

FISCAL CONSOLIDATION AT HOME, GEOPOLITICAL RISKS ABROAD

South Africa Budget 2026/27: Fiscal Discipline Remains The Priority.

In the last week of February, Finance Minister Enoch Godongwana presented South Africa's 2026/27 Budget with a clear emphasis on fiscal discipline and debt stabilisation, signalling a continued commitment to consolidating the country's public finances.

The fiscal framework remains anchored on stabilising government debt. Based on the latest government estimates, Gross government debt is expected to peak at around 78.9% of GDP, before gradually declining over the medium term as deficits narrow and the primary budget balance remains in surplus. While debt levels remain elevated, the projected stabilisation is an important signal for investors and credit rating agencies.

Economic growth assumptions remain modest. Treasury forecasts real GDP growth of around 1.6% in 2026, with a gradual improvement thereafter bringing growth closer to the 2.0% level. Sustained improvements in growth will depend on continued structural reform and stronger private sector investment.

The Budget avoided major tax increases, supported by stronger-than-expected revenue collections in the past year. Instead, government implemented inflationary adjustments to personal income tax brackets, providing limited relief to households while maintaining revenue stability. Smaller adjustments were made to fuel levies and excise duties, while VAT and corporate tax rates remain unchanged.

On the expenditure side, the Budget prioritises moderate spending growth and improved efficiency, with a continued shift toward infrastructure investment and growth-enhancing projects. Government also reaffirmed its intention to contain the public sector wage bill and improve the quality of spending through reprioritisation initiatives.

Overall, the 2026/27 Budget reflects a measured and pragmatic approach, reinforcing the government's commitment to fiscal consolidation while attempting to support economic growth through infrastructure investment and structural reform.

POSITIVE INVESTMENT UPDATES

From an investment perspective, the recent Budget presented some important updates for local investors. Key changes to existing legislation include:

- **Tax Free Savings Accounts (TFSA's).** The annual contribution limit has been increased from R36,000 to R46,000 per annum.
- **Retirement fund deductions.** The deductions limit for all retirement funds has been increased from R350,000 to R430,000 per annum.
- **Foreign Exchange Allowance.** The single discretionary offshore allowance limit for individuals has been increased from R1million to R2million per annum. This allows couples to effectively externalise R4million per year before incurring penalties.

HIGHLIGHTS

Budget 2026/27: Fiscal Discipline Maintained

- Debt expected to peak at 78.9% of GDP
- Primary surplus remains intact
- Focus on infrastructure and spending efficiency

Key Investment & Tax Changes

- TFSA limit increased to R46,000 p.a.
- Retirement deduction limit raised to R430,000
- Offshore allowance doubled to R2m per person

CIS Tax Reform Proposed

- Potential shift to capital-based taxation
- Still under consultation
- No legislative change yet

US Tariffs Reinstated

- Supreme Court blocks initial tariffs
- New 15% universal tariff imposed
- 150-day window for alternative measures

Middle East Tensions Escalate

- US & Israel strike Iran
- Oil up ~10%; gas up ~25%
- Markets volatile, but fundamentals remain key.



POSITIVE INVESTMENT UPDATES - *continued*

- **Proposed tax changes for Collective Investment Schemes (CIS):** National Treasury has proposed a reform that would see all returns generated by regular CIS funds and retail hedge funds taxed as capital in investors' hands, rather than income retaining its nature.

US TARIFFS: OFF AGAIN, ON AGAIN

US President, Donald Trump, in February was forced to reverse his Liberation Day tariffs after they were deemed unconstitutional by the US Supreme Court. Trump had initially used a federal emergency-powers statute (IEEPA) in order to enforce tariffs on US trade partners, however a majority ruling from the court struck these down.

Not one to be taken lying down, Trump swiftly made use of a loophole under Section 122 of the Trade Act to impose a new universal 15% tariff which would stay in effect for 150 days. While some countries are net beneficiaries of the new tariff regime (both India and China had previously faced tariffs far above the 15% level), many countries, including the UK and Japan, now face increased tariff pressures. While these new tariffs can only legally remain in place for 150 days, this will allow the Trump administration time to investigate alternative, more permanent tariff measures.

US & ISRAEL ATTACK IRAN

Geopolitical tensions in the Middle East escalated sharply in the last weekend of February following the killing of Iran's Supreme Leader, Ali Khamenei, in coordinated strikes by the United States and Israel. The attacks were followed by calls from US President Donald Trump for political change in Iran, prompting a large-scale retaliation from Tehran. Iran, in retaliation, launched missiles and drones across the region, targeting multiple countries and vessels operating in key shipping routes. The US has described its military campaign as Operation Epic Fury, following weeks of warnings that military action would be taken if Iran failed to negotiate a new nuclear agreement.

The escalation has begun to affect global energy markets, with Iranian attacks targeting critical infrastructure in the Gulf. Drone strikes reportedly disrupted operations at Saudi Arabia's Ras Tanura refinery, while Qatar temporarily halted liquefied natural gas production. Iran has also warned vessels against transiting the Strait of Hormuz, a strategic shipping route through which roughly 20% of global oil and gas supply passes. While global equity and bond markets appeared to shrug off the initial attacks, the heightened supply risks across the Gulf drove oil prices up by around 10% in the two days following the assaults, while natural gas prices have surged by as much as 25%, raising concerns about higher fuel costs and broader inflationary pressures for the global economy.

While geopolitical shocks often trigger short-term volatility in financial markets, it is important for investors to maintain perspective. History shows that markets typically adjust to geopolitical events over time, with long-term investment outcomes driven far more by economic fundamentals, corporate earnings and monetary policy than by temporary disruptions.

Investors should therefore avoid reacting emotionally to headline risk. Maintaining a well-diversified portfolio and adhering to a disciplined investment strategy remains the most effective way to navigate periods of uncertainty. Sticking to a consistent process and long-term investment objectives is likely to prove more beneficial than attempting to time markets in response to geopolitical developments.

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