



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA



BUDGET 2026

SUSTAINING FISCAL DISCIPLINE AND GROWTH

03 MARCH 2026

**PARLIAMENTARY
RESEARCH UNIT (PRU)**

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BUDGET 2026: SUSTAINING FISCAL DISCIPLINE AND GROWTH

Background

This Bulletin on the 2026 Budget is published by the Parliamentary Research Unit for Finance Committees.

The Bulletin provides an overview of the Budget Review with a focus on:

- The Economic outlook;
- Fiscal outlook;
- Spending priorities over the medium term;
- Division of revenue;
- Undertakings/ Commitments and
- Implications for oversight

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1. INTRODUCTION

South Africa's economic outlook continues to show signs of improvements, mainly driven by structural reforms, and a positive shift in investor sentiment. This has also been observed in the country's public finances, characterized by improved fiscal stability. The economy is estimated to have grown from 0.5 percent in 2024 to 1.4 percent in 2025.¹ This achievement, coupled with the primary budget surplus, an improved inflation outlook as well as lower borrowing costs, indicates notable progress. However, despite these positive developments, structural constraints continue to limit economic growth and investment, as growth remains below the levels needed to reduce unemployment and generate sufficient revenue to expand social and economic services.

Current reforms focus on growing the Gross Domestic Product (GDP), improving government efficiency as well as boosting public investment. There are significant interventions towards reviving local government and State-Owned Companies (SOCs). 63 per cent of municipalities were reported to be in financial distress in 2023/24 and some provinces were experiencing financial difficulties. Government is increasing funding for capital projects and reforming institutional arrangements by accelerating the delivery of infrastructure projects in order to stimulate the economy. Over the next three years, total planned infrastructure expenditure will amount to R1.07 trillion, of which 54.1 per cent or R77.4 billion will be executed by SOCs and public entities especially in areas such as transport, energy and water.

Efforts are underway to eliminate waste and improve effectiveness of service delivery. Savings of R12 billion have been identified over the medium term in rationalisation of operations of the state and the ghost worker audit has identified 4 323 suspicious cases.

The current reforms must be accompanied by rigorous oversight in order to ensure value for money. Investments in infrastructure must translate into economic growth as well as employment opportunities.

This paper will analyse the 2026 economic outlook, fiscal outlook, expenditure priorities and division of revenue as well as implications for oversight.

2. ECONOMIC OUTLOOK

Global growth remains steady.²

- Global growth is projected at 3.3 per cent in 2026 and at 3.2 per cent in 2027.
- Emerging Market and Developing Economies (EMDEs)³ are projected to grow at 4.2 per cent and 4.1 per cent in 2026 and 2027. Whereas Advanced Economies are projected to grow at 1.8 per cent and 1.7 per cent in 2026 and 2027.
- Sub-Saharan Africa's growth remains steady at 4.6 per cent in 2026 and 2027, which is higher than the global growth for both years.

¹ National Treasury (2026)

² IMF (2026) and National Treasury (2026)

³ Refers to Emerging and Developing Asia, Emerging and Developing Europe, Latin America and the Caribbean, Middle East and Central Asia and Sub-Saharan Africa.

Risks to the global economic outlook are tilted to the downside.⁴

- The downside risks relate to geopolitical tensions, which could adversely impact major shipping routes and result in significant delays as well as increases in transport and energy prices.⁵

South Africa's growth projections remain below 2 per cent in 2026.⁶

- In contrast to the 2025 Medium Term Budget Policy Statement (MTBPS) growth forecast of 1.2 per cent in 2025, South Africa's growth is now estimated at 1.4 per cent in 2025.
- In 2026, South Africa's growth is projected at 1.6 per cent before improving to 1.8 per cent in 2027 and 2.0 per cent in 2028.

Risks to the domestic outlook.⁷

- These include logistics-related constraints, poor public infrastructure and climate or weather-related shocks, all of which increase the cost of doing business.

