# Budget 2025

ECONOMICS | South Africa

NEDBANK

## A wider rising primary budget surplus on anticipated tax revenue growth.

- Macroeconomic assumptions: National Treasury has revised its 2025 growth forecast lower, but still expects the economy to expand by more than 1% in 2025 and by an annual average of 1.7% in 2026 and 2027. Fixed investment spending growth was revised sharply lower for 2025. However, it is still projected to increase by over 3% in 2025 and an annual average of 4.2% in the following two years as macroeconomic reforms help unlock the logistical bottlenecks. Risks to growth are tilted to the downside and emanate primarily from offshore.
- Revenue: After the rejection of the value-added tax (VAT) rate increase, the Treasury has not tabled new tax measures. Proposals to boost revenue are limited to the inflation-related adjustment of the fuel levy, after it was kept steady for three years. Over the Medium-Term Expenditure Framework (MTEF), which runs from FY2025/26 to FY2027/28, faster economic growth and a higher tax buoyancy rate will underpin the revenue gains. A more efficient SARS is central to the government's efforts to improve tax compliance and thus boost revenue.
- Expenditure: Growth in total spending reduces marginally to 5.4% a year between 2025/26 and 2027/208, with the Treasury stressing that significant expenditure cuts are planned for 2026/27 and beyond. These will entail mainly terminating inefficient programmes and cleaning up the public service pay database to root out ghost workers. Debt service costs will remain the fastest rising item, absorbing more than 21% of revenue annually over the MTEF.
- Budget balance: The budget deficit remains wide in 2025/26 and drops to below 4% of GDP only in 2026/27. The primary surplus is projected to widen to above 2% of GDP by 2027/28, which will help to contain the increase of public debt.
- Debt metrics: The public debt ratio peaks at 77.4% in 2025/26, above 76.2% in the March Budget statement, and drops gradually to just below 70% by 2032/33.

Table 1: Consolidated Budget framework

| | 2023/24 | 2024/25 | | 2025/26 | | 2026/27 | | 2027/28 | |
|---|---|---|---|---|---|---|---|---|---|
| | May-25 | Oct-24 | May-25 | Oct-24 | May-25 | Oct-24 | May-25 | Oct-24 | May-25 |
| Revenue (R bn) | 1 948.0 | 2 021.50 | 2 040.2 | 2 166.60 | 2 200.8 | 2 314.30 | 2 354.3 | 2 471.8 | 2 503.2 |
| *% growth* | *2.5* | *4.1* | ***4.7*** | *7.2* | ***7.9*** | *6.8* | ***7.0*** | *6.8* | ***6.3*** |
| *% of GDP* | *27.5* | *26.9* | ***27.5*** | *27.0* | ***28.0*** | *27.1* | ***28.2*** | *27.2* | ***28.2*** |
| Expenditure (R bn) | 2 259.5 | 2 395.00 | 2 397.8 | 2 510.30 | 2 578.7 | 2 624.40 | 2 674.5 | 2 767.1 | 2 807.5 |
| *% growth* | *5.3* | *6.0* | ***6.1*** | *4.8* | ***7.5*** | *4.5* | ***3.7*** | *5.4* | ***5.0*** |
| *% of GDP* | 31.9 | 31.8 | 32.4 | 31.3 | 32.8 | 30.8 | 32.0 | 30.4 | 31.6 |
| Consolidated Budget Balance (R bn) | -311.6 | -373.5 | -357.6 | -343.7 | -377.9 | -310.1 | -320.2 | -295.3 | -304.3 |
| *% of GDP* | *-4.4* | *-5.0* | ***-4.8*** | *-4.3* | ***-4.8*** | *-3.6* | ***-3.8*** | *-3.2* | ***-3.4*** |
| Debt Service Costs (R bn) | 356.1 | 388.9 | 385.8 | 419.1 | 426.3 | 445.7 | 447.0 | 475.7 | 477.5 |
| *% of GDP* | *5.0* | *5.2* | ***5.2*** | *5.2* | ***5.4*** | *5.2* | ***5.4*** | *5.2* | ***5.4*** |
| Primary Balance | 33.2 | 33.3 | 50.2 | 75.3 | 65.0 | 120.6 | 139.4 | 166.7 | 191.1 |
| *% of GDP* | 0.5 | 0.4 | 0.7 | 0.9 | 0.8 | 1.4 | 1.7 | 1.8 | 2.1 |
| Gross debt-to-GDP ratio (%)* | *74.2* | *74.7* | ***76.9*** | *75.5* | ***77.4*** | *75.3* | ***77.2*** | *75.0* | ***76.7*** |

