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COMMENTARY

The Medium-Term Budget Policy Statement (MTBPS) 2025/26

MOSES KOTANE RESEARCH INSTITUTE
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1. ntroduction

The tabling of the Medium-Term Budget Policy Statement (MTBPS) by the Minister of Finance is a statutory requirement under the Money Bills Amendment Procedure and Related Matters Act 9 of 2009. Although this process occurs annually, the 2025/26 MTBPS is presented at a particularly critical moment for South Africa's fiscal and economic outlook. By design, the MTBPS provides the policy framework that informs the February national budget, updates Parliament on economic and fiscal projections, and proposes in-year adjustments to departmental allocations. It is therefore central to ensuring transparency, accountability, and public participation in fiscal governance.

The MTBPS also serves as the primary vehicle through which Parliament engages the executive's fiscal plans. Portfolio committees assess departmental performance and resource use, culminating in the Budget Review and Recommendations Reports, which must be tabled before the MTBPS is adopted. This process ensures that the fiscal strategy is subject to legislative scrutiny and remains aligned with constitutional principles of oversight and democratic accountability.

The 2025/26 MTBPS is delivered amid a mix of cautious optimism and significant pressures. Globally, persistent geopolitical tensions and commodity price volatility continue to weigh on economic performance. Domestically, the government faces the dual challenge of restoring fiscal sustainability while promoting inclusive growth. Fiscal consolidation, particularly stabilising the debt-to-GDP ratio and maintaining a primary budget surplus, remains essential to safeguarding South Africa's sovereign rating. At the same time, the state must respond to pressing socio-economic needs: expanding social protection, addressing high unemployment, supporting failing state-owned enterprises, and investing in critical infrastructure for energy, water, and logistics. The South African Reserve Bank's shift to a single 3% inflation target adds further complexity, improving long-term price stability but imposing short-term fiscal adjustments.

Against this backdrop, the 2025 MTBPS requires a careful balance between credibility and responsiveness, reassuring investors of fiscal discipline while demonstrating a clear commitment to improving public services and supporting economic recovery. This commentary analyses the MTBPS within this context, examining its fiscal framework, spending priorities, and underlying economic assumptions, and assessing whether its policy choices position South Africa for a more stable and inclusive medium-term trajectory.

2. Global economic outlook

The global economy has maintained its recovery trajectory following the spillover effects of the COVID-19 pandemic, the Russia–Ukraine war, and the ongoing Israel–Palestine conflict, all of which have disrupted global supply chains and perpetrated a surge in global price levels. The combined effects of elevated energy and food prices stemming from the Russia–Ukraine conflict, alongside the tightening of global monetary conditions in the aftermath of the pandemic, have weakened world output and constrained trade flows More recently, the resurgence of trade protectionism and the imposition of tariffs by the United States and its trading partners have further heightened global economic uncertainty and inflationary risks. Although inflationary pressures have begun to ease and financial markets have shown signs of stabilisation, the overall recovery remains fragile and uneven across regions. Table 1 below illustrates the trends in global economic growth alongside those of South Africa.

Global inflation is expected to continue its downward trajectory, although the pace of disinflation will vary across regions (International Monetary Fund, 2025). Advanced economies are projected to converge toward their central bank inflation targets by 2026, supported by declining energy prices and sustained monetary tightening. In contrast, many emerging and developing economies are likely to experience more persistent price pressures, driven by currency depreciation, elevated food prices, and ongoing supply constraints. However, new sources of inflationary risk have emerged, as escalating trade protectionism and the potential for persistently higher tariffs pose renewed challenges to the global inflation outlook (South African Reserve Bank, 2025).

Although global inflation has been on a downward trend, emerging economies such as South Africa continue to face elevated borrowing costs. High nominal interest rates are largely due to persistent global inflation risks, which limit the scope for monetary easing as central banks remain cautious about rapidly reducing nominal interest rates. Even though the South African Reserve Bank (SARB) Monetary Policy Committee (MPC) lowered the kept repurchase rate to 7% on September 2025, the rate remains relatively high. As a result, financially constrained households are unlikely to experience the relief they had anticipated from reduced borrowing costs (South African Reserve Bank, 2025). The following table illustrates the projected economic outlook in terms of economic growth for the world economy and its constituent elements.

Table 1. Overview of the *World Economic Outlook* Projections

Region/country	2023	2024	2025	2026
Percentage	Actual		Forecast	

World	**3.5**	**3.3**	**3.2**	**3.1**
Advanced economies	**1.7**	**1.8**	**1.6**	**1.6**
United States	2.9	2.8	2.0	2.1
Euro area	0.4	0.9	1.2	1.1
United Kingdom	0.4	1.1	1.3	1.3
Japan	1.2	0.1	1.1	0.6
Emerging and developing countries	**4.7**	**4.3**	**4.2**	**4.0**
Brazil	3.2	3.4	2.4	1.9
Russia	4.1	4.3	0.6	1.0
India	9.2	6.5	6.6	6.2
China	5.4	5.0	4.8	4.2
Sub-Saharan Africa	**3.7**	**4.1**	**4.1**	**4.4**
Nigeria	3.3	4.1	3.9	4.2
South Africa[1]	0.8	0.5	1.2	1.5
World trade volumes	**1.0**	**3.5**	**3.6**	**2.3**

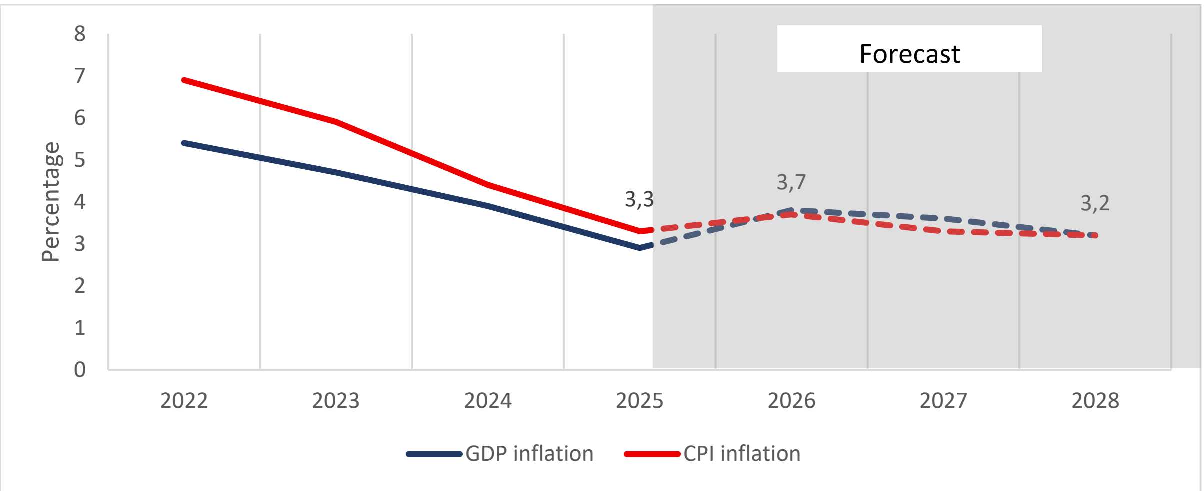
Source: IMF World Economic Outlook, October 2025

According to Table 1, global economic growth is projected to reach 3.2 percent in 2025, indicating subdued momentum across both advanced and emerging economies. This marks a downward revision from the pre-pandemic average of 3.6 percent, largely due to sluggish productivity growth, elevated debt levels, and rising trade fragmentation. South Africa's major trading partners, China and the United States, have also seen their 2025 growth forecasts revised downward to 4.8 percent and 2 percent, respectively. Although South Africa's projected growth rate of 1.2 percent in 2025 remains below the emerging market average of 4.2 percent, the upward revision reflects gradually improving domestic economic conditions. Over the medium term, South Africa's economic growth is projected to be at 1.5 percent, supported by the anticipated global recovery of around 3.2 percent. Modest improvements are expected as structural reforms in the energy and logistics sectors take effect and investor confidence gradually improves.

3. Inflation outlook and the SARB target

South Africa's inflation outlook is entering a new phase of anticipated stability, although near-term challenges remain. Headline consumer inflation has eased markedly from 6.9% in 2022 to 3.4% in September 2025, creating the conditions for a significant policy shift: the adoption of a new 3% inflation target, with a 1-percentage-point tolerance band, replacing the previous 3–6% range. Announced by Finance Minister Enoch Godongwana, the 3% inflation target will be phased in over two years and is expected to anchor lower inflation expectations, reduce borrowing costs, and support a more favourable environment for investment and medium-term economic growth. However, the transition involves trade-offs. Moving to a lower target may impose temporary output losses consistent with the "sacrifice ratio" and could complicate the fiscal framework in the short run through slower nominal GDP and revenue growth. The effectiveness of this disinflation strategy depends heavily on the credibility of the South African Reserve Bank (SARB) and the continued anchoring of inflation expectations, which have already trended downwards to 4.2% for one-year-ahead household expectations in Q3 2025.

Figure 1: South Africa's inflation rate



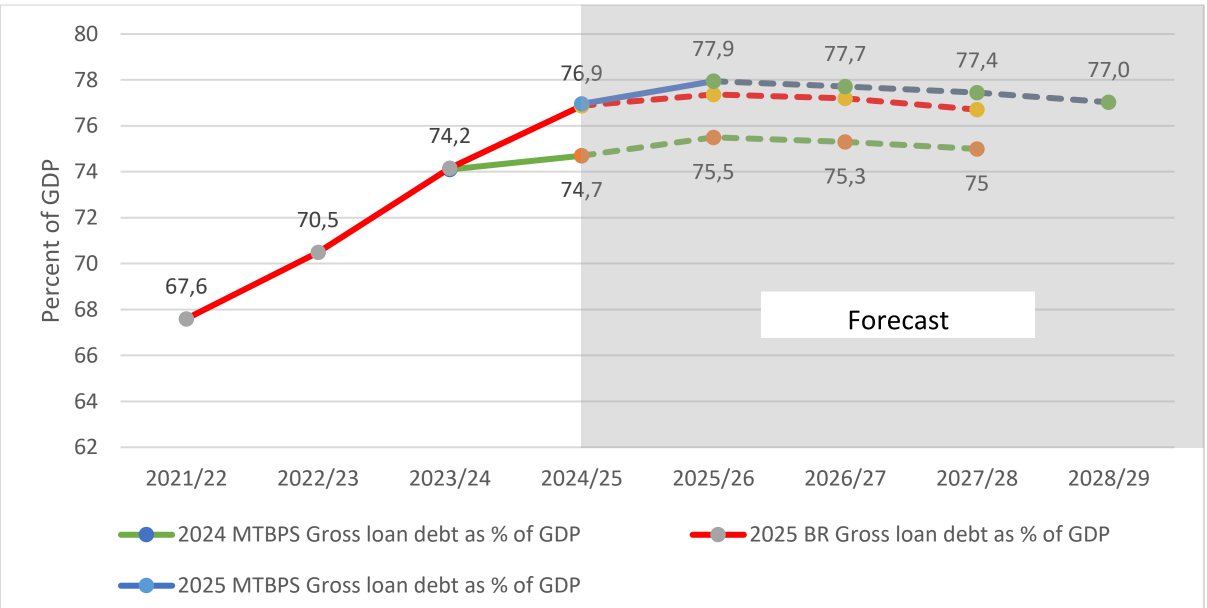
Source: Author's estimations using data from the National Treasury

For KwaZulu-Natal, where inflation has recently exceeded the national average (3.8% in July 2025, driven by housing, utilities, and food costs), the new national target has dual implications. Over time, households and firms stand to benefit from lower interest rates and greater price stability; however, achieving the target may require a tighter monetary policy that could temporarily dampen provincial economic activity. Additionally, KZN's unique cost pressures, particularly high food and logistics costs in eThekwini, will need to be addressed to ensure that the province aligns with the lower national target and fully benefits from improved macroeconomic stability. According to Figure 1, the National Treasury projects CPI inflation to average 3.3% in 2025, edge up to 3.7% in 2026 as the new target is embedded, and stabilise at around 3.2% by 2028, reflecting the delicate balance between credibility, growth, and disinflation.

4. Fiscal Strategy and the Public Debt-to-GDP Ratio

The Moses Kotane Research Institute welcomes the projected stabilisation of public debt at 79.9% of GDP in 2025/26, which marks a significant step toward restoring fiscal sustainability after more than a decade of rising debt ratios, as illustrated in Figure 2. This improvement reflects the National Treasury's fiscal strategy centred on reducing the growth of debt-service costs, now one of the fastest-growing expenditure items, and achieving a sustained primary budget surplus, which is essential for preventing further debt accumulation. Stabilisation at this level is critical, given that debt-service costs continue to crowd out spending on infrastructure, social protection, and economic development. While the stabilisation outlook is encouraging, its success depends on maintaining expenditure discipline, strengthening revenue performance, and ensuring that structural reforms in energy, logistics, and governance translate into higher growth. Treasury's commitment to a credible consolidation path is therefore an important signal to investors and rating agencies, but ongoing vigilance is needed to ensure that fiscal gains are not eroded by weak growth or spending pressures.

Figure 2: Government Debt to GDP Ratio

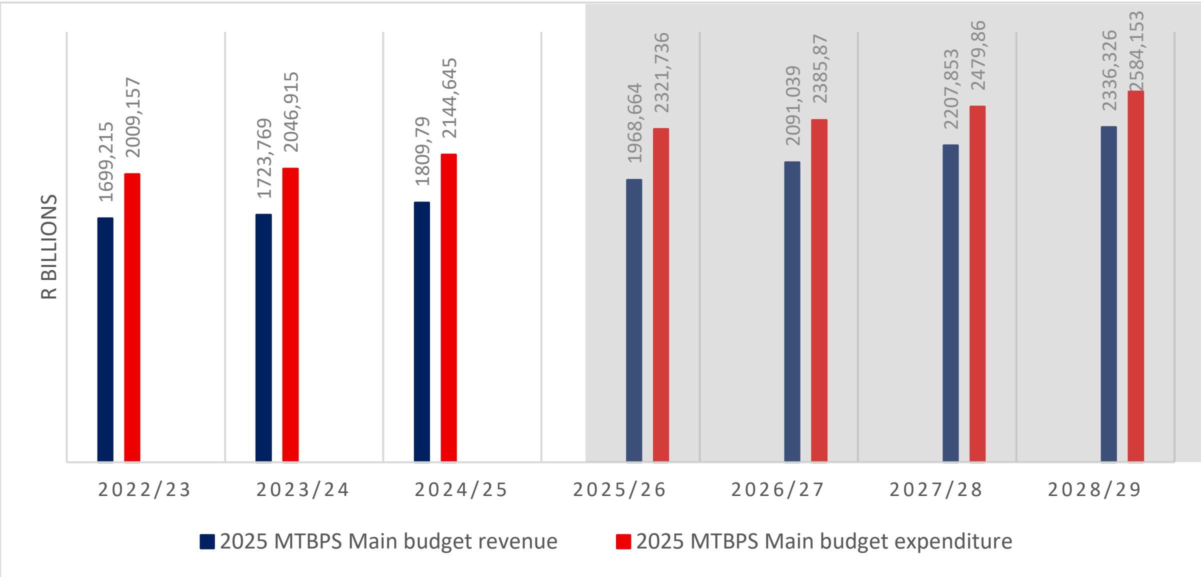


Source: Author's estimations using data from the National Treasury

5. Medium-Term Fiscal Framework

The Moses Kotane Research Institute notes that the imbalance between revenue and expenditure remains a central feature of South Africa's fiscal policy, despite modest improvements reflected in the 2025 MTBPS. Main budget revenue is projected to rise from R1.81 trillion in 2024/25 to R1.97 trillion in 2025/26, increasing to 25.3% of GDP, up from 24.5% in the previous year (NT, 2025). However, expenditure continues to outpace revenue, with main budget spending increasing from R2.14 trillion in 2024/25 to R2.32 trillion in 2025/26, equivalent to 29.8% of GDP. This widening gap reinforces the structural fiscal pressure created by elevated debt-service costs, the public-sector wage bill, and persistent demands for social and infrastructure spending. Although revenue is expected to grow steadily over the medium term, reaching R2.34 trillion by 2028/29, expenditure remains higher throughout the MTEF, sustaining the need for continued borrowing as illustrated in Figure 3. As a share of GDP, revenue is projected to stabilise around 25.6–25.7%, while expenditure gradually declines to 28.5% by 2028/29, signalling a slow and fragile consolidation path. Sustaining this trajectory will require strict spending discipline, improved revenue administration, and structural reforms to lift economic growth, broaden the tax base, and ease long-term fiscal pressures. South Africa's fiscal framework is anchored by the commitment to achieve and maintain a primary budget surplus as a de facto budgetary rule, intended to stabilise debt over the medium term and reinforce fiscal credibility.

Figure 3: 2025 MTBPS budget revenue and main budget expenditure



Source: Author's estimations using data from the National Treasury

6. Provincial and Municipal Budget Implications

The 2025 MTBPS projects that the provincial equitable share will grow from R647.6 billion in 2025/26 to R709.5 billion in 2028/29, as shown in Table 2. This reflects continued, though moderate, growth in provincial funding. While the surge in the provincial equitable share enhances frontline services, such as education, health, and social development, the growth rate remains constrained. It does not fully keep pace with inflation or the rising demand for basic services. Provinces with large populations and high social needs, such as Gauteng, KwaZulu-Natal, and the Eastern Cape, receive the largest shares. However, all provinces face clear fiscal pressures from compensation costs, infrastructure maintenance, and service delivery backlogs. The MKRI welcomes the decision of NT to add R590.4million in 2025/26 to support provincial health services and sustain priority HIV/TB interventions in response to the USA withdrawal of the Emergency Plan for AIDS Relief (PEPFAR) funding. KZN receives the second-largest allocation nationally, after Gauteng. Its funding increases from R130.1 billion in 2025/26 to R144.4 billion in 2028/29, as shown in Figure 2 below. This significant allocation reflects KZN's large population, extensive responsibilities in education and health, and persistent socio-economic challenges like high unemployment, disaster-damaged infrastructure, and unstable municipal finances. Despite this funding increase, the province still faces structural spending pressures and weak municipal performance, especially in rural districts. To ensure these allocations lead to better services and socio-economic outcomes, KZN must improve spending efficiency, strengthen municipal financial management, and accelerate infrastructure delivery. The MKRI supports the ongoing review of the Local Government fiscal framework and the 1998 White Paper, as it seeks to enhance equitable funding frameworks that more accurately reflect population needs and strengthen the financial sustainability of municipalities.

Table 2: 2025 MTBPS provincial equitable share

	2025/26	2026/27	2027/28	2028/29
Rands	**Estimate**	**Medium-term estimate**		
Eastern Cape	83,713,000,000	85,245,000,000	88,459,000,000	90,797,000,000
Free State	35,619,000,000	36,171,000,000	37,669,000,000	38,765,000,000
Gauteng	138,726,000,000	138,761,000,000	144,861,000,000	149,438,000,000
KwaZulu-Natal	130,148,000,000	134,125,000,000	139,993,000,000	144,387,000,000
Limpopo	75,128,000,000	77,703,000,000	81,128,000,000	83,701,000,000
Mpumalanga	53,253,000,000	55,148,000,000	57,710,000,000	59,676,000,000
Northern Cape	17,351,000,000	17,961,000,000	18,812,000,000	19,470,000,000
North-West	47,262,000,000	45,964,000,000	47,798,000,000	49,116,000,000
Western Cape	66,381,000,000	68,447,000,000	71,653,000,000	74,119,000,000
Total	**647,581,000,000**	**659,524,000,000**	**688,083,000,000**	**709,468,000,000**

Source: National Treasury

7. Infrastructure and Public Investment

Infrastructure investment remains a central focus of the 2025 MTBPS, which seeks to boost economic activity by strengthening energy, transport, and social infrastructure across the country. Over the medium term, public investment is expected to rise as national and provincial governments prioritise projects that support growth, reduce service delivery backlogs, and improve resilience to climate-related risks. South Africa's 2025 MTBPS highlights a shift towards public-private collaboration, backed by substantial capital and an improved framework, to tackle infrastructure deficits. Specifically, the statement outlines a plan to mobilise private investment through mechanisms like a R2 billion credit guarantee and a R15 billion infrastructure bond, while also streamlining private sector involvement in logistics and municipal services. Moreover, the 2025 MTBPS reaffirms the government's commitment to public infrastructure, including an additional R14.5 billion for provinces to support the Teacher Assistants Programme. It also reforms the Municipal Infrastructure Grant by allowing project delivery to shift to agencies such as the Municipal Infrastructure Support Agent and the Development Bank of Southern Africa in cases where municipalities are unable to implement projects effectively.

For KwaZulu-Natal, the emphasis falls on repairing and upgrading infrastructure damaged by past floods, improving the provincial road network, and supporting logistics capacity linked to the Port of Durban and the Port of Richards Bay. The 2025 MTBPS also highlights increased allocations to education and health infrastructure, which are critical in a province with high population density and growing service demands. However, the impact of these investments depends on stronger project management, better coordination across spheres of government, and improved performance at the municipal level, where many infrastructure bottlenecks persist. Strengthening institutional capacity and accelerating implementation will be essential for translating planned investment into tangible improvements in KZN's economic competitiveness and social outcomes.

8. Social and Developmental Implications

The 2025 MTBPS reaffirms the government's commitment to reducing poverty through expanded social protection. A total of R284.7 billion is allocated for social grants in 2025/26. This includes increases to the old-age (+R130), disability (+R130), and child support (+R30) grants and extends the Social Relief of Distress for another year (NT, 2025). The MKRI supports this extension but stresses it must be fiscally sustainable. These grants will reach nearly 28 million people, forming a broad social safety net. Furthermore, about 61% of non-interest spending is directed to the "social wage" public services like health, education, and basic municipal services that are key to reducing inequality (Parliamentary Budget Office, 2025; Treasury, 2024). For KwaZulu-Natal, which faces acute unemployment and service delivery pressures, these allocations are vital. MTBPS also renews support for employment programmes like the Expanded Public Works Programme and the Presidential Youth Employment Initiative. These aim to create temporary jobs for the youth, a critical priority in KZN.

9. Conclusion and Policy Recommendations

9.1. Conclusion

The 2025 MTBPS marks a pivotal shift towards restoring South Africa's macroeconomic stability without sacrificing long-term development. By lowering the inflation target to a 3% lower bound and projecting public debt to stabilise at 77.9% of GDP through a primary budget surplus, the framework bolsters fiscal credibility and creates space for sustainable planning. Despite constrained expenditure, it protects core social and economic priorities like health, education, and infrastructure. This balance of fiscal discipline and developmental spending is crucial amid weak growth and high social vulnerability. Ultimately, the success of this strategy hinges on accelerating implementation, improving financial management, and advancing reforms in energy, logistics, and SOEs. If these reforms proceed alongside a stable fiscal framework, the MTBPS can foster a gradual economic recovery and more inclusive development.

9.2. Recommendations

The recommendations of the study are:

(i) MKRI welcomes the extension of the Stress Relief of Distress Grant until March 2027. However, the National Treasury and the Department of Social Development must make social grants fiscally sustainable by transitioning the SRDG toward a mixed model that combines a targeted safety net with activation components like job-search assistance and public-works placements.

(ii) The National Treasury and the Department of Cooperative Governance and Traditional Affairs must strengthen the local-government fiscal framework by updating the Division of Revenue principles to adopt a revised equitable-share formula that explicitly weights current population, poverty, and infrastructure backlogs

(iii) The National Treasury must protect the primary budget surplus to reduce the public debt and fund high-return investments, ensuring the hard-won fiscal achievement is used strategically as a buffer to service costly contingent liabilities and finance critical infrastructure in energy and logistics rather than being allocated to recurring consumption, in line with the central fiscal strategy of the 2025 MTBPS that achieved a R68.5 billion primary surplus and is aimed squarely at achieving debt stabilisation

(iv) The Department of Transport, Transnet National Ports Authority, must fast-track the modernization of the Ports of Durban and Richards Bay through terminal upgrades and dredging programmes to reduce logistics costs and boost competitiveness for KZN exporters.

(v) MKRI welcomes the National Treasury's decision to lower the inflation-targeting regime to a 3% lower bound. However, the South African Reserve Bank should implement monetary policy cautiously to avoid procyclical actions that could undermine price stability and economic growth in the medium term.

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