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PBO
PARLIAMENTARY
BUDGET OFFICE



2026 MTBPS

Date: 27 October 2026

About the PBO

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PBO PARLIAMENTARY BUDGET OFFICE

- The Parliamentary Budget Office is a juristic person of Parliament and headed by a Director as an Accounting Officer. The Office was established in terms of the Money Bills Amendment Procedure and Related Matters Act 2009
- To support the implementation of the Money Bills and Related Matters Act of 2009; in particular support to Finance and Appropriations Committees in both Houses; but other Committees and Members of Parliament subject to available capacity
- The Money Bills and Related Matters Act guides the approval of money bills and related matters, including amending the budget
- The Office offers independent and objective analysis and advice to Parliament on money bills and other bills presented by the Executive; and any other documentation or reports with fiscal implications

Outline

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Introduction

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- The purpose of this presentation is to analyse the 2026 MTBPS, and the in-year adjustments with particular attention to the revised fiscal framework and in-year progress within the context of the 2024–2029 Medium Term Development Plan (MTDP) outcomes and the fiscal strategy of government to achieve:
  - Economic growth above 3.0 per cent and unemployment below 28.0 per cent by 2029/30
  - An equal society where no person lives in poverty; a cohesive and united nation
  - A capable, ethical and developmental state enabling the delivery of services to all citizens, fostering trust; and ensuring a safe and secure environment
- The medium-term fiscal strategy focuses on growing the main budget primary surplus and reducing the debt-to-GDP ratio over the rest of the decade. To achieve this, government will:
  - Support the economy through prudent fiscal policy and increased capital investment
  - Improve value for money in public spending by conducting programme reviews and implementing their recommendations, while protecting the social wage and directing a growing share of spending towards capital investment
  - Reduce debt-service costs as a share of revenue while managing debt redemptions
  - Propose a principles-based fiscal anchor to entrench fiscal sustainability
- This context will enable Parliament to evaluate progress in pursuing these priorities and assess how the 2026 MTBPS proposals are likely to contribute to the achievement of the MTDP outcomes
- The PBO will provide detailed analysis of the 2026 DORA, Adjusted Appropriations, the Special Appropriation Bill and the Financial Sector and Insurance Levy Bill in November 2026 to the respective committees

Policy, expenditure priorities and Budget reforms

- Effectiveness of government
- Comparison of the Presidential Priorities with the 2026 Budget and 2026 MTBPS
- The reform agenda
  - Spending efficiency and effectiveness initiatives
  - Reforms in the budget process
  - Structural reform progress

Effectiveness of government

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- Government effectiveness is determined by the extent to which government achieves its policy objectives, delivers public services, uses public resources efficiently, and improves citizens' well-being in a sustainable and accountable manner
- Budget expenditure, legislation, policy development and the achievement of administrative targets do not, in themselves, demonstrate that intended outcomes have been achieved
- Effective parliamentary oversight and budget analysis therefore require a clear understanding of the link between government priorities, policy implementation, public expenditure, service delivery and societal outcomes
- Through the ongoing production of policy and budget implementation monitoring briefs, the PBO seeks to identify inefficiencies in public expenditure, assess implementation progress and contribute to improved government effectiveness
- The following slides focus on assessing the alignment between Presidential and government priorities, budget allocations and expenditure, and government's response to findings concerning the efficient and effective use of public resources

2026 Pronouncements and Spending Priority Proposals

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SONA	Budget	MTBPS
• Investing across our country in roads, bridges, rail lines, ports, dams, wind and solar farms	• R3 billion additional funding for the Square Kilometer Array and R3.6 billion for road maintenance	• Reform infrastructure grants to improve planning, accountability and oversight
• As part of preparation for the NHI, we are investing in health facilities, personnel and systems to improve access to quality care	• R14.7 billion net increase, mainly to expand provincial health services and employ more doctors	• Over the MTEF period, government will strengthen high-impact primary healthcare interventions to improve maternal nutrition, support healthy pregnancies and promote optimal child development during the first 1 000 days of life • R1.6 billion reprioritised from social grants savings to fund nutrition for pregnant women and young children, through district health programmes grant
• Expanding access to early childhood development through the Bana Pele mass registration of ECD facilities and an increase in subsidies for ECD learners	• R9.5 billion net increase over the medium term, mainly for the ECD conditional grant	• The infrastructure portion of the early childhood development conditional grant seeks to address infrastructure and safety compliance to expand access to early childhood development services in the sector • Part of this grant will be ring-fenced as an incentive to reward improved delivery of new builds and maintenance targets
• As a transformative instrument to improve the lives of the poorest and most vulnerable people, this grant will be continued	• R22.6 billion net increase, mainly due to extending the Social Relief of Distress grant until 31 March 2027	• Extend the SRD grant for another year while promoting employment, skills development and enterprise support
• To strengthen our fight against gang violence, I am deploying the South African National Defence Force to support the police	• The R1.6 billion net increase relates to increases in allocations to the special defence account (R2.6 billion)	• Allocate R3.8 billion over the 2027 MTEF for social workers and violence prevention • Provide R157.4 million for the Department of Women, Youth and Persons with Disabilities • Reprioritise R186 million for forensic services, investigative capacity and reducing backlogs

Spending efficiency and effectiveness initiatives

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Function group	Spending priority efficiency initiatives
Learning and culture	• Basic Education: The physical verification of teacher and learner numbers, completed by the Education Labour Relations Council, confirms the need to address inefficiencies related to teacher allocations • The infrastructure portion of the early childhood development conditional grant seeks to address infrastructure and safety compliance to expand access to early childhood development services in the sector • Part of this grant will be ring-fenced as an incentive to reward improved delivery of new builds and maintenance targets • PBO analysis indicates that although expenditure on the ECD conditional grant infrastructure component increased as a proportion of the allocation between 2022/23 and 2024/25, the full allocation was not spent in any of the three financial years. This suggests persistent challenges in fully utilising available infrastructure funding

Health	• To strengthen operational efficiency by:
	  • Better management of commuted overtime
	  • Gradually replacing overtime hours with new appointments where feasible
	  • Applying rural allowances more strategically
	  • Medical intern remuneration
	  • Remunerative work outside of public services
	• Over the MTEF period, R556.7 million will be reprioritised to sustain HIV and AIDS services following the withdrawal of PEPFAR funding, supplementing the R3.8 billion reprioritised through the district health programmes grant
	• No mention of the implementation of critical phases of the NHI Act

Social development	• As a result of strengthened verification measures, the number of social grant beneficiaries is expected to decline from 17.8 million in 2026/27 to 17.1 million by 2029/30, generating savings of R6.2 billion, savings will be reprioritised to prevent gender-based violence and femicide and to support priority health-sector interventions to combat child malnutrition and stunting • Extend the SRD grant for another year • Beneficiaries will be linked to employment, training and business opportunities through the MzansiXchange

Spending efficiency and effectiveness initiatives

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Function group	Spending priorities and efficiency initiatives
Community development	• Following reductions to the public transport network grant in the 2026 Budget, a new public transport roadmap is being developed to sequence reforms, improve alignment between road and rail, and clarify the regulatory and contracting arrangements for subsidised services • The regional bulk infrastructure grant and the water services infrastructure grant will be merged in 2027/28, and alignment between these grants and the water component of the municipal infrastructure grant will be improved • The human settlements development grant is reduced by R7.8 billion while the department develops a new delivery model to respond to changing housing needs • PBO analysis indicates that the human settlements development grant achieved relatively high expenditure rates between 2021/22 and 2024/25, spending more than 90 per cent of its allocation in each financial year. However, high expenditure did not translate into the achievement of most planned outputs, raising concerns about the grant's effectiveness in delivering sustainable and integrated human settlements
Economic development	• The agricultural sector is addressing biosecurity threats, including foot-and-mouth disease, to safeguard food security and trade • To contain foot and mouth disease, R423.4 million is reprioritised in 2026/27 and R183 million is rolled over from the previous financial year to roll out vaccines • DTIC will reprioritise R1 billion to strengthen regional value chains and links between special economic zones and expand pharmaceutical and vaccine manufacturing • Over the medium term, 870 land restitution claims will be settled, with stronger post-settlement support to improve access to economic services for beneficiaries
Peace and security	• Modernisation and digital transformation initiatives aim to improve efficiency and delivery, particularly within the Departments of Defence, and Justice and Constitutional Development • These efforts are complemented by measures to establish the Investigating Directorate Against Corruption Ombud and strengthen the Information Regulator • Police funding is being redirected to forensics to reduce backlogs and improve investigations

General public services	• MyMzansi initiative as a data exchange platform will:
	  • Enable cross-government beneficiary verification
	  • Support the detection of duplicate and fraudulent claims across the social grants system, the NSFAS and public employment programmes through integration with the National Population Register and the SARS

Reforms in the budget process

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- Identified savings have grown, but wage-bill outcomes are not yet demonstrated
- The total public-service wage bill is projected to grow by 4.7 per cent in 2027/28 (national sphere: 6.0%; provinces: 4.1%)
- The high number of contract workers and number of posts additional to establishments needs to be monitored