Employment outlook

- The unemployment rate decreased marginally between the third and fourth quarter of 2025, however, the youth⁸ remain vulnerable in the labour market.
- The country's official unemployment rate, which is calculated using the number of persons who are employed and unemployed, but excludes economically inactive⁹ persons, has decreased from 31.9 per cent in the third quarter of 2025 to 31.4 per cent in the fourth quarter of 2025.¹⁰
- In the fourth quarter of 2025, 79.7 per cent of those who were unemployed were in long-term unemployment (unemployed for a one year or more).
- The youth unemployment rate for those aged 15-24 years and 25-34 years is 57 per cent and 39.2 per cent, respectively, in the fourth quarter of 2025.¹¹

Inflation outlook

- It is projected that inflation will increase between 2025 and 2026, while the repurchase rate remains unchanged.

⁴ Risks "tilted to the downside" refers to unfavourable or negative risks that could result in worse than expected outcomes.

⁵ IMF (2026) and National Treasury (2026)

⁶ National Treasury (2025 and 2026)

⁷ National Treasury (2026)

⁸ Youth refers to 15-34 years.

⁹ A person is considered to be economically inactive if they were able and available to work in the week prior to the Quarterly Labour Force Survey being administered but did not work or look for work or start their own business.

¹⁰ Statistics South Africa (2026).

¹¹ Statistics South Africa (2026).

- The consumer price index (CPI) inflation is projected to increase from 3.2 per cent in 2025 to 3.4 per cent in 2026 before declining to 3.3 per cent and 3.2 per cent in 2027 and 2028, respectively.¹²
- Compared to the 7 per cent per annum repurchase (repo) rate¹³ at the time of the 2025 MTBPS, according to the November 2025 Statement of the Monetary Policy Committee (MPC), the repo rate fell to 6.75 per cent per annum and has remained unchanged in the January 2026 Statement of the MPC.

Business confidence and consumer confidence

- Both consumer and business confidence rebound in the fourth quarter of 2025.¹⁴
- According to the Bureau of Economic Research (BER) Business Confidence Index¹⁵, business confidence improved from 39 index points in the third quarter of 2025 to 44 index points in the fourth quarter of 2025.
- Consumer confidence improved from -13 index points in the third quarter of 2025 to -9 index points in the fourth quarter of 2025.

3. FISCAL OUTLOOK

Revenue estimates

- Projections on revenue remain positive which necessitated the withdrawal of the previously announced tax increase for the 2026 Budget
- Fiscal decisions will always be a matter of public policy debate particularly when the country faces limited economic growth and high unemployment and a greater need for Government to scale up public investment in energy and transport to expand on economic recovery.
- Tax revenue remains positive on the back of tax policy amendments with notable tax to GDP increasing from 25.1 per cent in 2024/25 to 25.9 per cent in 2025/26. A combination of factors including achieving fiscal targets, Government's decision to reduce the inflation target and reforms gathering pace, this has resulted in gross tax revenue for 2025/26 being revised upwards by R21.3 billion compared with the 2025 Budget.
- The growth of gross tax revenue has improved for 2025/26 by R21.3 billion from the 2025 Budget estimate. In-year,
 - Higher than expected net Value Added Tax (VAT), Corporate Income Tax (CIT) and dividend collection improved
 - Personal Income Taxes (PIT) shows a shortfall mainly due to lower private sector wage growth. Specific excise duties are also expected to underperform due cigarette and petroleum products receipts contraction over the first 10 months of 2025/26 relative to the same period in the previous year.

¹² National Treasury (2026); SARB (2026).

¹³ The repo rate determines the interest rate at which the central bank lends money to commercial banks — which then affects the amount they lend to their consumers.

¹⁴ BER (2026).

¹⁵ 0 indicates extreme lack of confidence and 100 indicates extreme confidence.

Gross tax revenue

- Over the medium term, gross tax revenue is revised downward by R57.2 billion relative to the 2025 MTBPS, primarily due to the withdrawal of R20 billion in tax increases
- Government's approach over the medium term is to ensure a decline in debt as a share of GDP, lower debt service costs, growing a budget primary surplus and creating a supportive environment for infrastructure investment.
- Over the medium term, gross tax revenue collections are expected to increase by 6 per cent in 2026/27, 5.7 per cent in 2027/28 and 5.7 per cent in 2028/29, growing from R2.01 trillion in 2025/26 to R2.38 trillion in 2028/29.
- VAT refund projections are revised down, but lower import VAT weakens the medium-term outlook for net VAT collections.

