2025 MEDIUM TERM BUDGET POLICY STATEMENT *(MTBPS)*

SPEECH

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National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIUM TERM BUDGET POLICY STATEMENT

Check against delivery

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SPEECH

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The Budget Council

The Budget Forum

Governor of the South African Reserve Bank, Lesetja Kganyago,

Commissioner of the South African Revenue Service, Edward Kieswetter,

Chairperson of the Financial and Fiscal Commission, Patience Mbava,

Fellow South Africans,

We convene at a time when South Africa, like many nations around the world, is grappling with intensifying global competition and mounting economic and political divisions.

It is against this fractured landscape that South Africa has been falsely accused of genocide against its white community and threatened with punitive sanctions based on these falsehoods.

Let me thank the many communities here at home and around the world that have rejected the false narratives and the fear, hate and disinformation they represent, and instead chosen to defend the principles of solidarity and equality.

The members of the Afrikaner community who recently came out publicly, refusing to be used as pawns or portrayed as victims, provide us a timely reminder of our responsibility to forge collective prosperity grounded in truth, justice and mutual respect.

Madam Speaker, it is in this spirit that I table the following documents before this House:

- Division of Revenue Amendment Bill
- Adjustments Appropriation Bill
- Taxation Laws Amendment Bill
- Tax Administration Laws Amendment Bill
- The Medium-Term Budget Policy Statement

As we table this policy statement, we have reason to be optimistic about the future of our country.

Our optimism is rooted in the progress we have made in keeping the promises we set out. A promise to grow the economy faster, to strengthen public finances, and to improve life for all South Africans.

Two years ago, we committed to stabilising public debt in the current year and then begin to reduce it.

Despite a challenging environment of persistently low economic growth, we are on track to achieve this goal.

We also committed to remove South Africa from the Financial Action Task Force grey list.

We have delivered on this commitment in just two and a half years. This is thanks to collaboration across government departments, law enforcement agencies and the private sector.

Exiting the grey list enhances South Africa's attractiveness to investors and make it easier to do business with us.

However, we cannot afford to be complacent. FATF's next mutual evaluation of South Africa begins in the first half of 2026.

We must continue to tackle money laundering and terrorism financing to stay off the grey list.

Honourable Members, we also promised to use our presidency of the first African G20 to firmly place Africa on the global agenda.

As we approach the final stretch of our presidency, we have successfully concluded meetings of the G20 finance ministers and central bank governors, brokering critical consensus for the continent's development.

We are ready for the Leader's Summit in Johannesburg in just over a week's time.

Despite all of this progress, we must remain realistic about the present and the actions it demands.

South Africa's most pressing challenge remains accelerating economic growth to create jobs and reduce poverty at the scale required.

Drawing lessons from the 2025 budget process, we have engaged extensively to build consensus on how to achieve faster growth and leverage public finances to attract the investment needed to create jobs and improve life for all.

Economic Outlook

Allow me to now turn to the economic outlook.

Madam Speaker, South Africa's economic prospects are shaped not only by domestic factors but also by global developments.

Global growth is estimated to slow slightly, to 3.2 per cent in 2025, amid ongoing trade tensions, geopolitical uncertainty, and supply chain disruptions.

While the shocks of the unilateral tariffs imposed by the United States have not materialised as severely as expected, their delayed effects coupled with rising protectionism, pose future risks to global productivity and price stability.

Global equity markets have surged, driven by AI-related stocks and central bank rate cuts, but this rally carries the risk of sudden reversals.

Given this uncertainty, it is critical that we leverage the immense opportunities presented by the sub-Saharan region.

We continue to make progress in the implementation of the Africa Continental Free Trade Agreement to strengthen multilateralism and regional cooperation.

Under the South African presidency of the G20, significant strides have been made to strengthen macroeconomic fundamentals of debtor countries, many of them African, to build a more prosperous and integrated region and continent.

Domestically, we forecast real GDP growth of 1.2 per cent for 2025, more than double the economic growth in 2024.

The growth outlook strengthens moderately over the medium term.

We now forecast real GDP growth will average 1.8 per cent between 2026 and 2028.

Madam Speaker, the structural reforms we have embarked on, particularly in energy and logistics, will be key to lifting our rate of growth closer to levels demanded by our developmental needs.

Our strategy for faster growth and healthier finances continues to be anchored on four pillars:

- The first is maintaining macroeconomic stability.
- The second is implementing structural reforms.
- The third is building state capability.
- And the fourth is supporting growth-enhancing infrastructure.

