National Treasury response to the Select and Standing Committees on Finance and Appropriations on the 2025 Budget

12 March | #BUDGET2025

2025 Budget

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

30 YEARS OF FREEDOM

All submissions received are acknowledged and welcomed

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Developments since 2024 MTBPS

- In the run-up to the February Budget, Mincombud and Cabinet considered various spending pressures and it was decided that these needed to be addressed, among them:
  - Spending pressures in education (mainly educators and funding for early childhood development);
  - Spending pressures in health (mainly nurses, doctors (including unemployed doctors), goods and services, etc,)
  - Spending pressures in security functions (incl. defense and correctional services)
  - Growth enhancing infrastructure investments, including in commuter rail, hospital infrastructure, transport, etc
- The resulting net increase in non-interest expenditure is R142 billion. These spending decisions have implications for revenue choices, in terms of size, efficiency and equity.
- Most of the spending proposals are current or consumption-based spending (e.g. wages). This requires immediate and durable revenue measures.
- Borrowing to finance consumption-based expenditure will damage South Africa's fiscal credibility, resulting in higher interest rates, higher cost of borrowing for households and firms and higher debt-service costs, and therefore less funding for service delivery priorities.
- Other policy priorities are already adopted (growth-enhancing measures, spending reviews, additions to SARS budget, etc.), but these will take time to yield results.

Tax proposals raising R28 billion in 2025/26 and R14.5 billion in 2026/27 to alleviate spending pressures, with permanent revenue effects

Impact of tax proposals on medium-term revenue[1]

R million	2025/26	2026/27	2027/28
	Effect of tax proposals		
Gross tax revenue (before 2025 Budget tax proposals)	**1 978 132**	**2 119 319**	**2 259 354**
2025 Budget proposals[2]	**28 000**	**14 500**	
Direct taxes[3]	**19 500**	**20 634**	**21 960**
Personal income tax			
No inflationary adjustment to tax brackets and rebates	18 000	19 067	20 324
No inflationary adjustment to medical tax credits	1 500	1 567	1 636
Indirect taxes[3]	**8 500**	**23 523**	**24 885**
Value-added tax (VAT)			
Increase in VAT rate — 2025/26	13 500	14 344	15 196
Increase in VAT rate — 2026/27	–	15 500	16 420
Additional zero rating	-2 000	-2 128	-2 262
Fuel levy			
No adjustment to general fuel levy	-4 000	-4 257	-4 535
Diesel refund relief for primary sectors	–	-1 000	-1 065
Specific excise duties			
Above-inflation increase in excise duties on alcohol and tobacco	1 000	1 064	1 131
Net impact of tax proposals	**28 000**	**44 158**	**46 845**
Gross tax revenue (after tax proposals)	**2 006 132**	**2 163 477**	**2 306 199**

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation
2. In-year tax increase with no carry through
3. Includes carry-through effect of tax policy proposals
Source: National Treasury

2025 Budget tax proposals

- A 0.5 percentage point increase in the VAT rate in each of 2025/26 and 2026/27
- No inflationary adjustment to personal income tax brackets, rebates and medical tax credits
- Above-inflation increases in excise duties on alcohol and tobacco products
- The general fuel levy and RAF levy are not increased – costing an initial R4 billion
- Diesel refund relief for primary sectors
- Additional items on the VAT zero-rated basket

These measures have permanent revenue effects, the net result of which is improved revenue collection.

Why this revenue package?

Tax principles inform our advice and **impacts from previous policy changes** form the main evidence base:

- **Revenue raising ability:** Previous increases to PIT and direct taxes did not raise expected revenue (indicated in this and previous Budget Reviews); CIT is highly cyclical and volatile – while we need certainty for budget planning.
- **Equity**: The fiscal system as a whole is highly progressive – particularly direct taxes. While indirect taxes are not as progressive, the bulk is still borne by higher income groups' spending. This is backed by fiscal incidence studies - though newer studies would be useful.
- **Efficiency**: Of the three main tax instruments available, VAT is the most efficient option at this point as it is least distortive of growth. Given opposition to larger VAT rate increases, the revenue shortfall was addressed by not adjusting PIT brackets for inflation.
- **Simplicity:** All taxes have compliance costs attached to them. While the rates change (including rate changes to zero for specific categories), it is not whole systems that have to be redesigned. This is a standard feature in most pricing systems that businesses have in place. Government recognises the compliance cost burden, and the potential challenges smaller companies may face with the timeframe linked to this rate change. Therefore, it was proposed that the rate change be implemented from 1 May 2025, rather than on the announcement date or 1 April 2025 to afford the taxpayers the same timeframe as was done in 2018.

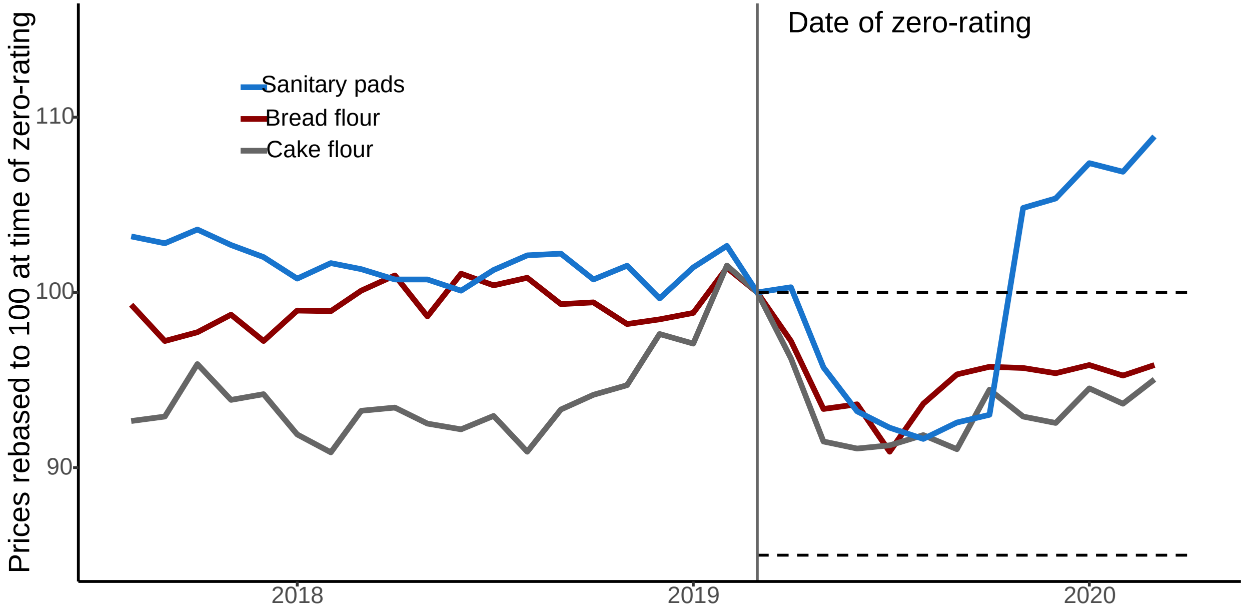
Do VAT zero-ratings mitigate impacts?

