Key points

- The 2025 Medium-Term Budget Policy Statement brought a few surprises to the table, and is seen as mostly positive. The main point is the formal implementation of a new inflation target regime, which focuses on a 3% target that has a tolerance band of +-1ppt. This will bring some short-term pain, as evident in higher debt/GDP forecasts, but is necessary to achieve sustainable longer-term fiscal and economic stability.
- The growth outlook remains weak, with real GDP growth forecast at a meagre 1.2% to 2% over the forecast horizon. The lower inflation target will constrain near-term growth to some degree, but the main driver remains inefficient policy. This is being addressed only gradually, and unless major reforms are announced at the 2026 Budget, SA's growth outlook will remain subdued.
- NT is focused on improving service delivery and infrastructure growth, but spending capability is limited. Positively, processes are being implemented to streamline private sector participation and SOE reform. A new infrastructure bond is also planned to support future infrastructure plans.

BASELINE VIEW: The MTBPS was largely in line with expectations but had a few positive, unexpected announcements that drove a strong market reaction. Overall, South Africa's fiscal picture remains a concern, but today's announcements have at least made it clear that National Treasury is trying to do what it can, given political and economic constraints, to prevent any further deterioration. As always, implementation will be key, but for now, South Africa will reap some benefits of improved investor sentiment and potential positive credit rating actions.

A Step in the Right Direction

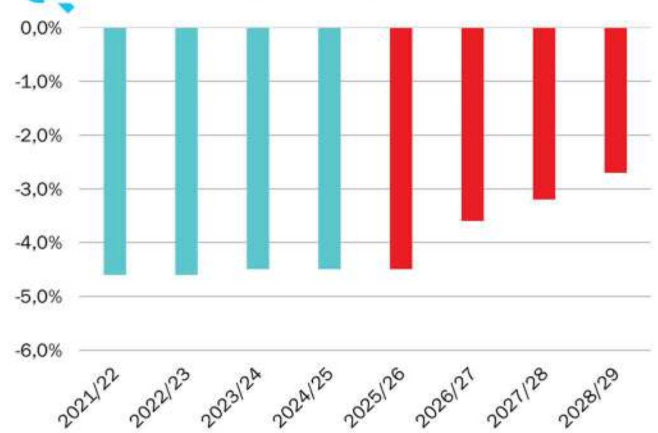
Budget Snapshot

Budget forecasts over time

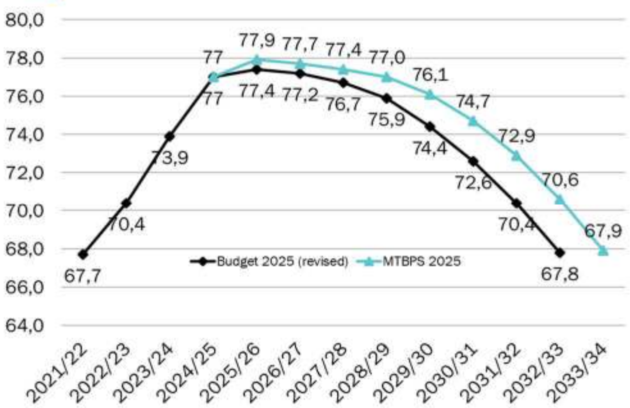
Key fiscal metrics	2024 Budget		2024 MTBPS		2025 Budget (3.0)		2025 MTBPS	
	2023/24	2024/25	2024/25	2025/26	2025/26	2026/27	2025/26	2026/27
Real GDP	1,3%	1,6%	1,1%	1,7%	1,4%	1,6%	1,2%	1,5%
Consolidated budget balance	-4,9%	-4,5%	-5,0%	-4,3%	-4,8%	-3,8%	-4,5%	-3,6%
Gross loan debt/GDP	73,9%	74,1%	74,1%	74,7%	77,4%	77,2%	77,9%	77,7%
Debt-service costs/GDP	5,1%	5,1%	5,2%	5,2%	5,4%	5,4%	5,4%	5,3%
Borrowing needs (ZAR, bn)	553,1	457,7	424,7	602,7	588,3	434,3	568,2	377,8

Source: National Treasury, ETM Analytics

Budget deficit (%/GDP) expected to narrow



Debt trajectory revised higher



The MTBPS 2025 outlines a cautious yet constructive fiscal path. Although economic growth remains challenging, with forecasts still subdued at 1.2-2% through to 2028, the government has forecast a stabilisation of the debt/GDP ratio at just below 78% for this fiscal year and a gradual improvement over the coming years.

While these forecasts are typically optimistic, more realistic growth estimates suggest that this will be achieved by reining in unnecessary spending rather than relying on unrealistic assumptions about economic performance.

