2025 MEDIUM TERM BUDGET POLICY STATEMENT *(MTBPS)*

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

G20 SOUTH AFRICA 2025

2030 NDP

Medium Term
Budget Policy Statement
2025

National Treasury

Republic of South Africa

12 November 2025

RP375/2025

ISBN: 978-1-83491-348-3

The *Medium Term Budget Policy Statement* is compiled using the latest available information from departmental and other sources. Some of this information is unaudited or subject to revision.

To obtain additional copies of this document, please contact:

Communications Directorate

National Treasury
Private Bag X115
Pretoria
0001
South Africa

Tel: +27 12 315 5944

The document is also available on the internet at: www.treasury.gov.za

FOREWORD

South Africa's most pressing challenge is to grow the economy faster and attract the investment needed to create jobs and improve life for all.

Healthy public finances are essential to create a platform for faster growth. They reduce borrowing costs and make more public money available for social spending and infrastructure, while encouraging private investment.

The 2025 *Medium Term Budget Policy Statement* (MTBPS) shows that government is on track to achieve the fiscal targets it set two years ago to restore the health of the public finances. Debt will stabilise this year (2025/26) at 77.9 per cent of GDP, arresting the long climb in the debt trajectory that began in the wake of the 2008 global financial crisis. Over the rest of the decade, rising primary budget surpluses will gradually reduce debt and debt-service costs, which now consume 21 cents of every rand in revenue. The main budget deficit will fall to below 3 per cent of GDP by 2028/29.

There are clear signs that consistent fiscal discipline is paying off in improved investor confidence. This has been aided by sound monetary policy, which has reduced inflation and inflation expectations, enabling lower interest rates.

To reinforce these positive outcomes, I have decided after careful consideration to reduce South Africa's inflation target to 3 per cent. This is the first time in a quarter of a century that government has changed the target. The new target will anchor inflation at permanently lower levels. This will reduce the cost of living and borrowing costs for households, businesses and government, supporting higher long-term economic growth and job creation.

Faster growth that broadens job creation and economic participation requires a more agile and competitive economy – and a more capable state. Government's flagship reform programme, Operation Vulindlela, is making steady progress, particularly in energy and transport. The MTBPS underlines government's commitment to invest in growth-boosting infrastructure and to implement reforms that encourage private investment. It also outlines measures to improve the provision of services, especially by municipalities.

The economy is projected to grow at an average of 1.8 per cent over the medium term. Faster reform implementation would build investor confidence and spur more rapid growth.

This MTBPS follows a highly contested 2025 Budget. Government emerged from the process with broad consensus on reforms to improve value for money in spending and enhance public engagement with the budget. These reforms, which are already built into the 2026 budget process, will help government to cut waste and improve the effectiveness of spending.

I would like to thank all those who have contributed to this process – in particular the President, my Cabinet colleagues, the Ministers' Committee on the Budget, the Budget Council and the two Deputy Ministers of Finance. And once again, I would like to recognise the entire team at the National Treasury for their unshakeable commitment to their constitutional obligation to ensure transparent, sustainable public finances for all South Africans.

Enoch Godongwana
Minister of Finance

CONTENTS

CONTENTS

TABLES

FIGURES

1

2025 MTBPS

ON TRACK: MEETING FISCAL TARGETS AND ADVANCING REFORM

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CHAPTER 1

ON TRACK: MEETING FISCAL TARGETS AND ADVANCING REFORM

In brief

- Government is improving the health of the public finances and accelerating infrastructure investments. Over the medium term this will strengthen growth prospects, reduce borrowing costs, improve confidence and foster faster job creation.
- Real GDP growth is expected to average 1.8 per cent over the next three years.
- Structural economic reforms are making steady headway, particularly in electricity, transport and logistics, and bulk water provision. Faster implementation of domestic reforms will support expanded growth and investment.
- The fiscal strategy remains on course even in the current low-growth economic environment. Debt will stabilise this year and the primary budget surplus will grow to 2.5 per cent of GDP in 2028/29 – supporting a decline in debt-service costs.
- The Minister of Finance has set a new inflation target of 3 per cent, with a 1 percentage point tolerance band. The lower inflation environment, and the revised target, will contribute to reducing the cost of living for all – especially for poor households.
- Government is implementing reforms to strengthen efficiency and eliminate waste. Over the medium-term expenditure framework (MTEF) period, initial savings of R6.7 billion will be achieved.

INTRODUCTION

The 2025 *Medium Term Budget Policy Statement* (MTBPS) underscores government's commitment to fiscal sustainability, even in a low-growth environment. Government debt will stabilise this year, in line with the strategy announced in 2023, marking the first time since the 2008 financial crisis that public debt does not grow as a percentage of GDP.

This year the economy is forecast to grow by 1.2 per cent, down from the 1.4 per cent estimated in the 2025 Budget. Over the next three years, the economic outlook strengthens moderately, with GDP growth forecast to average 1.8 per cent annually.

Rapid growth and job creation require faster implementation of structural reforms and higher levels of capital investment. The MTBPS provides an update on the reform programme and outlines additional measures to support capital investment.

The fiscal framework projects moderate real growth in expenditure over the next three years, while ensuring that government can meet its fiscal targets. Medium-term spending continues to protect the social wage – education, health, community development, social protection and jobs programmes.

The Minister of Finance has decided to reduce the inflation target to 3 per cent, with a 1 percentage point tolerance band on either side to accommodate normal economic fluctuations. The revised target will benefit all South Africans, especially poorer households. Although the impact on government finances will be mixed in the short term, this change is expected to reduce the costs of living and borrowing, while boosting economic growth and revenues in the years ahead.

South Africa's removal from the Financial Action Task Force grey list in October marks a significant gain for the country, for business confidence and for investment. This decision was the fruit of extensive collaboration between government departments and the financial sector to strengthen the country's anti-money laundering regime.

MACROECONOMIC OUTLOOK

Chapter 2 discusses the GDP outlook and the economic growth strategy, which has four elements: maintaining macroeconomic stability, implementing structural reforms, building state capability and supporting public infrastructure investment.

Government is pressing ahead with the implementation of structural reforms through Operation Vulindlela, which continues the steady work of reforming key network industries – energy, freight logistics and water – and reforming the visa system to attract tourism, skills and investment. The second phase of this programme expands the focus to strengthen local government, create dynamic and integrated cities, and introduce the benefits of digital public infrastructure.

Notable progress has been registered in several areas, including improved availability of electricity and increased freight rail volumes. In the short term, faster implementation will build on these gains. In electricity, delays in procuring and connecting additional generation capacity at scale persist due to a combination of operational, administrative and regulatory challenges, which are being addressed. In transport and logistics, despite stabilised performance, Transnet has not yet met its own targets for recovery in freight rail volumes, while the pace of regulatory action related to private investment in the rail network can be accelerated to good effect.

Table 1.1 Macroeconomic projections

Calendar year	2024	2025	2026	2027	2028
Percentage change	Actual	Estimate	Forecast		
Household consumption	1.0	2.6	1.6	2.0	2.2
Gross fixed-capital formation	-3.9	-1.0	2.6	3.2	3.9
Real GDP growth	**0.5**	**1.2**	**1.5**	**1.8**	**2.0**
GDP at current prices (R billion)	**7 352.4**	**7 660.4**	**8 074.8**	**8 509.5**	**8 964.0**
CPI inflation	4.4	3.3	3.7	3.3	3.2
Current account balance (% of GDP)	-0.7	-1.0	-1.8	-2.0	-2.0

Across all tables in the Medium Term Budget Policy Statement, the use of "0" refers to a value of small magnitude that is rounded up or down to zero. If a value is exactly zero, it will be denoted by "–". If data is not available, it is denoted by "N/A"
Source: Reserve Bank and National Treasury

SUPPORTING GROWTH THROUGH INFRASTRUCTURE INVESTMENT

This MTBPS highlights government's continued commitment to shift the composition of spending from consumption to investment. Additional allocations through the Budget Facility for Infrastructure (BFI) include new or expanded support for water and sanitation projects in Polokwane and for the reinstatement of freight rail operations to transport high-value minerals to ports. These and other projects described in Chapter 5 will create jobs and lift economic output.

To ensure that projects are successfully implemented, government is advancing the institutional arrangements announced in the 2024 MTBPS. Chapter 5 discusses complementary reforms under way to mobilise private capital and involvement, and improve the public sector's ability to finance and build infrastructure projects. These reforms include the creation of a credit guarantee vehicle to reduce the risks for investors when entering into long-term partnerships with the state. To increase the frequency of projects under construction, project proposals are now being assessed and approved on a quarterly basis through the BFI.

The metro trading services reform introduced a performance-based municipal grant in July 2025 to incentivise eight metropolitan cities to rebuild and better manage water and sanitation infrastructure, electricity and solid waste services. The reform is expected to reverse the decline in service reliability by improving performance. An amount of R54 billion is set aside over a six-year period to support municipal capital budgets and unlock private investment by improving metros' revenue and borrowing capacity.

FISCAL STRATEGY

Government remains on course to meet the fiscal targets set out in the 2025 Budget.

Debt will stabilise this year at 77.9 per cent of GDP (Figure 1.1). The primary budget surplus will grow from R68.5 billion in 2025/26 to R224 billion in 2028/29 (Figure 1.2).

After more than a decade of primary budget deficits, government began running a primary budget surplus in 2023/24. The surplus – where revenue exceeds non-interest expenditure – is expected to improve from 0.5 per cent of GDP in 2023/24 to 2.5 per cent in 2028/29. The growing primary surplus enables government to stabilise and then reduce debt and debt-service costs (Figure 1.3). The main budget deficit is expected to narrow from 4.6 per cent of GDP in 2022/23 to 2.7 per cent in 2028/29.

These achievements – stronger fiscal balances and lower debt – have important real-world implications. For many years, resources that would otherwise go to providing services have been consumed by the cost of servicing debt. The stabilisation and decline of debt-service costs will reduce this "crowding-out" effect and strengthen government's ability to allocate resources in line with developmental priorities. Moreover, when government debt and debt-service costs remain elevated over a long period of time, it puts upward pressure on interest rates in the whole economy, making it more costly for households and firms to obtain loans to buy assets, start businesses or build infrastructure.

For much of 2025, government borrowing rates have been declining, leading to a reduction in debt-service costs. This is in part due to positive sentiment associated with the steady improvement in the fiscal position. Over time, this will increasingly result in greater economic activity, growing investment and rising incomes. This virtuous cycle – stronger public finances and lower inflation leading to higher confidence and investment, which in turn leads to lower borrowing costs and even stronger public finances and economic growth – is the key pursuit of the fiscal strategy.

Figure 1.1 Gross debt-to-GDP outlook

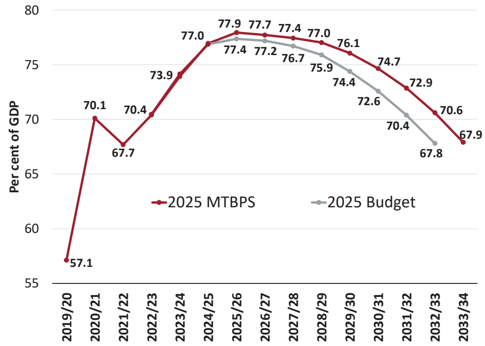


Figure 1.2 Budget and primary balances

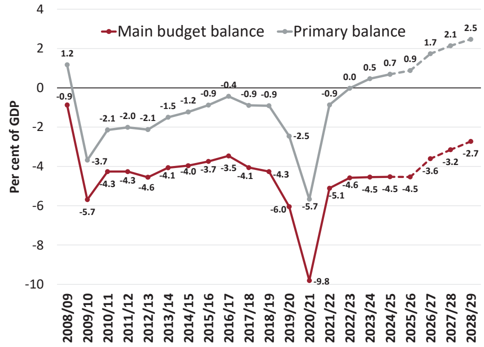


Figure 1.3 Debt-service costs-to-revenue

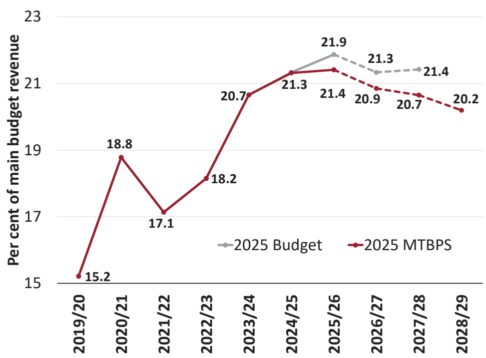
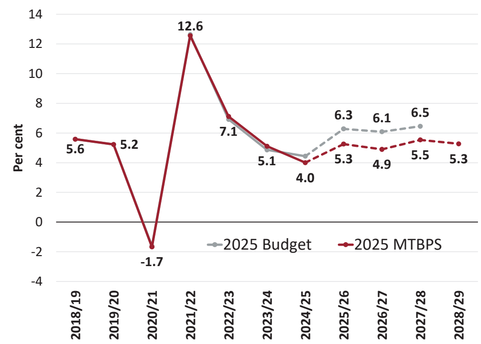


Figure 1.4 Nominal GDP growth



Source: National Treasury

Implications of the revised inflation target

The lowering of the inflation target to 3 per cent has important, multi-stage implications for the public finances. In the short to medium term, targeting lower inflation will result in lower nominal GDP (Figure 1.4), which in turn results in reduced revenue projections and a less favourable debt-to-GDP ratio.

Yet the long-term benefits clearly outweigh these shorter-term concerns. Lower inflation will support higher levels of real economic growth. South Africa's inflation target will be more in line with its trading partners and peer economies, making the economy more competitive. Household spending and private investment will rise due mainly to higher real disposable income and lower borrowing costs.

In the meantime, the negative impact of the fall in revenues on the budget balance is counteracted by the reduction in debt-service costs (Figure 1.3). The net result is that the fiscal balance continues to improve steadily over the forecast period. Figure 1.1 illustrates the slightly higher debt trajectory as a result of lower nominal GDP, although debt still stabilises in the current year. However, the cost of servicing government debt is lower due to improved sentiment as the fiscal position improves.

Adopting a 3 per cent inflation target

The Minister of Finance is responsible for setting monetary policy in consultation with the Governor of the Reserve Bank. The Public Finance Management Act (1999) assigns responsibility for promoting the coordination of macroeconomic policy to the National Treasury.

In 2022, the National Treasury published a review of South Africa's monetary policy by two international experts. Their study[1], which informed the National Treasury's 2024 *Macroeconomic Review*, recommended that the current inflation target of 3–6 per cent be reviewed.

Over the past year, the National Treasury and the Reserve Bank conducted joint research on the impact of a lower inflation target on the economy and the fiscal framework. They also reviewed the wider literature on optimal inflation targeting in emerging markets.

South Africa's average inflation rate is higher than trading partners and emerging market peers, which erodes the country's competitiveness and causes the rand exchange rate to depreciate (Figure 1.5). Higher inflation also increases the cost of living to the detriment of households – particularly the poorest and most vulnerable (Figure 1.6).

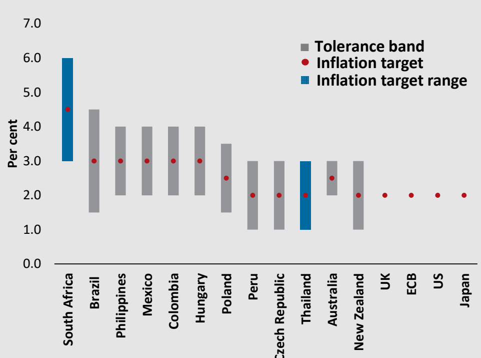
In the short term, reducing the inflation target to 3 per cent will result in more cuts in interest rates than would be the case under a 4.5 per cent target. Over time, a lower target will decrease inflation and inflation expectations, creating the space for permanently lower interest rates, which will support household spending and investment – boosting economic growth and job creation. A lower target aligns the country with international best practice and makes the cost of borrowing cheaper by reducing the inflation risk premium that investors demand to lend to South Africa.

However, lower inflation will also initially slow nominal GDP growth and revenue growth, given that tax receipts are linked to nominal GDP. This will reduce fiscal space, while the real value of public debt will decline more slowly.

After careful consideration, government has concluded that the benefits of a lower inflation target outweigh the costs. Furthermore, policies to restore the health of the public finances and implement growth reforms will mitigate short-term adjustment risks. Given the year-to-date revenues collected and the measures already implemented to stabilise the public finances, the National Treasury has concluded that the target change can be managed without jeopardising government's fiscal objectives.

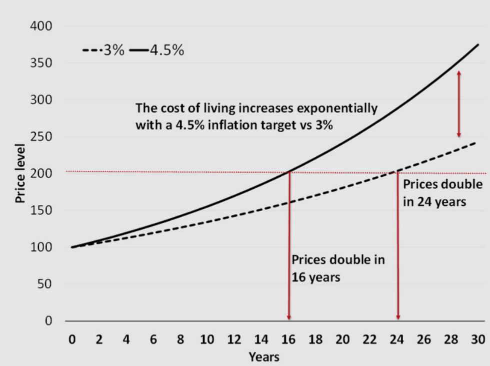
As a result, government has decided to set a new inflation target of 3 per cent with a tolerance band of 1 percentage point. To ensure a smooth adjustment for households and businesses, the Reserve Bank is expected to guide inflation and inflation expectations gradually towards the 3 per cent target over the next two years. The Minister of Finance and the Governor of the Reserve Bank will closely coordinate policy settings to maximise the economic benefits of the new target, and enhance fiscal and monetary policy alignment.

Figure 1.5 Inflation targets in emerging markets and advanced economies



Source: Central bank websites and Treasury calculations

Figure 1.6 Cost-of-living increases



Source: National Treasury

[1] *Honohan, P and A Orphanides, Monetary Policy in South Africa, 2007-21 SA-TIED Working Paper #208 / March 2022.*

POLICY REFORMS TO SUPPORT THE FISCAL STRATEGY

In supporting the fiscal strategy, government has proposed and implemented various initiatives to entrench balanced public finances, strengthen revenue collection and improve spending efficiency.

Next steps on fiscal anchors

Government is considering options for a formal fiscal anchor to help ensure that the public finances remain sustainable over the long term. After publishing a discussion document in March 2025, the National Treasury held consultative stakeholder workshops. A formal policy proposal will be finalised in 2026.

Improving revenue collection efficiency

The South African Revenue Service (SARS) was allocated an additional R7.5 billion over the 2025 MTEF period to recover large tax debts and invest in new technology, data science and artificial intelligence to strengthen collection efficiency and transparency. The impact on overall revenues emanating from these resource injections will occur over time and, in some cases, may be affected by legal processes. Like the 2025 Budget, the MTBPS excludes the potential benefits of SARS debt collection from the medium-term estimates.

Government will continue to monitor SARS's revenue performance to determine whether the R20 billion in additional tax increases for the 2026 Budget proposed in the 2025 Budget may be withdrawn. A decision will be announced in the 2026 Budget.

Revenue collection for the first six months of 2025/26 reached R924.7 billion, 9.3 per cent higher than the corresponding period last year and R17.5 billion over 2025 Budget estimates. The in-year revenue improvement was, in part, due to once-off collections from corporations and higher household expenditure. The revenue overrun narrows the 2025/26 budget deficit and enables government to add funding for spending priorities and frontload capital investments.

Budget reforms to boost efficiency and reduce waste

Government has begun a process to identify and remove low-priority or underperforming programmes from the budget. The initiative will reduce aggregate expenditure and, where appropriate, reallocate funding towards pressing priorities. The Targeted and Responsible Savings (TARS) initiative has recommended several programmes that can be closed immediately, phased out, scaled down or subjected to further scrutiny. Based on initial work over the last few months, the fiscal framework proposes medium-term savings of R6.7 billion to be realised as part of the TARS initiative, as discussed in Chapter 4. Further announcements will be made in subsequent budgets.

Using new data-driven approaches, government has also launched a process to remove ghost workers from the payroll. Initial results from this process flagged 8 854 cases where individuals were receiving payments from multiple departments, were inactive employees or had bank account anomalies. The ghost worker identification process will also identify individuals appearing on multiple government systems.

The Early Retirement Programme was announced in the 2024 MTBPS. Early retirement without penalties and with added financial incentives has been implemented since 15 October 2025. This initiative allows qualifying employees to exit the public service, where possible replacing them with younger employees. Government set aside R5.5 billion during the 2025 MTEF period to enable 15 000 eligible employees to exit the public service between 2025/26 and 2026/27. Over the medium to long term this will achieve estimated average savings of R3.5 billion per year.

In 2026/27, the National Treasury will launch a multi-year fiscal literacy campaign to build public understanding of and engagement with the opportunities and risks South Africa faces in managing spending, revenue and debt.

EXPENDITURE PRIORITIES

Chapter 4 outlines government's medium-term spending priorities and the in-year adjustments to spending. About 60 per cent of consolidated non-interest spending over the next three years goes to the social wage, supporting low-income and vulnerable households. Table 1.2 shows that total expenditure by function, which grows by an annual average of 3.4 per cent over the MTEF period, is still slightly outpaced by growth in debt-service costs.

Table 1.2 Consolidated expenditure by function[1]

	2024/25	2025/26	2026/27	2027/28	2028/29	Average annual growth
R billion	Outcome	Revised	Medium-term estimates			2025/26 – 2028/29
Learning and culture	478.7	506.8	526.5	550.4	568.7	3.9%
Health	277.6	298.9	308.6	322.4	335.5	3.9%
Peace and security	253.8	269.1	273.2	282.3	291.6	2.7%
Community development	266.9	289.0	292.4	296.9	310.4	2.4%
Economic development	249.8	274.4	293.1	303.8	317.5	5.0%
General public services	77.3	88.0	84.5	87.6	89.8	0.7%
Social development	398.4	425.0	437.6	451.2	464.3	3.0%
Payments for financial assets	11.1	16.2	9.3	8.1	16.0	
Allocated by function	2 013.6	2 167.4	2 225.2	2 302.7	2 393.7	3.4%
Debt-service costs	385.8	421.5	436.0	455.9	471.8	3.8%
Contingency reserve	–	–	5.0	11.1	17.0	
Consolidated expenditure	2 399.4	2 588.9	2 666.2	2 769.8	2 882.5	3.6%

1. Consisting of national and provincial departments, social security funds and public entities
Source: National Treasury

Average annual growth in learning and culture, health and economic development is expected to outpace inflation over the medium term. Real consolidated expenditure grows by an average of 0.3 per cent annually over the period.

The revised estimates for 2025/26 include in-year additions amounting to R15.8 billion mainly for infrastructure projects and the 2026 municipal elections. Chapters 3 and 4 discuss the financing of these pressures and spending priorities over the MTEF period.

CONCLUSION

Sustainable public finances that promote economic growth while prioritising the needs of low-income and vulnerable households remain the focal point for the 2026 MTEF budget process. This MTBPS underlines government's commitment to deliver on its fiscal targets while rebuilding credibility, unlocking a virtuous cycle of cheaper capital, higher investment, lower living costs, and stronger economic growth and service delivery.

2

2025 MTBPS

ECONOMIC OUTLOOK

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CHAPTER 2

ECONOMIC OUTLOOK

In brief

- South Africa’s economy is expected to grow by 1.2 per cent in 2025, up from 0.5 per cent in 2024.
- Real GDP growth is forecast to strengthen, averaging 1.8 per cent over the medium term, supported by a revival in investment as new infrastructure allocations take effect and reform implementation builds.
- The improvement in the availability of electricity provides certainty for homes and businesses. Transnet has stabilised freight rail and port volumes. Yet speeding up operational, administrative and regulatory processes would boost investment and the economic outlook.
- Reducing the official inflation target to 3 per cent with a 1 percentage point tolerance band will contribute to sustainably lower inflation and interest rates, enhancing monetary policy certainty and supporting higher long-term growth.

INTRODUCTION

South Africa’s medium-term economic growth outlook reflects a moderate improvement. Structural economic reforms are making steady headway. Government is meeting its fiscal targets, and continued strengthening of macroeconomic stability will increase confidence and reduce borrowing costs across the economy, helping to revive investment and employment.

Over the past year, domestic growth has been affected by greater global uncertainty and volatility, logistical constraints and low levels of business and consumer confidence. However, inflation has fallen, and together with prudent fiscal policy, this has reduced the risk premium – the additional return that investors demand to hold South African assets. As a result, borrowing costs have declined and growth prospects have improved.

The medium-term growth strategy has four components:

- Maintaining macroeconomic stability
- Implementing structural reforms
- Building state capability
- Supporting growth-enhancing public infrastructure investment.

ENHANCING MACROECONOMIC STABILITY

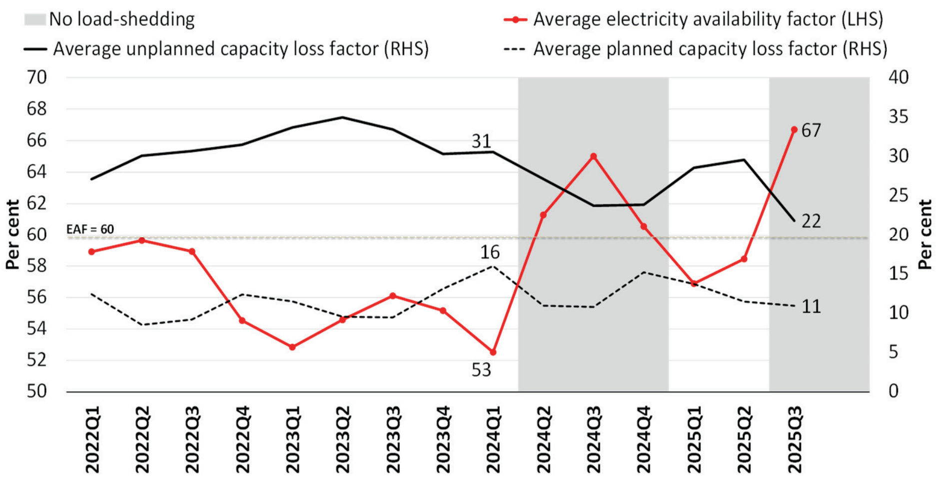
Government is delivering on its targets to return the public finances to good health by stabilising debt, reducing borrowing costs and freeing up resources to invest in growth and development. Inflation has averaged close to 3 per cent for the past 12 months, and the decision of the Minister of Finance on a new inflation target to anchor monetary policy will help stabilise inflation at a lower level. This will protect purchasing power and reduce borrowing costs across the economy, supporting higher rates of investment and growth. Prudent fiscal policy and effective monetary policy together create a strong foundation for inclusive and sustainable economic growth.

