MUNICIPAL BORROWING BULLETIN

ISSUE | 34
JULY 2026

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VULCANIA SOUTH SUBSTATION UPGRADE:
EKURHULENI METROPOLITAN 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 31 December 2025, corresponding to the end of the second 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

- Municipalities have drawn down only R3.76 billion in the second quarter, representing just 29 per cent of the original R12.8 billion borrowing budget for the 2025/26 financial year;
- Total outstanding long-term municipal debt stands at a highly conservative R65.2 billion, while lender reported R 65.8 billion.
- The aggregate national debt-to-operating revenue ratio sits at just 10 per cent, falling far below the 45 per cent safe ceiling established by National Treasury;
- Public-sector lenders continue to sustain the credit market, retaining a 63 per cent market share in the second quarter despite a slight decline in overall exposure to R41.5 billion; and
- International Development Finance Institutions (DFIs) increased their midyear exposure to R10.8 billion, strengthening their contribution to municipal infrastructure financing.

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

A NATION THAT WORKS FOR ALL

2030 NDP

Data and Analysis

1. Municipal borrowing budgets

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	3 760 253
	70%	**64%**	**65%**	**37%**	**80%**	**81%**	**72%**	**78%**	**79%**	**29%**

Source: National Treasury Database

Mid-year municipal borrowing for the 2025/26 financial year stands at a 29 per cent against the original budget of R12.8 billion. Actual drawdowns have reached only R3.76 billion. Achieving less than a third of the targeted borrowing halfway through the fiscal cycle represents a severe lag in financial execution. This variance strongly indicates potential delays in capital project implementation, misaligned supply chain processes, or stalled long-term debt negotiations.

The absence of an adjusted budget figure at this juncture obscures whether municipalities intend to scale back their borrowing ambitions or anticipate aggressive, back-ended realisations in the remaining quarters. Diagnosing the root causes of this midyear deceleration in borrowing requires active oversight and supportive engagement to identify specific capacity gaps.

This borrowing shortfall threatens to slow the sustained recovery observed over the past four years. Municipal execution rates stabilised robustly between 2020/21 and 2024/25, consistently maintaining near the 80 per cent mark. Actual borrowings climbed steadily during that period, culminating in R10.2 billion and a 79 per cent execution rate last year. While the 2019/20 fiscal cycle was affected by exceptional disruptions and should not be treated as a direct comparator, the current sluggish pace still warrants close monitoring to avoid a reversal of recent gains in borrowing execution.

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

Table 2: Outstanding long term debt as at 31 December 2025

Municipal Category	Municipality	Total debt Q2 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	815 335	1%	19 555 749	4%
	MAN	102 492	0,2%	11 640 587	1%
	EKU	6 867 864	11%	65 495 405	10%
	JHB	19 628 299	30%	84 820 301	23%
	TSH	8 507 676	13%	53 380 626	16%
	ETH	9 613 711	15%	60 395 849	16%
	CPT	9 800 503	15%	71 161 512	14%
	Total Metros	**55 400 356**	**85%**	**377 403 598**	**15%**
B	**B1 (19)**	6 142 921	9%	90 309 661	7%
	Other Municipalities	3 020 626	5%	126 065 591	2%
C	**Districts**	660 306	1%	34 097 528	2%
	Total all municipalities	**65 224 209**		**627 876 378**	**10%**

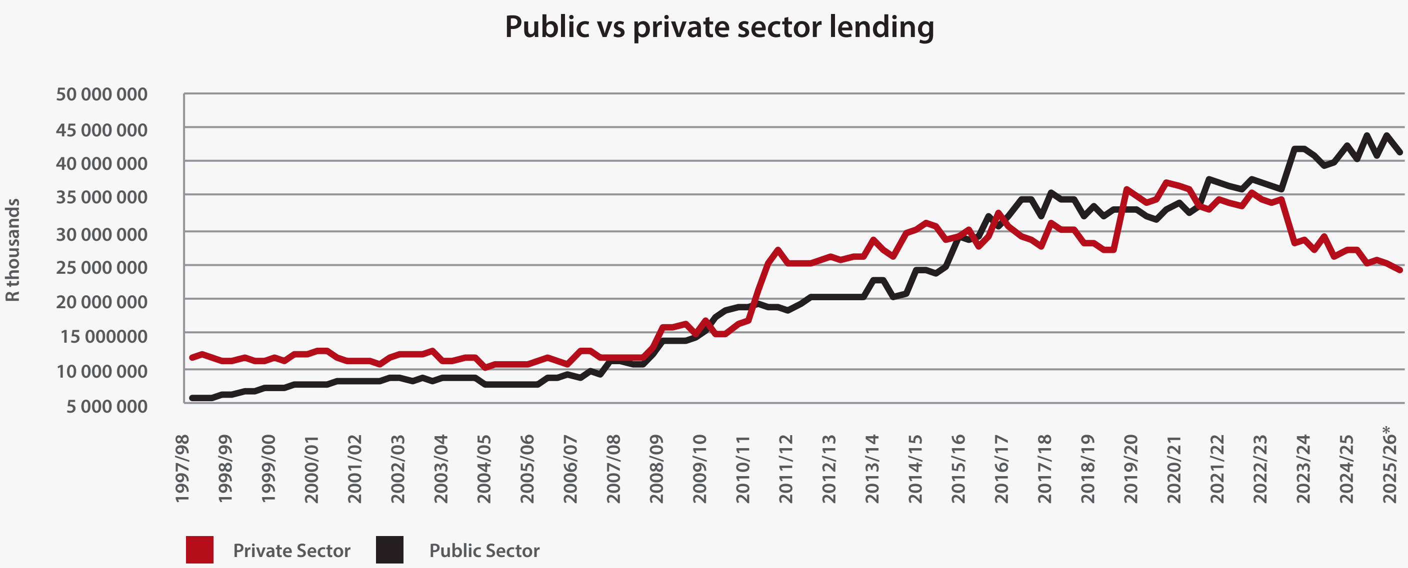
**excluding capital transfers*
Source: National Treasury Database