Source: MTBPS 2024 and Budget Overview May 2025. Oct-24 shows MTBPS 2024 figures, May 25 is Budget Overview May 2025

## The macroeconomic backdrop

Treasury revised its growth forecasts lower: National Treasury has lowered its real GDP growth forecasts for 2025 and 2026, primarily due to the less favourable global environment and persistent logistical challenges. The 2025 growth forecast has been revised to 1.4% (from 1.9% in the Budget tabled on 12 March), which is marginally higher than our estimate of 1%. Over the MTEF, the Treasury expects a gradual uptick, though its forecasts remain slightly higher than our 1.5% in 2026 and 1.6% in 2027.

The growth downgrades span all categories, with fixed investment spending and exports being the key drivers. While gross fixed capital formation (GFCF) is still expected to recover this year after contracting by 3.7% in 2024, the rebound is now projected at only 3.2% in 2025 and 4.2% in 2026. Public infrastructure allocations are higher, with the dip in GFCF growth primarily due to lower private sector spending. However, Treasury upgraded the 2027 figure to 4.2%, anticipating a boost from macroeconomic reforms. Export growth was revised sharply lower to 0.4% in 2025, while the 3.1% for 2027 was maintained. Import growth was similarly reduced, and this, combined with expected lower dividend payments due to slower economic growth, keeps the current account deficit below 1.5% of GDP a year (from an annual average of -2.4%) over the MTEF.

Downside risks to growth have risen since March. Trade tensions triggered by the US's protectionist policies will suppress global trade volumes, which are projected to expand by only 1.7% (revised from 3.2%) in 2025 from 3.8% in 2024. Softer global growth will hurt commodity prices, while growth in South Africa's key trading partners could fall below current expectations if the trade wars escalate.

The National Treasury has modelled a scenario in which US-China tensions escalate and US tariffs exceed 10% across its other trading partners. This scenario assumes reduced global trade, increased financial market volatility, softer commodity prices and weaker global demand, which results in domestic growth of 1.07% in 2025, 1.25% in 2026 and 1.78% in 2027 (versus 1.36%, 1.61% and 1.85% in the baseline scenario over the three years, respectively).

Table 2: Forecasts of key macroeconomic variables

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|
| Percentage change | Actual | | | | Forecasts | | |
| Final household consumption | 6.2 | 2.5 | 0.7 | 1.0 | 1.8 (1.9) | 1.4 (1.5) | 1.8 (1.1) |
| Final government consumption | 0.6 | 0.6 | 1.9 | 0.4 | 2.7 (3.8) | 1.4 (-0.1) | 0.0 (0.3) |
| Gross fixed-capital formation | -0.4 | 4.8 | 3.9 | -3.7 | 3.2 (5.0) | 4.2 (5.2) | 4.2 (3.7) |
| Gross domestic expenditure | 4.9 | 4.0 | 0.8 | -0.7 | 2.3 (2.6) | 2.4 (1.7) | 2.0 (1.8) |
| Exports | 9.7 | 6.8 | 3.7 | -2.0 | 0.4 (3.4) | 1.4 (3.4) | 3.1 (3.1) |
| Imports | 9.6 | 15.0 | 3.9 | -6.3 | 2.8 (5.7) | 3.7 (3.1) | 3.3 (2.7) |
| **Real GDP growth** | **5.0** | **1.9** | **0.7** | **0.6** | **1.4 (1.9)** | **1.6 (1.7)** | **1.8 (1.9)** |
| GDP inflation | 6.3 | 5.2 | 4.8 | 3.8 | 4.4 | 4.4 | 4.5 |
| GDP at current prices (R billion) | 6220.2 | 6655.5 | 7024.0 | 7336.0 | 7760.0 | 8235.0 | 8761.0 |
| CPI inflation | 4.6 | 6.9 | 5.9 | 4.4 | 3.7 | 4.2 | 4.3 |
| Current account balance (% of GDP) | 3.7 | -0.5 | -1.6 | -0.6 | -0.7 | -1.1 | -1.3 |

Source: National Treasury Budget Overview May 2025, 12 March forecasts in brackets

## The fiscal framework

The revised fiscal framework presents marginally higher numbers than the 12 March statement, primarily due to the cancelled VAT hike and limited spending cuts. The consolidated budget deficit remains elevated at 4.8% of GDP in 2025/26 and above 3% in 2026/27 and 2027/28, narrowing to 3.4% in the final year of the MTEF - just below the 3.5% projection in March.

