



Budget chooses calm over flash, *with a bond sweetener*

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The February 2026 Budget Review presented today might be summed up as “more of a holding pattern” especially in contrast to such a constructive 2025 MTBPS – which contained an endorsement of the inflation target of 3.0%, fiscal consolidation, spending adjustments for lower inflation, and a revenue overrun. Any changes tabled in the February 2026 Budget were, therefore, always destined to be marginal by comparison. As things turned out, the debt-to-GDP ratio was revised higher to 78.8% of GDP, from 77.8%, owing to a lower projected nominal GDP growth rate and pre-funding of nearly R60bn. Bond yields rose on the initial headlines, but the SENS announcement of a R450m reduction in weekly SAGB issuance – on top of the R750m announced in the 2025 MTBPS – triggered a SAGB rally of between 15bps and 20bps across the curve.

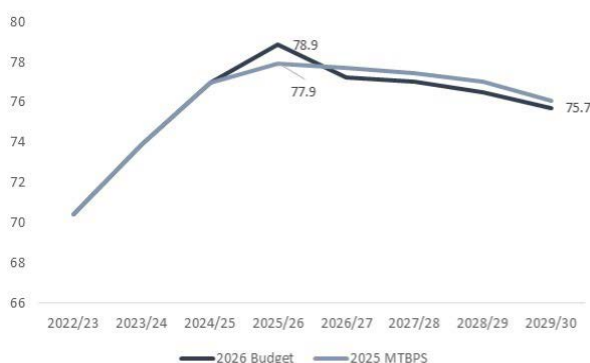
26 February 2026

Key focus points

Fiscal consolidation: In the build-up to the Budget, one critical issue on our minds was how the highly anticipated mining revenue windfall would be allocated. National Treasury presented, in our view, a particularly conservative revenue forecast therein, factoring in only higher mineral royalties – which means there is upside risk to the revenue forecast in the 2026 MTBPS and Budget 2026 Review. At a cursory glance, the upward revision in the debt-to-GDP ratio from 77.8% to 78.9% in FY25/26 was disappointing, especially given the consistent fiscal slippage over the past decade. However, National Treasury ascribed this to a lower nominal GDP growth (revised from 5.3% to 4.8%) and pre-funding in the domestic capital market of nearly R60bn. Over the MTEF period, the debt-to-GDP trajectory projection continues to edge lower, reaching 76.7% in FY27/28. The big drivers have been the movement in financial asset prices, with a decline in SAGB yields lowering the cost of funding, revaluation effects of a stronger rand on foreign currency debt, and a decline in inflation reducing the revaluation on the ILB portfolio.

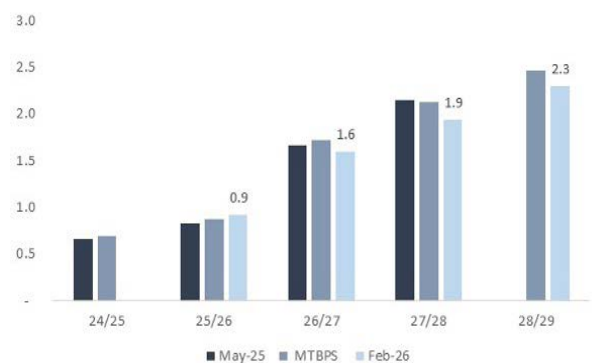
The main budget deficit and primary balance surplus ratios remain notably similar to the MTBPS forecast. The main budget deficit is at 4.5% of GDP in FY25/26 and moderates to 2.9% in FY28/29. The primary balance is unchanged at 0.9% of GDP in FY25/26 (F: 1.1% of GDP) and over the MTEF period, rising to 2.3% in FY28/29.

