

Medium-term budget review

12 November 2025

Recalibrating the fiscal framework for a low-inflation era



Initial impressions

- Notwithstanding the complex political environment governed by a nascent coalition government, National Treasury managed to remain on track to meet its fiscal targets set two years ago, with government debt still expected to stabilise in this fiscal year (FY), although at a marginally higher 77.9% of gross domestic product (GDP). This signals consistent fiscal discipline in a challenging economic climate and will lead to a further improvement in investor confidence.
- In part, the upwardly revised debt ratio was the result of a reduction in nominal GDP forecasts owing to a slight reduction in real growth forecasts and a marked revision lower in inflation. Given a reduction in realised inflation outcomes and the benefits associated with a lower inflation target, the announcement was finally made to officially reduce the inflation target to 3%, with a tolerance band of one percentage point (pp) to accommodate economic fluctuations.
- Treasury has shown a firm commitment to fiscal consolidation, maintaining a primary budget surplus throughout the Medium-Term Expenditure Framework (MTEF), which is expected to reach 2.5% of GDP by FY2028/29. In response to the previous budget debacle involving disagreement between the key partners within the ruling Government of National Unity, Treasury officials confirmed that broad political agreement on growing the primary surplus, stabilising government debt and avoiding additional borrowing reduces the risk of fiscal framework deterioration. They have also enhanced engagement with all stakeholders to ensure that the previous confusion is not repeated.
- More accurately accounting for a global and local economy in flux, Treasury's medium-term economic forecasts have been revised and more closely align with the market consensus. In particular, their forecasted average economic growth rate of 1.5% for the period spanning 2025 to 2027 (revised lower by 0.1pp from the National Budget in May 2025) is in line with the Reuters median consensus and only slightly below our own expectation of 1.4%. Likewise, Treasury's latest forecast for headline inflation at an average of 3.4% between 2025 and 2027 (down from an estimated 4.1% in the National Budget) is only marginally lower than the Reuters consensus figure of 3.5%, but it is lower than our estimate of 3.7%.
- Treasury estimates that the gross tax revenue overshoot for the current fiscal year will reach R19.7 billion (relative to the estimates presented in the National Budget), including a R11.3 billion overshoot on value-added tax (VAT), R4.6 billion overrun on corporate income tax and a surplus of R4.2 billion on dividends tax. Part of the overrun will be used to fund a frontloading in capex, R2 billion will be allocated to the rebuilding of Parliament and R1 billion is earmarked for the Independent Electoral Commission for the 2026 municipal elections.
- Lower predicted inflation is nevertheless expected to contribute to an expected undershoot in gross tax revenues of R17.1 billion in FY2027/28, after a slight anticipated overshoot of R1.4 billion in FY2026/27.
- SA's consolidated budget deficit ratio is expected to narrow from 4.7% of GDP for FY2025/26 to 2.9% by FY2028/29. Government's forecasts compare with a 4.6% fiscal deficit projected for developed markets in 2025, which is expected to expand to 5% by 2028, as estimated by the International Monetary Fund (IMF) in its October 2025 Fiscal Monitor. The IMF predicts that the fiscal deficit ratio for emerging markets (EM) will narrow from 6.3% to 5.6% over the same period.

- Treasury estimates the gross government debt-to-GDP ratio will peak at a marginally higher 77.9% (previously 77.4% in the National Budget) in FY2025/26 before declining to 77% by FY2028/29. This compares with an expected debt ratio of 73.9% for EMs in 2025, rising to 81% in 2028. Nevertheless, SA's debt ratio is still significantly lower than the 110.2% estimated for developed markets (DM) in 2025, rising to an estimated 115.5% by 2028, as forecasted by the IMF. While the debt ratio itself is not particularly alarming compared to global standards, the rapid increase in the gross government debt ratio (rising by 55.9pp between FY2008/09 and FY2025/26), coupled with a corresponding rise in debt-service costs as a percentage of GDP (an increase of 3.1pp over the same period) places SA on the backfoot compared to its EM counterparts. This trend, however, is expected to reverse if Treasury's forecasts materialise and debt stabilises and rolls over for SA, compared to a continued increase for both DMs and EMs.



