Viewpoint: A market assessment of the MTBPS

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ETM ANALYTICS

Key points

- SA's budget was well-received by financial market participants. Bond yields fell, the ZAR appreciated, and the stock market performed as well as one could have expected. On many fronts, it appears that the message from the private sector to the government is sinking in, and the prospects for further reforms are looking promising.
- Operation Vulindlela appears to be gaining traction, and while the evidence of this is not yet reflected in the country's fixed investment numbers, indications are that this will change through 2026, when the liberalisation of network industries and the government's privatisation efforts finally start to crowd in some private sector investment.
- Furthermore, the government has made strides in lowering the inflation target, which will help lower bond yields. It has maintained a primary budget surplus, is considering a fiscal anchor, and is implementing transparency reforms through the tendering process, closing off more loopholes and allowing for greater insight into how the government spends its funds.

BASELINE VIEW: The implication of all this is that the ZAR is well-positioned to sustain its recent gains. As the broader risk premium subsides, so the inclination to expose portfolios to emerging markets like SA rises. SA enjoys the added benefit of being exposed to a commodity upswing, and so the combination means that the ZAR will likely break and sustain the move below 17.00/dlr, especially if S&P Ratings confirms a credit rating upgrade this evening.

Credit Rating upgrade on the way?

Credit Rating Scales by Agency, Long-Term

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risk
Caa2	CCC		Extremely speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	
	C	C	
C	D	D	In default
/			
/			

"Junk"

In the aftermath of the MTBPS which was generally received very positively, the market is now looking towards the next big development that would confirm SA's recovery trajectory. S&P Ratings is due to give its assessment on SA's credit rating, and given the multiple efforts that have been made and the progress generated, expectations are running high that SA deserves a credit rating upgrade.

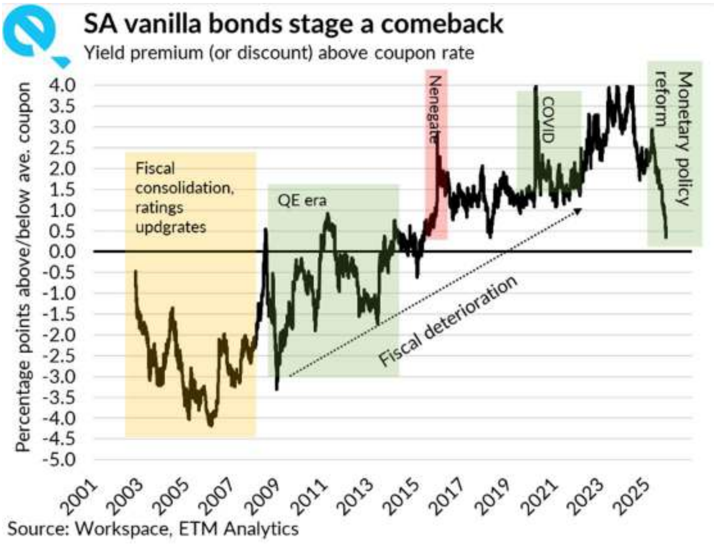
Not only has SA made it off the FATF grey list, suggesting some real progress in combating crime, corruption, money laundering and broader criminality, but the SARB's efforts to target a lower inflation rate seem to have eventually convinced National Treasury and the Department of Finance that this was a prudent step that would be in the country's best interests and help reduce a worrisome debt financing burden that has escalated in recent years.

Additionally, the government now appears to have made some strides in liberalising network industries previously dominated by SOEs. pThe more the private sector is allowed to compete with established SOEs, the greater the probability that the cost burdens of capital investment will be shared, while the increased competition will layer over some accountability that will help promote efficiencies in those sectors.

Finally, the concept of fiscal anchors has been discussed for some time, yet nothing has been implemented. But if one thing the 2025 budget fiasco taught us is that Fin Min Godongwana is very keen to ensure that SA's debt burden does not rise any further. He has successfully presided over consecutive primary budget surpluses, which is critical to ensuring some sustainability.

The next part of the equation would be to reduce the impact of the government's debt servicing costs. That can be done in one of three ways. Either debt levels are steadily reduced in real terms relative to the size of the economy, or the interest rates at which bonds are issued decline, or a combination of the two. The only way to do this is to rebuild credibility in SA's institutions, restore oversight and accountability measures, and return to an era of meritocracy. Unfortunately, it has taken the near collapse of SA to get people to realise that ideologies take a back seat to pragmatism when the chips are down and service delivery becomes the only means of political survival.

