

2025 MTBPS

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DEUTERONOMY 15:6 - KJV

“For the LORD thy God blesseth thee, as he promised thee: and thou shalt lend unto many nations, but thou shalt not borrow; and thou shalt reign over many nations, but they shall not reign over thee.”



A Decisive Turn Towards Fiscal Credibility

The 2025 Medium-Term Budget Policy Statement (MTBPS), delivered on 12 November 2025, represents the first substantive economic policy articulation of the new Government of National Unity (GNU).¹ It marks a calculated and decisive pivot towards entrenching macroeconomic stability and policy credibility. After years of fiscal slippage and policy uncertainty, Minister of Finance Enoch Godongwana has leveraged a new political consensus to table a statement that is measured in its tone but ambitious in its structural implications.

Goneke Intelligence Summary:

- **A New Macroeconomic Anchor:** The headline policy shift is the formal adoption of a new, lower 3% inflation target, with a 1% tolerance band.² This move, which formally aligns fiscal and monetary policy, is a generational shift aimed at permanently lowering borrowing costs for the sovereign, businesses, and households.³
- **A Credible Fiscal Anchor:** The statement provides a clear and market-friendly path to fiscal consolidation. Gross loan debt is now projected to peak at 77.9% of GDP in the current fiscal year (FY25/26) before declining.² This is underpinned by a narrowing consolidated budget deficit, projected to fall from 4.7% of GDP to 2.9% by FY28/29.⁴
- **An Unambiguous Market Verdict:** The market reaction was unequivocally positive and immediate. The rand strengthened, and bond yields eased significantly.² This was driven not only by the new inflation-targeting framework but, more critically, by a larger-than-expected reduction in the weekly issuance of government bonds, signalling improved funding conditions and a smaller borrowing requirement.²
- **A New Expenditure Doctrine:** The budget signals a strategic shift in the composition of spending, moving "from consumption to investment".⁵ This pivot is funded not by blunt austerity, but by a "Targeted and Responsible Savings" (TARS) initiative⁵ and enhanced tax compliance via the South African Revenue Service (SARS).
- **Balancing Prudence and Protection:** The MTBPS successfully navigates the GNU's core trade-off. It balances fiscal discipline with social protection, funding real (after-inflation) increases for frontline services like health and education⁷ and extending social grants.⁸ This is made politically palatable by financing it through efficiency gains, such as tackling grant fraud and "ghost workers"⁵, thereby demonstrating that fiscal discipline and social justice can "coexist".¹⁰



I. The 2025 MTBPS Context: Navigating a New Political Economy

This MTBPS cannot be analysed as a simple mid-year update; it must be understood as the foundational economic document of a new political dispensation. The statement's market-friendly and decisive tone is a direct consequence of the political and economic context in which it was formed.

The GNU's "Constructive Backdrop"

This budget is the first major test of the Government of National Unity's (GNU) capacity to forge consensus on contentious economic policy.¹ The "more constructive backdrop" and "broader consultation" within the GNU, noted by analysts, are not peripheral details.² They are the political foundation that provided the National Treasury with the necessary capital to make decisive, long-overdue, and market-friendly decisions.²

In the past, such reforms were often stalled by ideological divisions. The formation of the GNU, however, appears to have created a new political centre-of-gravity, empowering technocrats at Treasury to push through a pragmatic agenda. For the African National Congress (ANC), this budget serves as a critical demonstration that it can co-manage the economy with fiscal discipline, delivering on its narrative that prudence and social development are not mutually exclusive.¹⁰ The positive market reception² is, therefore, as much a verdict on the GNU's perceived economic pragmatism as it is on the figures themselves.

The Macroeconomic Underpinning: A Sober Outlook

The Minister's plan is anchored in a sober and challenging macroeconomic environment. Globally, growth is estimated to slow to 3.2% in 2025, constrained by persistent trade tensions, geopolitical uncertainty, and supply chain frictions.⁵ While initial fears over unilateral US trade tariffs have not fully materialized¹¹, the global backdrop remains a headwind.

