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2025 BUDGET REVIEW

INVESTING FOR FASTER GROWTH

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

INVESTING FOR FASTER GROWTH

In brief

- The 2025 Budget lays the foundation for faster economic growth and continues to stabilise the public finances.
- South Africa's economic outlook is slowly improving, with GDP growth expected to average 1.8 per cent over the next three years.
- Next year, debt will stabilise at 76.2 per cent of GDP. Debt-service costs, which consume 22 cents of every rand of revenue, stabilise in the current year.
- In light of new and persistent spending pressures, government has decided to raise additional tax revenues, including proposed value-added tax (VAT) rate increases of half a percentage point in each of the next two years.
- Investing in strategic infrastructure, supporting job creation and maintaining a growth-friendly fiscal policy will underpin government policy over the medium term.

OVERVIEW

The 2025 Budget maintains government's focus on growing the economy, stabilising the public finances, and supporting low-income and vulnerable households.

Over the next three years, GDP growth is projected to average 1.8 per cent. Despite lower-than-expected economic growth in 2024, regular electricity supply, slowing inflation and declining interest rates, supported by government's fiscal strategy, are improving confidence and enhancing the investment environment.

Government's economic growth strategy will support higher living standards in the context of global uncertainty, trade disputes and financial market vulnerabilities. The strategy focuses on maintaining macroeconomic stability to reduce living costs and grow investment, executing reforms to promote a more dynamic economy, building state capability in core functions and supporting growth-enhancing public infrastructure investment.

The 2025 Budget proposes investments for faster economic growth, focusing on electricity, rail, water and transportation infrastructure projects. Over the medium-term expenditure framework (MTEF) period ahead, no new spending reductions are proposed. Consolidated spending, excluding interest payments, grows at an annual average rate of 0.8 per cent in real terms, with 61 per cent of spending supporting the social wage – health, education, social protection, community development and employment programmes.

FISCAL OUTLOOK

Government's determination to ensure sustainable public finances puts South Africa in a stronger position to withstand unforeseen shocks, while creating an environment conducive to higher investment and faster economic growth. It also enables government to prioritise investment over debt service, which now consumes 22 cents of every rand of revenue. The cost of servicing South Africa's government debt is significantly higher than in peer countries (Figure 1.1), driving up borrowing costs for households and businesses.

The fiscal strategy remains on course. Over the next year, government expects to reach two important milestones in rebuilding the public finances. In 2025/26, public debt will peak, stabilising at 76.2 per cent of GDP (Figure 1.2). This is the result of a growing primary budget surplus, meaning revenue exceeds non-interest spending. Debt-service costs will peak in the current year, stabilising at 21.7 per cent of revenue, and decline thereafter.

The consolidated budget deficit is expected to narrow from 5 per cent of GDP this year to 3.5 per cent of GDP in 2027/28.

Figure 1.1 Debt-service cost trends in South Africa and peer countries*

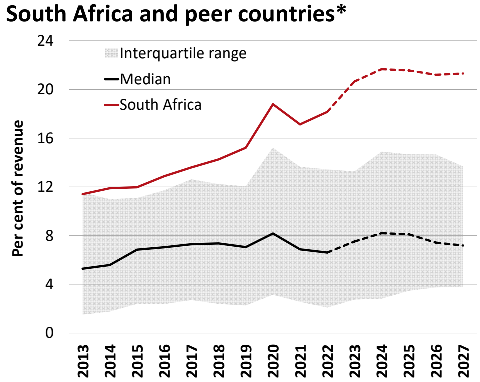
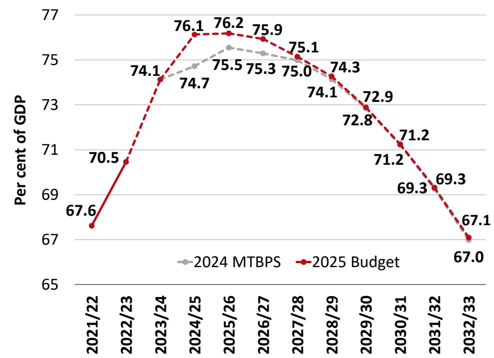


Figure 1.2 Gross debt-to-GDP outlook**



Consists of 84 emerging market economies
***2024 MTBPS estimates are reflected by the lower data labels*
Source: National Treasury and IMF World Economic Outlook, October 2024

The 2025 Budget covers the costs of the first three-year public-service wage agreement since 2018. Although the outcome of the agreement requires additional allocations for compensation, it is notable that government has secured certainty for the largest item in the budget without delaying debt stabilisation. At the same time, the early retirement incentive announced in the 2024 *Medium Term Budget Policy Statement* (MTBPS) is being rolled out to reduce compensation costs while rejuvenating the public service.

