



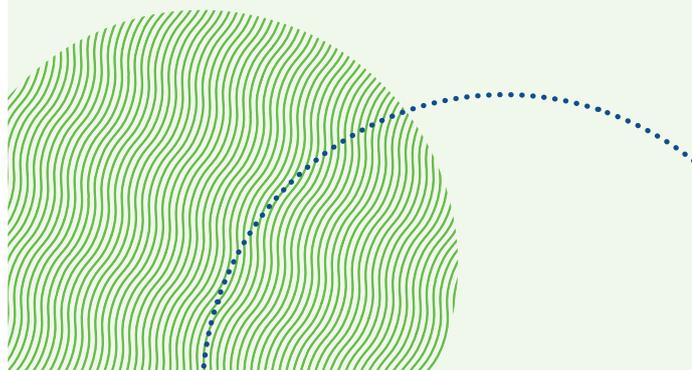
Sustainability Snapshot

The 2026 Budget through a sustainability lens

The 2026 Budget presents itself as a fiscal turning point, but from a sustainability perspective, its deeper significance lies elsewhere. The Budget makes South Africa's growth, infrastructure and social compact more durable, more financeable and more governable. Minister Godongwana paired debt stabilisation and a proposed principles-based fiscal anchor with a reform agenda centred on infrastructure, municipal utility reform, social protection and targeted support for smaller businesses.

The Budget keeps the state's redistributive role intact. It raises social grants, extends social relief of distress in its current form for another year, increases early childhood development and health allocations, lifts the compulsory VAT registration threshold from R1m to R2.3m, expands several small business tax relief measures, and pushes ahead with infrastructure enabling mechanisms such as the Credit Guarantee Vehicle and the Budget Facility for Infrastructure. In short, this is not a green budget in the narrow sense but a budget that can be read as trying to strengthen the operating conditions for a more bankable and socially defensible transition.

In this issue



Fiscal sustainability is a sustainability policy

Sustainability begins with whether the state can keep the macro-fiscal framework credible, protect vulnerable households, finance enabling infrastructure and crowd in private capital into sectors that lift productivity and resilience. Treasury's own framing reflects this logic. The Budget projects a consolidated deficit narrowing from 4.5% of GDP in 2025/26 over the medium term and gross debt stabilising at 78.9% of GDP in 2025/26 before easing thereafter. This matters because debt discipline is part of the governance architecture that determines whether the state can continue funding the social wage and infrastructure buildout without crowding itself out.

South Africa's just transition will not succeed if the state loses credibility, raises the cost of capital, or allows debt service to continue consuming the space needed for public investment and social protection.

Sustainability through infrastructure development

R1.07 Trillion

Public-sector infrastructure spending (2026 MTEF)

- Transport & logistics (largest share)
- Energy
- Water & sanitation
- Health & education



Public-sector infrastructure spending over the 2026 MTEF will reach R1.07tn, with transport and logistics taking the largest share, followed by energy, water and sanitation and social sectors such as health and education. The minister emphasised that infrastructure remains the foundation of long-term growth, improved service delivery and job creation, and that government is shifting the composition of spending towards growth-enhancing public infrastructure.

This is a transition story. In South Africa, the route to cleaner, more reliable growth runs through electricity networks, water systems, logistics corridors and municipal infrastructure that can support investment.

The Credit Guarantee Vehicle (CGV) will support "massive investment in transmission infrastructure". Transmission is the hinge between energy ambition and an investable programme. The CGV matters because it de-risks projects and helps finance the removal of constraints in the system. However, this raises immediate questions around contingent liabilities, guarantee design, governance, valuation, risk transfer and disclosure.

The sustainability value of the CGV will depend on its ability to mobilise capital in a way that keeps fiscal risks visible, governable and auditable.

The CGV will be incorporated as a private company, regulated by the Prudential Authority and operating as a standalone entity with an independent balance sheet. Its shareholders will include the South African government, through Treasury, the World Bank, multilateral development banks and private investors.