Encouragingly, the primary budget surplus widens to 2.1% in 2027/28 from 0.7% in 2024/25, which will help to contain new borrowing.

The public debt ratio is expected to peak at 77.4% of GDP in 2025/26 (up from 76.2% in March), before gradually declining to 67.8% (vs. 67.1%) by 2032/33. Treasury attributes the higher peak in 2025/26 to lower nominal GDP figures. New borrowing will be kept in check despite a slightly wider budget deficit.

Debt service costs will grow by an annual average of 7.4% over the MTEF (vs. 7.1% in March). In 2024/25, interest payments absorbed 21.3% of main budget revenue, and this figure will rise to 21.9% in 2025/26 before easing marginally to 21.3% and 21.4% in the following two years.

## The main revenue measures over the MTEF

Over the MTEF, revenue is R75.9 billion higher than the MTBPS 2024 projections. Still, it is R61.9 billion lower than in the March 2025 statement, primarily due to the reversal of the VAT increase and slower-than-expected economic growth. Tax proposals, most of which were in the March statement, are expected to generate R18 billion in 2025/26, R10 billion less than in March. Treasury stressed the need to raise an additional R20 billion in 2026/27, though this may be reconsidered if the South African Revenue Service exceeds current collection targets through improved tax administration. The tax-to-GDP ratio is projected to increase from 25% in 2024/25 to 25.7% in 2027/28.

No major new tax measures were introduced after the political backlash against the VAT hike. Contrary to our expectations, Treasury did not offset the revenue loss through reduced tax benefits or higher levies – changes were limited to fuel levies. The fuel levy increases by 16c per litre for petrol and 15c for diesel on 4 June 2025. The Road Accident Fund levy will remain unchanged at R2.18 per litre, while the carbon tax rises to 14c and 17c from 11c and 14c for petrol and diesel, respectively. The proposal to extend the diesel rebate for the agricultural, mining, and forestry industries to cover 100%, previously 80%, of eligible fuel use starting in April 2026 has been maintained.

Table 3: Impact of tax proposals on revenue over the MTEF

| R million | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|
| | | Effect of tax proposals | |
| Gross tax revenue (before 2025 Budget tax proposals) | 1 967 603 | 2 103 704 | 2 246 063 |
| 2025 Budget proposals[2] | 18 000 | 19 000 | |
| Direct taxes[3] | 16 700 | 17 698 | 18 793 |
| Personal income tax | | | |
| No inflationary adjustment to tax brackets and rebates | 15 500 | 16 448 | 17 489 |
| No inflationary adjustment to medical tax credits | 1 200 | 1 250 | 1 304 |
| Indirect taxes[3] | 1 300 | 374.2 | 396.4 |
| Fuel levy | | | |
| Inflationary adjustment to general fuel levy | - | - | - |
| Diesel refund relief for primary sectors | - | -1 000 | -1 065 |
| Specific excise duties | - | - | - |
| Above-inflation increase in excise duties on alcohol and tobacco | 1 300 | 1 374 | 1 461 |
| Additional policy measures in 2026 Budget[3] | | 20 000 | 21 291 |
| Net impact of tax proposals | 18 000 | 38 072 | 40 481 |
| Gross tax revenue (after tax proposals) | 1 985 603 | 2 141 776 | 2 286 544 |

Source: National Treasury Budget Overview May 2025

Key tax measures retained from 12 March 2025 are:

- PAYE brackets are unchanged for the second year in succession.
- The medical aid tax credits are maintained at current levels of R364 per month for the first two beneficiaries and R246 per month for additional beneficiaries.
- The transfer duties on properties valued at more than R1.1 million were adjusted by 10% to compensate for the effects of inflation on property values.
- Excise duties on alcohol increased by 6.8% while those on tobacco products rose by between 4.8% and 6.8%, effective from 1 April 2025.

