Box 2 The *2025 Budget Review*[1]

The *2025 Budget Review* emphasises the need for the economy to grow much faster and in an inclusive manner, and to commit the government to a balanced fiscal strategy. To achieve faster economic growth, the 2025 Budget is anchored in ensuring that macroeconomic stability is maintained, structural reforms are implemented, state capability is improved, and infrastructure investment is accelerated.

The Budget proposals outline government's clear medium-term spending plan that aims to improve economic growth to address government debt and spending pressures, which are mostly funded through reprioritisation or the shifting of funds over the medium-term expenditure framework (MTEF) period.

Real gross domestic product (GDP) increased by 0.6% in 2024, much lower than the 1.1% increase that was expected in the *2024 Medium Term Budget Policy Statement (MTBPS)*. The worse-than-expected outcome stemmed mainly from the poor performance of the agricultural sector due to drought conditions as well as contractions in the transport, storage and communication and the trade, catering and accommodation sectors. However, the 2025 Budget expects the economy to grow by 1.9% in 2025 and for growth to average 1.8% over the medium term, underpinned by increased household consumption expenditure on account of rising purchasing power, a moderate employment recovery and wealth gains. Key factors for achieving faster economic growth and creating much-needed jobs include greater government collaboration with the private sector in especially the energy and transport sectors, the rapid implementation of structural reforms, the easing of regulatory constraints and increased infrastructure investment.

Macroeconomic projections*

Percentage

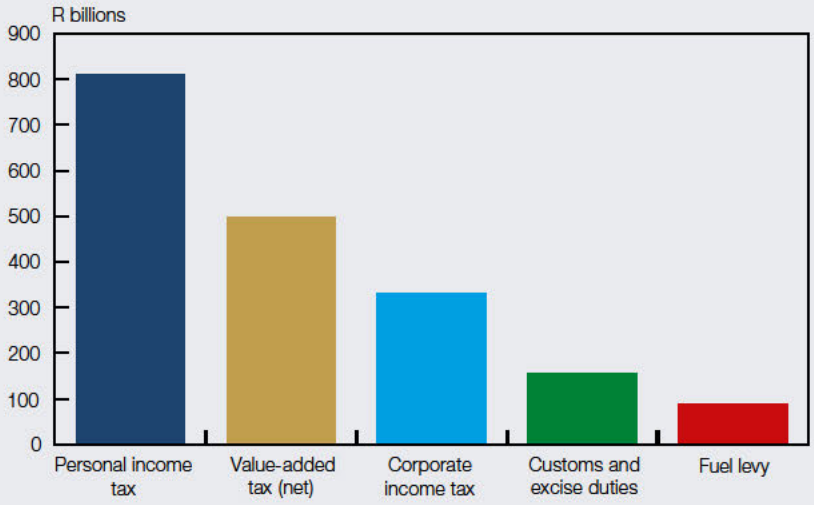
	2022	2023	2024	2024			2025	2026	2027
	Actual outcome			Budget	*MTBPS*	Budget**	Medium-term estimates**		
Real GDP growth	1.9	0.7	0.6	1.3	1.1	0.8	1.9	1.7	1.9
Consumer price inflation.....	6.9	6.0	4.4	4.9	4.6	4.4	4.3	4.6	4.4
Current account balance*** ..	-0.5	-1.6	-0.6	-2.8	-1.8	-1.6	-2.3	-2.4	-2.6

* Calendar years
** *2025 Budget Review*
*** As a percentage of GDP

Sources: National Treasury, Stats SA and SARB

The medium-term revenue outlook was revised higher by R137.8 billion relative to the *2024 MTBPS*, resulting in the tax-to-GDP ratio projected to reach 25.4% by fiscal 2027/28, supported by the improved economic outlook. Gross tax revenue collections are expected to increase by 8.7% in fiscal 2025/26, 7.8% in fiscal 2026/27 and 6.6% in fiscal 2027/28. This translates into gross tax revenue increasing from an expected R1.85 trillion in fiscal 2024/25 to R2.31 trillion in fiscal 2027/28. Higher revenue collection will require sustained investment and economic growth, supported by continued improvements in tax administration.

Major sources of consolidated government revenue in fiscal 2025/26



Sources: National Treasury and SARS

1 The *2025 Budget Review* was presented to Parliament by the Minister of Finance on 12 March 2025.

The *2025 Budget Review* introduces measures to increase revenue and promote fiscal sustainability as revenue collections fell short of expectations following weaker-than-expected economic growth in the current fiscal year. To address medium-term spending pressures, government opted to fund new spending through a combination of revenue increases and spending reductions or reprioritisation. As such, government took the difficult decision to raise the value-added tax (VAT) rate in fiscal 2025/26 and fiscal 2026/27. The tax policy measures proposed in the 2025 Budget are designed to raise R28 billion in additional revenue in fiscal 2025/26 and R14.5 billion in the following fiscal year.

