Box 3 The *2025 Medium Term Budget Policy Statement*[1]

The *2025 Medium Term Budget Policy Statement (MTBPS)* reaffirmed the government's commitment to achieving its fiscal targets and restoring credibility, while fostering a cycle of more affordable capital, greater investment, reduced cost of living and improved service delivery – all aimed at supporting stronger economic growth. Despite global economic uncertainty, ongoing domestic logistical challenges and low confidence among businesses and consumers, the government appears largely on track to meet its fiscal objectives, thereby contributing to macroeconomic stability. However, these factors pose risks to the growth outlook over the medium term and have already resulted in a downward revision of the real gross domestic product (GDP) growth forecast for 2025, from 1.4% projected in the *2025 Budget Overview* to 1.2% in the *2025 MTBPS*.

Economic growth is expected to improve over the medium term as investment increases, driven by the government's plans to boost infrastructure spending and advance key structural reforms to address bottlenecks in electricity, transport and logistics, among other constraints. The Minister of Finance's decision to lower the official inflation target to 3%, with a 1 percentage point tolerance band on either side to account for normal economic fluctuations, is expected to lower inflation expectations over the medium term, allowing for the prospect of permanently lower interest rates. This should encourage fixed investment and support stronger long-term economic growth. Overall, real GDP growth is expected to average 1.8% over the medium term, slightly higher than the 1.6% forecast in the *2025 Budget Overview*.

Macroeconomic projections*

Percentage

	2024**	2025		2026		2027		2028
		Medium-term estimates***						
	Outcome	Budget	MTBPS	Budget	MTBPS	Budget	MTBPS	MTBPS
Real GDP growth..........	0.5	1.4	1.2	1.6	1.5	1.8	1.8	2.0
CPI..............................	4.4	3.7	3.3	4.2	3.7	4.3	3.3	3.2
Current account balance (as a percentage of GDP)............................	-0.7	-0.7	-1.0	-1.1	-1.8	-1.3	-2.0	-2.0
GDP at current prices (R billions).....................	7 352	7 760	7 660	8 235	8 075	8 761	8 509	8 964

* Calendar years

** *2025 MTBPS*

*** *2025 Budget Overview* and *2025 MTBPS*

Source: National Treasury

The *2025 MTBPS* has revised the total consolidated revenue estimate upward by R24.7 billion to R2 225 billion for fiscal 2025/26, compared to the projections in the *2025 Budget Overview*. This upward revision is mostly due to higher gross tax revenue on account of stronger-than-expected collections of net value-added tax (VAT) and taxes on corporate income and profits. Although revenue performance has exceeded expectations so far in fiscal 2025/26, the *2025 MTBPS* projects a gross tax revenue shortfall of R17.1 billion in fiscal 2027/28. This projected shortfall is attributed to lower tax receipts, mainly resulting from a downward revision of nominal GDP estimates following the adoption of a lower inflation target. National Revenue Fund (NRF) receipts have been revised slightly higher to R1.9 billion in fiscal 2025/26, compared with the R1.5 billion estimated in the 2025 Budget. As a ratio of GDP, consolidated revenue for fiscal 2025/26 has been revised higher to 28.6%, compared with 28.0% reported in the *2025 Budget Overview*.

1 The Minister of Finance presented the *2025 Medium Term Budget Policy Statement (MTBPS)* to Parliament on 12 November 2025.