In response to new and persistent spending pressures, the 2025 Budget proposes a significant increase in revenue. Most importantly, government has taken the difficult decision to raise the VAT rate by 0.5 percentage points in each of the next two years, bringing VAT to 16 per cent in 2026/27. This and other revenue increases will provide additional funding for several frontline functions, with investments in education, health, early childhood development and commuter rail services.

Government acknowledges that this measure will place greater pressure on households. However, the impact is cushioned by the spending support outlined above and across the budget, such as above-inflation increases in social grants, the extension of fuel levy relief and the addition of new food items to the basket of goods that are zero rated for VAT.

Over the medium term, new spending pressures must be funded either through additional revenue increases or expenditure reductions or reprioritisations, which may include eliminating non-performing programmes.

ECONOMIC STRATEGY

As outlined in the 2024 MTBPS, government's medium-term strategy is anchored by four priorities:

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

A sound macroeconomic framework promotes stable prices and low interest rates, enhancing the economy's resilience to external shocks that tend to disproportionately affect poor households. The National Treasury's macroeconomic policy review, published in 2024, confirms that inflation targeting has been beneficial for the economy, especially the poor. Government continues to support effective inflation targeting, along with efforts to stabilise the public finances.

Chapter 2 outlines the progress made by Operation Vulindlela and in other reforms. Alongside notable improvements in the electricity and transport sectors, recent reforms have focused on improving and stabilising water supply. The newly created National Water Resources Infrastructure Agency will consolidate non-municipal water infrastructure assets, such as dams and land, to improve planning and financing of water projects.

South Africa needs higher capital investment to accelerate economic growth and create jobs. This is a central priority for government over the period ahead. Together with substantial additional resources, the infrastructure delivery mechanism is being reformed to better support private-sector participation, and improve efficiency and coordination in the development of critical infrastructure.

INFRASTRUCTURE INVESTMENT TO SUPPORT GROWTH

Over the next three years, an estimated R1.03 trillion will be spent on public infrastructure projects by state-owned companies, other public entities, and national, provincial and local government. This includes R402 billion for road infrastructure, with R100 billion of investments by the South African National Roads Agency Limited. An amount of R219.2 billion will be spent on energy infrastructure, and R156.3 billion will flow to water and sanitation infrastructure.

The 2025 Budget adds R46.7 billion in funding for infrastructure projects over the next three years.

Several reforms under way are designed to help the state deliver infrastructure and encourage private-sector investment. During 2025/26, a single structure overseen by the National Treasury will be established to coordinate state participation in project preparation and planning, public-private partnerships (PPPs), funding and credit guarantees. It will be established by merging 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.

Streamlining the framework for public-private partnerships

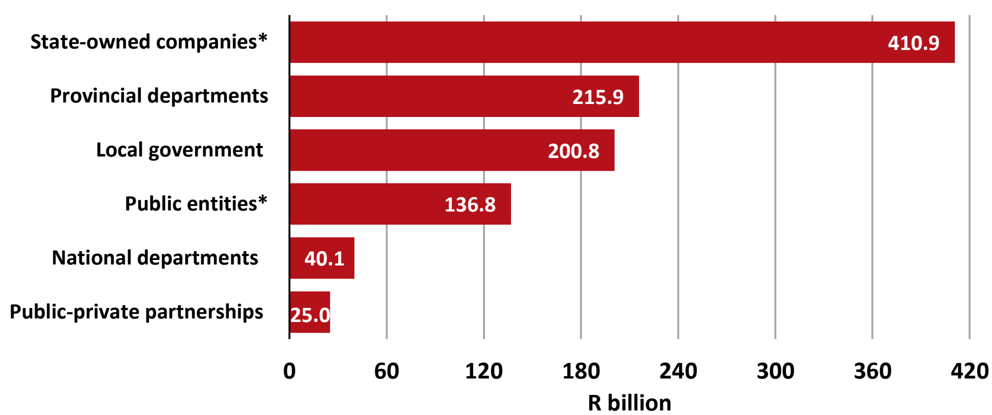
Infrastructure reforms are underpinned by a commitment to significantly increase partnerships with the private sector. On 7 February 2025, amendments to Treasury Regulations for PPPs were gazetted. From June 2025, projects below a total value of R2 billion will no longer have to clear onerous approval processes intended for large projects before proceeding.

