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The macro signal

Medium-term budget policy statement preview



October 2026



Steady steps towards fiscal repair



A stronger fiscus starts with firmer growth

Durable fiscal improvement hinges on expanding South Africa's (SA) growth potential. The International Monetary Fund (IMF) projects SA growth of 1% for 2026, underscoring the urgency of reform. Freight rail access is opening to private operators, while the president's July endorsement of an independent transmission operator has advanced electricity restructuring. These reforms could unlock investment and broaden the tax base. While commodity windfalls support near-term revenues, lasting fiscal resilience requires stronger growth, disciplined spending, reduced exposure to struggling state-owned enterprises and increased resilience to global shocks.



Mining gains bolster the tax take

Precious metals are supporting SA's revenue growth, although gains extend beyond mining. Between April and August 2026, tax collections rose 7.9% year-on-year (y/y) to R819.8 billion, with corporate income tax (CIT) increasing 22.8%. Mineral and petroleum royalties reached R9.7 billion, compared with R3 billion last year. Higher commodity prices boost mining profitability and fiscal revenue, while high oil prices partly offset these gains. Personal income tax (PIT) and value-added tax (VAT) remain the main revenue sources, making job creation, consumer spending and improved compliance key to sustaining collections beyond the commodity upswing.



Stronger collections support fiscal repair, but spending quality matters

Higher revenue is helping narrow SA's budget deficit, although infrastructure spending remains uneven. According to Treasury, government revenue increased 9.5% y/y to R812.3 billion between April and August 2026, relative to the same period in the previous fiscal year (FY), outpacing expenditure growth of 4.6% y/y to R1 001 billion. The deficit fell to R188.8 billion. However, departments spent 34.2% of their annual capital allocations, with Health at 20.2% and Water and Sanitation at 25.8%. While this raises concerns about project delivery, spending schedules must be considered before treating the gaps as underspending or permanent fiscal savings.



National fiscal gains face a local delivery test

National fiscal repair faces a growing test at municipal level where weak governance, poor collections and deteriorating infrastructure undermine services and create pressure for additional support. The Auditor-General found that no metro achieved a clean audit in FY2024/25. Municipal capital spending fell R18.6 billion short of budget in FY2025/26, despite national transfers. Treasury's temporary withholding of funding highlights the tension between enforcing accountability and protecting communities. Ahead of November's local elections, service delivery failures could intensify political competition, while unstable councils risk delaying reforms.



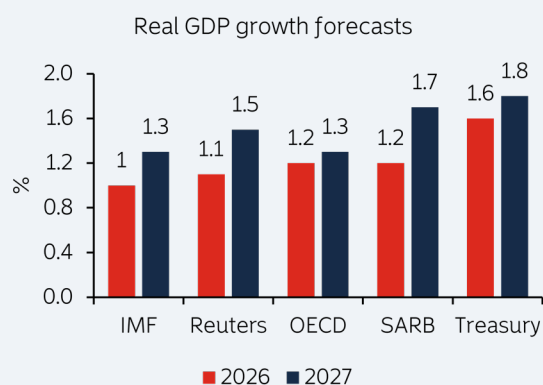
Fiscal gains will anchor ratings, but economic growth is likely to set the pace

SA's improving fiscal trajectory is supporting sovereign ratings momentum, but weak growth remains a constraint on further upgrades. S&P and Fitch rate SA's foreign-currency debt at BB, while Moody's assigns a Ba2 rating, all two notches below investment grade. S&P and Moody's have positive outlooks, while Fitch's is stable. Agencies recognise sustained primary surpluses, debt stabilisation and reform progress, but slower reform delivery, oil shocks and spending pressures could stall improvement. A credible fiscal anchor would strengthen accountability and policy continuity, helping preserve fiscal gains while growth-enhancing reforms take effect.

