#2025MayBudget

NATIONAL TREASURY
Budget
21 MAY 2025

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THE GOVERNMENT'S RESPONSE TO THE MAY 2025 PARLIAMENTARY FISCAL FRAMEWORK HEARINGS

30 May 2025

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

G20 SOUTH AFRICA 2025

2030 NDP

SUBMISSIONS RECEIVED

1. AIDC – Automotive Industry Development Center
2. AMIE SA – Association of Meat Importers and Exporters
3. Amandla.mobi
4. BJC – Budget Justice Coalition
5. CGCSA – Consumer Goods Council of South Africa
6. Clover
7. COSATU – Congress of South African Trade Unions
8. EFF – Economic Freedom Fighters
9. FFC – Financial and Fiscal Commission
10. Godfrey Manyi
11. Heineken
12. IEJ – Institute for Economic Justice
13. PBO – Parliamentary Budget Office
14. PEP
15. SA Wine – South African Wine
16. SAB – South African Breweries
17. SAICA – South African Institute of Chartered Accountants
18. Winsome Africa

Setting the Stage – Key Points on the May 2025 Budget

"A national budget... is a reflection of the difficult trade-offs needed to balance fiscal sustainability while addressing our developmental goals."
— Minister of Finance, *May 2025 Budget Speech*

- The Government's budget is credible:
  - Guarantees a succession of primary surpluses sufficient to stabilise debt.
  - Prioritises the social wage without overcommitting future generations.
  - Navigates complex trade-offs with transparency and accountability.
- The Government's budget is transparent:
  - As highlighted by the IMF's Fiscal Transparency Evaluations (FTE), transparency builds trust and accountability.
  - SA has long scored well in the Open Budget Index (OBI) and is now being ranked 4th out of 120 countries surveyed.
  - In the 2023 OBI survey, budget transparency and oversight are areas of strength while public participation would benefit from improvements
- Recent budget debates have highlighted differing views and difficult trade-offs. While the discourse has at times been polarised, it reflects the strength of our democracy. Government remains committed to listening to all South Africans. This budget reflects some of those voices.
- The 2025 Budget reflects considerations and deliberation of previous stakeholder inputs into the hearings on the fiscal framework like the GBS, focus on infrastructure, economic growth and stronger allocations to the social wage. While alternative proposals are welcome, some will continue to be considered in future budget processes.

Economic strategy and economic outlook

The 2025 Budget Fiscal strategy fosters faster inclusive growth

The 2025 Budget fiscal framework reflects Government’s approach to macroeconomic stability in particular, and the four strategic areas for economic growth in general. It stabilises debt as a percentage of GDP, achieves a primary surplus, expands infrastructure investment and supports the social wage.

Maintain macroeconomic stability	To promote low and stable inflation, and lower interest rates while enhancing the country's ability to withstand external shocks. This creates a conducive environment for investment, savings and job creation.
Implement structural reforms	To increase efficiency and promote a competitive economy through improved confidence and investment, while addressing constraints to job creation and employment.
Build state capability	To identify and solve problems in the delivery of core functions, enhancing accountability and service delivery supported by digital transformation.
Invest in growth-enhancing public infrastructure	Supports industrial growth, promotes innovation and attracts foreign investment. Improved infrastructure improves productivity placing the economy on a higher growth trajectory.

Revised macroeconomic assumptions reflect external volatility and higher risk premium

Overview Table 1: Economic growth in selected countries

Region/country Percentage	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast	2025 Difference from January 2025 WEO	2026 Difference from January 2025 WEO
World	**3.3**	**2.8**	**3.0**	**3.2**	**-0.5**	**-0.3**
Advanced economies	**1.8**	**1.4**	**1.5**	**1.7**	**-0.5**	**-0.3**
United States	2.8	1.8	1.7	2.0	-0.9	-0.4
Euro area	0.9	0.8	1.2	1.3	-0.2	-0.2
United Kingdom	1.1	1.1	1.4	1.5	-0.5	-0.1
Emerging and developing countries	**4.3**	**3.7**	**3.9**	**4.2**	**-0.5**	**-0.4**
China	5.0	4.0	4.0	4.2	-0.6	-0.5
South Africa[1]	0.6	1.4	1.6	1.8	-0.5	-0.3
World trade volumes	**3.8**	**1.7**	**2.5**	**3.0**	**-1.5**	**-0.8**

1. National Treasury forecast
Source: IMF World Economic Outlook, April 2025

Table 2.3 Assumptions informing the macroeconomic forecast

Percentage change	2022 Actual	2023 Actual	2024 Actual	2025 Estimate	2026 Forecast	2027 Forecast
Global demand[1]	3.9	3.8	2.6	2.8	3.2	3.3
International commodity prices[2]						
Brent crude oil	99.0	82.3	79.9	69.4	65.3	65.5
Gold	1 801.5	1 943.1	2 387.2	2 984.7	3 143.1	3 256.0
Platinum	960.9	966.6	955.0	965.7	995.8	1 032.4
Coal	271.1	120.6	105.4	96.7	105.7	105.0
Iron ore	120.7	120.3	111.1	99.2	93.6	88.7
Palladium	2 107.4	1 339.5	982.9	967.0	1 000.7	1 037.0
Domestic assumptions						
Food inflation	9.2	10.8	4.5	4.8	4.5	4.5
Electricity inflation	11.1	11.8	13.3	12.3	9.4	6.8
Sovereign risk premium	4.1	3.9	3.2	3.2	3.2	3.1

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, April 2025)
2. Bloomberg futures prices as at 21 April 2025
Source: National Treasury

- In Overview Table 1, on page 6 of the Budget Overview, global growth is projected to slow from 3.3 per cent in 2024 to 2.8 per cent in 2025, with trade growth revised down to 1.7 per cent due to ongoing geopolitical tensions, tariff disruptions, and fading post-pandemic drivers.
- In the technical annexure of the Budget Overview, on page 23, the assumptions underpinning the macroeconomic forecast are given in Table 2.3:
  - Demand from South Africa's major trading partners is expected to grow by just 2.8 per cent in 2025, reflecting weaker activity in both advanced and emerging economies.
  - Export commodity prices are assumed to increase by only 5.4 per cent in 2025, lower than previous estimates due to subdued global demand and lower output from key producers.
  - The sovereign risk premium is now expected to average 3.2 per cent in 2025, reflecting heightened geopolitical and policy uncertainty both globally and within South Africa.

NT projects growth of 1.4 per cent in 2025, with the medium-term growth marginally lowered

Macroeconomic performance and projections

Percentage change	2023	2024	2025	2026	2027
	Actual		Estimate	Forecast	
Final household consumption	0.7	1.0	1.8	1.4	1.8
Final government consumption	1.9	0.4	2.7	1.4	0.0
Gross fixed capital formation	3.9	-3.7	3.2	4.2	4.2
Gross domestic expenditure	0.8	-0.7	2.0	2.3	2.0
Exports	3.7	-2.0	0.4	1.4	3.1
Imports	3.9	-6.3	2.8	3.7	3.3
Real GDP growth	**0.7**	**0.6**	**1.4**	**1.6**	**1.8**
GDP inflation	4.8	3.8	4.4	4.4	4.5
GDP at current prices (R billion)	**7,024**	**7,336**	**7,760**	**8,235**	**8,761**
CPI inflation	6.0	4.4	3.7	4.2	4.3
Current account balance (% of GDP)	-1.6	-0.6	-0.7	-1.1	-1.3

Sources: National Treasury, Reserve Bank and Statistics South Africa

- Government projects growth of 1.4 per cent in 2025, from 0.6 per cent in 2024, reflecting the weaker than expected GDP outcome in the second half of 2024, alongside a deteriorating economic outlook in both the domestic and global environments.
- Medium-term GDP growth is expected to average 1.6 per cent from 2025 to 2027, weaker than the previous forecast of 1.8 per cent. Downward adjustments are observed in both domestic spending as well as in the external account.
- Gross domestic expenditure growth has been lowered on account of notable revisions in fixed investment and government consumption expenditures, with net exports projected to detract from growth a bit more than in the previous forecast.
- Growth drivers: continued progress in structural reform implementation, commitment to prudent macroeconomic policy and waning uncertainties.

The impact of reform in Operation Vulindlela Phase I

94%
Number of Phase I reforms completed or progressing well

R500 billion
New investment unlocked through reforms

22 500 MW
Pipeline of private investment in renewable energy projects

51%
Reduction in the cost of data for a 1.5 GB bundle

90
Number of days to obtain a water use license, down from 300

Source: OV Phase 1 Review, available at https://www.stateofthenation.gov.za/assets/downloads/Operation_Vulindlela_Phase_1_Review.pdf

Operation Vulindlela continues on delivering ambitious set of reforms in its second phase

Following through on existing reforms

Transform the electricity sector to achieve energy security

Create a world-class logistics system to support export growth

Invest in water infrastructure to ensure water security

Reform the visa system to attract skills and investment

Expanding to new reform areas

Create dynamic and integrated cities to enable economic activity

Harness digital public infrastructure as a driver of growth and inclusion

Strengthen local government and improve the delivery of basic services

Tax policy and tax revenue proposals

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Gross tax revenue projections have been revised down by R61.9 billion over the 2025 MTEF period, yet still above 2024 MTBPS

Revised gross tax revenue projections

R billion	2023/24[1]	2024/25[2]	2025/26	2026/27	2027/28
Revised estimate	**1 740.9**	**1 855.3**	**1 985.6**	**2 141.8**	**2 286.5**
Buoyancy	*0.66*	*1.48*	*1.12*	*1.29*	*1.05*
2024 MTBPS	**1 740.9**	**1 840.8**	**1 971.8**	**2 111.1**	**2 255.2**
Buoyancy	*0.66*	*0.95*	*1.09*	*1.09*	*1.04*
2024 Budget	**1 731.4**	**1 863.0**	**1 991.2**	**2 133.0**	
Buoyancy	*0.54*	*1.33*	*1.11*	*1.11*	
Projected improvement against 2024 MTBPS	–	14.5	13.8	30.7	31.4
Projected variance against 2024 Budget	9.5	-7.8	-5.6	8.8	

1. Actual outcome

2. Preliminary outcome

Source: National Treasury; data extracted from the updated tables of 2025 Budget Review, Table 3.2

Revenue proposals to fund expenditure priorities

Impact of tax proposals on medium-term revenue[1]	2025/26	2026/27	2027/28
R million	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	396
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

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; data extracted from the updated tables of 2025 Budget Review, Table 4.3

May 2025 *Budget Overview* tax proposals

- VAT rate increases and zero-rating proposals in the March 2025 *Budget Review* have been withdrawn
- Additional revenue required to accommodate R74.4 billion increase in non-interest expenditure since the 2024 Budget
- May 2025 *Budget Overview* proposes tax measures to raise R18 billion in 2025/26 and provide R1 billion tax relief in 2026/27:
  - No adjustment to personal income tax brackets and rebates
  - Inflationary increase in general fuel levy
  - Above-inflation increases in excise duties on alcohol and tobacco products
  - Diesel refund relief for primary sectors
- The 2026 Budget will propose tax measures to raise an additional R20 billion in revenue in 2026/27
  - Measures to be reconsidered if SARS is able to raise additional revenue through more efficient tax administration and higher tax compliance
  - SARS will receive additional resources to increase its revenue from debt collection by R20 to R50 billon per year
  - Monthly cash collected from debt to be monitored; if there are verified revenue gains by SARS then the additions could be factored into revenue estimates (not currently included), and the 2026 Budget tax measures may be reconsidered.

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 rates 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 – and increases in CIT rates are the most damaging to economic growth.
- **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.
- **Horizontal equity** is as important as vertical equity, but more often discussed in context of direct taxes. For indirect taxes, there is a horizontal equity question when some specific taxes (e.g. excise etc) are adjusted by inflation when others are not (e.g. previous fuel price relief). Moreover, percentage-based consumption taxes (e.g. VAT) automatically take price increases into account.
- **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 VAT rate increases, the bulk of the revenue shortfall was addressed by not adjusting PIT brackets for inflation.
- **Simplicity:** All taxes have compliance costs attached to them.

Did our tax policy strategy change from the previous budgets?

- 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
  - 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."*** Also highlighted risks to the outlook including growth slowdowns to geo-political instability and higher-than-anticipated public wage settlements.
- May Budget vs March Budget: retained no relief from inflation for PIT brackets, but reversed previous announcements on VAT. Therefore, also had to reverse tax relief measures intended to shield low-income households from impacts of VAT rate increases, including
  - Additional zero-ratings
  - Not adjusting fuel levy for inflation
- Any tax increase comes with negative impacts so main policy question is about trade-offs of different options. As expected, most commentators are critical of the tax increases – but divergence on nuance
  - Some commentators advocate no tax increases, and suggest that spending reform rather be implemented (SAICA)
  - Some commentators who were critical of VAT are also critical of fuel and no PIT bracket adjustments, and suggest that revenue collection efficiencies be pursued instead (COSATU, EFF)
    - Some commentators indicate that collection efficiencies should not infringe on taxpayer rights, protected by the OTO (SAICA)
    - Some commentators want to target specific areas like illicit financial flows (AIDC), or loopholes (COSATU)
  - Some commentators eschew indirect taxes (VAT, excise or fuel levy) in favour of direct taxes (PBO, BJC, IEJ and AIDC)
  - Some commentators prefer no increases, but broad tax bases are safest option for necessary revenue raising currently (PEP)

Responses to general comments on revenue package

Summary of comment	Responses
Removing fuel levy relief perceived as regressive in impact, and akin to / instead of VAT increase (though a smaller revenue impact)	• Need to look at the tax system and the budget as whole, not necessarily on a single instrument – budget overall is progressive and the bulk of the tax increases in this budget are on personal income taxpayers • Fuel levy has not been increased for 3 budgets – need to adjust for inflation to keep the effective tax rate appropriate given the objectives of the instrument • Not sustainable to draw down on GFECRA reserves to fund permanent expenditure increases – stock vs flow challenges
Alternative revenue proposals, including top PIT rates, partial adjustments to brackets, removing retirement deductions, scrapping ETI, CIT rate increase, wealth taxes	• These were also raised in previous comments and were responded to in the previous presentations made to the Committees but the responses are repeated in the slides and the annexures that follow. • These proposals will, however, be considered as part of the options to potentially raise R20 billion in the 2026 Budget.
Tax consultative process feedback	• We thank commentators for their inputs on multiple budgets this year - which did indeed alter tax policy proposals. • Note comments, to be addressed with MTBPS announcements for future budget discussions.