Domestically, the National Treasury's forecasts are cautious. Following weak growth, real GDP is now forecast to average a modest 1.8% between 2026 and 2028.⁵

This is a downgrade from earlier, more optimistic projections¹ and is critically contingent on the successful implementation of structural reforms in energy and logistics.⁵ Political parties like the ACDP had, prior to the speech, correctly anticipated these weaker growth figures, highlighting the significant revenue pressures¹ that define the narrow consolidation path the Minister is forced to walk.



II. The New Anchor: A Deep-Dive Analysis of the 3% Inflation Target

The single most significant, structural, and far-reaching announcement in the 2025 MTBPS is the formal recalibration of South Africa's macroeconomic framework through a new inflation target.

The Announcement and Rationale

The Minister of Finance formally endorsed a new 3% inflation target, to be implemented by the South African Reserve Bank (SARB). This new anchor will be flanked by a 1% tolerance band on either side.² This move is a definitive abolition of the long-standing 3% to 6% target range, which had been in place for a quarter of a century.³

The rationale for this shift is to "cement a clear and cooperative policy framework" between the National Treasury and the SARB.² The explicit goal, as articulated by Treasury, is to anchor inflation expectations at "permanently lower levels." This, in turn, is expected to systemically "reduce the cost of living and borrowing costs for households, businesses and government".³ By bringing South Africa's inflation target in line with its main trading partners and emerging-market peers, the move aims to enhance competitiveness and support long-term growth and job creation.³ Pre-speech analysis suggested such a move could, over the long term, save the sovereign an estimated R900 billion in debt-servicing costs.¹³

The Political Nuance: Asserting Treasury's Authority

The delivery of the announcement was as significant as the policy itself. The MTBPS document contained "no fewer than five references" to the fact that setting the inflation target is the *Finance Minister's* legal and constitutional prerogative, with the SARB being the implementing agent.³

This repeated emphasis was a deliberate political signal. It served to re-assert the National Treasury's authority following a period of public friction, particularly after the SARB "jumped the gun" in July by publicly stating it "prefers" to aim for the lowest point of the old range.³ Minister Godongwana's statement effectively endorsed the SARB's preferred policy direction but did so while unambiguously clarifying the "who leads" in the policy-setting dance between the fiscal and monetary authorities.

The Household Trade-Off: Short-Term Pain vs. Long-Term Gain

This new policy anchor creates a clear and immediate tension for ordinary citizens, representing a classic intertemporal policy trade-off. On one hand, the long-term *promise* is overwhelmingly positive. Economists and Treasury officials argue that by permanently anchoring inflation at a lower level, the policy will preserve the wealth and incomes of all South Africans.⁹ It will structurally lower the entire interest rate curve, reducing the cost of borrowing for mortgages, vehicle finance, and business investment in the long run.³



On the other hand, the short-term *risk* is significant. As critics like the ACDP pointed out, to *achieve* this new, more aggressive 3% target, the SARB's Monetary Policy Committee may be forced to keep the repo rate "higher for longer" than it otherwise would have.¹¹ This will inflict immediate financial pain on consumers and businesses with high levels of debt.

The Minister is therefore asking South Africans to absorb tangible short-term pain (higher-for-longer interest rates) in exchange for a less tangible, though larger, long-term gain (a permanently lower-inflation, lower-interest-rate economy). The various "cushioning" measures in the budget—such as above-inflation increases for social grants ⁸ and the decision not to increase the fuel levy ¹⁴— can be understood as the political and social "cushion" required to make this difficult, but necessary, trade-off viable.

III. The Consolidated Fiscal Framework: Stabilising the Sovereign

At the core of the MTBPS are the "hard numbers" that map out the government's path to fiscal sustainability. The 2025 statement provided the clearest and most credible stabilization path in recent memory.

