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Budget 2025/26 Highlights

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South Africa's journey towards sustainable growth

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

A move to sustainable growth: Enhancing employment and fortifying the economy's resilience

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South Africa's Minister of Finance, Enoch Godongwana, delivered his National Budget Speech for the third consecutive time, a presentation that has been dubbed Budget 3.0. This iteration of the budget comes on the heels of a significant revision, as it retracts a previously suggested increase in the value-added tax (VAT) rate, which had been proposed in prior budget speeches in February and March. In this latest budget, the government has decided to maintain the VAT rate at 15%.

Over the past two months, economic growth projections have been revised downward due to a combination of factors that paint a troubling picture for South Africa. The economic outlook is clouded by escalating trade tensions, rising uncertainty and lowered expectations for investment, prompting the National Treasury to adjust its real GDP growth forecast for 2025 to a modest 1.4%. This marks a significant decrease from the 1.9% growth rate estimated earlier in March. Looking beyond the immediate future, the National Treasury anticipates a gradual recovery in real GDP growth, predicting a slight increase to 1.6% in 2026 and 1.8% in 2027. This anticipated recovery may be hindered by a persistently dismal global outlook, disappointing economic performance in the fourth quarter of 2024, ongoing logistical challenges, and the burden of elevated borrowing costs.

Despite the declining economic outlook, the government is steadfast in its pursuit of a balanced fiscal strategy, aiming to create a more sustainable economic environment. The consolidated budget deficit is projected to narrow from 4.8% of GDP in 2025/26 to 3.4% by 2027/28, which is positive. However, government debt is expected to stabilise at 77.4% of GDP in 2025/26, higher than predicted in the March budget which had this at 76.2% in 2025/26, mainly due to lower than expected growth projections. The minister indicated that "in 2025/26 alone we are spending around R1.2 billion per day to service our debt".

The projections for gross tax revenue have been adjusted downwards by R61.9 billion for the 2025 Medium Term Expenditure Framework (MTEF) period. Despite this revision, the figures still exceed those anticipated in the 2024 Medium-Term Budget Policy Statement over the same three-year span. This downward adjustment is primarily attributed to the reversal of the previously proposed VAT rate increase, alongside updated economic forecasts that paint a more cautious picture of revenue expectations. On the positive side, the South African Revenue Service (SARS) has been allocated an additional R7.5 billion over the medium term to help modernise its systems and assist in collection capacity and effectiveness. It is expected that this could generate between R20 billion to R50 billion per year in additional revenue collection. Focus areas for SARS include illicit trade and VAT systems.

In an effort to mitigate the financial repercussions stemming from the retraction of the VAT rate increase, the government proposes to retract the additional items that it was going to add to the zero-rated VAT list and to implement an inflation-adjusted hike in the general fuel levy. This will have an impact on all South Africans, particularly vulnerable households, as food and transport costs rise to cover the fuel levy increase. This increase will see the fuel levy rise to R4.01 per litre for petrol and R3.85 per litre for diesel with the new rates set to take effect on 4 June 2025. This marks the first adjustment to the fuel levy in three years. Unfortunately for cash strapped South Africans, inflationary adjustments were not made to personal income tax rates which could result in " bracket creep" meaning higher tax for some individuals.

Increased collection capability by SARS and the fuel levy increase should help to close the tax gap and will be critical for achieving sustainable revenue collection that can support public services and development initiatives. However, government has warned that this may not be sufficient to close the tax gap in the medium term, and Budget 2026 could propose new tax measures to collect another R20 billion.

Enhanced infrastructure serves as a catalyst for increased productivity, driving the economy toward a more robust growth trajectory. With this vision in mind, public infrastructure spending is still projected to surpass R1 trillion over the next three years, focussing on roads, rail, water and energy. This investment should create jobs and is a primary area of the country's growth strategy. Significant portions of this budget are earmarked for crucial areas: R402 billion for transport and logistics, including R93.1 billion allocated to the South African National Roads Agency for maintenance of the national road network. Energy projects are allocated R219.2 billion, while R156.3 billion will focus on water and sanitation improvements.

The government has put forward a series of budget reforms aimed at enhancing the effectiveness of public spending and eliminating wasteful expenditures in preparation for the 2026 Budget Process. These proposed changes are designed to ensure that the taxpayer's money is utilised more efficiently and responsibly, ultimately improving the quality of services provided to the public. This includes technology and data driven approaches to pick up discrepancies.