Tax administration

- There are efforts to improve detection of illicit cigarette manufacturing and new technology particularly social influencers to facilitate tax compliance in this emerging segment.
- The 2025 Budget reinforced South African Revenue Services (SARS's) capacity with additional funding, expanded staffing, and improved reporting to boost tax debt collections. While collections have not yet reached target levels, substantial progress has been made amidst rising disputed and deferred debts. Ongoing collaboration with financial institutions and enhanced legal enforcement are expected to further strengthen revenue recovery efforts. Consequently, the fiscal framework does not include additional revenue from debt collections.

Tax proposal updates

- Tax thresholds, rebates, and duties have been updated to ease inflation's impact on taxpayers for the first time since 2023/24.
- Personal income tax is the most important form of direct taxation and largest source of tax revenue in the country. Like most countries, South Africa's PIT is a progressive tax which means people with higher incomes pay a larger percentage of their income in tax than people with lower incomes. PIT has been adjusted for inflation giving different income groups relief.
- The introduction of Global Minimum Tax which was a policy change effected in 2024 Budget will be implemented in 2026/27 to reduce profit shifting by multinationals which will yield R2 billion as a result of this reform.
- The global diamond industry is undergoing change, affecting domestic producers. To support local cutting and polishing, a 5% levy applies to exported unpolished diamonds, with exemptions for producers who meet local sales requirements based on their size. Government proposes lowering the threshold between large and medium producers and offering large producers more flexibility in meeting local sales obligations, with further stakeholder consultations to follow.
- Companies in government-approved special economic zones pay 15% corporate tax instead of 27%. To prevent profit shifting to related firms outside the zone, companies are currently disqualified if over 20% of their expenses or income involve connected firms outside the zone. These strict rules can disadvantage both existing

- businesses and potential investors. The Government proposes instead to check whether transactions with connected parties outside the zone are at market prices, ensuring profits are not artificially shifted
- To promote entrepreneurship, savings and a fairer tax regime for those receiving tax benefits- the following adjustments are effected
 - Small business threshold limit increased to R2.3 million
 - Capital gain tax threshold- exclusion in respect of disposal of primary residence increased to R3 million
 - Savings and retirement- tax-free investment limit increased to R46 000
 - Donations tax: exemptions for individuals increased to R150 000, for entities increased to R20 000
 - Government proposes excise duty on alcoholic beverages, cigars and pipe tobacco will increase by inflation forecast of 3.4 per cent. For the 2027 budget, adjustments will take effect on 1 April.
 - The Road Accident Fund (RAF) levy will be increased by 7c/litre to R2.25/litre from 1 April, in line with expected inflation, while the customs and excise levies remain unchanged
 - Responding to climate change mitigating efforts, the carbon fuel levy will increase to 19c/litre for petrol and 23c/litre for diesel from 1 April 2026.
 - The tax incentives on urban development zone were extended to 2030 and a workshop will be held during 2026, with the aim of tabling proposals in the 2027 Budget.

Government debt

- The Budget reflects the improvements in debt portfolio, including a credit rating upgrade and declining bond yields, increased investor confidence and lower borrowing costs
- The 2025/26 budget deficit will be R12.4 billion lower than projected in last year's Budget.
- S&P Global Ratings upgraded South Africa's sovereign credit rating from BB- to BB in November 2025, citing increased stability and a more favourable outlook.
- In line with the fiscal strategy, gross loan debt stabilises as a share of GDP in 2025/26, at 78.9 per cent, and will decline to 76.5 per cent by 2028/29.
- The stock of gross debt is expected to increase from R6.12 trillion in 2025/26 to R6.94 trillion in 2028/29, while net loan debt – gross debt less cash balances – will increase from R5.91 trillion to R6.84 trillion, and decline from 76.3 per cent of GDP to 75.3 per cent over the period.
- Over the medium term, debt-service costs are projected to average 5.2 per cent of GDP as a share of revenue, peaking in 2025/26. Growth in debt-service costs is projected at 3.7 per cent annually over the medium term, down from an average of 7.4 per cent in the 2025 Budget, reflecting lower borrowing costs, improved market confidence and a diversified financing strategy.
- In 2026/27, Government will receive an additional R31 billion drawdowns from Gold and Foreign Exchange Contingency Reserve Account (GFECRA).
- Debt redemptions will average R204.5 billion over the medium term; increasing from R134.8 billion in 2026/27 to R284.2 billion in 2027/28, before declining to R194.6 billion in 2028/29.