The Core Projections

The fiscal metrics presented were decidedly market-friendly and pointed to a faster-than-expected consolidation:

- **Gross Loan Debt:** The debt-to-GDP ratio is now projected to *stabilize* at **77.9% of GDP in the current fiscal year (FY25/26)**.² This "peak" is marginally better than market expectations and provides a crucial anchor for investors.² Total gross loan debt is expected to rise from R6.07 trillion in FY25/26 to R6.99 trillion in FY28/29.⁴
- **Consolidated Budget Deficit:** The deficit is projected to follow a clear downward trajectory, narrowing from **4.7% of GDP in FY25/26 to 2.9% by FY28/29**.²
- **Primary Balance:** Critically, the government is set to achieve and grow its primary budget surplus (non-interest revenue minus non-interest expenditure). This surplus is projected to rise from **0.5% of GDP in FY 2024/25 to 2.0% by FY2027/28**.¹⁶

The Importance of the Primary Surplus

While the 77.9% debt peak captured headlines, the most important and credible number in the entire fiscal framework is the projection for a *growing primary surplus*.¹⁶

A sovereign's debt-to-GDP ratio can only stabilize, and eventually fall, when its primary surplus is sufficient to offset the growth of its interest payments. For years, South Africa ran a primary deficit, meaning it was borrowing money just to pay the interest on its existing debt—a classic "debt trap" dynamic. By achieving a sustained primary surplus, as reaffirmed in this MTBPS ¹⁷, the government is demonstrating that it is finally generating more revenue than it spends on public services. This surplus is the *engine* of debt stabilization. It is the only mechanism to halt the "crowding out" effect, where runaway debt-service costs ¹¹ consume revenue that should be allocated to health, education, and infrastructure. Therefore, the



credibility of the 77.9% debt peak is entirely dependent on the government's political will to deliver the 2.0% primary surplus target.

Table 1: Key Consolidated Budget Framework Projections (FY2025/26 – 2028/29)

Metric	FY2025/26	FY2026/27	FY2027/28	FY2028/29
Real GDP Growth	1.4% (est)	1.8% (proj)	1.8% (proj)	1.8% (proj)
CPI Inflation	4.3% (est)	3.7% (proj)	3.4% (proj)	3.2% (proj)
Consolidated Revenue (%)	27.7%	27.5%	27.5%	28.2%
Consolidated Expenditure (%)	32.4%	31.7%	31.9%	31.1%
Budget Balance (%)	-4.7%	-4.2%	-4.4%	-2.9%
Primary Balance (%)	0.1%	0.4%	0.2%	2.0%
Gross Loan Debt (% GDP)	77.9% (Peak)	77.7%	77.4%	76.9%
Debt-Service Costs (% of	21.4% (Peak)	21.3%	21.2%	20.8%

IV. Revenue Dynamics: The SARS Windfall vs. Medium-Term Realities

The revenue side of the budget equation reveals a crucial divergence between the short-term good news and a challenging medium-term structural reality.

The Short-Term "Good News"

The Minister entered the budget speech with significant "fiscal breathing room" ² provided by a better-than-expected revenue performance. The South African Revenue Service (SARS) announced a remarkable **R18 billion revenue surplus** against the printed estimates for the first half of the fiscal year.⁶ The Minister's own speech cited a **R19.7 billion** upward revision for the full year.²

This outperformance was not, however, driven by a booming economy. Instead, it was the result of specific, technical factors:

1. **Strong Compliance Efforts:** SARS reported that nearly 50% of this surplus was derived directly from its compliance activities, which secured R131.6 billion in the first six months.⁶
2. **Tax-Base Resilience:** Collections were robust in key areas. Value-added tax (VAT) collections were boosted by resilient household spending.² Corporate Income Tax (CIT) receipts were strong, likely reflecting the continued tailwinds from a commodity price windfall.⁶



