MUNICIPAL BORROWING BULLETIN

ISSUE | 33
APRIL 2026

INSIDE
- KEY HIGHLIGHTS
- DATA ANALYSIS
- TOPICAL ISSUES

CONSTRUCTION OF A 1 MWP SOLAR PV PLANT: GEORGE LOCAL MUNICIPALITY

Purpose

The purpose of the Municipal Borrowing Bulletin (MBB) is to advance transparency, prudence, and responsible utilisation of municipal borrowing for infrastructure delivery. The MBB informs interested parties on developments in the municipal borrowing market. The MBB aims to add to a better understanding of developments and patterns in municipal borrowing through information sharing, analysis and exchange of topical content relating to municipal borrowing and infrastructure delivery.

Context

The MBB is issued by the National Treasury on a quarterly basis. This issue covers long-term borrowing information up to 30 September 2025, corresponding to the end of the first quarter of the 2025/26 municipal financial year.

This MBB includes data submitted by municipalities to National Treasury as required in terms of Sections 71 and 72 of the Municipal Finance Management Act of 2003; data acquired from lenders; information published by the South African Reserve Bank (SARB) and data from the Johannesburg Stock Exchange (JSE) sourced from STRATE.

Highlights

- Municipal borrowing budgets face severe pressure due to escalating non-revenue losses, particularly from water leaks, which now reach 47.4 per cent nationally;
- Municipalities executed 9 per cent of the R12.8 billion borrowing budget, reflecting limited borrowing activity during this early phase of the financial year;
- Long-term municipal debt increased to R69.4 billion as reported by municipalities, with metropolitan municipalities holding 84 per cent of the total debt;
- International DFIs increased their exposure to R11.3 billion, becoming a significant contributor to municipal infrastructure financing;
- Public-sector lenders now account for most municipal debt, with public lending exposure peaking at R43.9 billion versus R25.4 billion from the private sector; and
- This issue provides an update on progress related to the Municipal Fiscal Powers and Functions Amendment Act (MFPFAA), outlining recent developments relevant to its implementation and regulatory direction.

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

A NATION THAT WORKS FOR ALL

2030 NDP

Data and Analysis

1. Municipal borrowing budgets

Infrastructure restoration must be treated as an urgent financial intervention rather than a routine operational task. While the nation possesses a world-class regulatory framework for municipal borrowing, a systemic haemorrhage of non-revenue losses leaves many of the two-hundred-and-fifty-seven municipalities functionally uninvestable. This gap between bulk service purchases and actual revenue collection creates a vicious cycle where crumbling infrastructure drives massive losses, swallowing the capital needed for repairs. The Department of Water and Sanitation 2024 No Drop Report highlights this crisis, noting that national non-revenue water has hit 47.4 per cent, with nearly 41 per cent lost to physical leaks before reaching a customer. The future of South Africa's municipal water supply infrastructure depends entirely on fixing these leaks to secure municipal solvency and halt the billion-rand bleed.

This physical decay translates directly into a debt trap that suffocates municipal balance sheets. As water and electricity literally leak out of the system, municipalities find themselves unable to cover their primary overheads such as their bills to bulk suppliers. Data from National Treasury revealed that municipal debt to Eskom had surged to R105 billion while arrears to Water Boards reached approximately R24.5 billion by the end of September 2025. To survive this liquidity squeeze, municipalities tend to engage in the practice of diverting funds intended for repairs and maintenance to cover immediate operational crises or a portion of these bulk debts. This systemic under-investment in asset preservation usually remains significantly lower than the National Treasury mandated benchmark of 8 per cent of property plant and equipment (PPE) value. This neglect ensures that the infrastructure continues to degrade, causing even greater losses in the next fiscal cycle and tightening the noose around the municipality financial neck.