- Over the medium term, domestic long-term borrowing is expected to increase from R242.5 billion in 2026/27 to R406.8 billion in 2027/28, before declining to R323.2 billion in 2028/29.
- Over the medium term, Government will raise US\$13.2 billion from international financial institutions and international capital markets.

4. EXPENDITURE PRIORITIES

Macroeconomic stability, structural reforms, and state capacity

- Government's fiscal strategy remains unchanged and focuses on maintaining macroeconomic stability to reduce living costs and grow investment, executing reforms to promote a more dynamic economy, building state capability in core functions and supporting growth-enhancing public infrastructure investment.
- Consolidated government spending grows by 3.9 per cent from R2.58 trillion in 2025/26 to R2.89 trillion in 2028/29¹⁶
- In 2026/27, the *Learning and culture* function is allocated R527.3 billion, constituting the largest component of consolidated spending (23.7 per cent over the medium term); while debt service cost constitutes the second largest component of spending at R432.4 billion.
- Non-interest expenditure remains redistributive, with 60.2 per cent allocated to the social wage in 2026/27. Notwithstanding, baselines have been rebased to align with the lower inflation outlook, thus aggregate spending declines by a net R19.4 billion in 2026/27 and 2027/28 relative to the 2025 Main Budget.
- While the composition of spending remains pro-poor, the overall fiscal stance has tightened, signalling a recalibration from expansionary baseline growth towards consolidation and expenditure restraint
- Government maintains social protection to ameliorate persistent socio-economic vulnerabilities - high unemployment, low-growth environment and deepening inequality (see Table 1 below) - by providing a cushion to structural labour market weaknesses, rising food insecurity, and service delivery constraints.
- The social relief of distress grant is allocated an additional R36.4 billion to extend payments until 31 March 2027 while other social grants are revised downwards over the medium term in line with lower inflation expectations
- Compensation of Employees (CoE) is allocated R852.6 billion in 2026/27, growing by an annual average 4.4 per cent over the medium term.
- R3.7 billion is allocated to departmental baselines for the *Early Retirement Programme* in 2025/26 and 2026/27, with an expected saving of R2.6 billion in 2026/27.
- Capital payment is the fastest-growing expenditure item by economic classification, increasing by 9.7 per cent over the medium term.
 - Public sector infrastructure investment is projected at R1.07 trillion over the medium term. The bulk of this allocation will be executed by state-owned entities, with investment concentrated in the economic infrastructure sectors - primarily transport and logistics, energy, and water and sanitation. This composition indicates a policy emphasis on network industries that underpin economic growth and service delivery.

¹⁶ National Treasury (2026)

- Despite the sizeable medium-term infrastructure allocations, real gross fixed capital formation (GFCF) continues to trend downward, and aggregate fixed investment remains substantially below the 30 per cent of GDP target envisaged in the National Development Plan (NDP).
- Fixed investment declined to 14.2 per cent in 2024 from 14.8 per cent in 2023, with private-sector investment accounting for 10.1 per cent of GDP against the public sector’s 4.1 per cent.

Table 1: Unemployment, Poverty, and Inequality in South Africa

Unemployment	<ul style="list-style-type: none"> • Official rate, 31.4 percent¹⁷ • Labour absorption capacity, 40.6 percent¹⁸ • Youth rate, 57 percent¹⁹
Inequality	<ul style="list-style-type: none"> • Gini-coefficient, at 0.63 percent²⁰
Poverty	<ul style="list-style-type: none"> • 17.6 percent or 10.8 million in extreme poverty (below Food Poverty Line)²¹

5. DIVISION OF REVENUE

Distribution of revenue.

