

https://dspace.org/

MTBPS 25 Preview: A Costly Primary Surplus

Amra, Rashaad; Chakraborty, Pinaki; Madonko, Thokozile; Willcox, Owen

2025-11
University of the Witwatersrand, Joahnnesburg
https://hdl.handle.net/10539/47514
Amra, R. et al (2025) MTBPS 25 Preview: A costly primary surplus, Public Economic Project, Southern Centre for Inequality Studies, University of the Witwatersrand, Johannesburg.

Downloaded from a DSpace repository. https://dspace.org/

MTBPS 25 PREVIEW

A costly primary surplus

Public Economy Project

Rashaad Amra, Pinaki Chakraborty, Thokozile Madonko and Owen Willcox

November 2025



Introduction

The 2025 Medium-Term Budget Policy Statement (MTBPS), the second of the Government of National Unity, arrives at a milestone moment. For the first time in sixteen years, South Africa is projected to record an actual primary surplus—the result of years of slowing expenditure growth and a stronger-than-expected revenue performance in the current year. This marks an important fiscal milestone on what has been a long and painful path to debt stabilisation.

The 2025 MTBPS follows the 2025 Budget Review that marked a sharp departure from the contractionary path signalled in the 2024 MTBPS, raising questions about the credibility, consistency, and coherence of fiscal policy under the current coalition government. Since the 2025 budget, the nominal growth outlook has deteriorated, new expenditure pressures have emerged, whilst revenue has exceeded expectations. The 2025 MTBPS must now clarify whether that shift represents a new medium-term baseline—or a temporary detour. It must determine whether the improved fiscal position will be used to restore capacity in underfunded social sectors, or whether consolidation will continue to take precedence over developmental priorities. In doing so, it will signal whether South Africa's emerging fiscal path represents a genuine rebalancing— or merely a temporary reprieve in a longer trajectory of austerity.

Economic outlook: Steadying abroad, stalling at home

The 2025 MTBPS will be delivered against a backdrop of shifting global conditions, domestic political constraints, and a fragile economic recovery. Since the start of the year, the global growth environment has moved through periods of pronounced volatility. Early in 2025, fears of intensifying trade wars and protectionist escalation under the new U.S. administration triggered a sharp downward revision to global and South African growth expectations. Subsequent trade resets and limited bilateral deals tempered these risks, stabilising markets and improving confidence, though uncertainty about the stability and direction of global trade remains high.

Table 1: Marginal change in growth outlook

Real GDP growth outlook - calender year	2024	2025	2026	2027	2028
National Treasury - MTBPS 2024	1.1%	1.7%	1.7%	1.9%	-
National Treasury - Budget 2025 - March	0.8%	1.9%	1.7%	1.9%	0.0%
National Treasury - Budget 2025 - May	0.6%	1.4%	1.6%	1.8%	-
Bureau for Economic Research - 4Q 2024	1.0%	2.2%	2.1%	1.9%	1.9%
Bureau for Economic Research - 3Q 2025	-	0.8%	1.3%	1.5%	1.5%
Bureau for Economic Research - 4Q 2025	-	1.3%	1.5%	1.7%	1.6%
South African Reserve Bank - November 2024	1.1%	1.7%	1.8%	2.0%	-
South African Reserve Bank - May 2025	-	1.2%	1.5%	1.8%	-
South African Reserve Bank - September 2025	-	1.2%	1.4%	1.9%	-
International Monetary Fund - October 2024	1.1%	1.5%	1.5%	1.5%	1.5%
International Monetary Fund - April 2025	-	1.0%	1.3%	1.6%	1.7%
International Monetary Fund - October 2025	-	1.1%	1.2%	1.5%	1.7%
Nominal GDP growth outlook - fiscal year*	**2024**	**2025**	**2026**	**2027**	**2028**
National Treasury - MTBPS 2024	6.1%	6.5%	6.5%	6.6%	-
National Treasury - Budget 2025 - March	5.4%	7.0%	6.4%	6.5%	-
National Treasury - Budget 2025 - May	4.4%	6.3%	6.1%	6.5%	-
Bureau for Economic Research - 4Q 2024	6.1%	6.2%	6.4%	6.1%	5.9%
Bureau for Economic Research - 3Q 2025	-	4.4%	5.1%	5.2%	4.8%
Bureau for Economic Research - 4Q 2025	-	5.0%	4.8%	5.1%	4.7%
International Monetary Fund - October 2024	5.7%	6.1%	6.0%	6.1%	6.0%
International Monetary Fund - April 2025	-	4.7%	5.8%	6.2%	6.3%
International Monetary Fund - October 2025	-	4.7%	4.9%	4.8%	4.9%
*Growth projections correspond to publication date and not forecast date					

Despite these developments, the world economy has shown significant resilience. Growth in major advanced economies has held up; market volatility has eased; and several commodity prices have strengthened, while oil prices remain contained. These conditions have provided moderate support for emerging markets, including South Africa, by easing external financing pressures and stabilising export earnings.