For a municipality to break this cycle and participate in long-term lending activities, it must first restore its creditworthiness. From the perspective of a commercial bank or an institutional investor, a municipality with high non-revenue losses is a high-risk entity. These losses poison the financial statements in three specific ways. They lead to massive impairment charges on the Statement of Financial Performance as ghost revenue is written off, they result in a negative cash-coverage ratio, and they frequently trigger qualified audit opinions from the Auditor-General due to the uncertainty of revenue. These red flags effectively lock municipalities out of the capital markets and prevent them from securing the fifteen to twenty-year loans necessary for large-scale infrastructure projects.

Breaking the cycle depends on prioritizing revenue protection to establish a foundation for borrowing. By investing in smart, tamper-proof metering and automated leak-detection, municipalities can immediately convert non-revenue losses into billable cash. This improvement in operating surplus strengthens the debt-to-revenue ratio and signals to lenders a reliable liquidity to service interest-bearing debt. Concurrent participation in National Treasury debt relief programs and maintaining a clean payment record on current bulk accounts allows municipalities to cleanse their balance sheets of legacy arrears. As financial statements stabilize, local governments can transition toward sophisticated ring-fenced project finance, using future savings from reduced losses as primary collateral for new infrastructure loans. Ultimately, plugging these physical and commercial leaks is the only way to restore the financial integrity required to rebuild the foundations of the nation.

Table 1: Budgeted Borrowings

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Original Budget	12 015 730	13 327 264	16 195 667	17 620 931	11 395 889	11 927 324	10 348 260	13 127 198	14 006 271	12 799 650
Adjusted Budget	11 602 644	13 572 036	12 241 682	16 017 275	7 280 462	7 282 004	8 935 181	9 637 671	12 824 743	-
Actuals	8 099 900	8 749 729	8 004 007	5 897 860	5 818 870	5 905 562	6 417 269	7 501 253	10 152 636	1 171 851
	70%	**64%**	**65%**	**37%**	**80%**	**81%**	**72%**	**78%**	**79%**	**9%**

Source: National Treasury Database

Municipal budgeted borrowing performance has shown a gradual recovery since the severe disruption just over five years ago. Table 1 shows that execution rates have shown improvement markedly and remained mostly above 70 per cent between 2020/21 and 2024/25. This positive trajectory has been accompanied by some volatility, including a noticeable dip to 72 per cent in 2022/23, before stabilising again at 78 per cent and 79 per cent in the following two years. The 2025/26 financial year marks a sharp and concerning break from this positive trajectory. The original budget set a borrowing target of R12.8 billion, slightly lower than the R14.0 billion original plan for 2024/25.

Actual borrowings for the first quarter stand at only R1.17 billion, equating to only 9 per cent of the original budget. This low execution rate suggests that most of the planned borrowing has not yet materialised, and we can only expect a more active borrowing pattern in the forthcoming quarters. While the borrowing execution has lagged thus far, with quarter

1 registering approximately 4 per cent below the comparable quarter of the prior financial year, the moderation remains relatively contained in magnitude. Tracking quarterly results, addressing underlying drivers of this early-year contraction, and assessing potential mid-year revisions will be key to determining whether this reflects a temporary phasing effect with scope for year-end recovery, or signals evolving dynamics within municipal debt markets that may, in turn, present strategic entry points for targeted policy or financing interventions.

