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SA has some fiscal breathing room; we dare not waste it

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Several commentators are arguing that SA has turned the corner fiscally, but though the country finds itself with more wiggle-room in the run-up to the national budget, it is far from clear that we are winning the war against debt

Last year, South Africa experienced three national budgets in three months. The tussle nearly broke the GNU. But now, as we gear up for the tabling of the 2026 national budget on February 25, the country finds itself in an uncommonly sweet spot.

The shift to a 3% inflation target has paid off – sovereign risk and government borrowing costs are down, growth is firming, and SA has been rewarded with a rare credit rating upgrade. Commodity prices are also on a tear and, suddenly, SA has more fiscal wiggle-room.

But it is too soon to argue that the country's fiscal fortunes have turned. Fiscally, SA is only at a turning point if the government realises that it cannot continue to hike taxes or borrowing each year to compensate for a failure to make hard political trade-offs over things that endlessly inflate the size of the state - and if this realisation results in better scrutiny of expenditure as well as deep policy reform.

The jury is still out on both these points. It is certainly too early to argue that SA is winning the war against debt. At best, the cabinet understands that debt is a real problem so it can't keep borrowing more. However, whether it accepts that it can't keep *taxing* more to finance new projects and priorities remains to be seen.

There was certainly nothing in the May 2025 budget to suggest that this lesson had been learnt. Instead of scrapping baseline expenditure based on hard trade-offs all it did was scale back February's R232bn shopping list. It still added R74bn in new money to departmental baselines - and it did so by leaning heavily on the consumer.

Though the intended VAT hike was scrapped, no compensation was given for bracket creep for the second year in a row. This will take more than R53bn out of consumers' pockets over the medium term - a hefty erosion of consumers' income that will dampen growth.

Furthermore, an additional R20bn of tax measures was penciled in for the coming fiscal year unless the SA Revenue Service (Sars) can fund the gap through greater compliance efforts – something it has so far failed to achieve.

So, the test of the 2026 budget will be whether the Treasury uses the commodity windfall to reduce the deficit and plug the R20bn hole in the budget, saving us from higher taxes, or whether it spends a large part of this cyclical revenue overrun on deferred items from the 2025 wish list, while continuing to stealthily ratchet up taxes.

If so, it will undermine Treasury director-general Duncan Pieterse's recent assertion that SA has reached "an important (fiscal) turning point". On the contrary, it will mean that despite improved appearances, nothing fundamental has changed.

The 2026 budget provides an opportunity to prove that SA is indeed a different place by cutting consumption spending and providing relief for fiscal drag. Corporate tax cuts are tempting. Business is lobbying heavily for the carbon tax to be scrapped, but this would be shortsighted. Not only is SA's fiscal position still fragile, but our largest export market, Europe, penalises the use of carbon, so we need to move faster down the decarbonisation path for our exports to remain competitive.

Pieterse says the 2026 budget will show SA is on track to get debt to stabilise as a share of GDP – for the first time since 2009! If achieved, it will be largely a result of the Treasury having posted three consecutive primary budget surpluses – where revenue exceeds non-interest expenditure.

For this it deserves credit though, of course, it will be supported this year by the decline in interest rates, effective hike in personal income tax, and huge, unexpected commodity-driven revenue overrun which could exceed R100bn

The less certain part of the plan is for SA to keep running ever-larger primary surpluses so that debt falls towards 70% by the end of the decade.

Execution risks remain high. This is why the Treasury is pushing for a legislated fiscal rule that would bind the government to fiscal sustainability. More detail of the proposal will be revealed on budget day, but getting cabinet endorsement with elections looming will not be easy.

Happily, there *is* broad political backing for a campaign to tackle government spending inefficiency. This was one of the big wins from last year's contested budget process.

So far, the Treasury has forced departments to identify programmes that can be rationalised and has identified R6.7bn of savings from scrapping the ineffectual provincial public transport grant and rooting out social grant fraud.

The 2026 budget will target further savings by eliminating ghost workers and instituting an early retirement scheme, but one shouldn't get too excited. The big savings will be found in closing underperforming programmes - and this will be politically difficult.

During the 2010s, many were worried that SA was headed for a fiscal cliff. At the time, I concluded that there were two flaws in the reasoning of those who believed that we would avoid this fate. First, they assumed that there was substantial room to raise taxes

without hurting growth and competitiveness. And second, that the government would make tough, fiscally responsible choices to pull back from the brink when the time came.

Last year's attempt to ram through a 2% VAT hike to finance a spending splurge demonstrated that many politicians still don't realise they have to pull back from the brink even as the debt ratio approaches 80% and growth remains pedestrian. Were it not for the shift to a 3% inflation target, and fortuitous global tailwinds, SA would not now be sitting so pretty.

The 2026 budget provides an opportunity to cement recent fiscal gains; we cannot afford to squander this golden moment by spending rather than saving the windfall.

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