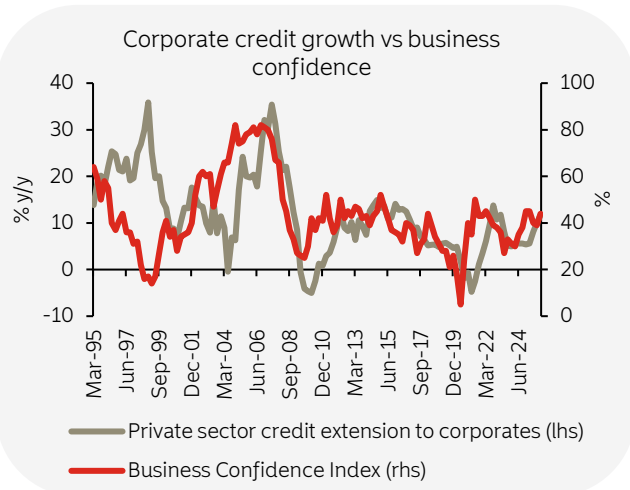


Source: SARS, Momentum Investments

Infrastructure reform and the shift toward private participation

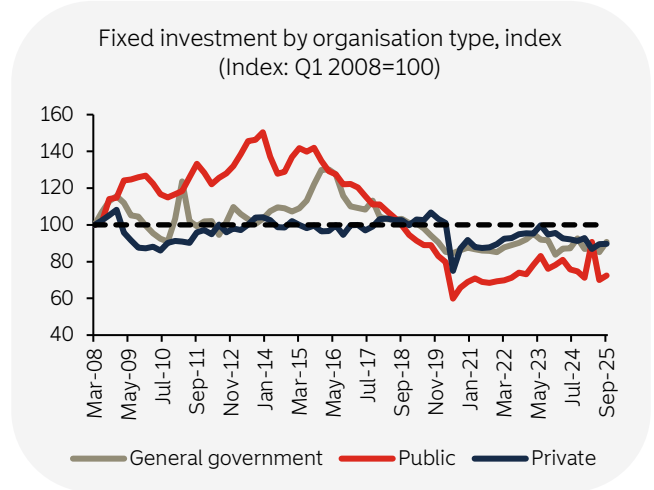
Infrastructure remains central to government's growth narrative. The SONA reaffirmed commitments to scale up investment in energy, water, transport and digital networks, while advancing municipal reform and strengthening governance at state entities. The emphasis, however, appears to be on improving delivery and crowding in private sector participation rather than announcing large new fiscal injections. Market participants, on the whole, are not expecting material additional allocations to Eskom or Transnet. Transnet has already drawn extensively on state support through successive government guarantees and has sought additional funding in the current fiscal cycle. However, Treasury has signalled that no further direct transfers are planned this year. Any continued backing will remain conditional on demonstrable improvements in operational performance and stronger debt and balance sheet management. Transnet remains pivotal to logistics reform and export competitiveness. While heavily reliant on government guarantees in recent years, Treasury has indicated no new direct transfers for now. Future support, if required, is likely to be conditional on operational turnaround, greater private sector participation in freight corridors and tighter liability management. Ultimately, infrastructure progress hinges less on fresh funding than on reform execution and institutional credibility.

Chart 13: A nascent recovery underway in corporate credit growth and business sentiment



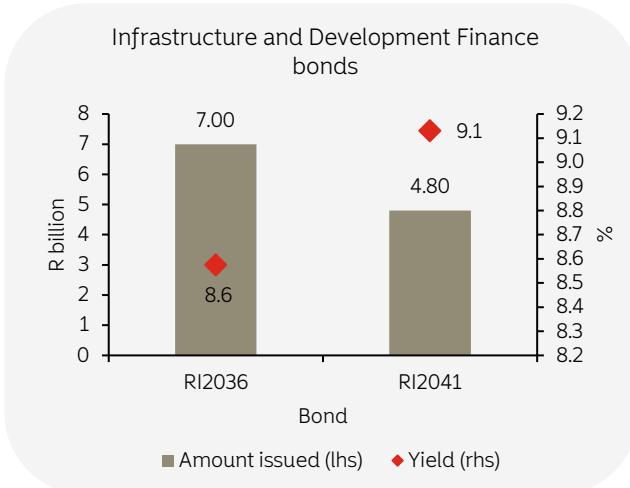
Source: Global Insight, SARB, BER, Momentum Investments
Data until December 2025

