Budget 2025

ECONOMICS | South Africa

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Slower deficit reduction despite a 1 percentage point increase in VAT rate spread over 2 years.

- Macroeconomic assumptions: National Treasury expects real GDP growth to rebound between 2025 and 2027, with the economy benefitting from the better domestic environment. Globally, conditions remain favourable, but downside risks have risen substantially in recent weeks as the US escalates its trade war with its major trading partners. For the next three years, growth is expected to improve due to recoveries in consumer spending and fixed investment. Real GDP growth is forecast to rise to 1.9% (vs 1.7% in the MTBPS) in 2025, 1.7% (unchanged) in 2026 and 1.9% (unchanged) in 2027.
- Revenue: Gross tax collections for fiscal year (FY) 2024/25 remain well below the Budget 2024 figure but are slightly better than the R22.3 billion shortfall estimated in the 2024 Medium-Term Budget Policy Statement 2024 (MTBPS). Higher revenue over the Medium-Term Expenditure Framework (MTEF), which runs from FY2025/26 to FY2027/28), is underpinned by the rise of the value-added tax (VAT) rate to 15.5% on 1 May 2025 and 16% on 1 April 2026. As we predicted, personal tax brackets will not be adjusted for inflation effects to compensate for the revenue loss due to the lower VAT increase. Over the MTEF, faster economic growth and a higher tax buoyancy rate add to the boost from the higher VAT rate, with gross tax revenue increasing by an annual average 7.7%.
- Expenditure: Expenditure in 2024/25 will be higher than budgeted in February and October last year. National Treasury upped the estimate for 2025/26. Higher non-interest expenditure is mainly to blame, caused by a higher aggregate wage bill over the MTEF following the above-inflation wage settlement for FY2025/26. Debt service costs will also add pressure, rising at an annual average rate of 7.1% over the MTEF.
- Budget balance: Budget deficit rises to 5% in FY2024/25, in line with October's estimate, but nonetheless the highest level since FY2021/22. As a result of the lower VAT hike, National Treasury again reflects a slower pace of deficit reduction. The deficit remains above 3% over the MTEF. Encouragingly, the primary surplus widens substantially over the period, helping to reduce the public debt ratio. A primary surplus will anchor spending and borrowing changes.
- Debt metrics: The public debt ratio peaks at 76.2% in FY2025/26, slightly higher than in the MTBPS, and moderates gradually thereafter.
- Policy announcements: No major policy announcements were made.

Table 1: Consolidated Budget framework

	2023/24	2024/25		2025/26		2026/27		2027/28	
	Oct-24	Oct-24	Feb-25	Oct-24	Feb-25	Oct-24	Feb-25	Oct-24	Feb-25
Revenue (Rbn)	1 941.40	2 021.50	2 029.2	2 166.60	2 221.9	2 314.30	2 377.4	2 471.8	2 520.6
% growth	*2.4*	*4.1*	*4.2*	*7.2*	*9.5*	*6.8*	*7.0*	*6.8*	*6.0*
% of GDP	*27.4*	*26.9*	*27.5*	*27*	*27.8*	*27.1*	*27.9*	*27.2*	*27.8*
Expenditure (R bn)	2 258.80	2 395.00	2 404.0	2 510.30	2 600.8	2 624.40	2 713.2	2 767.1	2 844.7
% growth	5.5	6.0	6.4	4.8	7.8	4.5	4.3	5.4	4.9
% of GDP	31.8	31.8	32.1	31.3	32.4	30.8	31.8	30.4	31.3
Consolidated Budget Balance (R bn)	-317.5	-373.5	-374.7	-343.7	-370.4	-310.1	-325.6	-295.3	-314.2
% of GDP	*-4.5*	*-5.0*	*-5.0*	*-4.3*	*-4.6*	*-3.6*	*-3.8*	*-3.2*	*-3.5*
Debt Service Costs (R bn)	356.1	388.9	389.6	419.1	424.9	445.7	449.2	475.7	478.6
% of GDP	*5.0*	*5.2*	*5.2*	*5.2*	*5.3*	*5.2*	*5.3*	*5.2*	*5.3*
Primary Balance	33.2	33.3	36.8	75.3	71.0	120.6	136.1	166.7	182.3
% of GDP	0.5	0.4	0.5	0.9	0.9	1.4	1.6	1.8	2.0
Gross debt-to-GDP ratio (%)*	*74.1*	*74.7*	*76.1*	*75.5*	*76.2*	*75.3*	*75.9*	*75.0*	*75.1*