MAKING HEADWAY ON STRUCTURAL REFORMS

Through Operation Vulindlela, government continues its work to alleviate constraints in energy, transport and logistics, water and visas. This joint initiative of the Presidency and the National Treasury has expanded to address other longstanding constraints to growth and enhance efforts to build a more capable state. These are complemented by steps to professionalise the public service, reform procurement and strengthen the anti-money-laundering regime.

Progress is visible in electricity supply and visa reform, and there are signs of forward movement in freight logistics. Eskom has increased its available generation capacity and reduced unplanned power cuts, reflecting improved maintenance. As of 29 October 2025, South Africa had experienced 167 consecutive days without load-shedding. The National Transmission Company of South Africa is finalising market rules to govern the wholesale electricity market, which is necessary to promote competition and efficient pricing. Government is preparing to initiate procurement of the first phase of private-sector transmission projects. However, delays in procuring and connecting additional generation capacity due to grid availability and connection constraints persist. These limit investment in the sector.

Figure 2.1 Energy availability and outage factors



Note: The energy availability factor (EAF) is the percentage of Eskom's total generation capacity available to produce power at any given time. The planned capacity loss factor is the percentage of capacity unavailable due to scheduled maintenance. The unplanned capacity loss factor measures the percentage of capacity lost due to breakdowns or failures.

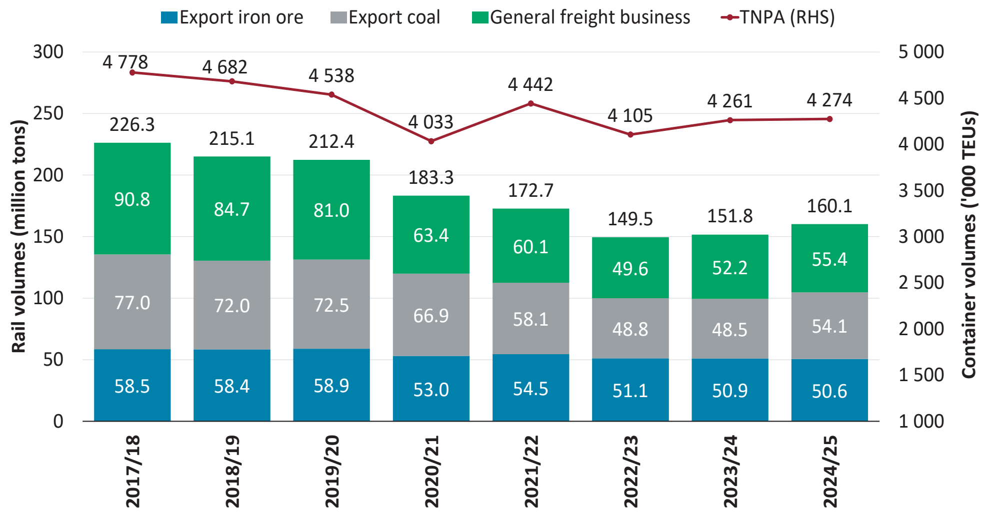
Source: Eskom

Transnet's freight rail volumes increased in 2024/25 – though it is not yet meeting its own targets – and port volumes have stabilised. Reforms in freight logistics focus on upgrading poorly maintained infrastructure and introducing private-sector participation in rail and ports. A rail infrastructure manager was established as a separate division of Transnet in April 2025 and has opened slots on the freight rail network to 11 private rail companies.

The new Transport Economic Regulator, intended to oversee a more competitive sector, will start operating in 2026/27.

A faster recovery in freight rail volumes and swift regulatory action to enable private-sector projects would support a strong turnaround in investment.

Figure 2.2 Rail and container port performance



Source: Transnet Freight Rail, Transnet National Ports Authority (TNPA)

In the water sector, reforms aim to reverse declining water quality and availability for household and industrial use, and attract private capital. The Water Partnerships Office is working with five metros to reduce water leaks and improve their financial and operating performance. Legislation has been passed to establish a National Water Resources Infrastructure Agency to boost maintenance and investment in bulk water infrastructure.

Reforms to attract skills and grow tourism have made significant progress, simplifying visa applications for tour operators serving the Chinese and Indian markets to bring travellers to South Africa. The electronic travel authorisation system is being rolled out for online visa applications from China, India, Indonesia and Mexico.

BUILDING A CAPABLE STATE

In March 2025, Cabinet approved Operation Vulindlela reforms to address dysfunction in local government, enhance the provision of urban housing and transport, and develop public digital infrastructure.

Digital identity and payment systems are being developed to improve government efficiency and strengthen financial inclusion. Reforms to metro trading services for water, sanitation and electricity will ensure metros reinvest revenues from these services in the maintenance and infrastructure required to improve delivery and financial sustainability. Following the first independent verification of performance under the programme, metros will be able to access their incentive grant allocations.

GROWTH-ENHANCING PUBLIC INFRASTRUCTURE

South Africa urgently needs to modernise and better maintain its public infrastructure to reduce the cost of doing business, improve the reliability of services and attract private investment to grow the economy. Chapter 5 provides updates on infrastructure reforms.

GLOBAL OUTLOOK

Global growth is expected to slow by less than previously expected. The October 2025 World Economic Outlook produced by the International Monetary Fund (IMF) projects global growth will slow from 3.3 per cent in 2024 to 3.2 per cent in 2025 – up from a 3 per cent forecast in its July 2025 projection – and to 3.1 per cent in 2026. However, the outlook remains weaker than a year ago as a result of tariff shocks and geopolitical uncertainty.

Table 2.1 Economic growth in selected countries

Region/country	2023	2024	2025	2026
Percentage	Actual		Forecast	
World	**3.5**	**3.3**	**3.2**	**3.1**
Advanced economies	**1.7**	**1.8**	**1.6**	**1.6**
United States	2.9	2.8	2.0	2.1
Euro area	0.4	0.9	1.2	1.1
United Kingdom	0.4	1.1	1.3	1.3
Japan	1.2	0.1	1.1	0.6
Emerging and developing countries	**4.7**	**4.3**	**4.2**	**4.0**
Brazil	3.2	3.4	2.4	1.9
Russia	4.1	4.3	0.6	1.0
India	9.2	6.5	6.6	6.2
China	5.4	5.0	4.8	4.2
Sub-Saharan Africa	**3.7**	**4.1**	**4.1**	**4.4**
Nigeria	3.3	4.1	3.9	4.2
South Africa[1]	0.8	0.5	1.2	1.5
World trade volumes	**1.0**	**3.5**	**3.6**	**2.3**

1. National Treasury forecasts
Source: IMF World Economic Outlook, October 2025

Tariffs have not risen as sharply as expected when the US administration made its announcements in April of this year. However, the delayed price effects of such measures, growing protectionism and supply chain disruptions may increase costs, reduce productivity growth and weigh on medium-term economic growth. The prospect of higher tariffs buoyed trade in the first half of the year as companies brought forward imports and exports, but this is expected to wane over the remainder of 2025 – as is the impact of deficit spending in advanced economies.

Amid the trade policy turbulence, the gold price has surged thanks to the metal's "safe haven" status. Equity markets have rallied, buoyed by artificial intelligence (AI)-related stocks as well as by central bank cuts to interest rates that have prompted investors to shift out of interest-bearing assets in search of higher returns. In this regard, there are pronounced risks that inflated global equity market valuations, particularly of AI stocks, could suddenly reverse, causing instability in financial markets.

Global inflation is expected to continue easing over the next two years, led by lower energy and food prices. However, renewed trade disruptions, higher energy costs or the delayed effects of tariff measures could increase price pressures.

DOMESTIC OUTLOOK

South Africa's real GDP growth is now forecast to be 1.2 per cent in 2025, compared with 1.4 per cent projected in the 2025 Budget. The revision reflects weaker growth outcomes in the first half of the year, a subdued external environment and low levels of consumer and business confidence. Household consumption remained resilient, supported by moderating inflation, lower interest rates and improved credit conditions, but weaker investment, state spending and exports tempered overall expenditure growth.

Real GDP growth is projected to average 1.8 per cent between 2026 and 2028. Investment is expected to strengthen over the medium term as measures to lift infrastructure spending take effect and reform implementation gains traction. Investment will also benefit from the reduced cost of capital, supported by lower interest rates and the country's improving risk premium.

Table 2.2 Macroeconomic performance and projections

Calendar year	2022	2023	2024	2025	2026	2027	2028
Percentage change	Actual			Estimate	Forecast		
Final household consumption	2.6	0.2	1.0	2.6	1.6	2.0	2.2
Final government consumption	0.7	1.9	-0.1	0.9	2.4	0.0	0.3
Gross fixed-capital formation	5.9	3.0	-3.9	-1.0	2.6	3.2	3.9
Gross domestic expenditure	3.9	0.5	-0.6	2.0	2.0	1.9	2.1
Exports	7.8	5.1	-2.8	-2.0	1.5	2.4	2.9
Imports	15.0	3.9	-6.4	0.7	3.1	2.7	3.1
Real GDP growth	**2.1**	**0.8**	**0.5**	**1.2**	**1.5**	**1.8**	**2.0**
GDP inflation	5.4	4.7	3.9	2.9	3.8	3.6	3.2
GDP at current prices (R billion)	**6 667**	**7 038**	**7 352**	**7 660**	**8 075**	**8 509**	**8 964**
CPI inflation	6.9	5.9	4.4	3.3	3.7	3.3	3.2
Current account balance (% of GDP)	-0.3	-1.1	-0.7	-1.0	-1.8	-2.0	-2.0

Source: National Treasury, Reserve Bank and Statistics South Africa

Employment

Compared with the final quarter of 2024, the unemployment rate has deteriorated by 1.3 percentage points over the first half of 2025, reaching 33.2 per cent as of the second quarter. The pattern of unemployment continues to mirror South Africa's longstanding socioeconomic divides, affecting women more than men, black Africans more than whites, under 35s more than older workers and matriculants more than tertiary graduates. There are now just over 386 000 more jobs than in 2019 on the eve of the COVID-19 pandemic. However, the labour market has grown faster, resulting in 1.6 million newly unemployed people, most of whom are new to the labour force.

Inflation

Inflation and inflation expectations have moderated over the past year. Risks to the inflation outlook are balanced and headline inflation appears to be contained at low single digits – the fruits of consistent, credible monetary policy. Since the Reserve Bank announced its preference to target the lower end of the 3–6 per cent band in July 2025, inflation expectations have gradually eased from 4.5 per cent towards 3 per cent. The main risks that could push inflation higher are geopolitical tensions and exchange rate volatility – which could raise the price of imports – and lingering risks from elevated administered prices and animal disease outbreaks. In contrast, strong agricultural output and a stronger rand exchange rate would reduce food and import prices.

Household consumption

Household consumption has strengthened notably during 2025, growing by nearly 3 per cent in the first half of this year following 1 per cent growth in 2024. Purchasing power has been boosted by higher real incomes from lower inflation and a rise in net household wealth, supported by rising equity markets. Over the medium term, household consumption will benefit from lower inflation, the lagged effects of interest rate cuts, improved sentiment and, to a lesser degree, pension withdrawals following the implementation of two-pot pension reforms. Risks to household spending include unanticipated bouts of inflation and slow employment growth.

Investment

Gross fixed-capital formation declined by 3.1 per cent in the first half of this year, following a 3.9 per cent decline in 2024. Investment by the private sector and public corporations fell in response to global trade policy uncertainty and persistent bottlenecks in network industries. The outlook is expected to improve as growing public and private investment in transport and energy boost the broader investment climate. Chapter 5 discusses reforms to improve public-sector infrastructure planning, procurement, spending, financial management and project execution.

Balance of payments

South Africa maintained a trade surplus in the first half of 2025, but a widening shortfall on the services, income and current transfer account has pushed the current account further into deficit. The trade surplus is expected to narrow as the 30 per cent US tariff on South Africa and sector-specific tariffs weigh on exports. Elevated gold and platinum group metals prices will support export values in the near term. A revival in South African domestic demand would contribute to a broader rise in imports.

Table 2.3 Assumptions informing the macroeconomic forecast

	2022	2023	2024	2025	2026	2027	2028
Percentage change	Actual			Estimate	Forecast		
Global demand[1]	**3.9**	**3.8**	**2.6**	**3.1**	**3.2**	**3.4**	**3.4**
International commodity prices[2]							
Brent crude oil (US$ per barrel)	99.0	82.3	79.9	69.2	65.3	65.3	66.2
Gold (US$ per ounce)	1 801.5	1 943.1	2 387.2	3 334.6	3 830.6	3 966.4	4 107.3
Platinum (US$ per ounce)	960.9	966.6	955.0	1 224.2	1 494.2	1 518.7	1 547.2
Coal (US$ per ton)	271.1	120.6	105.4	90.1	94.3	98.7	98.8
Iron ore (US$ per ton)	120.7	120.3	111.1	102.7	97.3	91.3	86.4
Palladium (US$ per ounce)	2 107.4	1 339.5	982.9	1 081.3	1 237.2	1 276.5	1 310.5
Food inflation	**9.2**	**10.8**	**4.5**	**4.4**	**4.3**	**4.0**	**3.6**
Electricity inflation	**11.1**	**11.8**	**13.3**	**10.1**	**8.7**	**8.8**	**8.8**
Sovereign risk premium	**4.1**	**3.9**	**3.2**	**3.0**	**2.8**	**2.6**	**2.4**

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, October 2025)
2. Bloomberg futures prices as at 10 October 2025
Source: National Treasury

Risks to the domestic growth outlook

Risks to the economic outlook are tilted to the downside. Further delays in implementing reforms, particularly in energy and logistics, would impede much-needed growth-enabling investment. Conversely, lower inflation and interest rates, and improvements in infrastructure spending would support higher growth.

SECTOR PERFORMANCE

Agriculture

Gross value added in agriculture grew by 9.8 per cent in the first half of 2025 compared with the same period in 2024, supported by good rainfall and expanded plantings. A delayed harvest may lift third-quarter figures, and a likely La Niña could boost summer crops. High temperatures and animal disease have weighed on profitability but conditions remain positive, despite weaker prices, rising input costs and risks to US-bound exports.

Mining

Gross value added in mining contracted by 2.9 per cent in the first half of 2025 compared with the same period in 2024. Bulk commodity exports continue to be hampered by poor rail and port performance, although volumes have stabilised. Cost pressures and adverse weather also weighed on output in the first half of 2025.

Alternative scenarios

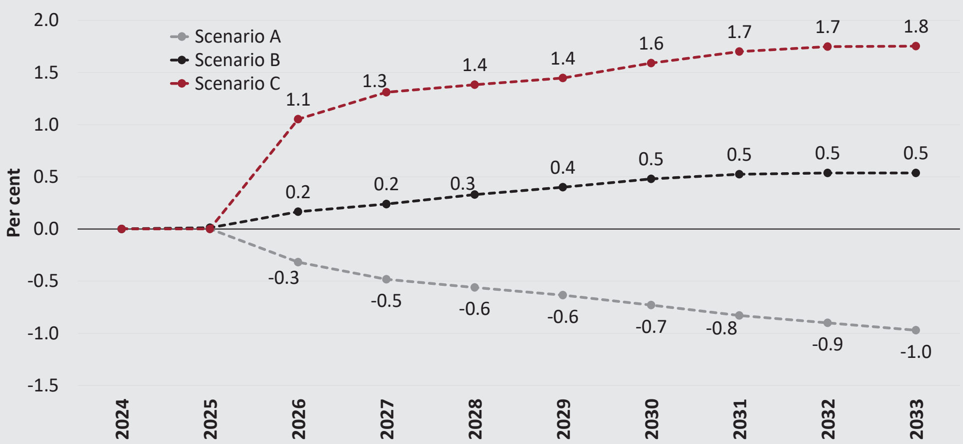
The National Treasury has modelled three alternative scenarios to the baseline forecast.

The **global downside Scenario A** models the implications of higher tariffs, as considered in the IMF's October 2025 forecast. In this scenario, high tariffs reduce global demand and fragment supply chains, constraining trade volumes. South Africa is affected by lower global demand, falling commodity prices and increased uncertainty reflected in financial markets. The exchange rate weakens while borrowing costs increase in response to greater uncertainty, undermining the fiscal position. Near-term inflation remains slightly below baseline due to subdued oil prices. GDP is projected to be 0.6 per cent below baseline by 2028, widening to 1 per cent by 2033.

The **global upside Scenario B** models the implications of a permanent return to lower effective tariffs. In this scenario, normalised trade policy supports global demand, boosts trade and reduces trade uncertainty. South Africa benefits from improved demand and rising commodity prices. The risk premium and borrowing costs decline in response to reduced uncertainty and a stronger exchange rate. Near-term inflation remains slightly above baseline due to improved oil prices. GDP is projected to be 0.3 per cent above baseline by 2028, improving gradually to 0.5 per cent by 2033.

The **domestic upside Scenario C** models a successful scale-up of capital spending and operational efficiency by public entities. Operation Vulindlela reforms and private-sector investments gather pace in energy, transport and logistics, and water. Productive capacity improves alongside business and investor confidence, supporting a further reduction in the sovereign risk premium. Growing fixed investment raises capital stock accumulation and productivity and lifts potential growth, supporting increased trade volumes. Near-term consumer demand improves, supporting a modest uptick in inflation, after which consumer inflation returns to target more quickly. GDP rises 1.4 per cent above baseline by 2028, improving gradually to 1.8 per cent by 2033.

Figure 2.3 Alternative scenario deviations from GDP baseline forecast



Source: National Treasury

Manufacturing

Gross value added in the manufacturing sector contracted by 1.7 per cent in the first six months of 2025 compared with the same period in 2024. The contraction was driven by weak demand amid heightened uncertainty associated with US tariffs. Weaker global demand is expected to persist due to trade policy uncertainty and the expiration of the African Growth and Opportunity Act.

Construction

Construction contracted by 3.9 per cent in the first half of 2025 compared with the same period in 2024, with declines in both residential and non-residential buildings. Gross value added remains about a quarter below pre-pandemic levels, reflecting weak private investment and slow public infrastructure rollout. Greater policy certainty, stronger investment signals and more consistent implementation of public-sector infrastructure projects would boost jobs and activity in construction.

Utilities

The electricity, gas and water sector contracted by 1.6 per cent in the first six months of 2025 compared with 2024. Despite a marked improvement in consistent supply from the second quarter of 2024, electricity production has been affected by lower demand due to weak economic activity and rising self-generation. Growth depends on a sustained operational recovery at Eskom and ongoing reforms to restructure the sector and overcome distribution constraints.

Transport and communications

The transport, storage and communication sector contracted by 1.3 per cent in the first half of 2025 relative to the same period in 2024. The sector is expected to stabilise in the second half of the year as total freight volumes improve, supported by gradual gains in rail payloads linked to Transnet’s recovery plan and structural reforms.

Finance and business services

The finance, real estate and business services sector increased by 3 per cent in the first six months of 2025 relative to the same period in 2024. This expansion reflects stronger activity in financial intermediation, insurance and property markets, supported by sustained demand for professional and support services. The trend also indicates a recovery in investment and credit conditions, contributing positively to overall GDP and highlighting the sector’s resilience.

CONCLUSION

Raising South Africa’s growth trajectory depends on continuing to strengthen macroeconomic stability, accelerating structural reforms, building a capable state and improving public-sector infrastructure investment. Progress is evident but delays in key structural reforms have held back investment, limiting potential opportunities offered by resilience in the global economy. This underscores the importance of continued efforts to improve policy certainty, deal decisively with economic blockages and bolster capacity in infrastructure and service delivery.

This page was left blank intentionally.

3

2025 MTBPS

FISCAL POLICY

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CHAPTER 3

FISCAL POLICY

In brief

- Government is on track to stabilise the gross debt-to-GDP ratio in the current fiscal year (2025/26) and reduce it over the medium term.
- The main budget primary surplus is forecast to grow over the 2026 medium-term expenditure framework (MTEF) period, reducing the anticipated borrowing requirement.
- The main budget primary balance for 2025/26 is expected to outperform the 2025 Budget estimates. Revenues exceed the 2025 Budget estimate by R19.3 billion, of which R13.5 billion will be invested mainly in growth-enhancing infrastructure and used to fund local government elections.
- The fiscal framework adapts to the lower inflation target, protecting real spending growth while continuing to build more sustainable public finances.
- The sovereign risk premium, and consequently the outlook for borrowing costs, has improved significantly during this year.

INTRODUCTION

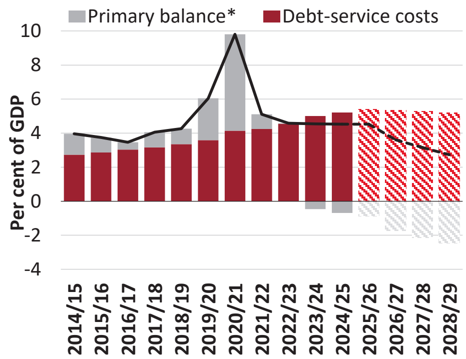
Government is staying the fiscal course and will achieve its targets, despite the weak economic environment. The debt-to-GDP ratio stabilises in the current year and declines over the medium term. This will reduce borrowing costs, helping to create an environment for greater private investment and making public resources available for infrastructure projects.

Concurrently, the Minister of Finance has set a new target for monetary policy that will entrench lower inflation. The benefits of enhanced macroeconomic policy management are already evident in lower bond yields and a stronger exchange rate, which will reduce borrowing costs. Lower inflation has short- to medium-term effects that put pressure on fiscal metrics, but these concerns are more than offset by significant long-term benefits in the form of lower living costs and higher growth.

Fiscal balances for 2025/26 are projected to be better than expected in the 2025 Budget. A R19.3 billion revenue overrun and lower-than-expected borrowing costs will help to accommodate a proposed R15.8 billion increase in non-interest spending, while the main budget deficit narrows by R8.2 billion.

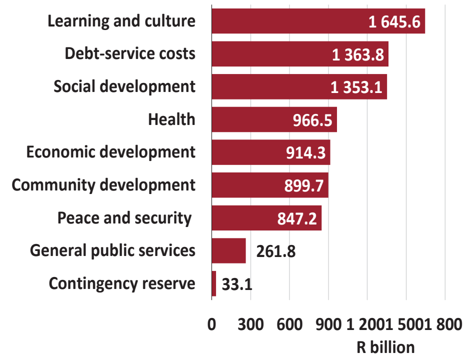
The fiscal framework accommodates lower inflation over the medium term. Non-interest expenditure will be reduced by R6.2 billion in 2026/27 and R14.2 billion in 2027/28, largely in response to the lower inflation environment and the impact on inflation-linked items such as conditional and social grants. Debt-service costs are also expected to decline as the reduced sovereign risk premium shows up in bond yields. These effects are partially offset by lower revenues as a result of lower nominal GDP growth over the next two years. The main budget deficit will narrow compared with the 2025 Budget projections. Figures 3.1 to 3.4 show the adjustments.

Figure 3.1 Main budget balance*



*A positive figure represents a deficit and a negative figure a surplus

Figure 3.2 Consolidated expenditure**



** Over the MTEF period

Figure 3.3 Gross debt-to-GDP outlook

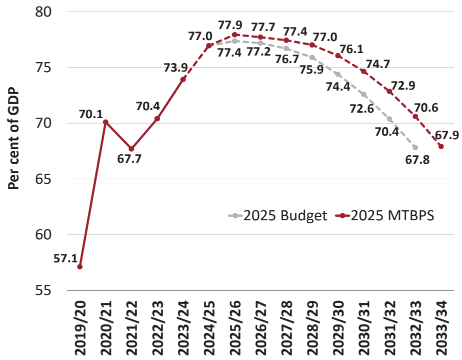
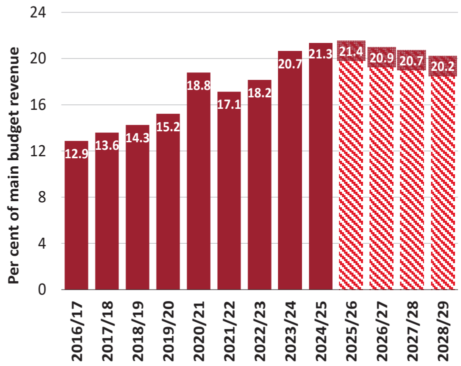


Figure 3.4 Debt-service costs-to-revenue



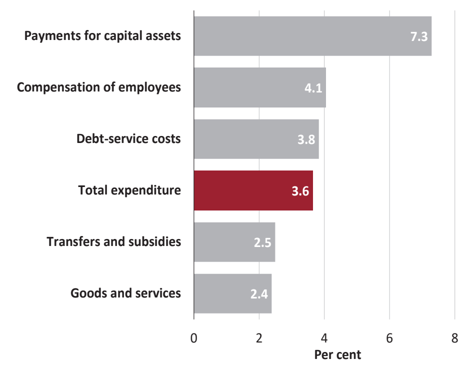
Source: National Treasury

FISCAL POLICY REMAINS ON COURSE

Government's fiscal priorities are to:

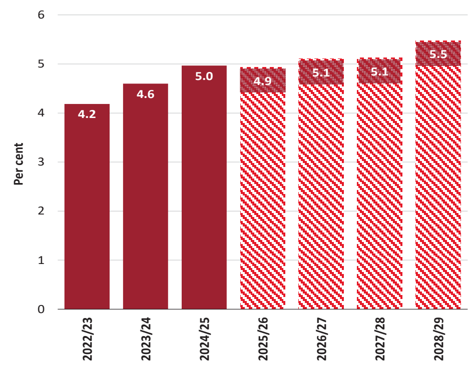
- Anchor fiscal policy by stabilising debt in 2025/26 and growing the main budget primary surplus for the rest of the decade, helping to reduce debt-service costs.
- Direct a growing share of public spending towards capital investment, complemented by infrastructure reforms to attract private investment and speed up delivery.
- Improve the efficiency and effectiveness of public spending by implementing the Targeted and Responsible Savings (TARS) initiative.