## Expenditure

In 2024/25, gross tax revenue is R7.8 billion below the Budget 2024 estimates. It is projected to rise by an annual average of 7.2% over the MTEF due to improving economic growth and higher collections by SARS. Tax buoyancy improves to 1.2 a year over the MTEF compared with 1.1 estimated in the MTBPS 2024

The slight drop in the growth rate of consolidated expenditure over the MTEF is achieved primarily through reductions in provisional allocations and the reduction of the contingency reserve. Consolidated spending increases by an annual average of 5.4% over the MTEF, almost unchanged from the 5.6% a year in the March Budget. A R21.3 billion drawdown of the contingency reserve helps to reduce aggregate expenditure relative to the March 2025 baseline. Spending allocations are R67.6 billion lower over the MTEF compared with the March 2025 figures. National Treasury stressed that cutting allocations to inefficient programmes will help contain future expenditure increases.

Table 4: Revenue breakdown and projections over the MTEF

| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|---|---|
| R million | | Outcome | | Preliminary outcome | | Medium-term estimates | |
| Taxes on income and profits[2] | 912 870 | 988 505 | 1 008 556 | 1 100 530 | 1 182 794 | 1 267 443 | 1 356 956 |
| of which: | | | | | | | |
| Personal income tax | 553 951 | 600 367 | 648 911 | 729 911 | 792 452 | 846 183 | 905 783 |
| Corporate income tax | 320 447 | 344 660 | 313 097 | 318 739 | 338 824 | 366 828 | 392 916 |
| Skills development levy | 19 336 | 20 892 | 22 604 | 24447.989 | 26 006 | 27 811 | 29 773 |
| Taxes on property | 22 033 | 21 238 | 19 400 | 22505.089 | 23 919 | 25 375 | 27 013 |
| Domestic taxes on goods and services | 549 806 | 579 990 | 616 459 | 627 973 | 668 706 | 711 448 | 756 084 |
| of which: | | | | | | | |
| VAT | 390 895 | 422 416 | 447 557 | 457788.79 | 482 246 | 514 169 | 546 653 |
| Taxes on international trade and transactions | 59 719 | 76 068 | 73 849 | 79825.693 | 84 177 | 89 699 | 95 426 |
| Tax policy measures[3] | | | | | | 20 000 | 21 291 |
| Gross tax revenue | 1 563 754 | 1 686 697 | 1 740 870 | 1 855 270 | 1 985 603 | 2 141 776 | 2 286 544 |
| Non-tax revenue[4] | 46 485 | 56 201 | 62 944 | 43 089 | 37 358 | 31 791 | 31 403 |
| of which: | | | | | | | |
| Mineral and petroleum royalties | 28 456 | 25 338 | 15 979 | 10 636 | 11 201 | 11 830 | 12 668 |
| Less: SACU[5] payments | -45 966 | -43 683 | -79 811 | -89 874 | -73 552 | -78 198 | -88 720 |
| Main budget revenue | 1 564 273 | 1 699 215 | 1 724 003 | 1 808 485 | 1 949 409 | 2 095 369 | 2 229 227 |
| Provinces, social security funds and selected public entities | 190 493 | 201 576 | 223 974 | 231 671 | 251 420 | 258 959 | 273 997 |
| Consolidated budget revenue | 1 754 766 | 1 900 791 | 1 947 977 | 2 040 156 | 2 200 828 | 2 354 328 | 2 503 224 |
| As percentage of GDP | | | | | | | |
| Tax revenue | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.26 | 0.26 |
| Main budget revenue | 0.25 | 0.25 | 0.24 | 0.24 | 0.25 | 0.25 | 0.25 |
| GDP (R billion) | 6 326 | 6 763 | 7 092 | 7 407 | 7 872 | 8 351 | 8 891 |
| Tax buoyancy | 2.0 | 1.1 | 0.7 | 1.5 | 1.1 | 1.3 | 1.0 |

Source: National Treasury Budget Overview May 2025

The key expenditure adjustments are:

- Allocation for the early retirement incentive package in the public sector has been cut to R5.5 billion from R11 billion between 2025/26 and 2026/27.
- SARS is allocated an additional R4 billion, on top of the R3.5 billion announced in the March statement, to improve its administration. Treasury expects the tax agency to enhance its collections by between R20 billion and R50 billion annually.
- The allocation to the Department of Defence decreases by R2 billion due to the early withdrawal of SA forces from the Democratic Republic of Congo.
- Social grants increase more slowly than previously budgeted for from 2026/27. There is still no allocation for the Social Relief of Distress (SRD) grant beyond April 2026. Nedbank still expects the SRD grant to be expanded and extended beyond 2025/26 due to political pressure.