2. Analysis of long-term debt as reported by municipalities

Table 2: Outstanding long term debt as at 30 September 2025

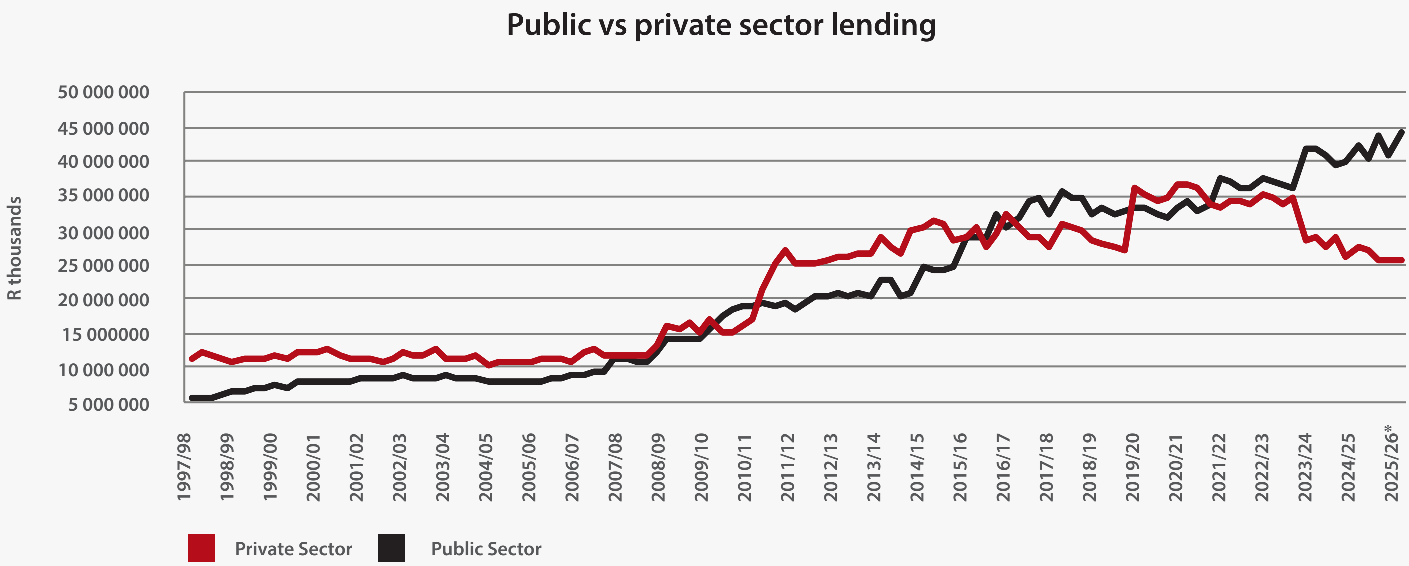
Municipal Category	Municipality	"Total debt Q1 2025/26 R'000"	Share of total debt	"Budgeted Revenue 2025/26 R'000*"	Debt to revenue ratio
A	BUF	64 476	0,1%	10 953 569	1%
	NMA	822 824	1%	19 555 749	4%
	MAN	146 818	0,2%	11 640 587	1%
	EKU	7 397 985	11%	65 495 405	11%
	JHB	20 589 457	30%	84 820 301	24%
	TSH	8 658 093	12%	53 380 626	16%
	ETH	10 198 929	15%	60 395 849	17%
	CPT	10 261 479	15%	71 161 512	14%
	Total Metros	**58 140 061**	**84%**	**377 403 598**	**15%**
B	**B1 (19)**	7 224 818	10%	90 309 661	8%
	Other Municipalities	3 449 753	5%	126 065 591	3%
C	**Districts**	584 931	1%	34 097 528	2%
	Total all municipalities	69 399 563		627 876 378	11%

**excluding capital transfers*
Source: National Treasury Database

Table 2 illustrates the distribution of outstanding long-term debt, which has grown to a total of R69.4 billion as of 30 September 2025. Metropolitan municipalities continue to dominate the credit landscape, holding 84 per cent (R58.1 billion) of the total national share. This concentration reflects the metros' expansive revenue bases and their unique capacity to leverage long-term debt to fund large-scale infrastructure and capital projects. The disparity in credit market access remains stark. Category B1 municipalities (secondary cities) account for 10 per cent of the total debt, while other local municipalities and districts remain marginal participants. District municipalities hold only 1 per cent of the total debt and maintain a low debt-to-revenue ratio of 2 per cent, highlighting their continued exclusion from long-term credit markets and their heavy reliance on conditional grants for capital investment.

The national average debt-to-revenue ratio for all municipalities stands at 11 per cent. While the metros average a higher ratio of 15 per cent, they also generate the vast majority of budgeted revenue - R377.4 billion of the R627.9 billion national total. This suggests that while debt levels are rising, they are generally supported by the stronger revenue-generating capabilities of metros, whereas smaller municipalities remain fiscally constrained.