Measure	2025 MTBPS (12 Nov 2025)	2026 MTBPS (21 Oct 2026)	Progress
Targeted and responsible savings (TARS)	R6.7 billion in initial medium-term savings; programme assessment matrix introduced	R38.1 billion in medium-term savings redirected to priorities (R12.0 billion at the 2026 Budget): social grants verification R13.1bn; national departments R11.7bn; human settlements grant R7.8bn; public entity cash surpluses R5.5bn	Improving. Larger, broader savings base
Ghost workers and payroll integrity	8 854 high-risk cases flagged; two-month verification from January 2026, then legal action	4 323 high-risk cases; online verification platform open for two months, closing 15 August 2026; findings in the 2027 Budget, including Financial Intelligence Centre work	Pending. Results to be published in the 2027 Budget
Early Retirement Programme (ERP)	R5.5 billion set aside for about 15 000 exits; estimated average saving of R3.5 billion a year	27 450 applications approved (7 687 at the 2026 Budget); projected net savings of R4.3 to R4.6 billion a year (2027/28 to 2029/30); Treasury costs R14.1 billion*	Mixed. Uptake above plan, costs higher
Personnel expenditure review	Potential savings of R7.9 billion (commuted overtime, accelerated grade progression) and R5.9 billion (37% contract-worker allowance)	No implementation results or revised estimates reported; health to manage commuted overtime and provinces to tighten overtime controls	Not reported. No quantified update

Structural reform progress

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- Since April 2026, The National Treasury reported progress across seven reform areas(detail in the annexure):
  - Electricity
  - Freight logistics
  - Water and sanitation
  - Visa and immigration
  - Local government
  - Spatial integration and housing
  - Digital public infrastructure
- However, implementation has been uneven and slow
- The next phase will require accelerating implementation:
  - Resolving outstanding bottlenecks and translating institutional and legislative reforms into measurable outcomes
  - The ultimate test will be whether these reforms improve infrastructure investment, service delivery, state capability and competitiveness, while generating higher and more inclusive economic growth

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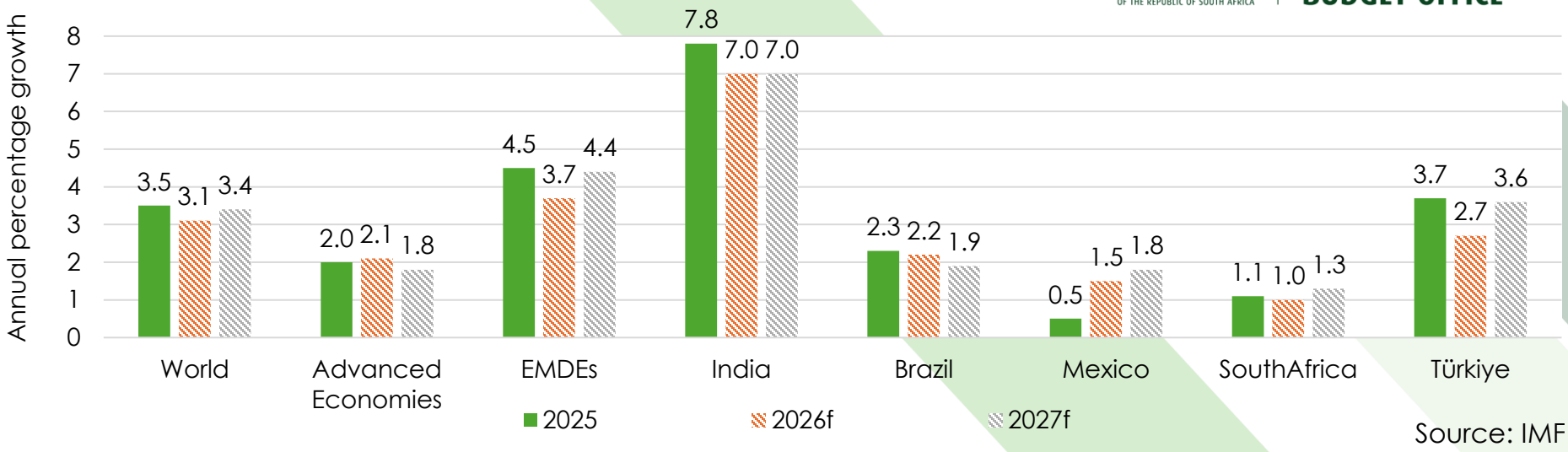
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Macroeconomic outlook and PBO modelling results

- Global outlook
- South Africa outlook
- PBO modelling results

Global outlook

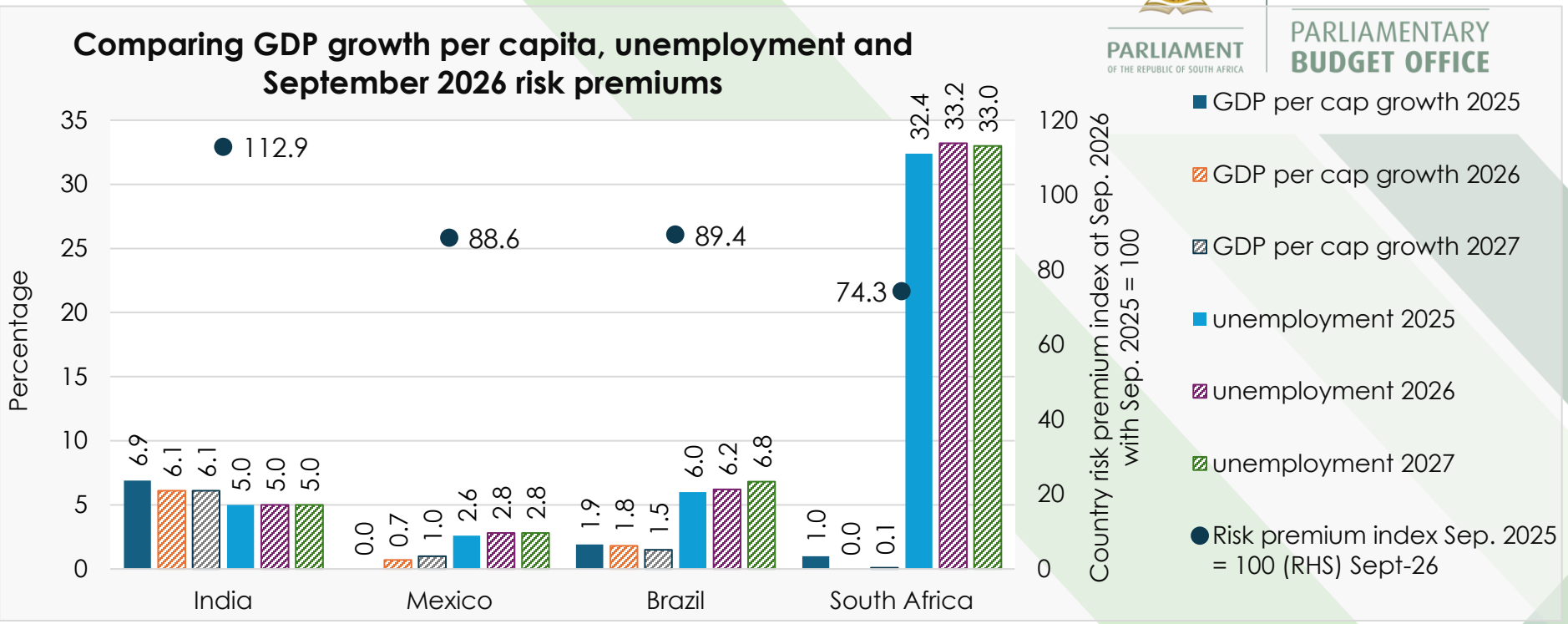
Growth forecasts in IMF October 2026 World Economic Outlook Update



Source: IMF

- The boom in artificial intelligence (AI) investments has had a significant upward impact on global output growth and trade volumes, particularly for developed countries
- Massive AI investments have more than offset negative impacts on growth of the wars in the Middle East and Ukraine, particularly inflation in fuel, fertiliser and food prices
- However the AI bubble and geopolitical conflict have contributed to historic sell-offs and multi-decade rises in bond yields of developed country government bonds
- Massive borrowing requirements for AI investments have caused interest rates to rise
- Central Banks will continue to face pressure to raise interest rates due to ongoing inflation caused by the Iran war

South Africa economic outlook



Source: IMF Oct. 2026 World Economic Outlook Update

- The 2026 MTBPS mistakes government's budget surplus and a recently improved risk premium for economic resilience
- Sovereign risk premiums in many emerging markets have recently improved because global fund managers have sold off developed country government bonds
- South African bonds are not a safe long-term investment to global fund managers,
- They are short-term, speculative, carry trade choices that are highly profitable because of the SARB's commitment to high real interest rates