Source: MTBPS 2024 and Budget Review 2025. Oct-24 shows MTBPS 2024 figures, Feb-25 is Budget 2025

The macroeconomic backdrop

Treasury remains upbeat about the economic outlook. National Treasury still expects the economy to grow by 1.9% in 2025, even though growth fell short of their 0.8% estimate in 2024, coming out at a slightly softer 0.6%. Economic growth is projected at an average of 1.8% over the next three years. Treasury expects consumer spending to accelerate, underpinned by more reliable electricity supply, subdued inflation, lower interest rates, moderate employment gains and the withdrawals from two-pot retirement system. The more supportive macroeconomic environment will buoy gross fixed capital formation. Exports will benefit from steady global demand and improvements in the domestic logistics network. However, risks to the growth outlook are to the downside.

Treasury highlighted that achieving faster economic growth and higher job creation will require greater collaboration with the private sector in energy and transport infrastructure. Fixed investment is expected to turn the corner, growing by 5% in 2025 and averaging 4.6% over the next three years. These forecasts were revised higher from last year's MTBPS and Budget estimates, with stable power supply and smoother logistics expected to boost business sentiment and revive private sector capital outlays. Finally, the drag from the net export position will moderate as the global growth improves, driven by lower global interest rates and higher commodity prices. Export-oriented industries will be the primary beneficiaries of the improvement in the logistics network.

However, the outlook faces significant downside risks. Domestically, the major concerns include limited progress in easing logistical bottlenecks, adverse weather shocks and a deterioration in the inflation outlook. Geopolitical tensions, increased protectionism and trade policy uncertainties could cause spikes in global oil prices, leading to higher transport costs. The advent of an intense trade war between the United States and its key trading partners has raised the probability of higher inflation and interest rates. At the same time, it has rattled global equity markets. Lower economic confidence across the globe would hurt spending and investment, dampening commodity prices further.

Table 2: Forecasts of key macroeconomic variables

	2021	2022	2023	2024*	2025	2026	2027
Percentage change	Actual			Estimate	Forecast		
Final household consumption	6.2	2.5	0.7	1.0	1.9	1.5	1.1
Final government consumption	0.6	0.6	1.9	1.5	3.8	-0.1	0.3
Gross fixed-capital formation	-0.4	4.8	3.9	-3.6	5.0	5.2	3.7
Gross domestic expenditure	4.9	4.0	0.8	0.0	2.6	1.7	1.8
Exports	9.7	6.8	3.7	-2.8	3.4	3.2	3.1
Imports	9.6	15.0	3.9	-5.3	5.7	3.1	2.7
Real GDP growth	**5.0**	**1.9**	**0.7**	**0.8**	**1.9**	**1.7**	**1.9**
GDP inflation	6.3	5.2	4.8	4.1	4.9	4.7	4.5
GDP at current prices (R billion)	6220.2	6655.5	7024.0	7365.4	7872.0	8387.0	8932.0
CPI inflation	4.6	6.9	5.9	4.4	4.3	4.6	4.4
Current account balance (% of GDP)	3.7	-0.5	-1.6	-1.6	-2.3	-2.4	-2.6

Source: National Treasury Budget Review 2025, *estimates before release of 2024 data

National Treasury modelled two alternative scenarios for the long-term growth trajectory. The first scenario is optimistic and assumes rapid infrastructure investment supported by a successful scaling up of capital spending by the private sector. These investments will boost energy supply more than forecast, while rail and port operations will recover. As a result, productive capacity and business and investor confidence increase, reducing the sovereign risk premium. Inflation settles at the 4.5% target in the medium term. Stock accumulation, productivity, and trade volumes expand, boosting potential growth. Real GDP growth increases to 2.7% in 2025 and hovers around 2.5% up to 2032. GDP gains an additional R1.1 trillion relative to the baseline over the forecast period.

