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Budget 2025/26 Highlights

Navigating the future: South Africa's journey towards sustainable growth

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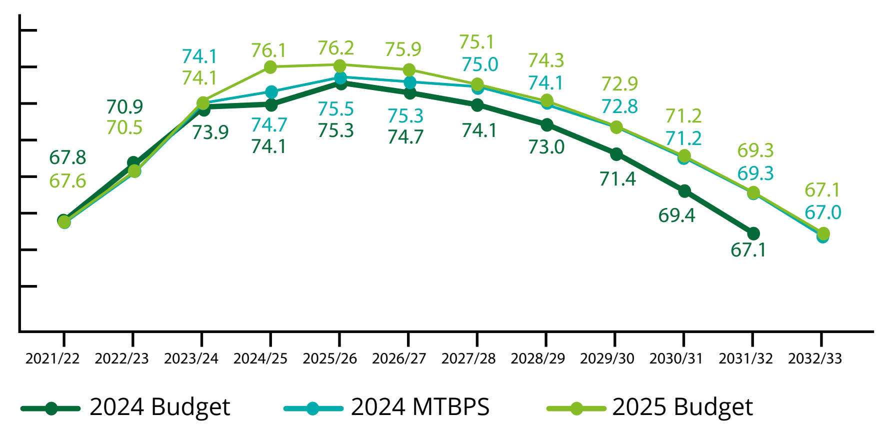
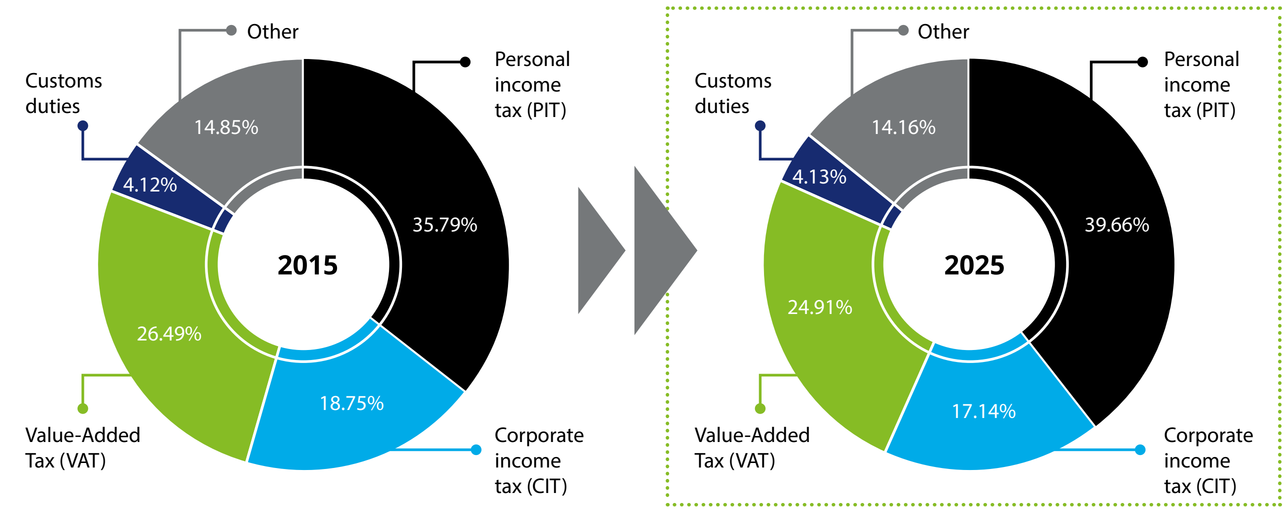
Based on 2025/26 Treasury figures available at www.treasury.gov.za