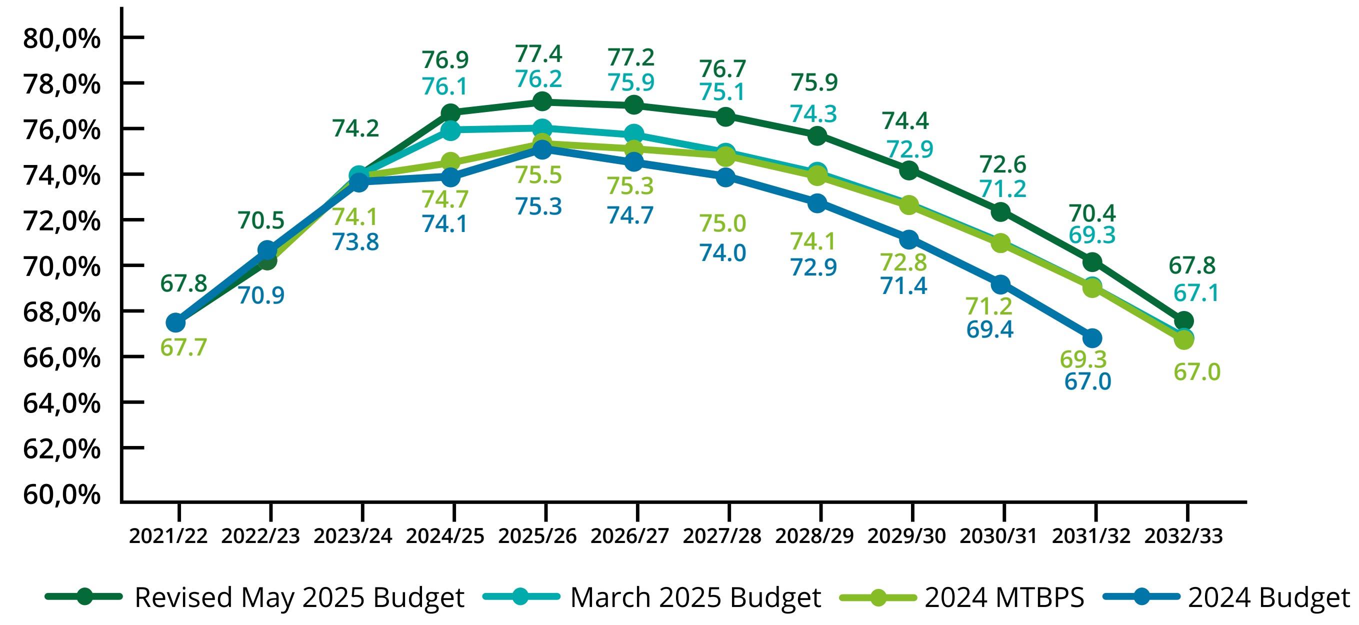
The Finance Minister did not provide an update on the National Health Insurance (NHI), including the process and the subsequent steps for its implementation. This lack of information has left many stakeholders uncertain about the timeline and anticipated outcomes of the NHI rollout. Additionally, questions regarding funding, coverage specifics, and potential impacts on existing healthcare services remain unanswered.

The latest update on public-private partnerships (PPPs) is that the rules have been simplified. Starting in June 2025, projects under R2 billion will require fewer approvals. A clear process will be put in place for receiving and reviewing unsolicited PPP proposals or bids from private companies. New manuals and guidelines on PPPs are being created and will be available to the public.

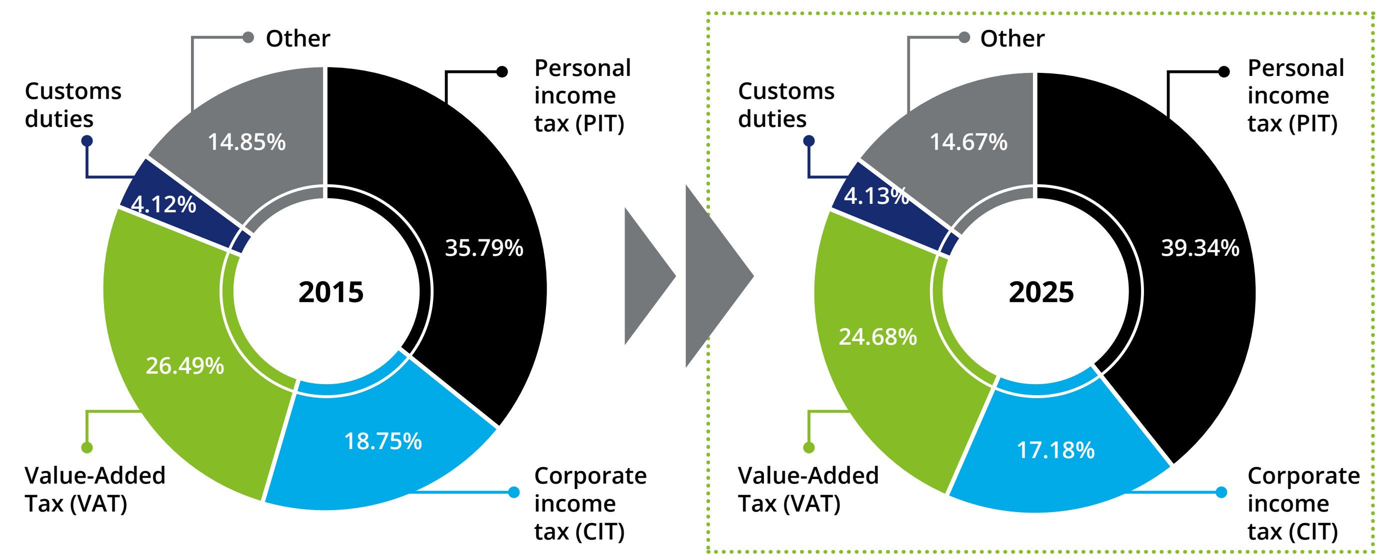
Looking ahead, a notable pivot towards renewable energy investments—driven by private sector initiatives and actions from local municipalities—has the potential to stimulate robust economic growth in the medium to long term. This transformation not only promises to revitalise economic activity but also lays the groundwork for a more sustainable development pathway. Current economic policy remains oriented towards fostering growth, enhancing employment, and fortifying the economy's resilience against external shocks.