- Of the total funding available after providing for debt service cost and the contingency reserve, 48.9 per cent of available non-interest spending to National Government, 41.7 per cent to Provinces and 9.4 per cent to Local Government.²²
- Provincial Government transfers for the 2026/27 financial year amount to R810.5 billion and is comprised of **R670.3 billion for the equitable share allocation** and **R140.2 billion for conditional grant transfers**.²³

Note: The provincial equitable share baseline has been adjusted downward by **R1.0 billion** in 2026/27, relative to the indicative allocations, due to the endorsement of lower consumer price index (CPI) levels by Cabinet for the 2026 Medium Term Expenditure Framework (MTEF). This endorsement is aligned to the fiscal framework as reflected in the 2025 Medium Term Budget Policy Statement (MTBPS); hence, planned spending levels across all three spheres of Government have thus been revised downward to reflect these lower CPI projections.²⁴

Additional allocations to the provincial equitable share.

¹⁷ Stats SA (2026a). These are figures as at the fourth quarter of 2025.

¹⁸ Ibid

¹⁹ Ibid

²⁰ DPME (2025)

²¹ Stats SA (2025b)

²² Budget Review (2026), p. 60.

²³ Budget Review (2026), p. 60.

²⁴ Explanatory Memorandum to the Division of Revenue (2026), p. 13.

- **R3.2 billion** is added to the provincial equitable share in 2026/27 for the Education sector to support provinces with compensation of employee costs and other pressures the sector is facing;
- **R6.9 billion** is added to the provincial equitable share in 2026/27 for the Health sector to fund compensation of employee costs, shortfalls in goods and services expenditure, and the employment of doctors;
- **R340 million** is added to the provincial equitable share in 2026/27 for the implementation of the *Early Retirement Programme*. The purpose of the funding is to cover financial incentive costs in the provinces; and
- **R319 million** will be added to the provincial equitable share in 2026/27 for the continuation of the *Education Assistants Programme*, which was introduced in 2020 as part of the *Presidential Employment Stimulus*.

Note: An amount of **R342 million** has been added to the provincial equitable share over the MTEF to cover the progressive equalisation of the remuneration of Grade R teachers in provinces due to the reprioritisation of Grant funding²⁵

Additional allocations to provincial conditional grants.²⁶

- **R12.8 billion** has been added to the *Early Childhood Development Grant* for the continued expansion of early childhood development services. Of this, R175 million over the MTEF has been added for the implementation of *e-cares* to pay the salaries of employees who will be responsible for collecting and managing data for the system, their operational expenses and tools of trade.
- **R1.5 billion** has been added to the *Provincial Roads Maintenance Grant* in 2026/27 to fund the carry through costs of the disasters that occurred between April 2024 and June 2025.

Reprioritisation of the provincial conditional grant funding

- To make funding available for the *Presidential Employment Stimulus* over the 2026 MTEF, **R503 million** is reprioritised from the *Education Infrastructure Grant* and **R747 million** from the *Provincial Roads Maintenance Grant* for this purpose.²⁷
- **R109 million** is reprioritised from the *Comprehensive Agricultural Support Grant* to the Department of Agriculture for the development of an e-certification system; implementation of animal identification, recording and traceability systems; and the continued implementation of blended financing.²⁸
- **R3 billion** is reprioritised from the *Human Settlements Development Grant* to the *Informal Settlements Partnership Upgrading Grant* to address previous reductions that significantly lowered the baseline of the *Informal Settlements Partnership Upgrading Grant*, while ensuring that the grant has sufficient funds to deliver its activities.²⁹

²⁵ Explanatory Memorandum to the Division of Revenue (2026), p. 13.

²⁶ Explanatory Memorandum to the Division of Revenue (2026), p. 14.

²⁷ Explanatory Memorandum to the Division of Revenue (2026), p. 14.

²⁸ Explanatory Memorandum to the Division of Revenue (2026), p. 14.

²⁹ Explanatory Memorandum to the Division of Revenue (2026), p. 14.