Figure 3.5 Growth in consolidated expenditure over MTEF period*



*2025/26–2028/29

Figure 3.6 Payments for capital assets as a share of consolidated expenditure



Source: National Treasury

Fiscal management over the medium term

Over the 2026 MTEF period, fiscal policy will be anchored by a growing primary surplus - with revenue exceeding non-interest expenditure. The budget deficit will narrow to below 3 per cent of GDP by 2028/29 – a level last achieved in 2008/09.

In the current year, government will expand the contingency reserve to R13.5 billion using part of the revenue overrun. These funds will be used mainly for infrastructure-related spending and the 2026 municipal elections.

The decision to reduce the inflation target will support a lower inflation environment by helping to anchor expectations over the medium term. The lower price level reduces the nominal value of GDP and government revenues, negatively affecting fiscal balances. However, lower inflation also results in downward adjustments to expenditure linked to inflation. This offsets some of the fiscal balance deterioration. Finally, the lower interest rates that accompany a lower inflation target contribute to higher investor confidence and reduced borrowing costs for government. Over the long term, the benefits of the inflation target decision far outweigh the short- to medium-term costs.

To accommodate cost growth while maintaining a sustainable debt profile, government proposes to lower non-interest expenditure by R6.2 billion in 2026/27 and R14.2 billion in 2027/28 relative to the 2025 Budget estimates. The fiscal framework incorporates additional tax revenue signalled in the 2025 Budget. Any specific tax proposals will be announced in the 2026 Budget.

In some spending areas lower inflation translates into growth in real (inflation-adjusted) spending over the next two fiscal years. This is particularly the case for employee compensation, given the 4 per cent floor incorporated into the 2025 public-service wage agreement. Real non-interest spending grows on average by 0.2 per cent over the medium term. This moderate real increase protects per capita public spending and balances fiscal consolidation with the sustained delivery of public services.

Over the medium term, the public-service wage bill will increase by a nominal annual average of 4.1 per cent, while capital payments, mainly for infrastructure projects, will grow by 7.3 per cent (Figure 3.5). Chapter 5 outlines progress in implementing infrastructure reforms to expedite delivery.

IN-YEAR ADJUSTMENTS

In-year revenue projections

The in-year revenue outlook is stronger than expected due to higher net value-added tax (VAT) collections, and taxes on corporate income and profits. Compared with the 2025 Budget, the gross tax revenue estimate for 2025/26 is revised up by R19.7 billion.

Table 3.1 Gross tax revenue

	2024/25			2025/26		
R billion	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

Factors affecting in-year revenue collection to date include the following:

- Domestic VAT collections grew by 7.8 per cent in response to resilient household consumption. Weaker economic activity and stronger enforcement to stop fraudulent claims slowed growth in VAT refunds. Net VAT collections will exceed 2025 Budget estimates.
- Corporate and dividend tax collections benefited from strong collections in the trade, electricity and finance sectors, boosted by large once-off dividends tax collections in mining and retail. Personal income tax collections have been marginally below expectations.
- Fuel levy collections have been driven by strong growth in payments from fuel importers. Total collections are estimated to improve in 2025/26 following the sharp contraction in demand in 2024/25, alongside large diesel refund claims settlements.
- Import VAT and customs duties collections are expected to underperform 2025 Budget projections in line with weaker import growth. Specific excise duties collections are similarly projected to fall short of expectations.

The 2025 Budget indicated that an additional R4 billion allocation to the South African Revenue Service (SARS) was intended in part to increase debt collection by R20 billion to R50 billion per year. SARS data for the first six months of 2025/26 shows that debt collections remain below estimates because of the legal and technical complexity of settling many cases. SARS has obtained additional skills to address complex cases, which should improve collections for the rest of this year.

Non-tax revenue and National Revenue Fund receipts are revised marginally compared with 2025 Budget estimates. Additional information appears in Tables C.5 and C.8 of Annexure C.

In-year non-interest spending adjustments

In comparison with the 2025 Budget estimates, proposed revisions to main budget non-interest expenditure result in a net increase of R15.8 billion in 2025/26 (Table 3.2). This is due to upward adjustments that include additions to the contingency reserve to accommodate expenditure that was announced by the Minister of Finance but not yet appropriated. The contingency reserve is increased to R13.5 billion for two freight rail rehabilitation projects in Transnet, capitalisation of the credit guarantee vehicle, the rebuilding of Parliament, Sentech dual illumination costs and the 2026 municipal elections. Total upward adjustments are partially offset by projected underspending, provisional allocations not appropriated and declared unspent funds.

Table 3.2 Revisions to non-interest expenditure for 2025/26

R million	2025/26
Non-interest expenditure (2025 Budget)	**1 884 384**
Upward expenditure adjustments	**47 617**
Special appropriation for health	755
Net additions to contingency reserve	8 519
Expenditure announced in the 2025 Budget	5 377
Rollovers	5 227
Expenditure of an exceptional nature[1]	2 472
Additions to the provincial equitable share[2]	14 415
Unforeseen and unavoidable expenditure	1 602
Self-financing expenditure	4 133
Other allocations in the AENE[3]	5 118
Downward expenditure adjustments	**-31 794**
Provisional allocations not appropriated	-16 951
National government projected underspending	-5 130
Local government repayment to the National Revenue Fund	-1 000
Declared unspent funds	-8 714
Revised non-interest expenditure (2025 MTBPS)	**1 900 207**
Change in non-interest expenditure from 2025 Budget	15 823

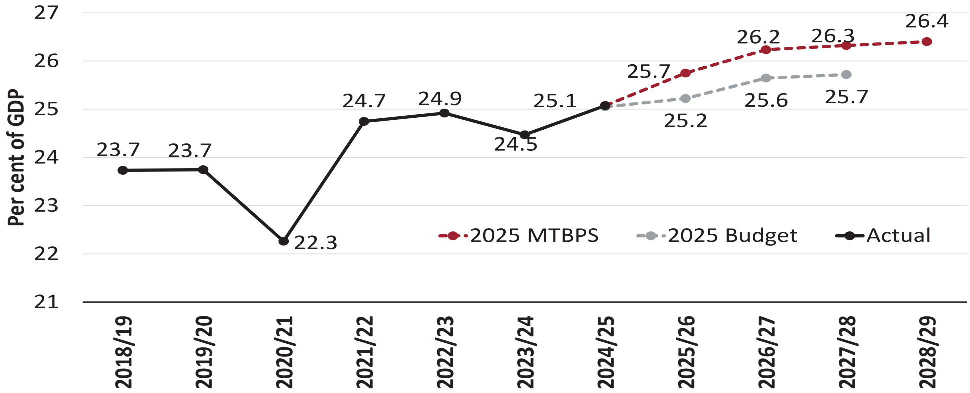
1. Section 6(1)(b) of 2025 Appropriation Act. Excludes R21 million added to the provincial equitable share
2. Includes expenditure announced in the 2025 Budget and allocations for the impact of population changes
3. 2025 Adjusted Estimates of National Expenditure
Source: National Treasury

MEDIUM-TERM REVENUE AND EXPENDITURE OUTLOOK

Revenue

Tax collections are expected to remain buoyant over the medium term, with revenues projected to increase from R2 trillion in 2025/26 to R2.4 trillion in 2028/29. The tax-to-GDP ratio is expected to increase from 25.7 per cent in 2025/26 to 26.4 per cent in 2028/29 (Figure 3.7).

Figure 3.7 Tax-to-GDP ratio



Source: National Treasury

Despite better-than-expected revenue performance in 2025/26, gross revenue collection is projected to fall short of 2025 Budget estimates by R15.7 billion in 2026/27 and 2027/28. This is in part because lower inflation results in a downward revision to the estimates for tax base growth over the period. Improved tax revenues will require more sustainable economic growth and further gains in tax compliance and administration.

Table 3.3 Revised gross tax revenue projections

R billion	2025/26	2026/27	2027/28	2028/29
2025 Budget	**1 985.6**	**2 141.8**	**2 286.5**	
Buoyancy	*1.12*	*1.29*	*1.05*	
Revised estimates	**2 005.3**	**2 143.1**	**2 269.4**	**2 396.3**
Buoyancy	*1.54*	*1.40*	*1.06*	*1.06*
Change since 2025 Budget	**19.7**	**1.4**	**-17.1**	

Source: National Treasury

Expectations for corporate and personal income tax collections are revised downward due to a weaker profitability outlook and lower wage bill growth respectively. Lower inflation, the lagged effect of interest rate cuts and improved sentiment are expected to support household consumption, resulting in improved domestic VAT collections. Although import VAT continues to underperform in line with a weaker outlook for import growth, lower VAT refund payments contribute to net VAT collections exceeding 2025 Budget estimates. Undercollections in specific excise duties receipts (particularly cigarettes and petroleum products) relative to 2025 Budget estimates flow through to the outer years and will require significant improvement in enforcement and compliance.

Table 3.4 Medium-term revenue framework

R billion	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Outcome			Revised	Medium-term estimates		
Gross tax revenue	**1 686.7**	**1 740.9**	**1 855.3**	**2 005.3**	**2 143.1**	**2 269.4**	**2 396.3**
Gross tax revenue growth	7.9%	3.2%	6.6%	8.1%	6.9%	5.9%	5.6%
Nominal GDP growth	7.1%	5.1%	4.0%	5.3%	4.9%	5.5%	5.3%
Buoyancy	*1.11*	*0.63*	*1.64*	*1.54*	*1.40*	*1.06*	*1.06*
Non-tax revenue	51.0	43.7	35.9	35.0	25.5	24.6	24.7
Southern African Customs Union[1]	-43.7	-79.8	-89.9	-73.6	-78.4	-87.5	-86.2
National Revenue Fund receipts[2]	5.2	19.0	8.5	1.9	0.8	1.3	1.5
Main budget revenue	**1 699.2**	**1 723.8**	**1 809.8**	**1 968.7**	**2 091.0**	**2 207.9**	**2 336.3**

1. Amount made up of payments and other adjustments
2. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions
Source: National Treasury

Relative to the 2025 Budget, main budget revenue estimates over the next two years have been lowered by R25.7 billion, mainly driven by downward revisions to tax revenue projections. Payments to the Southern African Customs Union (SACU) are marginally revised downward in 2027/28. Additional details appear in Table C.5 of Annexure C.

Expenditure

Table C.2 in Annexure C highlights changes to main budget non-interest expenditure since the 2025 Budget. Over the next two years, this spending will decrease by a net R20.4 billion, including a downward adjustment of R19.1 billion from lower-than-expected CPI inflation. The expenditure ceiling is decreased by R6 billion in 2026/27 and R13.8 billion in 2027/28. More information appears in Tables C.3 and C.4 of Annexure C.

FISCAL FRAMEWORK

Main budget framework

The main budget framework summarises spending financed from the National Revenue Fund. Main budget revenue is expected to increase to 25.3 per cent of GDP in the current year due to better-than-expected revenue performance.

Table 3.5 Main budget framework

R billion/percentage of GDP	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Outcome			Revised	Medium-term estimates		
Main budget revenue	**1 699.2**	**1 723.8**	**1 809.8**	**1 968.7**	**2 091.0**	**2 207.9**	**2 336.3**
	25.1%	*24.2%*	*24.5%*	*25.3%*	*25.6%*	*25.6%*	*25.7%*
Main budget expenditure	**2 009.2**	**2 046.9**	**2 144.6**	**2 321.7**	**2 385.9**	**2 479.9**	**2 584.2**
	29.7%	*28.8%*	*29.0%*	*29.8%*	*29.2%*	*28.8%*	*28.5%*
Non-interest expenditure[1]	1 700.7	1 690.8	1 758.8	1 900.2	1 949.9	2 023.9	2 112.3
	25.1%	*23.8%*	*23.8%*	*24.4%*	*23.9%*	*23.5%*	*23.3%*
Debt-service costs	308.5	356.1	385.8	421.5	436.0	455.9	471.8
	4.6%	*5.0%*	*5.2%*	*5.4%*	*5.3%*	*5.3%*	*5.2%*
Main budget balance	**-309.9**	**-323.1**	**-334.9**	**-353.1**	**-294.8**	**-272.0**	**-247.8**
	-4.6%	*-4.5%*	*-4.5%*	*-4.5%*	*-3.6%*	*-3.2%*	*-2.7%*
Primary balance	**-1.5**	**33.0**	**51.0**	**68.5**	**141.2**	**183.9**	**224.0**
	-0.0%	*0.5%*	*0.7%*	*0.9%*	*1.7%*	*2.1%*	*2.5%*

1. Includes contingency reserve
Source: National Treasury

Main budget non-interest expenditure has been adjusted over the next two years, and in the 2028/29 baselines, for lower inflation projections. Main budget expenditure is estimated to reach 29.8 per cent of GDP in 2025/26, moderating to 28.5 per cent of GDP in 2028/29. This moderation can be linked to slow real growth in non-interest expenditure and debt-service costs over the MTEF period.

The main budget primary surplus is projected to grow as a share of GDP over the MTEF period. This growing surplus helps to stabilise debt in 2025/26. The main budget deficit is expected to moderate from 4.5 per cent of GDP in 2025/26 to 2.7 per cent of GDP in 2028/29. A breakdown of the components of changes to the main budget framework is presented in Annexure C.

Consolidated budget framework

The consolidated budget consists of the main budget and spending financed from revenues raised by provinces, social security funds and public entities. The consolidated budget deficit is projected to narrow from 4.7 per cent of GDP in 2025/26 to 2.9 per cent of GDP in 2028/29. Public entities, social security funds and provinces are projected to have a combined cash deficit over the next three years, adding to the main budget deficit. Public entity deficits will mainly finance investment in road, rail and water infrastructure.

Table 3.6 Consolidated budget balance

R billion	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Outcome			Revised	Medium-term estimates		
Main budget	-309.9	-323.1	-334.9	-353.1	-294.8	-272.0	-247.8
Social security funds	8.6	10.9	-4.2	-6.9	-2.0	-2.1	-2.1
Public entities	42.9	7.3	-8.6	-6.2	-19.1	-16.5	-15.4
Provinces	13.4	-6.2	-5.4	1.3	2.1	3.4	4.2
RDP Fund	0.2	0.0	0.7	1.4	1.4	1.4	1.7
Consolidated budget balance	**-244.7**	**-311.2**	**-352.4**	**-363.4**	**-312.4**	**-285.8**	**-259.5**
Percentage of GDP	*-3.6%*	*-4.4%*	*-4.8%*	*-4.7%*	*-3.8%*	*-3.3%*	*-2.9%*

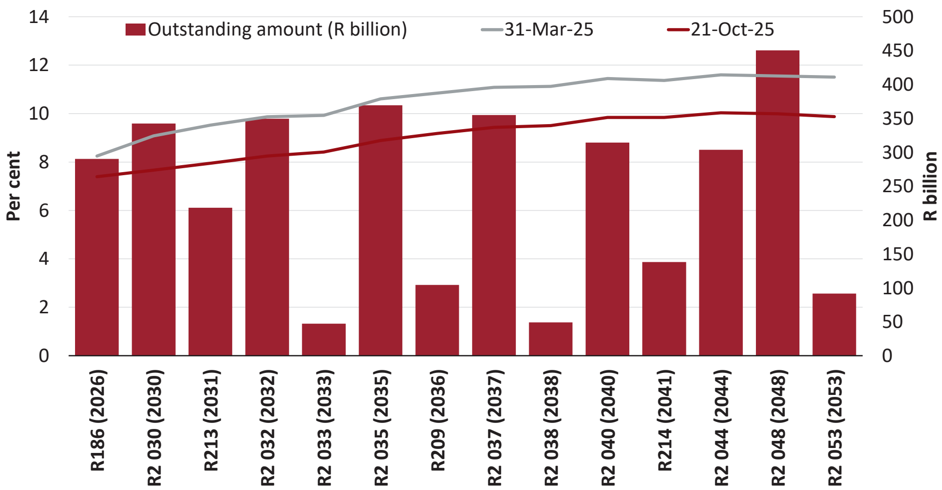
Source: National Treasury

FINANCING AND DEBT MANAGEMENT STRATEGY

Government's borrowing programme is guided by three principles: liquidity management, mitigation of refinancing risk and minimisation of borrowing costs. To meet its funding requirement, government makes use of a diversified mix of instruments such as Treasury bills, domestic and foreign long-term loans, and drawdowns from surplus cash balances. The borrowing programme is further shaped by strategic risk benchmarks, which support prudent management of both the debt portfolio and the overall funding strategy. Government continues to operate within all established portfolio risk parameters.

The funding environment has steadily improved in recent months, supported by more favourable macroeconomic and financial conditions. In 2025, the Reserve Bank reduced its policy rate by 50 basis points, easing monetary conditions and lowering short-term borrowing costs. Between March and September 2025, the sovereign risk premium declined from about 305 basis points to 291 basis points. The yield on the generic 10-year government bond fell by about 172 basis points, from 10.6 per cent in March 2025 to 8.9 per cent in October 2025, indicating improved investor confidence (Figure 3.8).

Figure 3.8 Fixed-rate bond yields



Source: National Treasury

To take advantage of lower borrowing costs, government issued two new floating rate notes. As a result, government's overall borrowing cost decreased from 8.3 per cent in March 2025 to 7.6 per cent in October 2025. Furthermore, the weighted average term to maturity for Treasury bills and domestic long-term bonds has declined from 13.6 years in 2018/19 to 10.5 years in 2025/26.

Foreign participation in domestic bond auctions grew from 24.8 per cent in April 2025 to 26.8 per cent in September 2025. This was supported by lower global risk aversion and improved sovereign risk perceptions, bolstering demand and lowering yields. During this period, credit rating agencies reaffirmed South Africa's sovereign ratings and outlook, citing progress on fiscal consolidation and stronger external balances.

Gross borrowing requirement

The budget deficit for 2025/26 declined by R8.2 billion compared with the 2025 Budget due to stronger revenue performance and lower debt-service costs. Redemptions were R11.8 billion lower than projected due to the bond-switch programme and a stronger rand exchange rate. Overall, the gross borrowing requirement for 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 – decreased by R20 billion to R568.2 billion. Government also increased its cash balances in 2025/26 to help ease cash-flow pressures and to partially finance the gross borrowing requirement in 2027/28.

Debt redemptions will average R208 billion per year over the medium term, increasing from R138.9 billion in 2026/27 to R286.9 billion in 2027/28 before declining to R198 billion in 2028/29. To manage these redemptions, government will exchange some shorter-dated bonds for longer-dated bonds.

Over the next three years, the gross borrowing requirement will average R464.2 billion or 5.4 per cent of GDP. Domestic long-term borrowing is expected to increase from R256.5 billion in 2026/27 to R412 billion in 2027/28, before declining to R324.1 billion in 2028/29.

Table 3.7 National government gross borrowing requirement and financing

	2024/25	2025/26	2026/27	2027/28	2028/29
R billion	Outcome	Revised	Medium-term estimates		
Gross borrowing					
Main budget balance	**-334.9**	**-353.1**	**-294.8**	**-272.0**	**-247.8**
Redemptions	**-98.6**	**-159.9**	**-138.9**	**-286.9**	**-198.0**
Domestic long-term loans	-61.0	-102.7	-100.2	-261.5	-148.2
Foreign loans	-37.6	-57.2	-38.7	-25.4	-49.8
Eskom debt-relief arrangement	**-64.0**	**-80.2**	**–**	**–**	**-10.0**
GFECRA settlement (net)	**100.0**	**25.0**	**56.0**	**–**	**–**
Total	**-397.5**	**-568.2**	**-377.8**	**-559.0**	**-455.8**
Financing					
Domestic short-term loans (net)	39.5	39.1	28.5	45.8	36.0
Domestic long-term loans	347.7	352.2	256.5	412.0	324.1
Foreign loans	67.4	94.3	76.8	91.3	92.9
Change in cash and other balances	-57.1	82.7	15.9	9.9	2.8
Total	**397.5**	**568.2**	**377.8**	**559.0**	**455.8**

Source: National Treasury

To meet its foreign-currency commitments in 2025/26, government raised US$2.6 billion of the projected US$5.3 billion from multilateral development banks. It will raise the balance of US$2.7 billion in global capital markets. Over the medium term, government will raise about US$14.3 billion and draw down on its foreign exchange balances.

GFECRA buffers

In 2024, the National Treasury and the Reserve Bank signed a new GFECRA settlement agreement, which requires annual determination of and mutual agreement on adequacy levels (buffers) for both the GFECRA and the Reserve Bank's contingency reserve.

Informed by a quantitative, value-at-risk framework developed by the International Monetary Fund, the GFECRA buffer for 2025 was set at R260 billion, up from R250 billion in 2024. This calibration used a 5 per cent risk tolerance over a two-year horizon, aligned with the risk appetite used in 2024.

As of 31 March 2025, the GFECRA balance stood at R364 billion. After deducting R50 billion, which last year's agreement earmarked for distribution in 2025/26 and 2026/27 (R25 billion per year), R54 billion remains. Of this amount, the National Treasury will receive R31 billion and the Reserve Bank R23 billion. The Reserve Bank's portion will be allocated to its contingency reserve to help meet the liquidity management costs of the distribution. The National Treasury will use its R31 billion to reduce the gross borrowing requirement in 2026/27.

Notable debt dynamics include the following:

- Gross loan debt is expected to increase from R6.07 trillion in 2025/26 to R6.99 trillion in 2028/29, driven by the budget deficit and fluctuations in interest, inflation and exchange rates (Table 3.8).
- Gross loan debt as a share of GDP is projected to stabilise at 77.9 per cent in 2025/26.
- Debt-service costs in the current year will be R4.8 billion lower than estimated in the 2025 Budget, supported by lower interest rates, lower inflation and a stronger currency.
- As a share of revenue, debt-service costs will peak at 21.4 per cent in 2025/26 and decline steadily thereafter. In nominal terms, debt-service costs will increase from R436 billion in 2026/27 to R471.8 billion in 2028/29.

Table 3.8 Total national government debt

End of period	2024/25	2025/26	2026/27	2027/28	2028/29
R billion	Outcome	Revised	Medium-term estimates		
Domestic loans[1]	**5 092.0**	**5 449.0**	**5 683.3**	**5 931.0**	**6 188.1**
Short-term	550.7	589.8	618.3	664.1	700.1
Long-term	4 541.2	4 859.2	5 065.0	5 266.9	5 488.0
Fixed-rate	*3 259.4*	*3 378.1*	*3 439.4*	*3 641.7*	*3 872.7*
Inflation-linked	*1 078.0*	*1 183.4*	*1 290.2*	*1 345.5*	*1 331.2*
Floating rate note	*183.5*	*277.3*	*315.1*	*259.3*	*271.2*
Sukuk	*20.4*	*20.4*	*20.4*	*20.4*	*12.9*
Foreign loans[1]	**601.9**	**621.0**	**665.7**	**746.1**	**803.1**
Gross loan debt	**5 693.9**	**6 070.0**	**6 349.1**	**6 677.1**	**6 991.2**
Less: National Revenue Fund	-225.0	-141.6	-128.7	-122.0	-105.7
Net loan debt[2]	**5 468.8**	**5 928.4**	**6 220.4**	**6 555.1**	**6 885.4**
As percentage of GDP:					
Gross loan debt	*77.0*	*77.9*	*77.7*	*77.4*	*77.0*
Net loan debt	*73.9*	*76.1*	*76.1*	*76.0*	*75.9*

1. Estimates include revaluations based on National Treasury's projections of inflation and exchange rates
2. Net loan debt is gross loan debt minus the bank balances of the National Revenue Fund
Source: National Treasury

RISKS TO THE FISCAL OUTLOOK

Risks to the fiscal outlook include:

- Weaker-than-expected global and domestic economic growth.
- Volatility in gross tax revenue.
- The financial health of state-owned companies.
- Higher borrowing costs due to global monetary conditions or changes in investor sentiment.

The fiscal risk statement (Annexure A) provides a broader view of fiscal risks.

CONCLUSION

Fiscal policy continues to support macroeconomic stability by stabilising debt in the current year, growing the primary balance over the next several years and narrowing the budget deficit over the MTEF period.

4

2025 MTBPS

EXPENDITURE PRIORITIES

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- Consolidated government spending is expected to increase from R2.59 trillion in 2025/26 to R2.88 trillion in 2028/29, growing by an average annual rate of 3.6 per cent.
- Over the medium term, capital payments are the fastest-growing item of expenditure, growing at 7.3 per cent; growth in debt-service costs has slowed to 3.8 per cent.
- Budget reforms have been introduced to reduce waste and boost efficiency by shifting funds from low-priority and underperforming programmes.
- Additional expenditure of R15.8 billion is proposed for the current year to fund urgent priorities, rollovers from the previous financial year, expenditure announced in the 2025 Budget and investments in infrastructure.
- A moderate increase in local government's share of nationally raised revenue in 2026/27 and 2027/28 supports municipalities' development mandate, cushioning against rising bulk electricity and water costs while safeguarding basic services.