Why is there an adjustment in the general fuel levy?

- Specific taxes (e.g. cents/litre) should be adjusted every year for inflation to keep tax rate consistent
  - Extraordinary relief over last 3 years were due to external circumstances amounting to relief of R11.5 billion
  - Relief that was proposed earlier in 2025 was to shield impact of the VAT rate increases
- As these inflation-related adjustments for main revenue instruments are assumed in the baseline revenue outlook, no additional revenue will be raised from the fuel levy adjustment
  - Relative to March budget: positive revenue impact due to removal of relief (i.e. negative revenue number in March Table 4.3 is now zero in May Table 7)
- The May 2025 Budget already includes R18 billion in tax revenue increases for 2025/26, of which almost the whole amount is from personal income tax increases. Not adjusting the fuel levy would have reduced revenue by around R3.5 billion in 2025/26, which would have required a smaller increase in expenditure

Fuel levy – adjustment considerations

- The fuel levy is the fourth largest revenue instrument in South Africa, contributing about 5% to total tax revenue
- **Fuels are zero-rated for VAT purposes in South Africa,** resulting in a lower overall tax burden compared to some countries that apply VAT on fuels
- Compared to 2022/23, the average diesel wholesale prices have declined, while petrol prices remained stable with no significant changes in 2024/25
- Once fuel prices have been increased, it has been observed that fuel prices tend to be sticky downwards i.e. despite fuel price decreases, the benefits are rarely passed on to the final consumer as business will pocket the difference e.g. prices of goods and taxi fares rarely decrease
- In the short to medium term, people and companies would try to use less fuel by implementing more efficient driving, which would reduce accidents, local air and GHG pollution, noise, traffic congestion and environmental harm
- In the medium to long term, incentives are created for consumers to buy more fuel-efficient cars to reduce fuel costs and promotes the development of alternative energy vehicles, such as electric or hydrogen powered cars

Legislative Oversight

- While section 48 of the Customs and Excise Act No. 91 of 1964 allows the Minister to implement interim fuel levy adjustments via *Gazette* notice, these changes must be reviewed and, if accepted, formalised in the Taxation Laws Amendment Act.
- Parliament may decide to intervene to cut short the period for which the fuel levy adjustments applies or decide that it does not lapse as provided for in terms of section 48(6) of the Customs and Excise Act.
- This process ensures constitutional oversight and maintains the principle of parliamentary control over fiscal policies.

Excise tax proposals contained in the May 2025 Budget

We acknowledge comments by SAB, SA Wine, Heineken regarding above inflation adjustments & Illicit trade:

- The excise duty rate proposed for alcohol in the March Budget (i.e. 6.75%) has not changed,
- From a policy perspective, it is important that excise duty rates are adjusted for inflation annually, **as a minimum,** to preserve the real or effective rates of excise duties – failure to do so, compromises the instrument's revenue raising and behavioural change objectives
- Indeed, the baseline assumption in the fiscal framework is that excise duties will be adjusted by the expected inflation rate each year; what is then reflected as additional revenue is based on the **real** adjustment, which depends on the CPI outlook
- Above-inflation increases are necessary to generate additional revenue and discourage consumption of these products that are harmful to human health over time
- SARS has been provided with additional resources to enhance its capacity to address tax compliance, and this includes dealing with illicit trade; and additional revenue is expected from this resource intervention
- An alcohol tax review process is underway and some of the issues raised will be addressed through that process

Comments on the removal of VAT zero rating

We acknowledge comments by PASA, CloverSA, Consumer Goods Council of South Africa (CGCSA) :

- The extension of the VAT zero-rated basket in the 2025 Budget has always been in the context of mitigating the impacts of the then proposed VAT rate increases on low-income households:

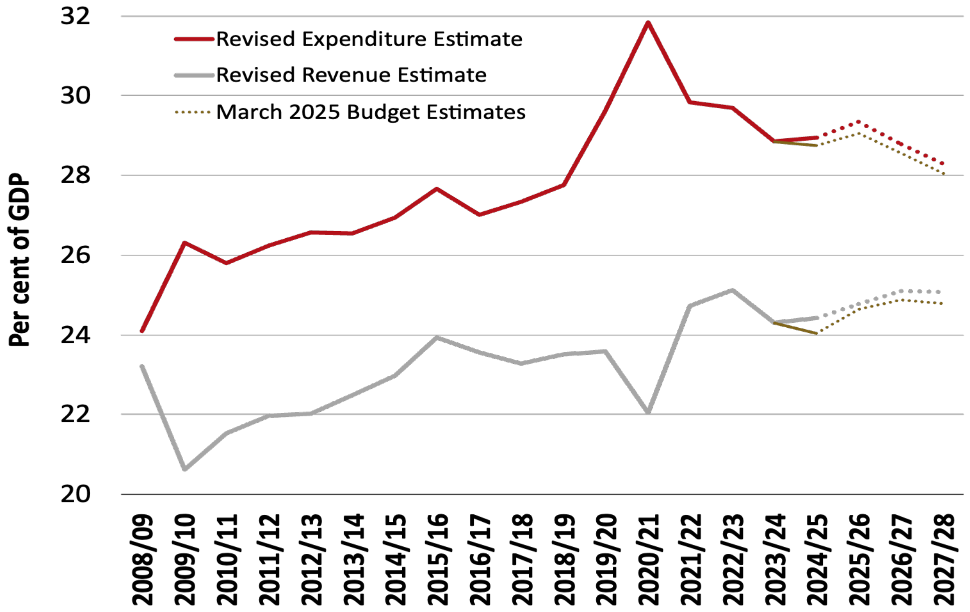
  ‘Government proposes to extend the list of zero-rated basic foods to mitigate the effect of the VAT rate increases” – Chapter 4, March 2025 Budget Review

- This decision to propose the zero-rating considered the risk of tax base erosion, and the distributional impact of the items identified
- However, zero rating is a blunt tool to assist lower-income households (compared to targeted expenditure), because there is no guarantee that there will be a reduction in prices and it is also a subsidy to all consumers
- The items that were identified was based on what the poor consume (some also included in the Pietermaritzburg Economic Justice & Dignity Group [PMBEJD] monitoring list)
- The question on zero rating bone-in chicken is not straight forward - one only has to look at the Red Meat Association response on as published in their Press Release on 8 August 2024 (All meats will have to be zero rated, otherwise will cause distortions in the market)
- Evaluation of zero rating also include the costs to the fiscus (against the ‘potential’ benefits to the poor), and PASA estimates that VAT revenue that the fiscus may forego is approximately **R4.9 billion,** in this current constrained fiscal environment

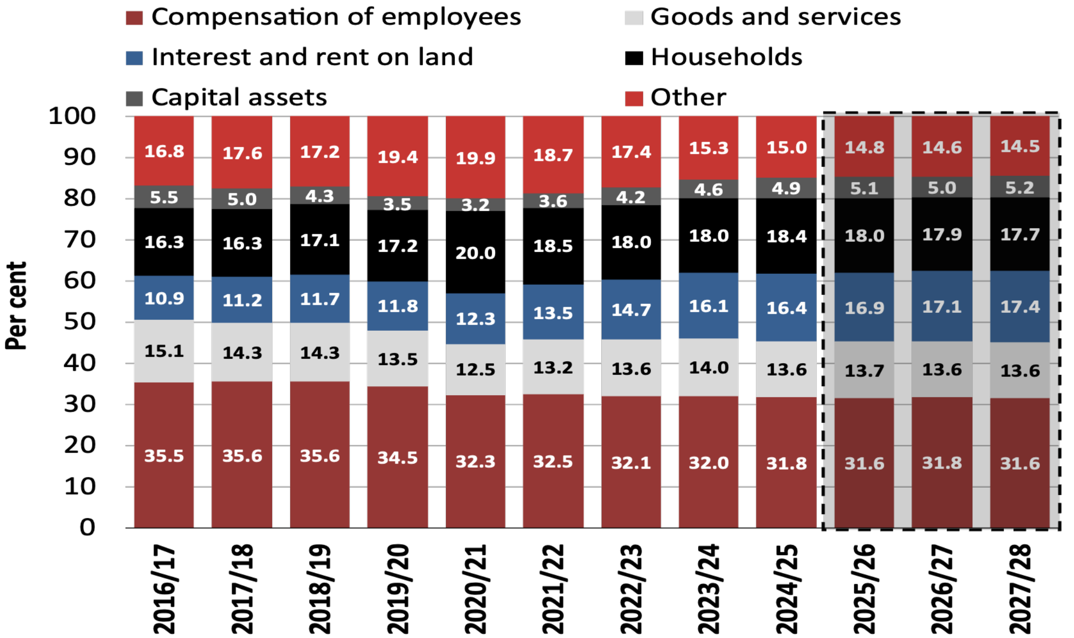
Fiscal policy and fiscal framework proposals

Persistent budget deficits are the main driver of high debt levels

Main budget revenue and expenditure



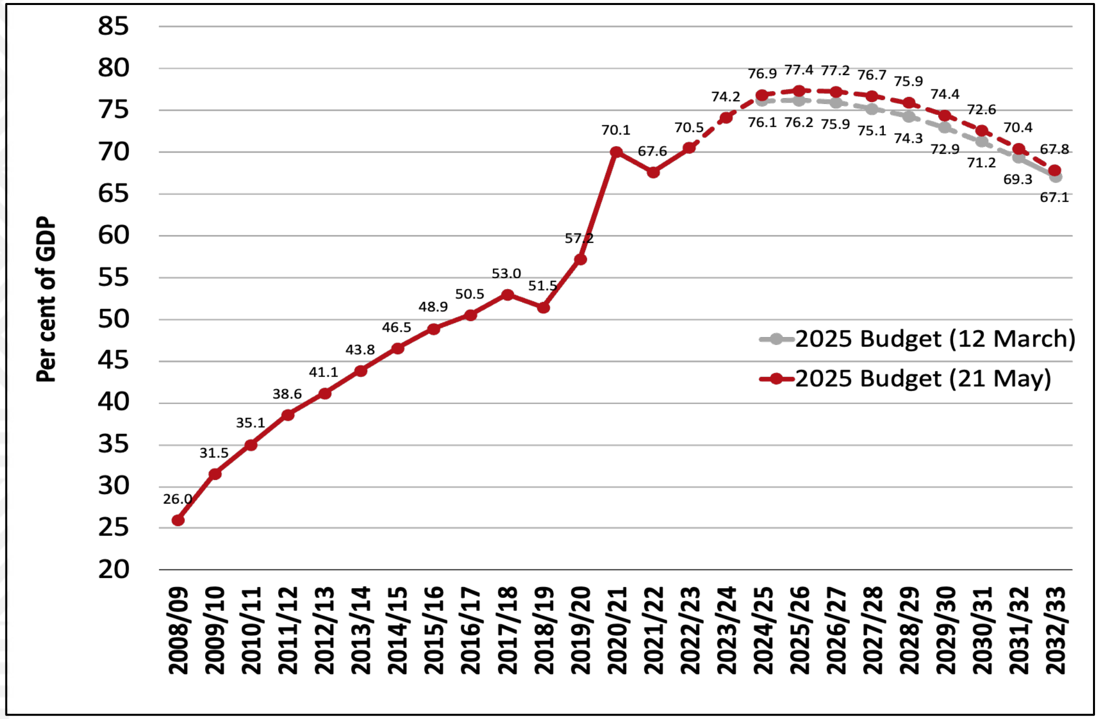
Composition of consolidated government spending



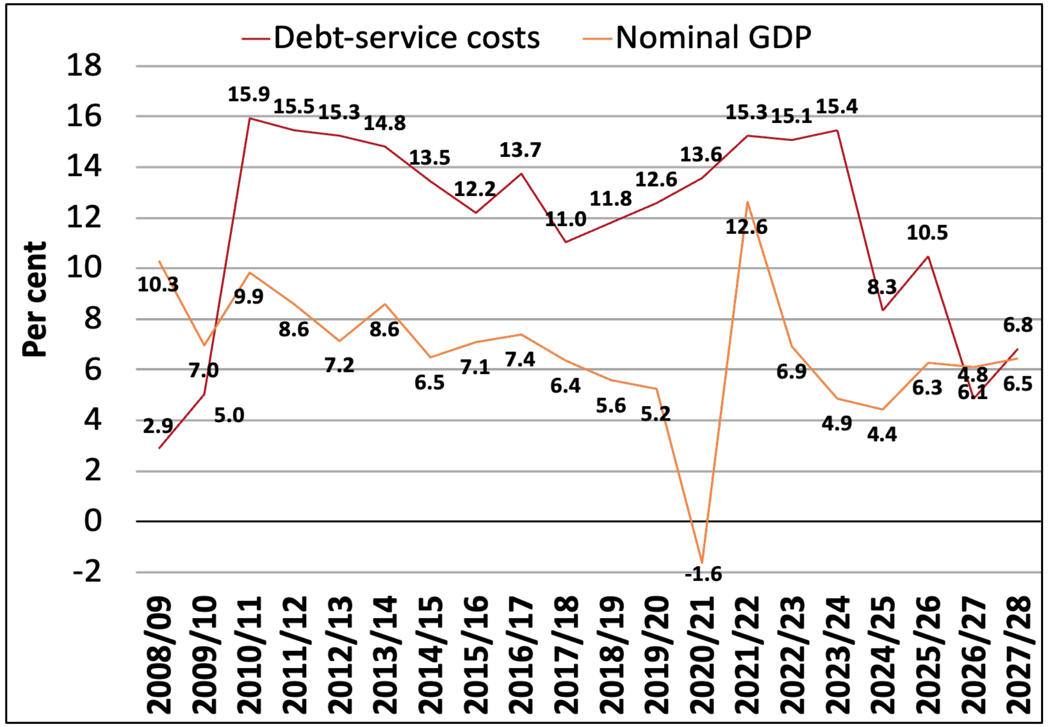
- Spending is structurally higher than revenue resulting in persistent budget deficits which are financed by borrowing and adding to rising debt levels.
- Over the last several years, the public finances responded to a number of anticipated risks – such as the near-collapse of Eskom – and unanticipated shocks such as the global financial crisis and the COVID-19 pandemic.
- Nevertheless, over the MTEF period, 61 per cent of consolidated non-interest spending will go to the social wage (health, education social grants etc.) and revenue is raised through a progressive and relatively elevated tax burden.
- This helps to address issues of high poverty and inequality levels.