A stronger fiscus starts with firmer growth

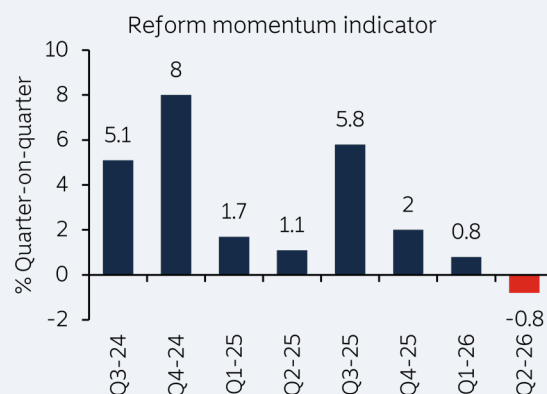
SA's fiscal outlook rests on converting reform commitments into stronger investment and sustained economic growth. The IMF's October forecast placed SA's real GDP growth at 1% in 2026, below its January 1.4% estimate, while the economy contracted by 0.2% quarter-on-quarter (q/q) in the second quarter of 2026. This subdued backdrop limits the scope for a broad-based revenue recovery. Reform progress remains evident, although delivery has become uneven. Business Leadership SA's latest quarterly assessment, covering April to June 2026, places the overall reform completion index at 71.3, c.26% above its March 2024 starting point, but slightly below the previous quarter. Its live tracker now monitors 249 deliverables, with 45 completed, 174 under way and 30 halted on 12 October 2026. Electricity reform remains pivotal. In July, President Cyril Ramaphosa endorsed proposals for a transmission system operator separate from Eskom, with detailed transaction design and implementation planning assigned to the next phase. The fiscal benefits will depend on execution, alongside improvements in freight logistics and governance. Higher precious metal prices offer potential support to mining taxes, but commodity receipts cannot substitute for a durable expansion of the tax base. Revenue performance will reflect company profits, household spending and tax compliance, while persistent global uncertainty and weak private investment could hold back a stronger growth rate needed to sustain fiscal consolidation.

Chart 1: Growth recovery expected in 2027 following supply chain disruptions



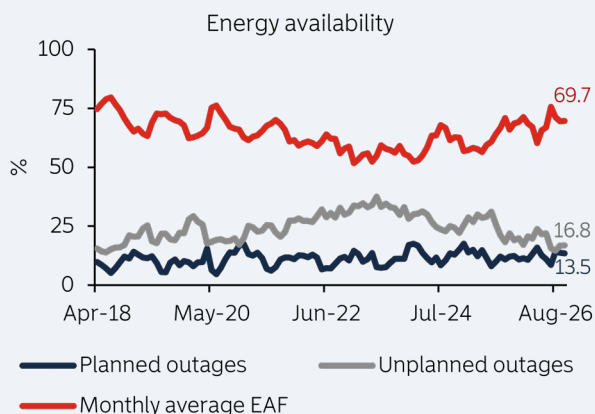
Source: IMF (October), Reuters (October), Organisation for Economic Co-operation and Development (OECD -September), SA Reserve Bank (SARB -September), Treasury (February), Momentum Group

Chart 2: Reform momentum falters after two years of gains



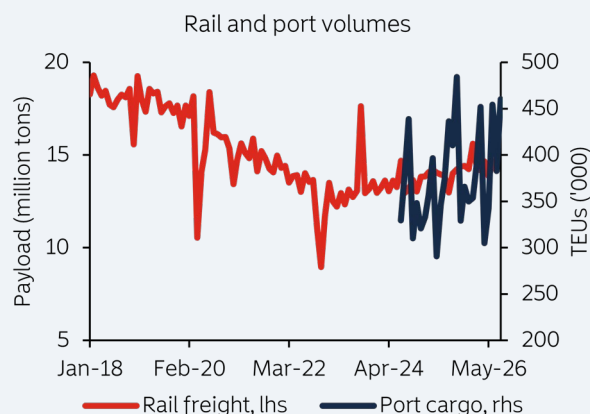
Source: Business Leadership SA, Momentum Group

Chart 3: Energy security has improved with the energy availability factor (EAF) reaching a six-year high in July



Source: Eskom, Momentum Group
Data up to 13 October 2026

Chart 4: Railway and port volumes improving but port congestion is building again



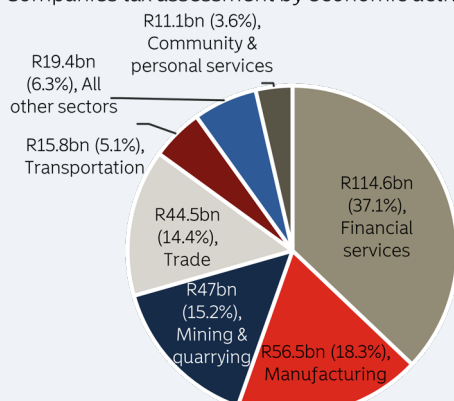
Source: Global Insight, Statistics SA, Transnet, Momentum Group
Rail freight data up to July 2026 and Port cargo data up to September 2026