SA has finally turned the corner on risk premium

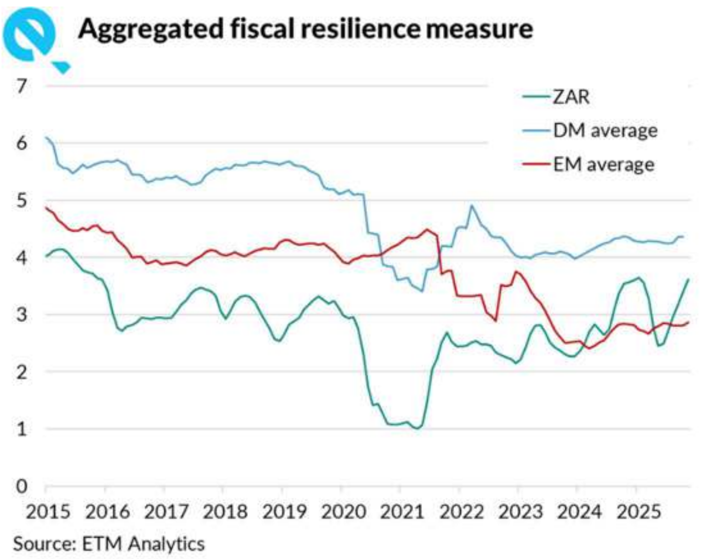


Only when one examines the degree of discount or premium relative to coupons in bonds that the government issues over time does the message become clear that SA has paid significantly higher rates for its debt than it should have over the past decade.

Were it not for repeated years of fiscal complacency, SA's economy might be very different in terms of size, influence and dynamism. Compared to 2006 when SA was deep in investment grade and enjoyed an -A credit rating, SA's interest rates are now the equivalent of being at least 300bp higher than they might've been. That picture looked substantially worse at the start of this year. 2025 has been a good year for fiscal progress.

It is a staggering indictment of the cavalier manner in which SA's government managed its fiscal resources despite repeated warnings that the country was on a ruinous path that was obviously unsustainable. The warnings fell on deaf ears, and now SA consumes 20% of its expenditure just to service that debt, funds that could've been used far more productively to help the poor communities in SA, as well as properly maintain infrastructure. The good news is that the most recent data show signs that the tide has turned and that the massive discount at which SA was issuing debt is finally compressing back to neutral. SA is now less than 50bp away from a neutral position compared with coupon rates, which should come as a huge relief.

Catch-all indicator shows that SA's fiscal trajectory has improved

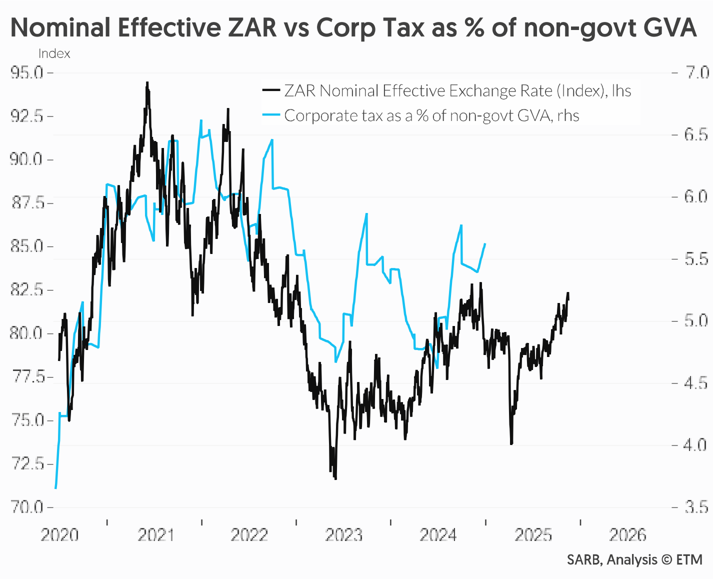


When trying to ascertain an overall feeling about whether SA is on the right path, ETM's resilience framework is especially useful. Several sub-components comprise the overall index, which considers various aspects of fiscal policy, including the budget deficit, overall debt levels, and the interest on debt.

What one would like to see is a trend upwards. The scores out of 10 on the "Y" axis help readers calibrate SA's overall fiscal performance. Although scores below 4/10 do not sound good and are not ideal, they need to be considered in comparison to other jurisdictions. For context, we have included averages for emerging markets (EM) and developed markets (DM).

SA is now accelerating above the EM average and catching up to the DM average. If the improvement continues for another quarter, this will be the highest fiscal resilience score in ten years and is therefore worth mentioning. Progress has been made, and SA is starting to stand out compared with other emerging market peers. It implies that SA might therefore attract more capital and the consequence of this is that the ZAR will likely benefit as a result.

ZAR appreciation is ironically a sign of fiscal progress



It is also worth highlighting how anticipated fiscal prudence plays a crucial role in enhancing SA's profile and strengthening the country's ability to attract foreign capital. There is indeed a strong relationship between the country's fiscal performance and the behaviour of the ZAR. Although the ZAR leads this data by six months, and the data is delayed, what this indicates is that investors can assess whether the government is performing better long before the fiscal data is released.

The latest update of this chart shows a strong expectation that corporate tax as a % of non-government gross value added is likely to improve. That could be due to the commodity boom, the government's focus on rebuilding infrastructure, or the efforts made to crowd in the private sector. If all three hold, the prospects look good for the economy to perform significantly better and for the ZAR's appreciation to be justified.

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