South Africa economic outlook

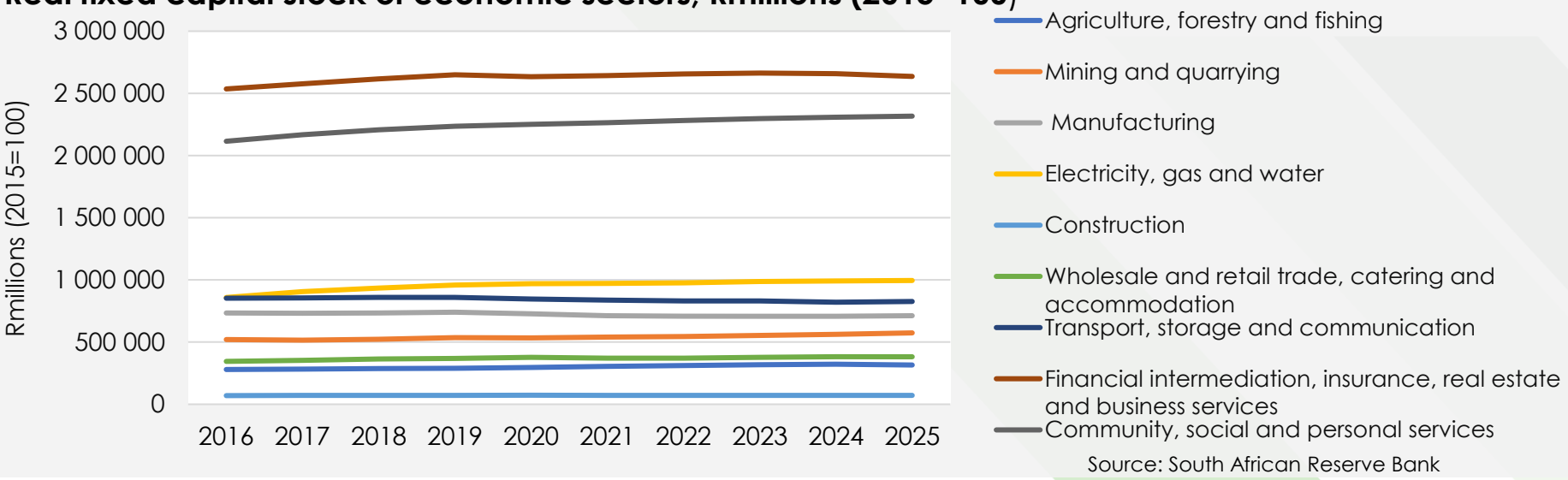
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- The 2026 MTBPS continues a narrative that has become increasingly questionable since fiscal consolidation was 'temporarily' implemented in 2012
- This narrative is that government commitment to fiscal consolidation will increase business sentiment and lead to increasing investment and economic growth
- However, government's efforts to restrict expenditure have contributed to large cumulative backlogs in infrastructure development and socio-economic improvement
- They have contributed to under resourcing of government at all levels that may have exacerbated long-standing, high levels of poor governance and corruption and ultimately state capture
- Continued efforts at fiscal consolidation have been met with very slow progress in structural reforms while the country's economic growth model remains structurally fragile
- The 2026 MTBPS claims that improvement in risk premiums on government debt signals resilience but negative per capita growth and crisis level unemployment is not resilience

South Africa economic outlook

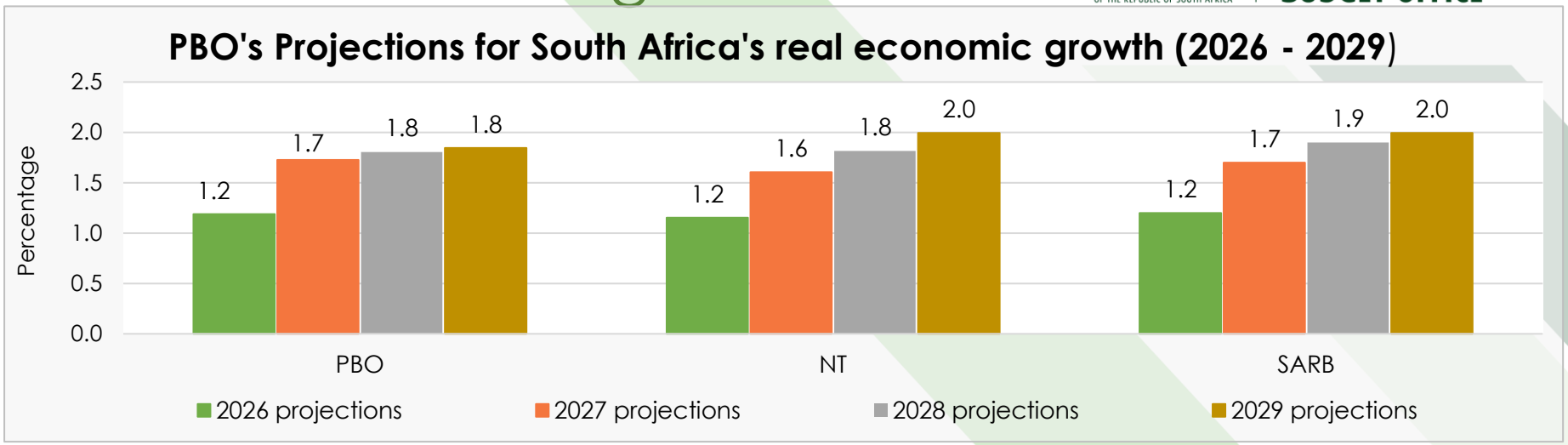
Real fixed capital stock of economic sectors, Rmillions (2015=100)



Source: South African Reserve Bank

- Overall, fixed capital stock formation has been poor over the past decade
- Real manufacturing fixed capital stock declined by 3 per cent from 2016 to 2025
- The changes in fixed capital stock indicate a future economic growth path of continued poor growth and employment prospects
- It contradicts the Minister of Finance claim in his speech that the government's shift in spending towards infrastructure has taken the economy towards "productive investment that expands economic capacity, improves access to essential services and supports employment"
- Building a sustainable growth path requires investing in resilience to multiple serious risks and crises
- It requires large increases in government expenditure on basic services and social security while the cost of not doing so seems likely to be very large in the medium term

PBO projections: The 2026 MTBPS projects medium-term growth below MTDP targets



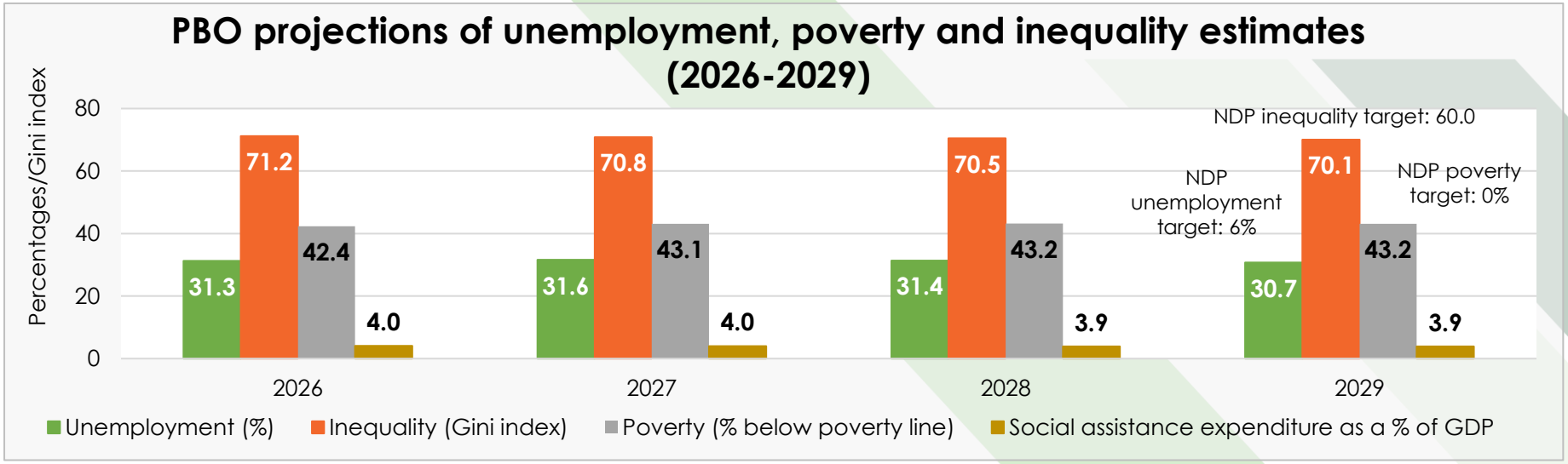
Source: PBO economic modelling forecast

- The PBO's projections show that the 2026 MTBPS proposals fall short of delivering the scale of growth required to meet the MTDP's above 3 per cent GDP growth target by 2029
- Even under NT's best-case Scenario A, which assumes successful implementation of Operation Vulindlela Phase II reforms, GDP growth reaches only 2.3 per cent by the end of the medium term
- Aggregate demand remains weak and not resilient, while public investment is insufficient to drive structural transformation
- The South African economy remains extremely concentrated in terms of market share and wealth, with high levels of financialisation, deindustrialisation, and unemployment
- A fiscal framework aligned with the MTDP would shift away from de facto fiscal consolidation measures and prioritise public investment in social and economic infrastructure as well as industrial policy
- It would also support public service, townships and rural economies. Such investments crowd in private sector activity. The economy will not self-correct through supply-side reforms alone