Effect on the economy and financial markets

- Government has run three scenarios on its baseline view for economic growth, which reaches 2% by 2028:
 - Global upside: Permanent return to lower tariffs → SA benefits from improved demand and higher commodity prices → growth expected to be 0.3% above the baseline of 2% by 2028 → slightly higher inflation due to higher oil prices despite an improvement in the rand → government debt-to-GDP ratio expected to decline to 64.8% by FY2033/24.
 - Global downside: Higher tariffs reduce global demand → growth expected to be 0.6% below baseline by 2028, while inflation is expected to be lower than in the baseline due to subdued oil prices, despite a weaker rand forecasted in this scenario → government debt-to-GDP ratio expected to decline to 71.1% by FY2033/24.
 - Local upside: Higher capital spending and improved efficiencies in public entities → growth rises 1.4% above the baseline by 2028 → inflation is marginally higher on increased consumer spending.
- The adoption of a lower inflation target should usher in a period of lower inflation expectations. Together with continued fiscal prudence, interest rates are expected to come down further in the next quarters, further assisting a reprieve in borrowing costs for government. Treasury assumes short-term interest rates will end this year at 7%, 6.75% at the end of 2026 and 6.25% by the end of 2027. These assumptions align with the Reuters median consensus from the October 2025 Econometer Poll.
- Between 2011 and 2024, Treasury's in-year real GDP growth forecasts recorded a mean absolute error of 0.62, while the one-year-ahead forecasts averaged 1.31. Treasury points out that its forecasting accuracy is broadly comparable to, and in some cases better than, that of other institutions.
- A contractionary budget in the medium term means that the government will extract more from the economy through taxes than it will reinvest through spending over this period. This is reflected in the main budget deficit decreasing by R105 billion between FY2025/26 and FY2028/29. Nominal GDP is forecasted to grow by 16.5% between FY2025/26 and FY2028/29. During this time, the government expects an increase in real (consolidated) expenditure growth of 11.3% and an increase in real (consolidated) revenue growth of 17.9%.
- Currency and fixed income markets traded firmer after the medium-term budget speech on news of a formal adoption of a 3% inflation target, a reduction in debt-service costs, a projection of a growing primary surplus and an expected deceleration in government's debt ratio from the next fiscal year, suggestive of Treasury's commitment to maintaining a fiscally prudent stance. Moreover, an announcement to cut issuance was favourably received by the bond market.



A cut in issuance pleases markets but sizeable redemption profile still a risk for government