One of the biggest takeaways is the anchoring of inflation at a lower level, with NT officially adopting the 3% target with a tolerance band of +-1ppt. The trade-off is that lower inflation and weaker nominal growth slightly raise the debt peak, but improved revenue collection and slower debt servicing growth help offset that.

As always, the big challenge remains translating policy commitments into growth, to make the fiscal path sustainable.

A Mixed Bag, but Largely Positive

The announcement of the formal adoption of the lower inflation target was the centrepiece of the Medium-Term Budget Policy Statement, but there were other key details embedded that saw less attention.

The lower inflation target comes with short-term fiscal trade-offs, including a slight reduction in nominal growth and revenue, leading to debt peaking slightly higher, with the debt-to-GDP ratio now projected to stabilise at 77.9% this fiscal year.

Revenue for 2027-28 is expected to be ~R17 billion lower due to the reduced inflation and weak levels of nominal GDP growth.

The Treasury plans to lock in long-term gains via a fiscal anchor policy in 2026 and continue targeting a primary budget surplus, supported by R31 billion from the gold and foreign exchange contingency reserve account.

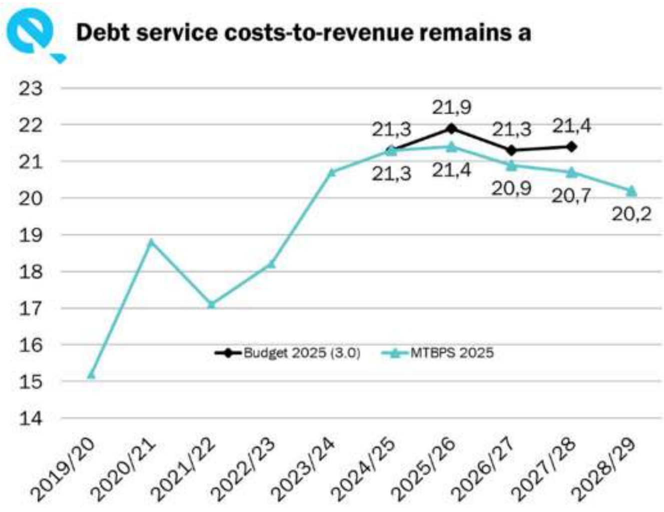
Table 3.1 Gross tax revenue

R billion	2024/25			2025/26		
	Budget[1]	Outcome	Deviation	Budget[1]	Revised	Deviation
Persons and individuals	729.9	729.9	–	792.5	791.8	-0.7
Companies	318.7	318.7	–	338.8	343.4	4.6
Value-added tax	457.8	457.8	–	482.2	493.6	11.3
Dividends tax	43.0	43.0	–	42.1	46.3	4.2
Specific excise duties	59.7	59.7	–	64.1	61.8	-2.3
Fuel levy	85.9	85.9	–	96.6	98.6	2.0
Customs duties	76.7	76.7	–	81.0	80.5	-0.4
Ad valorem excise duties	7.0	7.0	–	7.4	7.4	0.0
Other	76.6	76.6	–	80.9	81.8	0.9
Gross tax revenue	**1 855.3**	**1 855.3**	**–**	**1 985.6**	**2 005.3**	**19.7**

1. 2025 Budget
Source: National Treasury

Tax revenue is forecast to be higher than in the May projections, supported by greater-than-expected company income tax and VAT, which will more than offset the slightly weaker-than-expected personal income tax. In an effort to further improve tax collection efficiency, SARS has been granted additional funding given that debt collections remain below forecasts made at the budget. If SARS can make further headway in the next six months, South Africa can avoid further tax hikes come the February 2026 budget.

Furthermore, the national borrowing requirement for 2025/26 is reduced to R568 billion, about R20 billion less than previously planned, improving prospects for a future credit-rating upgrade.



Finance Minister Gondongwana once again spoke of the implementation of a fiscal anchor, which it plans to finalise by 2026 to complement the primary surplus target. While South Africa could greatly benefit from a fiscal anchor, NT has promised this for years now, and we have yet to see any signs of actual implementation.

Debt servicing costs as a percentage of revenue have risen sharply in recent years, and while predictions are for stabilisation and future improvement, the figures still highlight just how much money could be saved and utilised in more productive ways had SA previously implemented greater fiscal discipline.

Market Reaction Shows Some Faith in Reform Narrative

Encouragingly, the market's reaction to the budget update was positive. The USD-ZAR dropped from 17.1500 to 17.0500. The bond market also responded positively, with yields dropping between 7bp and 18bp across the curve.

The surprise announcement of lower issuance at the weekly fixed-rate auctions was welcomed, while anticipation of positive credit rating action further supported the market. While sustained fiscal progress remains crucial for attracting lasting capital inflows, several tailwinds continue to support a constructive outlook. A stronger ZAR, a lower inflation target, and South Africa's removal from the FATF grey list all support lower yields and foreign portfolio inflows.

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