INTRODUCTION

Consolidated government expenditure is expected to grow at an average annual rate of 3.6 per cent, from R2.59 trillion in 2025/26 to R2.88 trillion in 2028/29. The social wage constitutes about 60 per cent of consolidated non-interest expenditure, while capital spending increases for infrastructure to support economic growth and service delivery.

To deliver on fiscal targets, reduce waste and fund new spending priorities, public spending needs to deliver greater value for money. Government has embarked on a multi-year reform to make budgeting more efficient and effective. Programmes or projects that yield poor outcomes or duplicate other efforts will be phased out or scaled down. Over the medium term, significant efficiencies can be achieved.

Improving spending efficiency and effectiveness

In a review conducted between April 2024 and May 2025, the National Treasury found that the budget process is driven by inputs and compliance, with limited appreciation of the realities of constrained fiscal resources. Over time, where government did not engage with specific trade-offs, this has led to across-the-board cuts to budgets and eroded services and financial management.

The current budget cycle introduces reforms that change how departments engage with the budget process, and builds on the expenditure reviews that the National Treasury has conducted over a number of years. The 2026 medium-term expenditure framework (MTEF) guidelines introduced the Targeted and Responsible Savings (TARS) initiative. This identifies low-priority or underperforming programmes for reductions, mergers or closure to enhance fiscal sustainability and service delivery, with savings rechannelled within sectors or for broader government priorities. These reforms, coupled with performance-oriented frameworks and stronger oversight mechanisms, are intended to bolster efficiency, protect frontline services and create space to increase spending on government priorities, including growth-enhancing infrastructure.

A programme assessment matrix has been introduced to enable the systematic review of programmes so that departments can identify low-priority or underperforming programmes to be considered by Cabinet for review and rationalisation. The matrix uses standardised metrics to measure the degree to which programmes:

- Are aligned with legislation and policy, and do not duplicate effort.
- Perform effectively, delivering the desired outputs and outcomes.
- Use resources efficiently, with staffing, administrative overheads, institutional capacity and delivery models that deliver value for money.
- Are financially sustainable, exhibit sound budget discipline and have potential for external funding.

Changes are being implemented in phases, with savings of R6.7 billion included in the 2026 MTEF. This includes savings realised from eliminating misrepresentation in social grants by using tighter income verification processes, and phasing out the *public transport network grant* – which has not met its objectives – and replacing it with better-targeted support.

Additional measures undertaken in the budget reform process include the following:

- Implementing the recommendations of the Department of Public Service and Administration's personnel expenditure review.
- Reviewing the sector education and training authorities.
- Assessing incentives managed by the Department of Trade, Industry and Competition.
- Reviewing several local government conditional grants to address inefficiencies in infrastructure service delivery.
- Reducing administration costs, including through expanding the use of transversal contracts – bulk-buying arrangements negotiated by the National Treasury to reduce costs – in high-value areas.

Increasing the transparency of public procurement

To improve transparency and public accountability, the National Treasury has launched a Procurement Payments Dashboard. It will draw procurement information from various government payment systems, supplemented by contract data reported on the eTender Portal and supplier information from the Central Supplier Database.

The published data will include supplier and ownership details, as well as details on the procurement transactions and payments made to suppliers. This will enable members of the public to scrutinise procurement data, strengthening accountability and trust.

The dashboard is being launched on the day the 2025 *Medium Term Budget Policy Statement* is tabled in Parliament.

REVISED SPENDING PLANS FOR 2025/26

The 2025 adjustments budget includes rollovers of R5.2 billion from the previous financial year and unforeseeable and unavoidable expenditure of R1.6 billion, mostly for disaster relief and funding for the Madlanga Commission of Inquiry. It also includes spending announced at the time of the 2025 Budget for the national dialogue, Statistics South Africa and the Office of the Chief Justice, and confirms provisional allocations for health and education, including early childhood development. Allocations are proposed for disaster relief backlogs not funded in the 2024 adjustments budget to rehabilitate municipal infrastructure, provincial roads, schools, healthcare facilities and agriculture.

The contingency reserve is revised upwards from R5 billion to R13.5 billion, mostly to provide for various infrastructure projects such as freight rail rehabilitation and for the 2026 municipal elections. These additions are allocated to the appropriate functions in Table 4.2 below.

SPENDING PRIORITIES BY FUNCTION GROUP

Over the MTEF period ahead the fastest-growing category of expenditure by economic classification is payments for capital assets. Spending growth in compensation of employees is driven by the multi-year wage agreement. Transfers to provinces and municipalities reflect various changes including compensating local government for increases in the bulk service charge component of free basic services.

Table 4.1 Consolidated expenditure by economic classification[1]

	2024/25	2025/26	2026/27	2027/28	2028/29	Average annual growth 2025/26 – 2028/29
R billion	Outcome	Revised	Medium-term estimates			
Current payments	**1 485.0**	**1 603.7**	**1 660.6**	**1 728.7**	**1 785.7**	**3.6%**
Compensation of employees	763.3	817.5	852.9	891.4	920.9	4.1%
Goods and services	329.2	356.1	362.4	371.1	382.1	2.4%
Interest and rent on land	392.5	430.1	445.3	466.2	482.6	3.9%
of which: debt-service costs	*385.8*	*421.5*	*436.0*	*455.9*	*471.8*	*3.8%*
Transfers and subsidies	**784.1**	**841.2**	**855.1**	**879.9**	**906.0**	**2.5%**
Provinces and municipalities	179.0	191.0	197.6	203.5	211.5	3.4%
Departmental agencies and accounts	28.6	30.1	27.2	28.2	29.4	-0.8%
Higher education institutions	54.1	55.8	58.4	61.3	63.3	4.3%
Foreign governments and international organisations	3.4	3.7	3.4	3.6	3.7	-0.4%
Public corporations and private enterprises	41.0	54.5	48.9	44.8	46.5	-5.1%
Non-profit institutions	40.2	43.3	46.1	49.1	49.1	4.3%
Households	437.7	462.8	473.5	489.5	502.6	2.8%
Payments for capital assets	**119.2**	**127.8**	**136.2**	**142.0**	**157.9**	**7.3%**
Buildings and other capital assets	88.9	96.0	103.2	107.9	118.7	7.3%
Machinery and equipment	30.4	31.8	33.0	34.1	39.2	7.1%
Payments for financial assets	**11.1**	**16.2**	**9.3**	**8.1**	**16.0**	
Total	**2 399.4**	**2 588.9**	**2 661.2**	**2 758.7**	**2 865.6**	**3.4%**
Contingency reserve	–	–	5.0	11.1	17.0	
Consolidated expenditure	**2 399.4**	**2 588.9**	**2 666.2**	**2 769.8**	**2 882.5**	**3.6%**

1. Consisting of national and provincial departments, social security funds and public entities
Source: National Treasury

Table 4.2 Consolidated expenditure by function[1]

R billion	2024/25	2025/26	2026/27	2027/28	2028/29	Average annual growth 2025/26 – 2028/29
	Outcome	Revised	Medium-term estimates			
Learning and culture	**478.7**	**506.8**	**526.5**	**550.4**	**568.7**	**3.9%**
Basic education	324.7	347.9	360.6	376.1	388.4	3.7%
Post-school education and training	141.8	146.4	153.7	161.8	167.4	4.6%
Arts, culture, sport and recreation	12.2	12.5	12.2	12.5	12.8	1.0%
Health	**277.6**	**298.9**	**308.6**	**322.4**	**335.5**	**3.9%**
Peace and security	**253.8**	**269.1**	**273.2**	**282.3**	**291.6**	**2.7%**
Defence and state security	57.8	60.6	59.2	61.5	63.4	1.5%
Police services	126.4	133.7	139.5	145.0	149.4	3.8%
Law courts and prisons	56.2	58.3	60.7	63.3	65.3	3.8%
Home affairs	13.3	16.5	13.8	12.5	13.5	-6.5%
Community development	**266.9**	**289.0**	**292.4**	**296.9**	**310.4**	**2.4%**
Economic development	**249.8**	**274.4**	**293.1**	**303.8**	**317.5**	**5.0%**
Industrialisation and exports	36.6	44.1	43.5	45.4	46.7	1.9%
Agriculture and rural development	36.2	31.0	31.6	33.1	34.0	3.2%
Labour affairs and works programmes	12.0	12.7	13.1	13.4	13.8	2.7%
Economic regulation and infrastructure	145.1	164.9	181.7	188.4	199.2	6.5%
Innovation, science and technology	19.9	21.7	23.3	23.5	23.8	3.1%
General public services	**77.3**	**88.0**	**84.5**	**87.6**	**89.8**	**0.7%**
Executive and legislative organs	18.4	22.9	20.5	21.3	21.8	-1.6%
Public administration and fiscal affairs	50.5	55.7	54.7	56.6	58.0	1.3%
External affairs	8.4	9.3	9.3	9.6	9.9	2.2%
Social development	**398.4**	**425.0**	**437.6**	**451.2**	**464.3**	**3.0%**
Social protection	299.6	318.9	331.0	341.8	352.9	3.4%
Social security funds	91.5	98.1	98.0	99.9	101.5	1.2%
Public-sector pensions	7.4	8.0	8.6	9.5	9.9	7.2%
Payments for financial assets	**11.1**	**16.2**	**9.3**	**8.1**	**16.0**	
Allocated by function	**2 013.6**	**2 167.4**	**2 225.2**	**2 302.7**	**2 393.7**	**3.4%**
Debt-service costs	385.8	421.5	436.0	455.9	471.8	3.8%
Contingency reserve	–	–	5.0	11.1	17.0	
Consolidated expenditure	**2 399.4**	**2 588.9**	**2 666.2**	**2 769.8**	**2 882.5**	**3.6%**

1. Consisting of national and provincial departments, social security funds and public entities
Source: National Treasury

Learning and culture

Learning and culture includes basic and higher education as well as sport, arts and culture. Compensation of employees accounts for 56.3 per cent of expenditure over the medium term, mainly for teachers in provincial education departments. The Education Labour Relations Council is undertaking physical verification of teacher and learner numbers across all provinces to address concerns about the employment of ghost teachers. This audit will complement the government-wide ghost worker audit being coordinated by the National Treasury. Savings derived from this and other measures will be used by provinces to address funding pressures in the sector.

The post-school sector continues to underperform in terms of throughput rates despite increased expenditure. Government will review the community education and training sector as well as the skills development landscape to determine how to improve outcomes.

Health

Over the medium term, the health function will maintain its focus on delivering effective services by strengthening operational efficiency. Key measures include better management of commuted overtime, gradually replacing overtime hours with new appointments where feasible, and applying rural allowances more strategically. To achieve cost savings, there will be greater use of bulk-buying contracts. Productivity variances across provinces will be analysed to assess the efficiency of health services and infrastructure delivery. Savings generated from these initiatives will be used to address compensation pressures and outstanding accruals.

Peace and security

Funding will be reprioritised over the 2026 MTEF period to address cost pressures and achieve efficiency in combating crime and maintaining territorial integrity. This includes implementing early retirement, starting with the Department of Defence. Critical posts will be filled and, along with modernisation programmes, will enhance the effectiveness of the criminal justice system.

The Department of Correctional Services will reprioritise funds to take over the two public-private partnership prisons, Mangaung and Kutama Sinthumule, in June 2026 and February 2027 respectively. The departments of Home Affairs and Police are reprioritising funds to improve immigration services and information and communications technology.

Funding will also be shifted from the Department of Justice and Constitutional Development to the Office of the Chief Justice to strengthen the independence of the judiciary. Shared services budgets for facilities management, security services and virtual library services functions will be migrated in April 2026.

Community development

The medium-term priority for this function remains providing water and sanitation, electricity and solid waste services to over 11.2 million households.

As part of government's budget reform initiative, conditional grants to metropolitan municipalities will be reorganised. Over the medium term, R19.3 billion for infrastructure associated with metro trading services will move from the *urban settlements development grant* to the performance-based *urban development financing grant*. The aim is to enhance funding to scale up infrastructure delivery and improve the reliability of services in metropolitan municipalities by incentivising better performance.

Phase 2 of Operation Vulindlela includes the goal of transforming cities into inclusive and productive spaces. This requires improved linkages between where people live and where they work. The *public transport network grant* has failed to meet its objectives to increase mobility and expand access to jobs and economic opportunities. Over the medium term, the grant will be phased out, and replaced with new arrangements to explore integrated public transport and improvements to higher-density housing to maximise benefits.

Economic development

This function implements programmes for economic growth and job creation, focusing on agriculture, tourism, industrialisation, export promotion, small business development, science and innovation, economic regulation and infrastructure. Over the MTEF period, expenditure in this function grows by 5 per cent – the fastest of any function group – mainly for road infrastructure.

Over the medium term, government will restructure existing business incentives to stimulate investment, address inefficiencies in industrial support programmes, improve competitiveness and expand access to markets. A review of these incentives is under way.

Complementary efforts across sectors will support sustainable development and resilience. The environmental sector is implementing the Climate Change Act (2024) to provide a coordinated and integrated response to climate change across the economy. The agricultural sector is addressing biosecurity threats, including foot-and-mouth disease, to safeguard food security and trade.

General public services

This function supports the establishment of a capable state for transformative development. Cabinet has approved the national communication strategic framework for national and provincial government, led by the Government Communication and Information System to ensure coordinated, consistent and effective messaging by government departments.

The Department of Cooperative Governance will reprioritise funds in 2026/27 towards transfers to households for the payment of a once-off gratuity for outgoing councillors.

Audit to root out ghost workers and payment irregularities

Government has initiated an audit to identify “ghost workers” and payment irregularities across national and provincial departments. Ghost workers are individuals who are listed on the payroll but do not perform the duties associated with their position – including individuals who have left the public service or who are deceased.

The National Treasury has partnered with the Department of Home Affairs and the South African Revenue Service to analyse payroll, population and tax data to identify potential ghost workers. Initial results indicate 8 854 high-risk cases requiring further verification. These include cases flagged for payment from multiple departments, inactive employees and those with bank account anomalies. A two-month verification process will begin in January 2026, followed by appropriate legal action.

The next phase of this project will use a single sign-on application being developed for public servants as well as improvements to the government payroll system to automate monitoring to prevent irregularities and improve spending efficiency.

Social development

Over the medium term, the function will continue to help reduce poverty, ensure the sustainability of welfare services and combat gender-based violence.

The South African Social Security Agency will intensify efforts to combat fraud and corruption while protecting legitimate beneficiaries. Social protection spending, mainly on social grants, is projected to grow at 3.4 per cent over the medium term, reflecting improved income verification, and reduced errors and fraud. This will strengthen the integrity, efficiency and sustainability of the social grant system. The agency is also expected to realise savings over the medium term following the expiration of the Postbank contract for grant distribution. These savings will help offset the additional costs associated with stricter income verification and beneficiary reviews.

The *COVID-19 social relief of distress grant* will be extended for another year, to March 2027, while proposals are finalised to link the working-age population to skills development and employment programmes.

DIVISION OF REVENUE

The proposed division of revenue sustains South Africa's social compact by prioritising basic education and health in provinces, along with water, refuse removal, sanitation and electricity services in municipalities. Allocations aim to rebuild municipal operating capacity and safeguard frontline service delivery.

Provinces' share of nationally raised revenue is projected to edge up to 42.4 per cent over the medium term, reflecting additional allocations for education and health. The local government share is expected to increase slightly to 9.7 per cent to bolster basic services. These shifts are aligned with ongoing conditional grant reforms, performance incentives and targeted support to strengthen governance, maintenance and fiscal sustainability.

Provisional allocations announced in the 2025 Budget for the 2025 MTEF period total R20.8 billion in health. This consists of R2.7 billion to employ doctors, R9.9 billion to cover accruals for medical services and R8.2 billion to retain health professionals. Over the same period, provisional allocations for education total R19.5 billion, covering R9.5 billion for compensation costs in provincial education departments and R10 billion to expand access to early childhood development.

In response to the withdrawal of the US President's Emergency Plan for AIDS Relief (PEPFAR) funding, R590.4 million is added in 2025/26 to support provincial health services and sustain priority HIV/TB interventions. Over the MTEF period, provinces are required to demonstrate credible plans to transition from PEPFAR funding.

Over the medium term, R2.1 billion is added to the *regional bulk infrastructure grant* to fund a wastewater treatment works project in Polokwane funded through the Budget Facility for Infrastructure.

Table 4.3 Division of revenue framework

R billion	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Outcome			Revised	Medium-term estimates		
Division of available funds							
National departments	**855.9**	**826.9**	**860.5**	**923.4**	**903.2**	**932.6**	**973.5**
of which:							
Provincial indirect grants	*3.5*	*4.1*	*3.7*	*4.6*	*3.0*	*2.6*	*2.7*
Local indirect grants	*7.2*	*8.2*	*7.1*	*7.9*	*7.8*	*8.1*	*8.4*
Provinces	**694.1**	**706.3**	**730.6**	**787.0**	**798.2**	**830.2**	**856.0**
Equitable share	570.9	585.1	600.5	647.6	659.5	688.1	709.5
Conditional grants	123.3	121.2	130.2	139.4	138.7	142.1	146.5
Local government	**150.7**	**157.7**	**167.7**	**180.6**	**183.4**	**188.5**	**194.1**
Equitable share	83.9	92.3	99.5	106.1	110.1	114.5	118.0
General fuel levy sharing with metropolitan municipalities	15.3	15.4	16.1	16.8	17.5	18.2	18.8
Conditional grants	51.4	50.0	52.1	57.7	55.7	55.8	57.3
Provisional allocations not appropriated[1]	–	–	–	1.8	60.1	61.4	71.8
Projected underspending	–	–	–	-6.1	–	–	–
Non-interest allocations	**1 700.7**	**1 690.8**	**1 758.8**	**1 886.7**	**1 944.9**	**2 012.8**	**2 095.3**
Debt-service costs	308.5	356.1	385.8	421.5	436.0	455.9	471.8
Contingency reserve	–	–	–	13.5	5.0	11.1	17.0
Main budget expenditure	**2 009.2**	**2 046.9**	**2 144.6**	**2 321.7**	**2 385.9**	**2 479.9**	**2 584.2**
Percentage shares							
National departments	50.3%	48.9%	48.9%	48.8%	47.9%	47.8%	48.1%
Provinces	40.8%	41.8%	41.5%	41.6%	42.4%	42.5%	42.3%
Local government	8.9%	9.3%	9.5%	9.6%	9.7%	9.7%	9.6%

1. Include provisional allocations for COVID-19 social relief of distress grant and compensation costs in provincial health and education departments
Source: National Treasury

Table 4.4 Provincial equitable share

R million	2025/26	2026/27	2027/28	2028/29
Eastern Cape	83 713	85 245	88 459	90 797
Free State	35 619	36 171	37 669	38 765
Gauteng	138 726	138 761	144 861	149 438
KwaZulu-Natal	130 148	134 125	139 993	144 387
Limpopo	75 128	77 703	81 128	83 701
Mpumalanga	53 253	55 148	57 710	59 676
Northern Cape	17 351	17 961	18 812	19 470
North West	47 262	45 964	47 798	49 116
Western Cape	66 381	68 447	71 653	74 119
Total	**647 581**	**659 524**	**688 083**	**709 468**

Source: National Treasury

Conditional grant reforms

Reforms flowing from the review of conditional grants completed in 2024 are being implemented in 2025/26 and will continue to roll out over the medium term. The goal of these reforms is to streamline delivery, reduce duplication and increase accountability.

- In provinces, the *comprehensive agricultural support programme grant* will be merged with the *Ilima/Letsema projects grant* from 2026/27 to provide cohesive support to smallholder and subsistence farmers.

- In basic education, the *school infrastructure backlogs grant* will be merged into the *education infrastructure grant* from the 2027 MTEF period, with 2026/27 as the final year of a standalone *school infrastructure backlogs grant*.
- In local government, amounts of R5.7 billion, R6.4 billion and R7.2 billion are shifted in the respective years of the 2026 MTEF period from the *urban settlements development grant* to the metro trading services component of the *urban development financing grant* to strengthen core utilities.
- The *integrated national electrification programme (municipal) grant* and the *energy efficiency and demand-side management grant* will be merged in the 2026 Budget to simplify electrification funding.

Status of Eskom debt relief and new measures to build sustainable municipal services

Municipal arrears to Eskom rose from R55.3 billion to R94.6 billion in the 12 months to 31 March 2025. This is despite the existence of the municipal debt-relief programme, which has been in place since March 2023, and the ring-fencing of legacy arrears.

While 24 municipalities have qualified for the first one-third write-off after 12 consecutive months of payments and 21 have generally maintained payments, as of 7 May 2025, 47 municipalities remain in default. This is the combined result of weak collections, excessive electricity and water losses due primarily to a lack of maintenance, and inadequate credit control. Measures are being taken to assist municipalities in raising revenue, including expanding smart prepaid metering.

As endorsed by the Minister of Finance, and as an interim measure, defaulting municipalities will transition, where appropriate, to distribution agency agreements (DAAs). Under these agreements, Eskom will operate municipal electricity services for a defined period, support cost-reflective tariff setting and loss reduction, and assist with collections. During this period, municipalities will be required to select the most appropriate service delivery mechanism, phase in cost-reflective tariffs and limit rebates.

Municipalities must focus funding from the *municipal infrastructure grant* and other relevant grants to rehabilitate existing water and electricity infrastructure, which is the conduit for revenue generation. Additional conditions include strict adherence to pro-poor policies to ensure that local governments are providing the required amounts, doing so within national limits and ring-fencing electricity revenues.

The DAA pathway is intended to stabilise cash flows, improve payment discipline and create a bridge to longer-term structural reforms in the local government fiscal framework. The interim measure does not rule out stronger interventions where failures persist.

Local government fiscal framework and white paper reviews

Reviews of the local government fiscal framework and the 1998 *White Paper on Local Government* are proceeding under a coordinated arrangement between national departments to ensure policy and fiscal coherence. The white paper sets mandates and governance rules; the local government fiscal framework provides the instruments and funding flows to implement them. The intention is to implement the new policies in phases beginning in 2026/27.

CONCLUSION

Over the next three years, government will work to phase out and scale down low-priority and underperforming programmes, and improve efficiencies in operations across departments and provinces, while directing most expenditure towards the social wage.

Moderate increases in provinces' and municipalities' share of revenue are intended to address provincial health and education pressures and bolster local basic services, while grant consolidation, performance-based incentives and TARS target improved spending efficiency. Additional local government reforms, which are crucial to establish the sustainable provision of basic services to millions of South Africans, will begin to roll out over the medium term.

5

2025 MTBPS

PUBLIC-SECTOR INFRASTRUCTURE

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

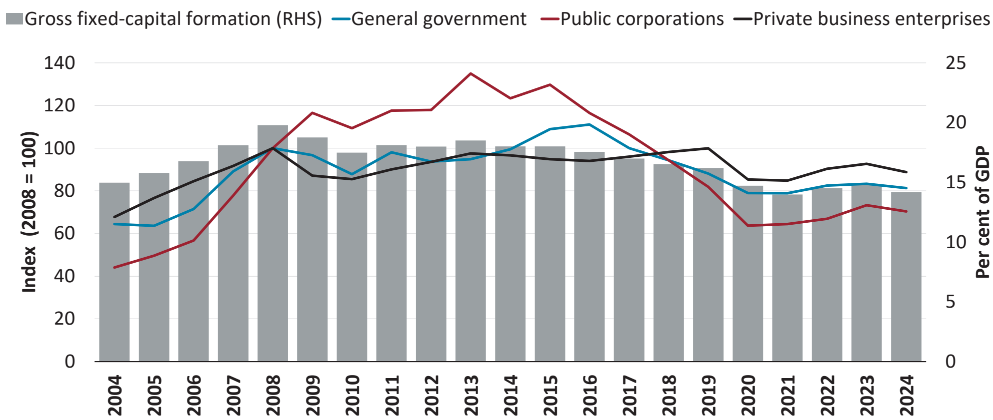
- Higher and more efficient infrastructure investment is essential to unlock faster and more inclusive growth.
- Government is partnering with the private sector to strengthen infrastructure delivery and improve the quality of spending.
- New financial instruments will help to mobilise large-scale private investment while reducing reliance on government's balance sheet.
- Complementary reforms will enhance the project pipeline and improve project appraisal and delivery, particularly at local government level.

INTRODUCTION

Lifting the level of investment in public infrastructure is a key element of government's strategy to raise economic growth and is essential to improve service delivery. Infrastructure investment has strong direct and indirect effects on growth, boosting demand for inputs and workers in the short term and expanding the economy's capacity to produce over the longer term.

However, government cannot do it alone. Private participation is essential to address limited public-sector funding and weak state capacity. Reforms are under way to mobilise private-sector finance and technical expertise at scale. In parallel, there are initiatives to strengthen government's ability to deliver infrastructure more efficiently and improve spending outcomes. These actions will address the persistent underspending of infrastructure budgets and enhance value for money.

Figure 5.1 Fixed investment trends



Source: Statistics South Africa

Since the 2008 global financial crisis, gross fixed-capital formation has been in decline as a share of GDP and now stands at less than half of the 30 per cent targeted by the National Development Plan. Gross fixed-capital formation remains below pre-COVID-19 levels, as shown in Figure 5.1. Government's focus on growth-enhancing infrastructure reforms aims to reverse this systemic underperformance, spurring a virtuous cycle of investment, growth and job creation. Providing policy certainty and easing supply-side constraints will boost investor confidence and unlock private investment, which accounts for about 70 per cent of total gross fixed-capital formation.

