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# Is SA about to conquer its debt mountain?

Claire Bissek

The 2026 budget marks a turning point. South Africans remain sceptical, but with fiscal credibility up and funding stress down, the Holy Grail of debt stabilisation is finally within reach

South Africa loves the good-news 2026 national budget: last week bond yields fell and the rand firmed as finance minister Enoch Godongwana, dapper in his feathered trilby, declared that for the first time in 17 years, the debt ratio will stop climbing.

Certainly, the 2026 budget marks tangible progress. Fiscally, the country is headed in the right direction and its credibility has strengthened, but can we really believe that the public finances are finally turning the corner?

After all, since 2008, the debt ratio has more than tripled and debt-service costs have risen from 8.8% of revenue to 21.3%, crowding out other spending. It has taken a large, multi-year consolidation to rein this in, but SA is finally beginning to reap the benefits, helped by the shift to a lower inflation target and progress on structural reform.

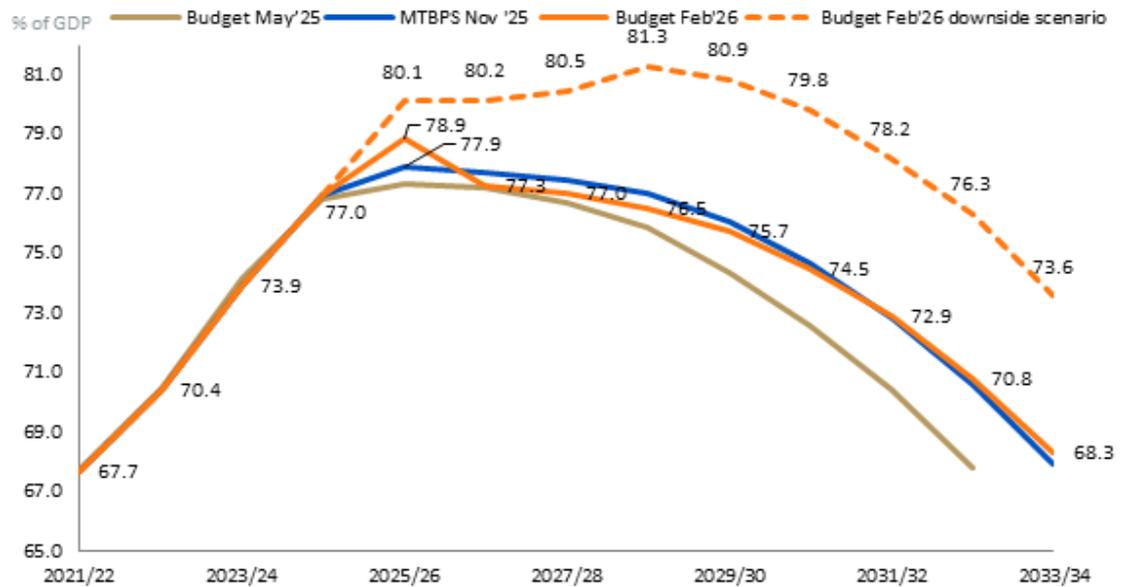
“Our public finances are emerging from the fiscal wilderness,” says National Treasury director-general Duncan Pieterse, “The long stretch of rising public debt that began in the wake of the 2008 global financial crisis has come to an end.”

At first glance, however, talk of debt stabilisation appears premature given that the debt ratio will now be slightly higher than expected at 78.9% of GDP in the current fiscal year against the target of 77.9%.

But the Treasury remains insistent that 2025/2026 will mark the peak in this key fiscal metric given its commitment to running ever-larger primary surpluses (when revenue exceeds non-interest expenditure). This should ensure that the debt ratio subsides a little each year, bringing it down to 75% by the end of the decade.

(The Treasury’s credibility is bolstered by the fact that it has now achieved a primary surplus for the third year in a row – something that seemed impossible just a few years ago.)

**Figure 1: Debt-to-GDP outlook**



Source: National Treasury, 2026 Budget Review, BER

What matters, Pieterse explained in an interview during the parliamentary budget lock-up, is not so much the exact level of the debt ratio but that it falls from here on out. Of this, he is extremely confident, saying it would take a significant global shock that fed into lower global and domestic growth, or a substantial revision of SA’s nominal GDP numbers, for the debt ratio not to fall next year.

The reason why the peak of 78.9% is higher than expected also matters because it is not due to over-expenditure or weak revenue collection. Rather, it mainly reflects lower-than-expected nominal GDP this year due to falling inflation and the fact that the Treasury took advantage of good market conditions over the past year to borrow more than it needs to pre-fund large redemptions that will fall due only over the medium term. (Redemptions will average R283.8bn a year from 2026/2027 to 2033/2034.)

JP Morgan senior economist Sonja Keller says the “strong” budget leaves “little doubt” that government finances have turned a corner, noting that “steadfast work on fiscal, monetary and structural reforms, combined with a conducive global and stable local political backdrop, have enabled a positive shift in the government’s balance-sheet dynamics”.

