STATEMENT

MTBPS 2025: Turning a corner, walking towards a dead end

13 November 2025

Introduction

While the National Treasury has utilised the 2025 Medium Term Budget Policy Statement (MTBPS) to argue that South Africa has turned the corner towards a more sustainable fiscal path, the Institute for Economic Justice (IEJ) raises concerns that we're being led towards a dead end. While progress has been made on a narrow set of economic indicators (most notably debt stabilisation), this does not mean that growth, employment, and prosperity will now materialise. Worryingly, such 'stability' comes on the back of years of under investment. It is quite possible that this 'stability' will only serve the interests of the elite, and continue to perpetuate the structural economic features that reproduce deindustrialisation, unemployment, poverty, and inequality. Limiting the role of fiscal policy in this manner is a severe underplaying of the transformative potential of the budget.

1. Stability at the expense of growth and employment?

Much has been made of the stabilisation of the debt-to-GDP ratio in the current year, but this achievement rings hollow without the necessary ingredients for growth.

Worryingly, this debt stabilisation has come at enormous cost for the public. Critical services in areas such as health and education have been undermined through the inability to increase headcounts. This has led to increases in learner-to-teacher ratios, with 69% of the country's public schools lacking a library and 80% lacking laboratories. A similar worsening has happened in healthcare, where the number of doctors per 1,000 people has worsened from 0.79 in 2019 to 0.54 in 2025, and it remains far worse than peer countries. In social security, successive below-inflation increases have widened the gap between the Child Support Grant and the Food Poverty Line over the last decade and a half, from around 90% in 2006 to 70% in 2025. In general, debt stabilisation has been achieved on the back of

indiscriminate and harmful cuts to spending. Ultimately, cutting expenditure does not constitute a sustainable debt management strategy, which should rather rely on growth-promoting interventions and other more direct measures to reduce the cost of debt.

The National Treasury might argue that these are 'short-term costs' that need to be borne for longer-term prosperity. Leaving aside that this approach places the costs of adjustment disproportionately on the shoulders of those least able to absorb it, the National Treasury is also mistaken in its belief that these "stronger public finances" will *necessarily* "lead to higher confidence and investment… and economic growth". As we argued in our latest Briefing Note, there is insufficient domestic and international evidence to support the claim that a rebalanced macro-fiscal environment will lead to improved investment and higher economic growth. There is even less reason to believe that it will result in the economic restructuring needed for the South African economy to grow sustainably and create enough jobs to gradually eliminate, or significantly reduce, unemployment and poverty. Overwhelmingly, countries which have undergone industrial development have done so on the back of 'activist' fiscal policies – the very policies which National Treasury and the SARB are neglecting.

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Policies which would otherwise put the economy on a path to prosperity are being undercut by the National Treasury's steadfast adherence to its primary surplus targets (spending less on non-interest expenditure than is raised in revenue). Main budget non-interest spending will fall, in real terms, by an average of 0.71% per year over the medium term, indicating yet again a retreat in the government's investment in the South African economy. Contrary to rhetoric about an 'end to austerity', the growing primary surplus over the MTEF is, in fact, a clear indication of just how much austerity still remains a core part of the budget in the face of so many unfulfilled critical social needs.

The skewed priorities of the National Treasury are clear, with the Minister's MTBPS speech mentioning poverty and unemployment only once, in passing, rather than making addressing these the central focus of our economic strategy. This reflects a lack of coherence with the ANC's recently announced 10 Point Plan, and an overall neglect of the role of fiscal policy in tackling our most pressing challenges. The MTBPS shows, for instance, no increased support for public employment programmes to reduce unemployment and lacks any substantial deployment of DFIs to scale up finance for industrialisation, both promised in the ANC's 10 Point Plan. Without such interventionist policies, any gains from a more stable macroeconomic environment will largely accrue to holders of financial assets, who are already swimming in uninvested cash.