Debt has risen and debt-servicing costs have grown faster than nominal GDP

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 the economy cannot sustain the level of debt
- Govt debt levels rose from R627 billion in 2008/09 to R5.3 trillion in 2023/24 and projected to reach R6.8 trillion in 2027/28
- In this regard, South Africa's debt trajectory remains unsustainable until government achieves and maintains a debt-stabilising primary fiscal surplus in 2025/26
- Growing main budget primary surplus underpin government's debt stabilisation objective.
- Government will stabilise debt-service costs in 2025/26 at 21.9 per cent of revenue, declining thereafter.

Government's fiscal strategy remains on track to deliver a debt-stabilising primary budget surplus by 2025/26

Strengthen fiscal sustainability and accountability

- Government remains committed to the balanced fiscal strategy. The consolidated budget deficit is expected to narrow to 3.4 per cent of GDP by 2027/28.
- A primary budget surplus of 0.8 per cent of GDP is expected this year. This means revenue is higher than non-interest expenditure, enabling debt to stabilise in 2025/26.
- The government is consulting on potential longer-term fiscal anchors, focusing on procedural reforms for transparency and accountability.

Implement well-considered tax policy measures and other revenue revisions

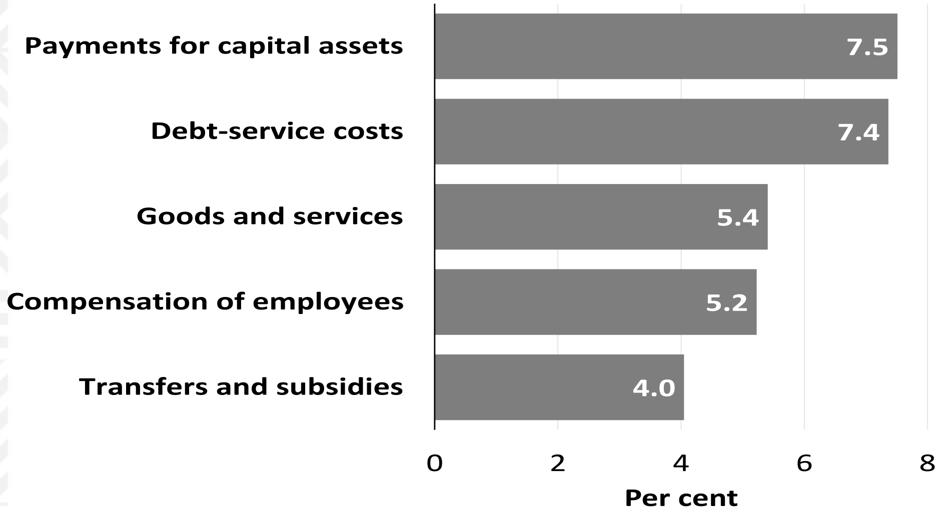
- Government proposes R18 billion in additional tax revenue measures in 2025/26 and R20 billion will be proposed in the 2026 Budget.
- Relative to 2024 MTBPS estimates:
  - Non-tax revenue is adjusted lower by R4.9 billion in the outer two years of the MTEF period mainly due to lower mineral and petroleum royalties projections.
  - Payments to the Southern African Customs Union have been revised up by R2.7 billion in 2026/27 and R2.3 billion in 2027/28
- R4 billion revenue expected from the sale of strategic oil reserves will flow to the National Revenue Fund in 2025/26

Support pro-growth infrastructure and social spending allocations

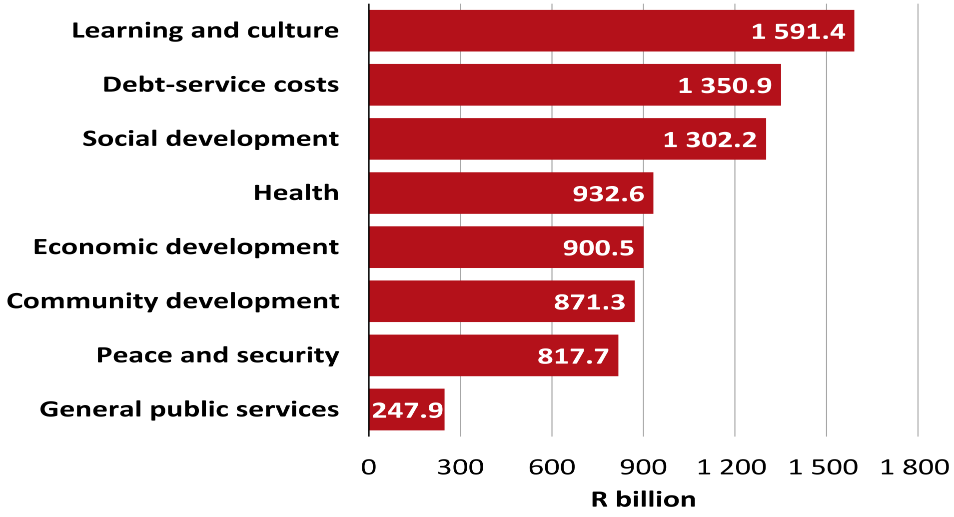
- R33.7 billion added to infrastructure plans over the medium term
- 61 per cent of consolidated non-interest spending will support low-income and vulnerable households over the medium-term expenditure framework (MTEF) period.
- Government is undertaking reforms to improve the efficiency of infrastructure financing and build the pipeline of blended finance projects.
- The government is reactivating early retirement without penalties

Government is prioritising spending on capital assets and critical public services

Average spending growth over the MTEF period by economic classification, 2025/26 – 2027/28



Total consolidated government expenditure, 2025/26 – 2027/28



- Learning and culture receives 23.8 per cent (R1.59 trillion) of the total budget for functions, while the general public services function receives the smallest share at 3.7 per cent (R247.9 billion).
- Payments for capital assets are the fastest-growing item by economic classification, mainly because of infrastructure allocations for transport and water projects.
- Revisions to the March 2025 Budget Review projections reduce anticipated revenue and spending, but departments largely retain their baselines and critical service delivery areas are protected.

Provisional allocations not appropriated in the 2025 Budget

Table 5.3 Provisional allocations not appropriated

R million	2025/26	2026/27	2027/28	MTEF total
Provisional allocations from 2024 Budget				
SASSA free ATM withdrawal	5	183	191	379
BFI - Tygerberg Hospital	212	–	–	212
BFI - Klipfontein Hospital	60	–	–	60
SRD grant	**–**	**36 756**	**38 411**	**75 167**
Provisional allocations not appropriated to votes				
Early retirement costs	**2 200**	**3 300**	**–**	**5 500**
Infrastructure investment				
Infrastructure Fund	–	–	425	425
Passenger Rail Agency of South Africa	1 923	4 610	5 784	12 316
Turnaround of services in metros	2 067	2 031	2 333	6 431
Provisional allocations for frontline services				
Education	5 070	6 466	8 012	19 548
Health	6 706	6 922	7 145	20 773
Home Affairs	470	495	–	965
Total	**18 712**	**60 763**	**62 300**	**141 774**

Source: National Treasury

The 2025 Budget makes provisional allocations for frontline services of R41.3 billion over the MTEF period, of which R12.2 billion is allocated for 2025/26. **There are two ways of drawing-down of provisional allocations in 2025/26**

1. During the adjustments budget (MTBPS)
2. According to Section 6 of the Appropriation Bill

- Provisional allocations are funds that are set aside for a specific purpose and are ***only made available to departments, provinces and local government when they demonstrate readiness to implement.***
- Provisional allocations for frontline services include:
  - R20.8 billion for compensation and essential services in health – to facilitate the employment of 800 doctors post in-service, and about 4 700 health posts and address shortages in medical goods, services and accruals
  - R19.5 billion for provincial education compensation costs which will safeguard about 5 500 post and for improved access to quality ECD
- R5.5 billion for the early retirement costs targeting about 15 000 public service employees in 2025/26 and 2026/27.

Public-sector infrastructure investment and reforms are a pillar of the economic strategy to promote a growing economy

- Government has allocated R1.1 trillion to key infrastructure sectors such as energy, transport, and water—these sectors are critical for economic growth.
- Government has come up with a focused strategy to improve infrastructure delivery and maximise the long-term economic impact .
- Several reforms to improve public investment management and the broader infrastructure value chain are currently underway. Strengthening the regulatory framework for public-private partnerships (PPPs), improving the institutional arrangements to deliver strategic infrastructure, enhancing infrastructure monitoring and reporting, and building a strong project pipeline.
- Concrete steps to address inefficiencies in infrastructure management and delivery are being undertaken. These include mobilising non-government resources to improve public sector capacity and skills which are necessary to fast track the provision of infrastructure and improve effectiveness.
  - These include project preparation allocations to the DBSA, GTAC and ISA to assist departments and municipalities in planning and packaging their infrastructure projects.
  - In addition, through the BFI, departments and municipalities are being capacitated through the development of a structured training programme on Infrastructure Planning and Appraisal Guideline.
  - The Infrastructure Delivery Management System is a system used to assist departments with the planning and delivery of infrastructure more efficient and effective.

PPPs are part of a suite of reforms Government is undertaking to accelerate infrastructure investment in South Africa

- To increase private investment in public infrastructure, PPPs are an important instrument to tap into private expertise, innovation and finances especially as government capital budgets become severely constraint due to weak economic growth and competing priorities. Well prepared and bankable projects will attract more private financing into public infrastructure projects.
- Public sector infrastructure spending over the next three years is estimated to be R1.1 trillion of which PPP projects account for approximately 2 percent of the total infrastructure spending.
- Amendments to National Treasury Regulations 16 aimed at fostering greater use of PPPs have been put in place. The reforms will reduce procedural complexity in PPP implementation and provide a regulatory framework for the private sector to engage with investment opportunities while ensuring that the public sector receives a well-maintained public infrastructure assets.

PPPs vs Conventional procurement:

The main benefits to government when using PPPs are:

- The private sector covers the upfront cost for the infrastructure, enabling government to focus on priority areas.
- Routine operations and maintenance are undertaken by the private sector whereas governments would generally under-budget or defer routine maintenance.
- The private sector is obliged to finance and to carry out major refurbishment whereas government's limited budgets delays major refurbishments, leading to asset decay.
- Private sector bears significant risk (construction, operational, financial, technical and environmental), resulting in value for money for government.
- PPP arrangements allow for BEE participation as well as Community-Based Groups especially in tourism related projects.
- The unitary payment is spread over a longer period of time to cover the investment in PPP project, which allows government to prioritise other key investments.

Discussions on social protection have been robust and will be considered by Government

Grants, conditions imposed and reversal of social grant VAT adjustments in 2026 and 2027

- An additional R8.2 billion was previously added to social grants to compensate for the VAT increase. This has now been reduced to R1.6 billion to accommodate only the 2025/26 increases that came into effect on 1 April 2025.
  - The old age and disability grants increased by R120 per month to R2310 in April and will increase by R10 to R2320 in October.
  - The child support grant increased by R30 in April to R560 per month and will remain as such.
  - The foster care grant increased by R70 in April to R1 250 per month and will remain as such.
- Reversal of the above-inflation adjustments to grants compared to the March Budget in the two outer years of the MTEF is in line with lower anticipated revenue.
- Conditions imposed on grants are to allow for electronic cross-checks of large databases and bank means test verifications which are essential to ensure there is no double-dipping and that recipients meet the means test thresholds for grants.

SRD and other social protection discussions

- The SRD grant will be extended for an additional year, until the end of March 2026. Government is currently exploring various options to better integrate the grant with employment opportunities as part of the GTAC review of Active Labour Market Policies (ALMPs).
- Other social protection proposals e.g., BIG remain under policy consideration taking into the difficult trade-offs that arise due to South Africa's low economic growth and stretched public finances which raise the salience of affordability.

Government takes note of stakeholders' feedback on spending reviews and will consider them in Cabinet

- Many of the 'low-hanging fruits' from the spending reviews have already been implemented.
- Further implementation of the remaining recommendations will require institutional and legislative reforms, which fall outside the direct control of the National Treasury.
- 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.
- Building on spending reviews already implemented by Government, Government will going forward identify further underperforming programmes for closure as the 2026 MTEF budget process undergoes redesign. This aims to reduce duplications, wastage and inefficiencies
- The President has also undertaken to establish a committee between the Presidency and National Treasury to identify wasteful, inefficient, and underperforming programmes.
- For more information on previous spending reviews implemented by the Government, please visit the GTAC website: Spending Reviews - PEPA Knowledge Hub.

Debt management strategy and state-owned companies

How Government implement's a prudent Debt Management Strategy

Government publishes a detailed debt management strategy with every National Budget and MTBPS which includes the financing table and the portfolio risk guidelines

Government's debt management strategy balances cost, risk, and liquidity. Government borrowing decisions are guided by three core objectives:

- **Liquidity management:** Ensuring sufficient cash is available to meet obligations as they fall due.
- **Refinancing risk management:** Minimising the risk of large debt redemptions within short timeframes.
- **Cost of borrowing:** Achieving the lowest possible financing costs over the long term, within acceptable risk parameters.