- Our approach identified items that are best positioned to assist lower-income households without leakage to higher income households
- We agree that tax is a very blunt tool – and often spending programmes are better targeted (Full article: Considering the efficacy of value-added tax zero-rating as pro-poor policy: The case of South Africa).
- These concerns were also raised in 2018 when zero-ratings were revisited. It is not guaranteed that the full benefit will be passed on to consumers.
- Technical comments on drafting of zero rating (e.g. from ENS) are welcome, and will be referred to process to consult on the Draft Rates and Monetary Amounts Bill (comments close on 31 March).

What has government done to mitigate the impact of the increase in the VAT rate?

- To mitigate the impact of the VAT increase on vulnerable households the old-age grant, the disability grant and the child support grants have been increased by an amount higher than expected inflation.
- The Pietermaritzburg Economic Justice and Dignity (PMBEJD) Group compiles a basket of food and has shown that for a food basket that costs R5 313, the VAT rate increase will add R11 to that cost. If the old age grant was increased by inflation, it would have gone up by R100 per month, but to cover the higher cost the grant was increased by an additional R30 per month.
- The basket of zero-rated items will also be expanded to include canned vegetables, edible offals of sheep, poultry and other animals, and dairy liquid blends to provide further relief. The PMBEJD calculate this will reduce the food basket cost by R59.
- The general fuel levy and RAF levy will also not be changed to limit cost-of-living increases.

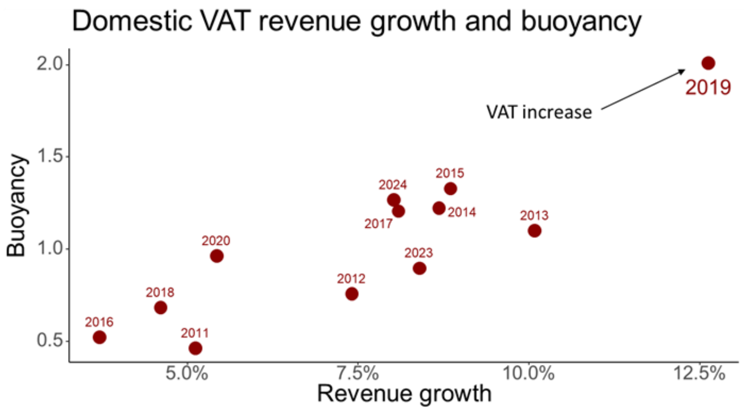
Price change of products that were zero-rated in 2019

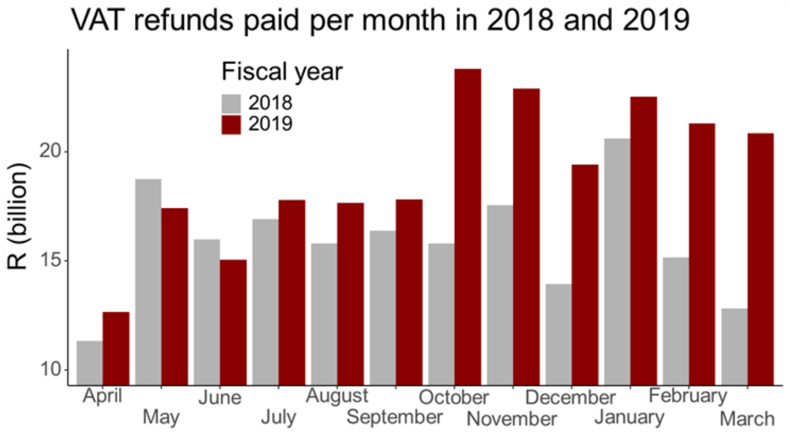


- The benefit from the previous items that were VAT zero-rated did not appear to be fully passed through to lower-income households, indicating that this is a blunt approach. However, prices did decrease to provide some benefit.
- PMBEJD - https://pmbejd.org.za/index.php/2025/03/14/budget-2025-hurts-people-the-economy/

Previous VAT rate increase in 2018 did raise substantial revenue, but net VAT figure was reduced by VAT refund payments from SARS

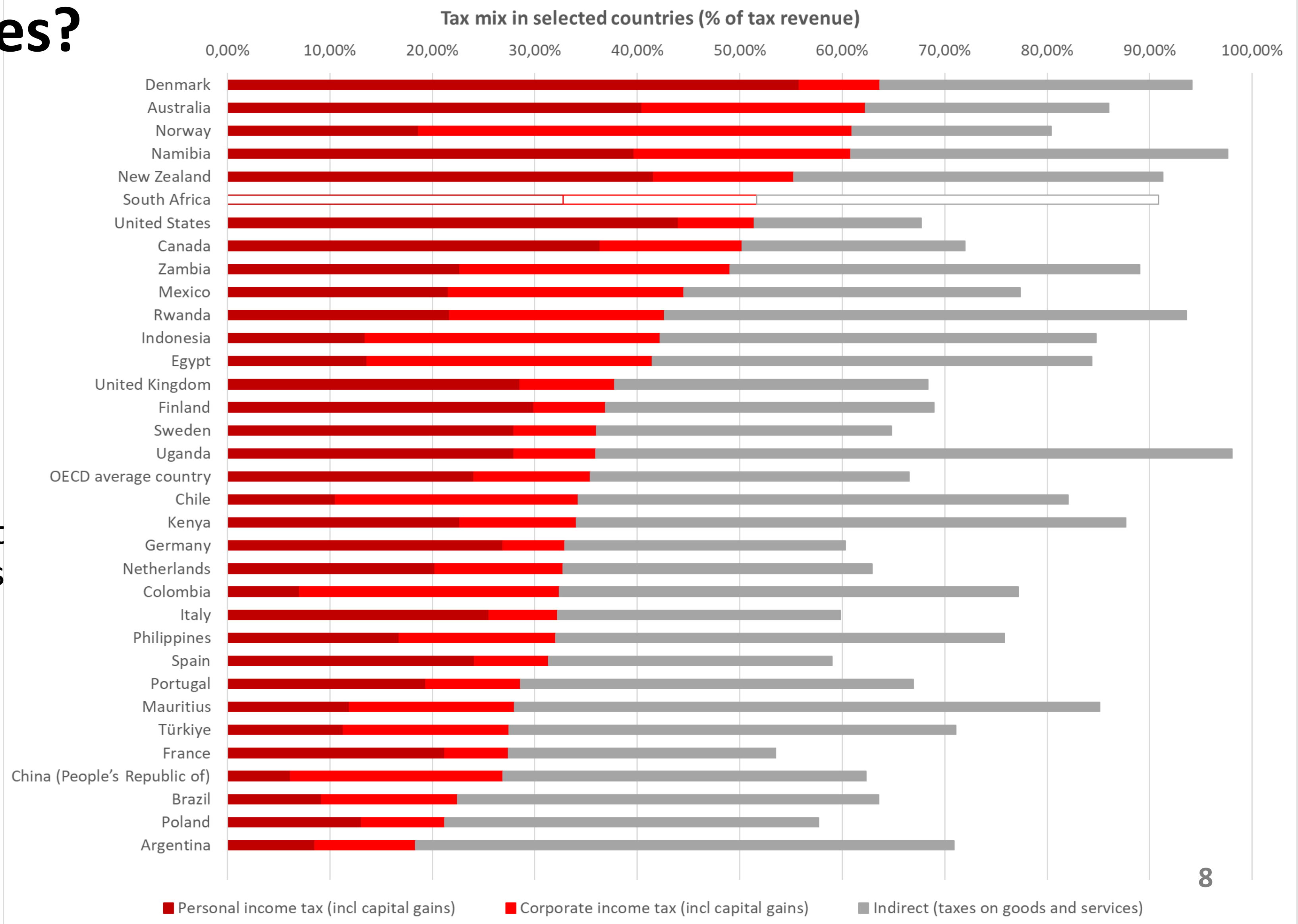
- Budget 2018 estimated that the increase in the VAT rate from 14% to 15% would raise around R22.9 billion
- Analysis suggests additional net VAT only increased by R7bn. However, this includes VAT refunds which experienced a once-off change from October 2018 onwards.
- At the time, SARS had withheld some VAT refunds and the VAT credit book (how much they owe taxpayers) had ballooned, but from October 2018 they paid out far more in refunds and reduced the VAT credit book from R41.8bn to R24.7bn by the end of the year (reduced by R17 billion).
- If there was no additional payout in VAT refunds, the revenue gained would have been around R23 billion.