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. New legislative amendments and regulations for municipal PPPs will also be introduced in 2025.

Budgeting and financing for infrastructure

Of the total public-sector capital investment planned over the medium term, 72.7 per cent, or R748.5 billion, will be funded from the budgets of state-owned companies and public entities, as well as municipalities, as shown in Figure 1.3.

Figure 1.3 Public-sector infrastructure expenditure, 2025/26 – 2027/28



**Public entities are financed by capital transfers from the fiscus and state-owned companies are financed by a combination of own revenue and borrowing*
Source: National Treasury

The Budget Facility for Infrastructure plays a central role in the capital budgeting system by recommending funding for projects that are jointly funded from other sources, including state-owned companies, municipal own resources and the private sector. For the 2025 Budget cycle, the Facility has approved nine projects with a total value of R55.5 billion, of which R15.3 billion will be funded by the Facility. The approved projects address a wide range of service delivery and economic growth needs, such as hospital infrastructure, transport and logistics, and water. Details are set out in Annexure D.

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.

OTHER CRITICAL REFORMS

Anchoring fiscal policy for the long term

Between 2011/12 and 2019/20 government spending rose rapidly, mainly driven by bailouts to state-owned companies and major public entities, transfers to households and a growing public-service wage bill. As a result, spending grew faster than GDP and revenue. The result was a high debt burden and significant fiscal vulnerability to external shocks, as evidenced by the impact of COVID-19 on public finances and the need to implement difficult spending reductions thereafter.

As the public finances stabilise and fiscal targets are met, government has been exploring the implementation of strong fiscal policy anchors that will help prevent a recurrence of the cycle of high spending, high deficits and high debt. At present, a primary budget surplus sufficient to stabilise debt has been adopted as the anchor. However, the obligation to keep public debt stable is not explicit in South Africa's legal and regulatory framework. In this regard, government is releasing, along with the budget, a discussion document presenting options for such an anchor. Further detail is provided in Chapter 3.

Early retirement programme for public servants

The 2024 MTBPS announced that government would offer an early retirement incentive. Over the next two years, the 2025 Budget provides R11 billion in funding to incentivise public servants to retire early. Those wishing to pursue this option will have to apply, with approvals given only by the relevant executive authority. Up to 30 000 state employees are expected to opt for early retirement. The programme aims to manage staff headcount in a targeted manner and revitalise the public service.

Social protection and employment support

South Africa's social security system provided R343.3 billion in income support in 2023/24. This included social assistance grants, unemployment insurance and compensation for workplace disability. In 2020, the *COVID-19 social relief of distress grant* was introduced to compensate low-income workers affected by the lockdown. The state also operates a number of employment and active labour market programmes to create work, support the temporarily unemployed and promote entrepreneurship. As announced in the 2024 MTBPS, the social protection and employment support programmes are being reviewed. This work, which has proceeded more slowly than anticipated, will continue during 2025/26.

Considerations for future budget processes

Extended Cabinet deliberations led to the postponement of the tabling of the 2025 Budget in Parliament from February to March 2025.

Timelines for legislative consideration and executive implementation of budgets are outlined in various acts of Parliament, including the Public Finance Management Act (1999). In view of recent developments, government will reflect on improvements or reforms that can strengthen the national budget process. This review will include options for enhancing political and technical engagements on the budget, clarifying the role of certain structures that provide inputs to the budget, enhancing public consultation and improving the information technology used to develop the budget presentation.

SUMMARY OF THE 2025 BUDGET

Economic outlook

Real GDP growth for 2024 was lower than the estimate of 1.1 per cent provided at the time of the 2024 MTBPS.