To meet these objectives, and informed by a strategic risk framework, government actively manages the composition of its debt portfolio through a mix of instruments, currencies, and maturities:

- **Diverse funding mix:**
  - 89% domestic debt and 11% foreign currency debt, keeping foreign exposure within the strategic risk benchmark of 15%.
  - External financing sources include multilateral development banks, international financial institutions, and capital markets, which can offer favourable terms and support foreign reserve accumulation.
- **Maturity structure optimisation:**
  - A mix of short- and long-term borrowing is employed to balance cost and refinancing risk.
  - Bond switch programmes are used to exchange shorter-dated instruments for longer maturities, helping smooth the redemption profile and reduce rollover risk.
- **Strategic use of the GFECRA:**
  - Transfers from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA)—R100 billion in 2024/25 and R25 billion in the two outer years—these funds will be used to reduce government's financings needs which will lower debt and debt-service costs.
  - The GFECRA settlement ensures that SARB cannot use its reserves, thereby mitigating liquidity and exchange rate risks.

- **All instruments and funding choices involve trade-offs:** A prudent strategy requires a deep understanding of the **risks and costs** associated with each instrument, to ensure debt remains **sustainable, affordable, and resilient** in the face of economic shocks.

Some suggested sources of funding are inaccessible or infeasible for government to access to finance the borrowing requirement

Tap into Gold and Foreign Exchange Contingency Reserve Account?

- The core principles underlining the GFECRA act are designed to protect the credibility, independence, and stability of SARB and the economy. They guard against currency fluctuations to plug fiscal holes in ways that could backfire if the currency strengthens or external conditions deteriorate. Short term currency gains should not be used to finance long term spending commitments. The settlement arrangement doesn't allow SARB to use currency reserves in this regard.

Take a GEPF Pension contribution holiday?

- Fund rules state that any amount which a member/employer is legally obliged to pay to the Fund shall be recovered from the member's pensionable emoluments/the employer. If the employer does not pay the contributions within seven days after it becomes due, interest shall be paid by the employer to the Fund at the rate prescribed as from such due dates. Therefore, a pension contribution holiday isn't a saving, but rather borrowing from the Fund i.e. contingent liability. The state is the guarantor to the Fund and risks associated with its funding level will affect the fiscal framework in future.

There are many funds like CARA etc. – why not use these funds to finance government debt?

- There are many specialized funds that were designed and legislated for a specific purpose.
- If cabinet decides that these funds should be utilised for funding the gross debt – the acts related to these funds will have to be amended through an act of Parliament

State-owned companies remain distressed due to weak governance, finances and operations

Combined Balance Sheets of State-Owned Entities

R billion/per cent growth	2019/20	2020/21	2021/22[2]	2022/23[2]	2023/24[3]
Total assets	1 313.4	1 251.9	1 283.4	1 314.7	1 348.9
		-4.7%	*2.5%*	*2.4%*	*2.6%*
Total liabilities	960.7	871.7	864.4	892.7	950.2
		-9.3%	*-0.8%*	*3.3%*	*6.4%*
Net asset value	352.7	380.2	419.0	422.0	398.8
	3.1%	*7.8%*	*10.2%*	*0.7%*	*-5.5%*
Return on equity (average)	-9.9%	-13.1%	-2.7%	-7.5%	-15.6%

- SOCs remain distressed due to weak governance, financial pressures and ongoing operational challenges: ***Eskom*** is making progress on its recovery plan, although its finances remain weak and operational performance requires significant improvement; ***Transnet*** is hampered by high debt levels and needs to make faster progress on its recovery plan to improve operations and finances.
- Development finance institutions continue to support economic growth.
- Social security funds remain critical for social protection, with the Unemployment Insurance Fund and Compensation Fund showing financial resilience.
- SOCs and major public entities continue to pose a large risk to the fiscal position.
- 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.
- Government will support critical capital investments through different mechanisms, including credit guarantees, on-lending and grant funding, where appropriate.
- Government reports on a quarterly basis to SCoA on SOC’s adherence to conditions attached to any recapitalisations

Eskom Debt Relief Package

- The Eskom Debt Relief package was developed based on the fiscal position and what Government could afford.
- The combination of equity allocation and the Debt takeover was considered to be sufficient to assist Eskom to improve its financial position.
- This decision was based on the review of Eskom's financial position at the time.
- The decision to reduce the R70 billion debt takeover was taken after considering the execution modalities of a debt takeover which would involve extensive consultations with investors and possible legal ramifications.
- Government and Eskom therefore, agreed to revise the debt Eskom debt relief arrangement from a initial debt takeover of R70 billion to further advances of R40 billion in 2025/26 to redeem debt maturing in April 2026 and R10 billion for debt maturing in May of 2028/29.
- The advance of R40 billion in 2025/26 addresses Eskom short term cash flow position and allows for a reduction in the initial debt takeover of R254 billion.
- It is also important to note that the change reflects the improvement that has been achieved in the utility's financial position flowing from the interventions to date.

Conclusion

- Government welcomes stakeholder inputs and will continue to consider all recommendations in upcoming budget cycles.
- Several stakeholder inputs from previous cycles have found expression in the 2025 Budget documents e.g., the Gender-Budget Statement
- The 2025 Budget reaffirms government's commitment to supporting social wage, economic growth and stabilising debt
- Investing in strategic infrastructure, supporting job creation and maintaining a growth-friendly fiscal policy will underpin government policy over the medium term
- Government continues to pursue budget reform to ensure a deeper and richer political and technical debate about the trade-offs inherent to budgeting

Thank You

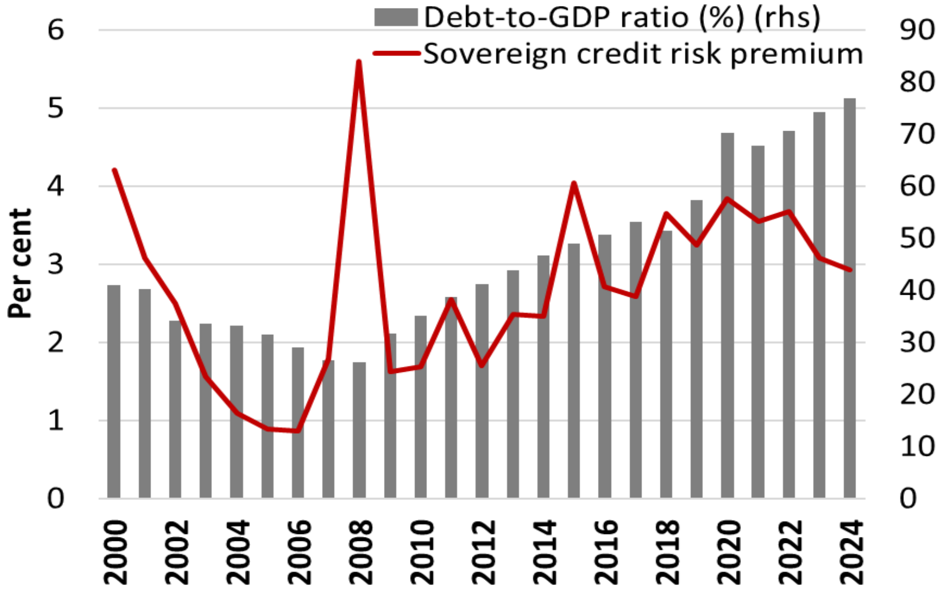
Annex

Translating priorities into economic growth

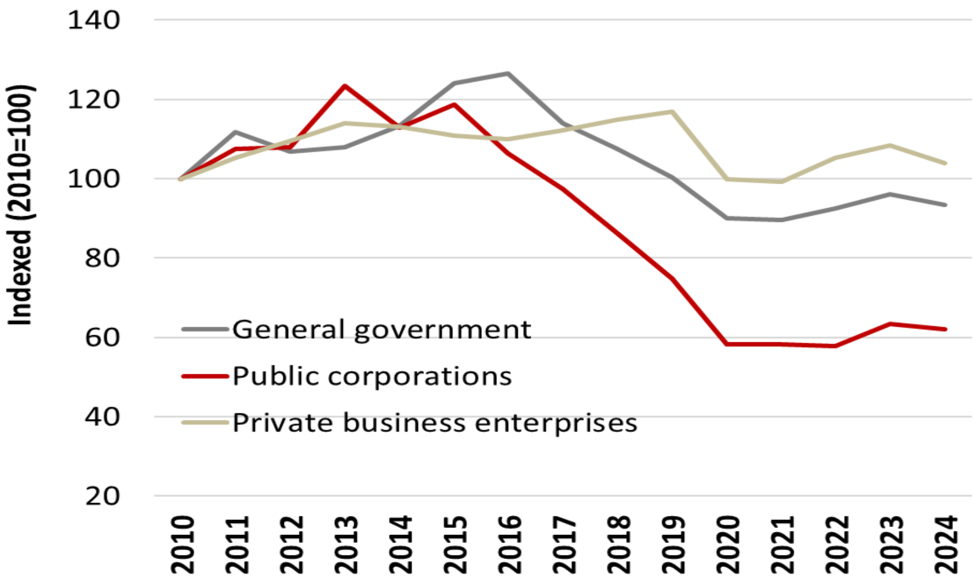
- Poor economic growth has strongly correlated with weak investment, and poor electricity and logistics performance. Low spending multipliers suggest that movements in spending do not materially affect growth.
- Long-term growth is highly dependent on improving capacity in energy, freight rail and ports, and on continuing to reduce structural barriers to economic activity.
- 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.
- Implementation of structural reforms improve confidence in the short term and drives investment over the medium term, increasing jobs and enhancing welfare.
- A capable state enhances accountability and service delivery.
- Infrastructure investment supports industrial growth, promotes innovation and attracts foreign investment. Improved infrastructure improves productivity placing the economy on a higher growth trajectory.

Investment is critical for growth and high debt levels have led to higher borrowing costs contributing to weak private investment

Sovereign debt and credit risk premium



Investment by sector



- Rising debt levels has raised sovereign credit risk premium resulting in higher long-term borrowing costs constraining investment growth and economic activity.
- Since 2022, fiscal consolidation, along with structural reforms have reduce borrowing costs and improved confidence and encouraged investment.
- Reforms to enhance investment: improve project preparation on large projects, reduce red-tape, crowd in private-sector finance and expertise; and scaling of PPPs

Source: National Treasury, Bloomberg, StatsSA

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.

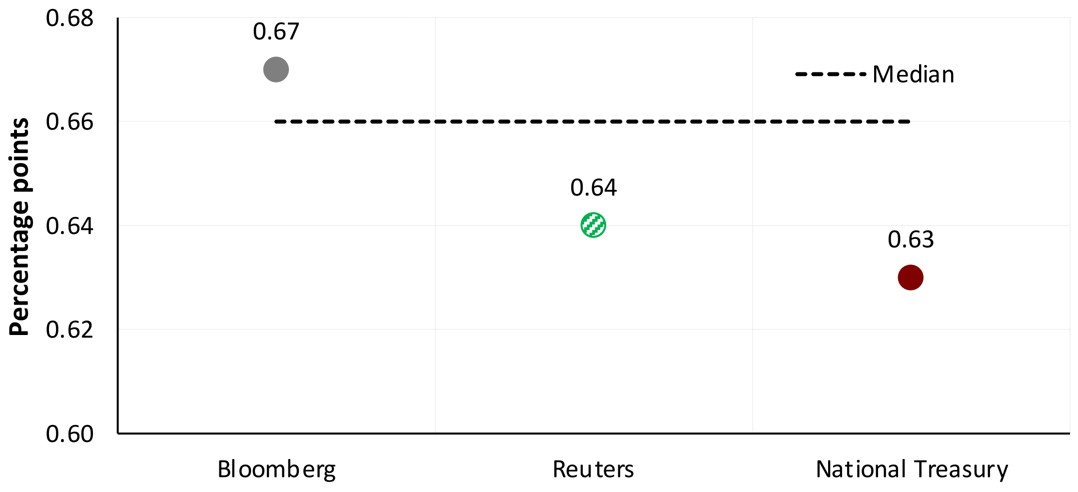
national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Government's forecasts compared to other institutions remain credible

Comparison of GDP growth forecast

GDP (Per cent)				
Institution	Last update	2025	2026	2027
National Treasury	**1Q2025**	**1.4**	**1.6**	**1.8**
IMF	Apr-25	1.0	1.3	1.6
SARB	Mar-25	1.7	1.8	2.0
BER	Apr-25	1.5	1.8	1.7
Bloomberg*	Apr-25	1.5	1.8	1.8
Average (excl NT)		**1.5**	**1.7**	**1.8**

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



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

- The latest Budget 2025 projections shows that Government's GDP forecasts over the MTEF period are broadly in line with consensus.
- Between 2011 and 2024, Government has delivered in-year GDP forecasts that are, on average, more accurate than consensus and consistent with comparator performance.
- We acknowledge, no forecast can be perfectly precise, and continued efforts to reduce residual errors remain an important guiding principle underpinning our work.

Government proposes budget reforms to improve the quality of spending and root out waste for the 2026 Budget Process

Embed the sustainability of the public finances	Strengthen the medium-term budget process	Improve the efficiency of public sector spending
• Maintain a growing primary surplus to reduce debt as a debt as a proportion of GDP from 2025/26. • Consult widely on the fiscal-anchors discussion paper to develop appropriate long-term fiscal rules for South Africa • Strengthen fiscal transparency with improved fiscal-risk analysis, economic forecasting and oversight of off-budget entities to reinforce credibility.	• Conclude the full review of the 2026 Medium-term Expenditure Framework • Roll out reforms from the budget process review study in the 2026 Budget process review. • Strengthen the consultation channels in the context of Government of National Unity framework including empowering Cabinet to grapple with complexity of trade-offs and macro-fiscal stability • Empower Government-wide technical committees to be responsive to the GNU priorities. • Upgrade data, IT and capital-budget systems to embed evidence-based decision across government.	• Apply the emerging insights from spending reviews to identify around R30 billion in potential savings from low-impact programmes • Implement the early-retirement initiative to moderate the wage bill and rejuvenate the public sector system • Identify and remove ghost workers and tighten procurement rules • Align the consolidated government social protection system and public-employment schemes with job-creation goals through the Active Labour Market review process.