Government tabled the following tax proposals, among others:

- increasing the VAT rate by 0.5 percentage points in both fiscal 2025/26 and fiscal 2026/27, bringing the VAT rate to 16%;
- extending a zero rating to additional food items consumed in low-income households to limit the impact of VAT on the poor;
- no adjustments for inflation to the personal income tax brackets, rebates and medical tax credits in fiscal 2025/26;
- above-inflation increases in alcohol and tobacco excise duties; and
- no adjustment to the general fuel levy, Road Accident Fund (RAF) levy as well as the customs and excise levy.

Consolidated fiscal framework indicators*

R billions

	2022/23	2023/24	2024/25			2025/26	2026/27	2027/28
	Outcome		2024 Budget	*2024 MTBPS*	2025 Budget**	Medium-term estimates**		
Consolidated revenue	1 901	1 948	2 037	2 022	2 029	2 222	2 377	2 521
Percentage of GDP	*28.1*	*27.5*	*27.3*	*26.9*	*27.1*	*27.8*	*27.9*	*27.8*
Consolidated expenditure	2 145	2 260	2 369	2 395	2 404	2 592	2 703	2 835
Percentage of GDP	*31.7*	*31.8*	*31.8*	*31.8*	*32.1*	*32.4*	*31.8*	*31.3*
Consolidated budget balance	-245	-312	-332	-374	-375	-370	-326	-314
Percentage of GDP	*-3.6*	*-4.4*	*-4.5*	*-5.0*	*-5.0*	*-4.6*	*-3.8*	*-3.5*
Primary balance* **	-1	33	61	33	37	71	136	182
Percentage of GDP	*-0.0*	*0.5*	*0.8*	*0.4*	*0.5*	*0.9*	*1.6*	*2.0*
Gross loan debt* **	4 765	5 259	5 522	5 622	5 694	6 094	6 464	6 815
Percentage of GDP	*70.5*	*74.1*	*74.1*	*74.7*	*76.1*	*76.2*	*75.9*	*75.1*
Net loan debt* **	4 516	5 064	5 432	5 466	5 469	5 966	6 331	6 701
Percentage of GDP	*66.8*	*71.4*	*72.9*	*72.6*	*73.1*	*74.6*	*74.4*	*73.9*

* Fiscal years. This is the consolidated budget framework of national, provincial and local government as well as social security funds and selected public entities. Budget data are therefore not strictly comparable with the data published in the SARB's *Quarterly Bulletin*.
** *2025 Budget Review*
*** Refers to national government, or main budget

Source: National Treasury

Consolidated government expenditure is projected to amount to R2 592 billion in fiscal 2025/26 and increase to R2 835 billion in fiscal 2027/28, growing at an average annual rate of 5.6% over the medium term. Over the next three years, government spending is expected to remain highly redistributive, with the social wage[2] comprising, on average, 61% of total consolidated non-interest spending. Learning and culture, social development and health remain the main spending priorities earmarked for the provision of social services. Critical infrastructure investments, social protection and a higher-than-anticipated public-service wage agreement are the main spending additions, together with provisional allocations for critical frontline services. The 2025 Budget also includes a one-off allocation for the hosting requirements during South Africa's Group of Twenty (G20) Presidency in 2025.

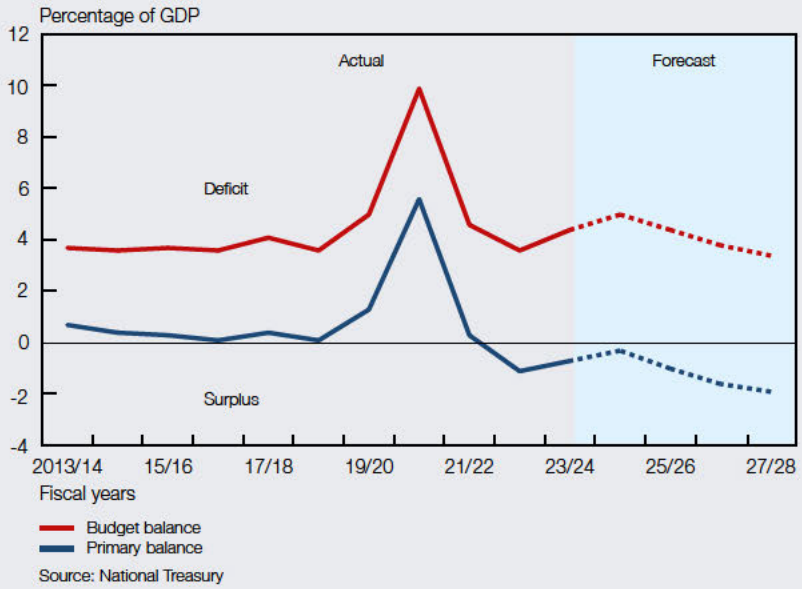
Provisional allocations, primarily for goods and services and the compensation of employees in critical frontline services, were increased by R70.7 billion in the 2025 Budget. An additional R46.7 billion was allocated for critical infrastructure projects, which includes investments in passenger rail transport to modernise signalling technology systems that will improve service frequency, safety and efficiency. A total of R8.5 billion was earmarked for the turnaround of municipal entities by improving declining water, electricity and solid waste services in cities. In addition, a review of the conditional grants system was proposed to address inefficiencies in funding disaster management expenses.