Fig 1: Debt-to-GDP: Near term upward revision vs MTEF stabilisation (% of GDP)



Source: National Treasury, Investec CIB

Fig 2: Primary budget surplus needs to grow faster for a material improvement in the debt trajectory (% of GDP)



Source: National Treasury, Investec CIB

Fiscal anchor: A formal announcement is only expected in the 2026 MTBPS. The choice of a fiscal anchor will be principles-based rather than numerical. A consultation paper will be published in coming months. Essentially, an incoming administration will table a medium-term fiscal plan supporting fiscal sustainability. A primary balance surplus will be maintained, with a long-term primary surplus of 2.9% of GDP. Minister of Finance Enoch Godongwana stated in his budget speech: “just as the inflation target provided clarity and credibility to monetary policy, the fiscal anchor aims to entrench fiscal discipline”.

Macro-economic forecasts

Minor upgrades were made to macroeconomic forecasts, showing a mild cyclical upswing gaining traction. GDP growth is projected to increase by 1.6% (P: 1.4%) in 2026, and 1.8% and 2.0% in 2027 and 2028, respectively. The inflation forecast is aligned with the SARB at 3.4%, 3.3%, and 3.2% in 2027 and 2028, respectively. Fixed investment is expected to grow by 2.2% in 2026 from a low base, with renewable energy, embedded generation, and digital infrastructure the main contributors. National Treasury stated that a broader recovery is contingent on firmer demand, improved confidence, and continued progress in addressing electricity and logistics constraints.

Infrastructure investment, reforms, and PPPs

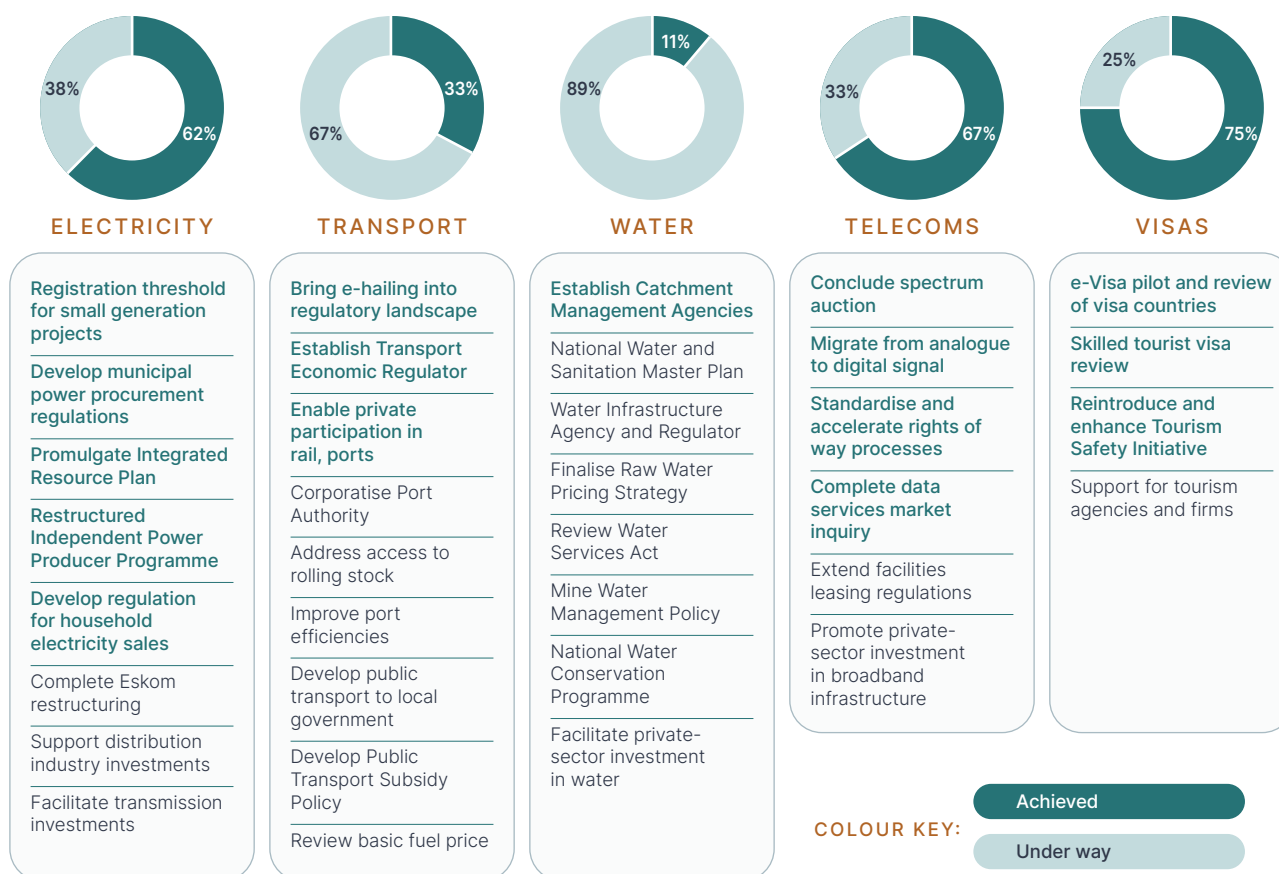
The 2026 Budget Review flagged progress in some areas, such as a decline in loadshedding, Transnet’s freight volumes reaching 81m/t in H1 FY25/26 (up from 78m/t in the same period the previous year), and visa reforms. However, the slow pace of reforms and implementation was also highlighted. This is attributed to the complexity of reforms across legislative and administrative processes. This is affecting grid investment and enabling further issues, such as wheeling and trading of electricity. In transport, litigation slowed the port PPP transaction, which is now – thankfully – progressing. In the water sector, sluggish legislative processes have slowed reforms. It is noted that work is under way to unblock the delays.

