



Econ3x3

www.econ3x3.org

A web forum for accessible policy-relevant research and expert commentaries on unemployment and employment, income distribution and inclusive growth in South Africa

Downloads from this web forum are for private, non-commercial use only.
Consult the *copyright and media usage guidelines* on www.econ3x3.org

March 2026

What economists see in South Africa's 2026 Budget

Abena Larbi-Odam, SA-TIED, Mathieu Dasnois, Econ3x3

Delivering the budget speech last Wednesday, Minister of Finance Enoch Godongwana said South Africa had reached a “turning point” in its finances. We asked four prominent economists for their opinion on the budget, South Africa’s prospects, and what still needs to be done. These economists are: Haroon Bhorat from the DPRU; Andrew Donaldson from SALDRU; Ada Jansen from Stellenbosch University, and Anna-Maria Oosthuizen from the University of Pretoria.

Bhorat, Jansen, Oosthuizen and Donaldson approach the budget from different angles, from tax policy to infrastructure investment and state capacity, but a common theme runs through their assessments: fiscal stabilisation represents important progress, but it does not resolve the deeper constraints holding back economic growth.

They agree that the fiscal outlook has improved in important ways. The projected stabilisation of public debt marks a meaningful change after years of rising borrowing. Financial conditions have also become more favourable, with lower bond yields and more stable inflation expectations easing pressure on debt-service costs.

At the same time, they note that economic growth remains modest, unemployment remains high, and investment levels are still below those required to support a sustained expansion. In this environment, fiscal consolidation will be gradual.

“Stabilising the gross debt-to-GDP ratio at 78.9% is the central fiscal achievement”, as Oosthuizen put it.

“In the Treasury’s debt and financial projections, there is a clear turnaround,” says Donaldson. “Debt has peaked at just under 80% of GDP, and for the first time in more than a decade, interest on debt is projected to increase more slowly than spending on education or health.”

Part of this success stems from the higher-than-expected revenue collection by SARS. The overrun bodes well for confidence in SARS, says Donaldson, it takes the pressure off the fiscal system, and has allowed the government to forgo the planned R20-billion revenue-raising measures.

But the increased tax revenue is partly the result of higher commodity prices, a strong rand and increased spending, notes Jansen, and there is no guarantee that this will continue.

Growth

The elephant in the room is the low growth rate. Treasury's own projections are modest: around 1.6% this year, 1.8% next year, reaching only 2% in 2028. According to Jansen: "For sustained growth in tax revenues, and less reliance on borrowing, the economy must grow at a much faster pace than the predictions published to ensure the broadening of the economic tax base."

Growth is traditionally the bridge that allows countries to spend a little bit more without increasing debt to unsustainable levels; in other words, growth allows the government to maintain fiscal discipline without austerity measures. With low growth, it is hard to increase revenue without imposing heavy taxes, and there is a limit to how much expenditure can be cut without reducing service delivery or provoking a political battle, for instance over the public service wage bill.

Taxes

For Bhorat, the budget "is probably the most comprehensive tax reform package we've seen in at least a decade and possibly since democracy."

The Minister announced adjustments to personal income tax brackets to limit bracket creep, higher thresholds for small business VAT registration, and changes to retirement savings limits. Many of these thresholds have not been updated for years or decades.