2 The social wage refers to spending on health, education, social protection, community development and employment programmes.

Debt-service costs were revised higher compared with the estimate in the *2024 MTBPS* due to the larger budget deficit, elevated interest rates and a weaker exchange rate. Over the MTEF period, government expects to spend more on debt-service costs than on health, basic education and social development. Debt-service costs are projected to rise from R389.6 billion in fiscal 2024/25 to R478.6 billion in fiscal 2027/28 but, as a percentage of revenue, are projected to stabilise at 21.7% in fiscal 2024/25.

Payments for capital assets are the fastest-growing expenditure item, averaging 8.1% per year over the MTEF period, mainly due to higher infrastructure allocations for transport and water projects.

Consolidated fiscal balances



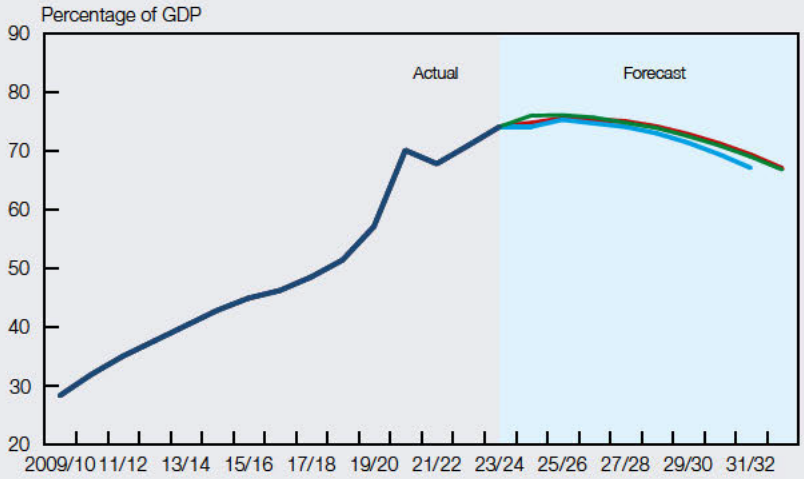
Source: National Treasury

The consolidated budget deficit has been revised higher to 5.0% of GDP in fiscal 2024/25 from the projected 4.5% in the 2024 Budget. However, the consolidated budget deficit is expected to narrow to 3.5% in fiscal 2027/28, with consolidated non-interest expenditure expected to increase at an annual average rate of only 0.8% in real terms over the next three years. In addition, the government anticipates a primary surplus (where revenue exceeds non-interest expenditure) of 0.5% of GDP in fiscal 2024/25, widening to 2.0% of GDP infiscal 2027/28. The main budget deficit is also expected to continue narrowing over the medium term, from 4.4% of GDP in fiscal 2025/26 to 3.3% in fiscal 2027/28.

In fiscal 2025/26, the gross borrowing requirement will be financed through a combination of domestic short- and long-term debt as well as foreign debt. Government's available cash balances will be increased to finance a portion of the Eskom debt-relief arrangement in fiscal 2025/26. National government's total gross loan debt is expected to increase from R5.7 trillion (76.1% of GDP) in fiscal 2024/25 to R6.8 trillion (75.1% of GDP) in fiscal 2027/28. Gross loan debt is now expected to stabilise at 76.2% of GDP in fiscal 2025/26, higher than the 75.3% projected in the 2024 Budget.

Government has introduced two shorter-dated bonds (with 9-year and 15-year maturities) to help minimise borrowing costs and will also continue to refinance redemptions due over the next three years through the bond-switch programme. As part of continuously developing South Africa's capital market and ensuring a diversified portfolio of instruments, government is developing a sustainable finance framework to raise funding through the issuance of green or sustainability-linked bonds.

National government's gross loan debt



As at 31 March of each fiscal year

- Debt-to-GDP ratio
- Estimates: *2024 Budget Review*
- Estimates: *2024 MTBPS*
- Estimates: *2025 Budget Review*

Source: National Treasury

Government's total contingent liabilities,[3] which include guarantees to state-owned companies, independent power producers (IPPs) and public-private partnerships as well as contingent liabilities to other state entities such as the RAF and the Government Employee Pension Fund are expected to decline from R1 160 billion in fiscal 2024/25 to R1 063 billion in fiscal 2027/28. The RAF, Eskom and IPPs together comprise 82.3% of government's total contingent liabilities in fiscal 2024/25.

The economic outlook underscores the necessity to move to a significantly faster economic growth path through sustained progress in raising investment and productivity. Government will continue to manage fiscal risks and support essential services, while remaining committed to maintaining a progressive, stable and transparent tax system that is supported by effective tax administration and stable macroeconomic policies. In addition, improved efficiency and competitiveness driven by structural reforms should enhance the state's capability to deliver services and increase infrastructure investment over the medium term.

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3 Contingent liabilities are state obligations that could result in expenditure if a specific event occurs.