



Budget 2026/27 Highlights 25 February 2026

Restoring confidence,
maintaining optimism,
together.

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Restoring confidence and driving growth

South Africa's 2026/27 Budget crucial to economic recovery



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South Africa is entering the 2026 National Budget season at a pivotal time, filled with challenges, yet rife with opportunities to renew economic optimism. In his budget speech on 25 February, Minister of Finance Enoch Godongwana presented a comprehensive fiscal strategy that fosters optimism due to its decisive measures aimed at strengthening the country's financial position and promoting sustainable economic growth.

The economy has shown resilience, with the government fulfilling its commitment to focus on fiscal discipline and structural reforms to lift growth. Notably, the proposed R20 billion tax increase, announced in the 2025 budget, will be withdrawn due to higher-than-expected tax revenue and progress toward key fiscal targets. This decision enables fiscal consolidation without imposing additional burdens on taxpayers or obstructing the economic recovery.

Improved economic outlook and growth prospects

South Africa's economic recovery is slowly gaining momentum. The economy is now projected to grow by 1.4% in 2025, an improvement from the 1.2% estimated in the 2025 Medium-Term Budget Policy Statement (MTBPS). Looking ahead, the economic outlook has been moderately enhanced, with growth expected to reach 1.6% in 2026 and real GDP growth forecast to reach 2% by 2028. This growth is supported by ongoing structural reforms, rising business and investor confidence, lower interest rates, and increased investment. Additionally, inflation expectations are decreasing and aligning more closely with the 3% target.

Despite some positive trends, several challenges remain. Logistical bottlenecks, declining public infrastructure, and the recent outbreak of foot-and-mouth disease continue to hinder economic activity and pose risks to the overall outlook. Additionally, growth is still below the levels needed to significantly reduce unemployment and generate enough revenue to expand social and economic services.

Balancing consolidation, debt reduction, and service delivery

Fiscal policy seeks to carefully balance the need to reduce the budget deficit and lower debt while also fulfilling the responsibility to protect public services and support the economy. The consolidated budget deficit is expected to decrease over the medium-term expenditure framework (MTEF) period, falling from 4.5% of GDP in 2025/26 to 3.1% in 2028/29. For the first time since the global financial crisis of 2008, the gross debt-to-GDP ratio is stabilising, with national government debt projected to hold steady at 78.9% of GDP in 2025/26. This stabilisation is partly due to lower inflation and, as a result, weaker nominal GDP growth. Improved confidence in South Africa's fiscal outlook has led to a sovereign ratings upgrade and lower borrowing costs, which provide additional fiscal space. Debt-service costs are also expected to reach their highest point in the current financial year and decrease in future years.

Tax system: Efficiency, fairness, and targeted relief

The government is committed to maintaining a tax system that is efficient, fair, and simple. Gross tax revenue for 2025/26 has been revised upwards by R21.3 billion compared to the 2025 Budget. This is due to increased value-added tax (VAT), corporate income tax and dividend tax collections.

Despite challenging economic conditions, South Africa's tax system has performed well, with the tax-to-GDP ratio increasing to 25.9% in 2025/26 from 25.1% in 2024/25. For the first time since the 2023/24 financial year, personal income tax brackets and medical tax credits will be fully adjusted for inflation. This means that, if taxpayers receive an inflation-linked salary increase, they will not fall into a higher income tax bracket (known as bracket creep).

The compulsory VAT registration threshold has been increased from R1 million to R2.3 million, providing small businesses some relief from the administration burden of VAT compliance.

Illicit trade remains a large concern for the South African fiscus and endangers the growth and stability of the economy. Having a robust and modernised tax system is essential to combat this challenge. We would have liked the minister to expound further and provide more detail on the plans to curb illicit trade.

When looking at increasing tax revenues, we also would have expected more comment in the budget speech on the implementation of an electronic invoicing system to prevent fraudulent VAT claims, under declaration of VAT to expand the VAT tax base. The South African Revenue Service was planning to implement this system by 2028, but progress on the details of what would be implemented is taking longer than expected. Given the success in other countries across the continent, it is essential that this system is introduced as soon as possible.

Structural reforms and strengthening state capability

The government continues to implement structural reforms and enhance state capability through the joint strategic initiative between the Presidency and National Treasury termed Operation Vulindlela. Now in its second phase, this initiative is focused on unlocking economic growth by accelerating reforms in key sectors. Significant progress has been made in the electricity sector, with regulatory approvals and institutional developments advancing the transition to a competitive electricity market. Transnet has maintained improved operational performance, reflected in higher rail volumes and ongoing fleet renewal. A major milestone was achieved with the signing of the long-term concession agreement for Durban Container Terminal Pier 2, unlocking investment in port capacity and technology.