PBO forecasts: The 2026 MTBPS offers limited UPI relief, falling short of MTDP and NDP targets

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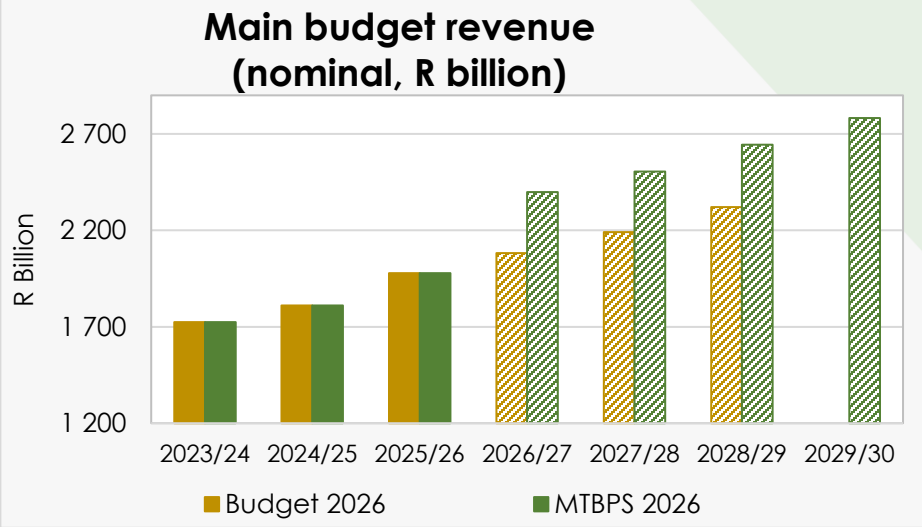
Source: PBO economic modelling forecast

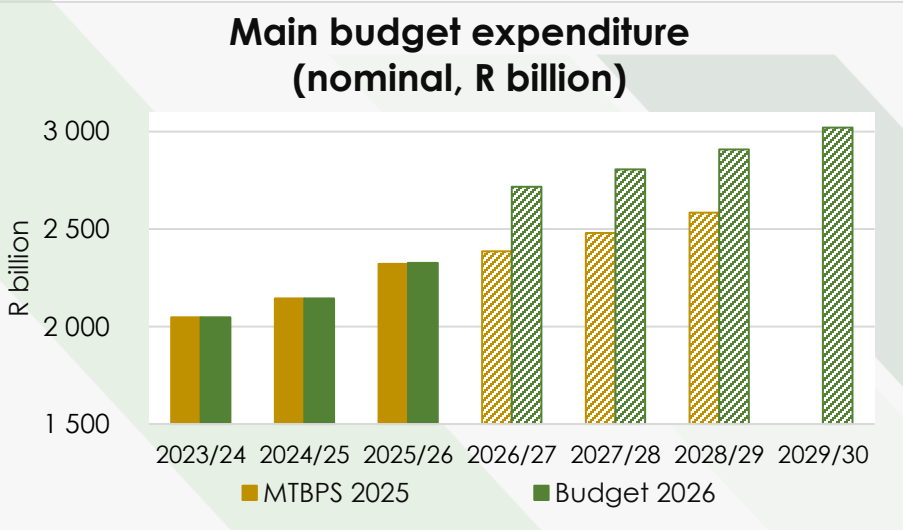
- The 2026 MTBPS presents an incomplete real growth story, measuring fiscal success through growing the primary surplus and narrowing the budget deficit while the social and economic costs of unemployment, poverty and inequality (UPI) remain unaccounted for
- The PBO's UPI projections show no meaningful improvement over the MTEF
  - Unemployment remains above 30 per cent, against the MTDP target of below 28 per cent by 2029 and the NDP target of 6 per cent
  - Poverty and inequality remain stubbornly high
  - Social assistance spending as a share of GDP remains insufficient to meet the MTDP's developmental and redistributive goals
- The PBO's forecasts highlight a disconnect caused by inadequate budget allocations to address UPI and the developmental priorities set out in the MTDP and NDP

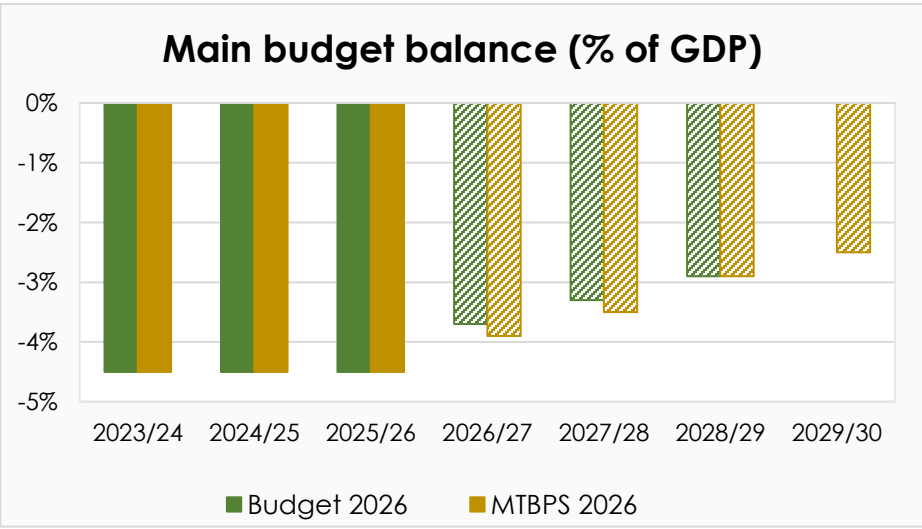
Fiscal Framework

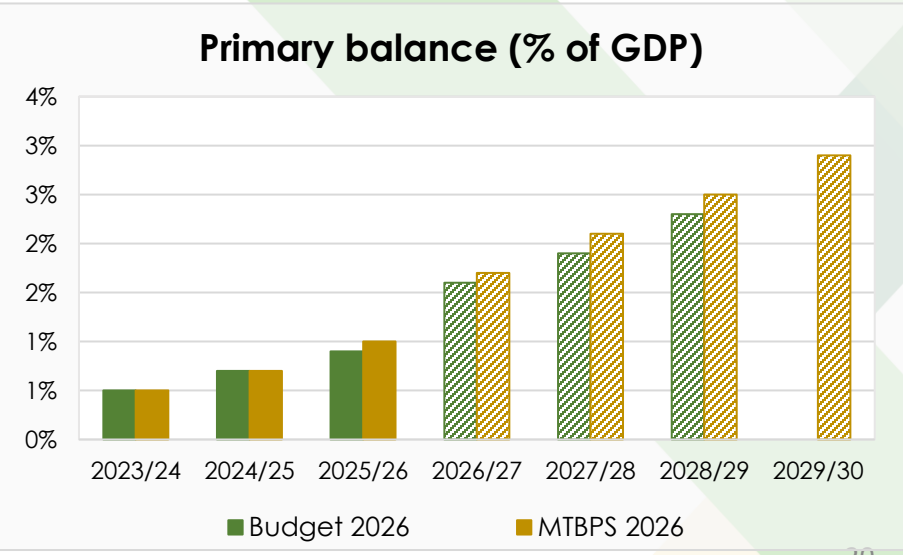
- The fiscal framework
- Debt trends
- Real per capita allocated by function
- The fiscal anchor

The fiscal framework









Source: National Treasury, 2026 Budget Reviews and 2026 Medium Term Budget Policy Statements