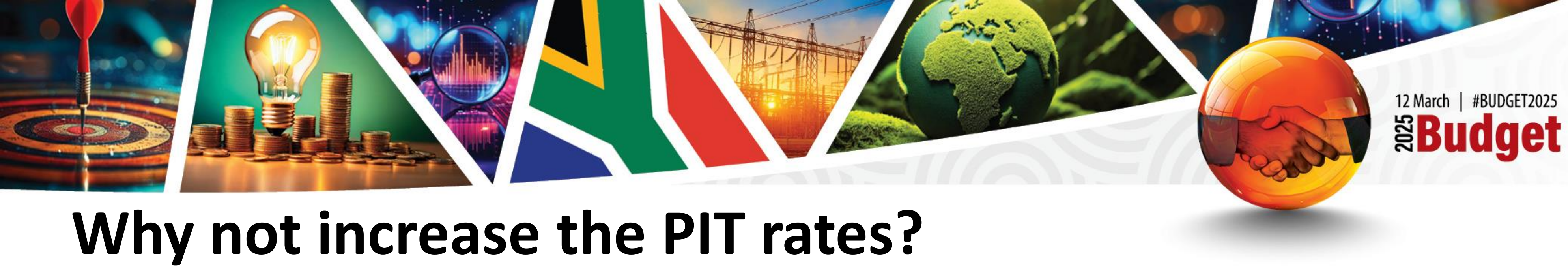




Why not direct tax increases?

- **Personal income tax** was the fastest rising revenue source over the last 2 decades rising from 6.6% of GDP in 2004/05 to 9.8% in 2024/25
- **Corporate income tax** share of revenue is high relative to many other countries
  - Corporate tax base is narrow and mobile
  - Tax imposed on businesses, but ultimately paid by shareholders, workers or consumers
- Need to balance our **tax mix**
- Additional increases on top of previous increases bring in **proportionally less revenue**, as high rates are an incentive to avoid or evade taxes