Fiscal framework*

R billions/percentage of GDP

	2024/25**	2025/26		2026/27		2027/28		2028/29
		Medium-term estimates***						
	Outcome	Budget	MTBPS	Budget	MTBPS	Budget	MTBPS	MTBPS
Total consolidated revenue	2 047	2 201	2 225	2 354	2 354	2 503	2 484	2 623
Total consolidated expenditure	2 399	2 579	2 589	2 675	2 666	2 807	2 770	2 883
*Of which: Debt-service costs****	*385.8*	*426.3*	*421.5*	*447.0*	*436.0*	*477.5*	*455.9*	*471.8*
Primary balance****	51.0	65.0	68.5	139.4	141.2	191.1	183.9	224.0
Percentage of GDP	*0.7*	*0.8*	*0.9*	*1.7*	*1.7*	*2.1*	*2.1*	*2.5*
Consolidated budget deficit	-352.4	-377.9	-363.4	-320.2	-312.4	-304.3	-285.8	-259.5
Percentage of GDP	*-4.8*	*-4.8*	*-4.7*	*-3.8*	*-3.8*	*-3.4*	*-3.3*	*-2.9*
Gross loan debt of national government	5 694	6 091	6 070	6 447	6 349	6 820	6 677	6 991
Percentage of GDP	*77.0*	*77.4*	*77.9*	*77.2*	*77.7*	*76.7*	*77.4*	*77.0*

* Fiscal years

** *2025 MTBPS*

*** *2025 Budget Overview and 2025 MTBPS*

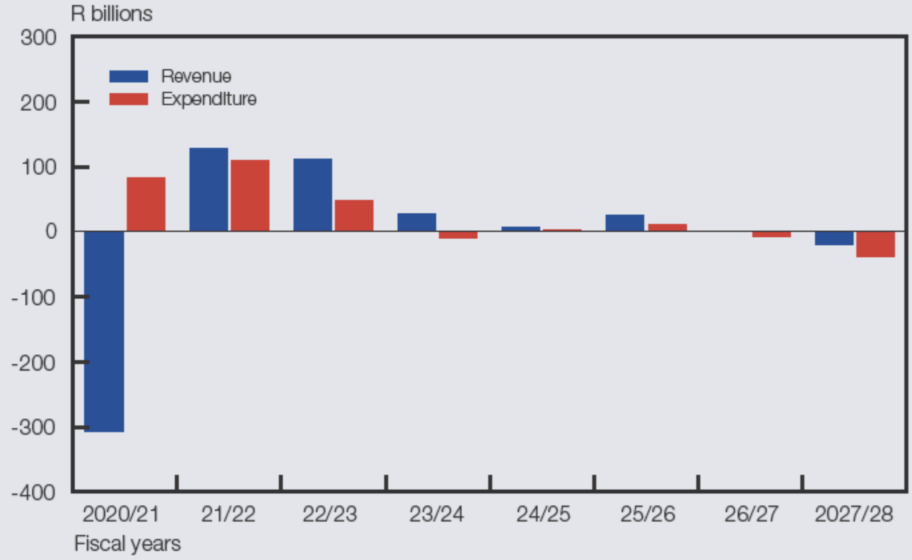
**** Main budget

Source: National Treasury

Consolidated government expenditure for fiscal 2025/26 was revised slightly higher in the *2025 MTBPS* to an estimated R2 589 billion, compared to R2 579 billion projected in the *2025 Budget Overview*, due to increased non-interest expenditure. Non-interest expenditure is projected to rise further over the medium term, with additional allocations for the social wage to support low-income and vulnerable households, as well as for capital expenditure on infrastructure to boost economic growth and improve service delivery. The government also introduced reforms to change how departments engage with the budget process, building on previous expenditure reviews. In addition, the Medium-Term Expenditure Framework (MTEF) introduced the Targeted and Responsible Savings (TARS) mechanism, which will identify low-priority or underperforming programmes to enhance fiscal sustainability and service delivery, thereby redirecting savings within sectors towards broader government priorities. These reforms, together with performance-based frameworks and stronger oversight mechanisms, are intended to bolster efficiency, protect frontline services and create fiscal space to fund key government priorities.

Over the MTEF period, payments for capital assets are expected to be the fastest growing expenditure item by economic classification, while growth in the compensation of employees is expected to average 4.1%, guided by the multi-year wage agreement. Debt-service cost for fiscal 2025/26 was revised slightly lower to R421.5 billion compared to R426.3 billion projected in the *2025 Budget Overview*. Over the medium term, this expenditure item is expected to grow at an average annual rate of 3.8%, slower than the 7.0% average growth projected in the *2025 Budget Overview*, recognising the significant impact this expenditure item has on the government's ability to allocate resources to essential services, such as healthcare, education and infrastructure investment.