The IMF's October 2025 World Economic Outlook projects world growth to slow from 3.3 per cent in 2024 to 3.2 per cent in 2025 and 3.1 per cent in 2026—an improvement on mid-year expectations but still below the trajectory envisaged before the policy shifts of late 2024. Globally, the use of non-tariff barriers has increased, even as some tariffs have been rolled back, signalling that the structural fragmentation of global trade will persist.

Within this external context, South Africa's economic outlook has improved only marginally since the *delayed* tabling of the 2025 Budget. Firmer global demand, stronger commodity prices, and modest progress on domestic structural reform have supported a slow and uneven recovery in output. Specific reforms—such as rail and port interventions, expanded renewable energy procurement, and improved infrastructure permitting—have helped stabilise confidence in some sectors.

On a nominal basis, the economic outlook has weakened due to a lower outlook for GDP inflation. This has direct implications for revenue forecasts and the debt-to-GDP trajectory, since nominal GDP serves as the denominator for key fiscal indicators and the anchor for the overall budget framework. With the government under pressure from the Reserve Bank to lower the inflation target, sustained lower GDP inflation in the context of weak real GDP growth will make fiscal consolidation more difficult to achieve.

Overall, the macroeconomic picture heading into the 2025 MTBPS is one of low domestic nominal growth. Whilst the global economy has shown some signs of steadying, providing a momentary reprieve, domestic growth is modest and insufficient. Constrained by the underlying structural weaknesses, these continue to weigh on the medium-term outlook and fiscal prospects.

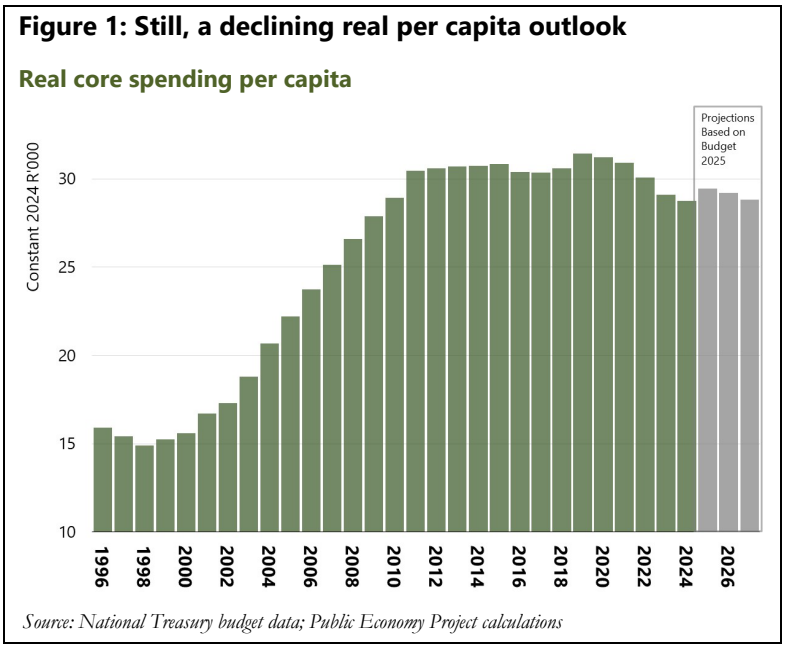
Sustaining the break from the 2024 MTBPS?

The 2025 MTBPS follows the 2025 Budget Review that marked a sharp departure from the contractionary path signalled in the 2024 MTBPS, raising questions about the credibility, consistency, and coherence of fiscal policy under the current coalition government. The 2025 MTBPS must now clarify whether that shift represents a new medium-term baseline—or a temporary detour.

The 2025 main budget added R180.1 billion in non-interest expenditure over the medium term, primarily to health, education, social protection, and defence. It also fully funded the public service wage agreement and stabilised real per capita core spending—at least in the short term. This marked a clear departure from the sharp fiscal consolidation planned in the 2024 MTBPS, suggesting an implicit acknowledgement of the political limits of austerity amid service delivery strain.