Budget 3.0 laid out a comprehensive array of financial strategies and policy directions, all crafted to tackle the persistent economic and social challenges facing the nation. With an emphasis on fostering sustainable development, the budget aims to navigate these complexities within the current political framework, striving to create a balanced and resilient economic environment for all South Africans.

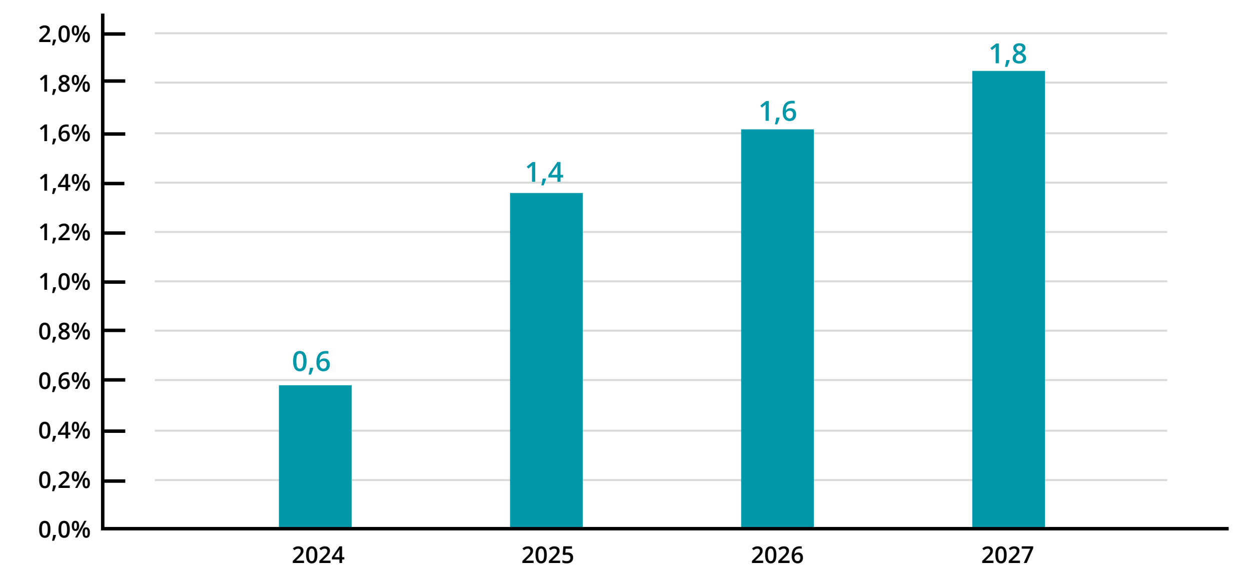
Gross debt-to-GDP outlook



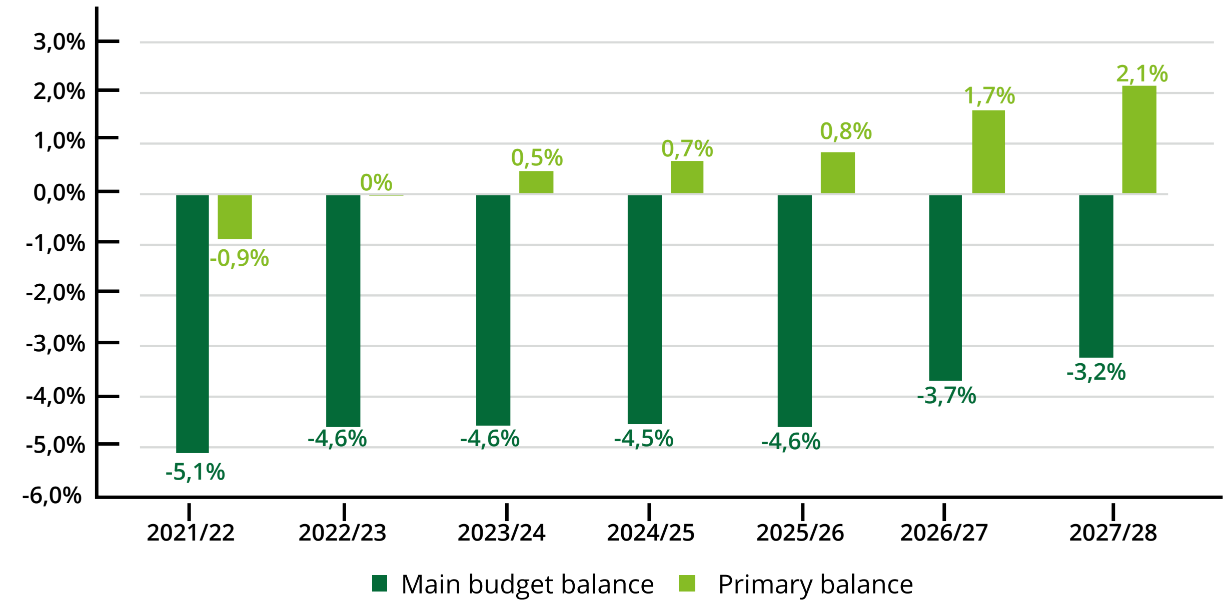
Sources of tax revenue



Real GDP growth outlook



Budget deficit and primary balance outlook – percentage of GDP



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1. The National Treasury anticipates 2025 real Gross Domestic Product (GDP) growth of 1.4%, a downward revision from 1.9% projected in March and 1.7% in the 2024 Medium-Term Budget Policy Statement. In 2026, a small increase in **real GDP growth** to 1.6% and 1.8% in 2027 is expected amid global economic headwinds, trade uncertainty and domestic concerns around debt and aging infrastructure. The Finance Minister recognised an imperative for faster, inclusive growth as the only path to job creation and prosperity.

2. March's proposed VAT increase has been withdrawn and **VAT will remain at 15%.**

3. In **2025/26,** government debt-to-GDP is projected to stabilise at 77.4%, **1.2 percentage** points higher than projected in March. For the first time since the 2000s, government has indicated that it is consistently running a primary surplus (where revenue is higher than non-interest expenditure). While the primary surplus is expected to increase from 0.8% of GDP in 2025/26 to 2.1% in 2027/28, debt service costs remain high.

4. Tax revenue projections have been revised down by R61.9 billion over the next three years, given the VAT increase reversal and a weaker economic outlook. As such, an **inflation-linked increase** to the general **fuel levy is proposed,** following three years without an increase. R7.5 billion has been allocated to SARS over the MTEF to enhance collection effectiveness and raise an additional R20 billion to R50 billion to help close the revenue gap.