The pessimistic scenario reflects the negative impact of the volatile global environment. It assumes a shock where global growth slows due to increased trade fragmentation and uncertainty, with restrictive trade policies and bloc divisions weakening global trade and investment. Rising costs, persistent supply constraints and sticky inflation limit major central banks' ability to cut rates, while subdued business activity and weak demand weigh on trade sentiment. Locally, high import inflation, low export volumes and subdued global demand, combined with higher interest rates and foreign capital costs, dampen the expected growth recovery, with real GDP growth of 1.5% in 2025 and 1.6% in 2026. Growth returns to the baseline trajectory by 2027, with nominal GDP lower by a cumulative R226 billion compared with the baseline over the forecast horizon.

The fiscal framework

The revised fiscal framework presents slightly better numbers than the original figures of the cancelled Budget on 19 February.

In FY2024/25, the consolidated budget deficit amounted to an unsustainable 5% of GDP, in line with the 2024 MTBPS, but slightly higher than the 2024 National Budget estimate. Tax revenue growth was disappointing due to sluggish economic growth and falling inflation. This resulted in lower collections of VAT, personal taxes, the fuel levy and customs duties. Only corporate taxes bucked the trend, benefitting from the improved macroeconomic environment, which boosted corporate profitability. Consolidated expenditure rose 6.4% over the year, slightly higher than October's projection.

Over the next three years, the budget deficit eases but at a slower pace than reflected in the MTBPS. In FY2025/26, National Treasury banks on a relatively steep 9.5% increase in consolidated government revenue, partially propped up by a more gradual VAT tax-rate hike, to accommodate an equally aggressive 7.8% rise in consolidated government expenditure. As a result, the consolidated budget deficit narrows to 4.6% of GDP, compared to October's target of 4.3%.

Over the next two years, the budget deficit gradually eases to 3.5% by FY2027/28. Consolidated revenue is forecast to increase by 7% in FY 2026/27 and 6% in FY2027/28, driven by expectations of faster economic growth and a further marginal increase in VAT rate. Encouragingly, National Treasury budgeted for a significant deceleration in government spending to 4.3% and 4.9% over FY2026/27 and FY2027/28, respectively. However, these estimates lack some credibility given that no provisions were made for the Social Relief of Distress grant over the outer years of MTEF.

Debt service costs are projected to rise by an annual average of 7% a year over the MTEF, with the interest payments-to-gross tax revenue ratio remaining elevated around 21% over the period. Encouragingly, the primary budget surplus rises from 0.5% of GDP FY 2024/25 to 2% by FY2027/28, and Treasury aims to widen it further over the next decade. After reports that the Medium-Term Development Programme (MTDP) would not include a fiscal rule, Treasury has indicated that it is exploring a wider spectrum of measures to serve as fiscal anchors instead of just numerical limits.

The wider budget deficit sets the public debt on a higher path. The debt-to-GDP ratio peaks at 76.2% in FY2025/26 compared with 75.5% in the MTBPS. In the revised Budget numbers, the ratio remains slightly above 75% at the end of the MTEF vs. 74.8% in the original estimates. Thereafter, it is still projected to ease slowly to 67% in 2032/33, in line with 66.8% in the MTBPS.

Revenue performance in FY2024/25 and outlook

The improved macroeconomic environment has boosted the performance of the major tax categories in the first 11 months of FY2024/25. However, the gains are below the Budget 2024 estimates in all but one of the tax categories. Gross tax revenue increased by an estimated 2.8% in FY2024/25, which is R16.7 billion less than projected in Budget 2024 and R22.3 billion lower than the MTBPS 2024 forecast.