Table 1.1 Macroeconomic outlook – summary

Real percentage growth	2024	2025	2026	2027
	Estimate	Forecast[1]		
Household consumption	1.0	1.9	1.5	1.7
Gross fixed-capital formation	-3.6	5.0	5.2	3.7
Exports	-2.8	3.4	3.2	3.1
Imports	-5.3	5.7	3.1	2.7
Real GDP growth	**0.8**	**1.9**	**1.7**	**1.9**
Consumer price index (CPI) inflation	4.4	4.3	4.6	4.4
Current account balance (% of GDP)	-1.6	-2.3	-2.4	-2.6

1. Based on the GDP dataset released in December 2024. Although Stats SA released GDP figures on 4 March 2025, this information is insufficient for forecasting without the national income account scheduled for release at the end of March 2025

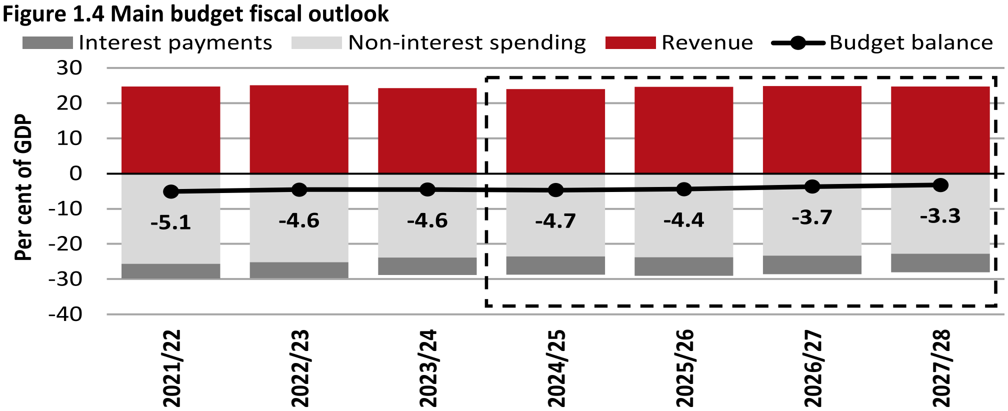
Source: National Treasury, Reserve Bank and Statistics South Africa

Chapter 2 assesses the economy's performance, outlines the medium-term outlook and details the economic growth strategy.

Fiscal outlook

The consolidated budget deficit is projected to continue declining over the medium term, narrowing to 3.5 per cent of GDP in 2027/28. Gross loan debt will stabilise at 76.2 per cent of GDP in 2025/26. Debt-service costs will rise from R389.6 billion in 2024/25 to R478.6 billion in 2027/28, but as a percentage of revenue, debt-service costs stabilise at 21.7 per cent in 2024/25. Chapter 3 provides information on fiscal performance and projections, and details the fiscal strategy.

Figure 1.4 Main budget fiscal outlook



Source: National Treasury

Table 1.2 Consolidated government fiscal framework

R billion/percentage of GDP	2024/25 Revised estimate	2025/26 Medium-term estimates	2026/27	2027/28
Revenue	**2 029.2**	**2 221.9**	**2 377.4**	**2 520.6**
	27.1%	*27.8%*	*27.9%*	*27.8%*
Expenditure	**2 404.0**	**2 592.3**	**2 703.0**	**2 834.9**
	32.1%	*32.4%*	*31.8%*	*31.3%*
Budget balance	**-374.7**	**-370.4**	**-325.6**	**-314.2**
	-5.0%	*-4.6%*	*-3.8%*	*-3.5%*

Source: National Treasury

Revenue trends and tax proposals

Chapter 4 provides a comprehensive overview of revenue trends and tax proposals. Gross tax revenue for 2024/25 is expected to be R1.85 trillion, which is R16.7 billion below the 2024 Budget projection. Over the next three years, tax revenue is expected to increase from R2.01 trillion in 2025/26 to R2.31 trillion in 2027/28, with an average tax-to-GDP ratio of 25.3 per cent over the same period. Tax policy measures proposed in the 2025 Budget will raise R28 billion in additional revenue in 2025/26 and R14.5 billion in 2026/27.

Table 1.3 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

Medium-term spending plans

Consolidated government spending increases at an annual average of 5.6 per cent, from R2.4 trillion in 2024/25 to R2.83 trillion in 2027/28. Economic development is the fastest-growing function, driven by higher capital investment, followed by debt-service costs.

