

MTBPS preview

ECONOMICS | South Africa



A narrower budget deficit in FY 2025/26 on strong tax collections and slower expenditure growth

- Macroeconomic assumptions:** The National Treasury will present the 2025 Medium-Term Budget Statement (MTBPS) against the backdrop of a modest domestic recovery and an increasingly tumultuous global landscape. Treasury will likely reduce its GDP growth forecast for 2025 slightly due to shrinking fixed investment and lower exports in the first half of the year. For the next three years, we expect Treasury will reflect an upward trajectory as subdued inflation and lower interest rates sustain consumer spending and easing energy and logistical constraints enable a recovery in fixed investment, offsetting the continued, and potentially deepening, drag from net exports.
- Revenue:** Moderately faster growth in domestic demand, elevated gold and platinum prices and more efficient tax collections have boosted revenue. Consequently, we project higher revenue growth in fiscal year 2025/26 (FY2025/26), supported by robust increases in personal, corporate and value-added taxes. Our estimates translate into an overshoot in gross tax revenue of R60 billion in FY2025/26 and R200 billion over the Medium-Term Expenditure Framework period (MTEF, which runs from FY2025/26—2027/28).
- Expenditure:** Spending growth in FY2025/26 will likely fall short of May's projections, mostly due to the long delays in approving this year's budget. Beyond this year, we forecast moderate expenditure growth in both nominal and real terms. Encouragingly, much lower inflation will likely contain the increase in the public sector wage bill to around 4% over the next two fiscal years. Debt service costs will also rise at a slower rate, due to lower interest rates and softer growth in public debt. Overall, we expect expenditure growth of 6.5% in FY2025/26, compared to the Treasury's projected 7.5%.
- Budget balance:** We project a slightly smaller consolidated budget deficit of 4.4% of GDP for this fiscal year, than the 4.8% projected in Budget 2025. Thereafter, we see the shortfall narrowing slowly, staying above 3% in FY2028/29. Our forecasts indicate that the primary surplus will hover around 2% of GDP by the end of the forecast period.
- Debt metrics:** We expect a higher public debt ratio compared with the Budget 2025 estimates due to our lower nominal GDP forecast. The debt-to-GDP ratio will remain sticky, peaking at 78.1% in FY2027/28 and start to ease slowly as the primary surplus widens.
- Policy announcements:** The focus will be on the revised inflation targeting framework, but Treasury could also announce a fiscal anchor rule.

Table 1: Consolidated Budget framework

	2024/25	2025/26		2026/27		2027/28		2028/29
	May-25	May-25	Nov-25	May-25	Nov-25	May-25	Nov-25	Nov-25
Revenue (R bn)	2 040.2	2 200.8	2 213.6	2 354.3	2 363.0	2 503.2	2 516.6	2 667.6
% growth	4.7	7.9	8.5	7.0	6.8	6.3	6.5	6.0
% of GDP	27.5	28.0	28.6	28.2	29.0	28.2	29.4	29.7
Expenditure (R bn)	2 397.8	2 578.7	2 553.6	2 674.5	2 694.1	2 807.5	2 828.8	2 970.2
% growth	6.1	7.5	6.5	3.7	5.5	5.0	5.0	5.0
% of GDP	32.4	32.8	32.9	32.0	32.9	31.6	33.0	33.0
Consolidated Budget Balance (R bn)	-357.6	-377.9	-340.1	-320.2	-331.1	-304.3	-312.2	-302.6
% of GDP	-4.8	-4.8	-4.4	-3.8	-4.1	-3.4	-3.7	-3.4
Debt Service Costs (R bn)	385.8	426.3	425.4	447.0	445.6	477.5	474.1	485.1
% of GDP	5.2	5.4	5.5	5.4	5.5	5.4	5.5	5.4
Primary Balance	50.2	65.0	85.3	139.4	114.5	191.1	161.9	182.5
% of GDP	0.7	0.8	1.1	1.7	1.4	2.1	1.9	2.0
Gross debt-to-GDP ratio (%)	76.9	77.4	77.9	77.2	78.1	76.7	78.1	77.8