3. **Administrative Efficiency:** A significant portion of the net positive result came from lower-than-expected VAT refunds, as SARS has cracked down on fraudulent and impermissible claims.⁵

The Medium-Term "Bad News": A Hidden Revenue Squeeze

Despite this short-term bonanza, the National Treasury's own *medium-term* revenue outlook is noted as being "weaker".⁴ This reveals a critical structural problem: the near-term surplus is a temporary, compliance-driven windfall that is masking a medium-term, macro-driven revenue squeeze. This squeeze is a direct consequence of the government's other policy successes. The medium-term forecasts for *lower inflation* (due to the new target) and *weaker nominal GDP growth* directly translate into a smaller tax base. Lower inflation means slower growth in the wage bill (hitting Personal Income Tax) and slower growth in corporate turnover (hitting VAT and CIT). The Minister is therefore in the difficult position of using a temporary windfall to plug immediate gaps, all while knowing that his primary, macro-driven revenue stream is set to weaken over the medium term.

The R20 Billion Tax Hike Gambit

This complex revenue dynamic perfectly explains the Minister's clever political move on future tax increases. Reaffirming a commitment to support households, the MTBPS did *not* introduce any new, immediate tax increases.¹ Instead, the Minister is wagering on SARS. The R4 billion in additional funding allocated to the tax agency⁵ is explicitly intended to strengthen debt collection and permanently increase revenue by R20 billion to R50 billion per year. This assessment, the Minister stated, will inform whether the *previously proposed R20 billion in additional tax increases* for the 2026 Budget *can be withdrawn*.⁵

This is a politically astute strategy. It reframes the tax debate: "no new taxes" is now presented as a *reward* for SARS's performance, effectively outsourcing the political pressure for revenue generation from the Minister's office to the tax agency.

V. Strategic Expenditure: The Pivot from Consumption to Investment

While the total spending envelope is contained, the *composition* of that spending reveals a core strategic pivot, which is arguably the most important long-term story in the budget.

The Strategic Shift to Investment

The government is explicitly "shifting the composition of spending from consumption to investment".⁵ This is not just rhetoric; it is borne out in the fiscal framework. "**Payments for capital assets**" are the fastest-growing expenditure item by economic classification, projected to increase at an annual average of **7.3%** over the medium term.² This reorientation is designed to support the "growth-enhancing infrastructure" pillar of the government's economic strategy.⁹

The "TARS" Mechanism: "Good Governance" Consolidation

This pivot to investment is not being funded by new taxes or deeper austerity. It is being financed through a new "**Targeted and Responsible Savings**" (**TARS**) initiative.⁵ This



mechanism is not a new acronym for the blunt, "harsh austerity" of the past, which saw painful, across-the-board cuts to frontline services. Instead, TARS represents a politically sophisticated and programmatically-driven form of consolidation. It is designed to find savings not by cutting nurses or teachers, but by eliminating *waste, fraud, and non-performance*. The examples cited in the budget are politically defensible and centre on "good governance":

1. **Fighting Fraud:** The government is implementing medium-term savings of R6.7 billion. More than half of this comes from identifying and removing individuals who are "double-dipping" and defrauding the social grants system.
2. **Fighting Waste:** Internal inefficiencies are being tackled, with the government actively investigating 9,000 "high-risk ghost worker cases" on the public payroll.⁹
3. **Cutting Non-Performance:** The "public transport network grant is being scaled down".⁵ The rationale given is not simple cost-cutting, but a programmatic review: the grant "has failed to meet its objective" and cities have failed to implement projects.⁵

This TARS initiative allows the Minister to achieve two parallel goals: he delivers R6.7 billion in fiscal consolidation while simultaneously building political capital by framing the cuts not as "austerity" but as "fighting corruption" and "improving efficiency."