The fiscal framework

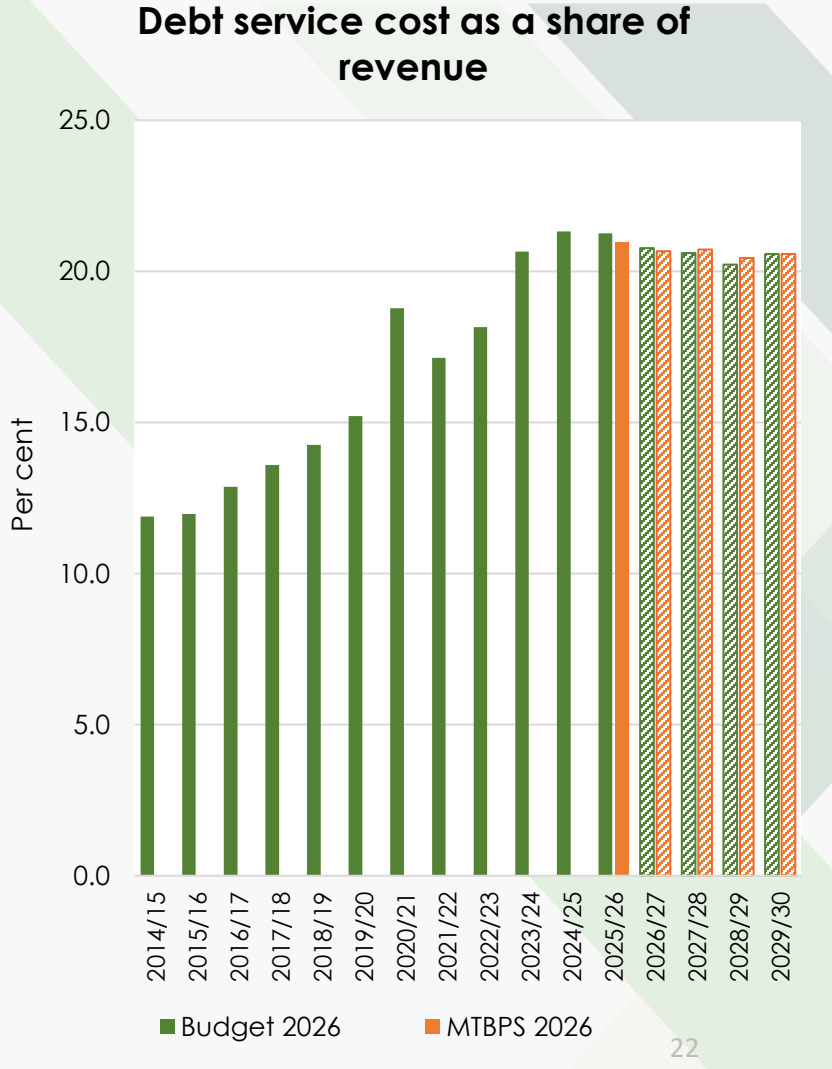
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- The 2026 MTBPS continues to prioritise narrow fiscal targets over developmental needs
- Budget decisions should be assessed against improved implementation and measurable outcomes for citizens, rather than fiscal targets alone
- Expenditure restraint aimed at containing the debt-to-GDP ratio inadequately addresses global instability, climate change and domestic structural challenges
- Unemployment, inequality and concentrated market power reinforce stagnation and deindustrialisation. Underinvestment combined with underperformance weakens economic activity and public finances, deepens infrastructure backlogs and constrains public services
- Shortages of doctors, nurses, teachers and police, alongside child malnutrition, highlight inadequate social investment, including relief during the Covid-19 pandemic
- The MTBPS does not explain how budget adjustments support the MTDP 2024–2029, the implementation bridge to the NDP Vision 2030
- Extreme unemployment, poverty and inequality signal socioeconomic instability requiring direct government investment, stronger planning and adequate resources
- Development, industrialisation, employment and growth depend on addressing these longstanding structural constraints. Sustainable public finances ultimately require a stable, inclusive economy
- Celebrating primary surpluses overlooks mounting developmental pressures and the risks they pose to fiscal stability. Continuing this approach will not produce different outcomes

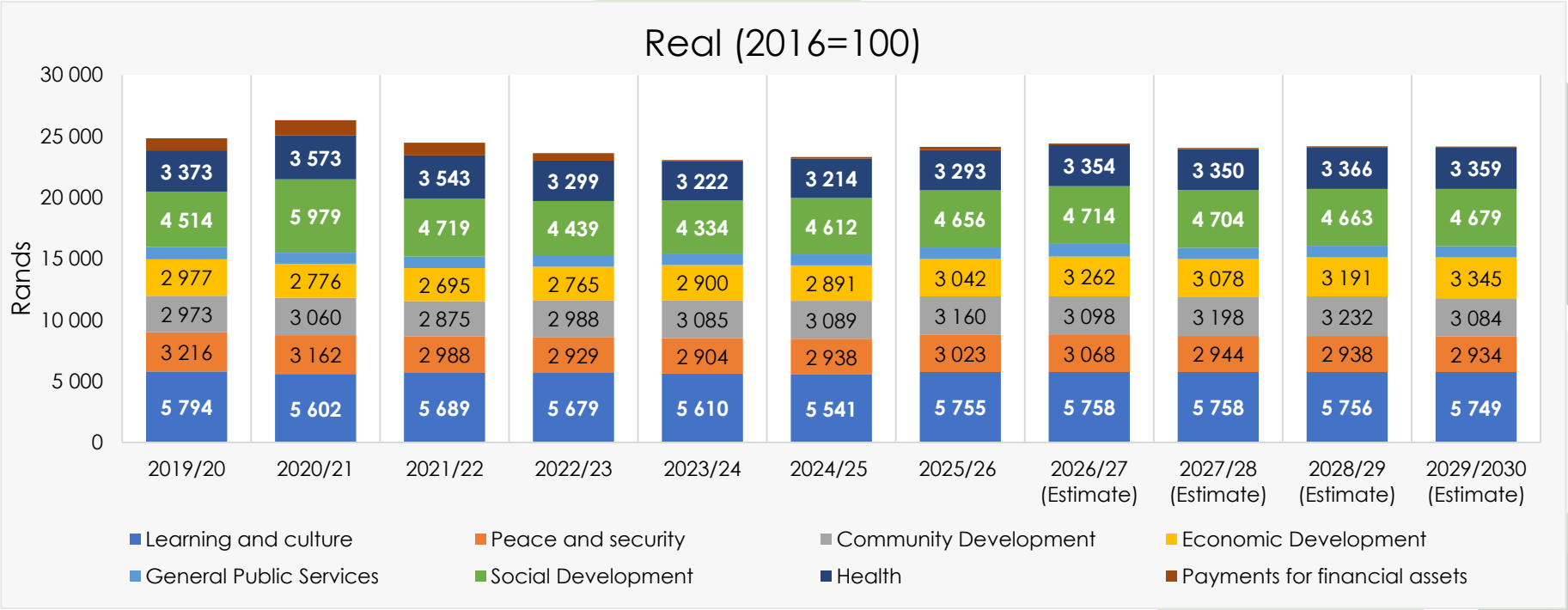
Adjustments to debt

- In the 2026 budget, the debt-to-GDP ratio for 2025/26 was revised upward from 77.9 per cent (in the MTBPS) to 78.9 per cent. The outcome is 78.4 per cent
- The debt-to-GDP ratio for 2026/27 is revised upward from 77.3 per cent to 78.2 per cent
- The 2026 MTBPS states that "lower debt levels will reduce borrowing costs and improve investor sentiment, supporting higher public and private investment, and stronger growth and job creation"
- Lower debt levels may reduce borrowing costs, but stronger investment, economic growth and job creation depend on broader economic conditions and productive public investment
- The strong performance of South African bonds since 2024 is largely a by-product of favourable market conditions, including declining yields – borrowing costs respond to factors beyond government debt levels
- Future reductions in borrowing costs will depend on inflation, domestic and global interest rates, exchange rate stability and investor confidence



Source: PBO compilation based on National Treasury data

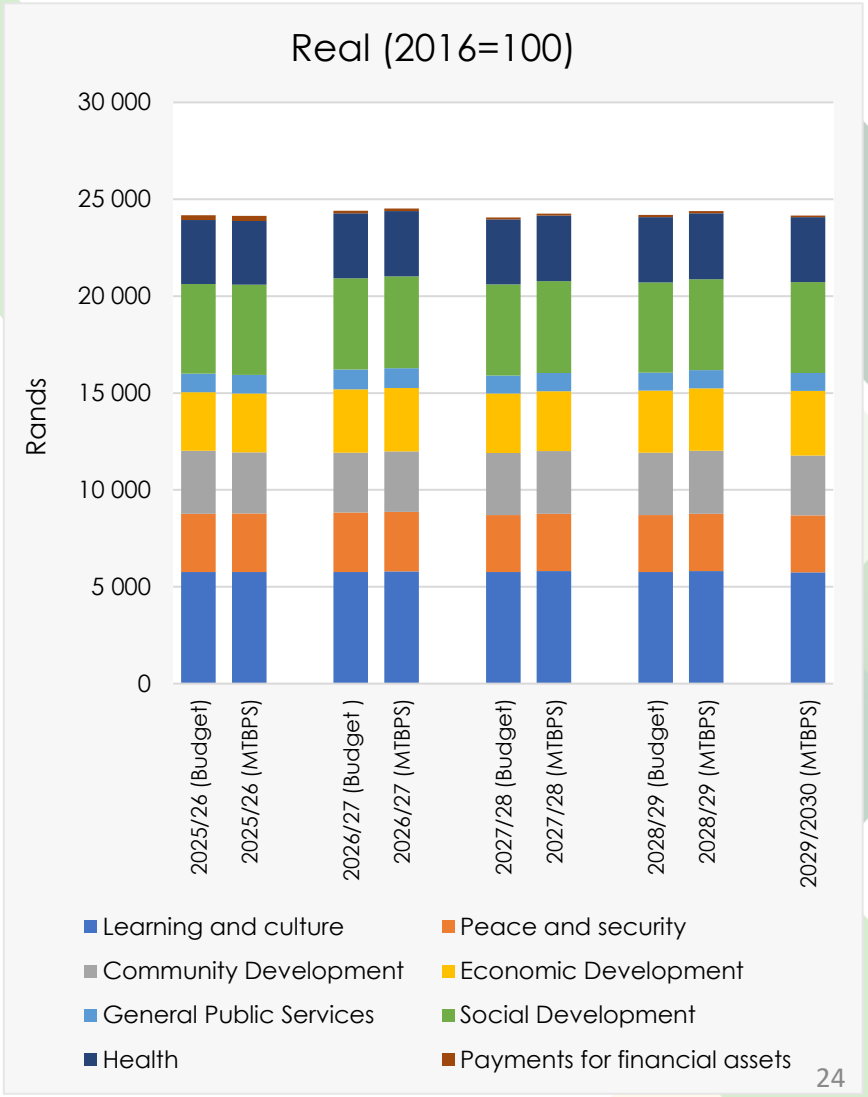
Real per capita allocated by function trend