Debt service costs remain the fastest-growing expenditure item, crowding out key economic and social needs. They rise by an annual average of 7.4% over the MTEF, slightly above the 7.1% projected in the March Budget statement.

The infrastructure allocation totals R1 029.5 billion over the MTEF, a boost of R33.7 billion. Transport and logistics, energy, and water and sanitation comprise 75.5% of the spending.

## Financing the budget deficit

Table 5: Financing of public sector borrowing requirement

| | 2023/24 | 2024/25 | | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|---|
| R million | Outcome | Budget | Revised | Medium-term estimates | | |
| **Main budget balance** | -322 916 | -320 946 | -335 616 | -361 321 | -307 664 | -286 398 |
| **Redemptions** | -144 395 | -172 568 | -98 620 | -171 705 | -151 648 | -301 275 |
| Domestic long-term loans | -97 250 | -132 087 | -61 001 | -111 357 | -111 357 | -274 536 |
| Foreign loans | -47 145 | -40 481 | -37 619 | -60 349 | -40 292 | -26 739 |
| Eskom debt-relief arrangement | -76 000 | -64 154 | -64 000 | -80 223 | - | - |
| GFECRA settlement (net)[4] | - | 100 000 | 100 000 | 25 000 | 25 000 | - |
| Total | -543 311 | -457 669 | -398 236 | -588 249 | -434 313 | -587 673 |
| Financing | | | | | | |
| Domestic short-term loans | 88 745 | 33 000 | 39 508 | 37 162 | 35 500 | 47 500 |
| Treasury bills (net) | 88 084 | 33 000 | 38 932 | 38 400 | 35 500 | 47 500 |
| Corporation for Public Deposits | 661 | - | 577 | -1 238 | - | - |
| Domestic long-term loans | 336 239 | 328 100 | 347 744 | 345 300 | 319 500 | 427 300 |
| Market loans | 336 079 | 328 100 | 346 361 | 345 300 | 319 500 | 427 300 |
| Loans issued for switches | 824 | - | 1 131 | - | - | - |
| Loans issued for repos (net) | -664.3 | - | 252.4 | - | - | - |
| Foreign loans | 45 663 | 36 700 | 67 357 | 98 874 | 79 969 | 95 954 |
| Market loans | 45 663 | 36 700 | 67 357 | 98 874 | 79 969 | 95 954 |
| Change in cash and other balances[2] | 72 664 | 59 869 | -56 374 | 106 913 | -656 | 16 918 |
| Cash balances | 42 690 | 53 112 | -33 803 | 92 795 | -4 247 | 10 715 |
| Other balances[3] | 29 974 | 6 757 | -22 571 | 14118.336 | 3590.967 | 6 203 |
| Total | 543 311 | 457 669 | 398 236 | 588 249 | 434 313 | 587 673 |
| Percentage of GDP | 7.7 | 6.1 | 5.4 | 7.5 | 5.2 | 6.6 |

Note: In 2024/25, the Reserve Bank will pay R200 billion to government in partial settlement of the GFECRA balances. Of this amount government will pay the Reserve Bank R100 billion towards the contingency reserve

Source: National Treasury Budget Overview May 2025

The main budget balance for 2024/25 is 4.9% lower than estimated in the March Budget statement, which helps to reduce the gross borrowing requirement (GBR) by 4.2%. Over the MTEF, the GBR averages R536 billion a year, lower than R541 billion estimated in March. The jump to R588.3 billion in 2025/26 is due to the wider budget deficit, higher redemptions, and higher borrowing for the Eskom debt relief programme.

Although the GBR falls sharply in 2026/27 as the deficit narrows and there is no borrowing for Eskom debt relief that year, a sharp rise in domestic bond redemptions raises it by 35% in 2027/28. This implies that debt rollover risks could rise significantly as the debt-to-GDP ratio remains elevated.

## Conclusion

After the unprecedented rejection of the VAT increase, the revised budget numbers present a slower pace of budget deficit reduction. There were no new significant tax increases, and the further postponement of fundamental expenditure cuts is concerning. The 2026 Budget statement will be closely scrutinised for the mooted clean-up of government finances.

Debt consolidation is premised on faster tax revenue growth instead of significant expenditure constraint. Therefore, fiscal consolidation will remain subject to economic shocks, particularly those from offshore. As a result, execution risk remains elevated. We still believe that expenditure will likely exceed the current estimates, with the conversion of the SRD grant to a permanent basic income grant being the main factor.

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