VI. Analysis of Key Allocations and Sectoral Impacts

The new expenditure doctrine—leveraging TARS savings to pivot to investment while protecting the social wage—is clearly visible in the specific sectoral allocations.

Infrastructure as the "Flywheel": The New SOE Model

Infrastructure is repeatedly referred to as the "flywheel" of the economy.⁵ However, the 2025 MTBPS signals a fundamental shift in the *financing* of this infrastructure. The era of unconditional bailouts to state-owned enterprises (SOEs)¹⁷ is over. The new model is one of *leverage*: the state will use its balance sheet not as a blank cheque, but as a tool to *de-risk* projects and "crowd in" private capital.

- **Case Study 1: Transnet:** The budget provides a specific, targeted allocation of **R8.3 billion** for Transnet.⁵ This is not a bailout to cover losses; it is an investment for the "**rehabilitation of railway infrastructure**" for key economic corridors. Crucially, this fiscal allocation is explicitly expected to "**unlock an estimated R12.4 billion in private sector funding**".⁵ This 1:1.5 public-to-private leverage is the new model in action.
- **Case Study 2: The Credit Guarantee Vehicle (CGV):** The MTBPS detailed the creation of the CGV. This new entity will *not* be a state-owned fund. It is being established as a majority privately owned, regulated non-life insurance company. Its sole purpose is to issue guarantees to de-risk infrastructure projects and "**mobilize private capital**".²
- **Case Study 3: Eskom:** In a clear signal of this new discipline, **no new major allocations** were made to SOEs.¹⁶ The existing Eskom debt-relief arrangement was confirmed as being strictly conditional. In fact, Treasury will *withhold* R2 billion due to Eskom's failure to meet one of the conditions (disposing of its home loan book).¹⁶



The Social Wage: Reversing Austerity

This infrastructure pivot is not being achieved at the expense of the poor. The "social wage"—spending on health, education, social grants, and community development—remains the "lion's share" of non-interest spending, accounting for approximately 61% of the total.⁵

Crucially, this budget *reverses* the "harsh austerity" ⁷ of previous fiscal cycles. The TARS savings and improved revenue collection have been used to fund real (after-inflation) increases in frontline services:

- **Education:** Receives the largest allocation of any department.⁹ The total "Learning and Culture" function is allocated R505.6 billion.¹⁹ The Basic Education budget sees a 6.7% nominal increase, which translates to a **2.6% real increase** after inflation—a significant reversal of years of per-learner funding decline.⁷
- **Health:** Also receives a real increase ⁷, with the total "Health" function allocated R296.1 billion.¹⁹
- **Social Grants:** The total "Social" function is allocated R420.1 billion.¹⁹ To "cushion households" from cost-of-living pressures ¹⁴, the following increases were announced ⁸:
 - **Old Age and Disability Grants:** Increase by R130 to R2,315 per month.
 - **Child Support Grant:** Increases by R30 to R560 per month.
 - **Social Relief of Distress (SRD) Grant:** The R370 grant is extended until March 2026.⁸

This demonstrates the budget's core political bargain: the "fiscal discipline" of TARS and SOE conditionality is being "spent" on the "social justice" of real increases in the social wage.¹⁰

Debt-Service Costs: The Super tanker Turns

The one area of expenditure that remains a critical vulnerability is debt-service costs. This item continues to "crowd out" spending on critical services ¹¹ and is projected to peak at a staggering **21.4% of all government revenue** in the current fiscal year.⁴

However, for the first time, there is a tangible "green shoot." The success of fiscal consolidation and the new inflation-targeting framework is beginning to turn this super tanker. The projected *growth* of debt-service costs is set to slow significantly, from an anticipated 7.4% annual growth at the time of the Budget to only **3.8% annually** over the medium term.⁵ This moderation is the first tangible *reward* of the government's difficult policy choices, finally beginning to halt the crowding-out effect and creating future fiscal space.