The National Water Resources Infrastructure Agency is expected to begin operations in 2026, supporting increased maintenance and investment in water infrastructure. To strengthen state capacity, the government has allocated performance-based grants to seven qualifying municipalities under the Metro Trading Services Reform, aimed at improving management accountability, financial transparency, cash flows, and infrastructure maintenance. These structural reforms are critical for stabilising operations in the electricity and logistics sectors, which are essential for reversing economic decline.

Infrastructure investment and public-private partnerships

South Africa's infrastructure deficit continues to limit productivity and increase the cost of doing business, particularly through transport bottlenecks, water insecurity, and uneven municipal service delivery. High levels of investment in public infrastructure are fundamental to long-term economic growth,

improved service delivery, job creation, and climate resilience. As announced in the 2025 MTBPS, the government is managing risks by increasing spending in 2025/26 for strategic public infrastructure projects.

In 2025, the government issued its first sovereign infrastructure and development finance bond, raising R11.8 billion at favourable rates, reflecting strong market interest in financing public investment projects. These funds will be ring-fenced for strategic capital projects, based on a rigorous assessment process by the Budget Facility for Infrastructure.

There are currently 63 public-private partnership (PPP) projects at various stages of development: 17 in inception, 32 in feasibility, and 14 in procurement. Among the most advanced is the six border posts project, which will ease congestion, boost regional trade flows, and upgrade key inland border posts. PPPs provide a viable alternative for public entities to undertake projects, even in a fiscally constrained environment.

The operationalisation of the Infrastructure Finance and Implementation Support Agency (IFISA) on 1 April 2026 will be a key enabler in further growing the PPP project pipeline.

In recognition of the importance of data and artificial intelligence in the economic development of South Africa, the government is exploring options to bolster investment in data infrastructure. This will be critical in accelerating the country's digital transformation.

Debt sustainability and fiscal resilience

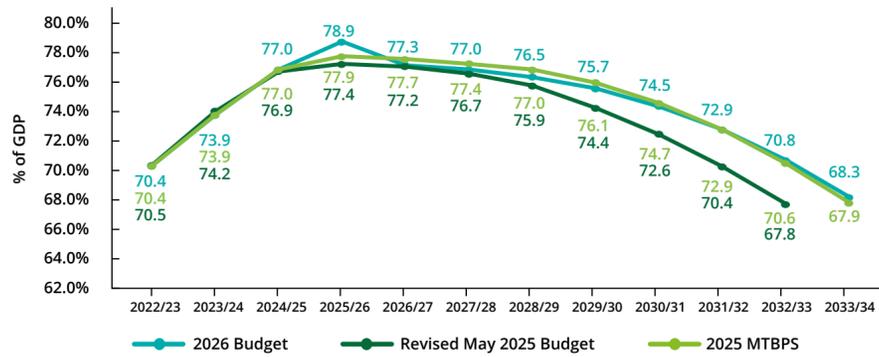
National Treasury has developed a debt sustainability model to assess risks to the baseline fiscal framework. While it is not possible to provide precise assessments of future outcomes, this tool offers risk-adjusted projections under different scenarios, supporting sound fiscal decision-making. The model is not used to determine fiscal policy, but rather to indicate the likely trajectory of debt under various growth scenarios and the fiscal effort required to maintain sustainability. Under current economic conditions, the model suggests that the government's approach is sufficient to keep debt on a declining path and to build buffers against shocks, implying that even significant shocks would not derail the path to debt stabilisation.

Looking ahead: sustaining momentum for a resilient and equitable future

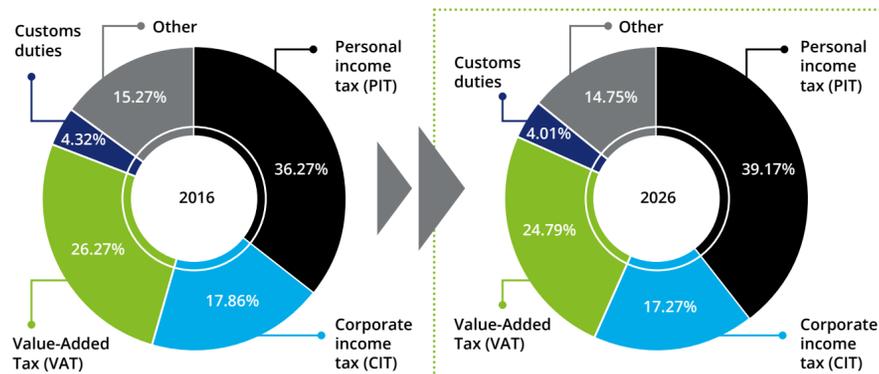
As Deloitte's subject matter specialists projected, the 2026 budget will play a crucial role in South Africa's economic recovery, focusing on fiscal sustainability, structural reforms, financial stability, and controlling inflation. This perspective was echoed by President Cyril Ramaphosa in his State of the Nation Address, where he emphasised that the nation is in a stronger position than it was a year ago, with economic growth showing promising signs of momentum. By building on this positive foundation, South Africa has the opportunity to foster a more resilient and equitable society, enhancing its position on the global stage. Having made significant progress, it is now essential to sustain this upward trend and further accelerate the country's development efforts.