Maintaining Macroeconomic Stability

Madam Speaker, faster economic growth requires effective macroeconomic management.

Fiscal and monetary policies, the twin pillars of economic governance, must work together to lower inflation and borrowing costs for households and firms, while keeping debt-servicing costs affordable.

Over the past year, National Treasury and the Reserve Bank have jointly assessed the impact of a lower target on our economy and the fiscal framework.

This work has now been concluded and recommends a revision to the target to strengthen the framework and enhance price stability by better anchoring inflation expectations and aligning South Africa to international best practice.

Today I announce a new inflation target for South Africa of 3 per cent with a 1 percentage point tolerance band.

This decision follows agreement between the Governor of the South African Reserve Bank and my consultations with the President and Cabinet.

The 1 percentage point band provides flexibility to accommodate any unexpected inflationary shocks.

This new target immediately replaces the previous target range of between 3 and 6 per cent, and will be implemented over the next two years.

Over time, the lower target will decrease inflation expectations and inflation, creating room for lower interest rates.

This supports household spending and business investment, boosting economic growth, and job creation.

The short-term fiscal costs of a lower target, which include lower nominal GDP and revenue growth, will make achieving fiscal targets more challenging.

But, the long-term benefits of taking this step far outweigh these costs.

We remain committed to ensuring that our macroeconomic policies serve the best interests of all South Africans.

FISCAL OUTLOOK

Madam Speaker, our fiscal strategy aims to achieve the following goals:

- Anchor fiscal policy by stabilising debt and growing the primary budget surplus;
- Mobilise and direct more resources towards infrastructure investments; and
- Improving efficiency and effectiveness of spending.

I am pleased to inform the house and the country that we are on track to restore fiscal sustainability.

Government debt will stabilise in 2025/26, at 77.9 per cent of GDP.

This is the first time since the 2008 financial crisis that public debt will not grow as a percentage of GDP.

Since 2008, spending has consistently exceeded revenue, driving up debt and debt-service costs.

These costs crowded-out spending on critical services and exerted pressure on lending rates across the economy.

But we are now turning this around.

This year, revenues will exceed the budget estimates by R19.3 billion.

Meanwhile, debt-service costs will be lower by R4.8 billion.

Over the MTEF, debt-service costs will grow by 3.8 per cent annually. This is a significant reduction from the 7.4 per cent growth anticipated at the time of the 2025 Budget.

We will also achieve a primary budget surplus of R68.5 billion – or 0.9 per cent of GDP – this year.

This will grow to R224 billion by 2028/29.

The overall budget deficit will narrow from 4.5 per cent of GDP in 2025/26 to 2.7 per cent in 2028/29.

Madam Speaker, to further ensure long-term sustainability of public finances, the government is considering options for a formal fiscal anchor.

We are exploring a principles-led approach that provides for clear parliamentary oversight, stronger reporting on fiscal risks, and transparency on distributional impacts.

Earlier this year, we published a discussion paper on this topic, and consultations with stakeholders and experts are ongoing.

Revenue Adjustments

The better than estimated tax revenue of R19.7 billion is due to stronger household expenditure, which has boosted value-added tax collections, and improvements in corporate tax receipts and dividend tax.

Lower than expected VAT refunds also contributed to the improved revenue outlook.

This higher revenue allows us to bring forward some once-off expenditure.

As indicated in the 2025 Budget, an additional R4 billion was allocated to the South African Revenue Services.

This allocation was intended in part to strengthen debt collection, and thereby increase revenue collected, by between R20 and R50 billion per year.

We will continue to monitor SARS's revenue performance for the remainder of the year.

This assessment will inform whether the R20 billion in additional tax increases for the 2026 Budget, as earlier proposed, can be withdrawn.

A final decision will be announced in the 2026 Budget.

Combating Illicit Economy

Honourable Members, South Africa faces a problem of illicit trade that threatens our economy, endangers consumers, and robs the fiscus of billions in revenue.

The growing markets for illicit cigarettes and alcohol pose serious risk to public health and undermine legitimate businesses.

Each year, billions of rands in taxes go uncollected, funds that could have closed our revenue gap and avoided tax increases entirely.

According to SARS, since 2020, government has lost around R40 billion in excise revenue to the cigarette black market.

The same is true for illicit alcohol and fuel.

Government is clamping down on this illegal trade. In the last six months, SARS suspended three licenses for non-compliant tobacco production.

The Financial Intelligence Centre has provided intelligence reports to SARS to assist in investigations of criminal syndicates.