The Budget Facility for Infrastructure (BFI) deserves similar attention. The BFI is a reform to the budget process that establishes specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending. The BFI sits inside the broader financing architecture that Treasury is beginning to assemble. The 2026 Budget Review notes that the inaugural sovereign infrastructure and development finance bond, issued in December 2025, raised R11.8bn and that those proceeds are ring-

fenced for strategic capital projects assessed through the BFI. Treasury is also laying the groundwork for the Infrastructure Finance and Implementation Support Agency (IFISA), which will be housed within the Development Bank of Southern Africa. This agency will consolidate the public-private partnership and capital project appraisal functions, the Neighbourhood Development Partnership Programme and the Infrastructure Fund, and will be mandated to mobilise private finance and expertise. Platforms like the BFI are where infrastructure delivery, sustainable finance and public finance management intersect and will be crucial to the success of the water and municipal reform aspects of the Budget.

The Budget opened calls for the 2026/27 cycle for public institutions in key sectors to submit proposals with funding gaps. Priority areas include courts, correctional facilities, police stations, tertiary and healthcare facilities. This is a notable broadening of the BFI's scope beyond the energy, transport and water focus of prior cycles.

Water as core economic infrastructure

Water security is an economic productivity issue, a public health issue and a transition issue, especially where industrial expansion, mining, urban resilience and decarbonisation plans intersect. It is a consequential sustainability signal from this Budget. Public-sector infrastructure plans allocate R185.2bn to water and sanitation over the medium term, making it one of the largest infrastructure categories after transport and logistics and alongside energy as a strategic enabler of growth and resilience.

Treasury identifies water investments in bulk augmentation, ageing infrastructure rehabilitation and strategic projects that support economic nodes, agriculture and household supply. The Budget Review highlights projects such as the uMkhomazi Water Augmentation Project, backed by a R12bn BFI allocation within a R24bn capital programme, with credit-enhancement mechanisms applied to crowd in private capital. Treasury also points to other water schemes financed through blended structures and guarantee support.

Read together, these measures suggest that Treasury is not treating water as a narrow service delivery issue, but as part of the country's broader sustainability and competitiveness agenda.



Carbon pricing was the clearest transition signal

The Budget paired a below-inflation adjustment to the general fuel levy with an above-inflation adjustment to the carbon fuel levy, using the tax mix to shift a larger share of the signal onto carbon. The headline carbon tax increased from R236 to R308 per tonne of CO₂e from 1 January 2026, and it raised the carbon fuel levy to 19c/litre for petrol and 23c/litre for diesel from 1 April 2026.

The carbon tax is one of the few places where South Africa's climate ambition becomes an explicit financial signal. The country's updated Nationally Determined Contribution (NDC) commits South Africa to keeping annual greenhouse-gas emissions within 398–510 Mt CO₂-eq in 2025 and 350–420 Mt CO₂-eq in 2030. The NDC is direct about the policy instruments it requires to meet those targets, including ambitious energy sector investments, transport and efficiency measures and the carbon tax.

Seen this way, the carbon tax is a transition finance instrument. It does two jobs at once.

Firstly, it tells companies that carbon-intensive production will face a rising cost of capital and operations over time

Secondly, it tells investors, lenders and boards that South Africa is trying to align its fiscal policy with its emissions pathway

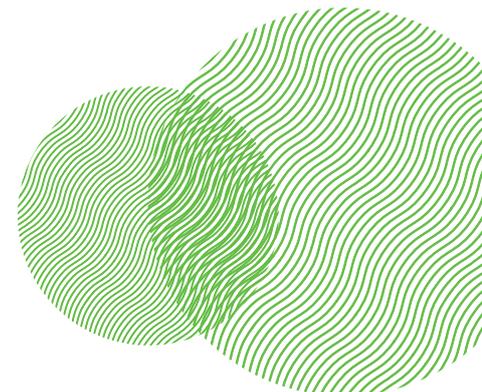
The 2026 Budget is about creating the operating conditions for a bankable transition when read through the sustainability lens. Carbon pricing is the feature that gives the transition a directional incentive. Without carbon pricing, the state would be financing enabling infrastructure while leaving the relative price of emissions untouched, but with it, infrastructure will be built, and households will be protected while the economy's price signals will be kept moving toward the direction of the NDC.