2. Is fiscal stability masking growing risks?

This MTBPS continues to kick critical issues down the road, masking future risks. As identified in the IEJ's research on fiscal anchors, three key reasons underpinning a recent

loss in budget credibility have been the lack of resolution by the government on the future of the Social Relief of Distress (SRD) grant, compensation of government employees, and the support for state-owned enterprises (SOEs). The SRD grant, as suggested in the 2025 May budget, will be extended, but only until 2027. With growing evidence of the grant's effectiveness, despite its low value and the unconstitutional hurdles put before potential recipients, National Treasury has been unable to achieve its objective of either terminating the grant or using jobseeking conditionalities to radically reduce the number of beneficiaries. However, the future of the grant remains uncertain. Similarly, while major SOEs continue to draw down on their debt-relief schemes to maintain liquidity and remain operational, National Treasury is yet to establish a clear, coherent policy for fiscal support, or lack thereof, where issues persist. Lastly, there remains the unresolved, hotly contested debate on compensation for employees. Departments are complaining that lower headcounts and large numbers of unfilled frontline posts are affecting their ability to execute programmes, while the National Treasury worries about the fiscal implications of above-inflation wage settlements.

While the fiscal trajectory presented by the National Treasury in this MTBPS has been greeted with applause by many political parties and commentators, failing to resolve these underlying fiscal tensions by adequately budgeting for them poses significant risks. Were these cost pressures to materialise, as they have repeatedly done in the past, the National Treasury's refusal to adequately budget for them now will once again throw these 'strong public finances' into disarray.

3. What does the MTBPS mean for households and businesses?

Looking beyond the narrow set of economic indicators (most notably debt stabilisation) fixated upon by National Treasury, the MTBPS offers little relief for struggling households or the ailing South African economy.

Income support

The Social Relief of Distress (SRD) grant has been extended until March 2027. This marks the first time that an extension to the SRD has been announced in a MTBPS, breaking the trend of keeping the status of the grant up in the air until the Budget in the following year. This is a positive development, as it provides certainty in the run-up to the 2026/27 National Budget. It also indicates that the Treasury has been forced to back down on its commitment to phase out the grant in 2026/27. While there is an acknowledgement that the SRD grant must be converted into a permanent provision, there is a strong focus on identifying 'employment linkages' with little clarity provided on what is meant by this.

Proposals made elsewhere have included the SRD grant being made conditional on work-seeking or requiring beneficiaries to prove that they are searching for work in order to be eligible. As we've repeatedly argued, while unemployment is one of the main challenges facing South Africa, and we support efforts to bolster employment creation, attempts to compel grant beneficiaries to seek employment are misplaced. Unemployment is structural, and not caused by people not looking hard enough for work because they receive a grant. While grants are our most effective tool for tackling poverty and have even been shown to have positive employment outcomes, addressing the crisis of unemployment requires a range of other interventions.

There is also no indication that the allocation to the grant has been increased above the R36.756 billion amount previously provisionally allocated (but not appropriated) to the grant for 2026/27. This likely means no changes in the number of beneficiaries or the value of the grant. This means it will still only reach half of the eligible population, while its value will stay at less than half the current poverty food line. Its deliberately exclusionary design and arbitrary, excessively low value have been found to be unlawful by the courts, but Treasury continues to resist those findings.

In his speech, the Minister told the country that over half of the savings generated by Treasury's Targeted and Responsible Savings (TARS) programme would come from cutting down fraud and 'double-dipping' in the social assistance system. There is, however, very little evidence that widespread beneficiary fraud or 'double-dipping' is occurring. Government's own reporting shows that 75% of all social grant fraud since 2014 was perpetrated by government employees and contractors, with a significant amount also being perpetrated by predatory lenders. However, because of the flaws of the government's targeting and verification methods, savings will not be achieved by reducing fraud, but by excluding, from social grants, deserving, eligible, and needy beneficiaries. It is astounding that National Treasury would tout savings to social grants as an achievement at a time when we know there are more people in poverty in the country than the number receiving grants, and that many people are being unfairly excluded by draconian measures imposed by Nation Treasury. The motivation, rather, is easy savings achieved at the cost of the most vulnerable in our country.

Cost of living and the new inflation target

One of the most drastic measures taken by the National Treasury, following behind-the-door consultations with Goldman Sachs and JP Morgan Chase, and not the public, is the reduction of the inflation target, from a range of between 3 - 6%, to an inflation target of 3%, with a 1% variance allowance. It is claimed that this will assist households plagued by a rising and high cost of living and lower the costs of government borrowing over the long term. The lower target also aims to lower overall inflation expectations within the economy, which is favoured for investment certainty. Within the current framework, the inflation target is achieved through manipulating short-term interest rates (the repo rate) - raising interest rates to combat inflationary pressures. According to the SARB, this reduces domestic demand in the economy through a number of channels. So inflation is combatted by lowering purported 'excessive' domestic demand. There are at least five reasons to oppose this change in the inflation target.