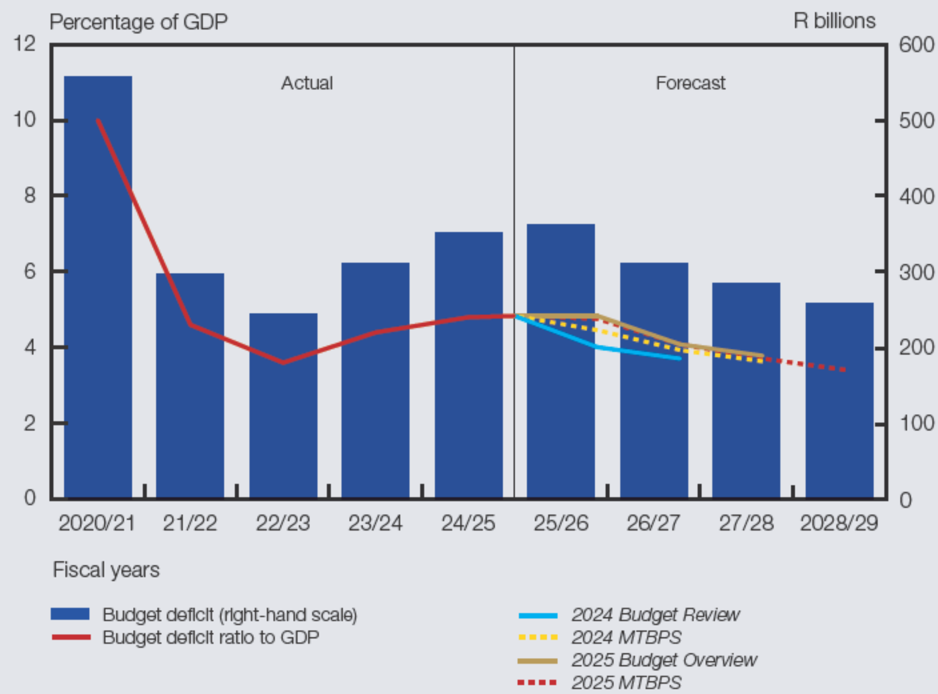
Revisions to consolidated government revenue and expenditure*



* Budget Review to MTBPS
Source: National Treasury

The consolidated government budget deficit as a percentage of GDP is projected to decrease from 4.7% in fiscal 2025/26 to 2.9% in fiscal 2028/29. This largely reflects the sustained increase in the primary surplus projected over the MTEF period, which is also expected to stabilise national government's debt-to-GDP ratio.