- Government noted the benefits of enhanced macroeconomic policy management, which has translated into a stronger exchange rate and lower government bond yields, ultimately reducing government's borrowing costs.
- The improvement in the funding environment has been driven by:
 - A reduction in short-term policy rates of 50 basis points in 2025.
 - A sharp decline in the sovereign risk premium to under 300 basis points by the end of September 2025.
 - A large drop in the 10-year government bond yield to below 9% by the end of October 2025.
- As a result of two new floating rate notes issued, government's borrowing costs dropped to 7.6% in October 2025 and the weighted average term to maturity lowered for Treasury bills and domestic long-term bonds from 13.6 years in FY2018/19 to 10.5 years in FY2025/26.
- The main budget deficit for FY2025/26 declined by R8.2 billion due to stronger revenue performance and lower debt-servicing costs.
- Government's gross borrowing requirement is anticipated to increase from R568.2 billion in FY2025/26 (estimated at R588.2 billion in the Budget Review) to R455.8 billion by FY2028/29. Government continues to utilise its bond-switch programme to exchange shorter-dated for longer-dated bonds to manage redemptions. In FY2025/26, the gross borrowing requirement will be financed through domestic short- and long-term loans, as well as foreign currency-denominated instruments. US\$2.6 billion of the projected US\$5.3 billion to meet foreign-currency commitments has already been raised.
- Treasury is increasing debt issuance by R7 billion this year as it draws down on its cash balances. However, a SENS announcement was released highlighting that weekly fixed-rate debt issuance will decline by a larger-than-expected R750 million to R3 billion, while inflation-linked debt issuance would remain unchanged.
- Cash balances are expected to dip from R82.7 billion FY2025/26 to R2.8 billion in FY2028/29.
- The disbursement of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) was raised by R31 billion for FY2026/27. The GFECRA balance stood at R346 billion at 31 March 2025, and after deducting the R50 billion previously allocated for FY2025/26 and FY2026/27, R54 billion remained after accounting for the buffer (determined by a value-at-risk framework by the IMF) of R260 billion. The SA Reserve Bank will receive R23 billion to meet the liquidity needs for distribution, while the remaining R31 billion is allocated to Treasury to reduce its gross borrowing requirement in FY2026/27.
- A major fiscal risk stems from government's sizeable debt redemption schedule in the coming years. With a large share of debt maturing within the next decade (large bond maturities are concentrated in the late 2020s and early 2030s, with annual peaks exceeding R400 billion in FY2031/32), refinancing pressures could mount, especially if global financial conditions tighten. Any deterioration in market sentiment or a further rise in borrowing costs would add strain to the fiscus, heightening the urgency of fiscal consolidation. In the absence of stronger economic growth, sustaining fiscal stability while advancing developmental priorities will depend on more efficient resource allocation, improved public sector governance and decisive structural reforms to unlock revenue potential without increasing the tax burden.



Tax developments and expenditure cutbacks

- Treasury does not explicitly account for the potential benefits of the SA Revenue Service's (SARS) debt collection efforts, leaving room for further upside. If these gains prove substantial, Treasury could withdraw the proposal to raise additional taxes of R20 billion in the 2026 National Budget. On a FY year-to-date basis, SARS' debt collections are running behind schedule on more complex cases, but SARS has hired additional staff to address this.
- In the media and economist question-and-answer session, Treasury noted that they had not factored in the higher commodity price movements for mining companies and, as a result, there could be further upside realised from company income taxes for the current full fiscal year.
- The tax-to-GDP ratio has been revised higher and is expected to increase from an upwardly revised 25.7% in FY2025/26 (from 25.2%) to 26.4% in FY2028/29.
- Treasury forecasts a higher tax buoyancy (how much tax revenue increases for a unit increase in GDP) for this fiscal year of 1.54 from 1.12 in the National Budget. This is projected to stay high at 1.4 in FY2026/27 (previously 1.29), before declining to 1.06 (previously 1.05) in FY2027/28.
- SARS noted that growing markets for illicit trade in alcohol, fuel and tobacco pose a challenge for revenue collection. They estimate that R40 billion has been lost in excise duties in the black market for cigarettes since 2020.
- Government continues its journey of identifying underperforming and low-priority expenditure programmes from the budget with the Targeted and Responsible Savings (TARS) Initiative, proposing medium-term savings of R6.7 billion.
- Government proposes to scale back non-interest expenditure by R6.2 billion in FY2026/27 and R14.2 billion in FY2027/28. This is in part to reflect lower-than-expected inflation.



Addressing SA's spending needs

The focus on redistribution remains intact

- The budget continues to prioritise redistribution, with 61% (stable from the previous National Budget figure) of consolidated non-interest spending allocated to health, education, housing, transport, social protection, employment and local amenities between FY2026/27 and FY2028/29.
- The SA Social Security Agency will be embarking on a process to tighten income verification rules to reduce fraud in social grants.
- No decisions have been made on utilising medical tax credits to fund the National Health Insurance (NHI) plan. The budget incorporates inflation-adjusted medical tax credits.
- PEPFAR funding (AIDS relief funding): R590.4 million will be appropriated (not additional funding) to provincial health services to sustain HIV and TB interventions.