Public Service Wage Bill and other related matters

Early Retirement Programme without Penalties

- Currently government is in discussion with labour in the PSCBC with regards to Early Retirement Programme without Penalties. The benefits are aimed at those employees aged 55 to 59 and will involve additional financial incentives and the wavering of pension penalties, as part of efforts to attract older employees to retire.
- The Early Retirement Programme will not be an automatic approval process as the executive authority will still need to ensure that the relevant departmental mandates are not adversely affected as a result of this initiative.
- Government has provisionally allocated R5.5 billion to deal with the pension penalties and additional financial incentives.

Additional funding for frontline services

- Government has prioritised frontline services by allocating additional funding to address growing pressures and capacity constraints in critical service delivery areas.
- Additional funding amounting to about R65.8 billion and R87.8 billion was allocated to sectors in education, health and the security cluster to deal with compensation pressures in the 2022 and 2023 MTEF periods respectively.
- Over the 2025 MTEF, education and health have been allocated R10.9 billion and R9.5 billion respectively to somewhat alleviate growing pressures and capacity constraints in these sectors. These are over and above the wage increase funding (2025 Wage Agreement) amount to about R23.4 billion over the 2025 MTEF.

Ghost employee verification process

- Government has begun a process to identify ghost workers and other payroll irregularities. Previous initiatives to uncover ghost workers relied on an inefficient census methodology. The new data-driven approach will integrate multiple administrative datasets, more easily detecting anomalies across national and provincial departments.
- The process is still in the initial phase, however further updates will be provided for by the 2025 MTBPS

Additional funding for frontline workers since the 2022 MTEF

Table. Compensation of employees additional funding to deal with wages and capacitation challenges

R thousand	2022/23	2023/24	2024/25	2025/26	2026/27	2026/28	Total over MTEF
	Additional funding allocated						
2022 MTEF	**36 488**	**13 642**	**15 624**	-	-	-	**65 755**
Cost-of-living adjustments	20 512	-	-	-	-	-	20 512
Additional funding for capacitation and wage spending pressures	15 976	13 642	15 625	-	-	-	45 243
Education	8 987	7 615	7 957	-	-	-	24 559
Health	5 500	3 558	4 178	-	-	-	13 236
Social security cluster	1 489	2 470	3 489	-	-	-	7 448
2023 MTEF	-	**26 615**	**29 292**	**31 850**	-	-	**87 756**
Cost-of-living adjustment	-	14 973	15 198	15 426	-	-	45 597
Additional funding for capacitation and wage spending pressures	-	11 642	14 094	16 424	-	-	42 159
Additional 5000 police trainees per annum	-	14 490	2 792	3 949	-	-	21 230
Education	-	5 700	6 650	7 600	-	-	19 950
Health	-	4 452	4 652	4 875	-	-	13 979
2024 MTEF	-	**23 558**	**46 499**	**48 472**	**50 496**	-	**145 466**
Cost-of-living adjustment	-	23 558	46 499	48 472	50 496	-	145 466
2025 MTEF	-	-	-	**13 767**	**14 645**	**15 381**	**43 792**
Additional funding for wages and wage spending pressures	-	-	-	13 767	14 645	15 381	43 792
2025 Wage Agreement additional costs	-	-	-	7 317	7 842	8 211	23 371
Education	-	-	-	3 044	3 180	3 324	9 548
Health				3 406	3 622	3 845	10 873
Health compensation costs				*2 606*	*2 722*	*2 845*	*8 173*
Employment of doctors				*800*	*900*	*1 000*	*2 700*
Total additional funding allocated	**36 488**	**63 815**	**91 415**	**94 088**	**65 141**	**15 381**	**342 770**

Division of nationally raised revenue (1of 3)

Division of revenue

R billion	2024/25 Preliminary outcome	2025/26 Medium-term estimates	2026/27	2027/28
National allocations	860.0	916.1	906.2	940.1
Provincial allocations	730.6	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	–	18.7	60.8	62.3
Total allocations	**1 758.3**	**1 879.4**	**1 950.5**	**2 027.0**
Percentage shares				
National	*48.9%*	*49.2%*	*48.0%*	*47.8%*
Provincial	*41.6%*	*41.3%*	*42.3%*	*42.4%*
Local government	*9.5%*	*9.5%*	*9.8%*	*9.7%*

Source: National Treasury

Over the 2025 MTEF period, excluding payments for servicing debt, the contingency reserve and provisional allocations:

- 48.3 per cent of nationally raised revenues are allocated to national government,
- 42 per cent to provinces and
- 9.7 per cent to local government.

Subnational governments need to implement structural reforms to improve spending efficiency, enhance revenue management and enforce accountability.

Conditional grant reforms focus on streamlining, enhancing flexibility and aligning resources with service delivery priorities.

Division of nationally raised revenue (2 of 3)

Provincial Government – Health, Education, and Public Services

1. Sustained Investment in Health and Education

There is broad support for increased funding in health and education to address ongoing service pressures. The 2025 MTEF allocates R19.5 billion to education (for teacher retention and hiring) and R20.8 billion to health (for employing doctors and essential services). Government is committed to improving spending efficiency, accountability, and outcomes through ongoing reforms and collaboration.

Local Government – Municipal Stability, Revenue, and Capacity

2. Strengthening Municipal Governance and Revenue

Urgent interventions are underway to stabilise dysfunctional municipalities, including capacity building, financial recovery services, and the rollout of tools like the Revenue Assessment Tool to optimise revenue collection and manage municipal debt. Government is reviewing the Local Government Fiscal Framework and supporting the District Development Model (DDM) to improve planning and service delivery, with ongoing training and institutional reforms.

3. Accountability, Capacity Building, and Public Employment

Efforts to turn around underperforming rural municipalities include over R3 billion for capacity building, improved budgeting, early warning systems, and enhanced accountability. Municipalities are expected to take primary responsibility for their performance.

Division of nationally raised revenue (2 of 3)

4. Scaling up public employment programmes at a provincial level

Stakeholders call for scaling up public employment programmes and a major fiscal stimulus to boost jobs and infrastructure.

The 2025 budget integrates public employment funding into conditional grants, with R4.2 billion allocated for employment programmes and additional funds for teacher assistants and unemployed doctors. Infrastructure investment remains a priority, with R186 billion for municipal and R140 billion for provincial infrastructure grants over the MTEF. While proposals for a R500 billion stimulus are noted, current allocations already target job creation and infrastructure, and any further stimulus must consider fiscal constraints.

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 R142.4 billion available in the available pool of funds, calculated in line with the agreement guidance).
- These payments are projected to rise further, reaching R88.7 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.

Government proposes a R74.4 billion revision of non-interest expenditure over the medium term

Changes to main budget non-interest expenditure over MTEF period

R million	2025/26	2026/27	2027/28	MTEF total
Non-interest expenditure (2024 Budget)	**1 840 913**	**1 932 982**	**2 030 266**	**5 804 161**
Additions to baselines and provisional allocations[1]	87 337	49 334	43 458	180 129
Infrastructure projects [1]	*7 950*	*13 920*	*11 863*	*33 732*
2025 public-service wage agreement and carry-through costs	*7 317*	*7 842*	*8 211*	*23 371*
Early retirement costs	*2 200*	*3 300*	*–*	*5 500*
COVID-19 social relief of distress grant	*35 169*	*–*	*–*	*35 169*
Social grants above-inflation increases	*1 594*	*–*	*–*	*1 594*
SARS baseline allocations	*2 000*	*1 000*	*1 000*	*4 000*
Provisional allocations for frontline services	*12 245*	*13 883*	*15 157*	*41 286*
Other spending additions [1]	*18 862*	*9 388*	*7 227*	*35 476*
Reductions to provisional allocations[2]	-40 817	-16 514	-24 491	-81 822
Changes in contingency reserve	-2 600	-9 000	-9 708	-21 307
Technical adjustments[3]	-448	-784	-1 412	-2 645
Revised non-interest expenditure (2025 Budget)	**1 884 384**	**1 956 019**	**2 038 112**	**5 878 515**
Change in non-interest expenditure from 2024 Budget	43 472	23 036	7 846	74 354

1. Details are in Overview Table 14

2. Includes drawdown of provisional allocations for COVID-19 social relief of distress grant in 2025/26 and public employment programmes over the 2025 MTEF period, Western Cape Rapid Schools Build Programme in 2025/26 and 2026/27 and Infrastructure Fund in 2026/27 and 2027/28

3. Includes revisions to skills development levy projections and savings from closure of Department of Public Enterprises

Source: National Treasury; data extracted from the updated tables of 2025 Budget Review, Table 3.4 and 5.2

Proposed changes to main budget NIE

- The 2025 Budget funds spending pressures of R180.1 billion over the MTEF period.
- These spending additions are partially offset by drawdowns on provisional allocations and contingency reserves, resulting in a net increase in non-interest expenditure of R74.4 billion.

Tax proposals raising R18 billion in 2025/26; Measures to raise an additional R20 billion in 2026/27 to be proposed in the 2026 Budget

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)	**1 967 603**	**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**	**396**
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**

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; data extracted from the updated tables of 2025 Budget Review, Table 4.3

May 2025 *Budget Overview* tax proposals

- VAT rate increases and zero-rating proposals in the March 2025 *Budget Review* have been withdrawn
- May 2025 *Budget Overview* proposes tax measures to raise R18 billion in 2025/26 and provide R1 billion tax relief in 2026/27:
  - No adjustment to personal income tax brackets and rebates
  - Inflationary increase in general fuel levy
  - Above-inflation increases in excise duties on alcohol and tobacco products
  - Diesel refund relief for primary sectors
- The 2026 Budget will propose tax measures to raise an additional R20 billion in revenue in 2026/27
  - Measures to be reconsidered if SARS is able to raise additional revenue through more efficient tax administration and higher tax compliance
  - SARS will receive additional resources to increase its revenue from debt collection by R20 to R50 billon per year
  - Monthly cash collected from debt to be monitored; verified revenue gains by SARS to be factored into revenue estimates (not currently included), and 2026 Budget tax measures reconsidered.

