SOUTH AFRICA
BUDGET SPEECH 2025

REBUILDING TOGETHER

Ref #:776902

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Submission File: Ref #:776902

17 November 2025

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Dear Madam and Sirs,

COMMENTS ON THE 2025 MEDIUM-TERM BUDGET POLICY STATEMENT (MTBPS)

We present our comments and submissions on behalf of the South African Institute of Chartered Accountants (SAICA) on the Medium-Term Budget Policy Statement (MTBPS) released by Minister Enoch Godongwana on 13 November 2025.

We once again thank the Standing Committee on Finance (SCoF) and the Select Committee on Finance (Select Committee) for the ongoing opportunity to provide constructive comments in this regard. SAICA continues to believe that a collaborative approach is best suited in seeking solutions to complex challenges.

Yours sincerely,

Tarryn Atkinson **Chairperson: National Tax Committee**	**Pieter Faber** **Head: Tax**
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Contents

A. WELCOMED ACTIONS

1. The fiscal year started with quite an unusual amount of discourse. There are however many positive developments that occurred so far this year that need to be recognised.

Removal from the FATF Grey-List

2. South Africa was placed by the Financial Action Task Force ('FATF') on its grey list in February 2023, and there is no doubt that this has had negative economic consequences for the nation, most notably affecting foreign direct investment[1].

3. The collaboration between the Government and the private sector is to be commended for their tireless efforts in addressing all the deficiencies identified by the FATF and both creating and implementing interventions, culminating in South Africa's removal from the grey list in October 2025.

4. We especially commend the National Treasury for providing regular communication to the public since February 2023 on progress made in addressing this grey-listing. The Minister noted in his Budget 2025 speech that South Africa would likely be removed from the grey list by October 2025 and has delivered on that promise. We are aware that this achievement is not his alone but rather the result of sustained collaboration between government departments, which shows what the nation can achieve quickly in a time of crisis.

5. We agree with the Minister that we cannot afford to be complacent and that we must continue to tackle money laundering and terrorism financing in order to stay off the grey list.

Ratings upgrade

6. South Africa's credit rating has been on a 15-year downward trajectory that mirrored its stagnated economic growth, large deficits and ballooning debt.

7. The announcement of an S&P credit rating upgrade is a welcome development. It reinforces the Minister's fiscal trajectory of stabilising debt by achieving a primary surplus as a first step, through reducing spending and increasing taxes. While this path is challenging and burdensome, it remains a worthwhile and necessary course.

8. We look forward to similar good news from Moody's on 5 December 2025.

9. We commend the Minister for staying the course in adverse times and hope that the many interventions proposed to further speed up South Africa's fiscal position improvement will be rigorously and timeously implemented.

[1] The Impact of Gray-Listing on Capital Flows: An Analysis Using Machine Learning

Ghost workers

10. National Treasury notes that its initiative to enhance the integrity of the public sector payroll is beginning to bear fruit. Its collaboration with the Department of Public Service Administration, Home Affairs, the Auditor General and SARS on a data-driven approach that integrates systems across government has already uncovered close to 9,000 high-risk cases of ghost workers that have been flagged for further verification.

11. We commend National Treasury on the progress made in this regard and are hopeful that law enforcement will be engaged to address the guilty parties who have perpetuated this fraud on the State.

The Budget process

12. In the third version of Budget 2025, National Treasury noted it is *reviewing the budget process and developing a framework for public participation. The review will help clarify the role of structures that provide inputs to the budget and enhance public consultation*.

13. We welcomed the review into the Budget process in our submission and suggested that it also include a review of the fiscal implementation process.