In the public sector, better project preparation and appraisal, and more disciplined monitoring will acccelerate infrastructure delivery across all levels of government. Over the medium term, capital payments will remain the fastest-growing area of spending by economic classification, reflecting government's commitment to shift the composition of spending from consumption to growth-enhancing investment.

MOBILISING GREATER PRIVATE PARTICIPATION

G20 Infrastructure Working Group priorities

The G20 Infrastructure Working Group under the South African presidency focused on addressing impediments to scaling up private-sector participation in public infrastructure.

Among the working group's outputs were a framework for effective project planning, a practice guide on leveraging project data and digitalising project pipelines, a note on improving the accessibility and availability of market data, a report on the de-risking measures required for blended finance, and a toolkit for cross-border infrastructure. These outputs were endorsed by the G20 finance ministers and central bank governors for voluntary implementation across the G20 countries. They will help countries develop credible project pipelines underpinned by an enabling regulatory environment and sound project preparation, provide guidance on using guarantees and credit enhancements to attract private funding, and advance cross-border projects for regional development.

As government scales up private-sector participation in public infrastructure, it will draw on the insights from the G20 to strengthen domestic reforms.

Improving PPP regulations

Government continues to implement regulatory reforms to create a conducive environment for public-private partnerships (PPPs) by improving the PPP framework, strengthening institutional arrangements and enhancing monitoring and reporting. Amendments to Treasury Regulation 16 took effect in June 2025, streamlining approval processes for smaller projects and clarifying institutional roles.

In October 2025, guidelines relating to unsolicited bids and fiscal commitments and contingent liabilities were published and took effect. These provide a clear, structured pathway for the private sector to submit innovative project ideas, including provisions for recoverable development fees. They also provide a framework to identify, manage and report on fiscal commitments and contingent liabilities in anticipation of the expansion of the PPP market.

Updates to the PPP manual and the development of sector-specific toolkits in priority sectors will be completed in 2026. Amendments to municipal PPP regulations, which aim to streamline processes and promote PPPs in local government, are also under way. These amendments will be completed by February 2026, following concurrence from the

Department of Cooperative Governance and Traditional Affairs and parliamentary consultation.

Developing robust pipelines

National departments have established partnership offices to structure engagements with the private sector, drawing on lessons from the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP). This approach streamlines planning and procurement processes, standardises risk management and facilitates easier financial structuring, leading to lower costs, faster delivery and improved governance and monitoring.

In May 2025, the Department of Transport established a private-sector participation unit housed in the Development Bank of Southern Africa (DBSA). This will support the introduction of private-sector involvement in the freight transport and logistics sector. Following the requests for information on select Transnet rail and port corridors in March 2025, the unit has analysed responses from interested private parties. The unit is preparing to engage potential partners to offer investment, skills and expertise to support the rehabilitation and expansion of ailing rail and port systems. The request for proposals for the first corridor will be issued by the end of December 2025, with the remainder issued by the first half of 2026.

The unit has also issued requests for information for parties interested in investing in modernising and growing the passenger rail system. The requests cover fare collection systems, depot management, fibre optic networks, operational resilience and long-distance regional rapid transit.

The Department of Water and Sanitation's Water Partnerships Office is working with municipalities to prepare projects for private participation. It is focusing on the non-revenue water programme, which aims to reduce the amount of revenue lost due to leaks or non-billing, and on the water reuse programme, which aims to recover and repurpose wastewater.

On non-revenue water, the office is supporting the Tshwane and eThekwini municipalities to prepare projects that will conclude performance-based contracts with suppliers to reduce water leaks and improve revenue. Support will be extended to seven other municipalities shortly. On water reuse, the Green Climate Fund (GCF) has allocated about R4.2 billion (US$235 million) to the DBSA to assist municipalities with project preparation and implementation. Detailed climate risk and vulnerability assessments have been completed in 47 municipalities with 34 municipalities qualifying for GCF support. Municipalities can register their water reuse projects for preparation and structuring support from the partnership office, which is expected to generate a pipeline of projects ready for private-sector participation. The eThekwini municipality is already receiving support on its water reuse PPP project.

De-risking public projects for private investment

Government, working with the World Bank, has developed a credit guarantee vehicle to de-risk private investment in critical infrastructure by providing payment and termination guarantees to lenders. This will enable private finance for public infrastructure projects without requiring state guarantees. The vehicle will be an independent, non-life insurance entity with an initial capitalisation of US$500 million and a scalable target of up to US$2.5 billion. It will be governed by an independent board and regulated by the Prudential Authority. Development finance institutions will own most of the shares, with government retaining a minority stake. The vehicle will be operational by the second half of 2026 and will initially prioritise the electricity sector, specifically the expansion of the transmission grid, to advance decarbonisation objectives.

ENHANCING PUBLIC FINANCE FOR INFRASTRUCTURE

A broader suite of financial instruments

The 2026 Budget will for the first time show borrowing for infrastructure, including for on-budget capital funding, as a separate category of broader government borrowing. This borrowing has been expanded to include dedicated infrastructure bonds, bilateral loans and concessional funding from development finance institutions.

As outlined in the 2024 MTBPS*,* government is considering new long-term financing mechanisms to mobilise institutional and retail investor funding in infrastructure investment as a standalone asset class. A consultation paper discussing the design of the long-term instruments will be published in early 2026 to solicit stakeholder views on the reforms and other mechanisms to enhance private infrastructure investment.

In 2024, government began raising funds directly from the market – including commercial banks, asset managers and insurers – in the form of bilateral loans to the National Treasury. This approach marks a strategic shift towards greater market engagement in the financing of public infrastructure on a project-by-project basis.

In parallel, the National Treasury is preparing a minimum R15 billion infrastructure bond issuance for the Budget Facility for Infrastructure (BFI) special window projects. The combination of market-based bilateral loans and dedicated infrastructure-linked bond issuance reflects government’s commitment to innovative, scalable and sustainable infrastructure financing mechanisms.

New bid windows take shape

As discussed in the 2024 MTBPS, the National Treasury has reconfigured the BFI to increase the number of bid windows from one to four each year, and to institute a new appraisal methodology that differentiates projects according to their stage of development. The BFI’s bid windows enable public institutions – including national departments, provinces, municipalities and state-owned enterprises – to request funding for part of the cost of a project, as a basis to attract additional private funding.

In the first two quarters since the reconfiguration, 28 submissions with a total capital cost exceeding R379.1 billion were received. As outlined in the box below, some of these were accepted into the BFI pipeline, while the rest were referred to preparation facilities or returned to sponsors for reconsideration.

Over the medium term, other elements of the BFI reconfiguration will be fast-tracked. These include strengthening the monitoring and evaluation function to periodically track progress, establishing and maintaining a national infrastructure projects register of assessed proposals that are ready for financing, and establishing cost benchmarks to avoid inefficiencies.

Reconfigured BFI pipeline

The following proposals have undergone detailed technical analysis against the BFI screening criteria and moved into the pipeline for which government will raise finance to support execution.

- In science and innovation, the Square Kilometre Array entails the construction of mid-frequency telescopes comprising 137 large dishes connected to high-speed computers to collect and process data from space as part of the global endeavour to build the largest and most sensitive radio telescope.
- In water and sanitation, the Polokwane Regional Wastewater Treatment Works aims to address critical sanitation challenges by constructing a new regional wastewater facility.
- In transport and logistics, the North Corridor Reinstatement Project will rehabilitate the rail infrastructure corridor linking inland terminals in Gauteng and the Port of Durban in KwaZulu-Natal to restore the design capacity of 77 million tonnes per year. The Iron Ore Corridor aims to rehabilitate the rail infrastructure corridor between the Northern Cape and the Port of Saldanha to restore the design capacity to 60 million tonnes per year.

Funding will be disbursed through the Infrastructure Fund in the DBSA, to ensure that outlays are made in line with delivery milestones. These include introducing private partners and following sound project management and governance principles.

ENHANCING PUBLIC-SECTOR DELIVERY

Infrastructure reform requires translating budgets into reliable services to support economic growth and improve living standards. Municipalities are at the forefront of providing essential public services.

Strengthening municipal service delivery and capability

Government is reforming the *municipal infrastructure grant* to address persistent underspending, misuse of funds and capacity constraints that hinder effective service delivery. Where municipalities demonstrate proven capacity, funding will continue to be allocated directly. However, in cases of persistent capacity and governance failures, delivery will shift to an indirect model through institutions such as the Municipal

Infrastructure Support Agent and the DBSA. This will be accompanied by time-bound capability plans aimed at restoring municipalities to direct funding. The shift to a split-delivery model balances the urgent need to accelerate service delivery with building resilient, capable local government that can sustainably meet the infrastructure needs of their communities.

A new performance-linked incentive component will reward municipalities that deliver fit-for-purpose infrastructure on time and budget, at reasonable cost, with funded maintenance plans and climate-resilience measures. The reform will be supported by clearer criteria for determining funding modalities, stronger oversight through annual delivery compacts and embedded technical support to build municipal planning, procurement and asset management capability. The necessary conditional grant framework amendments will be tabled in the 2026 Division of Revenue Bill, with pilot implementation commencing in 2026/27.

Municipal Utility Reform Programme

The National Treasury, working with the African Development Bank (AfDB) and donor partners, is implementing a pilot Municipal Utility Reform Programme under a results-based AfDB concessional loan of up to US$400 million. The pilot will be launched in the Mpumalanga municipalities of Mbombela, Govan Mbeki, Lekwa and eMalahleni by the end of 2025. It aims to stabilise and professionalise core municipal utilities (water and electricity) by reducing losses, introducing cost-reflective tariffs with protections for poor households, ringfencing revenues, improving asset care, and enhancing governance and reporting. Lessons from the pilot will be used to expand it to municipalities in other provinces facing severe delivery challenges. The scale-up will align with conditional grant reforms and, where appropriate, will disburse grants linked to independently verified milestones to safeguard delivery and fiscal sustainability.

Sustainable urban development

The metro trading services reform was implemented in July 2025 as a performance-linked incentive grant. It aims to ensure that the revenues metros receive for providing electricity, water, sanitation and waste services are invested to restore and sustain these services. The reform is a first of its kind in South Africa and is metro-led, with a focus on institutional accountability, financial transparency and operational performance. The initial incentive grant totals R54 billion with technical assistance over a six-year period and is expected to unlock R108 billion in total investment by improving revenue and borrowing capacity. Metros will require clean audit outcomes to access the incentive. They will also need to achieve and maintain eight accountability commitments and perform against the indicators set out in their council-approved action plans. The incentive grant requires that metros match each R1 of the performance incentive with R1 from improved revenue or own borrowing.

Infrastructure conditional grant review

Building on the recently completed review of the conditional grant system, government is undertaking an in-depth review of infrastructure conditional grants. It will assess the spending and delivery performance of programmes and projects that are fully or partially funded through conditional grants to provinces and municipalities. The intent is to improve value for money by strengthening planning, execution and accountability. The first phase of the review will be completed by December 2025.

Streamlining institutional arrangements

Several infrastructure offices have been consolidated into the new Infrastructure Finance Implementation Support Agency. The agency will centralise infrastructure finance functions, improve coordination for projects and programmes aiming to mobilise private-sector capital or participation, and improve risk allocation between the public and private sectors. This agency includes the PPP unit and Capital Projects Appraisal Unit in the Government Technical Advisory Centre, the Neighbourhood Development Partnership Programme in the National Treasury and the Infrastructure Fund. The agency will be fully operational by March 2026.

The new agency gives effect to the PPP review recommendation to establish a centre of excellence and resolves impediments that have hampered the Infrastructure Fund from being fully effective.

CONCLUSION

Government is advancing infrastructure reforms that leverage public funds to unlock additional private investment and improve the quality of spending. This will foster faster inclusive growth and more reliable service delivery. As part of these reforms, government is updating regulations, strengthening systems and introducing new financing instruments.

This page was left blank intentionally.

2025 MTBPS

ANNEXURES

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

A

2025 MTBPS FISCAL RISK STATEMENT

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

INTRODUCTION

Fiscal risks in 2025 remain elevated, reflecting the interaction of slower growth and persistent spending pressures. The key sources of risk include weaker-than-expected economic activity and global market volatility.

The financial condition of major state-owned companies – particularly Transnet and Eskom – remains a central risk channel through guarantees and liquidity support. Subnational arrears and public-private partnerships add to contingent liabilities, although the latter are considered to be at low risk of failure.

Current demographic trends are long-term considerations for fiscal sustainability, reinforcing fiscal rigidity if demand for health and social protection spending continues to grow faster than revenue.

Figure A.1 summarises the primary risks covered in this statement.

Figure A.1 Fiscal risk framework

Risk category	Major issues
Macroeconomic risks	• Slower economic growth • Global market volatility • Debt outlook
Expenditure risks	• Compensation pressures • Subnational government liabilities, arrears, financial management
Contingent liabilities and state-owned company risks	• Guarantee utilisation • Financial condition of major state-owned companies
Demographic trends	• Growth of working-age population (upside risk) • Ageing population and pressure on social services

MACROECONOMIC RISKS

The macroeconomic risks to the fiscal outlook are balanced. While the economic outlook is subdued, the steady progress of structural economic reforms has begun to achieve results. Fiscal planning has adjusted to a low-inflation and low-growth environment, as reflected in the projected increase in the main budget primary surplus over the medium term (Figure A.2).

Government’s ability to service debt is affected by the performance of the economy and by the effectiveness of the fiscal strategy. One key measure of debt sustainability is the interest-growth differential. This metric captures the difference between the average interest rate that government pays on its debt and the economy’s nominal growth rate. The lower this differential, the easier it is for government to keep debt under control and ensure the long-run stability of public finances. As Figure A.3 shows, this differential has improved over the past year as borrowing costs have declined, supported by lower expected inflation, an improving risk premium and declining interest rates in the United States. However, these gains remain vulnerable to shifts in global and domestic conditions: a slowdown in growth or higher global rates could widen the differential, increasing debt-service costs and fiscal pressures.

Government mitigates this risk by maintaining a prudent fiscal stance.

Figure A.2 Main budget primary balance

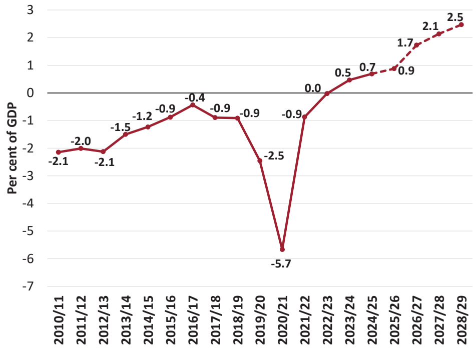
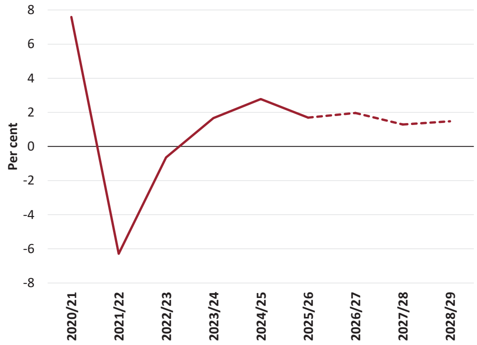


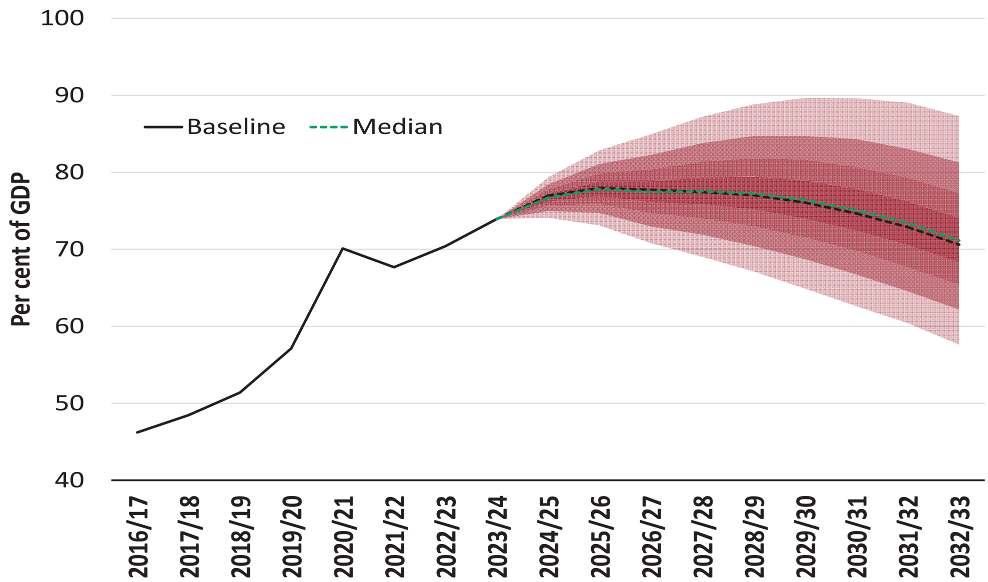
Figure A.3 Interest-growth differential



Source: National Treasury

Figure A.4 highlights the potential for forecast deviation in the public debt outlook. The central projection shows debt stabilising and gradually declining after 2025/26. Lower-than-expected economic growth or higher borrowing costs could reverse the expected improvement, resulting in upward pressure on debt and higher debt-service costs. Macroeconomic shocks could erode recent fiscal gains and compromise debt sustainability. This reinforces the need for continued fiscal prudence and credible policy implementation.

Figure A.4 Projected debt path and potential deviation



Source: National Treasury

Fiscal scenarios

The fiscal framework is grounded in the baseline economic forecast presented in Chapter 2. However, deviations from key assumptions – such as GDP growth, inflation, interest rates and exchange rates – can have significant implications for public finances. To better anticipate and respond to these uncertainties, the 2025 *Medium Term Budget Policy Statement* (MTBPS) models the fiscal impact of two alternative macroeconomic scenarios outlined in Chapter 2.

Scenario A: In the global downside scenario, the primary balance weakens rapidly relative to the 2025 MTBPS baseline projection. Debt-service costs fall below 20 per cent of revenue by 2032/33. The debt-to-GDP ratio stabilises at 78.6 per cent of GDP in 2026/27 and declines thereafter to 71.1 per cent of GDP in 2033/34.

Scenario B: In the global upside scenario, the primary balance improves by R46.8 billion over the medium term compared with the baseline forecast. Debt-service costs peak at 21.5 per cent of revenue in 2025/26 and decline to 17.1 per cent of revenue by 2033/34. By 2025/26, debt stabilises at 77.9 per cent of GDP and then declines to 64.8 per cent of GDP by 2033/34.

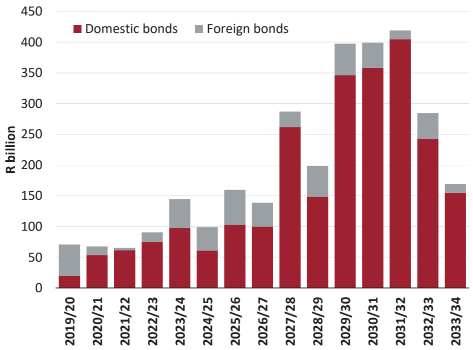
Improving fiscal planning

The National Treasury is working to improve the accuracy of its forecasting to consolidate the credibility of fiscal planning. A common tool to measure economic projections against observed values is the mean-squared forecast error metric, in which lower numbers indicate greater forecast accuracy. For the period 2011 to 2024, the mean absolute error of the National Treasury's in-year real economic growth forecasts was 0.62 and for the one-year-ahead forecast 1.31, indicating forecast accuracy is in line with, and in some instances better than, that of other institutions. Forecasting accuracy continues to be enhanced through ongoing modelling recalibration. Next year the National Treasury will publish an external review of the forecasting framework, with recommendations to mitigate and navigate risks arising from potential shocks, which traditionally lead to forecast deviations.

DEBT MANAGEMENT RISKS

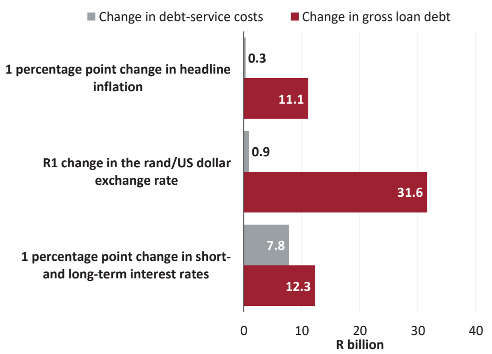
Despite efforts to narrow the budget deficit and reduce borrowing requirements, gross loan debt and redemption obligations are projected to remain elevated between 2025/26 and 2033/34. This sustained debt burden increases exposure to movements in interest rates, inflation and the exchange rate, with direct implications for the debt trajectory and debt-service costs.

Figure A.5 Long-term government debt redemptions



Source: National Treasury

Figure A.6 Sensitivity of debt and debt-service costs



In the period to 2033/34, average annual debt redemptions are projected to be R272.6 billion (Figure A.5). Large bond maturities are concentrated in the late 2020s and early 2030s, with annual peaks exceeding R400 billion in 2031/32. This clustering of redemptions heightens refinancing and rollover risks, potentially increasing borrowing costs if market conditions tighten. Rising refinancing needs may lead to higher borrowing costs and greater volatility in funding conditions, with potential spillover effects on the broader yield curve and debt-service costs across the economy.

Active debt management strategies aimed at smoothing maturities and diversifying funding sources remain essential to mitigate these risks.

The debt portfolio remains sensitive to movements in key market variables. A 1 percentage point increase in short- and long-term interest rates is estimated to raise gross loan debt by R12.3 billion and annual debt-service costs by R7.8 billion. A R1 change in the rand-US dollar exchange rate alters gross loan debt by R31.6 billion and a 1 percentage point change in headline inflation adjusts gross loan debt by R11.1 billion. These sensitivities highlight the importance of a credible fiscal framework and prudent debt management to ensure that debt remains sustainable. Government continues to diversify funding instruments, extend maturities where market conditions allow and manage refinancing exposure within strategic risk benchmarks.

EXPENDITURE RISKS

Compensation spending

Significant progress has been registered in changing the composition of expenditure from consumption towards capital investment. The public-service wage bill has moderated as a share of GDP and spending. And the current multi-year wage agreement provides a degree of certainty over budget allocations in 2026/27 and 2027/28. However, the agreement requires a minimum 4 per cent annual wage increase. In a low-growth environment, the wage bill continues to exert pressure on the budget, and unchecked growth will crowd out essential service delivery. Accordingly, any future wage agreements beyond 2027/28 will have to be closely aligned with inflation.

Government has also rolled out several measures to manage compensation costs. Initiatives to enhance payroll integrity, such as the verification of “ghost workers” and correcting payment irregularities, are expected to reduce fiscal leakages. Concurrently, the incentivised early retirement and voluntary exit programmes are intended to manage headcounts, particularly in labour-intensive departments. Sustaining the gains from both payroll integrity and workforce restructuring demands consistent execution and oversight.

Subnational government

Unpaid bills and accruals across provincial governments remain a notable fiscal risk. Based on the latest reports, total accruals are estimated at R43.3 billion in 2024/25, up from R36.6 billion in 2023/24. This trend reflects continued spending pressures and inadequate cash-flow management.

Medico-legal contingent liabilities have improved moderately. Total estimated claims declined from R62.5 billion in 2023/24 to R58 billion in 2024/25, continuing the downward trend from the 2019/20 peak of R110.4 billion. Progress in this area reflects provincial efforts to strengthen internal controls through a combination of clinical, administrative and legal approaches. Provinces collectively paid R1.3 billion in claims in 2024/25.Although this represented a 12.1 per cent decline compared to the previous year, such funds could have been better used for healthcare services.

Many municipalities remain under financial pressure. Municipalities owe creditors R156.1 billion, of which 72.8 per cent is more than 90 days overdue. As of 30 June 2025, municipalities are owed R427.7 billion, up from R339.9 billion in 2023/24, with R376.1 billion of this debt older than 90 days. Households account for 71.9 per cent, businesses 20 per cent and government entities 5.8 per cent. Persistent arrears reflect weak collections: municipalities collect only 72.9 per cent of billed revenue.

National government continues to work with municipalities to improve collection rates and credit management while rolling out other reforms. A five-year action plan includes refining the local government funding model by March 2027 and broadening own-revenue options. The Municipal Fiscal Powers and Functions Amendment Act (2024) sets a uniform framework for development charges, enabling municipalities – particularly cities and large urban areas – to finance infrastructure from land development and densification. In addition, Operation Vulindlela Phase II is targeting improved financial management and service delivery in local government.

CONTINGENT LIABILITIES

Contingent liabilities have declined from 19 per cent of GDP in 2020/21 to 15.7 per cent in 2025/26. This positive trend reflects greater government scrutiny of guarantees and stronger surveillance. Despite this improvement, contingent liability fiscal risks remain significant.

Several major state-owned companies remain in financial distress. Government's guarantee portfolio – which includes state-owned companies, public-private partnerships and the Renewable Energy Independent Power Producer Procurement Programme – declined marginally from R708.7 billion in March 2025 to R707.8 billion in June 2025, as public-private partnerships and renewable power projects continued to service debt. However, exposure increased by R6.2 billion as state-owned companies continued to draw on existing guarantees – mainly R4 billion by Transnet and R1.1 billion each by Eskom and the Trans-Caledon Tunnel Authority. In 2025/26, government issued R145.8 billion in additional guarantees to Transnet to address funding shortfalls, liquidity pressures and debt redemptions over the next five years, bringing total guarantees issued to the entity to R196.3 billion.