Table 2 shows that Municipal long-term debt remains concentrated in Category A metros, which hold 85 per cent of national exposure. City of Johannesburg accounts for the largest share at 30 per cent (R19.6 billion) and a debt-to-revenue ratio of 23 per cent, reflecting active use of capital markets to finance long-term infrastructure. Cape Town, eThekwini and Tshwane remain moderately leveraged, with ratios of 14 per cent, 16 per cent and 16 per cent, respectively, and combined debt of R27.9 billion. By contrast, Buffalo City, Mangaung and Nelson Mandela Bay hold only 1.3 per cent of Non-delegated municipalities, with ratios between 1 per cent and 4 per cent. Secondary cities and district municipalities remain similarly under-leveraged, holding just 14 per cent of national debt despite significant infrastructure backlogs. Consequently, the total debt outstanding reported by lenders is sitting at R65.8 billion, despite municipalities having reported R65.2 billion.

The debt profile indicates that municipal borrowing capacity remains unevenly utilised across the sector. Outside the major metros, borrowing levels remain modest, with Category B municipalities recording a debt-to-revenue ratio of only 7 per cent and district municipalities 2 per cent. These relatively low leverage levels suggest that long-term borrowing has yet to become a mainstream infrastructure financing instrument for most municipalities. The concentration of debt within a small number of metropolitan municipalities reflects differences in creditworthiness, revenue generation, project preparation capacity and access to capital markets rather than an absence of infrastructure investment needs.

This data reveals that South African municipalities are sitting on an unprecedented runway of unutilised balance sheet capacity, with total outstanding long-term debt at a highly conservative R65.2 billion as of the mid-2025/26 financial year. This untapped potential is mathematically substantiated by National Treasury's MFMA Circular 71, which establishes a safe prudential ceiling of 45 per cent for municipal debt-to-operating-revenue ratios. Against this benchmark, the aggregate national ratio sits at just 10 per cent, and even the most leveraged metro, Johannesburg, utilises roughly half of its legally permitted borrowing capacity. Treasury regulations strictly prohibit using long-term debt to fund operational deficits. Every rand raised must be ring-fenced for capital expenditure (CAPEX) on tangible, revenue-generating infrastructure. By framing debt as an essential mechanism for intergenerational equity, creditworthy metros have the verified fiscal headroom to aggressively market green bonds and sustainable infrastructure funds, converting statutory compliance into an active, private-sector-led investment boom.