However, this shift was heavily qualified. Of the R180.1 billion added, R141.7 billion was provisional—conditional on future decisions by National Treasury and Parliament. These allocations, if not fully appropriated, could result in spending contracting in real terms. This ambiguity undermines the budget's signalling function and places implementation departments in a precarious planning position, as they will only have three months of the fiscal year to spend these larger allocations. Further, when considered on a real per capita basis, core spending is expected to decline over the second and third years of the MTEF.

Figure 1: Still, a declining real per capita outlook

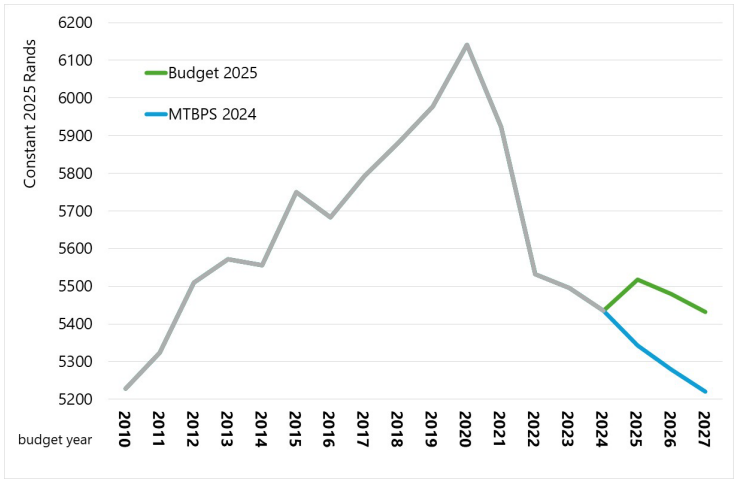


Source: National Treasury budget data; Public Economy Project calculations

In line with the overall change in the course of public spending announced in the 2025 Budget, the allocation for **health** also increased significantly for 2025 and over the medium term. The 2025 Budget introduced an additional R28 billion for health over the medium term. Notably, in real per capita terms the upward shift in the health expenditure trajectory is limited to the first year of the MTEF, after which allocations again decline, thereby failing to reverse the longer-term trend of real erosion in health budgets.

Since the start of the year, the health sector has experienced a significant expenditure shock due to the U.S. government's stop-order on overseas assistance. This has disrupted support for HIV and TB programmes in South Africa. The suspension of PEPFAR funding is expected to have significant consequences for the country's HIV response. In response, the government invoked Section 16 of the Public Finance Management Act (PFMA) to authorise emergency funding to provincial health departments for the recruitment of staff to fill gaps left by U.S.-supported programmes. This amounted to R754 million during the second half of the 2025 fiscal year. It now appears possible that this temporary allocation could be integrated into the District Health Programmes Grant going forward, effectively representing a structural increase in baseline health expenditure. Such an incorporation, while necessary to sustain essential services, will place additional pressure on already constrained budgets over the medium term.

Figure 2: Declining real per capita health spending



Source: National Treasury budget data; Public Economy Project calculations

The 2025 Budget Review similarly marked a shift in the trajectory of **basic education** funding, reversing the sharp declines projected in the 2024 MTBPS. An additional R29.5 billion was allocated to the Department of Basic Education over the medium term, primarily to alleviate provincial compensation pressures and expand Early Childhood Development (ECD) services. Of this, R19.1 billion is specifically set aside to retain approximately 11 000 teachers.

Protecting teacher salaries has averted politically and socially untenable retrenchments, but this has come at the cost of increased discretionary spending. Since 2011, while real education spending has increased by 16 per cent and compensation by 15 per cent, capital spending has declined by 40 per cent—an unsustainable trend. This crowding-out effect has undermined infrastructure, maintenance, and the provision of teaching materials.

Despite these pressures, the Minister of Basic Education announced an expansion of Grade R and increased infrastructure spending. She also acknowledged severe provincial fiscal constraints, which have led to unfilled posts, infrastructure backlogs, service interruptions, and in some provinces, non-payment of school allocations. In response, provinces have been instructed to develop recovery plans and ring-fence spending on core priorities: teaching, infrastructure, and learner support. However, the outlook remains constrained. On a real per capita basis, the basic education budget is expected to decline by 1.3 per cent over the MTEF, reinforcing long-term fiscal pressures despite short-term gains.