Together they have identified illicit markets in tobacco, precious metals, fuel and procurement fraud.

Customs officials must fulfil their duty to prevent criminals from dodging taxes and flooding our markets with dangerous products.

In-Year Adjustments

Madam Speaker, the adjustment in revenue means that we can make changes to our spending estimates.

For the current year, additional expenditure of R15.8 billion is proposed.

Transnet receives 8.3 billion rand for the to support the rehabilitation of railway infrastructure for the North and the Iron Ore corridors.

This fiscal allocation will unlock an estimated R12.4 billion in private sector funding. Demonstrating the ability of the government to crowd in private sector funding through innovative financing structures.

Amongst the in-year adjustments is also R2 billion for the rebuilding of Parliament, and R1 billion to the Independent Electoral Commission for the 2026 municipal elections.

In addition, the spending announced in the May Budget for the National Dialogue, as well as its carry through costs, are catered for.

These allocations are on top of the additional funding provisions for Education and Health announced in the May Budget.

Infrastructure

Madam Speaker, President Ramaphosa has consistently spoken of infrastructure as the flywheel of our economy.

In line with this vision and advancing our pillar of growth-enhancing infrastructure, we are shifting the composition of spending from consumption to investment.

Capital payments are the fastest growing expenditure item at 7.5 per cent over the medium-term.

We are leveraging public resources to mobilise private finance and expertise at scale to strengthen service delivery, improve spending effectiveness and drive higher economic growth.

The amendments to triple P regulations took effect on 1 June 2025, and these unlock the potential across spheres of government and streamline approvals for smaller projects.

Three weeks ago, new guidelines on unsolicited bids and fiscal commitments and contingent liabilities were issued and these took effect immediately.

The unsolicited bid guideline provides a clear structured pathway for the private sector to submit project ideas to government.

The other guideline provides a framework for reporting and managing of fiscal commitments and contingent liabilities arising from PPP projects.

Municipal PPP regulations will be amended by 2026.

Leveraging lessons from the Renewable Energy IPP projects, to streamline planning and procurement, the Department of Transport's private-sector participation unit is reviving the passenger transport and logistics sector.

Following strong interest from the freight logistics requests for information, the unit will issue the first rail corridor request for proposal by December 2025, with others following in early 2026.

The unit has also issued requests for information for investment opportunities in modernising and growing the passenger rail system.

The Water Partnerships Office is making progress in preparing non-revenue water and reuse projects across municipalities.

These will create a robust pipeline for the private sector to co-invest in.

We have reconfigured the Budget Facility for Infrastructure to run four bid windows annually instead of just one.

Since the reconfiguration, the BFI has received 28 submissions. Nine projects were accepted for detailed analysis.

Funding to the tune of R4.1 billion is also allocated for disaster relief to fix schools, pipelines, clinics and substations damaged between last year and this year by flooding in KwaZulu Natal, Mpumalanga, and the Eastern Cape.

To raise the funding for these BFI projects, a new infrastructure bond will be launched soon to raise a minimum of R15 billion.

The bond forms part of our efforts to introduce dedicated financing instruments that can mobilise cheaper financing to support our infrastructure agenda.

Government will also contribute to R2 billion to capitalise the Credit Guarantee Vehicle.

Initially, the vehicle will support electricity transmission expansion, directly contributing to our efforts at energy security while also driving decarbonisation.

This heralds a new era in PPPs, where private investment in high-voltage transmission lines is enabled.

This is real progress in our move away from merely fixing the power utility to securing power to the grid from a range of sources.

This is a key and innovative part of infrastructure reforms developed with international partners to de-risk private investment without state guarantees.

We are also committed to simplifying the institutional arrangements across the infrastructure ecosystem.

The new Infrastructure Finance and Implementation Support Agency will be operational by March 2026.

The Agency will provide project preparation support to supply the BFI pipeline.

It will centralise infrastructure finance functions to systematically crowd-in private capital and promote the use of alternative delivery mechanisms.

Honourable members, this is how we will ensure that our goal of public sector investment in infrastructure exceeds the R1 trillion mark over the next three years.

Medium Term Revenue and Expenditure

Madam Speaker, allow me to also give an overall picture of our revenue and expenditure.

We estimate that tax collections will remain buoyant over the medium term.

Despite the higher-than-expected revenue performance in 2025/26, gross revenues are projected to fall short of 2025 Budget estimates, by around R15.7 billion over the next two years.

Improved tax revenues will require more sustainable economic growth and further gains in tax compliance and administration.