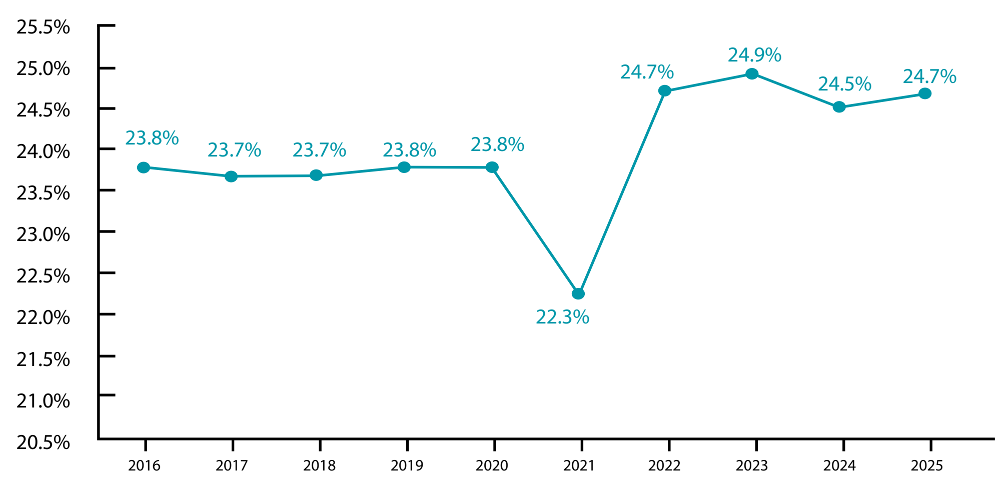
Gross debt-to-GDP outlook



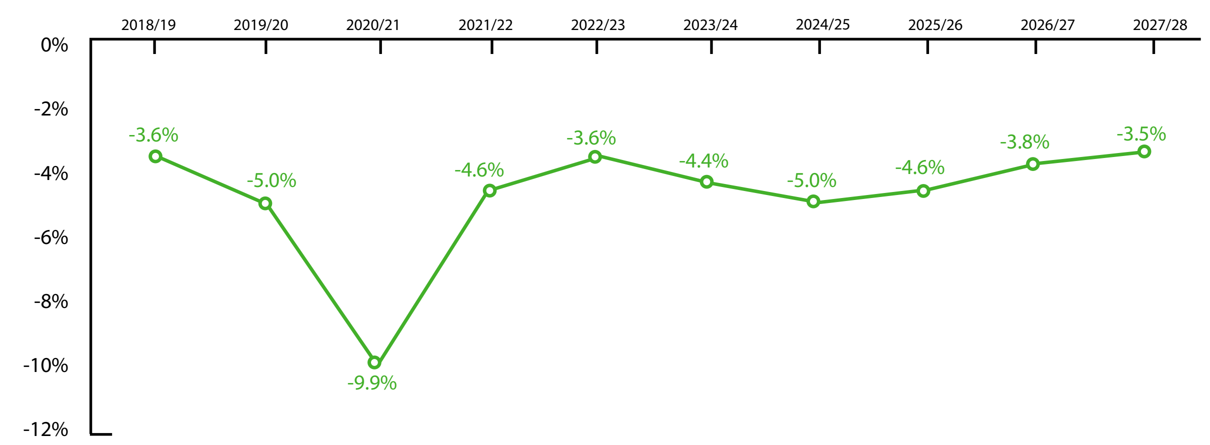
Sources of tax revenue



Tax revenue - Percentage of GDP



Budget deficit – Percentage of GDP



Rising to the challenge: South Africa's commitment to economic resilience

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The Minister of Finance, Enoch Godongwana, delivered the highly anticipated National Budget Speech, following a postponement on 19 February 2025.

As part of the proposed fiscal measures, the government plans to increase the value-added tax (VAT) rate by 0.5 percentage points in 2025/26, followed by another 0.5 percentage points in 2026/27, resulting in a 16% VAT rate by 2026/27. The long-term implications of increased VAT on lower income households need more robust mitigation strategies than those indicated in the budget. It's important to explore more comprehensive fiscal policies that directly target poverty alleviation and economic inequality, rather than relying primarily on indirect measures which may not fully offset the increased cost burden.

The National Treasury projects a revised estimate of real GDP growth for 2024 of 0.8% and real GDP is expected to grow at an average rate of 1.8% from 2025 to 2027. These projected GDP growth rates seem modest against the backdrop of the extensive fiscal interventions, significant infrastructure investment (more than R1 trillion over the next three years), and structural reforms being proposed. There is a need for a more aggressive growth strategy that not only stabilises the economy but also propels it forward by delivering job growth and poverty reduction.