Despite a nominal increase in allocations over the MTEF and a real per capita increase for 2025, the 2025 Budget Review presents a further real per capita decline in funding for **police services**, continuing a trend of stepwise budget compression since 2020. With over 80% of the Vote absorbed by compensation, capital investment, and operational capacity remaining constrained, even as crime statistics worsen and public concern over safety deepens. The MTEF projects improved detection rates and crime reductions, but these targets rest on stagnant headcount and diminishing fiscal space. This raises questions about the sustainability of the current budgeting model and the SAPS's ability to meaningfully improve service delivery and rebuild public trust without reversing the erosion of real per capita spending.

Revenue has – to date – exceeded expectations.

Revenue performance in the first half of the 2025 financial year has exceeded expectations. Corporate Income Tax, Domestic VAT, and overall VAT receipts have all performed strongly, reflecting resilience in commodity-linked earnings, improved collection efficiency, and a marginal rebound in consumption.

The Public Economy Project projects that the main budget's gross tax revenue for 2025 will exceed the 2025 Budget Review estimate by approximately R53 billion. This outperformance could carry through over the medium term, raising the fiscal baseline.

However, this improvement must be interpreted with caution. Volatility in revenue collection remains a critical risk. In particular, VAT refund dynamics are highly opaque, with refund accruals often diverging from payment schedules, with their delayed or lumpy payment introduces significant forecasting uncertainty.

Moreover, the National Treasury has been forced to rely disproportionately on personal income tax (PIT) to close the fiscal gap. The bulk of new revenue measures in the 2025 Budget came from PIT-related instruments—including bracket creep and frozen medical tax credits. This erodes household disposable income, raises distributional

concerns, and dampens aggregate demand. With the strong opposition experienced to a proposed increase in VAT at this year's budget process, South Africa may have reached its political ceiling for overt tax increases.

Table 2: Revenue performance to date has exceeded expectations

	2024			2025						
	Preliminary outcome	Year to date (April - September 2024)		Budget 2025	PEP November 2025	difference	Year to date (April - September 2025)			
	R millions	R millions	share of preliminary outcome	R millions	R millions	R millions	R millions	share of Budget projection	projected annual growth y/y	Year to date growth - actual
Personal income tax	729 911	335 520	46.0%	792 452	793 579	1 127	363 713	45.9%	8.6%	8.4%
Corporate income tax	318 739	147 231	46.2%	338 824	355 191	16 367	159 309	47.0%	6.3%	8.2%
Skills development levy	24 448	11 853	48.5%	26 006	29 313	3 307	12 478	48.0%	6.4%	5.3%
Value-added tax *of which:*	457 789	205 382	44.9%	482 246	500 747	18 501	229 009	47.5%	5.3%	11.5%
Domestic VAT	561 407	271 601	48.4%	591 079	600 475	9 396	292 726	49.5%	5.3%	7.8%
Import VAT	261 878	117 523	44.9%	276 488	279 632	3 144	120 209	43.5%	5.6%	2.3%
Refunds	(365 497)	(183 742)	50.3%	(385 320)	(379 360)	5 961	(183 925)	47.7%	5.4%	0.1%
Specific excise duties	59 680	24 262	40.7%	64 134	71 575	7 440	24 611	38.4%	7.5%	1.4%
Ad valorem excise duties	6 970	3 356	48.2%	7 408	8 006	599	3 669	49.5%	6.3%	9.3%
Health promotion levy	2 282	1 015	44.5%	2 403	2 355	(48)	1 026	42.7%	5.3%	1.1%
Fuel levy	85 883	43 702	50.9%	96 592	98 378	1 787	47 243	48.9%	12.5%	8.1%
Import duties	76 698	32 469	42.3%	81 125	83 738	2 613	34 817	42.9%	5.8%	7.2%
Total tax revenue (gross)	**1 855 270**	**846 163**	45.6%	**1 985 603**	**2 038 861**	53 259	**924 725**	46.6%	7.0%	9.3%
Less: SACU payments	**(89 874)**	**(44 937)**	50.0%	**(73 552)**	**(73 552)**	(0)	**(36 776)**	50.0%	-18.2%	-18.2%
Total tax revenue (net of SACU payments)	**1 765 396**	**801 226**	45.4%	**1 912 051**	**1 965 309**	53 259	**887 949**	45.2%	8.3%	10.8%

Public Economy Project's outlook for public finances

The Public Economy Project produces a non-policy adjusted baseline fiscal outlook to benchmark and critically assess the National Treasury's projections. Using six months of Section 32 data and updated consensus macroeconomic forecasts, PEP offers an alternative view of fiscal performance—one that reflects underlying trends absent new policy interventions.