- In the 2026 budget, the average nominal growth rate (2026/27-2028/29) allocated to function groups was 3.7 per cent, which was 0.4 percentage points higher than the average inflation rate of 3.3 per cent projected over the medium term
- The MTBPS average nominal growth rate (2026/27-2029/30) allocated to function groups is 3.1 per cent, which is 0.3 percentage points lower than the average inflation rate of 3.4 per cent projected over the medium term
- However, these allocations do not account for the estimated population growth of 1.2 per cent projected for the medium term

Real per capita allocated by function (Budget versus MTBPS)

- The 2026 budget 2025/26 total real expenditure per capita by function group was R24 170; the outcome is even lower (R24 147)
- The 2026/27 total real expenditure per capita by function group in the 2026 budget was R24 410; this is higher in the MTBPS R24 527
- The costing assumptions in the 2026 MTEF guidelines were:
  - 2026/27 financial year: CPI - 4.14 per cent
  - 2027/28 financial year: CPI - 4.36 per cent
  - 2028/29 financial year: CPI - 4.49 per cent
- However, only economic development (with the exception of industrialisation and exports, and innovation and technology), and public-sector pensions have an average annual growth in line with or higher than the MTEF guideline CPI assumption
- It is important to note that the guidelines state that "If the outcomes are different from the forecasted estimates, institutions will need to absorb any resultant differences within their budget baselines"



Source: PBO calculations based on National Treasury data

In-year adjustments to revenue (2026/27)

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- SARS collected R1.231 trillion in gross tax revenue by 30 September 2026, 57 per cent of the 2026 budget gross tax revenue estimate
- The 2026/27 gross tax revenue estimate was revised upwards by R17.1 billion
- Higher-than-expected collections added R58.6 billion to the estimate, driven mainly by collections from companies (R34.2 billion) and VAT (R12.6 billion)
- These higher-than-projected collections are offset by lower estimates for the fuel levy (R30.9 billion) and other taxes (R10.6 billion)
- A sustained fuel price shock will depress fuel levy collections even further
- High fuel prices suppress activity and erode the tax base by squeezing household spending and company profits, weighing on VAT, corporate and personal income tax. The net effect on full-year revenue must be taken into account

2026/27			
R billion	2026 Budget	Revised	Deviation
Persons and individuals	844,8	846,4	1,5
Companies	364,3	398,5	**34,2**
Value-added tax	521,4	533,9	**12,6**
Dividends tax	45,6	51,1	5,5
Specific excise duties	65,5	66,0	0,5
Fuel levy	104,9	74,0	**-30,9**
Customs duties	85,8	89,7	3,9
Ad valorem excise duties	8,1	8,5	0,4
Other	86,7	76,0	**-10,6**
Gross tax revenue	**2 127,0**	**2 144,0**	**17,1**

Source: National Treasury

Legislating a principles-based fiscal anchor

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- The NT has proposed introducing a **"principles-based fiscal anchor"** to stabilise South Africa's public finances amid rising debt and growing debt-service costs
- This type of anchor is a parliamentary procedures model which emphasises process over fixed targets
- Under this model, rather than a set debt or deficit figure, each new administration would be required to present **a medium-term fiscal strategy** that demonstrates compliance with agreed sustainability principles (such as debt stabilising over the forecast period)
- Parliament would then approve this plan, which would serve as a benchmark for holding the executive accountable
- Subsequent budgets would be measured against the government's commitments to these fiscal targets
- This model incorporates the anchor into the budget process and depends on improved oversight and transparency, rather than a single external limit
- As Treasury notes, South Africa already applies these principles to parliamentary amendments to Money Bills, the Division of Revenue and the Fiscal Framework. This anchor could extend them to the tabled fiscal framework and budget, embedding fiscal sustainability assessments in parliamentary procedure

Fiscal anchors – What Parliament must consider

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- Fiscal anchors are framed as technical fiscal instruments, but they reflect political choices about who bears adjustment costs, which spending is protected or reduced, and whether debt stabilisation supports or constrains development
- The PBO's critique does not target fiscal sustainability as such. Its concern is with frameworks that, by creating allocative rigidity, risk relocating core fiscal decisions away from Parliament
- A fiscal anchor should not limit elected representatives' ability to determine the appropriate balance among debt management, growth, employment, and social investment
- The proposed fiscal anchor risks entrenching a narrow debt-to-GDP focus that, since 2012, has not resolved weak growth or the socioeconomic consequences of consolidation
- An excessive or exclusive focus on debt and deficit reduction may limit crucial investment in infrastructure, social protection, and human capital
    - Rules can become ends in themselves, disconnected from national development plans and broader development strategies
- Formal compliance with rules – no matter how perfect the procedural design – cannot guarantee improved fiscal outcomes when growth is weak or institutional conditions deteriorate
- A developmental perspective is crucial, given that fiscal discipline and development are not mutually exclusive, but finding the right balance is challenging and essential
- International experience shows that overly strict rules can slow recovery, increase inequality, and weaken service delivery, which is why several countries are moving away from them

Parliament's role and capacity

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- The NT discussion document acknowledges Parliament's role in anchoring fiscal sustainability, under which the legislature would approve the fiscal strategy
- However, it does not address the practical challenges of democratic oversight in this process. One challenge is Parliament's capacity and resources
- Effective oversight of complex fiscal rules requires in-depth budget analysis, forecasting expertise, and continuous monitoring. These are capacities that the South African Parliament (and many others worldwide) often struggle with
- If Parliament lacks the technical means to critically evaluate the government's compliance with an anchor, there is a risk that oversight becomes a rubber stamp, undermining the very accountability the rule is supposed to enhance
- The PBO cautions about the broader risk of elite capture of the fiscal policy space, meaning that if only a small circle of technocrats and market actors understand or influence the anchor, fiscal policy could drift away from democratic preferences
- Fully involving Parliament means ensuring that members have the information and expertise to debate fiscal targets and question the executive's fiscal performance. International best practice often pairs fiscal rules with independent fiscal watchdogs
- The PBO and the Financial and Fiscal Commission (FFC) can provide analytical support, but they would also need significant bolstering to meet the demands of a rules-based regime

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The 2026 Adjusted National Budget:

- Summary of the 2026/27 Adjustments
- The main adjustments in 2026/27

Summary of adjustments for 2026/27

Adjustments to vote appropriations amount to an increase of R10.62 billion, of which

- Expenditure announced in the 2026 Annual budget R3 548.65 million
- Unforeseeable and unavoidable expenditure R6 203.34 million
- Rollovers R1 905.87 million
- Self-financing expenditure R4 296.94 million
- Declared unspent funds (in 2025 -R 8 713.625 million) (R6 118.77 million)
- Expenditure of an exceptional nature R786.76 million

Adjustments to estimates of direct charges against the National Revenue Fund amount to R16.873 448 billion, more than anticipated at the time of the main budget, of which:

- Members' remuneration R32.51 million
- Debt-service costs (in 2025 Adjustment -R 4 816.962 million) R9 029.24 million
- Provincial equitable share (Early Retirement) R6 380.17 million
- National Revenue Fund payments R1 383.86 million
- Public sector-related pension, post-retirement medical and other benefits in terms of statutory and collective agreement obligations R245.64 million
- Skills levy and SETAs (less than anticipated) (R286.79 million)
- Judges' salaries R88.83 million