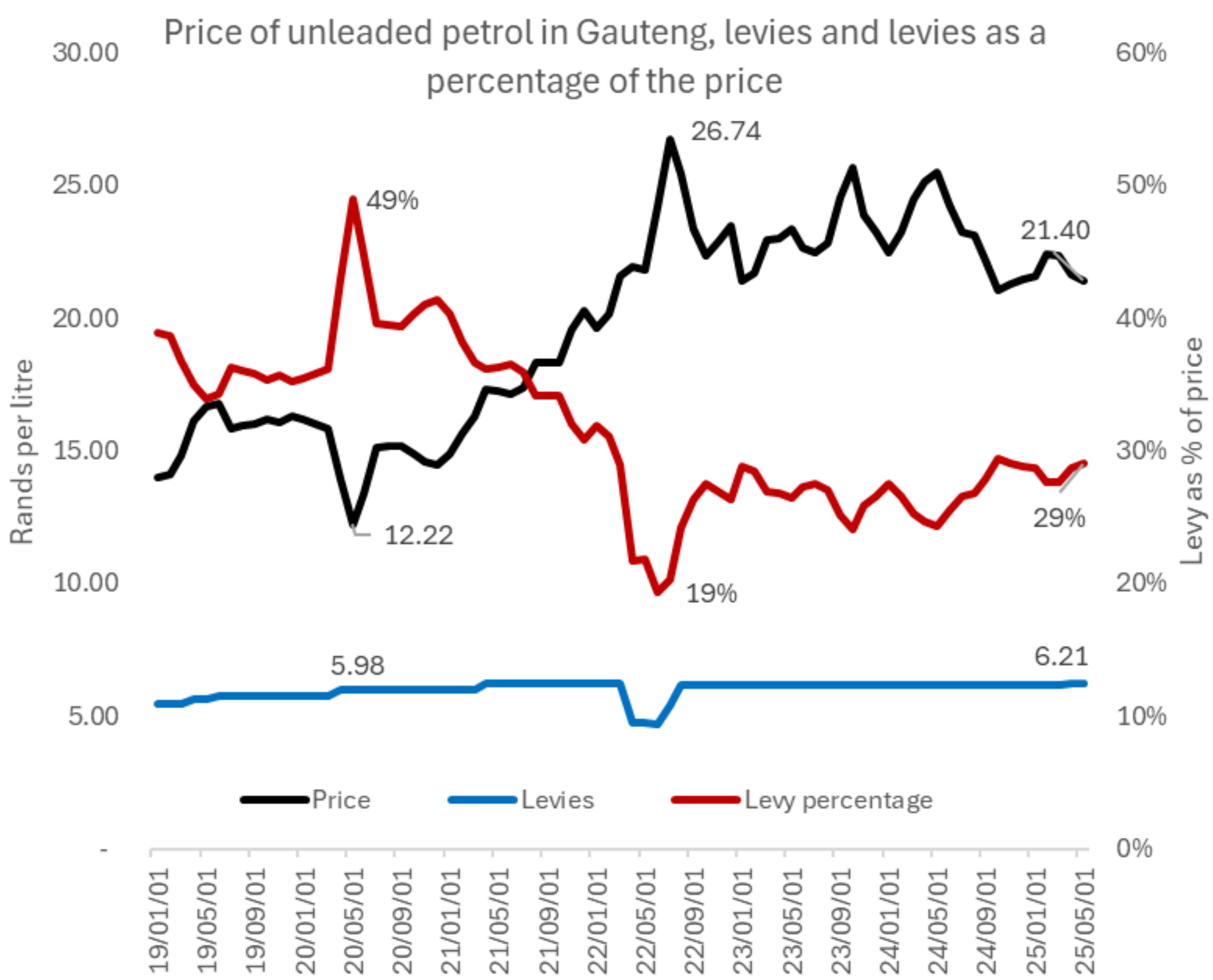
Fuel taxes - objectives

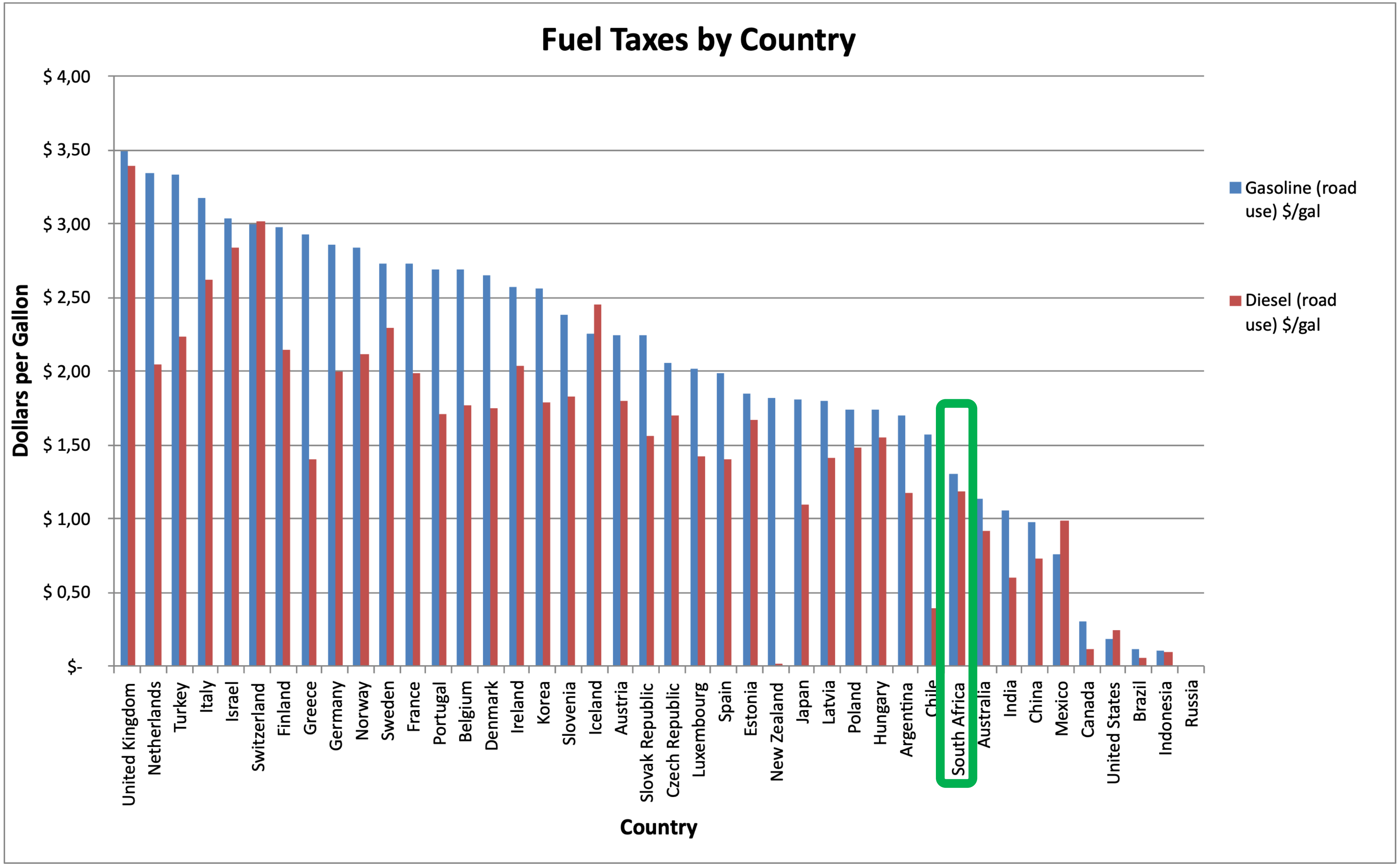
- Government applies a range of fuel taxes aimed at raising revenue to fund government spending, support the Road Accident Fund (RAF) and promote environment and climate change goals by correcting fuel prices to reflect the negative environmental externalities of fuel supply and use
- The **objective of the fuel levy is to raise revenue to fund government's general expenditure programmes** and advance progressivity of the fiscal system through targeted expenditures, including the construction and maintenance of roads and support for public transport. Revenue is also shared with metropolitan municipalities.
- The **fuel levy also seeks to internalise the negative externality costs** of climate change, local air pollution, congestion and other environmental externalities to ensure that these costs are more fully reflected in fuel prices. This **aims to promote behaviour change of both producers and consumers** towards cleaner, low carbon fuels, encourage demand for fuel efficient hybrid and zero carbon vehicles, and modal shifts for passenger and freight transport including shift from road to rail transport.
- The total taxes as a proportion of the price of diesel does not take into account **tax relief provided through the diesel refund scheme for key primary sectors** such as agriculture, and mining for both the general fuel levy and the RAF levy. This was introduced to preserve the international competitiveness of primary sectors through fuel levy relief and to ensure an equitable RAF levy regime for road use for qualifying sectors. **The effective fuel taxes as a percentage of diesel prices is therefore much lower.**

Fuel levy – no adjustment since 2022

- Due to geopolitical tensions and crude oil price volatility, fuel prices increased dramatically in 2022/23
- To address concerns of higher inflation and negative impacts on economic growth due to the fuel price increases, government implemented short-term fuel levy relief measures in 2022, and no changes were made to the general fuel levy over the past 3 years
- This resulted in tax relief of about R11.5 billion to consumers
- The temporary fuel levy relief in 2022 cost the fiscus around R6 billion, with around R4 billion still outstanding due to delays in the sale of strategic crude oil stocks by the Strategic Fuel Fund

Levies have been flat since 2021 and are generally lower as a percentage of the price after prices increased





Fuel Taxes by Country
Dollars per Gallon
$ 4,00
$ 3,50
$ 3,00
$ 2,50
$ 2,00
$ 1,50
$ 1,00
$ 0,50
$-
United Kingdom
Netherlands
Turkey
Italy
Israel
Switzerland
Finland
Greece
Germany
Norway
Sweden
France
Portugal
Belgium
Denmark
Ireland
Korea
Slovenia
Iceland
Austria
Slovak Republic
Czech Republic
Luxembourg
Spain
Estonia
New Zealand
Japan
Latvia
Poland
Hungary
Argentina
Chile
South Africa
Australia
India
China
Mexico
Canada
United States
Brazil
Indonesia
Russia
Country
Gasoline (road use) $/gal
Diesel (road use) $/gal

International comparison of taxes on fuel – additional VAT or GST applies in many countries

- In China, the Refined Oil Excise Tax is applied on fuels including petrol and diesel. The excise tax is implemented together with a VAT on fuels at 20 per cent.
- A VAT is also applied to fuels in Indonesia at a rate of 10 per cent. This is in addition to an ad-valorem rate for the sale of motor fuels, which is capped at 5 per cent of fuel prices.
- Similarly, Singapore imposes excise duties as well as a Goods and Services Tax (GST) on fuels. The standard GST rate is 9 per cent, with the excise levies applied at $3.70 per 10 dal for petrol and $2.00 per dal for diesel
- India applies an excise tax for fuels as well as VAT that is levied at varying rates across different states in the country . The central government applies the excise duty at Rs13/l for petrol and Rs10/l for diesel. The states apply VAT, sales tax and other additional charges. The sales tax or VAT ranges from 1 per cent to 35 per cent across different states.

International comparison of taxes on fuel – additional VAT or GST applies in many countries (2)

- In the EU, diesel taxes plus VAT account for an average of 45 per cent of prices of the diesel price. The taxes range from 39 to 54 per cent of the total diesel price. Malta has the highest tax of 54 per cent, with Italy following at 52 per cent.
- Petrol taxes plus VAT range from 43 per cent to 60 per cent, with an average of 52 per cent of petrol prices. Finland has the highest petrol tax at 60 per cent of petrol prices and Netherlands has the second highest petrol tax at 58 per cent of petrol prices.
- The United Kingdom applies a fuel duty and VAT on fuels such as petrol, diesel and other fuels used in vehicles or for heating. As of May 2025, the fuel duty and VAT account for approximately 55 per cent per cent of the price for petrol and 56 per cent for diesel. The standard VAT is applied at 20 per cent on most fuels, with a reduced rate of 5 per cent applied on domestic heating fuel

Fuel levy revenues, fuel levy sharing with metros and allocations to public transport and rail initiatives (1)

General fuel levy sharing with metropolitan municipalities

Year	Revenue (R mil)
2022/23	15 334.8
2023/24	15 433.5
2024/25	16 126.6
2025/26	16 849.1
2026/27	17 621.0
2027/28	18 417.8

Fuel Levy Revenues

Year	Revenue (R mil)
2022/23	80 472.8
2023/24	91 508.1
2024/25	85 882.6
2025/26	96 591.6
2026/27	102 532.8
2027/28	109 152.4

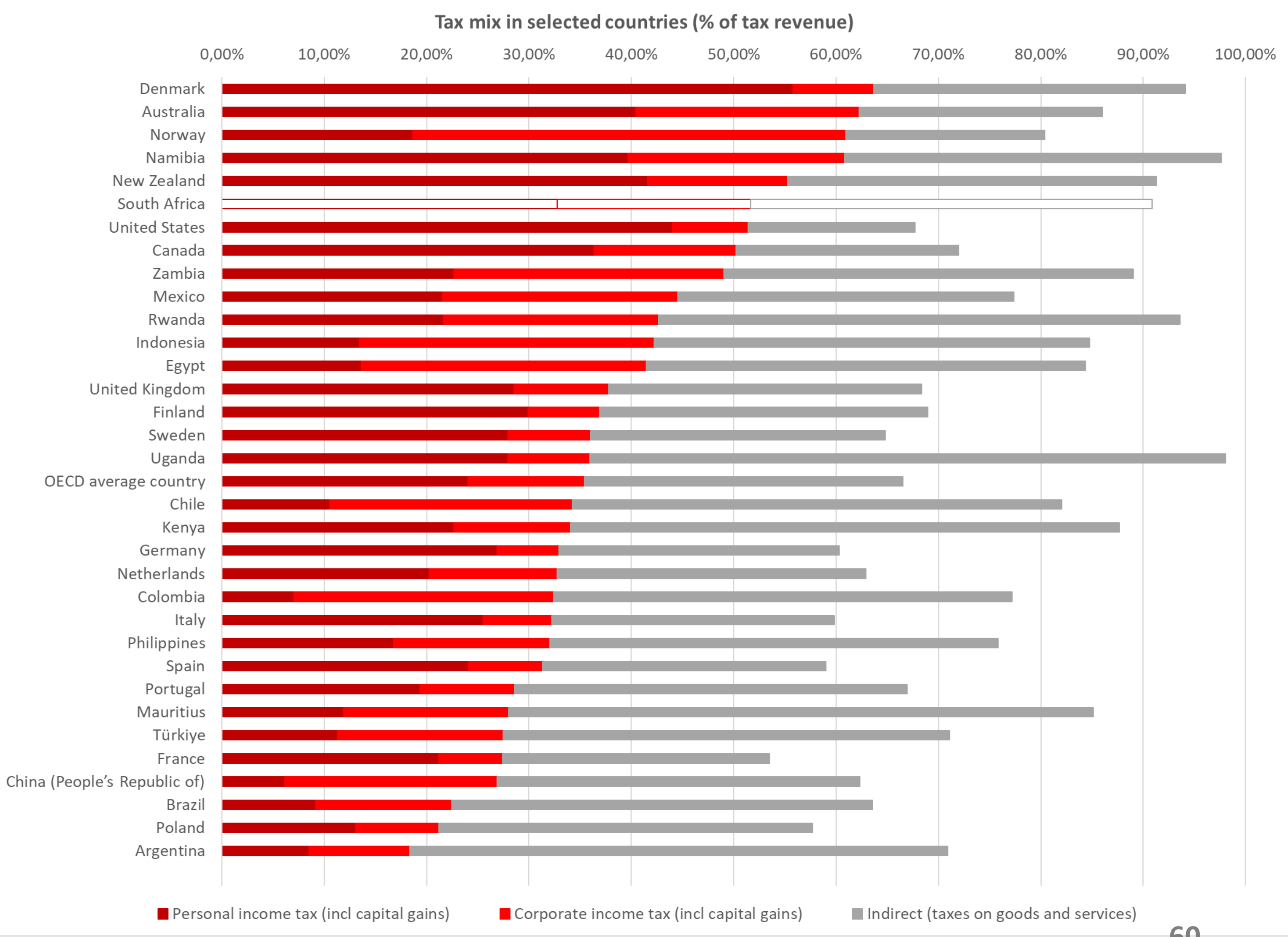
Fuel levy revenues, fuel levy sharing with metros and allocations to public transport and rail initiatives (2)

- **Subsidies to the transport sector are a critical tool to ensure affordable, accessible, and efficient public transport**, while also attempting to stimulate economic development, reduce traffic congestion, and address inequality.
- **Public transport subsidies seek to improve mobility for low-income households, support public transport affordability and reliability**, reduce urban congestion and pollution, and foster economic growth and job creation.
- **Main programmes:**
  - Public transport operations grant – subsidy provided to contracted bus services for operating costs e.g. Putco, Golden Arrow, and Gautrain buses
  - Passenger rail services – Operated by PRASA including metrorail-government grants for operating and capital expenditures. Aims to keep fares low and promote infrastructure, rolling stock and safetly
  - Mini-bus tax industry

Subsidy Area	Medium term Estimated Allocation
Public Bus Services (PTOG)	R25.4 billion
PRASA Rail Services	R66.1 billion
Taxi Recapitalisation	R1.1 billion

Why not direct tax increases?

