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# SA's fiscal recovery is real, but is it enough?

Claire Bisseker

South Africa's fiscal position is stabilising in defiance of global turmoil, but it may not be sufficient to achieve another sovereign credit rating upgrade next month

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In February, the FM reported that the 2026 national budget marked a turning point and that with fiscal credibility up and funding stress down, the Holy Grail of debt stabilisation was finally within reach.

But the ink was hardly dry before the US attacked Iran, sparking a conflict that has led to a protracted global oil-price shock. Despite the challenging global economic environment, last week's medium-term budget policy statement (MTBPS) offers further evidence that South Africa's fiscal position is stabilising.

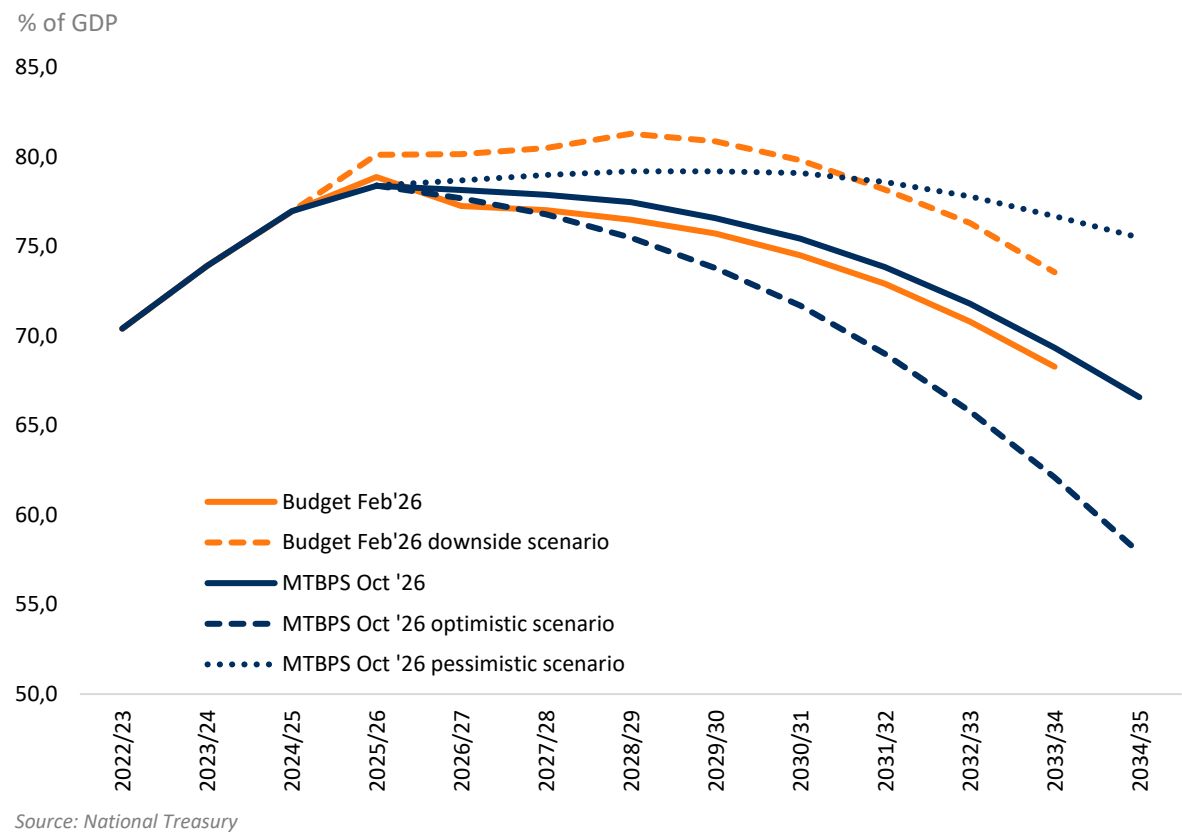
As expected, the National Treasury has broadly met its fiscal targets: the debt ratio appears to have peaked at 78.4% of GDP in 2025/2026, and strong revenue collection over the past few months (thanks mainly to supportive commodity prices) has freed up welcome fiscal space.

In fact, so buoyant are the Treasury's revenue assumptions that the MTBPS has been able to add almost R100bn in cumulative new money to the February 2026 noninterest expenditure baseline over the next three years, while simultaneously reducing borrowing and keeping the pace of deficit reduction on track.

The debt ratio is set to stabilise at about 78.2% of GDP in 2026/2027, before falling gradually towards 76.6% by the end of the decade (previously 75.7%). The more gradual decline partly reflects downward revisions to nominal GDP growth in line with the Treasury's softer growth outlook.

Real GDP growth is now expected to average 1.2% in 2026, compared with the 1.6% forecast in February before the oil-price crisis, rising gradually to 2% by 2029 — an anticipated milestone that has had to be pushed out by a year.

**Figure 1: Debt stabilises, but its projected decline is more gradual**



In short, the fiscal numbers have defied the global turmoil, which has cemented the Treasury's credibility. The markets have cheered: bond yields are down and the rand has firmed. But it's not yet clear whether the MTBPS goes far enough to assure South Africa of further sovereign rating upgrades next month. (S&P upgraded South Africa's credit rating last November and Fitch did the same in June this year.)