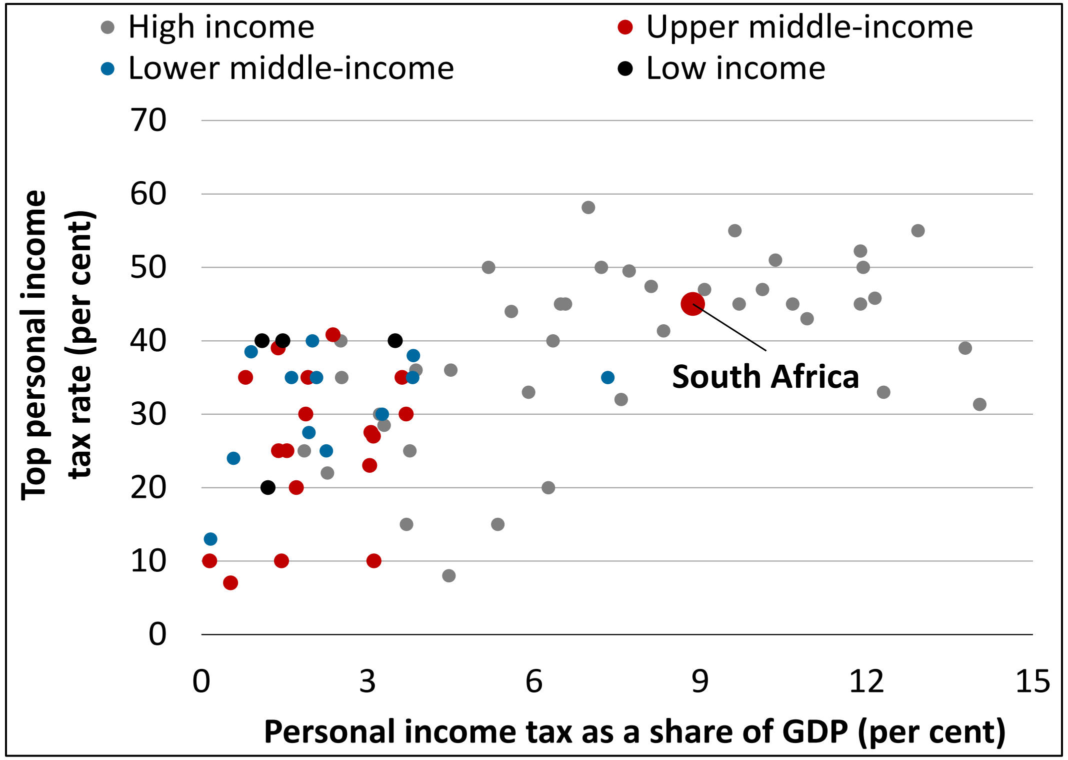




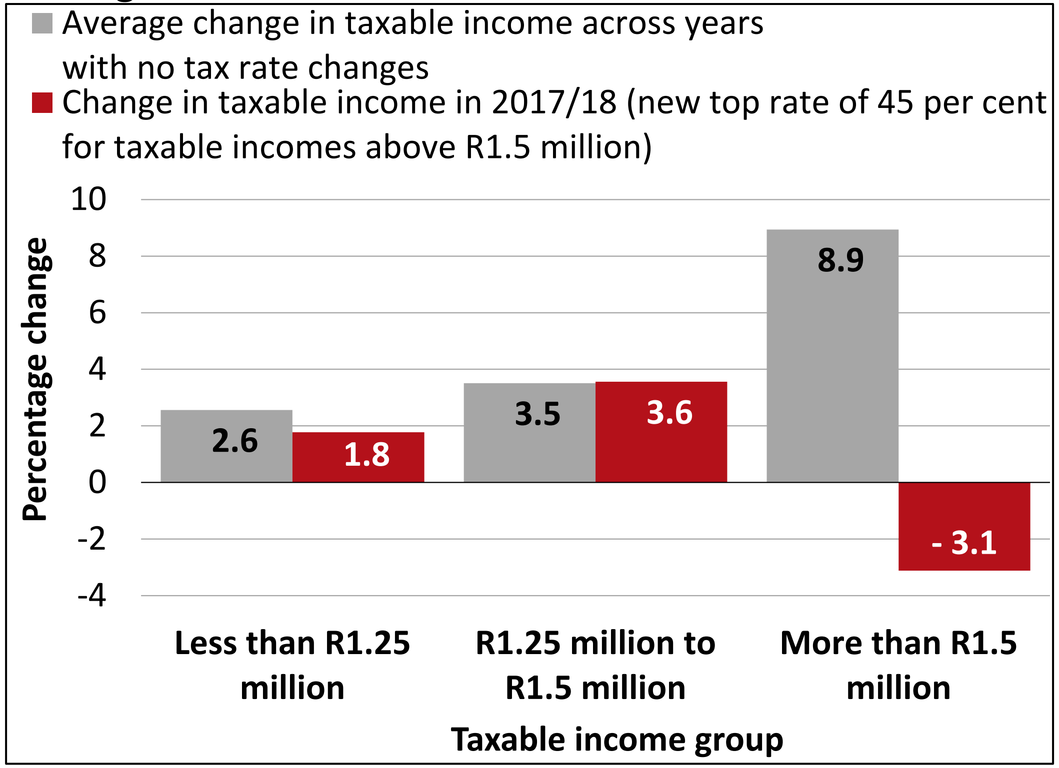
Why not increase the PIT rates?

- South Africa has a high share of personal income tax as a per cent of GDP and a high top tax rate, both of which are much higher than other developing economies.
- Previous tax rate increases for PIT did not raise the expected revenue as taxpayers changed their behaviour to avoid the tax. It is far harder to avoid a VAT rate increase and the behavioural responses are lower, reducing the impact on the economy.

Personal income tax as a share of GDP and top rates, 2024



Change in real taxable income



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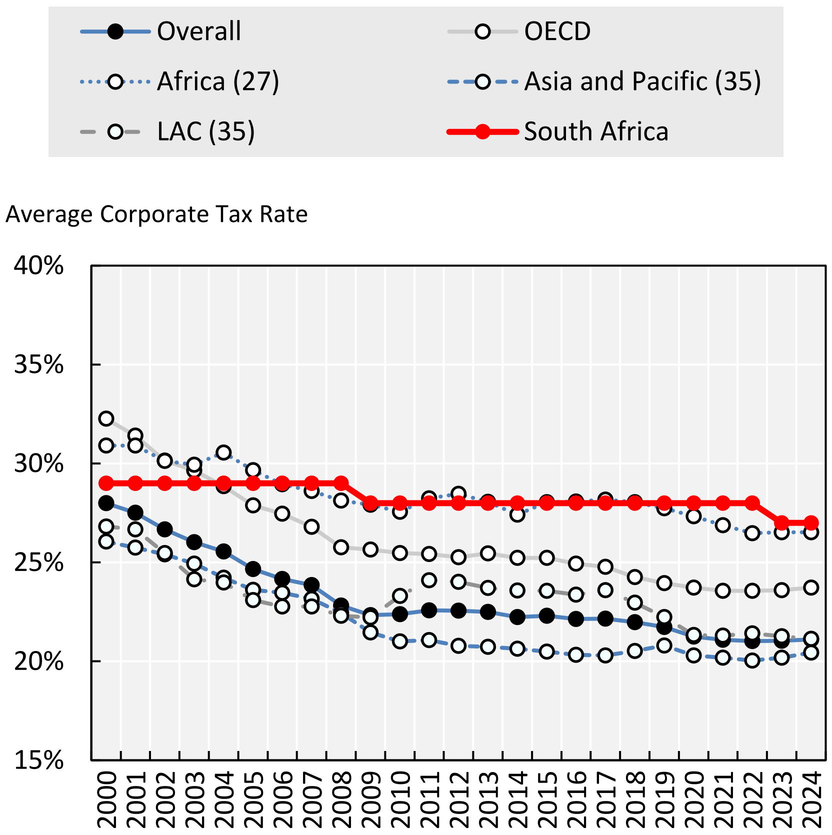
Why not increase the CIT rate?



- Our CIT rate is too high – deterring investment and making South Africa uncompetitive
- Companies already contribute more corporate tax revenue as a share of GDP than in most other countries
- Alternative measures to raise CIT revenue within the ambit of tax policy and tax administration include broadening the CIT base and enhancing compliance
- Workers and consumers will feel the burden of a rate increase, not just shareholders
- Empirical studies show that corporate income taxes have a negative impact on growth, and often more so than other tax instruments
    - A National Treasury modelling exercise was conducted for the Davis Tax Committee to test the impact of raising R45 billion in 2014/15 with one of the three main tax instruments – PIT, CIT and VAT.
        - By 2017, the modelled increase in CIT yielded the largest negative impact on growth, followed by PIT and VAT. The estimated decline in real GDP from the CIT shock was -2.64 per cent (-1.44 and -0.64 per cent for PIT and VAT, respectively).

What about a wealth tax?

South Africa already taxes wealth. Annual tax revenue from 4 national taxes on wealth (excl property rates) amounted to R22 billion in 2021/22, R22.6 billion in 2022/23, R19.4 billion in 2023/24 and R21.3 billion in 2024/25.

- Estate duty on all assets (financial, real estate and land)
- Donation tax on asset donations
- Security transfer tax on all equity transfers
- Real estate transfers through transfer duty
- Property taxes on real estate at local level
- In addition, Capital gains tax raised R15.6 billion to the fiscus during 2019/20, and R16.4 billion in 2020/21.

Introducing a wealth tax will generate limited revenue and potentially endanger South Africa's income tax base

- Top three income tiers will pay over 60 per cent (R 488 billion) of all personal income tax in South Africa for 2025/26 (vs R21.3 billion from wealth taxes in 2024/25)
- This PIT base is critical for fiscal sustainability, and introducing a wealth tax may potentially erode it as high-net-worth individuals are internationally mobile
- If only 10 per cent of this tax base were to change their tax residency, South Africa could lose R 49 billion in income tax revenue annually, plus all the other taxes they currently contribute

Only 4 countries have wealth taxes. Several countries abandoned or significantly reduced the scope of their wealth taxes over the years as they were ineffective. Reasons for abolishing the wealth taxes:

- the high cost of collection
- administrative complexity
- risk of capital flight
- limited revenue gained from these taxes

Did our tax policy strategy change?

- Tax strategy over last 5 years was to avoid tax increases as far as possible, but once spending pressures became binding, tax increases would have to be considered
  - This was also indicated in the Budget response presentation in 2024
- See MTBPS 2024 pg 5-6: "***A sustainable fiscal approach requires that any permanent addition to spending must be funded through permanent revenue sources or reprioritisation from within the existing fiscal envelope.***"
- MTBPS 2024 also highlighted risks to the outlook including growth slowdowns to geo-political instability and higher-than-anticipated public wage settlements.
- Any tax increase comes with negative impacts, and the main policy question is about trade-offs of different options
- As expected, most commentators were critical of the VAT increases – but divergence on nuance
  - Some commentators advocate no tax increases, and suggest that spending reform rather be implemented (many of the comments from individuals)
  - Some commentators are critical of both VAT and PIT increase, and suggest that revenue collection efficiencies be pursued instead (COSATU)
  - Some commentators eschew VAT in favour of direct taxes (PBO, BJC etc)
  - Some commentators prefer no increases, but concede that VAT is potentially the safest option for revenue raising in the current context (PEP, SAIT)

Did our procedure to announce tax rates change this year?