14. **HALF-YEAR ASSESSMENT**: National Treasury hosted a fiscal policy workshop on the 22nd of August 2025, which aimed to provide an overview of the country's macro-fiscal situation. Civil society organisations, businesses, professionals, and interested citizens were able to directly engage with the government regarding the trade-offs involved in setting the budget.
15. This followed a first round of consultative stakeholder workshops on the comments on the Fiscal Anchors Discussion Document, which proposes government reforms to stabilise South Africa's debt and aims to improve public sector efficiency. The Minister has promised further public engagements on this document, including a conference, which will provide a formal platform for broad public participation and expert contribution, culminating in a published conference report.
16. In addition, the Chairpersons of Parliament's Finance Committees (including Appropriations and Public Accounts – i.e., SCOA and SCOPA) hosted a post Medium Term Budget Policy Statement (MTBPS) medium engagement session on 13 November 2025, to highlight work done during the midterm budget review process.
17. These are very promising improvements by National Treasury, and we welcome these enhancements to the public consultation process.

Increased fiscal control

18. Poor financial management has been identified as core to the challenges to the state of finances at particularly local government and SoE's.

19. Furthermore, the poor state of ESKOM's finances and those of the water boards over the past few years has been partly caused by municipalities simply not paying said parties for the provision of water and electricity, so much so that a number of the water boards were on the brink of bankruptcy because of non-payment.

20. This culture of non-payment by municipalities also contributed to the years-long crumbling of water infrastructure, as the water boards could not use their revenue earned to maintain said infrastructure.

21. SAICA has long called for National Treasury to make use of section 216 of the Constitution to stop the transfer of the Local Government Equitable Share ('LGES') conditional grant to municipalities which fail to pay their water and electricity debts to ESKOM and the water boards.

22. Some commentators continue to raise concerns that the Constitutional enforcement measure of grant withholding will impact service delivery. However, in the trial of 11 municipalities by the Department of Water and Sanitation in October 2024, the mere threat (by National Treasury) of withholding transfers seemingly inspired errant municipalities to take more action in 2 months, action which was lacking for years. This demonstrated that the fear is likely unfounded and that the positive impact of treasury control on service delivery far outweighs any downsides.

23. We were encouraged earlier this year that Annexure A of the 2025 Budget (version 3.0) noted that "*National Treasury plans to invoke section 216 of the Constitution for five defaulting municipalities. This entails withholding the transfer of funds in the upcoming local government equitable share while negotiating a feasible repayment agreement with the affected water boards*."

24. In our 2025 Budget Submission, we commended National Treasury on this point and recommended extending the application of section 216 to more municipalities.

25. In addition, it is recommended that the National Treasury explore solutions for how to address inter-governmental debt, which is creating a cascading effect where badly managed organs of state undermine even well-managed organs of state.

26. **HALF-YEAR ASSESSMENT**: The Portfolio Committee on Water & Sanitation convened on 18 September with the Department of Water & Sanitation (DWS) and the Department of Cooperative Governance and Traditional Affairs (COGTA) to discuss the financial crisis facing water boards as a result of persistent non-payment by municipalities as well as the practical implementation of the section 216 process.
27. It was noted at this meeting that 18 municipalities were identified in July 2025 for the withholding of their LGES due to continued non-compliance with water board payments. The errant municipalities were required to submit proof of payment for their current accounts with the water boards to secure partial release of their equitable share.
28. R278 million was paid to water boards during the seven-week enforcement period, which prevented at least two water boards from financial bankruptcy. It was also noted that **the**

Minister of Finance had directed National Treasury to continue invoking Section 216(2) against municipalities that defaulted on their obligations to water boards should corrective measures not be implemented. The targeting of LGES tranches would continue, including those scheduled for December 2025 and March 2026. We commend these 3 government departments for collaborating on this matter.

B. ECONOMIC OUTLOOK

Growth Estimates

YEAR	2025	2026	2027	2028
BUDGET 2024	1.6%	1.8%		
BUDGET 2025	1.4%	1.6%	1.8%	
MTBPS 2025	1.2%	1.5%	1.8%	2%

29. **HALF-YEAR ASSESSMENT:** Growth estimates declined for 2025 and 2026, stabilising in 2027 and 2028. We estimate that GDP growth will remain subdued and under pressure whilst consumption and public sector spending are subdued and Gross Fixed Capital Formation (GFCF) is increased. Cash flow benefits to the state are anticipated through lower borrowing costs as inflation is reduced and debt is stabilised, resulting in lower interest rates on debt (i.e. improved public debt ratings).