- **R5 million** will be reprioritised in 2026/27 from the *Expanded Public Works Programme Integrated Grant for Provinces* to make funding available for existing pressures in the national Department of Public Works and Infrastructure.³⁰
- **R800 million** is reprioritised from the *Early Childhood Development Grant* in 2026/27, of which: R446 million is allocated to the *National School Nutrition Programme* and R13 million is added to the *Learners with Profound to Severe Intellectual Disabilities Grant* to protect against inflationary pressures, while the balance of R342 million is allocated for the equalisation of remuneration for Grade R educators, which will be added to the provincial equitable share over the 2026 MTEF.³¹

Local Government transfers amount to R189.8 billion for the 2026/27 financial year and includes:

- The Local Government equitable revenue share of **R101.8 billion**;
- **R54.7 billion** in direct conditional grant transfers; and
- **R7.5 billion** in indirect conditional grant transfers.³²

Additional allocations to Local Government Conditional Grants:³³

- **R8.6 billion** as an additional incentive allocation over the 2026 MTEF directed towards the metro trading services component of the *Urban Development Financing Grant*; and
- **R2.1 billion** is added to the *Regional Bulk Infrastructure Grant* for a regional wastewater treatment works project in Polokwane, funded through the *Budget Facility for Infrastructure*.

Shifting of funds within Local Government Conditional Grants.³⁴

- **R300 million** to be shifted in 2026/27 from the *Municipal Infrastructure Grant* to the Department of Cooperative Governance and Traditional Affairs for the once-off gratuity payment to outgoing Councillors after the Local Government elections;
- **R536 million** to be shifted in 2026/27 from the direct component of the *Municipal Infrastructure Grant* to the indirect component to address infrastructure delivery issues; and
- **R5.7 billion** to be shifted in 2026/27 from the *Urban Settlements Development Grant* to the metro trading services component of the *Urban Development Financing Grant* to strengthen core utility functions.

Reductions to Local Government Conditional Grants funding:³⁵

- To support the continued implementation of the *Presidential Employment Stimulus*, reductions of: **R491 million** to the *Municipal Informal Settlements Upgrading*

³⁰ Explanatory Memorandum to the Division of Revenue (2026), p. 15.

³¹ Explanatory Memorandum to the Division of Revenue (2026), pp. 13-14.

³² Explanatory Memorandum to the Division of Revenue (2026), p. 36.

³³ Explanatory Memorandum to the Division of Revenue (2026), pp. 37-38.

³⁴ Explanatory Memorandum to the Division of Revenue (2026), p. 37.

³⁵ Explanatory Memorandum to the Division of Revenue (2026), pp. 37-38.

- *Partnership Grant*; **R784 million** to the *Integrated National Electrification Programme (Eskom) Grant*; and **R921 million** to the *Municipal Infrastructure Grant* are effected in 2026/27; and
- **R8.3 billion** reduction to the *Public Transport Network Grant* over the 2026 MTEF, as identified through the *Targeted and Responsible Savings Process*.

Merging of Local Government Conditional Grants.³⁶

- The baseline funding of the *Integrated National Electrification Programme Grant* and the *Energy Efficiency Demand Side Management Grant* will be merged in 2026/27 to focus on *Energy Efficiency* and *Renewable Energy Programmes* that can lead to more sustainable energy provision and enable the achievement of long-term energy security goals.

Discontinuation of Local Government Conditional Grant:³⁷

- The indirect *Neighbourhood Development Partnership Grant* will be discontinued and its baseline of **R219 million** over the MTEF will be shifted to the National Treasury Vote and is earmarked to support the Government's infrastructure reforms.

Reforms and interventions to address performance weaknesses and financial distress:

- The Government will be enforcing strict headcount controls and compensation discipline within Provincial Governments. The measures include centralising the Government's human resource functions and payroll and administration systems, conducting employee verification through identification systems, and requiring *Provincial Treasuries* and *Premiers' Offices* to approve the filling of all posts against verified recruitment plans and available funding.³⁸
- Three key reforms for Local Government, that are broadly categorised as legislative, governance and technological are underway, as follows:³⁹
- **Legislative level:** the *Municipal Finance Management Act (MFMA) Amendment Bill* that is scheduled for public comment in early 2026, forms the legal backbone of the reform package. The Bill supports the *Local Government Fiscal Framework* by enforcing funded budgets, strengthening expenditure controls and consequence management, and clarifying the treatment of irregular expenditure to focus on financial losses. The Bill will also strengthen monitoring and intervention tools for the National and Provincial Treasuries, including more effective financial recovery measures and clearer safeguards during interventions.
 - **Governance level:** the State is strengthening its intervention framework for municipalities in severe financial distress. Municipalities have been placed under mandatory *Financial Recovery Plans* in terms of section 139(5) of the Constitution; however, a key weakness is that the responsibility for implementing the *Financial Recovery Plans* rests with the troubled municipalities themselves.