Over the medium-term consolidated spending will increase from R2.6 trillion this year to R2.9 trillion in 2028/29

Our commitment to support low-income and vulnerable households through education, health, and social protection remains.

The lion's share of consolidated non-interest spending, approximately 61 per cent over the next three years, continues to fund the basket of government-provided services and benefits that reduce the cost of living for our citizens.

Madam Speaker, this spending is our commitment to the redistribution of income and opportunities in favour of the most vulnerable households in society.

Targeted and Responsible Savings (TARS)

To build on work on spending reviews, targeted and responsible savings are underway.

Honourable Members, eliminating waste and inefficiency in government is non-negotiable if we are to maintain public trust that tax money is spent responsibly.

The Targeted and Responsible Savings (TARS) initiative systematically identifies duplication, eliminates waste, and reorganizes programmes to deliver value for money.

We are implementing medium-term savings of R6.7 billion by closing or scaling down low-priority and underperforming programmes immediately.

More than half of this involves identifying people who are double-dipping and defrauding the social grants system.

We are also scaling down the public transport network grant.

The grant has failed to meet the objective, and some cities have failed entirely to get the projects off the ground.

An integrated public transport system is essential to support working class communities.

We will be reconsidering how to lower the cost of mobility and rework the institutional framework.

Commuter rail is the backbone of our public transport system.

PRASA is making some progress in revitalising our rail system moving, 11.8 million passengers in 2022/23 to 77.1 million last year.

This is only the start of a broader, continuous process to redirect funds from inefficient programmes to pressing national priorities.

Other work is being undertaken to realise more savings and efficiencies.

An update will be provided in the February Budget Review.

Madam Speaker, let me now turn my talk to subnational spheres.

Division of Revenue

Allocations to provinces protect frontline services. For municipalities, they ensure the continued provision of basic services that include water, refuse removal, sanitation and electricity.

The share of nationally raised revenue for provinces and municipalities will, respectively, increase to 42.4 and 9.7 percent over the medium term.

The allocations, among others, also cater for changes in population growth and to compensate municipalities for increases in bulk service charges related to free basic services.

In addition, they also ensure the placing of local government operating capacity on firm grounding.

Implementing Structural Reforms

Madam Speaker, we are making steady progress on structural reforms that are a key pillar to our strategy of growing the economy.

These structural reforms are crucial to dismantling the binding constraints that have held back our economy.

They are also about ensuring that every lever of the state works efficiently and effectively towards the same goal of a stable, growing, competitive and an inclusive economy.

Through Operation Vulindlela, now in Phase 2 since it started in 2021, we are building tangible momentum across energy, logistics, water, and now critically, in local government, spatial integration, and digital transformation.

Not long ago, our country was on the brink of an energy crisis.

Unreliable electricity supply threatened to derail our economy and the transformation of our society.

I am pleased to say that we have avoided this scenario and instead have begun a march towards reliable supply of energy.

Loadshedding has come down significantly.

Through focused and targeted interventions led by Operation Vulindlela, we are transforming the sector.

We are building a competitive wholesale market that gives investors certainty. The National Transmission Company has now applied for its Market Operator license.

We are investing in new capacity and alternative sources.

More than 2,220 megawatts of solar, wind and battery projects are in development, with 720 megawatts at advanced stages.

Eskom has added 800 megawatts from Kusile Unit 6 and is showing signs of operational and financial improvements.

Madam Speaker, we also identified dysfunction in the country’s logistics sector as a drag on economic activity and a key area in need of intervention.

The movement of freight within the country faced serious challenges, resulting in traffic congestion as the transportation of goods shifted from rail.

This led to an overall decline in the volume of goods and exports transited.

Reforms in freight logistics are gaining speed.

Eleven private train operators now have slots on 41 routes across six corridors.

Port efficiency is improving, with vessel waiting times down 75 per cent, while container handling is faster.

With Durban Pier 2 welcoming private operators, we expect to unlock R200 billion in investment over the next five years.

These much-needed reforms in logistics will increase the volume of rail freight, reduce port congestion and improve the country's economic performance.

Water security is a key constraint, and we are moving fast to provide the legislative certainty and clarity that will stablise the sector.

The Water Services Amendment Bill clarifies institutional roles, while the National Water Resources Infrastructure Agency launches in April 2026.

We are also ensuring that investment in water infrastructure addresses the problem of maintenance and old infrastructure.

Madam Speaker, the Africa Water Investment Summit earlier this year secured US$12 billion in commitments for 80 projects, including 36 in South Africa, demonstrating investor confidence.