Gross tax revenue is projected to increase by 8.7% in FY 2025/26, followed by 7.8% in FY2026/27, and 6.6% in FY 2027/28. These relatively aggressive increases are based on the expected economic recovery and the National Treasury's tax proposals, including a gradual VAT tax rate increase to 16% over the next two years. Against this backdrop, the tax buoyancy ratio is forecast at 1.24, 1.22 and 1.0 over the MTEF years from 0.66 and 1.1 in FY2023/24 and FY2024/25, respectively.

Personal income tax (PAYE) collections are projected to be up by 12.9% in the current fiscal year, boosted by higher-than-expected revenue from the two-pot withdrawals, which totalled R11.6 billion up to February 2025 (vs. the projected R5 billion). Still, lower-than-expected employee compensation puts PAYE R6.4 billion below Budget 2024's projection. Employment gains will boost growth in PAYE to 10.8% in FY2025/26 and an annual average of 6.7% over the MTEF.

Higher-than-expected growth in corporate taxes results in an overshoot of R13.7 billion relative to the Budget 2024 estimate, with collections up by 1.1% for FY2024/25 and better than 0.4% estimated in the MTBPS 2024. Mining taxes were down by 28% in the first 11 months, but the sharp drop was more than offset by strong performances in the other sectors. Treasury forecasts growth in corporate tax revenue of 4.7% in FY2025/26 and an average of 8.7% in the subsequent two FYs, benefitting from further improvement in the operational environment and firmer economic growth.

Value-added tax (VAT) growth is projected at 2.8% in FY2024/25, below 3.6% estimated in the MTBPS, and R16.8 billion less than the Budget 2024 projections. Import VAT will be around 0.5% lower, slightly better than the MTBPS estimate. Over the MTEF, VAT collections are boosted by the higher tax rate (see next section).

Fuel levy collections fell by 6.5% over the first 11 months of FY2024/25 as more stable electricity supply reduced demand for fuel used in alternative power generation. Treasury forecasts a drop of 9.2% over the past fiscal year, with significant diesel refunds before year-end raising the final figure higher and in line with the MTBPS 2024 estimate. The Treasury expects this category to expand by an average of only 5.5% a year over the MTEF, primarily due to the flat fuel levy.

The main revenue measures over the MTEF

Revenue collections have fallen short of expectations in recent years, and to plug the gap, the main tax proposal is to increase the VAT rate by 0.5 percentage points to 15.5% this year and by a similar margin to 16% next year. This is the first hike in VAT tax rate since 2018.

Tax proposals raise an additional R28 billion in FY 2025/26 and R119 billion over the MTEF. The boost comes primarily from the net VAT gains (down from R58 billion and R182.4 billion with a 17% VAT rate from April 2025). The higher VAT and broadening of the zero-rated basket raise a net total of R28 billion in FY2025/26, and R14.5 billion in FY2026/27. More than 10 products consumed mostly by households in the lowest four expenditure deciles will be added to the zero-rated basket, which currently contains 21 goods. This measure will result in an R2 billion revenue loss in FY2025/26. Treasury stressed that the VAT rate will remain below the average 19% among peer economies, but the opposition to the higher VAT rate means that more increases are unlikely for a foreseeable period beyond 2026. Total VAT collections are projected to rise by an average rate of 8% per annum over the MTEF, driven by domestic VAT growth of 8.2% a year over the same period.

To compensate for the lower revenue gains due to the lower VAT increase, PAYE brackets will be unchanged for the second year in succession. This measure raises R18 billion in FY2025/26 and R57.4 billion over the MTEF. In the original Budget, the brackets for all but the bottom two income groups were increased slightly, raising an additional R4.8 billion over the MTEF. Therefore, no adjustment generates an extra R52.6 billion over the MTEF.