- The coming into operation of the increase in the rate of VAT on 1 May 2025 is supported by section 7(4) of the VAT Act. The aspect concerning the legislative process does not compromise Parliament's oversight, as the Rates Bill, which represents the legislative portion, will still be presented in Parliament.
- In practice, it would be challenging to bring the Rates Bill to Parliament before the effective date of a change given the consultation processes involved.
  - Revenue shortages may well be immediate – which can compromise spending and fiscal balances
- Additionally, it has been customary over the years for the legislative process to follow the Minister's announcement of the rates in the annual national budget, as seen in 2018 and other Bills.
- Lastly, other countries (e.g. Zimbabwe, Kenya, and the UK) have comparable provisions to ours.

Comments on other tax proposals contained in the 2025 Budget

- **Critique on increases on excise taxes:**
  - Excise taxes are implemented to deal with public health and other externalities related to consumption of specific products, such as alcohol, tobacco and related products, and also raise revenue
  - From a policy perspective, it is important that excise duty rates are adjusted by inflation on an annual basis, as a minimum, to preserve the real or effective rates of excise duties
  - Above-inflation increases are necessary to reduce affordability and discourage consumption of these products over time and generate revenue
- **Illicit trade undermines health and excise policy objectives, and requires robust compliance and law enforcement mechanisms**
  - SARS is harnessing its capabilities to make non-compliance with legal tax obligations hard and costly to those who are engaged in these criminal pursuits
- **While the Health Promotion Levy (HPL) has shown some effectiveness, broader food environment reforms are needed to significantly impact non-communicable diseases (NCDs)**
  - A decision was made to delay increasing the levy to allow for industry restructuring, especially considering regional competition and the implementation of the Sugar Masterplan.
  - Further work is needed on proposals to extend the HPL to 100% fruit juice and lower the sugar threshold.

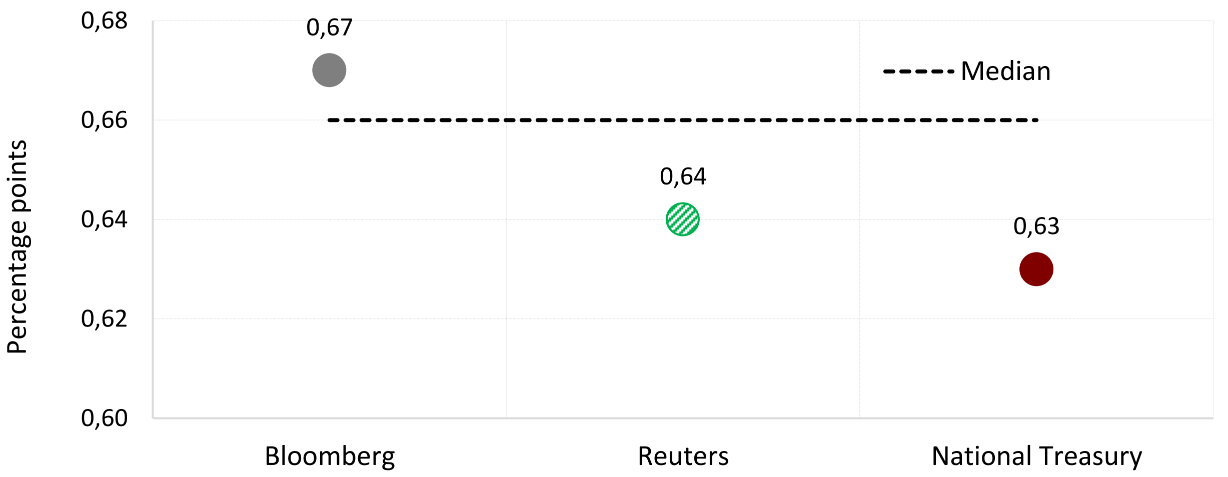
National Treasury's GDP forecast errors were lower compared to consensus

Comparison of GDP growth forecast

GDP forecast (per cent)				
Institution	Last update	2024	2025	2026
National Treasury	BR 2025	0.8	1.9	1.7
IMF	Jan-25	0.8	1.5	1.6
SARB	Jan-25	0.7	1.8	1.8
Bloomberg*	Feb-25	0.7	1.7	1.9
Average (excl. NT)		**0.8**	**1.8**	**1.8**

** Bloomberg projection is a weighted average consensus forecast*
Source: NT, IMF, SARB and Bloomberg

Forecast errors for in-year forecasts: (2011-2024)



Note: Bloomberg and Reuters numbers are consensus forecasts
Note: Higher mean absolute errors indicate larger forecast errors, and vice versa
Source: Bloomberg, NT and Reuters

- From 2011 to 2024, National Treasury's GDP in-year forecast errors have been lower compared to consensus, while in-line with comparator forecasts over the medium-term, highlighting the credibility of the macroeconomic forecast underpinning the macro-fiscal framework.
- The National Treasury subscribes to macroeconomic forecasting best practices, which entails conducting ongoing model improvement and maintenance. Investing in human capacity, research and utilizing other appropriate models also forms an integral part of enhancing forecasting ability.

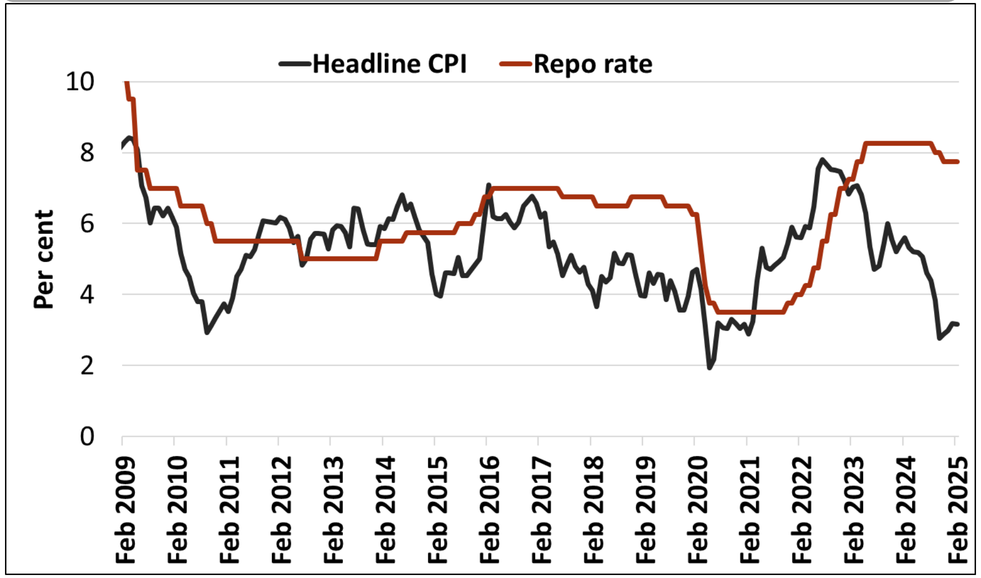
Current growth prospects are insufficient. Government's medium-term economic strategy addresses slow growth through four priorities

Action	
Maintain macroeconomic stability	To reduce volatility, to reduce the cost of living and encourage investment.
Implement structural reforms	To increase efficiency and promote a competitive economy, while addressing constraints to job creation and employment.
Build state capability	To identify and solve problems in the delivery of core functions, supported by digital transformation.
Invest in growth-enhancing public infrastructure	To increase productivity and long-term economic prospects.