Sources: Budget 2025 and Nedbank Group Economic Unit. May-25 shows Budget 2025, Nov-25 shows our MTBPS forecasts

The macroeconomic backdrop

As expected, the economy is recovering, albeit not quite as convincingly as Treasury anticipated in May. Domestic economic conditions have improved. Electricity supply has stabilised, supporting a recovery in output across most sectors. Although logistics remain inefficient, there have been some improvements in rail freight and port turnover. Favourable weather has led to a rebound in agriculture, while buoyant tourism and robust consumer spending lifted services. Consumer spending benefitted from rising real incomes, subdued inflation, lower interest rates and continued pension fund withdrawals through the two-pot system. However, export volumes declined sharply in the second quarter, hurt by softer global demand and the protectionist tilt in US trade policy. Fortunately, the high precious metal prices largely offset the hit to export volumes and sustained the mining sector's profits.

Looking ahead, we still expect the gradual economic recovery to continue and broaden modestly. The momentum will come from consumer spending, complemented by a recovery in fixed investment as structural reforms deliver a better operating environment. However, the pressure on exports will likely intensify as the US imposed higher tariffs on South Africa than on most of our competitors. This, combined with the expiry of duty-free access under the Africa growth and Opportunity Act (AGO) at the end of September, will weigh on trade prospects and limit the overall pace of recovery.

Given the weaker than expected growth in the first half of the year, we expect Treasury to lower its real GDP growth forecasts slightly. We forecast real GDP growth at 1.2% in 2025, 1.4% in 2026 and 1.6% in 2027.

Table 2: Forecasts of key macroeconomic variables

Macroeconomic indicators (calendar years)	Actuals		Forecasts		
	2023	2024	2025	2026	2027
% change					
Final household consumption	0.2	1.0	2.7	2.0	2.2
Gross fixed-capital formation	3.0	-3.9	-2.6	1.8	1.7
Gross domestic expenditure	0.2	-0.8	2.0	2.0	1.9
Exports	5.1	-2.8	-3.0	-1.6	3.3
Imports	3.9	-6.4	0.2	1.1	3.5
Real GDP growth	0.8	0.5	1.2	1.4	1.6
CPI inflation	5.9	4.4	3.3	3.8	3.3
Current account balance (% of GDP)	-1.6	-1.2	-1.0	-2.1	-2.1

Source: Nedbank Group Economic Unit

The fiscal framework

We believe that the finance minister will reflect some progress in fiscal consolidation over the course of this fiscal year. Despite the slower than expected economic recovery, **revenue** is set to exceed May's projections. The South African Revenue Service (SARS) has ramped up its recovery of outstanding tax payments, collecting R47.1 billion in the first six months of FY2025/26. SARS has raised its target for overdue tax payments and penalties - by R35 billion to R135 billion for FY2025/26. **Expenditure** growth has also been contained, partly due to the long delays in finalising this year's budget. As a result, spending growth will likely be lower than the Budget 2025 forecast, while inflation-related wage settlements, lower interest payments and restrictions on recurrent spending will moderate the growth rate in FY2026/27–2028/29.

Consequently, we see the **budget deficit** narrowing to 4.4% of GDP in FY2025/26, lower than National Treasury's 4.8%. The shortfall will shrink further in the years ahead but remain above 3% by FY2028/29. The **primary budget surplus**, the balance before interest payments, widens to around 2% a year in FY2027/28–2028/29, moderating the rise in the debt stock. A faster decline of interest rates would reduce the cost of new debt, widening the primary surplus even further.

The **gross debt-to-GDP ratio** remains elevated but peaks at a marginally higher level as the increase in public debt exceeds nominal GDP growth. The public debt ratio will likely amount to 77.9% in FY2025/26, before rising marginally to a peak of 78.1% in FY2027/28. Faster GDP growth and tighter expenditure controls would stabilise debt earlier and at a lower level.