Shifting the composition of funding from consumption to investment

- Nominal growth in capital outlays is expected to average 7.3% (real: 3.9%) between FY2025/26 and FY2028/29, while growth in the compensation of employees is expected to increase on average by 4.1% (real: 0.7%) during the same period.
- Cabinet's early retirement programme, costing R5.5 billion (assuming the exit of 15 000 eligible workers by FY2026/27), could achieve annual savings of R3.5 billion. This has been revised down from an earlier estimate of R7.1 billion a year based on 30 000 workers.

- The current multi-year wage agreement provides some certainty over budget allocations for the next two fiscal years.
- Government has identified 8 854 potential ghost workers (those that are on the payroll that are deceased, no longer working in the public service or do not perform duties that are associated with their role) that need to be verified in January and February 2026 at a national and provincial level. Government aims to roll this out at municipalities over time. The next phase will also utilise automated monitoring to prevent irregularities.
- A 2022 personnel expenditure review suggested savings of R7.9 billion on FY2024/25 costs, particularly focusing on commuter overtime and accelerated grade progression.

Onerous interest bill

- SA's fiscal position remains constrained by persistently high debt-service costs, which continue to crowd out productive spending on growth-enhancing priorities. With debt-service costs now absorbing a fifth of total revenue, the fiscal space to support development objectives remains limited. Treasury noted, however, that lower borrowing costs going forward will aid in a reduction of debt-service costs.
- The interest bill was revised lower by R37.4 billion between FY2025/26 and FY2027/28 since the National Budget. Debt-service costs are expected to grow at a nominal average of 5.2% (real: 1.8%) between FY2025/26 and FY2028/29 → this is slower than the average anticipated real growth in (consolidated) revenue of 6.4%.
- The interest bill is expected to slow from 5.4% of GDP in FY2025/26 to 5.2% in FY2028/29 stabilise at 5.3% of GDP in FY25/26. As a share of consolidated expenditure, the interest bill will be broadly unchanged from 16.3% of expenditure in FY2025/26 to 16.4% in FY2028/29. Relative to consolidated revenue, the interest bill will drop slightly from 18.9% of revenue in FY2025/26, to 18% in FY2028/29.
- By FY2028/29, government will be spending R1.3 billion a day to service its growing debt pile.
- In the MTEF, nominal growth in debt-service costs has slowed to the fourth-fastest growing category of expenditure, following economic development (5%), health (3.9%) and learning and culture (3.9%).



Reforms in SA's key network industries and municipalities enable longer-term growth

• Energy:

- The National Transmission Company of SA is finalising market rules to govern the wholesale electricity market → this will promote competition and more efficient pricing.
- Government is preparing to initiate procurement of the first phase of private sector transmission projects.
- The credit guarantee vehicle, which supports electricity transmission expansion, will be supported by government to the order of R2 billion. It will be operational by the second half of 2026.
- Eskom: The time frame for Eskom's debt relief has been extended. The overall amount remains the same, but the amount has been split, leaving an allocation of R10 billion in FY2028/29.

• Logistics:

- In April 2025, a rail infrastructure manager was established as a separate division of Transnet → subsequently, slots have been opened on the freight network to 11 private operators.
- The first rail corridor request for proposal will be issued in December 2025, with others following in early 2026.
- A new Transport regulator is expected to start operating in FY2026/27 → will oversee a more competitive sector.
- Port efficiency has improved with vessel waiting times reduced by 75%.
- The Department of Transport's private-sector participation unit has issued requests for information for opportunities to modernise the passenger rail system.

- **Water:**

- Work has started between the Water Partnerships Office and five metros → aiming to reduce water leaks and improve financial and operating performance.
- Efforts to boost maintenance and investment in bulk water infrastructure are underway, with government having passed a National Water Resources Infrastructure Agency, which will launch in April 2026.
- The Africa Water Investment Summit in 2025 secured US\$12 billion in commitments for 80 projects, including 36 in SA.