Goldman Sachs (GS) economist Andrew Matheny feels that the maintenance of the fiscal consolidation path makes it likely that S&P will upgrade South Africa's rating to BB+ (one notch below investment grade) at its November 27 review. Moody's may do the same, though this is less likely since it upgraded the outlook on South Africa's rating to "positive" as recently as May.

In the 15 years after 2010, South Africa's median credit rating fell five notches (from BBB+ to BB-), as average growth slowed to 1% and public debt tripled from a low point of 24% of GDP in 2007.

However, Matheny explains that since then, improvements have occurred across three dimensions. First, public debt and deficits are on a declining trajectory. Second, growth has picked up as supply constraints in electricity and logistics have eased. Third, the political environment has remained supportive of economic policy continuity.

"We argue that the current policy mix will lead to sustained declines in public debt and medium-term GDP growth rates of around 2.5% — well above the 1% growth observed in the past decade," he says.

Given GS's baseline view that South Africa will continue to enjoy economic policy continuity under continued coalition governments, it therefore believes there is a "strong" case for sovereign credit rating upgrades that return South Africa to investment grade as early as 2028.

While Matheny concedes that slower progress on fiscal consolidation and/or external economic shocks would delay the process, he says the opposite is also true: faster growth and fiscal outperformance would mean we get there even sooner.

### **Proposed fiscal rule flopped**

The MTBPS has also reinforced RMB Morgan Stanley lead economist Andrea Masia's constructive fiscal view. He too believes it will likely be sufficient to deliver sovereign rating upgrades. However, the proposed fiscal rule fell short of his expectations.

The Treasury has opted for a principles-based approach rather than a strict, numerical fiscal rule. It requires each successive government to seek to maintain the debt ratio on a stable or declining path and to publish a fiscal plan setting out how it will achieve this. But there is no binding numerical debt ceiling or common long-term debt-reduction target, giving a new government considerable discretion over how quickly debt should fall or at what level it should seek to stabilise it.

The Financial & Fiscal Commission must independently assess whether each government's fiscal plans are consistent with fiscal sustainability, but it remains an advisory body whose assessments only need to be considered rather than acted upon.

"While the broad direction of fiscal consolidation remains encouraging," says Masia, "the proposed rule provides limited additional assurance at this stage that the gains will be preserved beyond the current economic cycle."

Citi MD Gina Schoeman thinks rating upgrades are still probable after the MTBPS but are more likely to occur in the first half of next year.

"Unchanged, prudent fiscal policy against weak economic growth means South Africa will likely enjoy a relatively optimistic rhetoric from agencies in the upcoming November reviews," she says. However, "while the primary surplus and interest-cost-to-revenue [achievements] argue for an upgrade, a higher debt ratio and financing issuance suggest waiting".

She is also disappointed in the fiscal anchor proposal, saying its potential has been weakened by a "lack of guardrails". She assumes the Treasury will address these concerns during the public consultation phase. As such, she puts odds of only 30% and 35% on upgrades from S&P and Moody's, respectively, in November, but these rise to 60% and 65% in May 2027.

Bureau for Economic Research chief economist Lisette IJssel de Schepper is also unenamoured with the proposed fiscal rule, pointing out that debt stabilisation is not the same as a meaningful reduction in the debt burden.

She likens the anticlimax over the fiscal rule announcement to how it would have felt if the Treasury and Reserve Bank had dropped the inflation target from 4.5% to 4% last year and not had the courage to go all the way to 3%.

The bold shift in the inflation target to 3% led to a significant decline in South Africa's risk premium and borrowing costs. The same effect is hoped for next year when the final fiscal-rule legislation is tabled, provided it goes far enough.

Certainly, the proposed rule as it currently stands will make it harder for future governments to ignore debt sustainability, but it stops short of committing them to reducing debt to a more prudent level. And, given the considerable political and economic uncertainty that prevails, the risks that abound, and the many spending pressures on government, prudence is exactly what is called for.

### **The budgeting balance**

Or maybe not. The tension between just stabilising debt or actively reducing it — between spending or saving any surpluses — lies at the heart of budgeting.

Take the 2026/2027 fiscal year: main budget revenue is set to be R54.1bn higher than projected in February, but noninterest spending is being allowed to rise by a further R45.47bn, with R20bn of this allocated to infrastructure and R16bn to the contingency reserve and disaster relief — allocations that are hard to fault.

However, over the three years of the 2026 medium-term framework, main budget revenue estimates have been cumulatively raised by about R125bn, but roughly R122bn of this is set to be spent across various priorities. These include helping provinces cope with spending pressures in health and education, covering higher debt-service costs and strengthening local government.

The fact that nearly all the anticipated revenue overrun will be spent rather than used to accelerate fiscal consolidation raises the question as to whether the Treasury is doing enough to build buffers in a time of extreme global uncertainty.

Treasury director-general Duncan Pieterse told journalists during the budget technical briefing that he felt the Treasury had “struck the right balance” between saving and spending, saying: “In light of the fact that we’ve met our targets ... we thought the most sensible thing to do was to direct the bulk of the overrun to infrastructure to grow the economy.”

For, as the MTBPS concedes, despite the Treasury’s stewardship, growth remains too slow. So, while the debt ratio may have stabilised, fiscal discipline alone cannot deliver the stronger growth to make this improvement sustainable. As ever, translating fiscal stability into stronger investment and economic growth remains the real test.

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