30. National Treasury estimates GDP growth of 1.4% for 2025 and an average of 1.8% for 2026-2028.

31. The South African economy is structurally consumption-driven as confirmed by our own economic analysis.

32. National Treasury estimates household consumption to decline significantly and then slowly recover. This is due to:
    - tax increases via inflation (i.e., bracket creep) and possible additional taxes
    - the official CPIX being lower than real middle-class inflation, affecting actual take-home income
    - continued high levels of household indebtedness

33. This pressure is reflected in the profit reporting by large retailers, with SPAR, PNP, Woolworths and TFG all reporting significant earnings declines.[2]

34. The fiscal framework also plans to retain muted public sector spending with the revised interest rate targets, thereby putting pressure on both.

[2] TFG-MEDIA-RELEASE-HALF-YEAR-FINANCIAL-RESULTS-7-NOV-2025.pdf; SA's Woolworths profit falls on weak Country Road chain - CHANNELAFRICA; Investors dump Pick n Pay as scale, complexity of turnaround becomes clearer - Moneyweb; Two of South Africa's biggest retailers make R4.5 billion in losses – BusinessTech

35. National Treasury therefore bases its estimations of an **economic growth increase mainly on GFCF increasing by 3,9% in the outer years (i.e., 2027 and 2028).** National Treasury's estimate is particularly reliant on private sector GFCF occurring as early as 2026.

Table 1.1 Macroeconomic projections

Calendar year	2024	2025	2026	2027	2028
Percentage change	Actual	Estimate	Forecast		
Household consumption	1.0	2.6	1.6	2.0	2.2
Gross fixed-capital formation	-3.9	-1.0	2.6	3.2	3.9
Real GDP growth	**0.5**	**1.2**	**1.5**	**1.8**	**2.0**
GDP at current prices (R billion)	**7,352.4**	**7,660.4**	**8,074.8**	**8,509.5**	**8,964.0**
CPI inflation	4.4	3.3	3.7	3.3	3.2
Current account balance (% of GDP)	-0.7	-1.0	-1.8	-2.0	-2.0

36. **Our own GDP modelling provides a GDP growth range of 1.2-1.4% for 2026**, which is more conservative than National Treasury, but not far off. However National Treasury estimates higher GDP growth in the outlying years of the medium term.

37. This higher level GDP estimate is also subject to the current GFCF interventions coming online before 2027.

38. The outer years may, however, pose more of a challenge. As seen by National Treasury's own modelling, the global economy is expected to contract from 2025 to 2026 and may continue to face difficulties until 2028, yet there remains an expectation for South Africa to 'buck the trend'.

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**

39. Heavy risks weigh on the outlying years' growth estimate of 1,8%-2% and even if we hope they are realised, and even exceeded, we recommend that Budget Review 2026 relook these estimates based on whatever the facts show at that point in time, due mainly to the narrow correlation between budget appropriations and budget estimates.

40. Furthermore, if we seek to slowly transform the economy from being mainly consumption-driven to a more production-driven economy, it will come with challenges, including ongoing political support.

41. We agree with the Minister that from the government's perspective, GFCF in Water & Sanitation, Electricity and Logistics are key items on which to focus.

42. The question is, what the private sector is going to focus on, and whether this will be in current GDP growth areas like financial services and community services that require scarce skills or in agriculture, industry and trade that require more occupational skills?

Energy security damper

43. Energy security will continue to hamper economic growth. The Minister notes:

"Not long ago we are on the brink of an energy crisis. Unreliable electricity supply threatened to derail the economy and the transformation of society. I am pleased to say we have avoided this scenario and have begun a march towards reliable supply of energy. Loadshedding has come down significantly."