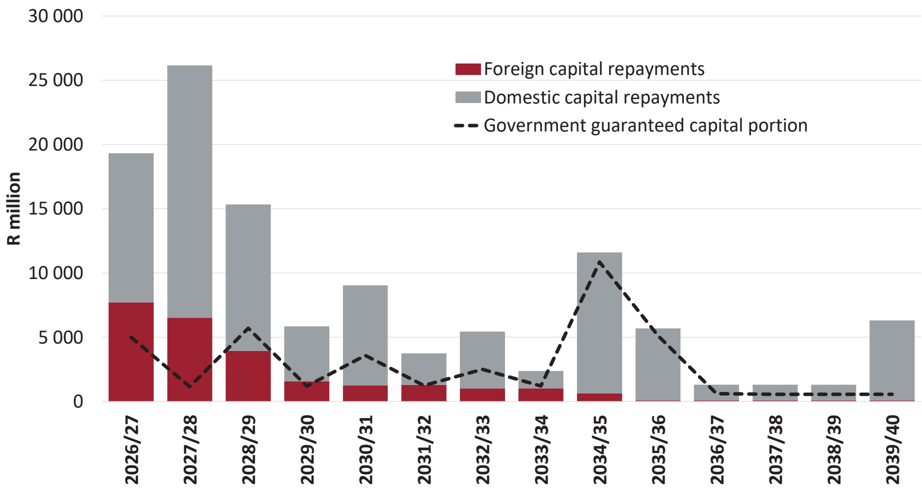
To strengthen fiscal risk management, government has allocated R1.8 billion in 2025/26 to capitalise the credit guarantee vehicle. In partnership with the World Bank, this entity is designed to share risk with private investors, enabling greater participation in strategic infrastructure projects while reducing government's contingent exposure.

FINANCIAL CONDITION OF STATE-OWNED COMPANIES

Major state-owned entities continue to rely on government support. Progress on turnaround plans has been mixed. State-owned companies' ability to generate cash determines their capacity to repay maturing debt. Consequently, many are likely to refinance maturing debt, a practice that raises borrowing costs and constrains their ability to fund new investments. Figure A.7 shows that state-owned companies' debt maturities are expected to peak in 2027/28, reaching R26.2 billion in aggregate, of which 4.5 per cent or R1.2 billion is government-guaranteed debt.

From 2026/27 to 2029/30, aggregated debt maturities are expected to amount to R66.7 billion, of which R13.1 billion or 19.6 per cent is state guaranteed. However, these companies borrow mainly in domestic markets, relying mainly on rand-denominated funding, which limits exposure to exchange rate movements. Foreign obligations are managed through cross-currency swaps and natural hedges, resulting in minimal direct foreign-exchange risk.

Figure A.7 Debt maturity profile of selected state-owned companies



Source: National Treasury, Airports Company South Africa, Development Bank of Southern Africa, Denel, Land Bank, Industrial Development Corporation, South African National Roads Agency Limited, South African Airways and Trans-Caledon Tunnel Authority

Denel

Denel, the state-owned defence contractor, has not submitted audited annual financial statements for four years. To date, it has been recapitalised with R3.4 billion, of which R914 million was placed in an escrow account to support its turnaround plan. Despite reported progress on the execution of its turnaround plan, the entity lacks working capital. Consequently, government granted Denel access to the remaining recapitalisation funds and provided R660 million in guarantees to support project execution. As noted in previous statements, broader policy decisions, including strategic partnerships, are required for Denel's long-term sustainability. While short-term liquidity pressures have eased slightly, the entity's financial position remains fragile and the risk level is elevated.

Eskom

In 2024/25, for the first time in a decade, Eskom reported a profit. The utility has also demonstrated improved technical performance, with significantly fewer days of power cuts recorded in 2025. However, the improved financial performance remains at risk, partly due to escalating municipal debt arrears. In 2023/24, government initiated a debt-relief arrangement to strengthen Eskom's balance sheet, enabling it to restructure and undertake essential investments and maintenance required to ensure a stable electricity supply. As reported in the 2025 *Budget Review*, partly in response to Eskom's improved performance, the National Treasury revised the package, extending the support period to 2028/29 and reducing the total relief provided from R254 billion to R230 billion. Legislation introduced in September 2025 provides for these measures. The fiscal risk associated with Eskom has eased, although continued implementation of operational and financial reforms is critical to sustain progress and ensure lasting stability.

The Land Bank

Following the resolution of its default in September 2024, the Land Bank's debt has declined by 76.8 per cent, from R40.4 billion to R9.4 billion as at 31 March 2025. Overall, the bank's risk profile is improving, and it does not currently present a direct fiscal risk, as any potential losses would be absorbed on its balance sheet.

Transnet

Transnet depends on state support to access the capital market. In 2025/26, government granted Transnet guarantees totalling R145.8 billion to meet its liquidity needs, finance debt redemptions and fund capital investments. These contingent liabilities represent potential future claims on the national budget in the event that the company defaults on its debt obligations. To mitigate the risk, government has imposed strict conditions on utilisation of guarantees and is requiring operational reforms. Transnet is seeking alternative funding through private-sector participation and the Budget Facility for Infrastructure. The fiscal risk stemming from Transnet remains elevated, although reforms and conditional support measures are contributing to gradual improvement.

South African National Roads Agency Limited

Following the withdrawal of e-tolling, national government and the Gauteng provincial government agreed to provide the agency with support to enable it to service its debts and maintain freeways in the province. In 2025/26, Gauteng will contribute R3.4 billion, rising to R9.3 billion over the medium term, and national government will provide R3.2 billion, with additional support expected to resume beyond the current period once fiscal conditions allow. The South African National Roads Agency Limited's (SANRAL's) financial health remains dependent on provincial and national contributions, and any delay or escalation reintroduces fiscal pressure. SANRAL's risk position is improving but remains elevated.

Road Accident Fund

The Road Accident Fund (RAF) remains a significant fiscal risk. RAF liabilities are projected to increase from R369.7 billion in 2024/25 to R422.6 billion in 2027/28. Over the same period, revenue from the RAF levy is expected to rise from R50.6 billion to R67.6 billion, while expenditure is projected to grow more rapidly – from R53 billion to R89.7 billion – widening the funding gap. A court-mandated requirement to process and pay claims within 14 days will add to cash-flow pressures. As a result, the RAF's financial position is expected to deteriorate over the medium term.

LONG-TERM SUSTAINABILITY

Demographic projections from Statistics South Africa based on the most recent census, suggest that South Africa has a near-term window of opportunity to mitigate longer-term fiscal risks.

The population is projected to grow from 61.4 million in 2022 to 93.1 million by 2060, as the growth rate slows from an average of 1.6 per cent per year between 2011 and 2022 to about 0.8 per cent after 2050. The evolving age structure reflects declining fertility rates and increased life expectancy.

The figures below show projected population trends to 2060. They demonstrate a visibly growing working-age population. This shift presents a potential demographic dividend – a temporary period during which a larger share of the population is of working age, offering an opportunity to boost economic growth and fiscal resilience if accompanied by job creation and productivity-enhancing reforms.

Figure A.8 Young population (>15)

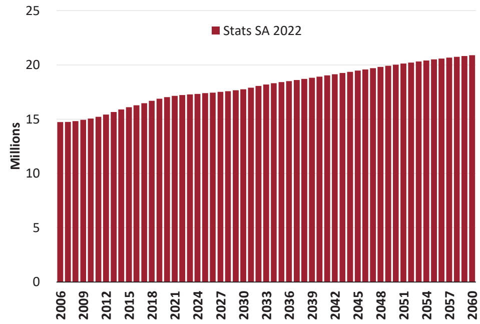


Figure A.9 Working-age population (15–64)

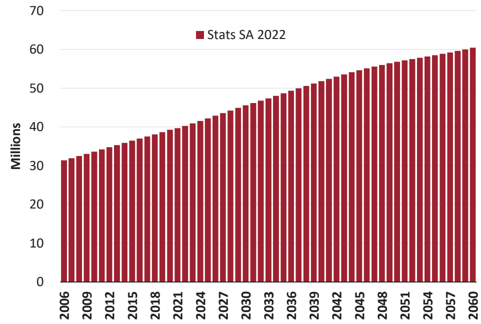


Figure A.10 Old-age population (65+)

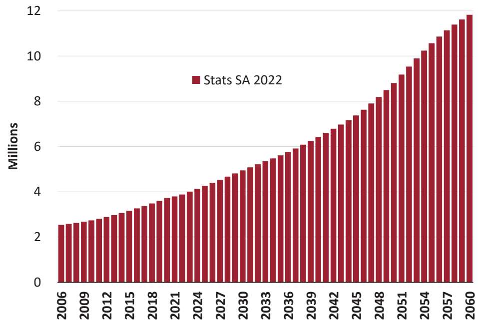
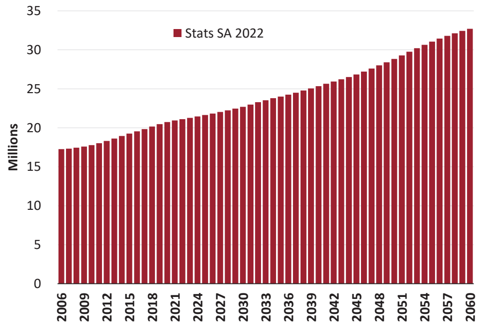


Figure A.11 Population not of working age



Source: Statistics South Africa

The total dependency ratio (a measure that compares the children and elderly dependent population to the working-age population) is projected to rise from 52 dependants per 100 people in 2022 to 54 dependants per 100 people in 2060. The old-age dependency ratio (the number of elderly people aged 65 and over for every 100 people in the working-age population) is projected to rise from 9.6 per 100 in 2022 to 19.6 per 100 by 2060, driving higher demand for healthcare, pensions and social assistance.

Although these long-term dynamics do not pose immediate fiscal risks, they do highlight the importance of economic growth, productivity growth and employment creation to sustain the revenue base. Sustaining fiscal health will also depend on early policy adjustments that account for demographic changes.

Long-term fiscal modelling highlights that the next two decades provide a crucial opportunity to harness the benefits of a growing working-age dividend before ageing pressures intensify. Beyond this period, rising dependency ratios will increase expenditure rigidities, narrow fiscal space and test long-term fiscal sustainability.

This page was left blank intentionally.

B

2025 MTBPS

COMPENSATION AND EMPLOYMENT DATA

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

COMPENSATION AND EMPLOYMENT DATA

INTRODUCTION

Managing the public-service wage bill is a critical component of South Africa's fiscal policy. It requires balancing the need to attract and retain skilled professionals for effective service delivery with the imperative to maintain long-term fiscal sustainability. It is particularly important given the current context of constrained economic growth and the need to stabilise the debt-to-GDP ratio. This annexure details recent trends in public-service compensation and employment and outlines government's initiatives to enhance efficiency and ensure the sustainability of the wage bill.

Figure B.1 reflects trends in compensation of employees as a percentage of GDP and consolidated government expenditure since 2014/15. The trends illustrate that the public-service wage bill as a share of both GDP and consolidated government expenditure has moderated in recent years, as a result of government's efforts to curb the wage bill to contain government expenditure growth. Consolidated compensation costs accounted for 31.8 per cent of consolidated expenditure in 2024/25 – down from 35.4 per cent in 2014/15.

Figure B.1 Public-service wage bill as a share of consolidated expenditure and GDP

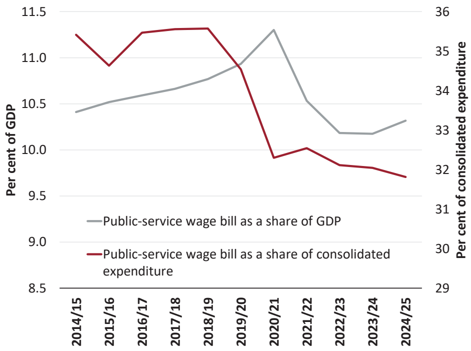
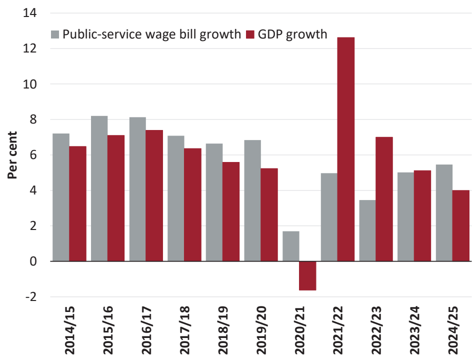


Figure B.2 Public-service wage bill growth and GDP growth



Source: National Treasury

Figure B.2 reflects the trends in the growth of the public-service wage bill relative to GDP growth. The public-service wage bill typically grew faster than GDP between 2014/15 and 2020/21. However, when considering the full period from 2014/15 to 2024/25, the growth rates are similar, with public-service wage bill growth averaging 5.7 per cent and GDP growth averaging 5.8 per cent.

A notable shift occurred from 2021/22, when GDP growth began to outpace public-service wage bill growth. However, this was largely because of the economic recovery from the COVID-19 pandemic and was not a true reflection of new, long-term economic strength. Between 2021/22 and 2024/25, public-service wage bill growth averaged 4.6 per cent while GDP growth averaged 5.4 per cent.

PERSONNEL EXPENDITURE DRIVERS

The number of public-service employees has remained relatively stable since 2009, but increases in average remuneration have driven rapid growth in consolidated compensation expenditure. The primary drivers of the rapid increase in the wage bill have been negotiated salary increases and pay progression.

Public-service wage agreements (cost-of-living adjustments)

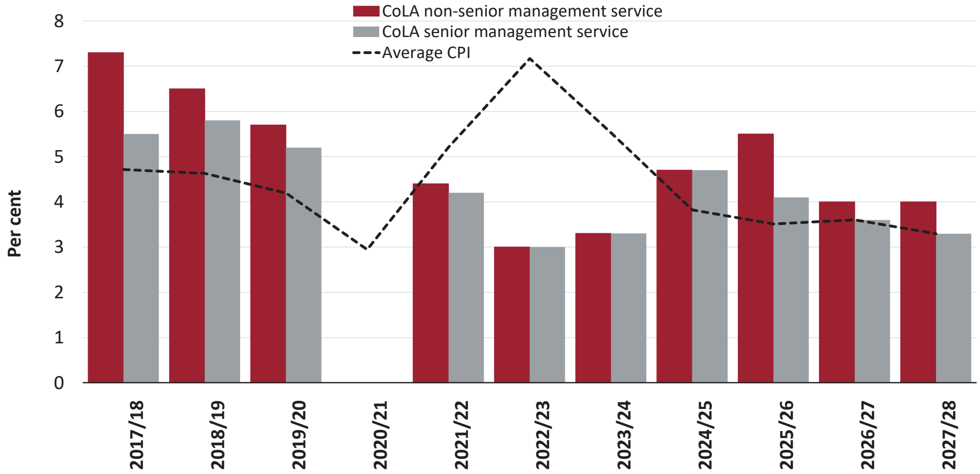
In the past, public-service wage agreements negotiated between government and public-sector unions often resulted in salary increases that exceeded inflation and economic growth. These wage agreements typically include across-the-board percentage increases for all public-service employees, including those on occupation-specific dispensations, and are over and above the adjustments to various allowances such as housing and medical subsidies afforded to public-service employees. Because these wage agreements cover about 1.3 million employees, even seemingly modest percentage increases result in billions of rands in additional state expenditure, putting sustained pressure on the public finances.

Pay progression

Pay progression refers to the automatic annual salary increments that public-service employees receive based on their years of service, commonly known as "notches". This structure is designed to reward good performance. It ensures that employees progress by at least one notch within their current salary level every financial year until they reach the top notch of their salary level. The result is that the cost to the state of employing an individual automatically increases each year, irrespective of negotiated salary increases. Over time, this incremental upward drift in salaries across the entire public-service compounds, leading to a substantial and continuous expansion of the overall wage bill.

Figure B.3 reflects trends in cost-of-living adjustments for senior management service and non-senior management public-service employees since 2017/18.

Figure B.3 Public-service cost-of-living adjustments, 2017/18–2027/28



Source: National Treasury

Between 2017/18 and 2019/20, the cost-of-living adjustments for both senior and non-senior management employees were consistently higher than the average inflation rate. During this period, non-senior management staff typically received higher adjustments than their senior counterparts.

A significant turning point occurred in the 2020/21 financial year when government, citing severe fiscal constraints, decided not to implement salary increases for the final year of the 2018 wage agreement. This decision was heavily contested by public-sector unions but ultimately reduced compensation expenditure by almost R40 billion in 2020/21.

In the subsequent two financial years, government shifted its approach away from traditional percentage-based increases and instead introduced a non-pensionable cash gratuity for employees. This marked a strategic, albeit contentious, departure from previous wage negotiations, designed to limit the long-term compounding effect on the overall wage bill. However, since 2023/24, government has managed to secure two multi-term wage agreements. The 2023 wage agreement covered the periods 2023/24 and 2024/25 and the 2025 wage agreement covered the period from 2025/26 to 2027/28. The details of these wage agreements are available for download from the Department of Public Service and Administration website.

PUBLIC-SERVICE COMPOSITION

The public service remains central to the delivery of government services, playing a critical role in implementing national and provincial priorities. Figure B.5 depicts the composition of the public service – which is weighted towards provinces, which account for the majority of employees, in labour-intensive sectors such as education and health. The relative stability of the headcount over the past decade reflects a measured approach to managing the public-service wage bill, prioritising essential services while ensuring fiscal sustainability.

Figure B.6 shows that most public-service employees occupy lower- to mid-level salary bands, including clerical workers, administrative staff and support personnel. These positions represent the largest proportion of the public-service workforce due to their essential operational functions.

Figure B.7 shows that female employees accounted for 62.2 per cent of the public-service workforce in 2024/25, up from 60 per cent in 2014/15. Male employees account for a higher share of employment at the most senior levels of government. Achieving gender equity in senior management remains an important government objective.

Figure B.4 Public-service headcount share by sphere

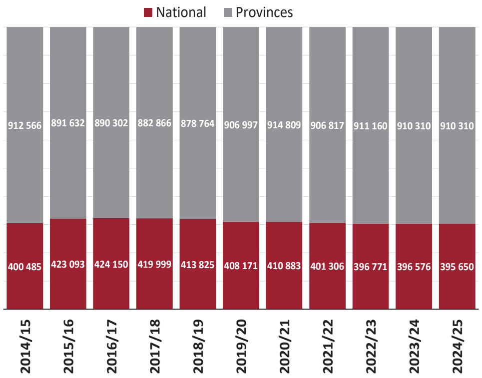


Figure B.5 Public-service headcount share by sector

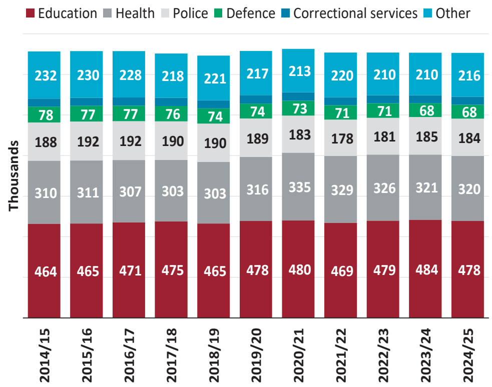


Figure B.6 Public-service headcount share by salary level

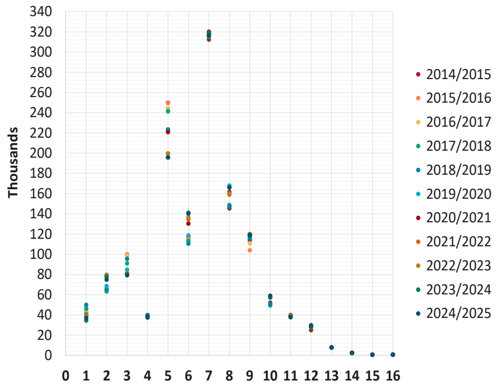
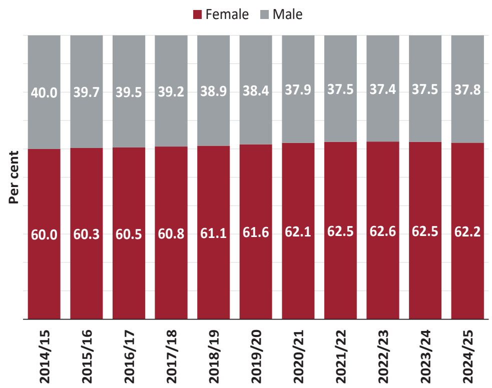


Figure B.7 Public-service headcount share by gender



Source: National Treasury

MANAGING PERSONNEL EXPENDITURE AND HEADCOUNT

Personnel expenditure review

The Department of Public Service and Administration, in collaboration with the National Treasury, undertook the 2022 personnel expenditure review to address growing concerns about the sustainability of the public-service wage bill and its impact on the national fiscus. The review aimed to assess whether the current remuneration strategy and policies were meeting their objectives. It was intended to provide evidence-based recommendations to inform the development of a revised and more efficient remuneration framework for the public service for the next five years, contributing to the creation of a capable, ethical and developmental state.

The review identified commuted overtime and accelerated grade progression as some of the major cost items. Implementing appropriate policy adjustments and controls in these two areas could yield significant savings, estimated at R7.9 billion based on 2024/25 associated costs.

The review also revealed that discontinuing the 37 per cent allowance in lieu of benefits for all public-service contract workers could result in a further saving of R5.9 billion based on quantitative data from 2024/25.

The implementation of the occupation-specific dispensations was revealed to be inconsistent, leading to remuneration disparities across different departments. These challenges were most significant during the "translation" of specialised categories, where migrating employees such as therapists, social workers and psychologists from their old posts onto the new occupation-specific dispensation framework proved difficult and was applied inconsistently across the sector.

The personnel expenditure review proposed reviewing and potentially revising the structure and payment of rural allowances, reducing or removing the automatic annual notch increases for public-service employees, and reviewing or amending the conditions of employment for interns and individuals in developmental programmes.

"Ghost workers" verification process

As announced in the 2025 Budget Speech, the National Treasury, in collaboration with the Department of Public Service and Administration, has launched a project to identify "ghost workers" and payment irregularities across national and provincial departments.

Progress has been made on actions which include the preliminary testing of PERSAL data, integration with South African Revenue Service tax data for verification, and collaboration with the Department of Home Affairs to identify officials without valid ID numbers and detect duplicate photo identities using biometric data. The Auditor-General of South Africa has been engaged to align methodologies, while coordination with the Department of Basic Education and the Education Labour Relations Council aims to support physical verification efforts and avoid duplication. Engagements are already under way with the Eastern Cape Provincial Treasury to implement "ghost worker" detection within the provincial health department. This multi-stakeholder approach aims to enhance the integrity, efficiency and accountability of public-service payroll systems.

Early Retirement Programme without pension penalties

As a key intervention to manage compensation spending and ensure long-term fiscal sustainability, government has introduced incentivised early retirement and voluntary exit programmes for 2025/26 and 2026/27. These programmes are designed to alleviate pressure on departmental compensation budgets. An amount of R5.5 billion was provisionally allocated during the 2025 MTEF period to support these initiatives, which provide a voluntary exit path for long-serving public servants, creating opportunities for savings and the strategic realignment of the public service.

The initiative is structured into two distinct streams. The Early Retirement Programme is available to employees aged 55 to 59 with at least 10 years of pensionable service. For approved applicants, pension benefits are paid out without the standard early retirement penalty, and a financial incentive is provided, calculated as two weeks' basic salary for each of the first 20 completed years of service, plus one week's salary for each subsequent year. The Voluntary Exit Programme is available to employees aged 60 to 63. To encourage participation, it offers a financial incentive of two weeks' basic salary for each of the first 10 years of service, plus one week's salary for each year thereafter.

PUBLIC-SERVICE WAGE BILL OVER THE MTEF PERIOD

The 2026 medium-term expenditure framework (MTEF) compensation allocations reflect government's continued prioritisation of frontline services by directing additional funding to address capacity constraints and growing pressures in compensation budgets. A total of R20.4 billion in additional funding has been allocated to provincial education and health departments over the 2025 MTEF period. This includes allocations of R9.5 billion for provincial education departments and R10.9 billion for provincial health departments, including R2.7 billion for unemployed doctors.

Table B.1 shows the projections for the public-service wage bill over the 2026 MTEF period for key labour-intensive sectors.

Table B.1 Public-service wage bill projections over the 2025 MTEF period by sphere and sector

	2025/26	2026/27	2027/28	2028/29	Average annual growth	Average annual growth
R million	Revised baseline	Medium-term estimates			2025/26 – 2026/27	2025/26 – 2028/29
By sphere						
National	217 394	229 298	239 499	247 054	5.5%	4.4%
Province	508 928	528 758	552 243	569 407	3.9%	3.8%
By sector						
Education	264 551	274 675	286 464	295 367	3.8%	3.7%
Health	178 757	185 438	194 127	200 160	3.7%	3.8%
Police	96 863	102 552	106 948	110 272	5.9%	4.4%
Defence	36 703	37 745	39 357	40 581	2.8%	3.4%
Correctional services	20 519	21 466	22 437	23 135	4.6%	4.1%
Other	128 929	136 180	142 409	146 946	5.6%	4.5%
Total	**726 321**	**758 056**	**791 742**	**816 460**	**4.4%**	**4.0%**

Source: National Treasury

CONCLUSION

Government remains committed to managing the public-service wage bill to support effective service delivery and long-term fiscal sustainability. The initiatives outlined in this annexure aim to control growth in compensation expenditure while improving the efficiency of the public service and ensuring that public funds are used effectively. By balancing the need for a capable and well-compensated public service with the imperative of fiscal discipline, government aims to foster a sustainable path towards inclusive economic growth.

C

2025 MTBPS

TECHNICAL ANNEXURE

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

IN-YEAR ADJUSTMENTS TO MAIN BUDGET NON-INTEREST EXPENDITURE

Table C.1 shows in-year adjustments to the main budget non-interest expenditure since the 2025 Budget.