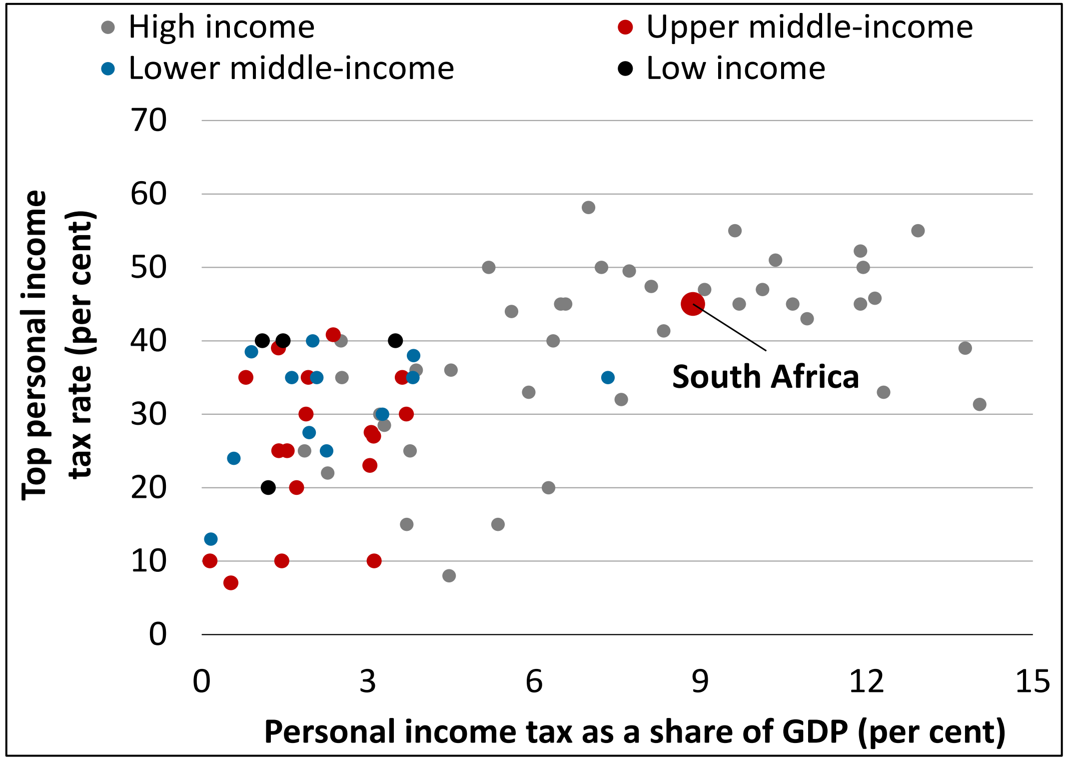
- **Personal income tax** was the fastest rising revenue source over the last 2 decades rising from 6.6% of GDP in 2004/05 to 9.8% in 2024/25
- **Corporate income tax** share of revenue is high relative to many other countries
  - Corporate tax base is narrow and mobile
  - Tax imposed on businesses, 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



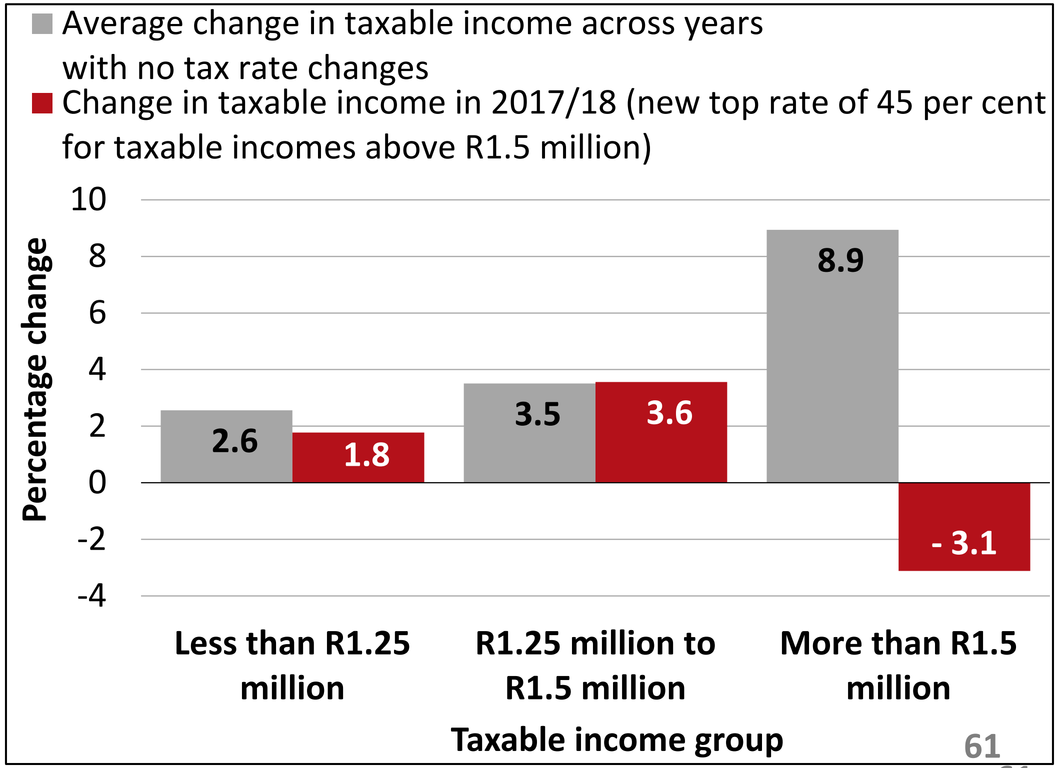
Why not increase the PIT rates?

- 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.

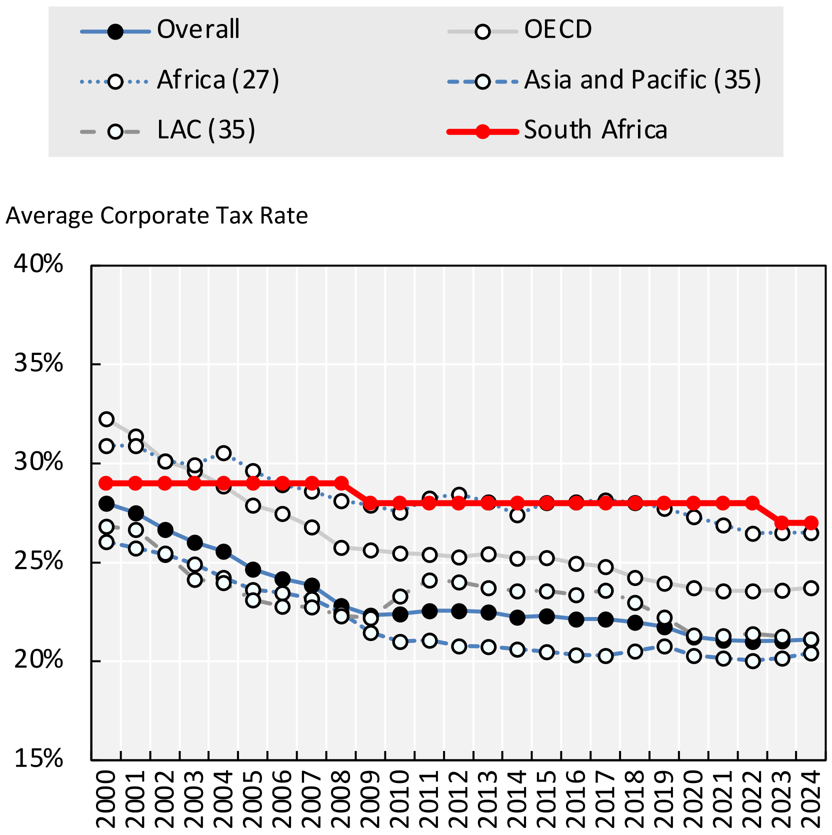
Personal income tax as a share of GDP and top rates, 2024



Change in real taxable income



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 Government 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).

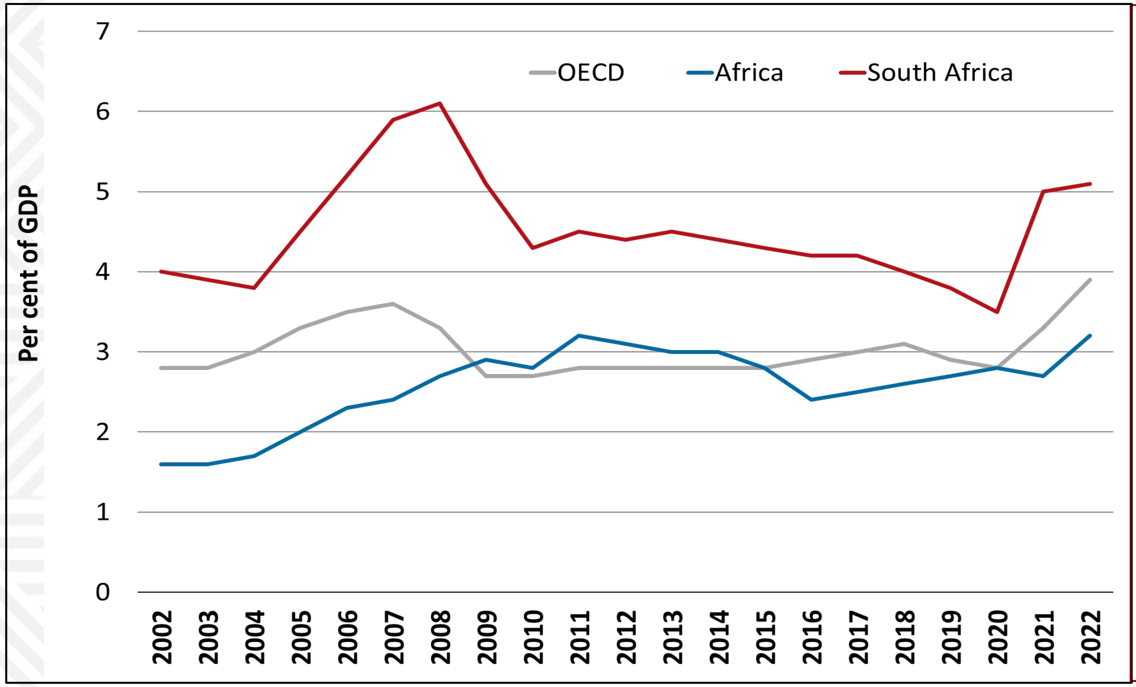
Why not increase the CIT rate?

- Arguments to say revenue was lost when the CIT rate was decreased from 28 to 27 per cent in 2022 are unfounded, and not a reason to reverse the decrease
  - Government introduced two base-broadening measures to increase CIT tax revenue at the same time as the CIT rate decrease – limitations on assessed losses and on interest deductions
  - The whole package had no negative impact on revenue
- If we wanted to raise R28 billion with CIT, the CIT rate would need to increase from 27 to 33 per cent, 9 percentage points higher than the OECD average

Why not increase the CIT rate ?

- Raising the CIT rate is not the only means of increasing CIT revenue
  - economic growth is the most important prerequisite for raising CIT revenue (commodity prices have a significant impact too)
- Alternative measures to raise CIT revenue within the ambit of tax policy and tax administration include broadening the CIT base and enhancing compliance
  - Several measures to protect the CIT base from base erosion and profit shifting (BEPS) have been implemented over time
  - South Africa's relatively generous accelerated depreciation allowances contribute to effective tax rates that are lower than the headline rate. While this necessitates a review, two recently implemented measures mitigate this by increasing effective tax rates.
  - One of the two base broadening measures that were designed to offset potential revenue loss from the decrease in the CIT rate aims to stop companies from continually reporting losses and paying no tax. As of 1 April 2022, companies are required to pay tax on at least a portion of profits in the year the company turns profitable before setting off prior losses.
  - The global minimum tax (GMT) will also increase effective tax rates for large South African and foreign MNEs operating in South Africa, resulting in SARS collecting more CIT revenue from 2026/27. These companies currently contribute more than one-third of total CIT revenue. Due to widespread implementation, no qualifying MNE can escape the minimum level of tax.
  - SARS is focused on enhancing taxpayer compliance, which can also increase yield additional tax revenue from businesses.

Why not increase the CIT rate?



- But we should recognise that companies already contribute more corporate tax revenue as a share of GDP than in most other countries
- Out of 123 countries reporting to the OECD, companies operating in South Africa contribute the 13th highest in terms of corporate income tax revenue as a percentage of GDP

Why not increase the CIT rate?

- Companies can respond to higher taxes in different ways:
  - They can try to reduce their reported profits (will be harder for those subject to the GMT)
  - They can disinvest or halt investment plans (negatively impacting growth and employment, and ultimately tax revenue)
  - they can pass on the additional cost to employees – either by retrenching or limiting salary and wage increases; and
  - they can pass on the cost to consumers by increasing the prices of products and services
- Workers and consumers will feel the burden of a rate increase, not just shareholders
  - Determining the economic incidence of CIT has been the subject of numerous theoretical and empirical studies. To date, the findings have been contradictory and inconclusive – ranging from capital bearing most of the burden to labour bearing most of the burden

Why not increase the CIT rate?

- Empirical studies show that corporate income taxes have a negative impact on growth, and often more so than other tax instruments.
  - OECD work on tax and growth shows that to facilitate economic growth, the tax system needs to be as efficient as possible by minimising distortions and obstacles to investment, innovation and employment. OECD (2010) states that "*corporate income taxes are the most harmful type of tax for economic growth, followed by personal income taxes and then consumption taxes, with recurrent taxes on immovable property being the least harmful*".
  - 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).

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What about a "wealth tax"?