Description (R)	Last amended	Current monetary amount	Proposed monetary amount
Small businesses			
Value-added tax (VAT) compulsory registration threshold	2009	1 000 000	2 300 000
Annual turnover limit for the turnover tax	2009	1 000 000	2 300 000
Voluntary VAT registration threshold	2009	50 000	120 000
Capital gains tax (CGT)			
CGT exclusion for small business asset disposal	2012	10 000 000	15 000 000
Exclusion amount on disposal of small business when person over 55 years	2012	1 800 000	2 700 000
Exclusion at death	2012	300 000	440 000
Exclusion in respect of disposal of primary residence	2012	2 000 000	3 000 000
Annual exclusion	2017	40 000	50 000
Savings and retirement			
Tax-free investments: annual limit	2021	36 000	46 000
Retirement fund contribution deduction limit	2016	350 000	430 000
Retirement interest de minimis threshold for annuitisation	2016	247 500	360 000
Living annuity commutation	2020	125 000	150 000
Donations tax			
Exemption for donations made by entities	2002	10 000	20 000
Exemption for donations made by individuals	2007	100 000	150 000
Tax-exempt employment benefits			
Bursaries / Scholarships: annual remuneration ceiling for all employees including persons with disabilities (PwD) ¹	2017	600 000	900 000
Bursaries / Scholarships: annual ceiling for employee relatives' primary / secondary education (PwD)	2017	20 000 (30 000)	30 000 (45 000)
Bursaries / Scholarships: annual ceiling for employee relatives' tertiary education (PwD)	2017	60 000 (90 000)	90 000 (130 000)
Remuneration proxy (cap): employee loans for immovable property	2018	250 000	360 000
Market value of property: employee loans for immovable property	2018	450 000	650 000
Maximum compensation exemption for employees dying in fulfilment of duties	2007	300 000	800 000
Awards for bravery and long service	2003	5 000	16 000

1. Thresholds in brackets are for persons with disabilities (PwD)

Source: National Treasury

Whether these measures will lead to higher growth remains to be seen. Both Borat and Jansen point out that higher tax-deductible pension contributions will matter only to those who can afford to put away more than R350 000 per year in their pension. Whether these additional savings are put to productive use will also depend on asset allocation, for instance how much of the additional savings are invested in South African bonds and businesses.

The VAT registration threshold increases and other relief measures for small businesses should have a meaningful effect, according to Borat.

For businesses earning between R1 million and R2.3 million, the changes in the VAT threshold amount to potential savings of up to R345 000, including reduced compliance costs. This could mean another employee, a new printer, new equipment, he says.

But the budget will not help those very small, survivalist enterprises that do not reach the current VAT threshold of R1 million, crucial as they are for South Africa's employment, such as micro- and informal businesses. The tax relief measures can reach only those who are part of the tax system. Help for very small businesses must come from local government support and deregulation rather than from Treasury, according to Bhorat.

In terms of redistribution, social grants are increasing, but only in line with inflation. However, Bhorat highlights the redistributive potential of unclaimed pensions, life assurance, and other benefits. The minister's announcement of a "central administrator" to examine unclaimed benefits is a step in the right direction. Bhorat points out that at an estimated R88 billion, "this is a massive instrument of redistribution that's right there on our doorstep".

Infrastructure

Alongside tax reform, the second pathway to growth in the budget is an increased focus on infrastructure and reforms in key sectors such as electricity and logistics as important drivers of economic growth.

Oosthuizen highlights the importance of fiscal stability in supporting investment in the electricity sector. Stabilizing public debt helps lower borrowing costs.

Institutional developments in the energy sector also signal a shift toward a more decentralised electricity market. The establishment of the National Transmission Company of South Africa (NCTSA) as a market operator forms part of a broader transition in which private capital is expected to play a larger role in generation and grid expansion.

"Fiscal reliability lowers the sovereign risk premium, reducing borrowing costs for capital-intensive renewable energy," says Oosthuizen. "Simultaneously, the energy sector is shifting toward execution as the NCTSA receives its market operator licence. This creates a self-reinforcing cycle: fiscal stability attracts private green capital, while reliable power sustains the growth needed for debt sustainability."

"The state is now a coordinator of a decentralised energy economy rather than a monopolistic provider," says Oosthuizen.

Waste

However, the success of these initiatives will ultimately depend on execution.

All four economists flagged a need to move from expenditure to the returns on expenditure.

South Africa, Bhorat notes, spends amounts comparable to other middle-income countries in areas such as education, yet achieves weaker outcomes. Waste and corruption, he says, erode the impact of public expenditure. Improving efficiency and enforcing accountability would materially change the fiscal picture without necessarily cutting frontline services. "The returns to spending we're getting are still too low."

Donaldson draws attention to growing efforts to strengthen institutional oversight, particularly in provincial administrations and municipalities where governance challenges have undermined service delivery.