2026/27 Budget Infographic Data

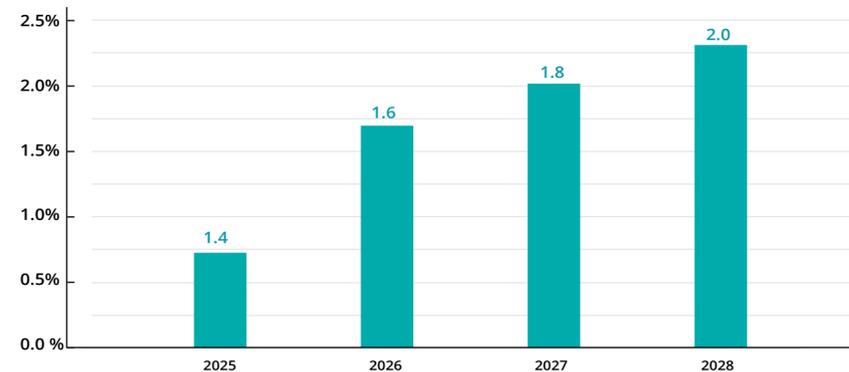
Gross debt-to-GDP outlook



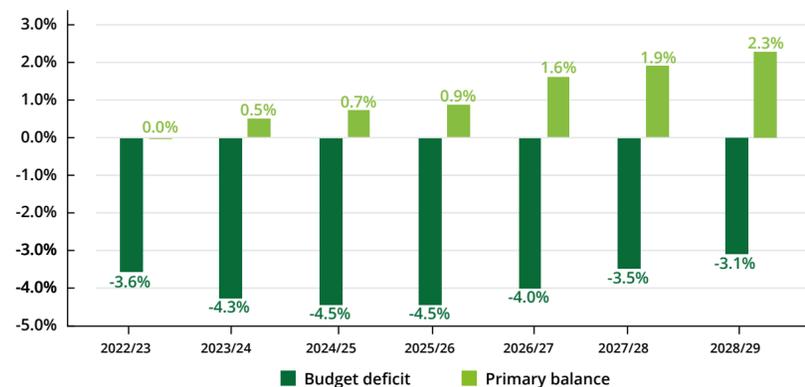
Sources of tax revenue



Real GDP growth outlook



Budget deficit and primary balance outlook – percentage of GDP



2026/27 Key Budget Insights

- Real GDP growth is projected at 1.6% for 2026, with growth averaging 1.8% to 2028 over the next 3 years. The improved outlook is supported by structural reforms, lower interest rates, and higher investment, though downside risks persist.
- Debt is expected to peak slightly higher at 78.9% of GDP in 2025/26, reducing to 76.5% by 2028/29. A principles-based fiscal anchor will be announced at the 2026 MTBPS to reinforce fiscal credibility.
- The consolidated budget deficit narrows to 4.5% of GDP in 2025/26 (from 4.8% in the 2025 Budget), 4% in 2026/27, and 3.1% by 2028/29. The main budget primary surplus reaches 0.9% in 2025/26.
- Removal from the FATF grey list and the first credit rating upgrade in 16 years have lowered borrowing costs, though debt service cost remains high and constrains other spending.
- Structural reforms will continue to address economic needs and reduce blockages, with ongoing progress in energy, logistics, local government, and spatial housing.
- Gross tax revenue for 2025/26 is revised up by R21.3 billion, enabling withdrawal of the provisional R20 billion tax increase in the 2025 Budget.
- Personal income tax brackets and rebates will be fully adjusted for inflation. The tax-free annual investment limit rises to R46 000, and the retirement fund deduction limit to R430 000.
- The compulsory VAT registration threshold for small businesses increases to R2.3 million, easing administrative burdens. The capital gains tax exemption for small business sales by older persons rises to R2.7 million, with the qualifying business value threshold at R15 million.
- Excise duties on tobacco, alcohol, and fuel will rise with inflation. SARS is intensifying efforts to combat illicit trade, particularly in tobacco.
- Total government spending for 2026/27 is R2.67 trillion, with over 60% of non-interest spending allocated to the social wage over the medium term. Basic education, health, and social protection comprise 70.3% of this.
- Social grants allocation is R292.8 billion for 2026/27, with increases across all major grants. The Social Relief of Distress grant continues in its current form.
- Increased funding is allocated to defence, police, and border management to combat illegal mining and organised crime, with additional allocations to the judiciary and specialised courts.
- R12 billion in savings have been identified under Targeted and Responsible Savings over the medium term.
- Public sector infrastructure spending will exceed R1 trillion over the medium term, mainly for transport and logistics. The Credit Guarantee Vehicle will support major transmission infrastructure investments.
- Streamlined PPP regulations are being implemented to encourage private sector participation, with 63 projects in the pipeline. New municipal PPP regulations will be published in June 2026.

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