- **Municipalities:**

- A performance-based municipal grant was formally introduced in July 2025 to incentivise eight metros to revamp water, sanitation and electricity infrastructure. This metro trading services reform is expected to help reduce the maintenance backlog in water and electricity, leading to an improvement in services delivered to citizens.
- Municipal arrears to Eskom rocketed to R94.6 billion by 31 March 2025. 47 municipalities remain in default, with 24 qualifying for a partial write-off and 21 managing to maintain payments.
- Detailed climate risk and vulnerability assessments have been completed in 47 municipalities → 34 qualify for Green Climate Fund support.
- The Tshwane and eThekweni municipalities are receiving assistance in developing projects that will establish performance-based contracts with suppliers aimed at reducing water losses and improving revenue collection. Support will also be extended to seven additional municipalities.



Shifts in the regulatory environment

- **Infrastructure Finance and Implementation Support Agency:** Will be operational by March 2026 to provide project preparation support to supply the Budget Facility for Infrastructure pipeline.
- Regulations for **municipal public private partnerships (PPPs)** will be amended in 2026, following the PPP regulations that took effect on 1 June 2025.
- **Procurement payments dashboard:** This website will provide information on government's suppliers and any payments made since FY2017/18, to enhance transparency. The dashboard will not cover information on defence, the police, SARS and state agencies).
- **Fiscal anchor:** Government intends to formalise a policy proposal in 2026. From the three frameworks Treasury was considering (procedural framework (in SA currently), the numerical rules-based framework and the principals-led approach), Treasury is further exploring the latter option. This option adopts a high level of flexibility, but is dependent on institutional strength and a political consensus.
- **TARS:** The government will be using a programme assessment matrix to help identify low-priority or underperforming programmes for Cabinet review by using standardised metrics that assess whether programmes: (1) align with legislation and policy, avoiding duplication, (2) perform effectively and achieve desired outcomes, (3) use resources efficiently, ensuring value for money and (4) are financially sustainable, maintain sound budgeting and attract external funding. Savings of R6.7 billion have been identified in this regard.
- **Infrastructure asset class:** As outlined in the 2024 medium-term budget, government is exploring new long-term financing instruments to attract both institutional and retail investors to infrastructure as a distinct asset class. A consultation paper on the design of these instruments will be released in early 2026 to gather stakeholder input on proposed reforms and other measures aimed at boosting private investment in infrastructure.
- **Collective Investment Schemes:** Treasury is preparing a response for the market on investor feedback to the options that Treasury provided (industry did not like the options provided).



Edging closer to a sovereign ratings upgrade

- SA's exit from the greylist shows what coordinated reform and institutional commitment can achieve when coupled with political willingness. The next mutual evaluation by the Financial Action Task Force is scheduled to start in the first half of 2026, suggesting that the journey to validate the steps taken to improve SA's institutional reform is not over. While this endorsement helps to lower transaction costs, improve financial stability and ease cross-border flows, SA has to continue and sustain its improvements on anti-money laundering and the countering of terrorist financing.
- This positive development was unlikely, on its own, to translate into a sovereign ratings upgrade for SA. However, the medium-term budget struck a more reassuring tone, signalling the beginnings of more concrete signs of fiscal stabilisation built on Treasury's four key pillars of (1) maintaining macroeconomic stability, (2) implementing structural reforms, (3) building state capacity and (4) supporting growth-enhancing infrastructure.
- SA's fiscal consolidation and debt stabilisation efforts face ongoing challenges due to limited economic growth and increasing socio-economic pressures on government resources. However, there are signs of progress. Economic reforms, under the steer of Operation Vulindlela, are beginning to yield positive results, with improvements in network industries reducing constraints on medium-term growth prospects. Inviting more private sector involvement is further expected to enhance growth opportunities in the medium term.
- Despite these improvements, significant longer-term fiscal challenges remain. South Africa's (gross) debt burden is still significant, amounting to R96 195 (previously R96 520 in the National Budget) per capita (total population) in FY25/26. In addition, government faces a tricky balance in controlling spending while addressing the needs of troubled state entities and struggling municipalities, which are pivotal to building an enabling environment for business to operate.
- More tangible proof of implemented structural reforms and continued fiscal discipline suggest that we are nearing a sovereign rating upgrade. S&P Global currently places SA on a long-term foreign currency rating of BB-, but it has held a positive outlook on that view for the past year.



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