He points out that the budget signals a new approach of the National Treasury to dysfunctional provincial departments and municipalities.

“National government is now moving from oversight to active structural intervention...” This will include centralised control of payroll and headcounts, enforcement of financial recovery plans and stricter conditions attached to financial flows to provinces and municipalities. It also includes technological reforms, such as the “smart meters grant programme” to improve billing accuracy and address leaks and illegal electricity connections.

But deeper spending reforms may be necessary. Donaldson says the Treasury’s targeted and responsible savings (TARS) “has achieved almost nothing”. He says the budget includes R4-billion a year in identified savings, but a bolder approach is needed if money is to be shifted to more productive uses. “The goal should be R100 billion a year,” he says.

Donaldson suggests five reforms:

- Abolish district municipalities, which “serve no discernible democratic purpose”.
- Abolish the Sector Education and Training Authorities (SETAs), which are “costly and inefficient”, and abandon the levy. This would be a benefit to businesses, “allowing them to finance training as needed, not subject to one-size-fits-all rules and bureaucratic processes”
- Restructure the Road Accident Fund as a capped benefit scheme, with the balance of cover left to insurance providers.
- Refuse the expansion of the Unemployment Insurance Fund, which is planning to increase its administrative staff from 3,424 in 2024/25 to 11,424 next year, while extending its activities to include provision of skills audits, employment subsidies and enterprise support. Its reported expenditure increased from R26 billion in 2024/25 to R48.8 billion in 2025/26. “The Treasury should simply say no,” says Donaldson. “It is absurd that public health and education programmes are subject to strict spending controls while a fund administered by the Department of Employment and Labour is allowed free rein.”
- Review the Southern African Customs Union agreement: its distribution of over R78 billion to neighbouring countries next year “no longer rests on a defensible rationale from either a trade or regional development perspective”.

More broadly, he says, the Treasury’s expenditure planning and control systems should be extended to cover the 196 public entities that perform statutory functions and rely on fiscal revenue but fall outside the expenditure control limits of the budget process. “Their boards and executive staff are often paid more than senior departmental officials, their programmes are not subject to Treasury review, and, in many cases, they hold funds that should properly be controlled by the Treasury.”

Taken together, the economists' assessments suggest that the 2026 Budget represents a meaningful step toward stabilising South Africa's public finances. Debt dynamics have improved, revenue collection has strengthened, and reforms are taking place in key sectors such as energy and local government support.

"Moving toward active structural intervention in local governance and network industries signals a fundamental realignment. This is mirrored in the logistics sector, where the state is opening rail and port access to private players. Ultimately, the state is consolidating its role as a coordinator and regulator, rewiring itself to de-risk the economy and enable private capital," says Oosthuizen.

Yet stabilising the fiscal framework is only the beginning. Sustained economic improvement will depend on whether structural reforms translate into productive investment, stronger institutions, less waste, and faster growth.

Haroon Borat is a Professor of Economics and Director of the Development Policy Research Unit (DPRU) at the University of Cape Town, and holder of the DST-NRF SARChI Chair in Economic Growth, Poverty, and Inequality. Professor Borat has served as economic advisor to Presidents Thabo Mbeki and Kgalema Motlanthe, formally serving on the Presidential Economic Advisory panel.

Andrew Donaldson is an economist and research associate of the Southern Africa Labour and Development Research Unit at the University of Cape Town. He is a former head of the Budget Office and the Public Finance divisions of the South African National Treasury and served as the inaugural head of the Government Technical Advisory Centre.

Ada Jansen is Professor in Economics at Stellenbosch University, South Africa. She is also the Vice-Dean (Learning & Teaching) in the Faculty of Economic and Management Sciences at Stellenbosch University.

Anna Maria (Anneri) Oosthuizen is an economist and Research Assistant in the Southern Africa – Towards Inclusive Economic Development (SA-TIED) programme at the United Nations University World Institute for Development Economics Research (UNU-WIDER). She supports work on the Water–Energy–Food Nexus under the programme's climate change research stream.