First, while unexpected and volatile inflation has clear negative consequences for growth and livelihoods, moderate but stable inflation, so long as income levels keep pace, does not have similar negative effects. Second, and related, neither the SARB nor the National Treasury have produced and published evidence to substantially justify their claims around the purported benefits of a lower inflation target. Third, inflationary pressures in South Africa are not the result of excessive domestic demand but reflect a. global shocks, and mainly imported, supply-side price increases and pass-throughs (leading to inflation being above the

target range inflation in 2022 and 2023); and b. administered prices, like the cost of electricity, that make basic services unaffordable.

Fourth, the repo rate is a blunt tool, constraining local investment and demand (and ultimately growth) by, among other things, increasing the cost of credit. This will make it harder for households to survive as a greater proportion of their income will go to higher interest payments on debt. Similarly, a higher repo rate risks raising the cost of government debt over the short term. Fifth, higher real interests can actually undermine the fight against inflation by fuelling short-term portfolio flows in the capital markets, leading to asset price appreciation, and deterring employment-creating investment in the real economy, as the cost of capital continues to rise. This can also skew capital flows away from more beneficial long-term foreign direct investment.

Ironically, the National Treasury could actually assist in combating the root causes of inflation were it to utilise fiscal policy to strategically invest in expanding supply in the domestic economy. This would be a far more fruitful strategy than empowering the SARB to depress domestic investment through maintaining unduly high real interest rates.

Infrastructure and public services

We cannot expect improved public sector outcomes while public services are being starved of funds. As we argued following the 2025 budget, the R1 trillion (spread over the medium term) in public sector infrastructure spending is still far too low to reverse the years of underspending and the resultant decrepit infrastructure. The R1 trillion planned spend will leave us far short of the National Development Plan's target of fixed investment as 30% of GDP, viewed by the state as a precondition for high economic growth. We also continue to reduce investment in critical public services, both basic education (-0.56%) and health (-0.39%), for instance, see declines in average inflation-adjusted allocations over the medium term. This is despite the unsustainably high learner-to-teacher and public-to-healthcare ratios, as pointed out earlier.

Taxes and other revenue proposals

Proposals for any new taxes, as initially stated by the Minister of Finance following the May 2025 budget, and repeated in the MTBPS, will rely on whether the SARS debt collection programmes yield the R20 to R50 billion expected. Six months in, this programme, despite welcome improvements, is now collecting below baseline expectations. However, the higher-than-expected overall revenue collections may discourage a proposal for new taxes (with no change to spending estimates).

Raising revenue, however, remains essential to overturn the decline in medium-term, real, non-interest spending. Moreover, the previously proposed anti-poor VAT increase is not the only option to do this. There remains room to garner revenue from large corporations and wealthy individuals who do not pay their fair share, through tax evasion, avoidance, or generous tax breaks and cuts, as well as through the introduction of wealth taxes. The IEJ agrees that more effort needs to be made to reduce illicit financial flows through illegal tobacco and alcohol sales, among other avenues, but that there also needs to be a reform to

the tax system so that it favours the poor and vulnerable and not corporations and the wealthy as it currently does.

4. Relying exclusively on private investment is ill-advised

Ultimately, the National Treasury's entire strategy relies on lower public borrowing, accompanied by the privatisation and de-risking agenda, spurring higher private sector investment. De-risking is a major fiscal risk as it often leaves the state saddled with hundreds of billions in guarantees of private sector debt, with disproportionately lower benefits for the rest of society. The textbook example in South Africa is that of the Renewable Energy Independent Power Producer Programme (REIPPP), which has R229.5 billion in contingent liabilities for the state, yet provides only 10% of the power consumed by the public. In addition, de-risking and privatisation limits access to services by those who need them most, especially for poor households, by introducing user fees aimed at ensuring cost recovery and profits for investors. This drive to privatise continues unabated while the restoration of state capacity is approached with less vigour.

Conclusion

The continued adherence to a restrictive macroeconomic regime, even in the context of a slightly improved macro-fiscal context suggests that a re-orientation of fiscal and overall macroeconomic policy – to drive development, to target employment, and to arrest the decline in the standard of living – will require increased pressure from civil society, Parliament, and government departments, currently paying a high cost for these inappropriate fiscal policies.

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The Institute for Economic Justice (IEJ) is a progressive economic policy think tank committed to advancing economic justice, systemic change, and the equitable distribution of resources to ensure rights realisation and planetary wellbeing.

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