Figure 1: Public and private sector lending to municipalities



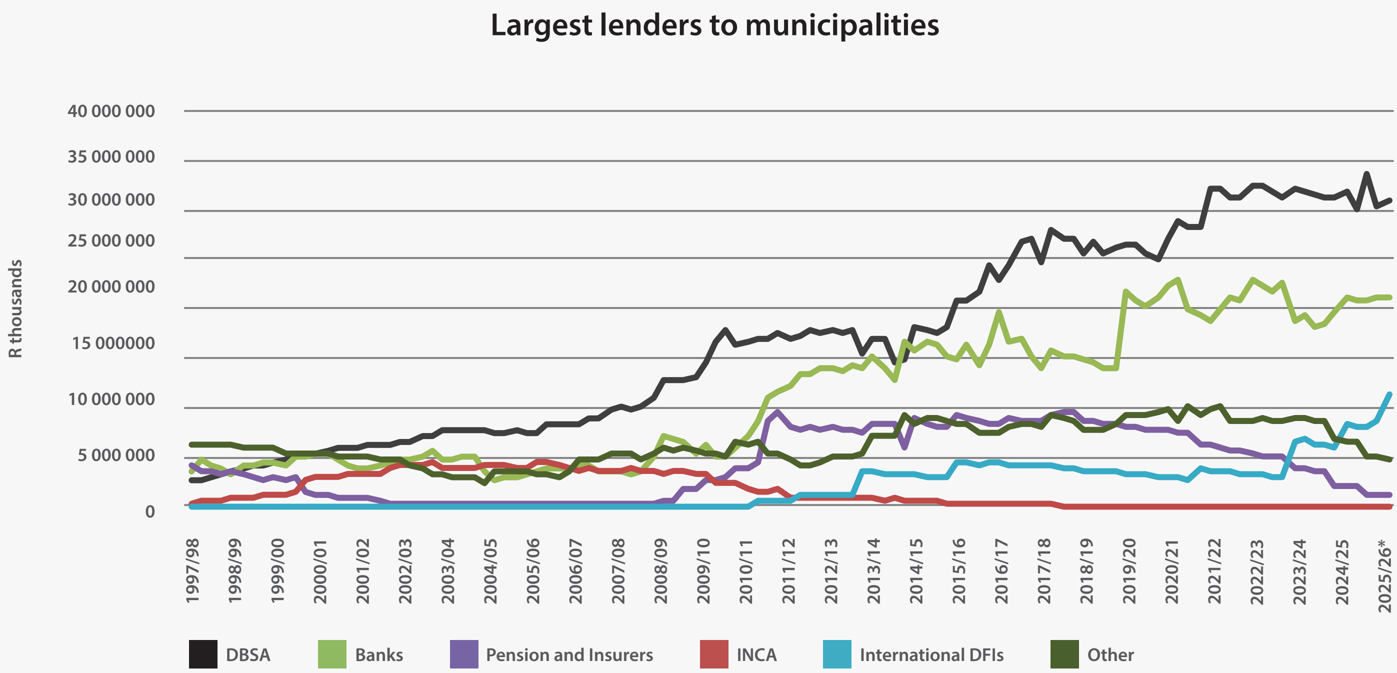
**Inc QI*
Data sources: Banks, DBSA, INCA, DFIs, STRATE, SARB

South Africa's municipal long-term borrowing landscape has undergone a structural shift over time. Private-sector lenders dominated municipal lending in the early and mid-2000s, consistently extending more credit than public lending institutions. From around 2016 onward, public-sector lending began to accelerate and eventually overtook private lenders. This divergence became markedly pronounced after 2020 when private-sector lending levels plateaued and then declined, while public-sector financing continued to expand. Figure 1 therefore reflects not a long-standing dominance of public finance, but rather a recent transition toward public-sector surge in municipal lending.

Public-sector lending peaked at approximately R43.5 billion by the third quarter of 2024/25 financial year before easing slightly to about R40.7 billion in the fourth quarter, while private-sector lending remained substantially lower at roughly R25.6 billion. This represents the widest observed gap. The lending pattern suggests increasing reliance on public financiers to sustain municipal borrowing activity, particularly as private lenders appear more cautious in recent years.