44. The government must be commended for the work done in stabilising the decline in energy supply.

45. However, it must be emphasised that the energy crisis did not just threaten to derail the economy, it **did** derail the economy, especially in mining, agriculture and industry. The current limited loadshedding is largely attributable to a stagnant economy. This is reflected by **Eskom's own Medium-Term System Adequacy Outlook (MTSAO) 2026–2030**[3] :

[3] 3 Medium-Term System Adequacy Outlook 2026-2030

46. *"The correlation between GDP and electricity demand helps capture how different levels of economic performance impact demand growth, and this relationship serves as a key reference point for policy makers in determining the demand requirements needed to achieve the desired economic growth targets. The low demand scenario reflects weaker economic performance across all sectors, while the moderate demand scenario reflects a moderate economic growth for all economic sectors in the medium term. The high demand scenario, on the other hand, assumes favourable economic conditions in high electricity intensive sectors, namely industrial sector (i.e. Steel and ferroalloy production) and successful rollout of key policy reforms to stimulate economic expansion."*

47. The below graph is explained as follows:

*"The **low demand scenario assumes a GDP growth rate of 1.7%** and forecasts an average annual energy demand of 0.6% over the 5-year study period. Under this scenario, demand is expected to rise from 243 TWh in 2024 to 252 TWh by 2030. **The moderate demand scenario assumes a GDP growth rate of 2.7%** and forecasts an average annual energy demand increase of 1.4% over the 5-year study period. The demand in this scenario is expected to rise from 243 TWh in 2024 to 264 TWh by 2030. **Lastly, the high demand scenario assumes a GDP growth rate of 3.5%** and projects a higher average annual energy demand growth of 2.3%, with energy demand rising from 243 TWh in 2024 to 278 TWh by 2030."*

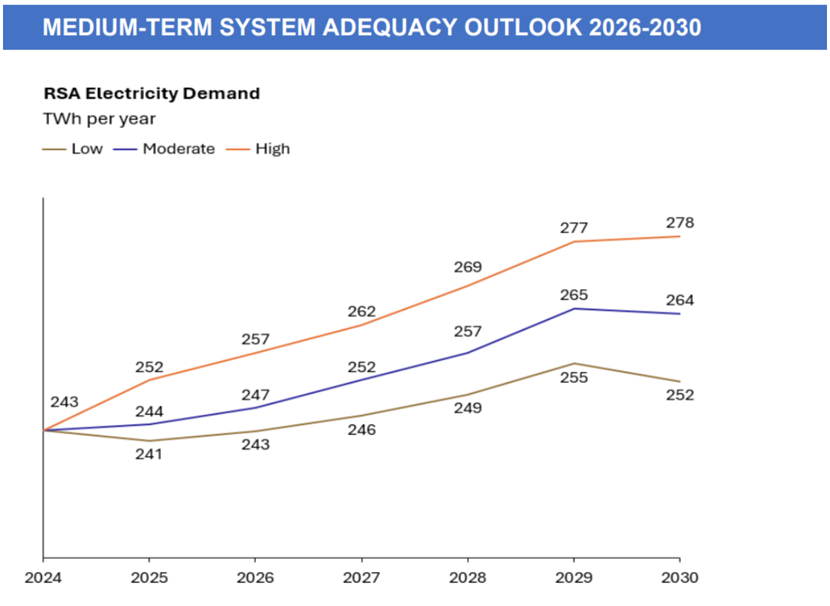


Figure 2: Energy demand forecast.

48. What is not considered in the above estimates of energy and economic growth is the **type of economy we want to build** for the resultant GDP growth rate increase.