In fact, she goes so far as to call the improvement in SA’s public finances a “pivot”, noting that the drop in bond yields combined with the recovery in nominal GDP growth and lower inflation projections (following the inflation target change) have

likely structurally lowered the size of primary balances required to get the debt ratio to stabilise. This makes the Treasury's key fiscal goal easier to reach.

"Fifteen years since the beginning of a ratings-downgrade cycle and a secular weakening in the public finances, expectations are now for a broad-based stabilisation and fundamental near-term improvement," says Keller in her budget commentary.

Goldman Sachs economist Andrew Matheny is even more upbeat. He cites several reasons for his bullishness:

- The fiscal strategy under Godongwana has been to rein in the deficit by means of spending cuts rather than tax increases, and to shift the composition of spending away from the wage bill toward capex.

"In our view, this is a more effective fiscal policy strategy than the one in the Gordhan/Nene years (2009-2019), which was characterised by tax increases and protecting social spending," says Matheny.

- He considers the Treasury's revenue assumptions to be deliberately conservative. This creates potential for significant revenue overruns from commodity revenue in this and the coming fiscal year, at prevailing precious metal prices.
- On the spending side, the Treasury has demonstrated discipline in recent years. This creates confidence that government is unlikely to exceed its planned expenditure limits and may in fact underspend, as has been the recent pattern.
- Goldman Sachs notes that the economy's growth rebound from 0.5% in 2024 to an estimated 1.4% last year was largely driven by household consumption. It expects the recovery to broaden to include a pickup in investment as financial conditions in the domestic bond market have eased. Fiscal policy is also set to become gradually more supportive of growth as more funds are directed towards public capex.

Goldman Sachs is forecasting growth of 1.9% for SA in 2026 rising to 2.0% in 2027 compared to the Treasury's estimates of 1.6% and 1.8% respectively.

In short, Goldman's not only sees the Treasury's fiscal forecasts as credible, but it expects SA's medium-term growth rate to be faster, its revenue performance stronger and spending, slightly lower than the Treasury is forecasting.

If this above-consensus view is correct, the fiscal deficit and SA's debt stock could come down even faster than the path laid out in the 2026 budget.

Several economists agree that the Treasury may be underestimating the potential boost to revenue that could flow from the current commodity boom. For RMB Morgan Stanley economist, Andrea Masia, the Treasury's decision to take such a cautious view of the revenue windfall is the biggest surprise of the budget.

Describing it as a “purposefully conservative budget”, Masia’s tax revenue forecasts are now about R35bn higher than the Treasury’s in 2026/27 and close to R30bn higher in each of the two fiscal years after that.

While the Treasury’s wait-and-see approach is pragmatic, this certainly leaves space for a positive revenue surprise as the year progresses.

Given all these positive factors, the fact that the consensus is still for SA to experience ongoing fiscal slippage in the deficit and debt ratio relative to the Treasury’s projections, suggests a lingering scepticism about government’s ability to deliver on its fiscal promises.

This is particularly true of most of the main credit rating agencies which have more pessimistic fiscal and growth forecasts than the Treasury’s. As such, Matheny expects positive ratings actions to follow as the markets and the consensus gradually upwardly re-rate their fiscal expectations.

The most likely move, he feels, would be for S&P Global Ratings, which already has a positive outlook on SA, to upgrade SA’s foreign currency rating from BB to BB+ by the year-end.

He also expects Moody’s Ratings to acknowledge the country’s improving fiscal dynamics by either shifting SA’s Ba2 rating to a positive outlook and/or rewarding the country a full notch upgrade over the course of the year.

An upgrade is even more likely from Fitch given that its SA rating - BB- with a stable outlook – remains three notches deep into junk status and a full notch below the other two agencies.

Citi economist Gina Schoeman is more cautious. She doesn’t expect this budget to prompt positive outlooks from Fitch or Moody’s just yet, though this could emerge towards the year-end if GDP growth improves in the second half.

However, this would also require that the 2026 medium-term budget in October continue to cement the path towards debt stabilisation, she says. The promised implementation of a legislated fiscal anchor would also need to go ahead.

Aware that it needs to do more to bolster SA’s fiscal strategy and credibility, the Treasury has undertaken to table a detailed proposal in the medium-term budget to anchor fiscal sustainability in law.

It will not hold the Treasury to a numerical fiscal rule, like a maximum level for the debt ratio (which is what most commentators would prefer). Rather, it will require each new government to table a medium-term fiscal plan, which adheres to certain fiscal principles, to ensure that its fiscal position remains sustainable throughout its term of office.