In-year adjustments to the main budget non-interest expenditure

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R million	Appropriation (ENE) 2026 Budget	Adjustments appropriation (AENE)	Revised
Allocated non-interest expenditure	**1 944 474**	**23 670**	**1 968 144**
Provisional allocations not appropriated	1 322	18 678	20 000
Contingency reserve	5 008	4 992	10 000
Upward adjustments		**31 486**	
Rollovers		1 906	
Expenditure announced during the 2026 Budget		3 549	
Unforeseeable and unavoidable expenditure		6 203	
Reconstruction and rehabilitation of damaged municipal and provincial infrastructure		4 397	
Mass deportation and repatriation of undocumented foreign nationals		305	
Infrastructure rehabilitation of storm- and fire-damaged court infrastructure		44	
Reconstruction and rehabilitation of flood-damaged road infrastructure		1 457	
Expenditure of an exceptional nature1		787	
Self-financing expenditure		4 297	
Special appropriation (Parliament, Home Affairs for BM, NT for SARS and Defence for Health care services)		6 901	
Direct charges against the National Revenue Fund		7 844	
Members' remuneration (Parliament)		33	
Judges' salaries		89	
Early retirement: Provincial equitable share		6 380	
Public-sector-related pension, post-retirement medical and other benefits		246	
Technical adjustments: Skills development levy and NRF payments		1 097	
Downward adjustments		**-9 686**	
National government projected underspending		-2 067	
Local government repayment to the National Revenue Fund		-1 500	
Declared unspent funds		-6 119	
Main budget non-interest expenditure	**1 950 804**	**45 470**	**1 996 274**

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Contingent Liabilities and Infrastructure Delivery Issues

- Contingent liabilities and SOEs
- Infrastructure Delivery and Project Pipelines
- Municipal Finance Stress and Structural Local Government Reforms
- Water Infrastructure Crisis and Institutional Deficits

Contingent liabilities and SOEs exposure

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- The government guarantee portfolio declined from R982.4 billion in March 2026 to R960.6 billion in June 2026
- Eskom utilised guarantees declined by R43.4 billion following transfers under the debt relief arrangement and settlement of a R38 billion bond, which reflects support already provided rather than a net reduction in overall state exposure
- Transnet remains a material medium-term fiscal exposure where the government granted R145.8 billion in guarantees in 2025/26 under the previous MTBPS, while high debt service costs and ageing infrastructure continue to pose risks
- Land Bank received a R10 billion guarantee to meet debt falling due in March 2028, up to R2.2 billion was made available to repay Ithala depositors following solvency problems, and Denel holds approximately R889 million in guarantees
- South African Airways received a R1 billion working capital guarantee in August 2026 following fuel price pressures, SANRAL remains dependent on state transfers, and Road Accident Fund liabilities are projected to rise to R422.6 billion by 2027/28
- Provincial medico legal claims against health departments declined from a peak of approximately R110 billion in 2019/20 to R50.6 billion in 2025/26, but remain a material pressure on health budgets
- SRD grant legal challenges could escalate required annual funding from R36 billion to R74 billion

Infrastructure delivery and project pipelines

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- IFISA is supporting projects with potential investment value exceeding R217 billion, fiscal support approved through the BFI exceeds R100 billion, and the infrastructure bond has raised over R14 billion
- Real gross fixed capital formation declined by 3.9 per cent in 2024 after increasing by 3.0 per cent in 2023, and fixed investment fell from 14.8 per cent of GDP in 2023 to 14.2 per cent in 2024, remaining well below the National Development Plan target of 30 per cent
- The infrastructure grant review found that R887 billion was transferred to provinces and municipalities through conditional grants between 2017/18 and 2023/24, yet projects are frequently delayed or incomplete
- Infrastructure weaknesses constrain economic growth by raising logistics and production costs, while public investment is unlikely to crowd in sustained private investment unless assets are maintained effectively Partnerships
- Public-private partnerships may help mobilise capital and technical expertise, but project pipelines do not represent completed investment without sound contract design and procurement transparency

Municipal finance stress and structural local government reforms

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- Consumer debt owed to municipalities rose by 13.3 per cent from R427.7 billion in June 2025 to R484.5 billion in June 2026, while outstanding municipal creditor debt increased by 18.6 per cent from R156.1 billion to R185.2 billion
- Municipalities collected an average of only 63.9 per cent of billed revenue, and of the R185.2 billion owed to creditors, R99.9 billion related directly to unpaid bulk electricity bills
- Government is adding R21.8 billion to the local government equitable share over the medium term and R3.5 billion for smart meter rollouts to support service provision and revenue collection
- The Revised White Paper on Local Government proposes a differentiated system aligning municipal powers with actual capability, allowing responsibilities to be assigned regionally where councils cannot perform effectively
- NT published MFMA amendments requiring funded budgets, a role in CFO appointments, and personal liability for wasteful expenditure
- The revised local government fiscal framework is expected by end-2026

Water infrastructure crisis and institutional deficits

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- The 2025 Green Drop Progress Report found that 47 per cent of wastewater systems were in a critical state compared to 39 per cent in 2022, while systems rated excellent or good declined from 14 per cent to 8 per cent
- Non-revenue water stood at 47.3 per cent nationally, meaning nearly half of treated water is lost through leaks or supplied without being billed
- The Auditor-General reported that for the Water Trading Entity (WTE), 22 per cent of available water sector funding was unspent and 65 per cent of assets under construction were significantly delayed, representing a carrying value of R7.1 billion
- Unreliable water supply and failing wastewater treatment affect households, businesses, and farms, while increasing production costs and threatening public health
- The National Water Action Plan prioritises improved operational performance, governance, technical capacity, water loss reduction, and revenue collection across all water service providers
- The water crisis requires a turnaround strategy built around measurable service outcomes, clear responsibility, and regular transparent reporting
- Oversight must track water interruptions, quality compliance, non-revenue water, wastewater performance, and asset completion milestones

The Revised Division of Revenue

- The Division of Revenue Framework
- Provincial Equitable Share

Division of Revenue Framework

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R billion	2025/26	2026/27 Budget	2026/27 Revised	2027/28 Medium-term estimates	2028/29 Medium-term estimates	2029/30 Medium-term estimates
Division of available funds						
National departments	**946.5**	**951.7**	**968.2**	**940.8**	**989.2**	**998.7**
of which:						
Provincial indirect grants	*3.8*	*3.0*	*3.2*	*3.0*	*3.0*	*2.4*
Local indirect grants	*7.7*	*7.5*	*7.5*	*9.4*	*9.6*	*9.9*
Provinces	**788.8**	**810.5**	**817.6**	**850.5**	**879.2**	**907.5**
Equitable share	649.3	670.3	676.7	707.1	731.5	753.1
Conditional grants	139.4	140.2	140.9	143.4	147.8	154.4
Local government	**178.5**	**182.3**	**184.1**	**201.1**	**207.8**	**209.8**
Equitable share	104.4	110.1	110.1	121.3	125.3	129.4
General fuel levy sharing with metropolitan municipalities	16.8	54.7	17.5	22.0	23.2	24.5
Conditional grants	57.2	17.5	56.5	57.9	59.3	55.9
Provisional allocations not appropriated[1]	–	1.3	20.0	35.3	35.3	57.4
Projected underspending	–		-3.6	–	–	–
Non-interest allocations	**1 913.8**	**1 945.8**	**1 986.3**	**2 027.8**	**2 111.6**	**2 173.3**
Debt-service costs	417.9	432.4	441.5	462.5	480.6	509.3
Contingency reserve	–	5.0	10.0	25.1	17.0	26.1
Main budget expenditure	**2 331.7**	**2 383.3**	**2 437.8**	**2 515.3**	**2 609.1**	**2 708.7**
Percentage shares						
Debt-service costs	17.9%	18.1%	18.1%	18.4%	18.4%	18.8%
National departments	49.5%	48.9%	49.1%	47.2%	47.6%	47.2%
Provinces	41.2%	41.7%	41.5%	42.7%	42.3%	42.9%
Local government	9.3%	9.4%	9.3%	10.1%	10.0%	9.9%

- Provisional allocations not appropriated of R20 billion remains available for infrastructure projects in 2026/27 and 2029/30 and COVID-19 social relief of distress grant over the MTEF
- Contingencies are increased to R30 billion, of which:
  - R20 billion is for provisional allocations for critical infrastructure projects through the budget facility for infrastructure
  - R10 billion for environmental disaster response and other emergencies
- Amounts in the contingencies will be allocated, if necessary, before the end of 2026/27

Provincial Equitable Share (PES)

- The PES increase by R6.38 billion has been allocated to fund the early retirement and voluntary exit programmes in provinces
- The revised annual average increase for the PES amounts to 3.6 per cent over the 2026 MTEF, which was estimated to increase by 3.5 per cent in the 2026 Budget

R million	MTEF 2026/27	Revised' 2026/27	2027/28	2028/29	2029/30	Annual Average Growth
Eastern Cape	86 599	88 227	90 281	92 994	95 406	2.6%
Free State	36 761	37 973	38 637	39 949	41 089	2.7%
Gauteng	140 952	141 782	149 904	154 159	157 911	3.7%
KwaZulu-Natal	136 378	137 067	143 455	148 683	153 207	3.8%
Limpopo	78 951	79 957	83 297	86 473	89 321	3.8%
Mpumalanga	56 019	56 120	59 423	61 828	64 018	4.5%
Northern Cape	18 242	18 369	19 422	20 135	20 774	4.2%
North West	46 867	47 240	48 973	50 711	52 257	3.4%
Western Cape	69 553	69 967	73 730	76 562	79 074	4.2%
Total	**670 323**	**676 703**	**707 122**	**731 494**	**753 057**	**3.6%**