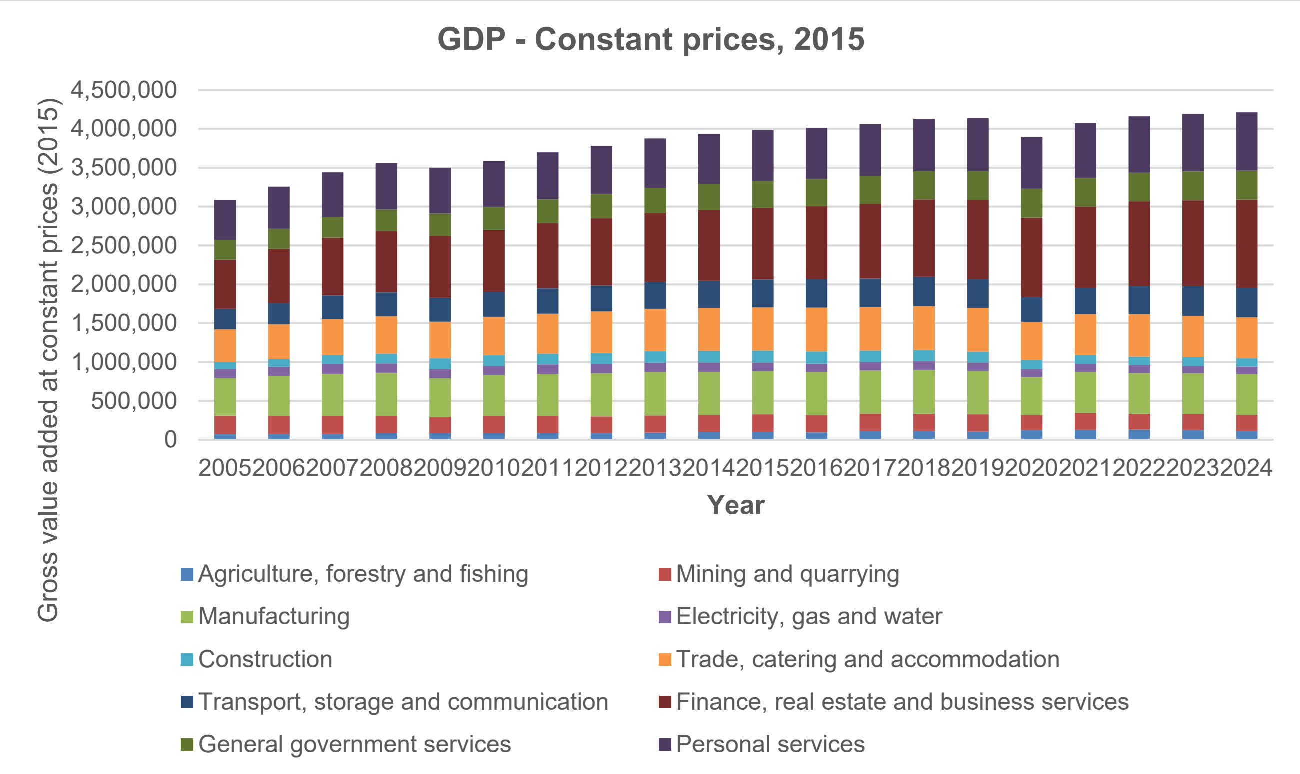
49. Reindustrialisation would require significant energy requirements even at low GDP increases, and even personal services pose a risk due to the high energy demand of new technologies such as distributed ledgers, AI and data centres. Furthermore, just beyond the medium-term Eskom states:

"The period from 2029 to March 2030 will see a significant Eskom plant shutdown and the end of the supply contract from Cahora Bassa, reducing baseload capacity by 9.5 GW. This is a significant reduction in the system's baseload capacity, which will require measures to mitigate potential inadequacy."

What type of economy are we growing?