Chart 14: Growth in fixed investment by state entities has averaged negative 1.8% since the pandemic



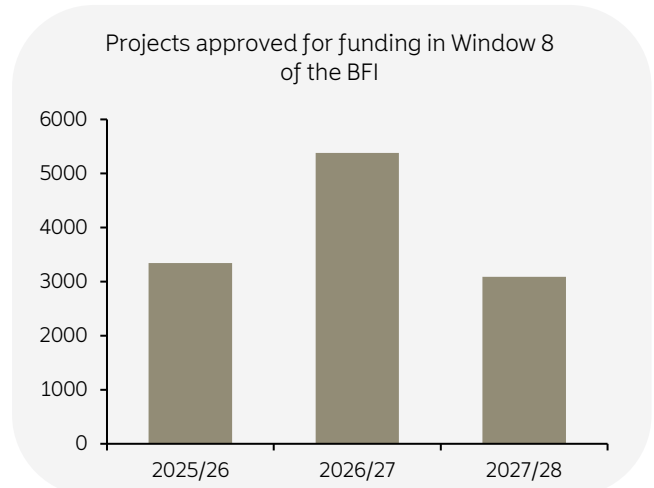
Source: Global Insight, Stats SA, Momentum Investments

Chart 15: The market has appetite for infrastructure bonds with the recent two auctions oversubscribed



Source: Treasury, Momentum Investments

Chart 16: A promising pipeline of projects spanning water, health, rail, ports, housing and energy