The fuel levy, which has been unchanged since April 2022, will once again not be adjusted to cushion consumers and businesses against the effect of the higher VAT rate. The diesel rebate for the agricultural, mining and forestry industries will be extended to cover 100%, previously 80%, of eligible fuel use starting in April 2026. These measures will reduce the associated tax revenue by R14.9 billion over the MTEF.

Medical aid tax credits are unchanged for the second successive year at R364 per month for the first two beneficiaries and R246 per month for additional beneficiaries, resulting in a R4.1 billion gain over the MTEF.

The transfer duties on properties valued more than R1.1 million will be adjusted by 10% to compensate for the effects of inflation on property values.

Excise duties on alcohol go up by 6.8% while those on tobacco products rise by between 4.8% and 6.8%, with effect from 1 April 2025 (previously, these increases would have come into effect on the day of the Budget). Consultations on the proposed three-tier progressive tax rates for wine and beer are planned for 2025.

The increase of the health promotion levy is postponed, granting the sugar industry more time to adjust to higher foreign competition.

Table 3: Impact of tax proposals on revenue over the MTEF

	2025/26	2026/27	2027/28
R million		Effect of tax proposals	
Gross tax revenue (before 2025 Budget tax proposals)	1 978 132	2 119 319	2 259 354
2025 Budget proposals[2]	28 000	14 500	
Direct taxes[3]	19 500	20 634	21 960
Personal income tax			
No inflationary adjustment to tax brackets and rebates	18 000	19 067	20 324
No inflationary adjustment to medical tax credits	1 500	1 567	1 636
Indirect taxes[3]	8 500	23 523	24 885
Value-added tax (VAT)			
Increase in VAT rate — 2025/26	13 500	14 344	15 196
Increase in VAT rate — 2026/27	--	15 500	16 420
Additional zero rating	-2 000	-2 128	-2 262
Fuel levy			
No adjustment to general fuel levy	-4 000	-4 257	-4 535
Diesel refund relief for primary sectors	--	-1 000	-1 065
Specific excise duties			
Above-inflation increase in excise duties on alcohol and tobacco	1 000	1 064	1 131
Net impact of tax proposals	28 000	44 158	46 845
Gross tax revenue (after tax proposals)	2 006 132	2 163 477	2 306 199

Source: National Treasury Budget Review 2025

Expenditure

Expenditure adjustments relative to the original Budget are dominated by lower, but still above inflation, increases in social grants, and there is still no provision for extending the Social Relief of Distress (SRD) grant beyond April 2026. Additional spending over the MTEF was reduced to R232.6 billion vs. R252.5 billion in the original Budget. As a result, total spending grows by an annual average of 5.6% a year, almost unchanged from 5.8% in the original Budget. The contingency reserve allocations were reduced by R11.4 billion.

The public sector wage bill (PSWB) grows by 7.8% in FY2025/26 and an average of 5.7% a year over the MTEF, well above the inflation rate. The PSWB absorbs, on average, 40% of gross tax revenue over the MTEF. The Treasury estimates that the three-year wage agreement (consisting of a 5.5% increase in FY2025/26 and inflation-linked increases in the subsequent two years) will cost an additional R23.3 billion over the MTEF. National Treasury also set aside a further R11 billion for the early retirement incentives over the MTEF. To access the additional wage allocations, departments must demonstrate progress in containing their wage bill by incentivising eligible workers to retire early and replace them with younger employees at entry-level wages. This implies that departments will have to fund most of the extra wages from their baseline allocations if they do not meet this condition.

Interest payments on public debt remain the fastest-growing expenditure item, crowding out key economic and social needs. Debt service costs increase by an annual average 7.1% over the MTEF, accounting for 18.5% of total expenditure. Treasury expects debt service costs to stabilise around 5.3% of GDP over the MTEF, contained primarily by slower debt accumulation.