The government could further enhance transparency in how these growth projections are calculated and more clearly define the linkages between the proposed fiscal measures and the expected economic outcomes.

Despite a new three-year wage agreement aimed at reducing uncertainty in budget planning, there remains a significant challenge in managing the public sector wage bill, which continues to consume a large portion of government expenditure. There is a critical need for a more sustainable approach to public sector remuneration and productivity that aligns with long-term fiscal plans while ensuring that the government can attract and retain the skilled personnel necessary for effective service delivery.

Public debt is projected to stabilise at 76.2% of GDP in the fiscal year 2025/26. There is an urgent need to improve the sustainability of public finances by controlling debt levels while prioritising initiatives that directly promote productivity and economic growth.

The simplification of public-private partnership regulations is good news as attracting private collaboration will be essential to solve some of the country's largest challenges such as water, rail and electricity.

The South African Revenue Service (SARS) will be allocated R3.5 billion in this fiscal year, and an additional R4 billion over the medium-term. A significant portion of this funding is expected to be used to reduce uncollected debt due to SARS, reduce the number of outstanding tax returns and to modernise tax collection systems.

Bolstering SARS capabilities is a key area that could help solve the country's revenue crisis. The commitment to enhancing SARS' capabilities, sets a precedent for other African and global revenue services. It showcases a proactive approach to improving tax collection efficiency without overburdening the citizenry.

For more insights, read our full post-budget commentary.

2025/26 key budget insights

1. Treasury's estimate for real GDP growth in 2024 remained unchanged at 0.8%, despite the latest data release from Statistics South Africa (StatsSA) showing a disappointing growth rate of only 0.6% for last year. However, **2025 real GDP growth** is forecast at **1.9%** (up from 1.7% in the 2024 Medium-Term Budget Policy Statement). **Between 2025 and 2027** South Africa's (SA) growth is forecast to **average 1.8%** per annum supported by **improved** investor **confidence**, stable **electricity** supply, **lower interest** rates and a declining **risk premium**.
2. Treasury has proposed a **staggered 1 percent-point** (pp) value-added tax **(VAT) increase**, with a **0.5pp increase in 2025/26** and a further 0.5pp increase in fiscal year 2026/27 resulting in a **16% VAT** rate by the **next financial year**. Personal income tax (PIT) brackets will not be adjusted. Overall, an additional R28 billion in revenue is expected in the current fiscal year.
3. Government **considered** increasing **PIT** and corporate income tax **(CIT)** but refrained as past **PIT** increases had a **limited impact**, and **CIT** increases are passed on to shareholders, workers and consumers. While a **VAT** increase will disproportionately **affect the poor**, the impact has been mitigated through **expanding zero-rated food items**, increases in social grants (SRD grants extended into 2026) and continued fuel levy relief.
4. The resulting revenue will be used to fund additional **spending pressures** including critical **infrastructure** investments (R47 billion added over the medium term), **social** protection, a higher-than-anticipated **public wage bill** and **critical frontline services** (education, early childhood development and health). Drawdowns on **provisional allocations of R67 billion** and **contingency reserves of R21 billion** (initially expected to be R10 billion) over the next three years, will provide further fiscal space.
5. South Africa's **gross public debt is set to peak in 2025/26**, stabilising at **76.2%** of GDP. **Debt-service costs** are expected to **have peaked in 2024/25**, at **21.7%** of revenue, **trending downwards** thereafter.
6. Overall, the **2024/25 consolidated budget deficit** is projected to widen from 4.4% in the previous fiscal year to **5% of GDP in 2024/25** before narrowing to **3.5% of GDP by 2027/28**.
7. Challenges in respect of **governance, financial** pressure and **operational** issues continue to affect state-owned enterprises (SOEs). That said, **Eskom** has shown **progress** with its recovery plan, with taxpayers **saving approximately R20 billion** on their debt relief. However, **Transnet's debt** levels hinder progress and there is a need to accelerate its recovery. National Treasury recognises that **SOEs** present a **significant risk** to South Africa's fiscal position.
8. Along with SOEs, other notable risks include **lower economic growth** resulting in slower revenue growth, the **financial position of provinces**, municipalities and SOEs as well as potential macro-fiscal shocks due to heightened **geopolitical tensions**.

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