³⁶ Explanatory Memorandum to the Division of Revenue (2026), p. 37.

³⁷ Explanatory Memorandum to the Division of Revenue (2026), p. 38.

³⁸ Budget Review (2026), pp. 59-60.

³⁹ Budget Review (2026), pp. 65-66.

The MFMA amendments will provide more decisive powers for the design and enforcement of the *Financial Recovery Plans*, ensuring earlier intervention and consequence management.

- **Technological level:** the *Smart Meters Grant Programme* has resulted in improved billing.

6. UNDERTAKINGS/ COMMITMENTS

Undertakings/Commitments	Progress
Ghost worker audit to eliminate ineligible persons from the public service wage roll	Preliminary results from national and provincial departments have flagged 4323 high-risk cases for further verification
Early Retirement Programme – introduce to rejuvenate the public service and manage the wage bill	7687 applications have been approved, of which 60.4% relate to provincial departments. estimated net savings are R5.5 billion, of which R2.6 billion will be realised in 2026/27, R1.4 billion in 2027/28 and R1.5 billion in 2028/29.
Audit and review of the social protection system to tighten compliance and eliminate fraud and corruption	By December 2025, 291 581 grant beneficiaries were flagged for review, resulting in an estimated savings of R36.4 million in 2025/26. A further 34 661 grants were cancelled, generating expected savings of R170.7 million by the end of 2025/26.
Targeted and Responsible Savings	R12 billion in savings identified over the medium term from the audit of the social grants and scaling down the <i>public transport network grant</i> . A significant portion of these savings will be redirected towards PRASA for rail operations to increase passenger trips, disaster rehabilitation, strengthen state capacity in the judiciary, border management, Statistics South Africa and enhancing defence capability.
Update of Municipal Debt Relief Programme – programme is at a critical juncture: ⁴⁰	<p>Of the 71 participating municipalities only 15 municipalities have consistently met the programme conditions.</p> <p>Municipalities participating in the programme owed Eskom R85.2 billion in December 2025.</p> <p>To protect the national grid and municipal viability, the Government will introduce <i>Distribution Agency Agreements</i>, under which Eskom takes over electricity distribution on behalf of defaulting municipalities to ensure revenue is collected, current accounts are paid and service reliability is restored.</p> <p>Municipalities refusing these conditions will be removed from the programme and become liable for the entirety of their Eskom debt.</p>

⁴⁰ Budget Review (2026), p. 66.

<ul style="list-style-type: none"> Update on Smart Meters Grant Programme – improved billing accuracy:⁴¹ 	<p>The smart meters have improved billing accuracy; however, these systems also provide real-time data to identify leaks and illegal connections, directly addressing structural revenue losses.</p> <p>In the 71 debt-stressed municipalities, the programme has installed over 139 000 smart meters, with 96 400 more planned for the next budget cycle.</p> <p>Grant disbursements are contingent on municipalities demonstrating improved collection rates.</p>
SOCs	Development of a National State Enterprise Bill to create an overarching legal framework for SOC governance and a centralized shareholder ownership model.
Water Infrastructure	Establishing the National Water Resources Infrastructure Agency (NWRIA) to manage bulk water infrastructure, with the board expected to be established by April 2026.