Figure 1: Public and private sector lending to municipalities



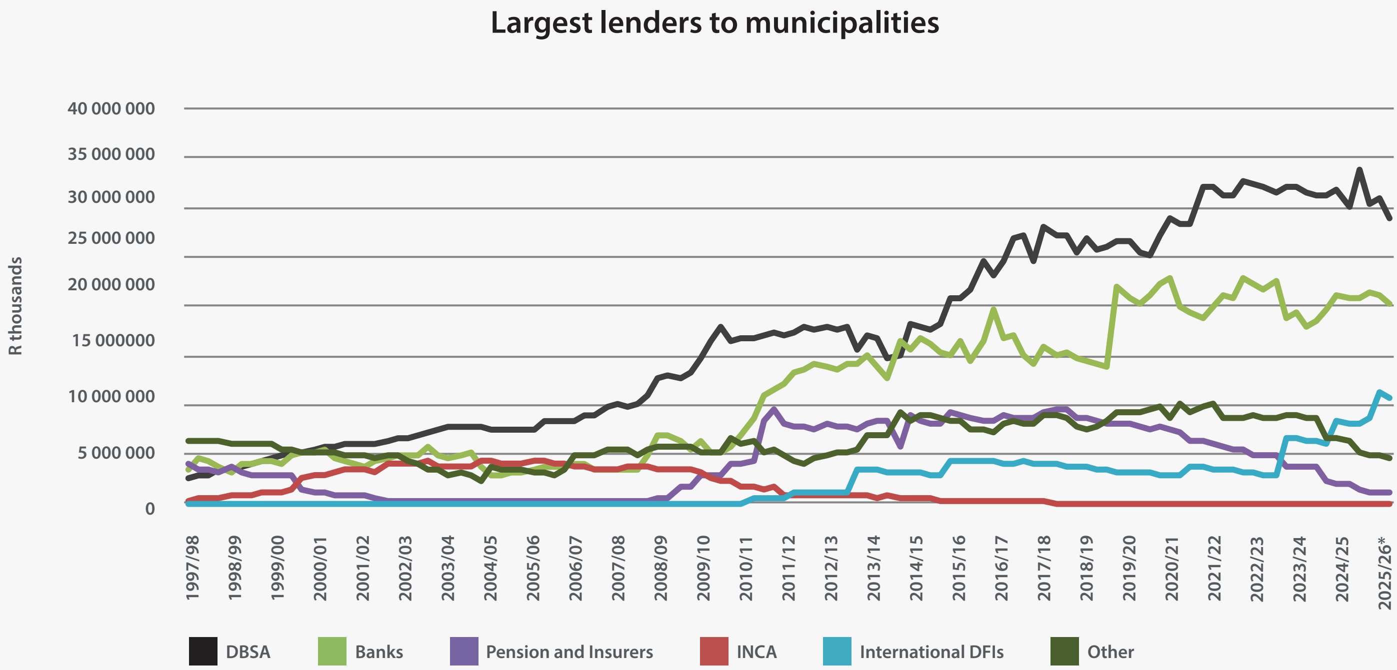
**Inc QII*
Data sources: Banks, DBSA, INCA, DFIs, STRATE, SARB

The architecture of South Africa's municipal debt market has experienced a profound structural realignment, fundamentally shifting the mechanics of local government infrastructure funding. In the early to mid-2000s, commercial and private-sector lenders led local government infrastructure financing, often exceeding public funding. Since around 2016, this pattern has reversed, with public-sector lending increasingly sustaining the municipal credit market. This shift reflects not only expanded public funding, but also a defensive response to weaker municipal credit fundamentals. As operational and governance risks have grown, commercial lenders continue to pull back, leaving public development finance institutions to absorb much of the pressure. Figure 1 depicts that by December 2025, municipal credit conditions were softening in volume while highlighting the need to rebalance the market toward stronger private-sector participation. Public-sector exposure peaked at R43.9 billion in the first quarter of 2025/26, compared with private-sector credit of R25.4 billion, creating a R18.5 billion funding gap. By the second quarter, borrowing eased across both sectors, with public financing declining to R41.5 billion and private participation to R24.3 billion. The public sector's 63 per cent market share underscores the scale of the opportunity for the updated

Policy Framework for Municipal Borrowing to close the participation gap, improve market confidence and attract long-term private lenders to municipal infrastructure finance.

The driving forces behind this commercial retreat lie directly within the domain of fiscal governance and risk pricing. When regulatory compliance and fiscal discipline are compromised, commercial bankability erodes. Consequently, public financiers are compelled to assume the role of lenders of last resort, absorbing the structural risk of funding long-term capital assets in environments where commercial risk models signal unmitigated volatility, preventing a systemic collapse in localised service delivery.

Figure 2: Largest lenders to municipalities



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

The aggregate long-term municipal borrowing pool demonstrated notable structural resilience at the midyear point of the 2025/26 financial year. Figure 2 illustrates a lender participation pattern that highlights both the enduring strength of traditional domestic lenders and a rising appetite from international development finance institutions. Domestically, the sub-sovereign market remains strongly led by the Development Bank of Southern Africa (DBSA) at R29 billion and commercial banks at R20.1 billion, which together continue to command the dominant share of local government credit exposure. This solid commercial and institutional foundation is being dynamically complemented by International DFIs, whose midyear footprint expanded to R10.8 billion from an R8.6 billion year-end baseline. While this international influx has smoothly accommodated the tactical consolidation of domestic institutional investors (pension funds and insurers) to R1.2 billion and the structural conclusion of historical intermediaries like INCA to zero, the overarching composition reflects a market that is evolving into a multi-layered ecosystem where public, private, and developmental capital can optimise their respective tenors and risk appetites.

This balanced mix of lenders reflects a secure and predictable environment for long-term investment by leveraging policy alignment as a primary driver of market confidence. The MFMA's restriction of long-term borrowing exclusively to capital infrastructure that mirrors the economic life of the debt ensures that credit is intrinsically backed by productive, revenue-generating assets. The expanding R10.8 billion DFI footprint provides an excellent pathfinding model, demonstrating how structured, ring-fenced project governance can successfully optimise utility revenue streams. As municipalities replicate these transparent structures to strengthen their underlying financial governance, they provide the precise market conduct assurance required to compress risk premiums. Far from signalling a permanent retreat, the current midyear data outlines a clear, policy-aligned pathway designed to give commercial banks and long-term institutional investors the absolute clarity and confidence needed to scale up their participation and unlock sustainable co-investment opportunities across the local government infrastructure sector.