Consolidated government budget deficit

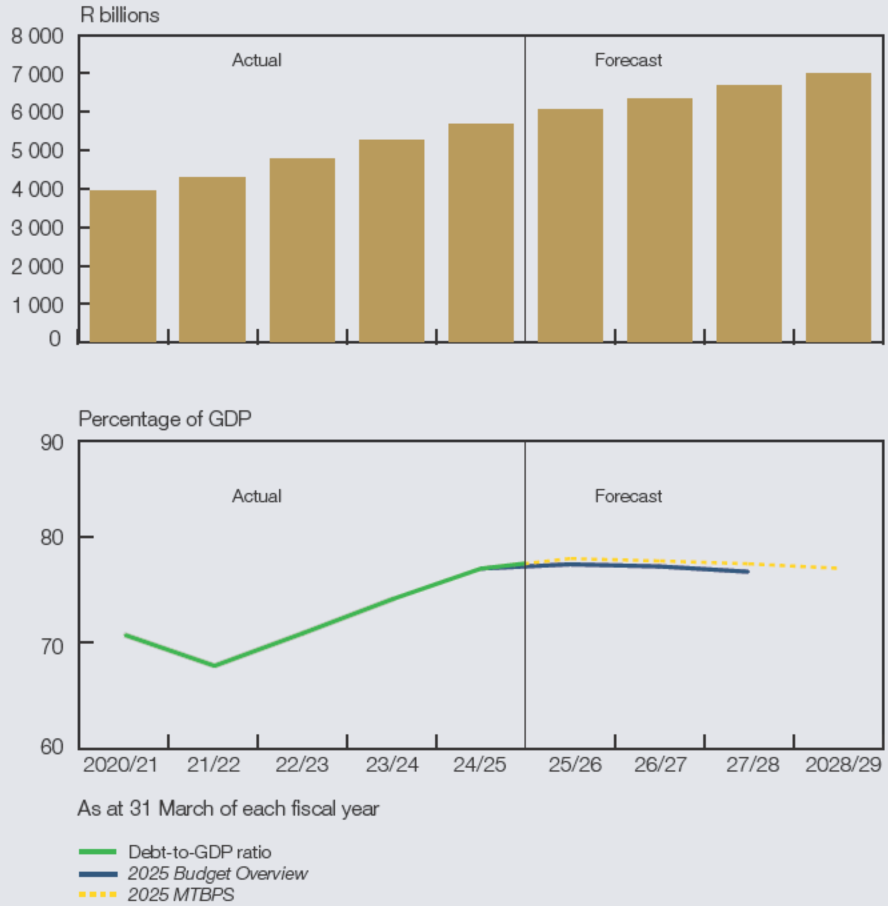


Source: National Treasury

The government's gross borrowing requirement for fiscal 2025/26 – the sum of the budget deficit, maturing loans, the Eskom debt-relief arrangement and the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) settlement – was reduced by R20 billion to R568.2 billion. However, government increased its projected cash balances in fiscal 2025/26 to help ease cash-flow pressures and to partially finance the gross borrowing requirement in fiscal 2027/28.

During the current fiscal year, borrowing costs decreased from 8.3% in March 2025 to 7.6% in October, with government taking advantage by issuing two new floating rate notes. To manage debt redemptions, government plans to exchange some shorter-dated bonds for longer-dated bonds. Debt redemptions will average R208 billion over the medium term, increasing from R138.9 billion in fiscal 2026/27 to R286.9 billion in fiscal 2027/28 before declining to R198.0 billion in fiscal 2028/29. Meanwhile, government plans to raise about US$14.3 billion in foreign markets over the medium term and draw down on its foreign exchange balances to help manage liquidity.

National government gross loan debt



Source: National Treasury

The *2025 MTBPS* revised the total gross loan debt of national government lower to R6 070 billion in fiscal 2025/26 compared with R6 091 billion projected in the *2025 Budget Overview*, which increases to R6 991 billion in fiscal 2028/29. As a percentage of GDP, national government's gross loan debt is projected to peak at 77.9% in fiscal 2025/26, slightly higher than the 77.4% projected in the *2025 Budget Overview*.

Major state-owned companies (SOCs) continue to rely on government support. The SOCs' ability to generate income determines their ability to repay maturing debt. Consequently, many of these entities are likely to refinance maturing debt, raising borrowing costs and constraining their ability to fund new investments. Elevating the level of investment in public infrastructure is a key element of the government's strategy to accelerate economic growth and improve service delivery. At the same time, private participation is also important to address limited public sector funding and constrained state capacity. Since the 2008–09 global financial crisis, gross fixed capital formation has been decreasing as a share of GDP and is currently less than half the 30% targeted in the National Development Plan (NDP). Over the medium term, payments for capital assets are projected to be the fastest-growing area of expenditure by economic classification, reflecting the government's commitment to shift the composition of expenditure from consumption to growth-enhancing investment.

This will be supported by Operation Vulindlela, which is a government initiative jointly led by The Presidency and National Treasury, aimed at accelerating structural reforms to boost economic growth and job creation. Phase 1 focuses on key sectors like energy, logistics, water and telecommunications, with Phase 2 aiming to drive rapid and inclusive economic growth through additional reforms in local government and digital transformation. Local government reforms, which are crucial to deliver sustainable basic services, are projected to be rolled out over the medium term. National Treasury's new financial instruments, such as market-based bilateral loans, dedicated infrastructure-linked bonds and concessional funding, are expected to help mobilise large-scale private investment, while reducing reliance on the government's balance sheet.