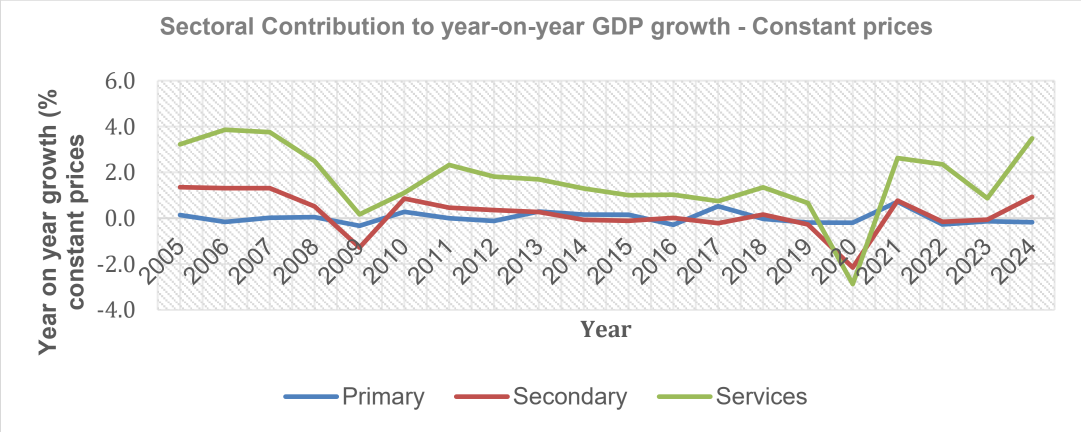
50. Industry contributions to GDP indicate that real growth is only happening in the finance and service sector with stagnation or decline in other sectors.

Gross value added at Constant prices

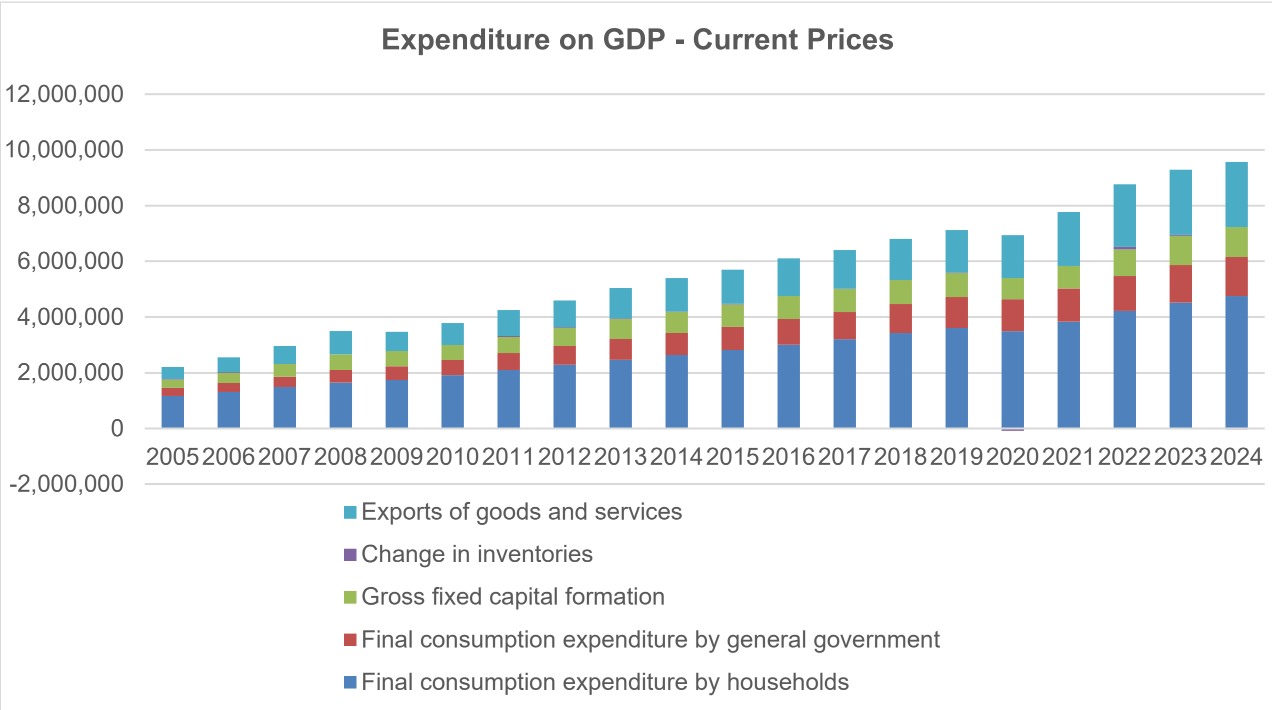


<u>Source</u>: *StatsSA*

Sectoral Contribution to year-on-year growth – constant prices



51. Our economy is currently mainly driven by consumption by both the government (which has stagnated over the last few years) and the private sector, with exports growing but lagging and GFCF stagnant.