Table C.1 In-year adjustments to the main budget non-interest expenditure

R million	Appropriation (ENE) 2025 Budget	Adjustments appropriation (AENE)	Revised
Allocated non-interest expenditure	**1 860 672**	**-8 432**	**1 852 241**
Provisional allocations not appropriated	18 712	-16 951	1 761
Contingency reserve	5 000	8 519	13 519
North Corridor Reinstatement Project (Transnet)		*4 937*	
Iron Ore Corridor (Transnet)		*3 396*	
Independent Electoral Commission - 2026 municipal elections		*1 116*	
Sentech: Dual illumination costs due to the delay in analogue switch-off		*189*	
Capitalisation of the Credit Guarantee Vehicle		*1 800*	
Rebuilding of Parliament		*2 081*	
Drawdown of 2025 Budget contingency reserve		*-5 000*	
Upward adjustments		**39 126**	
Special appropriation for health		755	
Expenditure announced in the 2025 Budget		5 377	
Rollovers		5 227	
Expenditure of exceptional nature[1]		2 472	
Additions to the provincial equitable share[2]		14 415	
Unforeseeable and unavoidable expenditure		1 602	
Self-financing expenditure		4 133	
Members' remuneration (Parliament)		34	
Guarantees, indemnities and securities: Payment to the South African Reserve Bank		119	
Judges' salaries		95	
NRF payments		4 749	
Post-retirement medical benefit shortfall: direct charges		148	
Downward adjustments		**-14 843**	
National government projected underspending		-5 130	
Local government repayment to the National Revenue Fund		-1 000	
Declared unspent funds		-8 714	
Technical adjustments: Skills development levy		**-27**	
Main budget non-interest expenditure	**1 884 384**	**15 823**	**1 900 207**
In-year adjustments to the main budget non-interest expenditure since 2025 Budget			15 823

1. Section 6(1)(b) of 2025 Appropriation Act. Excludes R21 million added to the provincial equitable share
2. Includes expenditure announced in the 2025 Budget and allocations for the impact of population changes
Source: National Treasury

CHANGES TO MAIN BUDGET NON-INTEREST EXPENDITURE FOR THE NEXT TWO YEARS

Table C.2 presents changes to main budget non-interest expenditure since the 2025 Budget for the next two years.

Table C.2 Changes to main budget non-interest expenditure

R million	2026/27	2027/28	Total
Non-interest expenditure (2025 Budget)	**1 956 019**	**2 038 112**	**3 994 131**
Revisions to baselines and provisional allocations	**744**	**-998**	**-254**
Spending additions	3 874	2 272	6 145
Disaster rehabilitation	*1 512*	*–*	*1 512*
Defence operational expenses	*857*	*899*	*1 756*
Political party funding	*500*	*522*	*1 022*
Border Management Authority capacitation and other operational expenses	*316*	*330*	*645*
Strengthening capabilities carry-through costs: Office of the Chief Justice and Statistics South Africa	*279*	*297*	*575*
Other spending additions [1]	*411*	*225*	*636*
Targeted and Responsible Savings (TARS)	-3 130	-2 132	-5 262
Revisions to infrastructure spending	-0	-1 137	-1 137
Rescheduling of uMkhomazi Water Project - Raw Water Component: BFI	*-3 697*	*-2 623*	*-6 320*
Rescheduling of Tygerberg and Klipfontein hospitals BFI projects	*177*	*41*	*218*
Budget Facility for Infrastructure Quarter 2 2025 projects	*3 520*	*1 870*	*5 390*
Drawdown on unallocated Infrastructure Fund from 2025 Budget	*–*	*-425*	*-425*
Downward adjustment to baselines and provisional allocations due to low inflation projections	**-6 252**	**-12 833**	**-19 085**
Technical adjustments [2]	**-646**	**-367**	**-1 013**
Revised non-interest expenditure (2025 MTBPS)	**1 949 864**	**2 023 915**	**3 973 779**
Change in non-interest expenditure from 2025 Budget	-6 154	-14 198	-20 352

1. Includes infrastructure provision for royal houses, national dialogue carry-through costs and piloting JETIP investments in municipalities in Mpumalanga in 2026/27, capacitation of the National Council on Gender-Based Violence and Femicide, compensation of employees costs for Presidency and the Public Service Commission
2. Includes R492 million reduction in contingency reserve in 2026/27
Source: National Treasury

MAIN BUDGET EXPENDITURE CEILING

Table C.3 Adjustments to expenditure ceiling

R million	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Non-interest expenditure	**1 700 698**	**1 690 805**	**1 758 802**	**1 900 207**	**1 949 864**	**2 023 915**	**2 112 306**
Technical adjustments							
Skills development levy	-20 809	-22 424	-24 137	-25 979	-27 657	-29 406	-31 183
Eskom funding provisions	-21 857	–	–	–	–	–	–
NRF payments	-263	-1 093	-2 147	-4 749	–	–	–
International Oil Pollution Compensation Fund	-2	-8	-8	-14	-14	-15	-15
Expenditure ceiling	**1 657 767**	**1 667 280**	**1 732 509**	**1 869 466**	**1 922 193**	**1 994 494**	**2 081 107**

Source: National Treasury

Table C.3 shows technical adjustments to the main budget non-interest expenditure to calculate the expenditure ceiling. The ceiling excludes payments directly financed by dedicated revenue sources and others not subject to policy oversight. These include:

- **Payments for financial assets financed by asset sales in the same financial year.** Revenue from the sale of assets, particularly for equity investments, generally offsets the increases in associated spending levels, so these increases do not require adjustments to departmental allocations. Financial support for Eskom is not included in the expenditure ceiling. This support is viewed as a balance sheet transaction.
- **Payment transactions linked to the management of debt.** These include premiums paid on new loan issues, bond switches and buy-back transactions, revaluation profits or losses on government’s foreign exchange deposits at the Reserve Bank when used to meet government’s foreign-currency position commitments and realised profits and losses on the Gold and Foreign Exchange Contingency Reserve Account. These items relate to debt and currency transactions not financed through main budget appropriations.
- **Direct charges related to specific payments made in terms of legislation that provides for the collection and transfer of such receipts outside of the main budget.** These include skills development levy contributions and the International Oil Pollution Compensation Fund. Skills development levy contributions are paid to the National Skills Fund and the sector education and training authorities. The payment schedule to the National Skills Fund is generally revised to align it directly with anticipated receipts from the levy.

Table C.4 Main budget expenditure ceiling[1]

R million	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
2023 MTBPS	1 657 767	1 667 370	1 713 335	1 795 241	1 884 736		
2024 Budget Review	1 657 767	1 664 709	1 729 270	1 814 458	1 904 385		
2024 MTBPS	1 657 767	1 667 279	1 737 561	1 831 282	1 921 178	2 006 290	
2025 Budget Review	1 657 767	1 667 284	1 731 986	1 858 364	1 928 193	2 008 325	
2025 MTBPS	**1 657 767**	**1 667 280**	**1 732 509**	**1 869 466**	**1 922 193**	**1 994 494**	**2 081 107**

1. The expenditure ceiling differs from main budget non-interest expenditure
Source: National Treasury

REVISIONS TO MAIN BUDGET REVENUE ESTIMATES

Table C.5 shows revisions to the main budget revenue estimates since the 2025 Budget.

Table C.5 Revisions to main budget revenue estimates

R billion	2025/26		2026/27		2027/28	
	2025 MTBPS	Deviation from the 2025 Budget	2025 MTBPS	Deviation from the 2025 Budget	2025 MTBPS	Deviation from the 2025 Budget
Revenue						
Gross tax revenue	2 005.3	19.7	2 143.1	1.4	2 269.4	-17.1
Non-tax revenue	35.0	-0.9	25.5	-5.4	24.6	-6.2
SACU[1]	-73.6	–	-78.4	-0.2	-87.5	1.2
National Revenue Fund receipts	1.9	0.5	0.8	-0.1	1.3	0.8
Main budget revenue	**1 968.7**	**19.3**	**2 091.0**	**-4.3**	**2 207.9**	**-21.4**

1. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

CHANGES TO THE MAIN BUDGET FRAMEWORK SINCE THE 2025 BUDGET

Table C.6 summarises the changes to the main budget fiscal framework compared with the 2025 Budget estimates. The main budget balance for 2025/26 to 2027/28 has improved, mainly due to lower-than-expected debt-service costs.

Table C.6 Revisions to main budget framework since 2025 Budget

R million	2025/26	2026/27	2027/28
Main budget revenue			
Revised	1 968 664	2 091 039	2 207 853
2025 Budget estimates	1 949 409	2 095 369	2 229 228
Difference	**19 255**	**-4 330**	**-21 375**
Main budget non-interest expenditure			
Revised	1 900 207	1 949 864	2 023 915
2025 Budget estimates	1 884 384	1 956 019	2 038 112
Difference	**15 823**	**-6 154**	**-14 198**
Debt-service costs			
Revised	421 529	436 006	455 946
2025 Budget estimates	426 346	447 015	477 513
Difference	**-4 817**	**-11 009**	**-21 568**
Main budget primary balance			
Revised	68 457	141 175	183 938
2025 Budget estimates	65 025	139 351	191 115
Difference	**3 432**	**1 824**	**-7 177**
Main budget balance			
Revised	-353 072	-294 831	-272 008
2025 Budget estimates	-361 321	-307 664	-286 398
Difference	**8 249**	**12 833**	**14 390**

Source: National Treasury

MAIN BUDGET FRAMEWORK AND FINANCING REQUIREMENTS

Table C.7 indicates government's financing gap. A detailed discussion of the main budget framework and financing requirements is in Chapter 3.

Table C.7 Main budget framework and financing requirements

Macroeconomic projections R billion/percentage change	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Real GDP growth	1.5%	0.8%	0.6%	1.5%	1.5%	1.9%	2.1%
Nominal GDP growth	7.1%	5.1%	4.0%	5.3%	4.9%	5.5%	5.3%
CPI inflation	7.2%	5.5%	3.8%	3.5%	3.6%	3.3%	3.1%
GDP at current prices (R billion)	**6 768.2**	**7 114.4**	**7 398.9**	**7 787.6**	**8 169.1**	**8 621.6**	**9 076.0**
Main budget framework R billion/percentage of GDP	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
Revenue							
Personal income tax	600.4	648.9	729.9	791.8	842.6	896.1	947.4
Corporate income tax	344.7	313.1	318.7	343.4	361.6	382.0	404.1
Value-added tax	422.4	447.6	457.8	493.6	524.6	553.4	582.3
Other tax revenue	184.6	199.9	205.5	226.7	254.8	268.7	282.9
Customs and excise duties	134.6	131.4	143.3	149.8	159.5	169.2	179.5
SACU transfers	-43.7	-79.8	-89.9	-73.6	-78.4	-87.5	-86.2
Non-tax revenue	51.0	43.7	35.9	35.0	25.5	24.6	24.7
National Revenue Fund receipts[1]	5.2	19.0	8.5	1.9	0.8	1.3	1.5
Main budget revenue	**1 699.2**	**1 723.8**	**1 809.8**	**1 968.7**	**2 091.0**	**2 207.9**	**2 336.3**
	25.1%	*24.2%*	*24.5%*	*25.3%*	*25.6%*	*25.6%*	*25.7%*
Expenditure							
Expenditure ceiling	1 657.8	1 667.3	1 732.5	1 869.5	1 922.2	1 994.5	2 081.1
Baseline and provisional allocations	*1 657.8*	*1 667.3*	*1 732.5*	*1 855.9*	*1 917.2*	*1 983.4*	*2 064.1*
Contingency reserve	–	–	–	*13.5*	*5.0*	*11.1*	*17.0*
Other non-interest expenditure[2]	42.9	23.5	26.3	30.7	27.7	29.4	31.2
Non-interest expenditure	**1 700.7**	**1 690.8**	**1 758.8**	**1 900.2**	**1 949.9**	**2 023.9**	**2 112.3**
Debt-service costs	308.5	356.1	385.8	421.5	436.0	455.9	471.8
Main budget expenditure	**2 009.2**	**2 046.9**	**2 144.6**	**2 321.7**	**2 385.9**	**2 479.9**	**2 584.2**
	29.7%	*28.8%*	*29.0%*	*29.8%*	*29.2%*	*28.8%*	*28.5%*
Main budget balance	**-309.9**	**-323.1**	**-334.9**	**-353.1**	**-294.8**	**-272.0**	**-247.8**
	-4.6%	*-4.5%*	*-4.5%*	*-4.5%*	*-3.6%*	*-3.2%*	*-2.7%*
Primary balance	**-1.5**	**33.0**	**51.0**	**68.5**	**141.2**	**183.9**	**224.0**
	-0.0%	*0.5%*	*0.7%*	*0.9%*	*1.7%*	*2.1%*	*2.5%*
Borrowing requirement							
Main budget balance	-309.9	-323.1	-334.9	-353.1	-294.8	-272.0	-247.8
Redemptions	-90.3	-144.4	-98.6	-159.9	-138.9	-286.9	-198.0
Eskom debt-relief arrangement	–	-76.0	-64.0	-80.2	–	–	-10.0
GFECRA settlement (net)	–	–	100.0	25.0	56.0	–	–
Gross borrowing requirement	**-400.3**	**-543.5**	**-397.5**	**-568.2**	**-377.8**	**-559.0**	**-455.8**
	-5.9%	*-7.6%*	*-5.4%*	*-7.3%*	*-4.6%*	*-6.5%*	*-5.0%*
Government debt							
Gross loan debt	**4 765.4**	**5 259.4**	**5 693.9**	**6 070.0**	**6 349.1**	**6 677.1**	**6 991.2**
	70.4%	*73.9%*	*77.0%*	*77.9%*	*77.7%*	*77.4%*	*77.0%*
Net loan debt	**4 516.3**	**5 063.7**	**5 468.8**	**5 928.4**	**6 220.4**	**6 555.1**	**6 885.4**
	66.7%	*71.2%*	*73.9%*	*76.1%*	*76.1%*	*76.0%*	*75.9%*

1. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions
2. Technical adjustments explained in Table C.3
Source: National Treasury

TAX REVENUE OUTLOOK

Table C.8 Tax revenue and tax bases

R million/percentage change	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Outcome			Estimate	Projections		
Personal income tax	**600 367**	**648 911**	**729 911**	**791 757**	**842 607**	**896 077**	**947 393**
Wage bill[1]	*4.7%*	*6.1%*	*4.4%*	*6.4%*	*5.9%*	*5.8%*	*5.3%*
Buoyancy	*1.80*	*1.32*	*2.85*	*1.33*	*1.09*	*1.09*	*1.09*
Corporate income tax	**344 660**	**313 097**	**318 739**	**343 426**	**361 563**	**382 030**	**404 114**
Net operating surplus	*10.3%*	*1.6%*	*2.8%*	*5.0%*	*2.7%*	*5.6%*	*5.8%*
Buoyancy	*0.73*	*-5.59*	*0.63*	*1.55*	*1.93*	*1.00*	*1.00*
Net value-added tax	**422 416**	**447 557**	**457 789**	**493 579**	**524 638**	**553 416**	**582 343**
Household consumption	*9.7%*	*6.0%*	*5.3%*	*5.2%*	*5.1%*	*5.6%*	*5.3%*
Buoyancy	*0.83*	*1.00*	*0.43*	*1.50*	*1.24*	*0.98*	*0.98*
Domestic VAT	**486 437**	**525 446**	**561 407**	**599 711**	**630 095**	**665 507**	**700 892**
Household consumption	*9.7%*	*6.0%*	*5.3%*	*5.2%*	*5.1%*	*5.6%*	*5.3%*
Buoyancy	*0.87*	*1.35*	*1.29*	*1.31*	*1.00*	*1.00*	*1.00*
Import VAT	**254 984**	**265 043**	**261 878**	**269 776**	**290 537**	**309 255**	**330 234**
Nominal imports	*32.9%*	*2.9%*	*-2.5%*	*4.0%*	*7.7%*	*6.4%*	*6.8%*
Buoyancy	*0.75*	*1.36*	*0.48*	*0.76*	*1.00*	*1.00*	*1.00*
VAT refunds	**-319 005**	**-342 933**	**-365 497**	**-375 909**	**-395 994**	**-421 345**	**-448 783**
Nominal exports	*13.2%*	*2.1%*	*0.7%*	*2.5%*	*5.3%*	*6.4%*	*6.5%*
Buoyancy	*1.64*	*3.52*	*9.26*	*1.12*	*1.00*	*1.00*	*1.00*
Customs duties	**73 946**	**70 549**	**76 698**	**80 534**	**86 732**	**92 320**	**98 582**
Nominal imports	*32.9%*	*2.9%*	*-2.5%*	*4.0%*	*7.7%*	*6.4%*	*6.8%*
Buoyancy	*0.84*	*-1.59*	*-3.52*	*1.26*	*1.00*	*1.00*	*1.00*
Specific excise duties	**55 155**	**53 522**	**59 680**	**61 850**	**64 984**	**68 636**	**72 285**
Household consumption	*9.7%*	*6.0%*	*5.3%*	*5.2%*	*5.1%*	*5.6%*	*5.3%*
Buoyancy	*1.13*	*-0.50*	*2.16*	*0.70*	*1.00*	*1.00*	*1.00*
Skills development levy	**20 892**	**22 604**	**24 448**	**25 979**	**27 657**	**29 406**	**31 183**
Private-sector wage bill	*5.3%*	*5.3%*	*4.4%*	*6.4%*	*6.5%*	*6.3%*	*6.0%*
Buoyancy	*1.53*	*1.53*	*1.85*	*0.97*	*1.00*	*1.00*	*1.00*
Fuel levy	**80 473**	**91 508**	**85 883**	**98 612**	**103 490**	**109 222**	**114 977**
Nominal GDP	*7.1%*	*5.1%*	*4.0%*	*5.3%*	*4.9%*	*5.5%*	*5.3%*
Buoyancy	*-1.33*	*2.68*	*-1.54*	*2.82*	*1.01*	*1.00*	*1.00*
Ad valorem excise duties	**5 520**	**7 348**	**6 970**	**7 449**	**7 814**	**8 247**	**8 682**
Nominal GDP	*7.1%*	*5.1%*	*4.0%*	*5.3%*	*4.9%*	*5.5%*	*5.3%*
Buoyancy	*2.37*	*6.47*	*-1.29*	*1.31*	*1.00*	*1.00*	*1.00*
Other[2]	**83 268**	**85 774**	**95 152**	**102 104**	**123 664**	**130 078**	**136 782**
Nominal GDP	*7.1%*	*5.1%*	*4.0%*	*5.3%*	*4.9%*	*5.5%*	*5.3%*
Buoyancy	*0.99*	*0.59*	*2.73*	*1.39*	*4.31*	*0.94*	*0.98*
Gross tax	**1 686 697**	**1 740 870**	**1 855 270**	**2 005 291**	**2 143 150**	**2 269 432**	**2 396 342**
Nominal GDP	*7.1%*	*5.1%*	*4.0%*	*5.3%*	*4.9%*	*5.5%*	*5.3%*
Buoyancy	*1.11*	*0.63*	*1.64*	*1.54*	*1.40*	*1.06*	*1.06*

1. Total remuneration in the formal non-agriculture sector
2. Other includes dividends tax, interest on overdue income tax, taxes on property, air departure tax, electricity levy, plastic bag levy and all other minor taxes
Source: National Treasury

SOUTHERN AFRICAN CUSTOMS UNION REVENUE POOL

Payments to the Southern African Customs Union (SACU) for 2024/25 and 2025/26 remain unchanged from the 2025 Budget estimates. The SACU revenue-sharing formula adjusts for forecast errors with a two-year lag. As a result, the projected 2026/27 SACU payments include the forecast error adjustment for 2024/25 based on the outcomes of the common revenue pool estimates. Compared with the 2025 Budget, SACU payments projections have been revised up by R0.2 billion in 2026/27 and revised down by R1.2 billion in 2027/28. The revisions to SACU payments in 2027/28 are mainly due to lower specific excise duties than projected in the 2025 Budget.

FISCAL FRAMEWORK ASSUMPTIONS FOR LONG-TERM MAIN BUDGET BASELINE

The long-term main budget fiscal framework assumptions that underpin the long-term debt outlook include the following:

- The gap between gross tax and main budget revenue averages 0.71 per cent of GDP per year from 2029/30 onwards.
- In real terms, non-interest expenditure (excluding the Infrastructure Fund) grows by 1.2 per cent per year from 2029/30 onwards.
- The Infrastructure Fund amounts are R13.2 billion in 2024/25, R20.6 billion in 2025/26, R17.7 billion in 2026/27, R16.2 billion in 2027/28 and R25.3 billion in 2028/29.
- Beyond the medium term, real GDP growth averages 2.2 per cent.

2024/25 OUTCOMES AND 2025/26 MID-YEAR ESTIMATES

Table C.9 summarises national and provincial appropriated expenditure outcomes for 2024/25 and estimates for the first half of 2025/26. Tables C.10 and C.11 present additional details.

In 2024/25, national expenditure amounted to R2.14 trillion, which was R8.4 billion lower than the adjusted budget estimate. For the first six months of 2025/26, national departments spent R1.14 trillion or 49 per cent of their adjusted budgets. Provinces spent R399.2 billion or 50 per cent of their original budgets for the first six months of the fiscal year. Provinces are primarily responsible for delivering social services, including basic education and health. Compensation of employees is the largest spending item in provincial budgets, accounting for 61.9 per cent of spending in the first six months of 2025/26.

Table C.9 National and provincial expenditure outcomes and mid-year estimates

R billion	2024/25 Adjusted appropria-tion[1]	2024/25 Audited outcome	2024/25 Over(-)/ Under(+)	2025/26 Main budget	2025/26 Special appropria-tion[2]	2025/26 Adjust -ments appropria-tion	2025/26 Adjusted appropria-tion	2025/26 Actual spending April to September
National appropriation	**1 112.2**	**1 103.9**	**8.2**	**1 172.2**	**0.8**	**10.1**	**1 183.1**	**586.6**
Direct charges	**1 043.7**	**1 040.7**	**3.0**	**1 114.8**	**–**	**14.7**	**1 129.5**	**551.0**
Debt-service costs	388.9	385.8	3.0	426.3	–	-4.8	421.5	206.1
Provincial equitable share	600.5	600.5	–	633.2	–	14.4	647.6	316.6
Other direct charges	54.4	54.4	0.0	55.3	–	5.1	60.4	28.3
National votes	**2 155.9**	**2 144.6**	**11.3**	**2 287.0**	**0.8**	**24.8**	**2 312.6**	**1 137.5**
of which:								
Compensation of employees	*205.7*	*206.3*	*-0.6*	*219.1*	*–*	*-1.5*	*217.6*	*107.8*
Goods and services	*84.1*	*80.7*	*3.3*	*83.5*	*0.0*	*6.4*	*89.9*	*40.4*
Transfers and subsidies	*1 452.6*	*1 446.5*	*6.1*	*1 530.9*	*0.7*	*21.0*	*1 552.6*	*765.5*
Payments for capital assets	*16.3*	*16.6*	*-0.3*	*17.1*	*–*	*1.6*	*18.7*	*6.8*
Payments for financial assets	*8.1*	*8.4*	*-0.3*	*9.8*	*–*	*2.1*	*11.9*	*9.5*
Provisional allocations not appropriated	–	–	–	18.7	–	-17.0	1.8	–
Contingency reserve	–	–	–	5.0	–	8.5	13.5	–
National government projected underspending	-0.9	–	-0.9	–	–	-5.1	-5.1	–
Local government repayment to the National Revenue Fund	-2.0	–	-2.0	–	–	-1.0	-1.0	–
Main budget expenditure	**2 153.0**	**2 144.6**	**8.4**	**2 310.7**	**0.8**	**10.3**	**2 321.7**	**1 137.5**
Provincial expenditure[3]	**769.3**	**763.0**	**6.3**	**798.6**				**399.2**
of which:								
Compensation of employees	*470.2*	*471.6*	*-1.4*	*499.6*	*n/a*	*n/a*	*n/a*	*247.0*
Goods and services	*163.8*	*159.1*	*4.8*	*163.7*	*n/a*	*n/a*	*n/a*	*84.0*
Transfers and subsidies	*93.5*	*92.5*	*1.0*	*92.3*	*n/a*	*n/a*	*n/a*	*49.3*
Payments for capital assets	*41.7*	*39.5*	*2.2*	*43.0*	*n/a*	*n/a*	*n/a*	*18.9*

1. Adjustments Appropriation Act, 2024 (Act No. 49 of 2024)
2. Special Appropriation Bill, 2025
3. Provinces will table an adjusted budget during November 2025 and December 2025
Source: National Treasury