Revenue

Aggregate revenue will be higher than the Budget 2025 projections due to firmer-than-expected growth in all the key tax categories. In addition to rebounding economic activity, albeit slow, SARS has boosted gross tax collections by ramping up its recovery of outstanding tax debt. In the first half of 2025/26, total **gross tax revenue** was 9.3% higher than the same period in 2024/25, ahead of National Treasury's 7% forecast for the full year. We project gross tax to rise by 10.5% in this FY, - leading to an overshoot of around R65 billion over May's estimate. We expect this buoyancy to continue, predicting an overshoot of more than R200 billion over the MTEF.

Personal income taxes (PAYE) are benefitting from above-inflation wage settlements, while non-regular (bonus) payments have been lifted by improved corporate profitability. The boost from the two-pot retirement system withdrawals will moderate in the H2 FY2025/26 as we estimate withdrawals to have normalised following the surge after the system was introduced in September 2024. PAYE collections are set to rise by around 12% in 2025/26, marginally higher than the National Treasury's projected 11.1%.

Table 3: FY2025/26 tax collections (cumulative, yoy% change)

Tax type, cumulative (yoy% change)	Apr	May	Jun	Jul	Aug	Sep
Taxes on income and profits	8.7	8.3	7.0	8.2	8.7	9.1
<i>Personal income tax</i>	10.0	8.7	7.6	8.1	8.4	8.4
<i>Taxes on corporate income</i>	-5.8	4.4	5.7	8.3	9.4	10.5
Taxes on goods and services	17.7	13.0	11.0	9.6	9.7	9.8
<i>Value-added tax</i>	27.4	15.0	12.2	12.1	11.4	11.5
<i>Import VAT</i>	2.8	-3.0	-1.1	-0.2	0.7	2.3
<i>Fuel levy</i>	3.1	12.0	12.6	6.1	8.4	8.1
Gross tax revenue	11.7	10.0	8.4	2.0	9.0	9.3

Source: National Treasury, Nedbank calculations

Value-added tax (VAT) will also overshoot the Budget 2025 estimate. In the first half of 2025/26, VAT collections totalled 46% of the National Treasury's FY forecast. We expect spending over the coming year-end season to be firmer than in 2024, lifting collections by around 13% for the fiscal year and R15 billion more than the Budget 2025 estimate.

Corporate taxes are benefitting from a better business environment. Elevated precious metal prices are supporting the profitability of the mining sector, while the more stable energy grid has helped to contain operational costs. In financial services, lower interest rates have dampened defaults and lifted growth rates in loan volumes, albeit marginally. Overall, corporate tax collections will likely increase by more than 10% in FY2025/26.

No major revenue measures are likely to be tabled in the MTBPS, with the mooted scrapping of the **medical aid tax credits** to be announced in February 2026, if the allowances are ended. Reports indicate that the Treasury has withdrawn the proposed legislation relating to taxing **foreign retirement income**, pending further consultations.

Expenditure

Aggregate expenditure growth was contained, running at 5.8% in the first half versus the projected 7.5% for the full fiscal year. As a result, we forecast **total spending growth** of 6.5% in FY2025/26. In the following fiscal years, expenditure growth will probably be higher than reflected in May, but nonetheless kept in check by low inflation, measures to control the public sector wage bill, and a slower rise in debt service costs.

The **public sector wage bill** will likely be contained. In the three-year wage agreement signed in February 2025, salaries were raised by 5.5% in FY2025/26, while the hikes for the subsequent two years will be determined by the inflation rate subject to the 4–6% band. If inflation is below 4% in FY2026/27–2027/28, the increase will be 4% a year. The adjustments will be capped at 6% a year if CPI exceeds that level, while figures within the range will be the salary increases. Considering our inflation forecasts, we expect public sector wage increases to be 4% a year in FY2026/27–2027/28. The Treasury has stressed that

the wage bill will be contained by restrictions on new hiring and incentivising those close to retirement to leave early. However, we do not expect a significant reduction of the wage bill that would help to contain the rise of aggregate expenditure.