Macroeconomic stability supports economic growth

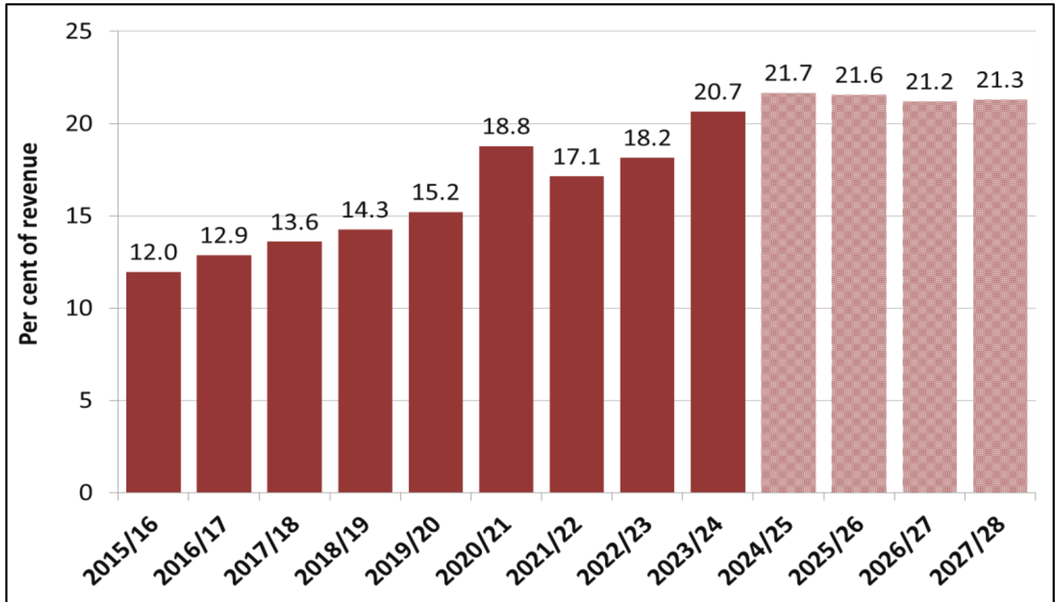
- Macroeconomic stability promotes a predictable macroeconomic environment by maintaining low and stable inflation while stabilising public finances will lower government and economy wide long-term borrowing costs.
- A predictable economic environment encourages investment and consumption spending by firms and households boosting economic growth.
- Since 2000, inflation and interest rates including their respective volatility have declined while elevated public debt levels have resulted in high debt service costs with 22 cents spent on servicing debt for every 1 rand collected.

Headline inflation and the repo rate



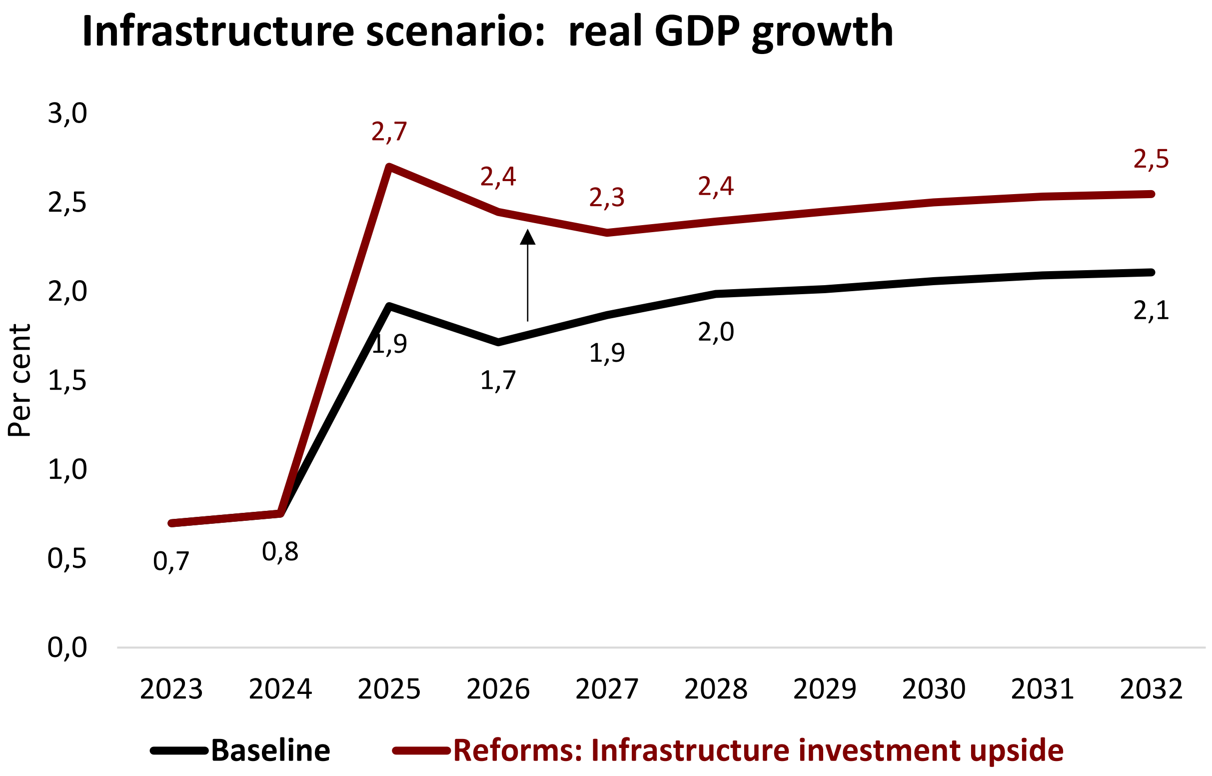
Source: Bloomberg, StatsSA

Debt-service cost as a share of main budget revenue



Source: 2025 Budget

Structural reforms matter for growth. Additional energy, logistics and public entities capital investments raise growth prospects



Source: National Treasury

- This scenario incorporates additional capacity from energy investments, coupled with rapid interventions by the National Logistics Crisis Committee to resolve problems in ports and certain rail corridors.
- Additionally, major public entities are assumed to successfully scale up capital expenditure over the medium-to-long term.
- In this scenario, economic growth is durably higher compared to the baseline forecast as supply-side constraints are alleviated, raising capital stock accumulation, yielding productivity improvements, boosting sentiment and reducing the cost of doing business.
- Together, these reforms also support increased trade volumes.
- Additional GDP generated over the simulation period amounts to **R1.06 trillion relative to the baseline.**