Key assumptions in the PEP baseline include:

- Acceptance of Treasury's published MTEF expenditure path.
- Extension of the SRD grant across the medium term, adjusted for inflation.
- Inclusion of the Sec 16 special allocation for health for HIV-related spending into the baseline annually over the medium-term (post-USAID aid withdrawal).
- Modest ongoing support to SOEs.
- 5% of conditional allocations are not appropriated
- Full drawdown of contingency and unallocated reserves to meet emerging expenditure pressure
- Financial support for Eskom is included above-the-line

Revenue and balances

- PEP forecasts that the main budget revenue in 2025 will be R53 billion higher than the National Treasury's estimate.

- This leads to a primary surplus in 2025, the country's first since 2008
- The main budget balance is also less negative across the MTEF.
- These improvements are mechanical, reflecting the carry-through of a stronger 2025 revenue base, combined with a continued austere spending path.

Debt outlook

Despite improved balances, PEP's projection indicates that gross loan debt as a share of GDP is expected to continue rising over the medium term. In contrast, the National Treasury's budget review projects debt stabilisation beginning in 2025.

This divergence reflects both an improved revenue outlook and a deteriorating nominal GDP outlook: the National Treasury expected faster nominal growth in the 2025 Budget, whereas updated consensus forecasts show a moderate nominal path for the economy over the medium term. As a result, the debt trajectory in PEP's baseline continues upward.

Notably, this outcome aligns with the IMF's October 2025 Fiscal Monitor, which also projects a rising debt path for South Africa over the medium term—suggesting that National Treasury's stabilisation forecast may *again* not be realised over the medium term.

Fiscal effort

Over the period 2019–2024, South Africa's fiscal policy of consolidation has increasingly relied on non-interest expenditure rather than revenue mobilisation.

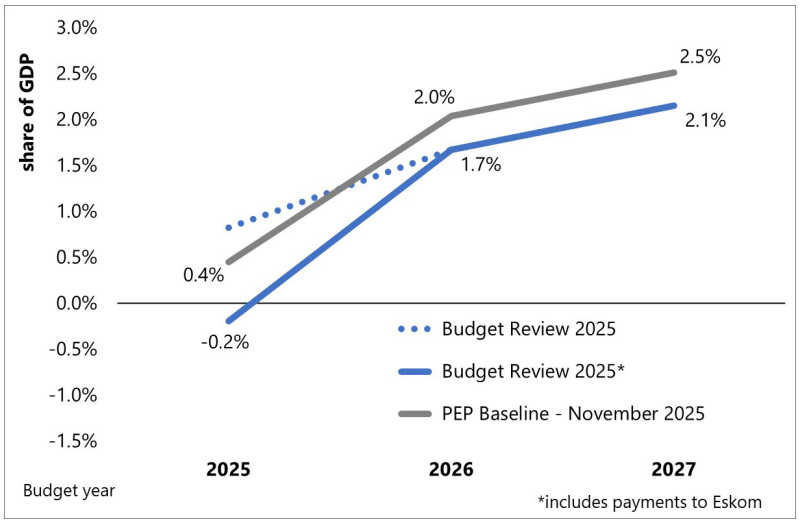
Non-interest expenditure has decreased by 1.3 percentage points of GDP, from 26 per cent in 2019 to 24.6 per cent of GDP in 2024. Non-interest expenditure is expected to fall further as a share of GDP to 22.9 per cent by the end of the MTEF (2027). In contrast, main-budget revenue as a share of GDP has increased by 0.8 percentage points, from 23.6% to 24.4%, between 2019 and 2024. Main budget revenue is expected to increase by 0.7 per cent over the MTEF to 25.1 per cent (2007).

The primary balance has therefore improved more from real expenditure compression, while debt-service costs have risen by 1.3 per cent of GDP, consuming much of the fiscal space gained elsewhere.