Source: National Treasury

Conclusion

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- The PBO's monitoring briefs support Parliament's oversight by identifying spending inefficiencies, assessing implementation progress and examining whether budget allocations advance government priorities and improve service delivery
- While Operation Vulindlela reforms offer potential growth benefits, these depend on accelerated implementation and the removal of institutional and regulatory constraints
- The 2026 MTBPS projections, reflects slow progress towards the MTDP's 3 per cent GDP growth target for 2029. Persistent unemployment, poverty and inequality continue to constrain inclusive growth
- Planned fiscal savings through efficiency interventions must be distinguished from realised savings, while expenditure growth below inflation and population growth raises concerns about the sustainability of public services over the MTEF
- Parliamentary oversight should focus on aligning budgets with the MTDP, monitoring actual savings and expenditure outcomes with performance outcomes, strengthening reporting on fiscal risks and contingent liabilities, and monitoring infrastructure delivery, maintenance and functionality

Conclusion

- Clear turnaround plans, measurable service-delivery targets and regular reporting are particularly important for water infrastructure and other critical infrastructure projects and reforms
- The 2026 MTBPS claims that improvement in risk premiums on government debt signals resilience but negative per capita growth and crisis level unemployment is not resilience
- Building a sustainable growth path requires investing in resilience to multiple serious risks and crises – the cost of not increasing government expenditure on basic services and social security seems likely to be very large in the medium-term
- The PBO's projections show that the 2026 MTBPS proposals fall short of delivering the scale of growth required to meet the MTDP's above 3 per cent GDP growth target by 2029
- The MTBPS does not explain how budget adjustments support the MTDP 2024–2029, the implementation bridge to the NDP Vision 2030

Thank you

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Additional slides

Operation Vulindlela: Reform Progress and the Growth Outlook

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PRIORITY REFORM AREA	PROGRESS AND OUTSTANDING CHALLENGES
Electricity reform	• Internal trading on the South African Wholesale Electricity Market (SAWEM) launched with 32 participants. • Approximately 32 GW of renewable energy projects are in the grid connection process. • The Eskom Restructuring Task Team completed the first phase of its work towards an independent Transmission System Operator. Electricity distribution is behind schedule. The transition to an independent Transmission System Operator and the launch of external electricity-market trading still require further implementation.
Freight logistics Systems	• Rail access agreements concluded with 11 train operating companies. These operators could add 24 million tonnes to rail freight volumes over the medium term. • PRASA recovered 35 of 40 priority rail corridors; passenger journeys rose from approximately 17 million to 101 million between 2021/22 and 2025/26. • The draft National Rail Bill is being finalized, while private-sector participation projects for ports and rail have advanced. Rail access agreements have been concluded, but operators are preparing for operations from early 2027. Transnet restructuring, private-sector participation and the regulatory framework still require further implementation.
Water and Sanitation	• The National Water Action Plan was launched. • The South African National Water Resources Infrastructure Agency's Board was appointed, and the Infrastructure Finance and Implementation Support Agency was established. • A water infrastructure project pipeline of approximately R100 billion is being developed, with around R60 billion advanced into implementation. Water-sector reforms require continued institutional strengthening, regulatory changes and mobilisation of investment to address service-delivery and infrastructure challenges.

Operation Vulindlela: Reform Progress and the Growth Outlook

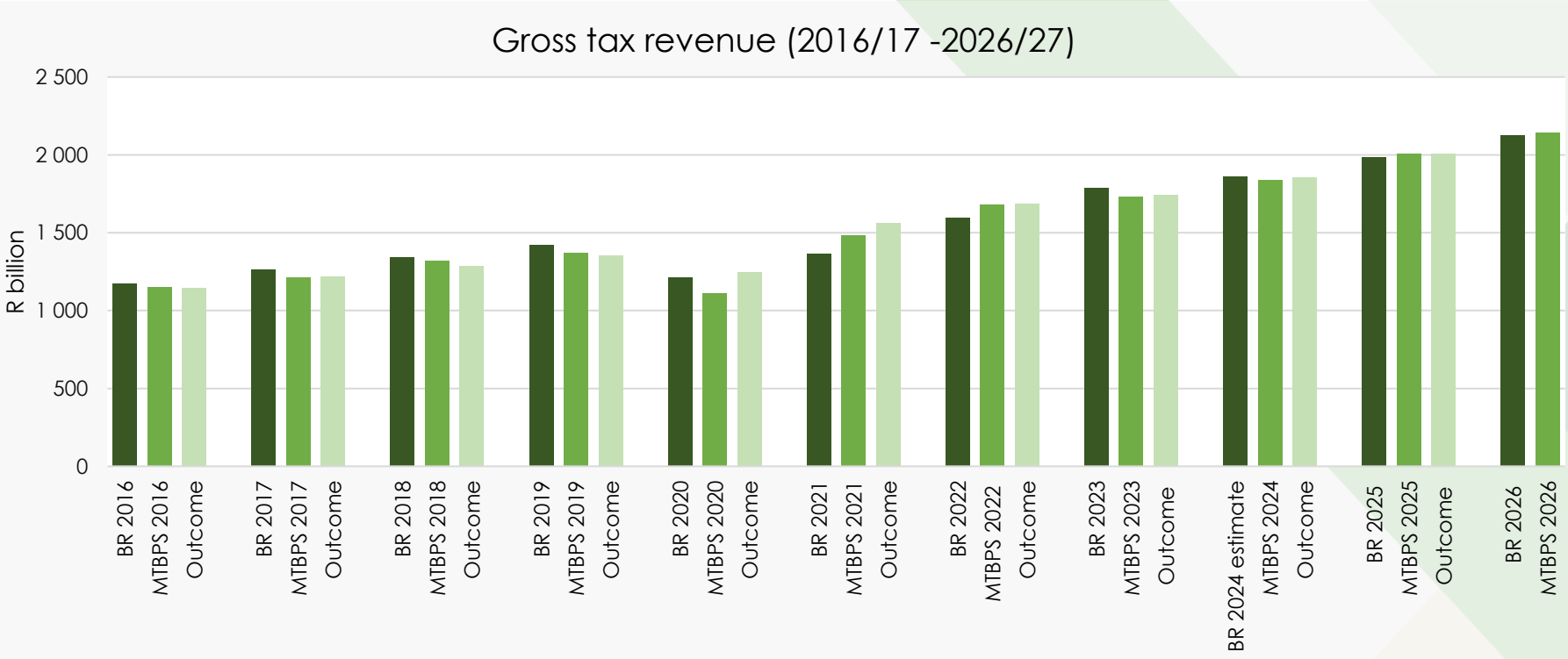
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PRIORITY REFORM AREA	PROGRESS AND OUTSTANDING CHALLENGES
Visa and immigration	• The Electronic Travel Authorisation has streamlined visa processing, with applications processed within 24 hours. • Phase II of the Trusted Employer Scheme was launched, and 114 tour operators have been approved under the Trusted Tour Operator Scheme, supporting more than 77,000 tourist visas for travellers from China and India. The Electronic Travel Authorisation system is being expanded, while clearing the visa waivers and appeals backlog remains a stated next step.
Local government	• The Metro Trading Services Reform Programme is being implemented across the first cohort of seven metropolitan municipalities. • The updated White Paper on Local Government was released for public comment, while the Municipal Finance Management Act Amendment Bill and local government fiscal framework review are progressing. Municipal governance, financial sustainability and service delivery remain key challenges. The local government fiscal framework and legislative reforms are still under development.
Spatial integration and Housing	• Work is underway to pilot demand-side and capital subsidies for affordable housing. • Public land and buildings are being identified for housing development, and interventions to address the title deeds backlog are being developed. PRASA has recovered 35 of 40 priority rail corridors, with passenger journeys reaching 101 million in 2025/26. Progress on affordable-housing subsidies and clearing the title deeds backlog has been slower than expected, partly due to overlapping responsibilities across national, provincial and local government and capacity constraints.
Digital Public Infrastructure Reform	• Development of the MyMzansi pilot, digital identity system, MzansiXchange data exchange and government digital payments is progressing. • The digital matric certificate advanced towards pilot implementation, while 203,887 Smart ID and passport applications were processed across 171 participating bank branches. Several initiatives remain in development or pilot stages, including MyMzansi, digital identity and data exchange. The report notes that further integration and testing are still required.

Gross tax revenue adjustment trends

- Since 2012, gross tax revenue has been adjusted downwards in the MTBPS, with the exception of the 2021, 2022 , 2025 and now the 2026 MTBPS'
- In nominal terms, tax revenue has grown by approximately 54.8 per cent since 2016/17. These figures are in nominal rand and are not adjusted for inflation. South Africa's CPI has roughly increased by 47.8 per cent over the same period, so in real terms the increase is far more modest



Source: National Treasury data compiled by the PBO