Municipal long-term lending remained decisively public-sector led in first quarter of the 2025/26 financial year. Public financiers extended approximately R43.9 billion, while private-sector lending stood at about R25.4 billion, resulting in a substantial gap of roughly R18.5 billion. While the updated Municipal Borrowing Policy Framework aims to broaden private-sector participation, the data indicates that risk perceptions and municipal credit fundamentals continue to shape lending behaviour, with public institutions playing an increasingly central role in maintaining infrastructure financing flows.

Figure 2: Largest lenders to municipalities



**Inc QI*
Data sources: Banks, DBSA, INCA, DFIs, STRATE, SARB

South Africa's municipal borrowing market continues to reflect a diversified but evolving lender composition rather than a uniform trend in participation. By the end of the 2024/25 financial year, total exposure across lenders was about R66.4 billion, with commercial banks contributing roughly R21 billion, international DFIs about R8.6 billion, institutional investors near R1.3 billion, and other lenders around R4.8 billion. Bank lending has remained relatively stable in recent years within a narrow band, indicating ongoing engagement that adjusts to credit risk conditions and municipal financial performance. Institutional investors, such as pension funds and insurers, have gradually reduced exposure over the long-term opening the financial year at a low of R1.2 billion, constrained by prudential rules and low appetite for sub-investment-grade municipal exposure.

INCA which once held exposures above R4 billion has declined steadily to R2.7 million at the end of the 2024/25 before reaching zero, effectively exiting the market in the first quarter of the 2025/26 financial year.

The evidence points to a market undergoing overall structural re-composition in which capital sources continue to participate with clearer segmentation by mandate, risk tolerance and tenor preference, and the trend underscores that sustaining broad lender participation will depend primarily on improvements in municipal financial health, project preparation quality and credit transparency, which collectively influence risk pricing and the depth of market engagement.

Topical Issues

Development Charges

Following the Development Charges policy discussion in Issue 07 of the Municipal Borrowing Bulletin (MBB), several developments have since emerged warranting further clarification. This article provides an update on the developments relating to the Municipal Fiscal Powers and Functions Amendment Act (MFPFAA).

Since the discussion in Issue 07, the MFPFAA was assented to by the President on 6 June 2024 and subsequently published in the Government Gazette on the 11 June 2024. Among others, the MFPFAA regulates the power of municipalities to levy development charges (DCs), it sets out the permissible uses of income generated from DCs; provides for the methodological basis for calculation of DCs and empowers the Minister of Finance to make regulations for the effective implementation of matters relating to DCs.

Key reforms introduced through the MFPFAA are as follows:

- ensuring accountability and transparency in the establishment, collection, and expenditure of development charges;
- providing a uniform regulatory framework to ensure that the basis for principles and method of calculation will be the same across municipalities;
- creating legal certainty for all parties on how development charges are imposed and regulated; and
- promoting accountability and the predictability that current residents, especially the poor, are not required to subsidise the cost of commercially viable developments. Therefore, the incidence of the cost is more accurately and equitably assigned to those who directly benefit from the infrastructure, rather than being spread amongst all ratepayers.

It must however be noted that the MFPFAA has not taken effect following its enactment owing to various matters that may be prescribed. The MFPFAA will take effect on a date to be determined by the President. The MFPFAA, in various provisions, provides matters that may be prescribed and these can be prescribed through the regulations.

To date, draft DCs regulations have been developed and will shortly be consulted with key stakeholders including the general public. Matters regulated through the DCs regulations include, amongst others the content and structure of a municipal DC's policy, methodology for calculating DCs, and the manner in which a rebate or exemption may be granted by a municipality. Furthermore, National Treasury has developed supporting tools such as DCs Implementation Guidelines, an Excel based calculator, a model DCs policy and by-laws which will ensure that municipalities are adequately prepared to implement the MFPFAA when it takes effect.

Topical issue provided by:
Mmachuene Mpyana, National Treasury: Intergovernmental Policy and Planning