Table 1.4 Consolidated government expenditure by function

R billion	2024/25	2025/26	Average growth
	Revised estimate	Budget estimate	2024/25–2027/28
Learning and culture	482.3	508.7	5.3%
Health	277.2	298.9	5.9%
Social development	397.0	422.3	4.5%
Community development	267.8	286.6	4.5%
Economic development	252.4	289.8	8.1%
Peace and security	250.4	266.1	4.7%
General public services	77.1	78.7	3.0%
Payments for financial assets	10.2	11.4	
Allocated expenditure	**2 014.4**	**2 162.4**	**5.2%**
Debt-service costs	389.6	424.9	7.1%
Contingency reserve	–	5.0	
Consolidated expenditure[1]	**2 404.0**	**2 592.3**	**5.6%**

1. Consisting of national and provincial government, social security funds and selected public entities. Refer to Annexure W2 on the National Treasury website for a full list of entities included
Source: National Treasury

As discussed in Chapter 5, spending is highly redistributive. The social wage accounts for 61 per cent of total non-interest spending over the next three years. The 2025 Budget funds spending pressures of R232.6 billion over the MTEF period, including provisional allocations for frontline service delivery departments amounting to R70.7 billion.

Division of revenue

Over the 2025 MTEF period, excluding payments for servicing debt, the contingency reserve and provisional allocations, 48.4 per cent of nationally raised revenues are allocated to national government, 41.9 per cent to provinces and 9.7 per cent to local government. The division of revenue between the three spheres of government is outlined in Chapter 6, which also discusses structural reforms to improve revenue generation, efficiency and accountability in provinces and municipalities.

Table 1.5 Division of revenue

	2024/25	2025/26	2026/27	2027/28
R billion	Revised estimate	Medium-term estimates		
National allocations	862.3	912.8	910.2	943.9
Provincial allocations	730.7	767.8	798.4	833.8
Equitable share	*600.5*	*633.2*	*660.6*	*690.2*
Conditional grants	*130.2*	*134.6*	*137.9*	*143.6*
Local government allocations	167.7	176.8	185.1	190.8
Provisional allocations not appropriated	–	37.1	83.0	84.7
Total allocations	**1 760.7**	**1 894.5**	**1 976.8**	**2 053.3**
Percentage shares				
National	*49.0%*	*49.1%*	*48.1%*	*48.0%*
Provincial	*41.5%*	*41.3%*	*42.2%*	*42.4%*
Local government	*9.5%*	*9.5%*	*9.8%*	*9.7%*

Source: National Treasury

Government debt and contingent liabilities

Chapter 7 reviews government debt and contingent liabilities. Gross government debt is projected to reach R5.69 trillion or 76.1 per cent of GDP this year, stabilising at 76.2 per cent of GDP in 2025/26. Debt stabilises at a slightly higher level than projected in the 2024 MTBPS but still achieves the overall policy objective. Debt-service costs are expected to stabilise as a percentage of revenue in the current year.

Table 1.6 Projected state debt and debt-service costs

R billion/percentage of GDP	2024/25	2025/26	2026/27	2027/28
Gross loan debt	**5 693.6**	**6 094.2**	**6 463.8**	**6 814.9**
	76.1%	*76.2%*	*75.9%*	*75.1%*
Debt-service costs	**389.6**	**424.9**	**449.2**	**478.6**
	5.2%	*5.3%*	*5.3%*	*5.3%*

Source: National Treasury

Financial position of public-sector institutions

State-owned companies and major public entities continue to pose a large risk to the fiscal position. As outlined in the 2024 *Fiscal Risk Statement* (Annexure A of the MTBPS), most contingent liabilities emanate from these institutions. The 2025 Budget maintains government's stance of not providing bailouts to state-owned companies. Government is focused on improving governance and the effectiveness and transparency of the guarantee framework. In addition, government will support critical capital investments through different mechanisms, including credit guarantees, on-lending and grant funding, where appropriate. Chapter 8 discusses the financial position of public-sector institutions.

Table 1.7 Combined financial position of public institutions

R billion/net asset value	2021/22	2022/23	2023/24
State-owned companies	419.0	422.0	398.8
Development finance institutions	157.6	161.9	166.1
Social security funds	-182.6	-158.1	-128.9
Other public entities[1]	942.7	1 160.8	1 274.3

1. State-owned institutions without a commercial mandate and listed in either schedule 1 or 3 of the PFMA
Source: National Treasury

BUDGET DOCUMENTATION

The 2025 Budget is accompanied by several other documents and submissions to Parliament. These include:

- The Budget Speech
- The Division of Revenue Bill
- The Appropriation Bill
- The Estimates of National Expenditure

In addition, the following documents are electronically presented for public comment and information:

- Fiscal Anchors Discussion Document
- Gender Budget Statement

These and other fiscal and financial publications, including the People's Guide to the Budget, are available online at www.treasury.gov.za.