Table C.10 Expenditure by national vote

R million	2024/25			2025/26				
	Adjusted appropria-tion[2]	Audited outcome	Over(-)/ Under(+)	Main budget	Special appropria-tion[3]	Adjust -ments appropria-tion	Adjusted appropria-tion	Actual spending April to September
1 The Presidency	630	643	-14	739	–	16	755	367
2 Parliament[1]	2 771	2 771	–	3 068	–	397	3 465	–
3 Cooperative Governance	125 896	124 325	1 571	131 129	–	1 495	132 624	54 875
4 Government Communication and Information System	761	744	17	820	–	9	829	427
5 Home Affairs	12 095	11 832	264	11 060	–	2 980	14 040	7 034
6 International Relations and Cooperation	7 081	7 011	70	7 090	–	219	7 309	3 898
7 National School of Government	219	216	3	229	–	–	229	107
8 National Treasury	26 317	25 305	1 012	29 973	–	2 067	32 040	13 733
9 Planning, Monitoring and Evaluation	494	459	35	509	–	5	514	248
10 Electricity and Energy	6 070	5 981	89	6 669	–	6	6 675	3 338
11 Public Service and Administration	540	510	30	565	–	1	566	257
12 Public Service Commission	288	288	0	302	–	16	318	152
13 Public Works and Infrastructure	7 612	7 570	42	7 623	–	25	7 648	3 598
14 Statistics South Africa	2 646	2 618	29	2 771	–	84	2 855	1 375
15 Traditional Affairs	187	181	6	196	–	–	196	92
16 Basic Education	32 635	32 544	91	35 489	–	2 769	38 258	21 014
17 Higher Education	112 773	112 634	140	116 442	–	–	116 442	65 436
18 Health	62 225	61 882	344	64 807	755	363	65 925	32 468
19 Social Development	278 296	275 628	2 668	294 056	–	1 169	295 225	144 367
20 Women, Youth and Persons with Disabilities	1 021	1 011	10	1 362	–	–	1 362	671
21 Civilian Secretariat for the Police Service	156	155	1	172	–	0	173	83
22 Correctional Services	27 759	28 436	-677	29 222	–	1	29 223	15 534
23 Defence	55 507	57 994	-2 487	57 184	–	1 888	59 072	30 395
24 Independent Police Investigative Directorate	371	370	0	429	–	–	429	197
25 Justice and Constitutional Development	21 650	21 618	32	22 738	–	208	22 945	11 819
26 Military Veterans	812	758	55	879	–	–	879	387
27 Office of the Chief Justice	1 274	1 513	-239	1 515	–	105	1 620	795
28 Police	113 624	113 624	–	120 890	–	–	120 890	57 873
29 Agriculture	7 916	7 882	34	7 610	–	337	7 946	2 537
30 Communications and Digital Technologies	3 969	2 915	1 053	2 546	–	1 005	3 550	1 579
31 Employment and Labour	3 855	3 802	52	4 153	–	132	4 285	2 612
32 Forestry, Fisheries and the Environment	8 795	8 640	155	9 081	–	63	9 144	3 412
33 Human Settlements	33 680	32 850	831	34 043	–	873	34 915	15 871
34 Mineral and Petroleum Resources	2 948	2 943	5	2 860	–	1	2 861	1 618
35 Science, Technology and Innovation	9 441	9 073	368	9 064	–	334	9 398	5 312
36 Small Business Development	2 708	2 669	39	2 918	–	–	2 918	1 338
37 Sport, Arts and Culture	6 106	6 073	33	6 310	–	–	6 310	2 893
38 Tourism	2 381	2 252	129	2 435	–	–	2 435	1 314
39 Trade, Industry and Competition	9 396	9 287	109	11 072	–	57	11 129	5 401
40 Transport	86 355	84 957	1 398	95 692	–	-3 880	91 812	55 335
41 Water and Sanitation	23 850	23 816	34	26 679	–	-3 296	23 383	12 362
42 Land Reform and Rural Development	9 082	8 163	919	9 821	–	648	10 468	4 444
Total appropriation by vote	**1 112 191**	**1 103 943**	**8 248**	**1 172 207**	**755**	**10 097**	**1 183 059**	**586 568**

Table C.10 Expenditure by national vote *(continued)*

R million	2024/25			2025/26				
	Adjusted appropria-tion[2]	Audited outcome	Over(-)/ Under(+)	Main budget	Special appropria-tion[3]	Adjust -ments appropria-tion	Adjusted appropria-tion	Actual spending April to September
Total appropriation by vote	**1 112 191**	**1 103 943**	**8 248**	**1 172 207**	**755**	**10 097**	**1 183 059**	**586 568**
Plus:								
Direct charges against the National Revenue Fund								
President and deputy president salaries (The Presidency)	8	7	1	8	–	–	8	3
Members' remuneration (Parliament)	714	692	21	519	–	34	553	–
Debt-service costs (National Treasury)	388 854	385 844	3 011	426 346	–	-4 817	421 529	206 094
Provincial equitable share (National Treasury)	600 476	600 476	–	633 166	–	14 415	647 581	316 583
General fuel levy sharing with metropolitan municipalities (National Treasury)	16 127	16 127	–	16 849	–	–	16 849	5 616
National Revenue Fund payments (National Treasury)	2 080	2 147	-67	–	–	4 749	4 749	4 242
Auditor-General of South Africa (National Treasury)	129	129	–	134	–	–	134	134
Guarantees, indemnities and securities: Payment to the South African Reserve Bank (National Treasury)	–	–	–	–	–	119	119	–
Public-sector-related pension, post-retirement medical and other benefits in terms of statutory and collective agreement obligations (National Treasury)	7 003	7 300	-296	7 901	–	148	8 049	3 911
Skills levy and sector education and training authorities (Higher Education)	24 493	24 137	356	26 006	–	-27	25 979	12 494
Magistrates' salaries (Justice and Constitutional Development)	2 496	2 513	-17	2 630	–	–	2 630	1 245
Judges' salaries (Office of the Chief Justice)	1 333	1 324	9	1 238	–	95	1 333	655
International Oil Pollution Compensation Fund (Transport)	13	8	5	14	–	–	14	–
Total direct charges against the National Revenue Fund	**1 043 725**	**1 040 703**	**3 023**	**1 114 811**	**–**	**14 716**	**1 129 527**	**550 979**
Provisional allocations not appropriated	–	–	–	18 712	–	-16 951	1 761	–
Contingency reserve	–	–	–	5 000	–	8 519	13 519	–
National government projected underspending	-914	–	-914	–	–	-5 130	-5 130	–
Local government repayment to the National Revenue Fund	-2 000	–	-2 000	–	–	-1 000	-1 000	–
Total	**2 153 002**	**2 144 645**	**8 357**	**2 310 730**	**755**	**10 252**	**2 321 736**	**1 137 547**

1. Amendments to Parliaments' budget are determined independently of the national government's budget processes in accordance with the Financial Management of Parliament and Provincial Legislatures Act (2009) as amended
2. Adjustments Appropriation Act, 2024 (Act No. 49 of 2024)
3. Special Appropriation Bill, 2025
Source: National Treasury

Table C.11 Expenditure by province

R million	2024/25 Main budget	2024/25 Adjusted budget	2024/25 Audited outcome	2024/25 Over(-)/ Under(+)	2024/25 Deviation from adjusted budget	2025/26 Main budget	2025/26 Actual spending April to September
Eastern Cape	**95 400**	**95 692**	**95 143**	**549**	**0.6%**	**100 000**	**53 055**
Education	42 441	42 452	42 417	36	0.1%	44 636	23 804
Health	30 107	30 307	30 309	-2	-0.0%	31 653	17 136
Social development	2 972	2 972	2 954	18	0.6%	3 116	1 566
Other functions	19 880	19 961	19 464	497	2.5%	20 595	10 549
Free State	**43 741**	**44 166**	**44 113**	**52**	**0.1%**	**45 857**	**22 864**
Education	17 895	17 964	18 659	-696	-3.9%	18 889	9 913
Health	13 718	13 797	13 515	282	2.0%	14 188	6 656
Social development	1 305	1 307	1 264	42	3.2%	1 374	675
Other functions	10 823	11 099	10 675	424	3.8%	11 406	5 621
Gauteng	**165 813**	**168 764**	**166 842**	**1 922**	**1.1%**	**172 337**	**86 472**
Education	65 843	66 143	65 826	317	0.5%	68 001	34 998
Health	64 837	66 018	65 293	725	1.1%	67 042	33 738
Social development	5 466	5 810	5 707	103	1.8%	5 459	2 514
Other functions	29 667	30 793	30 016	777	2.5%	31 835	15 222
KwaZulu-Natal	**150 488**	**151 699**	**151 856**	**-157**	**-0.1%**	**158 478**	**80 623**
Education	62 989	63 222	63 738	-517	-0.8%	66 690	32 964
Health	53 797	53 797	53 797	–	0.0%	56 212	28 589
Social development	3 412	3 412	3 409	2	0.1%	3 613	1 766
Other functions	30 291	31 269	30 911	358	1.1%	31 963	17 305
Limpopo	**83 111**	**83 935**	**82 674**	**1 261**	**1.5%**	**88 936**	**42 258**
Education	40 029	40 060	39 126	934	2.3%	42 529	21 159
Health	24 639	24 757	24 735	22	0.1%	26 074	12 227
Social development	2 077	2 104	2 042	61	2.9%	2 295	1 076
Other functions	16 365	17 015	16 771	244	1.4%	18 038	7 796
Mpumalanga	**61 608**	**63 173**	**62 611**	**562**	**0.9%**	**66 185**	**32 236**
Education	26 369	26 642	26 495	147	0.6%	28 733	14 387
Health	18 697	18 992	18 950	42	0.2%	19 751	9 301
Social development	1 715	1 751	1 750	1	0.1%	1 878	951
Other functions	14 827	15 788	15 416	372	2.4%	15 824	7 598
Northern Cape	**22 161**	**21 773**	**21 581**	**193**	**0.9%**	**22 982**	**11 229**
Education	8 112	8 203	8 471	-269	-3.3%	8 887	4 728
Health	6 442	6 367	6 342	25	0.4%	6 869	3 411
Social development	978	930	929	1	0.1%	1 003	473
Other functions	6 628	6 274	5 839	435	6.9%	6 224	2 618
North West	**53 700**	**54 286**	**53 902**	**384**	**0.7%**	**55 798**	**28 541**
Education	21 932	22 052	21 955	96	0.4%	22 895	11 741
Health	16 522	16 531	16 530	1	0.0%	17 040	9 022
Social development	1 811	1 819	1 819	0	0.0%	1 876	943
Other functions	13 436	13 884	13 598	286	2.1%	13 987	6 835
Western Cape	**84 060**	**85 777**	**84 237**	**1 540**	**1.8%**	**88 044**	**41 938**
Education	30 850	31 397	31 345	53	0.2%	33 259	15 040
Health	30 489	30 687	30 553	134	0.4%	32 008	15 398
Social development	2 539	2 522	2 490	32	1.3%	2 726	1 302
Other functions	20 181	21 171	19 850	1 321	6.2%	20 051	10 198
Total	**760 082**	**769 265**	**762 960**	**6 306**	**0.8%**	**798 617**	**399 217**
Education	316 462	318 134	318 032	102	0.0%	334 519	168 732
Health	259 248	261 252	260 023	1 228	0.5%	270 836	135 477
Social development	22 275	22 627	22 364	262	1.2%	23 338	11 265
Other functions	162 098	167 253	162 540	4 713	2.8%	169 923	83 743

Source: National Treasury

This page was left blank intentionally.

D

2025 MTBPS

GLOSSARY

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Accrued liability	A liability that is not paid in the fiscal year in which it is incurred, and so continues to be owed in the next fiscal year.
Adjustment estimates	Presentation to Parliament of the amendments to be made to the appropriations voted on in the main budget for the fiscal year.
Administered prices	Prices set outside ordinary market processes through administrative decisions by government, a public entity or a regulator.
Appropriation	The approval by Parliament of spending from the National Revenue Fund, or by a provincial legislature from the Provincial Revenue Fund.
Asset price inflation	An increase in the overall price of assets over a specific period of time.
Balance of payments	A summary statement of all the transactions of the residents of a country with the rest of the world over a particular time period.
Baseline	The initial allocations used during the budget process, derived from the previous year's forward estimates.
Blended finance	The combination of public, private, development and multilateral sources of financing to leverage funding for infrastructure projects.
Bond-switch programme	An auction that aims to ease pressure on targeted areas of the redemption profile by exchanging shorter-term debt for longer-term debt.
Budget balance	The difference between expenditure and revenue. If expenditure exceeds revenue, the budget is in deficit. If the reverse is true, the budget is in surplus.
Budget Facility for Infrastructure	A reform to the budget process that establishes specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending.
Buy-back transaction	A transaction where government buys debt instruments from investors before their redemption date.
Capital erosion	The deterioration of capital due to a lack of investment in the economy.
Capital flight	A large outflow of investments from a country in response to heightened economic, political or policy risk.
Capital flow	A flow of investments in or out of a country.
Concessionary financing	Financing or loans that are extended on terms that are more generous than market loans – for example, lower interest rates or grace periods where there is no repayment.
Conditional grants	Allocations of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements.
Consolidated government expenditure	Total expenditure by national and provincial government, social security funds and selected public entities, including transfers to municipalities or other entities. See also *main budget expenditure*.
Consumer price index (CPI)	The main measure of inflation, charting changes in the price movements of a basket of consumer goods and services.
Consumption expenditure	Expenditure on goods and services, including salaries, that are consumed within a short period of time – usually a year.
Contingency reserve	An amount set aside, but not allocated in advance, to accommodate changes in the economic environment and to meet unforeseen and unavoidable spending pressures.
Contingent liability	A government obligation, such as a guarantee, that will only result in expenditure if a specific event occurs. See also *government guarantee*.

Core inflation	A measure of the change in consumer price levels that excludes temporary shocks and represents the long-run trend of changes in the price level. See also *headline inflation*.
Countercyclical fiscal policy	Policy that has the opposite effect on economic activity to that caused by the business cycle, such as slowing spending growth in a boom period and accelerating spending in a recession.
Credit rating	An indicator of the risk of default by a borrower or the riskiness of a financial instrument. Rating agencies assign grades signifying the borrower's capacity to meet its financial obligations or the probability that the value of the financial instrument will be realised. See also *rating agency*.
Crowding in	An increase in private investment or consumption as a result of government spending.
Crowding out	A fall in private investment or consumption as a result of increased government spending.
Current account (of the balance of payments)	The difference between total exports and imports, including service payments and receipts, interest, dividends and transfers. This account can be in deficit or surplus. See also *trade balance.*
Current balance	The difference between revenue and current expenditure, which consists of compensation of employees, goods and services, and interest and rent on land.
Debt redemption	Repayment of the principal and any outstanding interest on a bond.
Debt-service cost	The cost of interest on government debt.
Depreciation (capital)	A reduction in the value of fixed capital as a result of wear and tear or redundancy.
Depreciation (exchange rate)	A reduction in the external value of a currency.
Disposable income	Total income less all taxes and employee contributions.
Division of revenue	The allocation of funds between national, provincial and local government as required by the Constitution.
Economic growth	An increase in the total amount of output, income and spending in the economy.
Effective cost of debt	A measure of the cost of debt that includes non-interest costs, such as penalties and upfront payments, which are often applied to distressed borrowers.
Employment tax incentive	An incentive aimed at encouraging the creation of jobs for youth by allowing employers to claim a reduction in the pay-as-you-earn tax an employer is liable to pay to the South African Revenue Service.
Equitable share	The allocation of revenue to national, provincial and local government as required by the Constitution.
Expenditure ceiling	An overall limit on expenditure that enables government to manage departmental spending levels.
External imbalance	An excessively positive or negative current account balance, reflecting an excess or deficit of domestic investment over domestic savings.
Financial account (of the balance of payments)	A statement of all financial transactions between a country and the rest of the world, including portfolio and fixed investment flows, and movements in foreign reserves.
Financial and Fiscal Commission	An independent body established in terms of the Constitution to make recommendations to Parliament and provincial legislatures about financial issues affecting the three spheres of government.

Financial year	The 12 months according to which companies and organisations budget and account. Government's financial year runs from 1 April to 31 March.
Fiscal consolidation	Measures to narrow a government's budget deficit and stabilise its debt-to-GDP ratio.
Fiscal multiplier	A ratio measuring the extent to which national income changes in response to changes in government spending. For example, a fiscal multiplier of 0.5 implies that national income increases by 50 cents for every R1 of additional government spending.
Fiscal policy	Policy on taxation, spending and borrowing by government.
Fiscal space	Government's ability to provide additional resources in the budget without jeopardising fiscal sustainability.
Flexible exchange rate	Determination of currency exchange rates by market forces.
Floating exchange rate	An exchange rate regime in which the exchange rate of a country can fluctuate in response to movements in the foreign exchange market.
Foreign direct investment	The acquisition of long-term business interests in another country, usually involving management, technology and financial participation.
Full-time equivalent	An indicator measuring the proportion of time for which an employee receives a salary. It enables government to estimate annual personnel costs by aggregating the amount of part-time work to calculate the full-time equivalents. For example, two people working full-time for six months of the year would count as one full-time equivalent.
GDP inflation	A measure of the total increase in prices in the entire economy. Unlike CPI inflation, GDP inflation includes price increases in goods that are exported but excludes imported goods.
GDP rebasing	The process of replacing a previous base year used to compile GDP estimates in constant prices (or real/volume terms) with a more recent base year. It is usually done alongside periodic benchmarking and methodological changes that account for changes in the economy, inflation and technological progress.
Gini coefficient	A measure that illustrates inequality in the distribution of income. It is expressed as a number between 0 and 1, with 0 representing perfect equality in income and 1 representing perfect inequality.
Gold and foreign exchange account	A Reserve Bank account that reflects its losses and profits on holdings of foreign currency and gold reserves, driven by changes in the exchange rate of the rand to the US dollar and the gold price.
Government guarantee	An assurance made by government to a lender that a financial obligation will be honoured, even if the borrowing government institution is unable to repay the debt. See also *contingent liability.*
Government of National Unity (GNU)	A coalition government formed by multiple political parties. The first GNU was formed following the 1994 elections, with a subsequent GNU established after the 2024 elections.
Green finance taxonomy	An official categorisation or inventory that establishes a minimal list of resources, initiatives and industries that meet the requirements to be labelled as "green" or ecologically friendly.
Gross domestic product (GDP)	A measure of total national output, income and expenditure in the economy.
Gross fixed-capital formation	The addition to a country's fixed-capital stock over a specific period, before providing for depreciation.

Headline inflation	A measure of the change in the CPI level that includes temporary price shocks to the economy, such as once-off price changes. See also *core inflation*.
Independent power producer	A private-sector business that generates energy for the national grid.
Indirect grant	A grant allowing a national department to perform a function on behalf of a province or municipality. No funds are transferred, but the end product of the grant, such as infrastructure, is generally transferred to the province or municipality.
Inflation	An increase in the general level of prices.
Inflation targeting	A monetary policy framework intended to achieve price stability over a certain period of time.
Integrated financial management system (IFMS)	Government's financial management information technology system.
Intergenerational equity	A value based on ensuring that future generations do not have to repay debts taken on today unless they also share in the benefits of assets.
Investment grade	A credit rating regarded as carrying minimal risk to the investors.
Labour force participation	The ratio of employed and unemployed workers (the labour force) relative to the working-age population.
Liquidity	The ease with which assets can be bought and sold.
Macroprudential policy	Policy to protect the stability of the financial sector and guard against systemic risk.
Main budget expenditure	National government expenditure and transfers to provincial and local government financed from the National Revenue Fund, excluding revenues and spending related to social security funds, extra-budgetary institutions and provincial own-source revenue. See also *consolidated government expenditure.*
Medico-legal claim	A civil claim of alleged wrongful medical treatment against a health provider.
Medium Term Expenditure Committee (MTEC)	The technical committee responsible for evaluating the medium-term expenditure framework budget submissions of national departments and making recommendations to the Minister of Finance regarding allocations to national departments.
Medium-term expenditure framework (MTEF)	The three-year spending plans of national and provincial governments published at the time of the Budget.
Medium-term strategic framework	The five-year strategy of government coinciding with the electoral term.
Monetary policy	The actions taken by a country's monetary authority (for example, the Reserve Bank), usually focused on money supply and interest rates.
Money supply	The total stock of money in an economy.
National budget	The projected revenue and expenditure flowing through the National Revenue Fund. It does not include spending by provinces or local government from their own revenues.
National Development Plan	A national strategy to eliminate poverty and reduce inequality.
National health insurance	A healthcare policy that aims to provide access to quality, affordable health services to all South Africans.
National Revenue Fund	The consolidated account of national government into which departmental revenue and all taxes, fees and charges collected by the South African Revenue Service must be paid.

Nominal exchange rate	The current rate of exchange between the rand and foreign currencies.
Nominal wage	The return, or wage, to employees at the current price level.
Non-interest expenditure	Total expenditure by government less debt-service costs.
Occupation-specific dispensation	A public-sector initiative aimed at improving government's ability to attract and retain skilled employees in targeted occupations through increased remuneration.
Operation Vulindlela	A joint initiative of the Presidency and the National Treasury to accelerate the implementation of structural reforms and support economic recovery. Its aim is to fast-track the implementation of high-impact reforms, addressing obstacles or delays to ensure execution on policy commitments.
Opportunity cost	The cost of an alternative forgone to pursue a certain action.
Payroll tax	Tax that an employer withholds and/or pays on behalf of employees based on their wages or salaries.
Potential growth	The fastest growth that an economy can sustain without increasing inflation.
Primary deficit/surplus	The difference between total revenue and non-interest expenditure. When revenue exceeds non-interest expenditure, there is a surplus.
Primary expenditure	Non-interest expenditure by government.
Primary sector	The agricultural and mining sectors of the economy.
Private-sector credit extension	Credit provided to the private sector by banks. This includes all loans, credit card balances and leases.
Productivity	A measure of the amount of output generated from every unit of input over a period of time.
Protectionism	When a country restricts international trade to protect domestic industries.
Public entities	Companies, agencies, funds and accounts that are fully or partly owned by government or public authorities and regulated by law.
Public-private partnership	A contractual arrangement in which a private party performs a government function and assumes the associated risks. In return, the private party receives a fee according to predefined performance criteria.
Public-sector borrowing requirement	The consolidated cash borrowing requirement of general government and non-financial public enterprises.
Purchasing managers' index (PMI)	A composite index measuring the change in manufacturing activity compared with the previous month.
Rating agency	A company that evaluates the ability of countries or other borrowers to honour their debt obligations. See also *credit rating.*
Real effective exchange rate	A measure of the rate of exchange of the rand relative to a trade-weighted average of South Africa's trading partners' currencies, adjusted for inflation.
Real expenditure	Expenditure measured in constant prices – in other words, adjusted to remove the effects of inflation.
Real interest rate	The level of interest after removing the effects of inflation.
Recapitalisation	Injection of funds into a company or entity to aid liquidity, either as a loan or in return for equity.
Redemption	The return of an investor's principal in a fixed-income security, such as a preferred stock or bond.
Refinancing	The repayment of debt at a scheduled time using the proceeds of new loans.

Refinancing risk	The risk that government may face difficulty repaying or replacing maturing debt at favourable rates and terms due to unfavourable market conditions.
Repurchase (repo) rate	The interest rate at which the Reserve Bank lends to commercial banks.
Reserves (foreign exchange)	Holdings of foreign exchange, either by the Reserve Bank only or by the Reserve Bank and domestic banking institutions.
Revaluation gain/loss	The difference in value between the original (historical) rate and current rate of an asset, liability or transaction.
Risk premium	A return that compensates for uncertainty.
Rollover	Funds not spent during a given financial year that flow into the following year's adjustments budget.
Rollover risk	The risk that government may not be able to extend maturing debt from the same or a similar investor.
Seasonally adjusted and annualised	The process of removing the seasonal volatility (monthly or quarterly) from a time series. This provides a measure of the underlying trend in the data. Once the rate is annualised, it is expressed as if it were applied over one year.
Self-financing expenditure	Spending financed by revenue derived from a vote's specific activities, which is paid into the National Revenue Fund.
Social grants	Social benefits available to qualifying individuals, funded wholly or partly by the state.
Southern African Customs Union (SACU) agreement	An agreement that allows for the unrestricted flow of goods and services, and the sharing of customs and excise revenue, between South Africa, Botswana, eSwatini, Lesotho and Namibia.
Southern African Development Community (SADC)	A regional intergovernmental organisation that promotes collaboration, economic integration and technical cooperation throughout Southern Africa.
Sovereign debt	Debt issued by a government.
Structural reforms	Measures that are put in place to substantially change the economy or the institutional and regulatory framework in which people and businesses operate.
Supply-side constraints	When a country's productive capacity cannot keep up with rising demand.
Switch (auction)	Auctions to exchange bonds to manage refinancing risk or improve tradability.
Tax avoidance	When individuals or businesses legitimately use provisions in the tax law to reduce their tax liability.
Tax buoyancy	The relationship between total tax revenue collections and economic growth. A value above 1 means that revenues are growing faster than the economy; a value below 1 means they are growing below the rate of GDP growth.
Tax evasion	When individuals or businesses illegally reduce their tax liability.
Tax-to-GDP ratio	A measure of a country's tax burden calculated by showing the total tax payments as a fraction or percentage of GDP for a given year.
Terms of trade	An index measuring the ratio of export prices to import prices.
Trade balance	The monetary record of a country's net imports and exports of physical merchandise. See also *current account.*

Transversal term contract	A fixed-term contract to procure goods or services needed by more than one government department.
Treasury bills	Short-term government debt instruments that yield no interest but are issued at a discount. Maturities vary from one day to 12 months.
Twin deficit	The combination of deficits on the budget and the current account.
Twin peaks	An approach to organising financial sector regulation and supervision involving two regulators. One is responsible for ensuring financial services firms sell their products in an appropriate way. The other is responsible for ensuring financial firms remain financially sound and are generally prudent.
Undercapitalisation	Lack of sufficient funds (capital) to conduct day-to-day operations.
Unit labour costs	The cost of labour per unit of output, calculated by dividing average wages by productivity (output per worker per hour).
Unsecured lending	A loan that is not backed or secured by any type of collateral to reduce the lender's risk.
Yield	A financial return or interest paid to buyers of government bonds. The yield, or rate of return, on bonds includes the total annual interest payments, the purchase price, the redemption value and the time remaining until maturity.

2025 MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

Private Bag X115, Pretoria, 0001 | 40 Church Square, Pretoria, 0002 | Tel: +27 12 315 5944 | **www.treasury.gov.za**

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA