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MEDIUM TERM BUDGET POLICY STATEMENT

Despite a challenging environment, there is reason for optimism . Two years ago, government committed to stabilising public debt and begin reducing it. That commitment is being met. For the first time since 2008, national debt is no longer rising as a percentage of GDP, saving R4.8 billion in interest and debt repayments this year.

South Africa has also successfully exited the Financial Action Task Force (FATF) grey list, enhancing investor confidence and making it easier to do business. This achievement, delivered in just two and a half years, reflects strong collaboration across government, law enforcement, and the private sector.

Economic context

Global growth is slowing to 3.2% in 2025, and South Africa's GDP is forecast at 1.2% for 2025, rising to an average of 1.8% between 2026 and 2028. These rates are far below what is needed to address unemployment and poverty. Structural reforms in energy, logistics, and water are critical, but implementation delays continue to weigh on confidence and investment.

Debt and fiscal position

For the first time since 2008, public debt will stabilise. Gross debt-to-GDP is projected at 77.9% in 2025/26, with a gradual decline expected over the medium term. This marks a turning point, but debt remains high, and costs of interest consume a large share of revenue.

The primary budget surplus is expected at R68.5 billion (0.9% of GDP) in 2025/26, growing to R224 billion by 2028/9.

The overall budget deficit will narrow from 4.5% of GDP in 2025/26 to 2.7% by 2028/29, assuming strict expenditure control and continued revenue performance.

Debt-service costs

Debt-service costs remain a major pressure point. Over the medium term, these costs will grow by 3.8% annually, a significant improvement from the 7.4% growth projected in the 2025 Budget. Lower borrowing costs and fiscal discipline underpin this trend, but the burden remains heavy.

Lower inflation target

A major policy shift is the reduction of the inflation target to 3% (with a 1 percentage point tolerance band). This move aims to anchor inflation expectations, reduce borrowing costs, and align South Africa with international best practice.

Impact:

1. Positive: Over time, lower inflation will support household spending, business investment, and job creation by enabling lower interest rates and improving predictability. It also reduces the inflation risk premium demanded by investors, lowering the cost of debt.
2. Negative (short term): Lower inflation will slow nominal GDP growth, reducing tax revenue and making fiscal targets harder to achieve. It also means the real value of debt declines more slowly, leaving the debt-to-GDP ratio less favourable in the near term.

Bottom line

The MTBPS signals cautious progress, but underscores hard truths:

- Slow reform implementation could keep growth below target.
 - Revenue volatility and rising social demands could strain fiscal consolidation.
 - Global uncertainty — including commodity price swings and geopolitical tensions—adds pressure.
1. Growth is expected to improve but more is needed to transform the economy.

2. Debt is stabilising and moving in the right direction.
3. Lower inflation will help in the long run but tightens the fiscal space over the short-term.

The focus for the next three years is clear: maintain fiscal discipline, deepen structural reforms, and protect essential services while creating conditions for gradual recovery.

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