Improved state capability will enable better delivery of core functions and support economic growth

- Previous efforts to improve state capacity have focused on bettering individual skills through training programmes
- A capable state requires not only capacity (individual skills) but effective accountability arrangements, strategic goals, government systems and state organisation
- Interventions to improve state capability include *inter alia*:
    - institutional reforms to improve the delivery of infrastructure,
    - additional resources to support rebuilding the South African Revenue Service,
    - early retirement initiative to rationalise and rejuvenate the public service
- Digital transformation will provide critical support to service delivery and enhanced state capability

Infrastructure reform and investment will support growth over the medium term

Area	
Public Infrastructure Investment	Over the next three years, R1.03 trillion will be allocated to public infrastructure, with major allocations to roads (R402 billion), energy (R219.2 billion), and water and sanitation (R156.3 billion). The main budget adds R46.7 billion for infrastructure projects over the medium term.
Institutional Reform for Infrastructure Delivery:	A single structure overseen by the National Treasury will be established during 2025/26 to coordinate state participation in project preparation and planning, public-private partnerships (PPPs), funding and credit guarantees. It will consolidate two units currently in the Government Technical Advisory Centre that coordinate PPPs and capital appraisals with the Infrastructure Fund in the Development Bank of Southern Africa.
Public-Private Partnerships (PPP) Reform	PPP regulations have been streamlined, reducing approval requirements for projects below R2 billion from June 2025. A clear framework is being established to receive and process unsolicited PPP proposals or bids from the private sector. Revised manuals and guidelines on PPPs are being produced and will be made available to the public.
Budgeting and financing for Infrastructure	State-owned companies, public entities, and municipalities will fund 72.7 per cent (R748.5 billion) of total public-sector capital investment from their budgets. For the 2025 Budget cycle, the Budget Facility for Infrastructure has approved nine projects with a total value of R55.5 billion, of which R15.3 billion will funded by the Facility, supporting critical areas such as hospital infrastructure, transport and logistics, and water.
Performance-Based Financing	The 2025 Budget introduces a performance-based conditional grant for certain trading service entities that provide basic services, such as municipal water. This will incentivise financial and operational reforms to improve their functioning and sustainability.

Government is working to strengthen the Budget Process

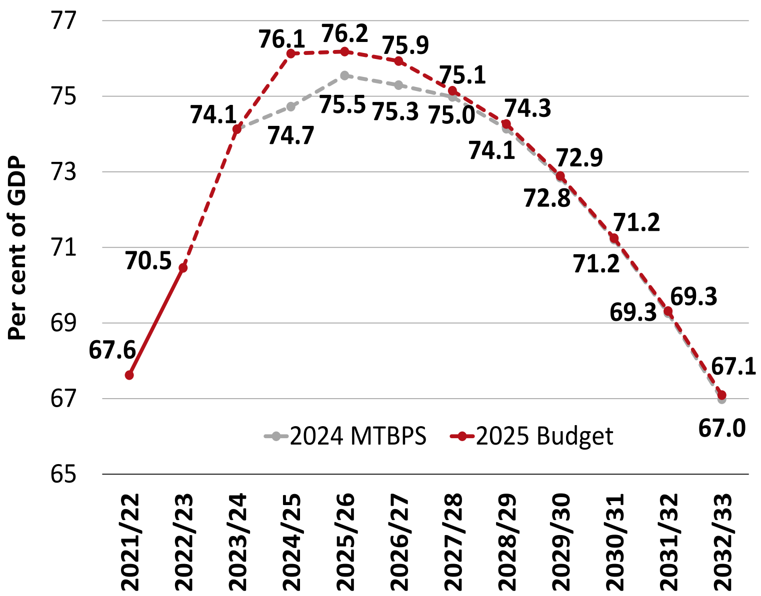
- The 2024 MTBPS announced that the National Treasury has initiated a comprehensive review of the medium-term budgeting process to bring it in line with current economic realities and ensure it remains fit for purpose.
- Reforms are being developed to:
  - Evaluate and strengthen budget structures
  - Enhance coordination and decision-making,
  - Manage unanticipated expenditures and improve the use of performance data and technology.
- A long-term debt sustainability framework has been developed to ensure that all spending and borrowing decisions are guided by a need to maintain sustainable finances over the long term.
- Further we have committed that the proposed reforms arising from this review will be implemented in 2025/26.

Consultation as part of the Budget process related issues

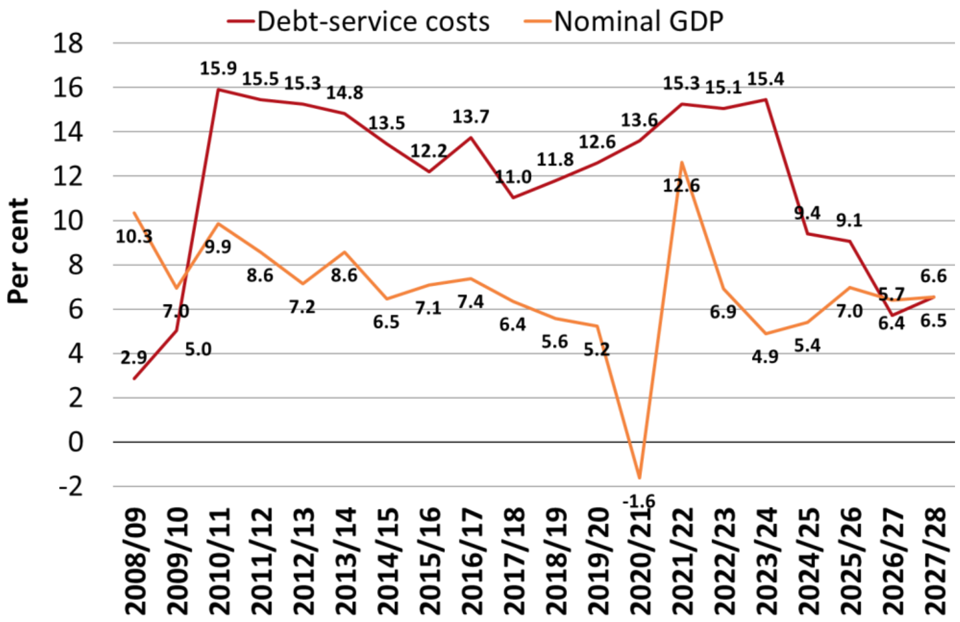
- **Was the FFC consulted before budget?**
  - Section 10 of the Intergovernmental Relations Act requires the contents as it relates to the Division of Revenue Bill to be submitted to the FFC at least 14 days prior to tabling (NB: this requirement is not stipulated for other budget documents).
  - This was done on 05 February 2025, and in this regard the provisions of the Act were complied with.
  - However, the postponement of the budget from 19 February to 12 March was an unforeseen political event.
  - Despite this, a resubmission made on 7 March 2025 and a second briefing was arranged for 10 March 2025 with the Commission, however the briefing never materialised due to the Commission’s unavailability.
  - Nevertheless - and critically - there were no changes to the sub-national division of revenue or to allocations for provinces and municipalities (only the national sphere changed, as reflected in schedule 1).
  - The National Treasury agrees that risks to the budget process that were not envisaged when certain laws and regulations were enacted are materialising, and is engaging with the FFC on this matter, including to strengthen contingency planning.
- **Pre-budget consultations:**
  - South Africa continues to have one of the most transparent budget processes in the world.
  - Work is underway to design opportunities for more pre-budget consultation opportunities.
  - The National Treasury is reviewing the departments consultative processes with intent to develop a public participation framework
- **The National Treasury responds to parliamentary committees' recommendations in Annexure A of each Budget Review publication**