Spending on the social wage remains the biggest expenditure item, accounting for 61% of non-interest spending and 51% of consolidated spending. However, the Treasury warns that debt service costs will exceed spending on health, basic education, and social development due to the large budget deficit and rising debt burden over the MTEF. The social wage bill will increase by 16.7% over the MTEF, with social grants up 17.1% over the same period. Nedbank believes these figures will be higher as we expect the SRD grant to be expanded and extended beyond FY2025/26. Over the MTEF, social grants increase by an annual rate of 0.9% a year, compared with 1.6% in the original Budget. However, the growth figure is distorted by a projected 7.4% decrease in foster care grants, with the remaining grants rising by between 3.4% and 7% a year. Other components of the social wage increase at more than the projected inflation rate, with allocations for health, basic education and higher education and training up by an annual average 5.7%, 6,1% and 5%, respectively.

The additional infrastructure allocation remains unchanged at R46.7 billion over the MTEF, but the extra allocation reduces to R22.7 billion when the drawdown of R24.6 billion from the Infrastructure Fund is included. The economic regulation and infrastructure classification will rise by a substantial 35.7% and an average of 10.7% over the MTEF, with the highest allocations to water resources and bulk infrastructure (R178.4 billion) and roads (R296.8 billion). The overarching economic development function receives R905.6 billion over the MTEF. This figure is less than the R940 billion that the President mentioned in the State of the Nation Address.

To improve its operations and digitise its services, South African Revenue Services will get an additional R500 billion in FY2025/26 and R1 500 billion a year in the following two years.

No new major allocations were made to the state-owned enterprises (SOEs). Some progress was reported, with Eskom continuing its recovery plan under the debt relief arrangement. Like last year, National Treasury will again withhold R2 billion due to Eskom's failure to dispose of its home loan book within the extended timeline required by the 2023 debt relief package. Therefore, transfers to Eskom will total R140 billion as of March 2025, R4 billion below the agreed figure. To simplify the debt transfer phase of the relief package and to reflect Eskom's better financial position, Treasury will make cash transfers of R40 billion to redeem debt maturing in April 2026 and R10 billion for debt falling due in May 2028. These changes reduce the total Eskom Debt Relief package to R230 billion from the R254.4 billion announced in February 2023.

Table 4: Spending additions funded over the MTEF

R million	2025/26	2026/27	2027/28	MTEF total
Infrastructure investment	14 104	15 833	16 741	46 678
2025 public-service wage agreement and carry-through costs	7 317	7 842	8 211	23 371
Early retirement costs	4 400	6600.0	0	11 000
COVID-19 social relief of distress grant	35 169	0	0	35 169
Social grants above-inflation increases	1 594	3 265	3 344	8 203
Provisional allocations for frontline services	22 234	23 504	24 978	70 716
Education: provincial education compensation costs and expansion of ECD provision	8 113	9 647	11 335	29 095
Health: provincial health compensation costs, unemployed doctors and goods and services	9 311	9 643.83	9 991	28 946
Defence: compensation costs shortfalls	2500	2090	2 184	6 774
Correctional services: compensation costs shortfalls	840	878	917	2635
Home Affairs: digitisation and human resource capacitation	1470	1245	550	3265
Other spending additions	17 619	11 135	8 707	37 460
SARS spending adjustments and further support	500	1500	1500	3500
Employment programmes	4592	--	--	4 592
SANRAL GFIP phase 1 debt repayment and maintenance backlog	8 681	4 639	3 314	16 634
SANDF troop deployment in DRC carry-through costs	1800	1747	1480	5027
Spending additions to various institutions	1443	871	917	3231
Local government elections	--	1435	--	1435
Direct charges	603	942	1496	3042
Total additions to baseline	102 438	68 179	61 981	232 598

Source: National Treasury Budget Review 2025

Transnet, which was granted a R47 billion guarantee in November 2023 is also implementing its recovery plan. While the institution is progressing, the government is cautious about making more financial injections. Instead, it is providing direct support to critical infrastructure projects. The South African Post Office has reduced its expenses by shutting branches and has been able to pay its creditors. However, it remains in financial distress due to low revenue. Treasury is working with the Department of Communications and Digital Technologies to develop an effective rescue for the institution. Denel is still struggling to progress on its turnaround strategy after it was allocated R3.4 billion in 2022. However, it has implemented some aspects of the turnaround plan, qualifying for the remaining R914 million of ring-fenced funds. The South African National Roads Agency Limited will receive R3.2 billion for the payment of its debt.