- **South Africa already has a multitude of instruments that taxes wealth comprehensively through property (asset) taxes:**
  - Estate duty is levied on all assets (financial, real estate and land) on a person's estate at death
  - Donation tax is levied for any asset donations
  - All equity transfers are taxed through securities transfer tax and
  - Real estate transfers through transfer duty
  - In addition, all real estate (land and buildings) is taxed at local level through property rates and taxes
  - The total annual tax revenue collected from the four national taxes on wealth (excluding the local property taxes) 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. This is a contribution of 1.15 per cent to total tax revenue, which compares favourably to the OECD average of 0.5 per cent for similar taxes
  - In addition, South Africa levies capital gains tax, which is essentially a tax on wealth gains. Capital gains contributed an additional 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**
  - Estimates from the 2025 Budget indicate that the top three income tiers will pay over 60 per cent (R 488 billion) of all personal income tax in South Africa for 2025/26
  - In contrast taxes on wealth only generated R21 billion in revenue for 2024/25 (see above)
  - This personal income tax base is critical for South Africa’s fiscal sustainability, and introducing a wealth tax may potentially erode it as high-net-worth individuals are internationally mobile
  - If only 10 percent 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

What about a "wealth tax"? (2)

- **The tax base of the super wealthy is small and mobile. An additional tax on wealth could spark capital flight and endanger investment flows and jobs**
  - Initial data indicates that there are 2 850 individuals with net assets above R50 million who have a total of R245 billion in local assets and R150 billion in foreign assets.
  - A 0.5% net wealth tax would at most collect R2 billion in revenue, but that is before any behavioural response. This group pays R7 billion in personal income tax (which is also on returns from foreign assets) and that revenue would be put at risk if they decided to change tax residency.
  - Should this group decide to relocate, it would impact negatively on capital and investment flows, as they often have business interests which generate employment and contribute towards economic growth and capital formation locally.
- **International examples show that several countries abandoned or significantly reduced the scope of their wealth taxes over the years as they were ineffective.** Currently, only four countries have what can be termed wealth taxes. Reasons for abolishing the wealth taxes:
  - the high cost of collection
  - administrative complexity
  - risk of capital flight
  - limited revenue gained from these taxes
- **Income tax is the most effective way to tax the wealthy, and it generates multiple times more revenue for the fiscus in a more efficient and cost-effective manner.**
  - A study “The role and design of Net Wealth Taxes in the OECD” (OECD 2018) on the effectiveness of wealth taxes found that a comprehensive income tax system which also taxes capital gains are more effective at generating revenue and redistributing wealth than taxes that specifically target the stock of wealth.
  - South Africa has a very comprehensive income tax system with progressive rates and high earners paying a top marginal rate of 45 per cent. In line with international best practice South Africa levies capital gains tax to make its income tax system even more progressive and comprehensive.

What about a "wealth tax"? (3)

- **Wealth taxes are complex and difficult to implement. Even more so without a clear picture of wealth holdings**
  - The Davis Tax Committee noted (April 2016 report on Estate Duty, March 2018 report on Wealth Tax & an article in 2020) that implementing a wealth tax in SA would not be possible without a reliable picture of wealth holdings in South Africa.
  - International experience has shown that most countries have discontinued wealth taxes as they were found to be costly to administer and generated limited revenue. SA's current wealth taxation regime generates similar revenue compared to countries that have wealth taxes.
  - It was proposed that in line with the DTC recommendations that all taxpayers including trusts be compelled to disclose all assets at market value in their tax returns.
- **Wealth is difficult to measure, adding to costs and complexity**
  - One of the components that add to administrative costs and complexity noted above is the issue of valuations. Wealth comes in various different asset types, and some are very complex to measure, open to interpretation. For instance, valuing private (non-listed) equity will require business valuations on an annual basis. These are costly for both the taxpayer and tax authorities, and are likely to lead to disputes about the accuracy of the valuations. The same is true for real estate holdings, beneficial ownership structures and many more.
  - There is also the issue of what to do when wealth holdings deteriorate in value, such as during a recession of stock market volatility. Would taxpayers be able to claim these losses against their wealth tax obligations? Would they be refunded?
- **Liquidity concerns related to wealth taxes tend to dilute them to such an extent that they become ineffective**
  - Unlike income flows, wealth holdings are typically illiquid. A taxpayer may be asset rich but cash poor, thereby not able to pay their wealth tax liabilities. This liquidity problem is one of the reasons why wealth taxes ultimately failed in many countries, since tax authorities were forced to extend the payment terms quite significantly and thereby diluting the impact and effectiveness of the wealth taxes.
- **Wealth taxes discourage savings**
  - South Africa has a very low gross savings rate of only 13.7 percent, well below its peers. Introducing a wealth tax will discourage people from saving, since they will fear that their accumulated wealth will be targeted with a wealth tax. Rather than save and add to South Africa's overall savings pool (critical for investment and economic activity), wealthy individuals will rather consume their income, or take it offshore. This will damage South Africa's long term development prospects.

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

Review process of the Employment Tax Incentive

- **In summary:** *there are some impact assessments that find positive effects, but of a small magnitude – and there are some studies that find no significant impacts – so we try to be cautious about emphatic conclusions about macro employment impacts. On the micro level, many of the feared negative impacts did not materialize, and qualitative impact studies have shown that young people employed with ETI claims tend to remain in employment after the 2 year eligibility period.*
- Government publishes monthly reporting on the revenue foregone - far in excess of the reporting requirement per the ETI Act of twice a year, in addition to regular feedback in budget review documents (including tax expenditure info in Annex B)
- National Treasury published a Descriptive report of claims in 2016, in part to inform the review.
- Since then, the Tax Statistics publication usually contains descriptive information about claims (pg 59).
- The reviews in 2016 and 2018 were convened by Nedlac, with an open invitation for evidence.
- Deliberations in Nedlac resulted in unanimous recommendations for extensions of the programme in 2016 and 2018. In the latter case, NT initially proposed a 5 year extension, while **social partners recommended a 10 year extension** (also indicated in the Framework agreement of the Presidential Jobs Summit in 2018), in order to give certainty and to encourage building systems to ease compliance burdens. In both cases, the reports from Nedlac were not only shared with SCOF, but were required before the committee assented to the draft legislation.
- Both reviews were informed by all available research: independent academic studies, commissioned research and surveys of claimants. Where final, published papers were available, we referred to them – but work-in-progress was also considered, as there are very long lags in data availability. Both reviews included critiques, arguments for and arguments against each potential finding. Both reviews included a survey of claiming firms.

Selection of external findings on the impacts of the ETI programme

- The 2018 review included the following independent research papers:
  - https://ideas.repec.org/a/bla/sajeco/v84y2016i2p199-216.html
  - Becoming Youthful? An Evaluation of the South African Employment Tax Incentive (ETI) (unu.edu)
  - UNU-WIDER : Working Paper : The effects of the Employment Tax Incentive on South African employment and ebrahim_a28067.pdf (iza.org)
  - https://ideas.repec.org/p/ctw/wpaper/202007.html
- Reseearch findigns since the review
- UNU-WIDER : Working Paper : Can a wage subsidy system help reduce 50 per cent youth unemployment?
- UNU-WIDER : Working Paper : Estimating employment responses to South Africa's Employment Tax Incentive(sound caution about the methodology for future impact assessments)
- Evidence for a YETI? A Cautionary Tale from South Africa's Youth Employment Tax Incentive - Muller - 2021 - Development and Change - Wiley Online Library
- Here is a link to the comparative report from DPME (Evaluation of Business Incentive Draft Summary Report V6 05112018 STC.pdf (dpme.gov.za)) Incentives Review that estimates that the ETI provides R74 000 of support on average per beneficiary firm, and that it is one of the most cost-effective incentives at around R3 500 per job supported.
- Lit review paper: The effectiveness of the Employment Tax Incentive (resbank.co.za)

Total MTEF spending additions amount to R180.1 billion(1/2)

Spending additions funded over the MTEF period

R million	2025/26	2026/27	2027/28	MTEF total
Infrastructure investment	**7 950**	**13 920**	**11 863**	**33 732**
Budget Facility for Infrastructure window 8 projects	3 346	5 380	3 086	11 812
Passenger Rail Agency of South Africa*	1 923	4 610	5 784	12 316
Turnaround revenue-generating services in metros*	2 067	2 031	2 333	6 431
Western Cape Rapid Schools Build Programme	1 048	1 250	–	2 298
Drakenstein project allocation	–	225	–	225
Rescheduling of MyCiTi	-435	425	660	650
2025 public-service wage agreement and carry-through costs	**7 317**	**7 842**	**8 211**	**23 371**
Early retirement costs*	**2 200**	**3 300**	**–**	**5 500**
COVID-19 social relief of distress grant	**35 169**	**–**	**–**	**35 169**
Social grants above-inflation increases	**1 594**	**–**	**–**	**1 594**
SARS baseline allocation	**2 000**	**1 000**	**1 000**	**4 000**
Provisional allocations for frontline services	**12 245**	**13 883**	**15 157**	**41 286**
Education: provincial education compensation costs and expansion of ECD provision*	5 070	6 466	8 012	19 548
Compensation costs in provincial education departments	*3 044*	*3 180*	*3 324*	*9 548*
Expanding access to and improving the quality of ECD provision	*2 026*	*3 286*	*4 688*	*10 000*
ECD conditional grant to provinces	*2 010*	*3 229*	*4 630*	*9 869*
E-Cares system at national government	*16*	*57*	*58*	*131*
Health: provincial health compensation costs, unemployed doctors and goods and services*	6 706	6 922	7 145	20 773
Compensation costs in provincial health departments	*2 606*	*2 722*	*2 845*	*8 173*
Unemployed doctors	*800*	*900*	*1 000*	*2 700*
Goods and services shortfalls	*3 300*	*3 300*	*3 300*	*9 900*
Home Affairs: digitisation*	470	495	–	965
Digitisation Project: Home Affairs	*470*	*495*	*–*	*965*

Total spending additions over the MTEF period include:

- Provisional allocations for frontline services of R41.3 billion including:
  - R20.8 billion for compensation and essential services in health – to facilitate the employment of 800 doctors post in-service, and about 4 700 health posts and address shortages in medical goods, services and accruals
  - R19.5 billion for provincial education compensation costs which will safeguard about 5 500 post and for improved access to quality ECD
- R4 billion to SARS, supplementing the R3.5 billion proposed during the 2024 MTBPS to improve efficiency and transparency in tax administration.
- The R1.6 billion increase social grants in 2025/26 is unchanged
- R35.2 billion to extend the temporary *COVID-19* SRD *grant* for a single year
- R23.4 billion for the 2025 public-service wage agreement and carry-through costs
- R5.5 billion for the early retirement costs targeting about 15 000 public service employees in 2025/26 and 2026/27.

Total MTEF spending additions amount to R180.1 billion(2/2)

Spending additions funded over the MTEF period (continued)

R million	2025/26	2026/27	2027/28	MTEF total
Other spending additions	**18 862**	**9 388**	**7 227**	**35 476**
SARS spending adjustments and further support	500	1 500	1 500	3 500
Employment programmes	4 592	–	–	4 592
SANRAL GFIP phase 1 debt repayment and maintenance backlog	8 681	4 639	3 314	16 634
National government portion	*3 205*	*–*	*–*	*3 205*
Provincial government portion	*5 476*	*4 639*	*3 314*	*13 429*
SANDF troop deployment in DRC and phased withdrawal costs	3 043	–	–	3 043
Spending additions to various institutions[1]	1 443	871	917	3 231
Local government elections	–	1 435	–	1 435
Direct charges[2]	603	942	1 496	3 042
Total additions to baselines and provisional allocations	**87 337**	**49 334**	**43 458**	**180 129**

* *Provisional allocations not appropriated to votes*

1. *Includes G20 and ICASA spectrum auction cost in 2025/26, new ministries and deputy ministries carry-through costs and financing of Parliament and Office of Chief Justice funding pressures*
2. *Include additions for injury on duty and post-retirement medical benefits*

Source: National Treasury

- The allocation to the South African National Defence Force (SANDF) for the Southern African Development Community mission in the Democratic Republic of the Congo has been adjusted according to the SANDF's phased withdrawal plan.
  - While the medium-term allocation is reduced, the 2025/26 allocation is increased relative to March 2025 to cover immediate withdrawal costs.
- The 2025 Budget also direct resources to growth-enhancing activities, particularly infrastructure, and advances regulatory reforms to support investment spending.
- It allocates an additional R33.7 billion for critical infrastructure projects.
  - This includes support for projects approved as part of the Budget Facility for Infrastructure.
  - Investments in passenger rail transport to modernise signalling technology systems that will improve service frequency, safety and efficiency.
  - The budget also aims to reverse declining water, electricity and solid waste services in cities through R6.4 billion earmarked for the turnaround of these entities.

The consolidated budget deficit is projected to narrow to 3.4 per cent of GDP by 2027/28

Consolidated fiscal framework

R billion/percentage of GDP	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Outcome			Revised estimate	Medium-term estimates		
Revenue	**1 754.8**	**1 900.8**	**1 948.0**	**2 040.2**	**2 200.8**	**2 354.3**	**2 503.2**
	27.7%	*28.1%*	*27.5%*	*27.5%*	*28.0%*	*28.2%*	*28.2%*
Expenditure	**2 047.3**	**2 145.4**	**2 259.5**	**2 397.8**	**2 578.7**	**2 674.5**	**2 807.5**
	32.4%	*31.7%*	*31.9%*	*32.4%*	*32.8%*	*32.0%*	*31.6%*
Non-interest expenditure	*1 771.3*	*1 829.7*	*1 896.0*	*2 003.6*	*2 143.8*	*2 218.3*	*2 319.9*
	28.0%	*27.1%*	*26.7%*	*27.1%*	*27.2%*	*26.6%*	*26.1%*
Budget balance	**-292.6**	**-244.6**	**-311.6**	**-357.6**	**-377.9**	**-320.2**	**-304.3**
	-4.6%	*-3.6%*	*-4.4%*	*-4.8%*	*-4.8%*	*-3.8%*	*-3.4%*

- The consolidated budget deficit for 2024/25, projected at 4.5 per cent of GDP in the 2024 Budget, is now estimated at 4.8 per cent.
- The deficit is projected to decline to 3.4 per cent of GDP in 2027/28 as the main budget deficit narrows.
- Social security funds, provinces and public entities move into a combined cash deficit in 2024/25 and over the medium term.
- Over the MTEF period, consolidated non-interest expenditure will increase at an annual average rate of 0.8 per cent in real terms.

Government will reduce the borrowing requirement over the 2025 MTEF period

Financing of national government gross borrowing requirement[1]

R million	2023/24	2024/25		2025/26	2026/27	2027/28
	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	–	252	–	–	–
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	14 118	3 591	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*

1. A longer time series is presented in Table 1 of the statistical annexure at the back of the Budget Review
2. A positive value indicates that cash is used to finance part of the borrowing requirement
3. Differences between funds requested and actual cash flows of national departments
4. 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

- In 2025/26, the gross borrowing requirement is expected to be R9.3 billion lower than the 2024 Budget estimate.
- 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.
- The final R70 billion 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
  - R10 billion in 2028/29 for debt maturing in May 2028.
- The borrowing requirement is expected to decline to R434.3 billion in 2026/27, before increasing to R587.7 billion in 2027/28.