5. Despite the eliminated VAT increase, the expenditure trajectory has been maintained to restore critical frontline services and invest in infrastructure. Additional funds will be provisioned to education, health and the defence sectors. Further, the COVID-19 social relief of **distress grant will be extended to March 2026** with opportunities for employment integration being explored. The minister noted that some expenses may materialise later this year but have not been accounted for, especially following the withdrawal of USAID.

6. Government is focussed on eliminating wasteful expenditure and inefficiencies. It has identified **potential savings of R37.5 billion** and underperforming government programmes will be closed. New reforms target infrastructure planning and implementation across provinces and municipalities.

7. Phase one of Operation Vulindlela's reforms, in network sectors and the visa regime, has been implemented **unlocking potential investment,** yet constraints remain to be addressed by phase two of the programme launched recently. Focus has shifted to implementation, local government performance (receiving R553 billion over the medium term), digital transformation, and housing.

8. Public infrastructure spending over the next three years will exceed **R1 trillion focusing on transport and logistics; energy** (including network strengthening and transitioning to renewables) as well as **water and sanitation.**

9. Moreover, updated PPPs regulation take effect in June, reducing complexity to improve deal flow and facilitating the fast-tracking of infrastructure provision. Enabling guidelines and frameworks will be published imminently. Furthermore, the **Budget Facility for Infrastructure has unlocked R52.9 billion** in additional funding by reviewing proposals for **feasibility, viability** and **cost effectiveness.** To improve returns to scale, it will accept proposals more often. Further, the first infrastructure bond is set to be issued this year while other alternative financing instruments are explored.

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