Financing the budget deficit

In FY2024/25, National Treasury extended the maturity profile of the national debt stock by swapping shorter-dated debt instruments for longer-dated bonds, and we expect these switches to continue in FY2025/26 as the Treasury takes advantage of more favourable market conditions.

The wider budget shortfall and higher debt issuance by the state-owned companies raise the gross borrowing requirement by to R582 billion in FY2025/26 from a revised R475.7 billion (reduced from R457.7 billion in Budget 2024). Maturing debt will increase sharply over the MTEF, with domestic and foreign redemptions rising to R303.7 billion in FY2027/28 from R172.6 billion in FY2024/25 and R144.4 billion in FY2023/24.

Table 5: Financing of public sector borrowing requirement

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	-352 722	-353 896	-313 047	-296 352
Redemptions	-144 395	-172 568	-98 802	-172 838	-152 961	-303 679
Domestic long-term loans	-97 250	-132 087	-61 538	-112 252	-112 252	-277 184
Foreign loans	-47 145	-40 481	-37 264	-60 586	-40 709	-26 495
Eskom debt-relief	-76 000	-64 154	-64 154	-80 223		
GFECRA settlement (net)	0	100 000	100 000	25 000	25 000	
Total	-543 311	-457 669	-415 678	-581 957	-441 008	-600 031
Financing						
Domestic short-term loans	88 745	33 000	38 932	38 100	35 900	48 000
Treasury bills (net)	88 084	33 000	38 932	38 100	35 900	48 000
Corporation for Public Deposits	661					
Domestic long-term loans	336 239	328 100	345 000	343 200	323 400	431 700
Market loans	336 079	328 100	343 933	343 200	323 400	431 700
Loans issued for switches	824		1 067	0	0	0
Loans issued for repos (net)	-664					
Foreign loans	45 663	36 700	67 027	99 342	82 101	96 658
Market loans	45 663	36 700	67 027	99 342	82 101	96 658
Change in cash and other balances	72 664	59 869	-35 281	101 314	-393	23 674
Cash balances	42 672	53 112	-39 510	96 358	-4 537	19 354
Other balances	29 992	6 757	4 229	4 956	4 144	4 320
Total	543 311	457 669	415 678	581 957	441 008	600 031
Percentage of GDP	*7.70*	*6.10*	*5.60*	*7.30*	*5.20*	*6.60*

Note: 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 Budget Review 2025

Conclusion

The persistent revenue shortfalls and expenditure overruns have finally come to a head, compelling the government to raise the VAT rate for the second time in less than a decade. We believe the smaller VAT rate hikes proposed for 2025 and 2026 make it more likely that National Treasury will meet its revenue projections. However, the elevated expenditure growth still points to high execution risk. While the three-year wage agreement helps to give some certainty on the wage bill over the next three years, the increases are above the inflation rate. The poor financial state of the major state-owned enterprises also poses significant risks. No direct allocation was extended to Transnet, with Treasury opting to support the entity's major infrastructure projects instead. We still believe that Transnet needs a direct capital injection to help lighten its debt burden. National Treasury must restrict the increase in aggregate spending by maintaining strict conditions on the provisional allocations. We believe that the termination of the SRD grant in March 2026 is highly unlikely. Treasury will have to fund an expanded programme as the social relief facility is converted into a permanent Basic Income Grant.

Therefore, execution risk is high. We believe that expenditure will likely exceed the current estimates. Consequently, we expect the budget deficit to be higher than National Treasury's forecasts, remaining sticky at just over 4% by 2027/28.

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