The carbon fuel levy extends the carbon price into the liquid-fuels economy, and it is visible closer to household and logistics costs. That visibility is managed carefully with the Budget, keeping the combined increase in the general fuel levy, carbon fuel levy and Road Accident Fund (RAF) levy in line with expected inflation. The Budget does not use the fuel system to impose an affordability shock at a time when food, transport, commuting and SME operating costs remain fragile. This is a development-first transition policy. The state preserves the long-run direction of travel while smoothing the near-term incidence with this choice.

However, the Budget leaves an important gap. It strengthens the carbon price architecture, but it does not provide an integrated public narrative about how carbon pricing, carbon revenues, transition support and NDC delivery fit together in one dashboard. The carbon tax clearly relates to the NDCs. The tax path to 2030 is public. The effective rates are becoming stronger. The fuel levy now carries more of the carbon signal. But the Budget still stops short of showing how these price signals connect to transmission build-out, industrial decarbonisation support, household protection and measurable emissions outcomes.

Carbon markets and offsets are the Budget's quieter, but strategically important, companion to the carbon tax. In the 2026 Budget Review's Financial Sector Update, Treasury reports that it published a consultation paper in October 2025 on developing the South African carbon credit market to modernise carbon credit infrastructure, clarifying legal and financial regulations, and stimulating investment in low-carbon projects. Treasury frames these reforms as a way to reduce administrative barriers and strengthen the role of financial institutions and regulators in building a resilient, high-integrity secondary market for carbon credits. Recommendations for amendments to the framework for carbon markets will be made in 2026. Treasury will pilot the Common Carbon Credit Data Model in South Africa's domestic carbon market in 2026 to improve comparability, interoperability and market integrity.

The carbon market is meant to make South Africa's carbon pricing regime more workable and more investable. Treasury's broader carbon tax framework treats offsets as a cost-containment and transition mechanism. A credible domestic carbon market needs better infrastructure, more policy certainty, and lower barriers to project certification and credit issuance if firms are to use offsets meaningfully and if low-carbon projects are to attract finance at scale.



Transmission reform

In the State of the Nation Address (SONA), President Ramaphosa said government is restructuring Eskom and establishing a fully independent, state-owned transmission entity that will own and control transmission assets and operate the electricity market. He reinforced that message by directing a dedicated task team under the National Energy Crisis Committee to report to him within three months on firm proposals, timelines and the phased implementation of the reform.

For some time, uncertainty persisted over whether transmission assets would remain within Eskom Holdings or sit inside a genuinely independent transmission structure. Recent Eskom and Department of Electricity and Energy materials had pointed to a model in which the National Transmission Company South Africa (NTCSA) would remain within Eskom Holdings while a separate system and market operator sat outside it. Operation Vulindlela and other reform advocates have insisted on a stronger model: a transmission entity that is operationally separate and owns the grid assets it must manage. The president's intervention now points decisively in that direction.

A transmission operator without assets would remain financially dependent on Eskom, which would weaken its balance sheet, blur accountability and limit its ability to raise capital for large-scale grid expansion. Full asset separation, by contrast, creates the basis for a neutral market operator that can contract, dispatch and expand the grid on a more transparent and financeable footing. This is a precondition for a competitive electricity market, for large-scale private generation to connect reliably, and ultimately for a bankable pathway to energy security. South Africa cannot build a credible transition on grid structure that still carries unresolved conflicts of interest.

The SONA and the Budget tell a coherent story when read together in this instance. The Budget reinforces the underlying logic for reform by prioritising transmission expansion, independent transmission projects and the CGV as tools to mobilise capital into grid infrastructure.