Mining gains bolster the tax take

SA's revenue performance is improving, with commodity receipts providing an additional buffer against subdued economic growth. Tax collections, before the SA Customs Union (SACU) transfers, reached R819.8 billion between April and August 2026, increasing 7.9% y/y. Corporate income tax rose 22.8% y/y to R155.8 billion, while mineral and petroleum royalties more than tripled to R9.7 billion from R3 billion. Personal income tax and net VAT collections also strengthened, rising 8.4% y/y and 9.1% y/y, respectively, demonstrating that the improvement is broader than mining alone. The precious metals rally can support mining profits, royalty payments and company taxes, but the fiscal benefit depends on production volumes, operating costs and the rand exchange rate. Treasury has cautioned that the current upswing covers fewer commodities than the earlier boom, limiting the breadth of potential revenue gains. The volatility in mining royalties further illustrates the volatility of these receipts and the risks of financing permanent expenditure from temporary revenue windfalls, even though SA has experienced a significant terms-of-trade uplift on a globally comparative basis. Sustained fiscal improvement still requires a broader domestic tax base, supported by employment, consumption, investment and effective revenue administration.

Chart 5: Financial services sector is the largest contributor to corporate income tax

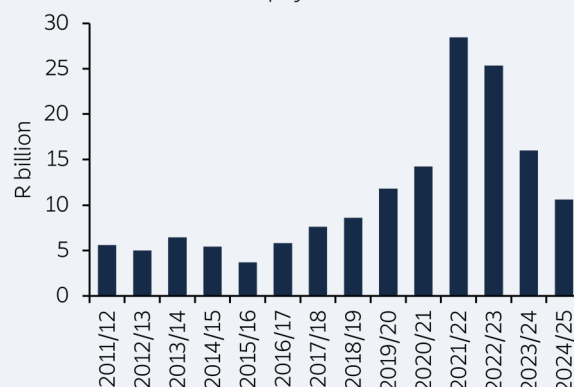
Companies tax assessment by economic activity, 2023



Source: SA Revenue Service (SARS), Momentum Group

Chart 6: Mining royalties are a volatile revenue source

Minerals and petroleum resource royalties payments



Source: SARS, Momentum Group

Chart 7: SA has experienced a notable terms-of-trade benefit

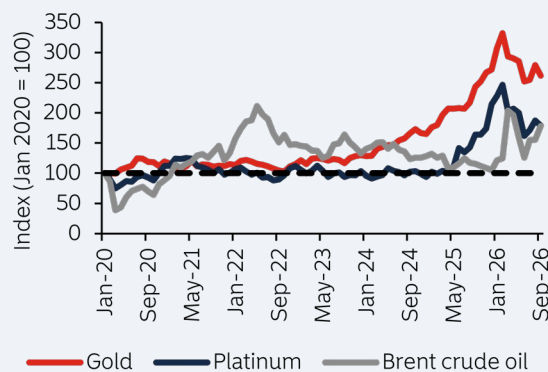
Terms of trade support



Source: Standard Bank, Momentum Group

Chart 8: Precious metals have lifted the terms-of-trade, but oil has tempered the gains