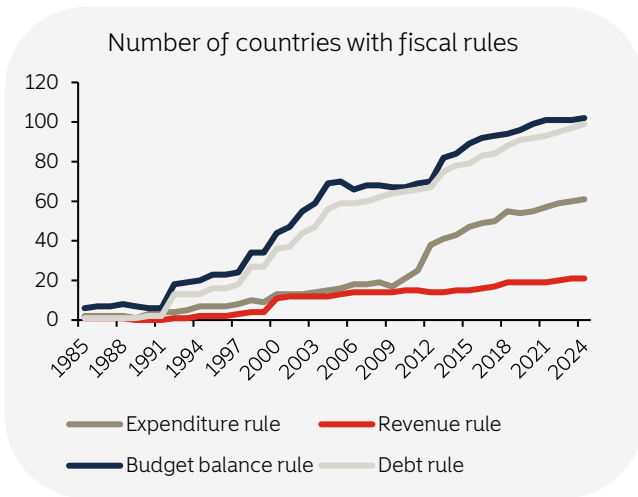


Source: Treasury (May 2025), Momentum Investments

Securing a sustainable sovereign rating trajectory

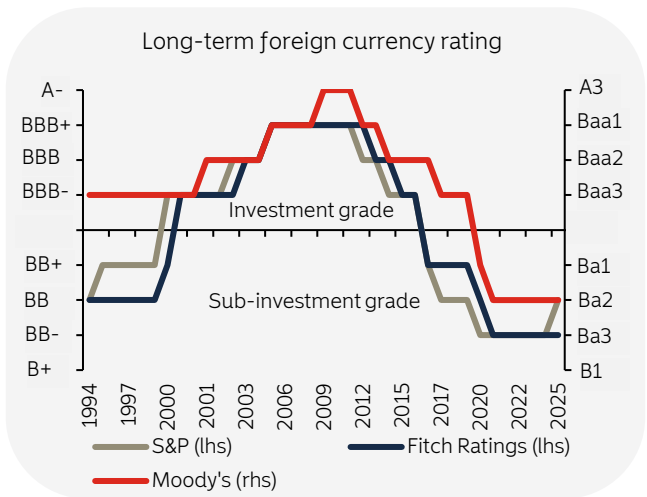
SA's fiscal framework is anchored by a commitment to stabilise government debt through sustained primary surpluses and disciplined expenditure management. After several years of rising borrowing, Treasury projects the government debt-to-GDP ratio to level off over the medium term, supported by modest deficit reduction and a sustained return to a primary surplus. The consolidation path relies less on sharp austerity and more on expenditure restraint, improved revenue administration and gradually lower debt-service costs as bond yields ease. Compared with many advanced economies, where debt ratios remain elevated and primary deficits persist, SA's move into a primary surplus compares relatively favourably. However, relative to emerging market peers with stronger growth profiles and lower interest burdens, SA's debt metrics remain stretched and sensitive to shocks. Rating agencies have highlighted progress in fiscal consolidation but continue to flag risks. Key concerns include weak medium-term growth, contingent liabilities from state-owned enterprises, rising public-sector wage pressures and the high share of revenue absorbed by interest payments. Sustained primary surpluses to stabilise debt and credible structural reforms to reinvigorate growth will be central to securing a more positive sovereign rating trajectory.

Chart 17: Budget balance and debt rules are the most common fiscal discipline measures globally



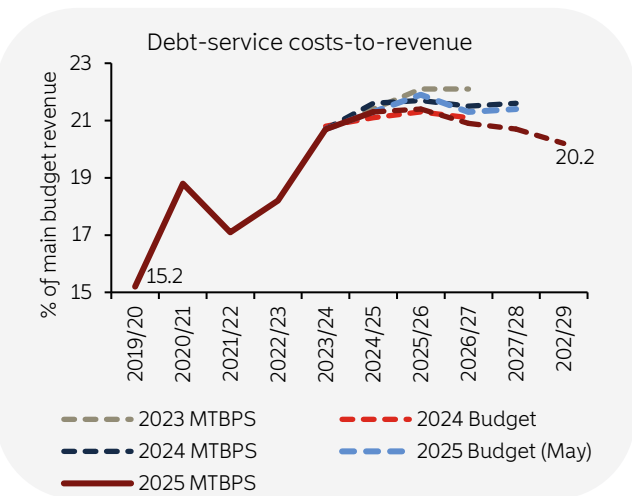
Source: IMF, SBG Securities, Momentum Investments

Chart 18: Sovereign ratings are likely to have bottomed for SA as fiscal and structural reform progress persist



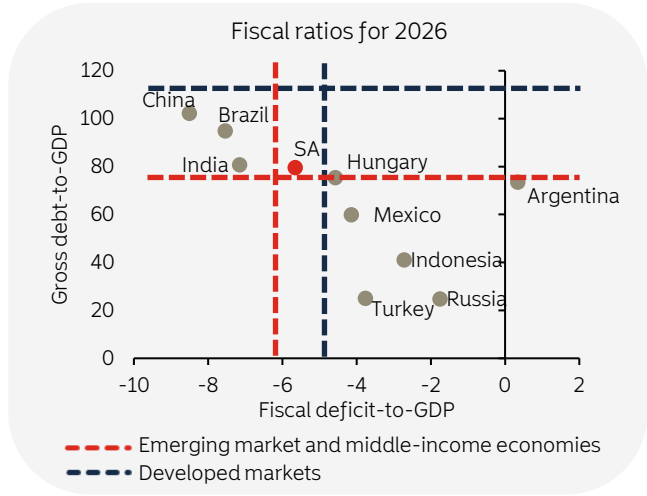
Source: Bloomberg, Momentum Investments

Chart 19: Debt-service costs remain high but are projected to decline as a share of revenue



Source: Treasury, Momentum Investments, dotted line = forecasts

Chart 20: SA's expected fiscal and debt impulse compares favourably to some emerging markets



Source: IMF, Momentum Investments

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