Budget for Infrastructure (BFI) facility: Five projects, totalling R49.5bn, have been approved in FY25/26. Of this, funding via the BFI will be R21.9bn. Infrastructure bonds of R11.8bn were issued in December 2025, linked to ‘Window 4’. National Treasury expected more frequent issuance, spread across the maturity curve. The funds are ring-fenced for strategic capital projects, based on a rigorous assessment process by the BFI for infrastructure projects. However, it is unable to provide estimates of the quantum of funding.

UPDATES

- The Credit Guarantee Vehicle (CGV) between National Treasury and the World Bank is progressing. The next step is for development partners to confirm their capital participation. The CGV will then apply for a license from the Prudential Authority. It is expected that the CGV could be operational later in 2026.
- There is a pipeline of PPP projects, with the Gautrain rapid rail link procurement of a new vendor at an advanced stage. This is expected to be the first closure of a major PPP in more than five years.
- Final guidelines for PPP regulations for municipalities will be published by 30 June 2026.

Progress on reform strategy



Source: National Treasury

Municipalities – from oversight to intervention

Furthermore, it was noted that with 63% of municipalities (or 162) in financial distress in FY23/24, and provinces struggling to balance compensation costs and service delivery, the government is moving from oversight to active structural intervention. The measures have been previously announced and include the ringfencing of trading revenues and performance-linked reforms of R27.7bn over the MTEF in electricity, water, sanitation, and solid waste. This will match revenue collection to reinvestment in the same service. Consequence management will be implemented, with failure to meet targets resulting in reduced budget allocations.

A pertinent example given was that of Johannesburg. Here, water revenue amounts to R11.9bn, but only R1.3bn is allocated to Joburg Water for capital expenditure. A backlog of R64bn to fix water supply problems has consequently accumulated.

Municipal infrastructure grant reform involves municipalities with proven capacity to continue to receive funding directly, whereas capacity or governance failures will shift to an indirect model.

The White Paper on Local Government and a review of the local government fiscal framework are underway. In several cases, National Treasury is invoking powers granted to it under section 216 of the Constitution to reverse financial deterioration in non-performing municipalities.

Tax revenues and relief

FY25/26 projection: The 2026 projection has been increased by R9.0bn from the 2026 MTBPS, with December 2025 revenues exceeding the target by only R3.5bn. Upward revisions have been made to CIT (+R3.2bn) and VAT (+R4.0bn). Subdued wage growth has reduced PIT by R5.6bn. SARS is unlikely to meet its revenue collection above its baseline forecast of R100bn.