VII. Market Verdict and Investor Sentiment

The market's reaction to a budget is an immediate and unforgiving report card. The verdict on the 2025 MTBPS was "quick and positive".²

The Bullish Reaction

Immediately following the speech's release, the rand strengthened, government bond yields eased (as prices rose), and a "bullish sentiment around 'SA Inc.'" emerged among investors.²



This positive reception was driven by two key announcements—one a high-level policy signal, the other a critical technical signal.

1. **The Policy Signal (The "Narrative"):** The formal adoption of the 3% inflation target was the long-term policy anchor. This was the "narrative" signal that enhanced the credibility of the entire macroeconomic framework.²
2. **The Technical Signal (The "Cash"):** The announcement that the National Treasury would *reduce its weekly fixed-rate government bond issuance from R3.75 billion to R3 billion.*²

The Technical Signal Mattered More (in the short-term)

While the inflation target captured headlines, the immediate, bullish pop in the bond market was driven more forcefully by the technical cut to bond issuance.

Bond markets, at their core, are driven by supply and demand. For years, investors have been justifiably concerned about a "deluge" of South African bond supply needed to fund runaway deficits and SOE bailouts. This oversupply kept prices low and yields (the government's borrowing cost) high.

The Minister's cut to weekly issuance was *larger than expected.*² This was a direct, technical signal from the Treasury to the bond market, effectively stating: "Our funding conditions are better than you thought. Our borrowing requirement is smaller. We are not desperate for your cash."

This immediate, confirmed reduction in supply caused bond prices to rise and yields to fall. When combined with the credible *long-term narrative* of the new inflation target, it created a powerful, unified "buy" signal for South African assets, validating the Minister's entire strategy.

VIII. Concluding Analysis: A Credible Plan, An Execution Gauntlet

Minister Godongwana's 2025 MTBPS has successfully "struck the right chords".⁹ It is arguably the most coherent, credible, and politically astute fiscal statement from the National Treasury in over a decade.

The Achievement

The statement delivered a masterful balance of the competing priorities facing the Government of National Unity:

- **Fiscal Prudence:** It delivered a credible debt peak ² and a clear deficit reduction path ⁴, underpinned by a growing primary surplus.¹⁶
- **Policy Credibility:** It anchored the entire macroeconomic framework with a landmark 3% inflation target ² and backed it up with a tangible reduction in bond supply.²
- **Political Savvy:** It introduced a "good governance" savings plan (TARS) ⁵ that is politically defensible, using the proceeds to fund a *reversal* of austerity in the social wage.⁷



- **Structural Reform:** It pivoted the state's role in the economy from one of unconditional funder to a "leverage and de-risk" partner for private capital in infrastructure.²

The Risks Ahead (The "Execution Gauntlet")

Despite this achievement, the plan's success is not guaranteed. The positive reception was for a *plan*; the government must now navigate a perilous "execution gauntlet." The primary risks, as outlined by analysts, remain significant ²:

1. **Macro-Economic Risk:** The entire fiscal framework hinges on Treasury's modest GDP growth forecasts ⁵ and stable commodity prices.¹¹ Both are largely outside the Minister's control and vulnerable to global shocks.
2. **Execution Risk (Reforms):** The "flywheel" of infrastructure ⁵ will only turn if the *pace* of structural reforms in energy, logistics, and water (Operation Vulindlela) accelerates to unlock private investment.⁹
3. **SOE Risk:** While the *flow* of bailouts has been stemmed, the precarious financial health of numerous SOEs remains a massive *stock* of contingent liabilities on the sovereign balance sheet.²
4. **Political Risk:** The stability of the GNU itself. This budget was a product of the GNU's consensus-driven center.¹ Any erosion of that political consensus could derail the entire consolidation and reform agenda.²

Final Verdict

The 2025 MTBPS has successfully laid the *foundation* for sustainable growth.⁹ It has bought the government credibility and time. The market has bought the plan. The government must now implement it.

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