Social sustainability

Government spending remains strongly redistributive, with the social wage accounting for about 60% of non-interest spending over the medium term. Basic education, health and social protection constitute 70% of the social wage in 2026/27, providing support to 13.6 million school children, health services to 84% of the population, and social grants to 26.5 million beneficiaries. Social grants are allocated R292.8bn in 2026/27, with increases across major grant categories, while the social relief of distress grant continues in its current form in the year ahead. The Budget Review adds that the SRD grant receives an additional R36.4bn to extend payments until 31 March 2027 at R370 per month.

The social stance of the Budget is convincing because it is paired with a stronger emphasis on controls and verification. The sustainability of social welfare spending depends on data integrity, controls and the credibility of the systems that determine eligibility and outcomes.



of non-interest government spending goes to the social wage

Small business resilience in focus

Minister Godongwana linked tax changes for small businesses to the cost of doing business and announced a substantial increase in the compulsory VAT registration threshold from R1m to R2.3m. The voluntary VAT registration threshold rises from R50,000 to R120,000; the turnover tax limit for micro businesses rises from R1m to R2.3m; the CGT exclusion for disposal of a small business asset rises from R10m to R15m; and, for persons over 55 disposing of a small business, the exclusion amount rises from R1.8m to R2.7m.

From a sustainability perspective, these changes recognise that smaller companies often absorb compliance obligations long before they achieve real resilience. In a context where South Africa needs employment, localisation and broader participation in growth sectors, reducing that burden matters. The measures will not transform the small-business landscape on its own but will improve liquidity and survival for companies hovering around the old threshold.

What was missing?

In the SONA, President Ramaphosa tied green growth more explicitly to industrial policy. He announced a 150% tax deduction for investment in new energy vehicles, highlighted approximately R250bn in international JET pledges, and linked the transition to critical minerals, batteries and localisation. The Budget advances the enabling conditions for that vision, but it does not translate the green industrial narrative into a single, coherent fiscal package. We do not see a consolidated set of budgeted incentives, milestones and reporting metrics that would let the market track the industrial transition with the same clarity Treasury now brings to fiscal consolidation.

There is a similar tension in the carbon tax space. The Budget keeps the carbon pricing architecture alive, yet carbon pricing is clearly not the centrepiece of this budget. The Budget prioritises fiscal credibility, infrastructure execution and growth support over a more assertive climate-tax narrative. That choice can be interpreted in two ways. The charitable interpretation is that Treasury understands South Africa's bottlenecks and knows that execution, and not climate branding, is the scarce factor. The less charitable interpretation is that the Budget still lacks a robust public framework for climate budget tagging, transition metrics and transparent reporting.

Conclusion

The sustainability narrative in the 2026 Budget does not rest on a single chapter, programme or tax instrument. It takes shape in the relationship between fiscal discipline and public investment, between social protection and administrative integrity, between infrastructure ambition and credible project appraisal, between utility revenues and asset maintenance, and between SME relief and broader economic inclusion. The Budget strengthens the enabling environment for a bankable transition and a resilient social contract, even if it leaves plenty of the green industrial strategy still under specified.

A just and development-first transition cannot succeed on climate ambition alone. It must preserve fiscal credibility, crowd capital into enabling infrastructure, promote private sector business growth, protect vulnerable households, improve service-delivery resilience, and create room for smaller firms to survive and grow. Carbon pricing remains the clearest directional signal in the fiscal framework, linking the Budget to South Africa's NDC commitments and reinforcing the longer-term transition pathway.

The success of this Budget's sustainability agenda will not ultimately be judged by policy language, but by the quality of execution and the strength of the underlying financial architecture. That means the real test lies in how guarantees are structured and disclosed, whether BFI-supported projects deliver value for money, whether municipal ring-fencing reforms restore service-level financial integrity, whether social spending remains both effective and verifiable, and whether tax relief translates into real resilience and formalisation among smaller businesses. In other words, sustainability has moved into the core terrain of the profession: Measurement, governance, assurance, controls and capital allocation.