Commodity prices

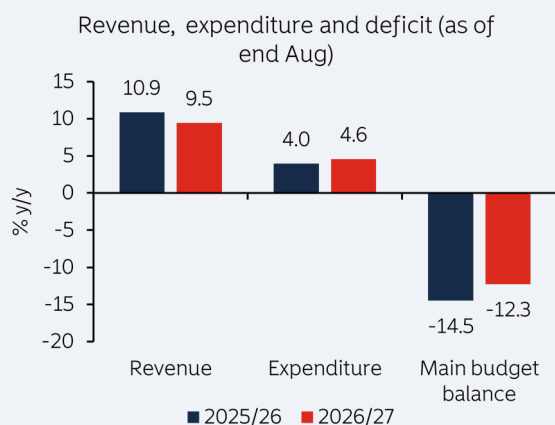


Source: Bloomberg, Momentum Group

Stronger collections support fiscal repair, but spending quality matters

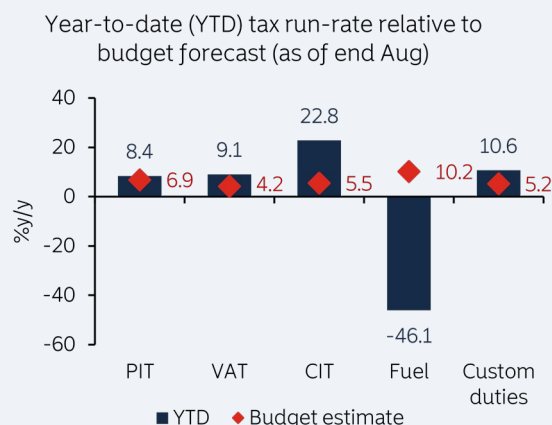
Government spending increased moderately during the first five months of FY2026/27, but capital expenditure execution remained uneven. Through to August, expenditure rose by R43.8 billion, or 4.6% y/y in nominal terms, to R1 001 billion. The main budget deficit narrowed by R26.4 billion to R188.8 billion. However, slower spending growth should not automatically be interpreted as improved efficiency, particularly where it reflects delayed investment rather than lasting savings. National departments spent R5.36 billion on capital assets by August 2026, equivalent to 34.2% of their R15.67 billion annual allocation, compared with 41.7% of the FY having elapsed. Execution was particularly subdued in the Department of Health, which spent R359 million, or 20.2% of its capital budget, and the Department of Water and Sanitation, where expenditure reached R1.24 billion, or 25.8%. Capital expenditure is often concentrated later in the FY, so these execution rates do not yet establish the extent of eventual underspending. Nevertheless, they warrant monitoring, both for a possible spending catch-up that could erode the apparent fiscal improvement and for persistent delays that could undermine service delivery. Sustained capital underspending would also limit the growth benefits expected from public investment. The expenditure challenge is therefore to maintain fiscal discipline while translating allocated funds into completed projects, rather than allowing weak implementation to create temporary savings at the expense of infrastructure delivery.

Chart 9: Revenue growth moderates, while expenditure growth edges higher



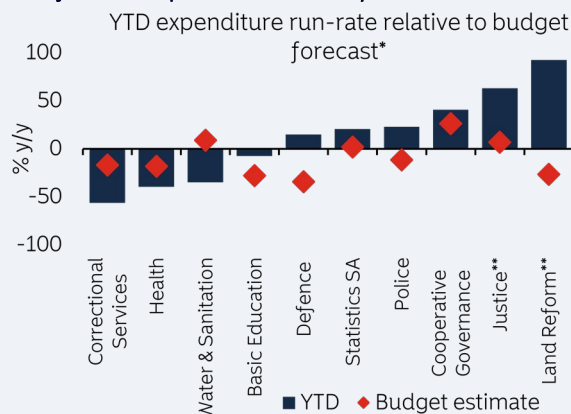
Source: National Treasury, Momentum Group

Chart 10: Fuel is the only major revenue source that is falling behind schedule



Source: National Treasury, Momentum Group

Chart 11: Capital spending falling behind schedule in 27 out of the 42 departments in 2026/27 YTD

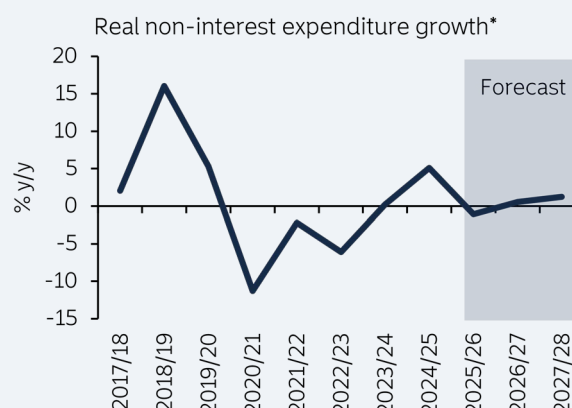


Source: National Treasury, Momentum Group

* Among the 10 departments with the largest capital expenditure budgets

** Justice & Constitutional Development, Land Reform and Rural Development

Chart 12: Lower expenditure reflects deliberate restraint and weaker capex delivery