MTEF period forecast: The key development has been the removal of the R20bn tax increase incorporated into the baseline forecast. The carryover – totalling R60bn – has been removed. Tax brackets to PIT and the medical aid tax credit increased in line with inflation. The alleviation of bracket creep provides income relief of R13.9bn. This is materially less when inflation was at 4.5%, with income relief of R15bn to R18bn. Importantly, though, is what was missing in the revenue forecast. CIT assumptions were conservative, with National Treasury did not include possible windfalls from the R50-100bn tax boon from gold and mining companies. Mineral royalties have been raised by R16.9bn. This indicates upside risk to the 2026 MTBPS and February 2027 Budget Review forecasts. Gross revenues rise by an average of 5.8%, which remains above nominal GDP growth of 5.5%.

TAX ANNOUNCEMENTS

- Adjustments have been made to the tax-free annual limit, which has been raised from R36 000 to R46 000, and the limit to retirement fund deductions is raised from R350 000 to R430 000.
- Excise duties will be increased in line with inflation.
 - The general fuel levy increases by 9c/l for petrol and 8c/l for diesel. The RAF levy increases by 7c/l, and the carbon fuel levy rises by 5c/l for petrol and 6c/l for diesel.
 - Updated global minimum tax rules – expected to reduce profit shifting by multinational corporations taking advantage of negligible or zero tax rates in other countries – will be implemented. This generates an additional R2bn of tax revenues, although lower than the previous estimate of R8bn.
 - A diamond export levy of 5% will be applied on the value of unpolished diamonds released for export.
 - An inflation-linked threshold and limit adjustments will be made for those receiving employment benefits.

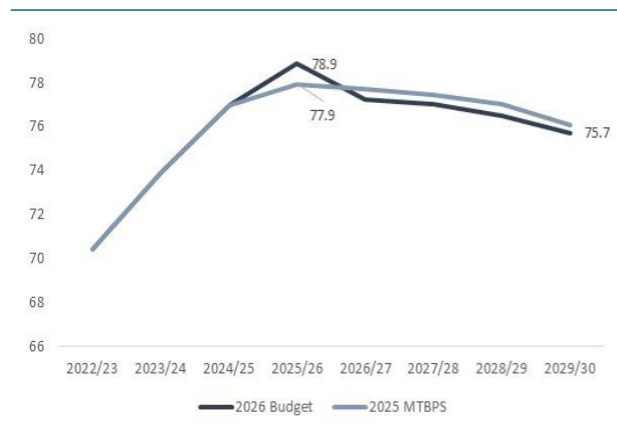
Expenditure – underspending and reprioritisation

Debt servicing costs have again been revised lower, due to rising financial asset prices and lower inflation, to R10.6bn over the MTEF period, growing by an average of 3.5% over the MTEF. Non-interest spending increases by R6.3bn in FY25/26 and remains unchanged over the MTEF. While additional savings of TARS have been raised by R5.5bn to R12.0bn, over the MTEF period, savings are being prioritised into other spending areas. Most of the inflation adjustments have been made in the 2025 MTBPS. Public sector wage rises by 4.0% in FY26/27 and in line with inflation in FY27/28.

Capital spending on infrastructure is estimated at R1.07tn over the MTEF period, of which 54.1% (R577.4bn) is executed by SOEs and public entities. We note there is underspending of the budgets.

The early retirement programme has approved 7,687 applications, with R3.7bn drawn down, with a net saving of R2.6bn in FY26/27.

Fig 4: Tax revenue components as % of gross tax revenues across OECD countries – SA at the high end



Source: National Treasury

Fig 5: Consolidated expenditure over the MTEF: % of total and annual % growth



Source: National Treasury

Financing strategy – diversification of instruments allows for a further reduction in SAGB issuance

FY25/26 ends with substantially higher cash balances: Prefunding with high cash from SAGBs, FRNs, and a new infrastructure bond has bolstered the closing cash balance by R57.3bn compared to the 2025 MTBPS forecast. The funding strategy has focused on raising funding at the lowest cost, which has seen FRN issuance rising by more than R90bn. The weighted average term to maturity of SAGBs has declined to 11.7 years in FY25/26 from 12 years and 13.5 years in FY24/25 and FY20/21, respectively.