Debt service costs will likely match the May forecast for this fiscal year. In the first half, cumulative interest payments rose by 8.3% yoy, much higher than the 5.5% Treasury anticipated. However, we expect the growth rate to moderate towards Treasury's forecast over the rest of the year, primarily due to a slightly smaller budget deficit and lower interest rates. In the subsequent years, the rise in debt service costs will be contained below 6% a year, due to subdued interest rates. Our forecasts show the **interest payments-to-revenue ratio** hovering around 19% over the MTEF.

We anticipate no new allocations to **state-owned enterprises**, as the Treasury pushes for fundamental enhancements in the management of these entities. Despite talk of the **Social Relief of Distress** (SRD) grant being converted to a more inclusive Basic Income Grant (BIG), National Treasury is unlikely to show additional allocations to the SRD beyond FY2025/26. However, we believe that political pressure will result in allocations for the BIG, although not significantly higher than R40 billion a year.

Budget metrics

We forecast the **budget deficit** will be about 4.4% of GDP in FY2025/26, noticeably smaller than the 4.8% anticipated in May's National Budget. The shortfall will narrow further but remain above 3% throughout the forecast period. The **primary budget surplus**, the balance before interest payments, widens to around 2% a year in FY2027/28–2028/29, helping to moderate the rise in the debt stock. A faster decline in interest rates would reduce the cost of new debt, widening the primary surplus further.

The **gross debt-to-GDP ratio** remains elevated but peaks at a marginally higher level as the rise in public debt exceeds nominal GDP growth. We forecast the public debt ratio at 77.9% in FY2025/26 and rising marginally to a peak of 78.1% in FY2027/28. Faster GDP growth and tighter expenditure controls would stabilise debt earlier and at a lower level.

Financing the budget deficit

Local currency, longer duration bonds continue to dominate issuances. We do not expect an expansion of the utilisation of the Gold and Foreign Exchange Contingency Reserves (GFECRA) account over the MTEF period despite the value of the gold holdings having been significantly boosted by the elevated gold price.

Policy announcements

National Treasury could table the **revised inflation target framework**. In July 2025, the South African Reserve Bank announced 3% as its preferred inflation anchor within existing the 3–6% target band. After the initial uncertainty, which suggested a lack of coordination between Treasury and SARB, Treasury announced on 1 September that joint technical work on the new framework was at an advanced stage. In the press statement, Treasury acknowledged that the current target band is too wide and too high relative to those of peer countries. The announcement could come at next week's MTBPS or February's National Budget, with the inflation target band likely adjusted to 2–4%.

Treasury could also announce the adoption of a **fiscal anchor**. This year, they conducted public consultations on adopting a rule to guide expenditure adjustments. Treasury presented three frameworks: two of them – the **principle-based framework** and the **procedural framework** – do not specify numerical targets, while the **numerical rule-based framework** imposes legally-binding, strict numerical restrictions on key budget aggregates. South Africa has historically followed the procedural framework, which failed to stabilise the budget ratios. We believe that South Africa must move to a numerical approach, with parliament passing legislation that will govern adjustments of expenditure based on revenue changes.

Conclusion

The MTBPS will likely reflect a slightly brighter fiscal position, with Treasury showing progress in stabilising government's finances. Much of the improvement will come from stronger-than-expected revenue growth, due to a combination of cyclical factors and improved efficiencies in tax collection. The strengthening growth momentum will help to improve the budget metrics over the MTEF, although we expect the budget deficit to remain above 3% of GDP.

Over the MTEF, the Treasury continues to face the challenge of ensuring that the higher public sector wage bill and debt service costs do not significantly widen the budget deficit and push the public debt stock even higher. To achieve this, the government must contain spending growth in most areas and cut spending in non-essential areas. The Treasury has committed to shielding social programmes and infrastructure investment from expenditure cuts. However, it is tough to see the government achieving notable reductions in non-wage expenditure without spending restrictions on some critical functions.

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