Source: National Treasury, Momentum Group

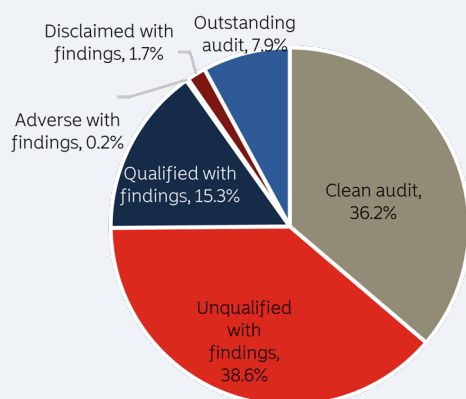
* Main budget expenditure

National fiscal gains face a local delivery test

SA's improving national fiscal position remains exposed to failures in local government, where weak financial controls and unreliable services can undermine economic growth and create demands for further financial support. The Auditor-General's FY2024/25 findings show that none of the eight metros achieved a clean audit, while 76% of municipalities submitted financial statements containing material misstatements. These weaknesses extend beyond accounting to poor procurement, inadequate maintenance and weak accountability that compromise water, electricity, sanitation and roads. Treasury's preliminary FY2025/26 figures show municipal capital expenditure of R65.3 billion against R83.9 billion budgeted, leaving R18.6 billion unspent. Treasury notes that almost 88% of consumer arrears are older than 90 days and likely unrecoverable, constraining cash flow and municipalities' ability to pay suppliers. National transfers cannot fully compensate for these failures. In July, Treasury temporarily withheld equitable share transfers to 69 municipalities, then authorised their release to protect basic services, without declaring the councils compliant. December transfers remain subject to corrective action. The local government elections on 4 November 2026 will bring these pressures into sharper political focus. Dissatisfaction with service delivery could reshape council control, while fragmented coalitions may complicate budgeting and project execution. The emerging fiscal vulnerability is therefore more on a local level. National credibility must increasingly be matched by municipal delivery, stronger revenue collection and enforceable consequences for financial misconduct.

Chart 13: Local municipal accountability falls short

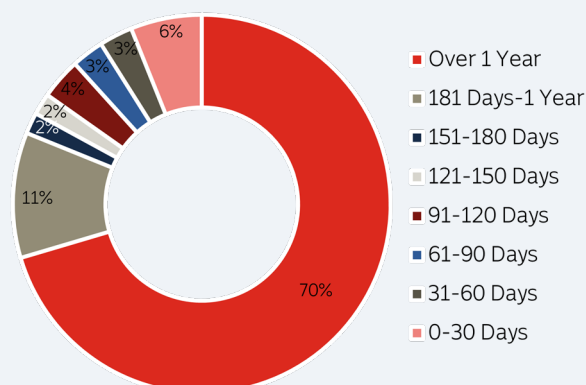
Municipal audit outcomes, 2024/25



Source: Auditor General SA, Momentum Group

Chart 14: Rising consumer affordability issues

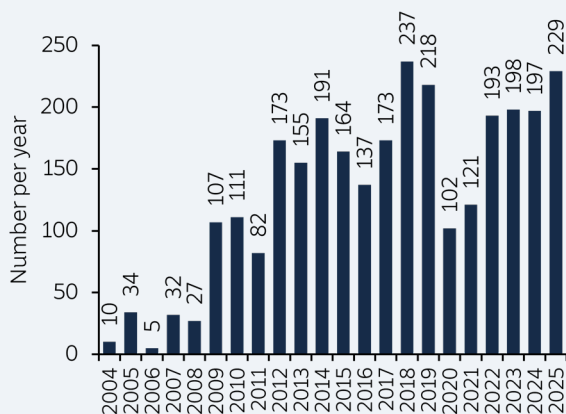
Outstanding municipal household debt, 30 June 2026



Source: National Treasury, Momentum Group

Chart 15: Service delivery protests remain elevated

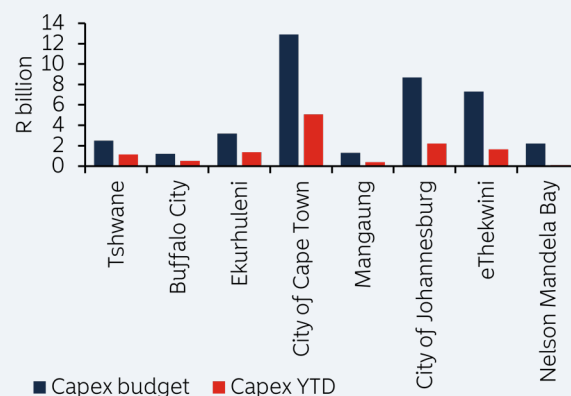
Major service delivery protests



Source: Standard Bank, Municipal IQ, Momentum Group

Chart 16: Municipal underspending on capex

Municipalities' capital expenditure budget vs spending



Source: Bureau for Economic Research, Momentum Group

Fiscal gains will anchor ratings, but economic growth is likely to set the pace

SA's sovereign credit rating recovery increasingly depends on stronger growth to reinforce improving fiscal fundamentals. S&P rates SA's foreign-currency debt at BB and local-currency debt at BB+, both with positive outlooks. Moody's assigns a Ba2 rating with a positive outlook, while Fitch upgraded both ratings to BB in June 2026, retaining a stable outlook. Foreign-currency ratings remain two notches below investment grade. The agencies acknowledge a more favourable debt trajectory, sustained primary surpluses and continued expenditure discipline. Fitch's upgrade recognised fiscal consolidation despite weak growth, while S&P expects debt ratios to decline as consolidation continues. Moody's anticipates investment in key reforms will lift growth towards 2% by 2028, strengthening the foundations of fiscal improvement. Our view is that disappointing growth could become the principal obstacle to the pace of further upgrades, even if fiscal discipline holds. Delayed energy, logistics and water reforms would weaken investment and revenue prospects. Persistent oil-driven inflation, tighter monetary conditions, coalition tensions and additional support for state-owned enterprises could also undermine momentum. High debt and interest costs remain vulnerabilities. A principles-based fiscal anchor could reinforce credibility by requiring successive administrations to demonstrate debt sustainability, explain deviations and commit to corrective action. Its value would lie in stronger accountability and policy continuity, supporting lower risk premiums while preserving flexibility to respond to shocks.

Chart 17: Weak growth weighs on SA's credit prospects

Average economic growth of peer countries by average sovereign credit rating in 2023

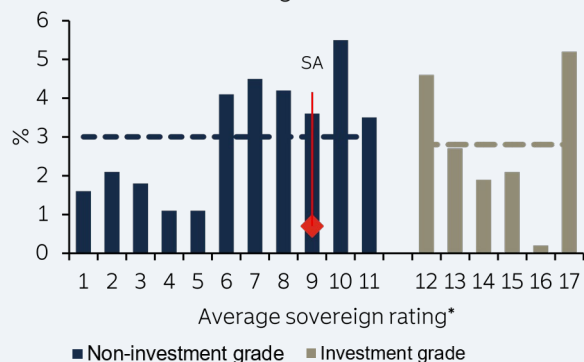


Chart 18: Fiscal balances across the ratings spectrum

Average budget deficit of peer countries by average sovereign credit rating in 2023

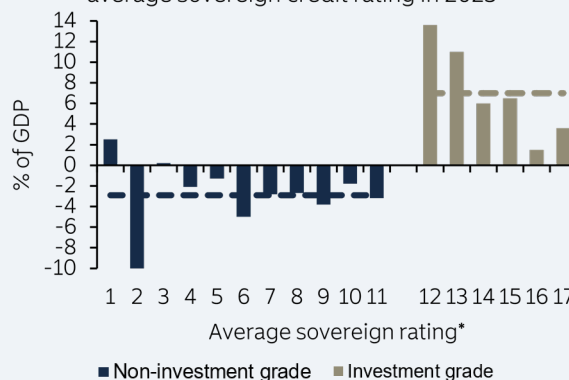


Chart 19: How SA's debt stacks up across the ratings ladder

Average gross debt of peer countries by average sovereign credit rating in 2023

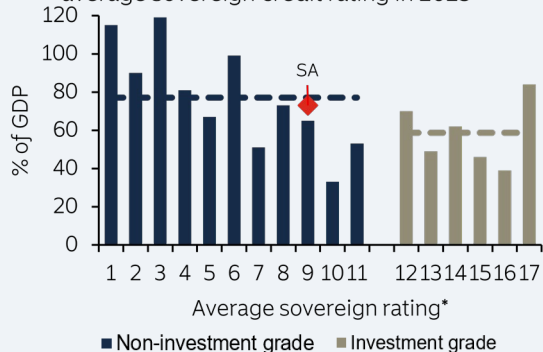
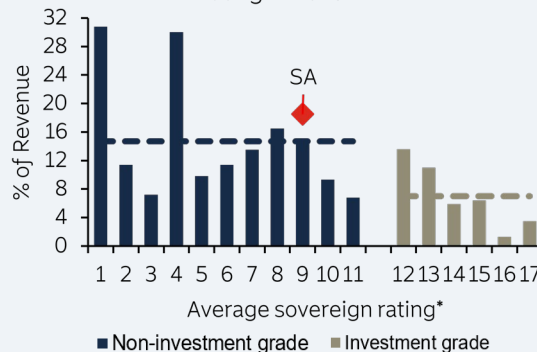


Chart 20: SA's debt burden carries a costly interest bill

Average debt-service costs of peer countries by average sovereign credit rating in 2023



* Average sovereign credit rating refers to the average sovereign credit debt ratings on foreign denominated debt amongst Moody's, S&P and Fitch converted to a numerical scale from 1 (the worst) to 21 (the best). A rating of 12 or higher is considered investment grade.

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