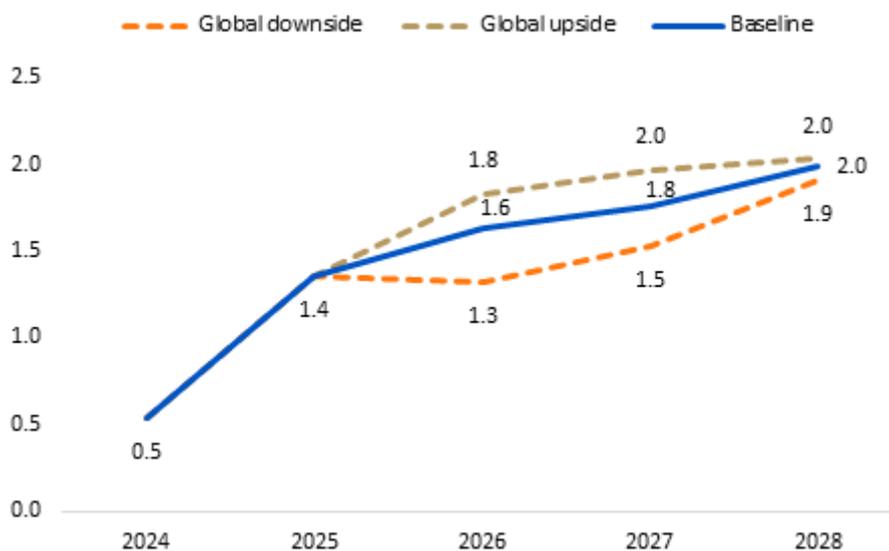
Godongwana told the budget press conference he would consult extensively on the details but was not expecting any political “friction” to derail this plan.

## Risks to the outlook

As ever, there are multiple downside risks to the budget estimates. The Budget Review considers the main fiscal risks to be weaker-than-expected global and domestic growth, commodity price volatility, the financial health of state-owned companies, higher borrowing costs due to geopolitical risks and adverse global monetary conditions or changes in investor sentiment.

The Treasury believes that the risks to global growth remain tilted to the downside, mainly because of geopolitical tensions.

**Fig 2: GDP growth could hit 2% in Treasury's scenarios**



Source: National Treasury, 2026 Budget Review

The Budget Review contains upside and downside *global* scenarios. The upside scenario models the real-economy impact on SA from an easing of geopolitical tensions in which stronger global demand boosts SA exports.

The downside scenario models an escalation of geopolitical tensions in which higher imported inflation and tighter financing conditions weigh on domestic consumption and investment.

If the downside scenario prevails, SA's growth will average 1.6% from 2026 to 2028 (as opposed to 1.8% in the Treasury's baseline forecast) and debt will peak at 81.3% in 2028/2029 (not 78.9% in 2025/2026 as in the Treasury's baseline fiscal strategy).

This shows how important faster growth is in accelerating the pace of debt reduction and achieving the Treasury's debt stabilisation goal.

The Treasury's baseline forecast is for GDP to pick up to 2% by 2028.

This reflects optimism that the pace of Operation Vulindlela's structural reforms, especially in energy and logistics, will accelerate, allowing the economic recovery to gain traction.

And yet, the Treasury warns that the *domestic* risks to its growth outlook are also tilted to the downside. It notes that persistent logistics bottlenecks, weak public infrastructure, and exposure to climate-related shocks continue to raise the cost of doing business and threaten the country's production and investment prospects.

It is also important to remember that SA is still refinancing large volumes of debt. So, while the improvement in investor confidence, reduced perception of risk and declining interest rates over the past year have contributed to lowering SA's gross borrowing requirement from 7.3% of GDP in 2025/2026 to average of 5.5% over the medium term, the absolute level of borrowing will remain elevated at just under R500bn a year on average over this period.

The Bureau for Economic Research (BER) warns in its budget commentary that despite the recent easing of market pressure and immediate funding stress, SA's debt trajectory remains highly sensitive to shifts in interest rates and nominal growth.

A sustained increase in borrowing costs would raise debt-service costs, widen the deficit, and delay debt stabilisation. Conversely, maintaining investor confidence and, therefore, lower yields would materially improve debt dynamics.

In short, even with primary surpluses in place, SA's high refinancing needs mean that fiscal consolidation remains dependent on continued market access at reasonable borrowing costs. Or to put it differently, while primary surpluses will help stabilise debt, it is lower risk premia that will ultimately determine whether that stabilisation is durable.

"The fiscal direction is encouraging, and credibility has strengthened, yet SA's debt dynamics remain sensitive to growth outcomes and shifts in market sentiment," says BER chief economist Lisette IJssel de Schepper.

"So, yes, the budget marks a turning point, but whether it proves lasting will depend less on this year's numbers and more on the consistent implementation of reform and disciplined execution in the years ahead."

Granted, SA is not good at either of those things, but it is getting better. Hard-won fiscal consolidation is paying off, the benefits of the shift to the lower inflation target have exceeded the most optimistic expectations, and reforms are finally gaining traction as the government embraces private-sector funding and skills to get things done.

We are not home free, but we are closer than we have been in years to restoring fiscal sustainability. This is the last mile. We dare not blink now.

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