To attract skills, investment and tourism, we have modernised our visa system by clearing 300,000 backlogs.

Our commitment to these reforms, demonstrates we have and are creating space for private sector investment and building infrastructure.

I now turn our attention to the pillar of building state capability, from local to national.

Building State Capability

Madam Speaker, municipalities are at the forefront of providing essential services.

However, many are fraught with capacity constraints that hinder their ability to turn allocated budgets into reliable services.

It is for these reasons that several reforms have been introduced to urgently remedy this untenable situation.

We are piloting a utility reform programme to stabilise and professionalise water and electricity businesses in a few municipalities in Mpumalanga.

To address persistent underspending and capacity constraints at the local level, we are reforming the Municipal Infrastructure Grant.

Where municipalities show persistent failure, delivery will shift to an indirect model through agencies like MISA and DBSA, coupled with time-bound capability plans aimed at restoring direct funding.

Metro trading services

We are seeing encouraging progress in metro trading services reform.

Over the 2026 Budget, R19.3 billion has been reallocated towards this reform in line with Council approved improvement plans.

Financial sustainability is improving through better billing, tighter credit control, cost-reflective tariffs with indigent protection, and co-funding crowding-in concessional and commercial finance.

Modernising the Public Service and Payroll Integrity

Today we launch government's first Procurement Payments Dashboard using data from the Basic Accounting System (BAS).

This dashboard, which is available on the National Treasury eTender website, shows the payments made to suppliers by most national and provincial government departments as captured on our payments system.

This represents a massive step forward in procurement transparency. The dashboard will help identify inefficiencies, anomalies and uncovering opportunities for consolidation.

It also enables analysis of procurement expenditure and the suppliers that do business with the state, giving citizens, academics and civil society the ability to hold departments accountable supporting efforts to fight corruption and fraud.

We are also waging war on ghost workers in public service. We have heard calls from all political parties and civil society.

National Treasury is working closely with the Department of Public Service Administration and Home Affairs on a data-driven approach that integrates systems across government.

We are beginning to see the results of this collaboration.

We have already uncovered close to 9,000 high-risk cases that have been flagged for further verification.

The Early Retirement Programme, which provides financial incentives for employees to exit the public service from October 2025, allows us to rejuvenate the public service.

These interventions will deliver long-term average savings of around R3.5 billion per year.

More importantly, they demonstrate our commitment to fiscal discipline and ensure that every rand spent contributes effectively to growth and service delivery.

Conclusion

Madam Speaker, the presentation of the Medium-Term Budget Policy Statement sends a clear message: South Africa is choosing growth, stability, and reform.

It represents our commitment to an open and transparent budget process.

It is intended to empower all stakeholders to contribute to the discussion of the nation's priorities.

It makes transparent the budget framework through which the Government seeks to achieve the nation's social and economic development goals.

We will use our collective efforts to increase the pace and scale of tackling unemployment and building a stronger economy.

Madam Speaker, our presidency of the G20 comes to an end soon.

We have demonstrated our ability to successfully host an international platform and made sure to use our presidency to put Africa’s growth and development concerns firmly on the agenda.

The Africa Engagement Framework, which prioritises fiscal, institutional and cost of capital concerns, is among the achievements to be proud of.

The Ministerial Declaration on Debt Sustainability is another landmark achievement under South Africa’s G20 presidency.

The rotational chairing of the SADC after exit by Madagascar represents another welcome opportunity for our country’s leadership of the region.

We intend to use the infrastructure financing lessons obtained from our presidency of the G20 to drive development in the region.

Speaker, as I close, allow me to express my deepest gratitude to the President and Deputy

President for their counsel, their support and for their leadership.

Thank you also to the Deputy Ministers of Finance and the excellent National Treasury team led by the Director-General.

They have walked this path with me, sharing freely their insight, expertise and passion for our country.

Thank you to the Commissioner of the South African Revenue Service and the Governor of

the South African Reserve Bank.

Thank you to my Cabinet colleagues, the Ministers’ Committee on the Budget, and the

Budget Council, who share the heavy load of the tough decisions that we must make to maintain the sustainability of our public finances.

Thank you as well to the Technical Committee on the Budget.

To the Parliamentary Committees of Finance, Appropriations and Public Accounts, I express my sincere appreciation.

To my wife and family, your support and understanding have given me strength and comfort when I needed it most. Thank you.

To the citizens of this beautiful country, your faith in us is our motivation. Thank you.

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