7. IMPLICATIONS FOR OVERSIGHT

- a) The focus on economic growth, employment and efficiency is crucial given the tight trade-offs required to balance the budget. The Government must create fiscal space to counter growing spending pressures, persistent economic stagnation⁴², inflated cost of living, and emerging global tensions and uncertainties such as tariffs and trade wars.
- b) Although debt is stabilizing, the cost of debt remains high. Debt service costs now exceed spending on health, social development and peace and security. This underscores the growing fiscal weight of debt servicing within the expenditure framework.
- c) The persistent decline in real gross fixed capital formation (GFCF)⁴³ suggests that appropriations are not translating into commensurate increases in productive capital stock. This raises concerns regarding absorptive capacity, project execution, procurement efficiency, and the operational and financial performance of state-owned entities tasked with implementation.
 - i. Parliament should interrogate and scrutinise infrastructure appropriations for procurement efficiency, cost overruns, delays, under-expenditure trends, as well as the governance and financial sustainability of implementing state-owned entities. Oversight should assess whether capital budgets are resulting in durable additions to productive capacity rather than rollovers or stalled projects.

⁴¹ Budget Review (2026), p. 66.

⁴² Economic growth has averaged below 2 percent since 2013.

⁴³ Gross fixed capital formation (GFCF) measures the net new investment in fixed assets by businesses, governments, and households, such as machinery, buildings, and software, minus the sale of existing assets. It represents the growth in an economy's fixed capital stock, excluding land and inventories, and is a key indicator of future production capacity and GDP

- ii. Parliament should examine whether public infrastructure spending is effectively catalysing complementary private sector investment. This entails assessing regulatory reforms, risk-sharing mechanisms, public–private partnership frameworks, and policy certainty in network industries to determine whether fiscal outlays are generating the intended multiplier and growth effects.
- d) The reforms and interventions underway in the Provincial Government, seem to be focused on headcount control to ensure compensation discipline and efficiency savings. However, a more comprehensive approach is required to address the Provincial Governments reliance on national transfers, which accounted for 97 per cent of provincial revenue in 2024/25.⁴⁴ Provincial Governments have limited revenue-raising capacity, which are restricted to a few revenue sources, (mainly motor vehicle licenses, gambling licenses and user charges for hospital services).
 - i. What studies/reviews has the National Treasury undertaken to identify new provincial revenue sources that are viable for implementation?
 - e) The Committees on Cooperative Governance in both Houses should strengthen oversight over reforms and interventions at the Local Government to ensure the successful implementation and the realisation of targeted outcomes of reform programmes and interventions, by:
 - i. Requesting quarterly progress reports from the National Treasury and the Department of Cooperative Governance on the implementation of the three key reforms undertaken by the Government to address weak performance and financial distress within Local Government. These progress reports should provide meaningful and useful performance information, that is, measurable performance indicators, distinct performance targets and actual and verifiable performance outputs/outcomes.
 - ii. Ensuring that proper consequence management is implemented in departments, entities and municipalities where contraventions of legislation has been identified.
 - f) Funds from the Criminal Asset Recovery Account (CARA) are an important contributor towards fighting crime and ensuring law enforcement. Substantial sums of money are being disbursed from CARA with limited public information on expenditure, measurable outcomes/deliverables and/or value for money. Greater transparency must be sought by Parliament in relation to CARA. In the **2024 Budget speech** the Finance Minister stated that Government would use **R2.9 billion** from the Criminal Asset Recovery Account to combat illegal mining and other priority crimes, with 60 per cent allocated for police deployments, including vehicle procurement.⁴⁵ **In the 2026 Budget Speech**, the Finance Minister stated that “*we have allocated R1 billion to the police service, and another R1 billion to the SANDF, through the CARA fund for the fight against organised crime.*”

⁴⁴ Budget Review (2026), p. 61.

⁴⁵ The SAPS 2023/24 Annual Report noted that Cabinet had approved the allocation of R1 772 359 000.00 from the CARA to the SAPS as per Section 68 of the Prevention of Organised Crime Act 121 of 1998. This allocation is intended for the specific use in funding for the acquisition of various assets and deployment of members for a period of 18 months in the fight against illegal mining. However, no detailed breakdown is provided of this expenditure in the AFS. Nor is any information provided in the 2024/25 SAPS AFS.

8. CONCLUSION

SA has been able to move towards fiscal stability. However, economic growth is very sluggish and remains below the required 3 per cent needed to grow the economy and boost employment. The sustainability of SOCs and municipalities is central to growth and development of the country. The current reforms on performance of municipalities must be accompanied by effective oversight by all levels of oversight structures in the three spheres of Government.

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