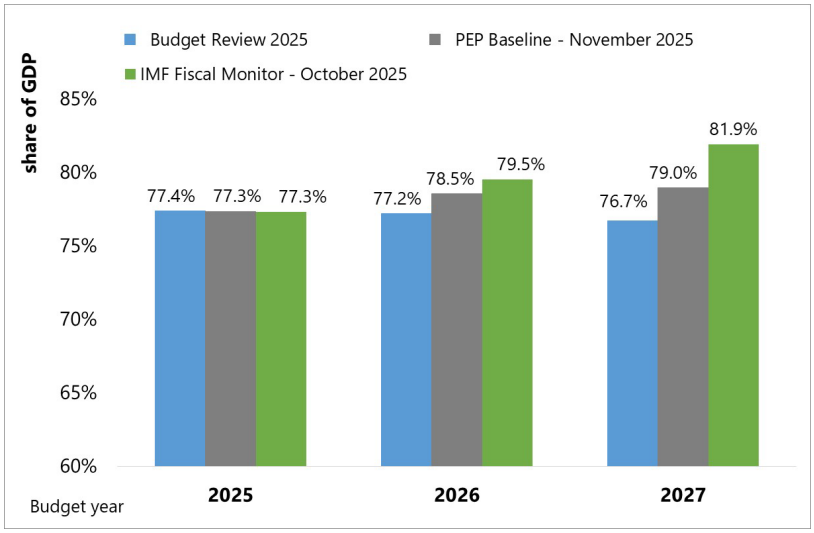
Despite the significant fiscal effort on both the expenditure and revenue side, gross loan debt continues to edge higher — from 50.3 per cent of GDP in 2019 to a projected 77.7 per cent by 2027 — indicating that consolidation has not *yet* achieved debt stabilisation.

Figure 3: Public Economy Project's outlook

a) Primary balance as a share of GDP



b) Gross loan debt as share of GDP



Source: National Treasury budget data; Public Economy Project calculations

Table 3: Fiscal aggregates

	actual						projected			increase (decrease)		
as share of GDP	2019	2020	2021	2022	2023	2024	2025	2026	2027	2019-2024	2024-2027	2019-2027
Main budget revenue	23.6%	22.1%	24.7%	25.1%	24.3%	24.4%	24.8%	25.1%	25.1%	0.8%	0.7%	1.5%
Debt service costs	3.0%	3.3%	3.6%	3.9%	4.3%	4.3%	4.8%	5.0%	5.4%	1.3%	1.0%	2.3%
Non-interest expenditure*	26.0%	27.7%	25.6%	25.1%	24.9%	24.6%	25.0%	23.4%	22.9%	-1.4%	-1.7%	-3.1%
Main budget expenditure*	29.7%	31.9%	29.8%	29.8%	30.0%	29.8%	30.6%	29.3%	29.2%	0.1%	-0.6%	-0.5%
Gross loan debt	57.1%	70.1%	67.6%	70.5%	74.2%	76.9%	77.4%	77.2%	76.7%	19.7%	-0.2%	19.6%

Source: National Treasury budget data *includes payments to Eskom

The 2025 MTBPS and the future size of the state

Current fiscal policy, notwithstanding the deviation in 2025, is steering South Africa towards a smaller state, with profound implications for service delivery, economic performance, and the social contract. Under this approach, and with the government's proposed Targeted and Responsible Savings (TARS) still to bear fruit, fiscal consolidation is maintained not through enhanced efficiency or stronger revenue mobilisation, but by ensuring that government expenditure grows persistently slower than nominal GDP. While this may yield short-term improvements in fiscal ratios, it entrenches a structural headwind to aggregate demand and weakens the state's developmental capacity.

A smaller public-sector share of GDP means that future growth will be constrained to relieve fiscal pressures or expand social investment. Instead, the adjustment path embeds a low-spending, low-growth equilibrium, where fiscal stability is pursued at the cost of declining public capability and worsening inequality.

The projected decline in non-interest expenditure — amounting to roughly three percentage points of GDP over a decade — implies a significant erosion of the state's ability to deliver basic services. The "lawnmower" approach to expenditure cuts, applied uniformly across departments, risks hollowing out critical sectors such as health, education, and criminal justice services. These across-the-board reductions are mechanical rather than strategic, reducing inputs without addressing inefficiencies or institutional weaknesses.

As a result, the quantity and quality of public services are deteriorating, while per-capita allocations fall further behind population growth and inflation. This trajectory threatens to deepen unemployment, inequality, and poverty, undermining South Africa's constitutional commitment to socio-economic rights. It also raises fundamental questions about the future size and purpose of the South African state: whether it remains capable of fulfilling its redistributive and developmental mandate or becomes increasingly confined to debt service and minimal core functions. The 2025 Medium Term Budget Policy Statement presents the Government of National Unity with an opportunity to present a path that seeks to balance the country's development needs while maintaining the sustainability of public finances.