FY26/27: The main borrowing rises from R377.7bn in the 2026 MTBPS to R380bn. However, a larger drawdown in cash balances, projected to rise from R15.9bn to R56.9bn allows for a reduction in market loans from R256.5bn to R242.5bn.

- **T-bill issuance:** A net increase of R26.9bn, compared to R39.6bn in FY25/26. Weekly auctions will rise from R15.6bn to R16.1bn – with 91 days (R1.6bn to R1.7bn), 182 days (R3.7-3.8 bn), 273 days (R5.0-5.15bn) and 364 days (R5.3-5.45bn). Auction bids are expected to remain elevated with lower money market rates.
- **Market loans:** These consist of SAGBs, ILBs, FRNs, infrastructure bonds, and Sukuks. The amount of FRNs to be auctioned declines to R35.8bn from an estimated R97.8bn in FY25/26; ILB weekly auctions remain unchanged at R1.0bn; and SAGB issuance declines by R40.45bn to R2.55bn per week (total reduction of R21bn to R21.6bn). Estimates for infrastructure bonds are not available.
- **Foreign loans:** Foreign currency borrowing will raise about \$13.2bn in the next three years.

With large redemptions of R260.0bn in FY27/28, our view was that National Treasury may opt to run with higher cash balances, keeping SAGB issuance unchanged. National Treasury views switch auctions as a strategic part of its financing strategy. Additionally, the diversification in financing instruments allows for adjustments in the event that more cash has to be raised.

TREASURY FLAGS FOUR RISKS TO ITS FINANCING STRATEGY:

1. Foreign capital flows and valuations in SAGBs with heightened geopolitical risk and divergent monetary policy in the G7;
2. Benign inflation that could moderate demand for ILBs;
3. Declining interest rates could dampen investor demand for FRNs; and
4. Contingent liabilities at SOEs and lower nominal GDP growth.

Financing of national government gross borrowing requirement

	F24/25	F25/26		F26/27		F27/28	
R million		MTBPS	Feb 26	MTBPS	Feb 26	MTBPS	Feb 26
Main budget balance	(334,9)	(353,1)	(348,9)	(294,8)	(301,3)	(272,0)	(284,5)
Redemptions	(98,6)	(159,9)	(159,5)	(138,9)	(134,8)	(286,9)	(284,5)
Domestic long-term loans	(61,0)	(100,7)	(102,9)	(100,2)	(98,6)	(261,5)	(260,3)
Foreign loans	(37,6)	(57,2)	(56,6)	(38,7)	(36,1)	(25,4)	(23,9)
Eskom debt-relief arrangement	(64,0)	(80,2)	(80,0)				
GFECRA settlement	100,0	25,0	25,0	56,0	56,0		
Total	(397,5)	(568,2)	(563,4)	(377,7)	(380,0)	(558,9)	(569,0)
Financing							
Domestic short-term loans	39,5	39,1	39,6	28,5	26,9	45,8	45,2
Domestic long-term loans	347,7	352,2	387,9	256,5	242,5	412,0	406,8
Market loans							
Foreign loans	67,4	94,3	110,6	76,8	53,7	91,3	85,8
Change in cash and other balances (this includes Local and foreign bond issuance)	(57,1)	82,7	25,4	15,9	56,9	9,9	30,9
Total	397,5	568,3	563,5	377,7	380,0	559,0	568,7
Percentage of GDP	5,4	7,5	7,3	4,9	4,6	6,8	6,6

Source: National Treasury, Investec CIB

Credit rating outlook: Neither S&P Global nor Moody's is expected to upgrade or change their SA outlook in their May rating reviews. Fitch is one notch below S&P Global and Moody's, and a rating upgrade is likely.



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