Key fiscal policy issues

Gross debt-to-GDP outlook



Growth in nominal GDP and debt-service costs



- South Africa's debt and debt-service costs continue to rise, and debt-service costs are projected to grow faster than economic growth, implying that even under an optimistic scenario the economy cannot sustain the level of debt
- In this regard, South Africa's debt trajectory remains unsustainable until government achieves and maintains a debt-stabilising primary fiscal surplus in 2025/26

Fiscal Policy related issues - Expenditure

- **What is allocated to SARS?**
  - R3.5 billion additions in 2024 MTBPS over the 2025 MTEF
  - R4 billion additional allocation to SARS in the budget speech will be used to strengthen tax administration
- **How is the contingency reserve determined?**
  - The contingency reserve is part of main budget non-interest expenditure envelope
  - The dilemma in determining the size of the contingency reserve — ensuring sufficient buffer to absorb justified uncertainty while maintain disciplining restriction in the budget
  - Factors affecting the size of the contingency reserve include time frame, policy composition, indexation schemes, extent of contingent liabilities
  - The size of contingency reserves varies across countries, ranging from less than 1 per cent to up to 3 per cent of total government expenditure.
  - In the 2025 Budget, the contingency reserve amounts to 0.9 per cent of main budget expenditure over the medium term.

Spending reviews updates

- Many of the ‘low-hanging fruit’ from the spending reviews have already been implemented.
- Further implementation of the remaining recommendations will require institutional and legislative reforms as well as government-wide decisions, which can be executed once endorsed by Cabinet.
- These reforms will take time to materialise and are unlikely to generate immediate fiscal relief.
- Realising meaningful savings will demand strong political will and difficult policy trade-offs.
- As a result, either spending pressures will need to be delayed until these spending reviews yield results or tax measures need to be implemented to generate revenue to pay for spending pressures.

DRC-withdrawal issue

- Important to note that the SADC secretariat has not yet issued an official withdrawal communique and detailed plan to the Department of Defence
- However, the withdrawal of South African troops will incur costs related to logistics, transport, and operational requirements in 2025/26 and this must be carefully managed.
- The National Treasury will work closely with the Department of Defence to assess the financial implications of the phased withdrawal of troops from the DRC once SADC issues an official withdrawal communiqué and detailed plan.

COVID-19 SRD

- Extended by a further year with an allocation of R35.2 billion for 2025/26, inclusive of administration (with a further provisional allocation over the MTEF)
- Current COVID-19 SRD costs over R35 billion per annum but could rise to R171 billion by 2032/33 if SRD becomes permanent, uptake increases and value approaches food poverty line
- Fiscus cannot afford these large increases without permanent large tax increases
- Future form and nature of COVID-19 SRD will be informed by the broader review of Active Labour Market Policies (ALMPs)
- Long-term economic participation is a critical objective, and government is working to find the best solution
- Solution will consider long-term benefits, affordability, complementarity with basic services, and employment promotion efforts

Are SACU payments to BELN countries sustainable?

- SACU payments have grown rapidly in recent years.
- In 2025/26 the SACU payments to the BELN countries will amount to R73.6 billion (of the R142.5 billion available in the available pool of funds, calculated in line with the agreement guidance).
- These payments are projected to rise further, reaching R91.8 billion by 2027/28.
- The ***contributions to*** the available pool of funds and ***payment out*** of the available pool of funds can be viewed in the joint NT and SARS Tax Statistics publications available on the Treasury and SARS websites.
- The reformed SACU agreement was finalised in 2002, with the current revenue-sharing formula (RSF) implemented in 2005. Since then, several challenges have emerged, particularly regarding the formula's complexity, rationale, and fairness.
- Although there have been discussions about reviewing the RSF, it is widely acknowledged that any revision that would negatively affect a member country's finances is unlikely to be accepted.
- Any revisions to the SACU agreement aimed at addressing concerns frequently raised in parliamentary hearings regarding the RSF would require engagement and agreement at the political level.

Other issues

- Employment programmes:
  - A complete review of government's active labour market ecosystem has been completed by the National Treasury and the Presidency (with technical support provided by GTAC and the engagement of sector departments).
  - The outcomes of this review, which includes recommendations on specific programmes, is ready to be shared with government and presented to Cabinet for guidance on implementation.

- SMME support:
  - The Department of Small Business Development is allocated R2.1 billion over the medium term to support about 120 000 competitive small businesses, particularly those owned by women, youth and persons with disabilities in marginalised areas such as townships and rural regions.
  - In addition, government has allocated R313.7 million over the medium term for the establishment of micro, small and medium enterprise hubs to support business expansion.

Treasury’s Funding Strategy

- Government borrowing is guided by three primary considerations: liquidity management, refinancing risk and managing the cost of borrowing. With these factors in mind, and supported by a strategic risk framework, government determines the best mix of debt instruments and maturities to finance the gross borrowing requirement.
- Government gross debt consist of domestic debt (89%) and foreign debt (11%). Foreign debt is within the strategic risk benchmark of 15%.
- In 2025/26, the gross borrowing requirement is expected to be R3 billion higher than projected in the 2024 Budget Review due to a higher budget deficit, partially offset by a reduction in Eskom debt relief.
- The final R70 billion Eskom debt takeover will now be replaced with two advances amounting to R50 billion: R40 billion in 2025/26 to redeem debt maturing in April 2026; and R10 billion in 2028/29 for debt maturing in May 2028.
- The requirement is also affected by the transfer to government of R100 billion in 2024/25 and R25 billion in each of the two following years from the Gold and Foreign Exchange Contingency Reserve Account, as discussed in the 2024 Budget Review. In terms of the GFECRA settlement agreement the SARB won't sell any of its foreign currency reserves.
- Over the next three years, net Treasury bill issuances will average R40 billion, with long-term borrowing averaging R366.1 billion.
- Over the medium term, government will raise about US$14.6 billion to meet its foreign exchange commitments. This funding will be sourced from multilateral development banks, international financial institutions and international capital markets.
- As at January 2025, the ownership of domestic government bonds consist of foreign investors (24.6%), pension funds (22.6%), monetary institutions (20.8%), other financial sector (23.3%) and insurers (7.5%).

Conclusion

- National Treasury will continue to consider all recommendations from stakeholders, including for future budget cycles.
- The 2025 Budget reaffirms government’s commitment to raising living standards, growth and stabilising debt.
- Investing in growth-enhancing infrastructure, supporting job creation and maintaining a growth-friendly fiscal policy will underpin government policy over the medium term.