52. We cannot control global trade but agree with the Minister that GFCF is the best lever and the key to enabling and unlocking economic growth, together with both policy certainty and effective execution.

53. The strenuous path we are required to follow, as noted by the Minister, will, however, test patience and fortitude, especially as to policy certainty and effective execution, with the latter not in the Minister's hands, but the rest of the Cabinet.

54. Much of the MTBPS 2025 is dedicated to proposals for increasing GFCF, which is most welcome.

55. Many of the proposals, however, require groundwork and then only implementation in 2027 (i.e. when actual brick and mortar will be laid). The upsides to the economy and GDP will therefore only potentially realise in 2027/2028. Our concerns and impact on GDP are detailed below.

Skills as building blocks to GDP growth

56. As the Minister has correctly noted before, all decisions, including what infrastructure to focus on, will come with trade-offs.

57. South Africa not only needs to grow GDP but also keep its people productive with **unemployment at 42,9%** (QLFS Q2:2025). Community Services has been a particularly strong grower of employment, though it is not a large direct contributor to sustainable economic growth.

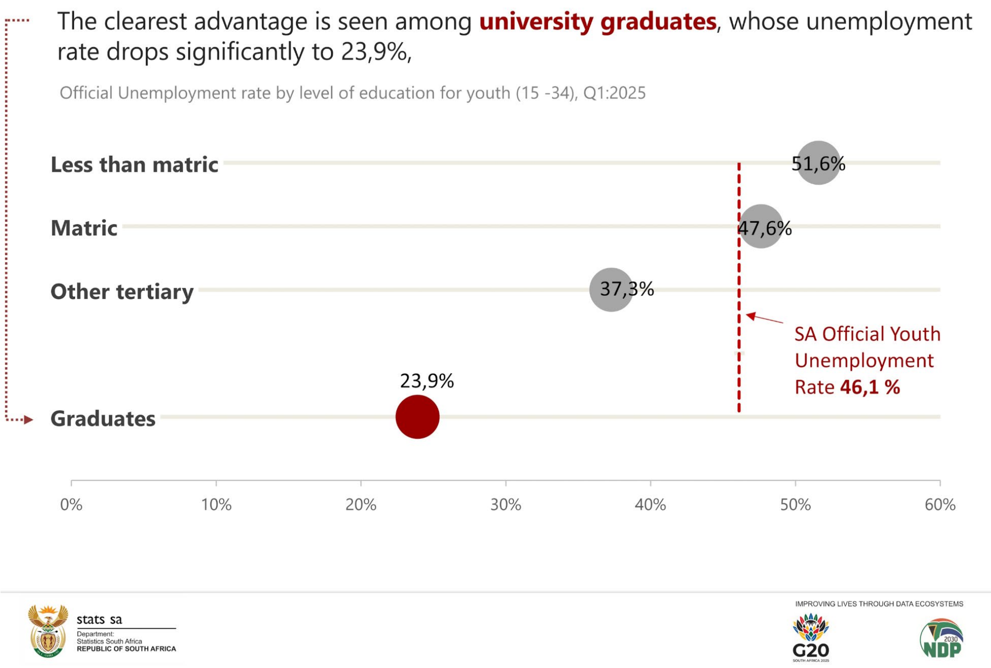
58. The stagnation of our economy for the last decade does infer that the lack of skills is part of the problem, which confirms that just over 23% of employed persons have some form of tertiary education and they also have a considerably higher employment absorption rate[4].

TABLE 1: **Numbers, shares, and absorption of the employed and the unemployment rate of unemployed persons by highest level of education, 2023Q3 vs 2024Q3**

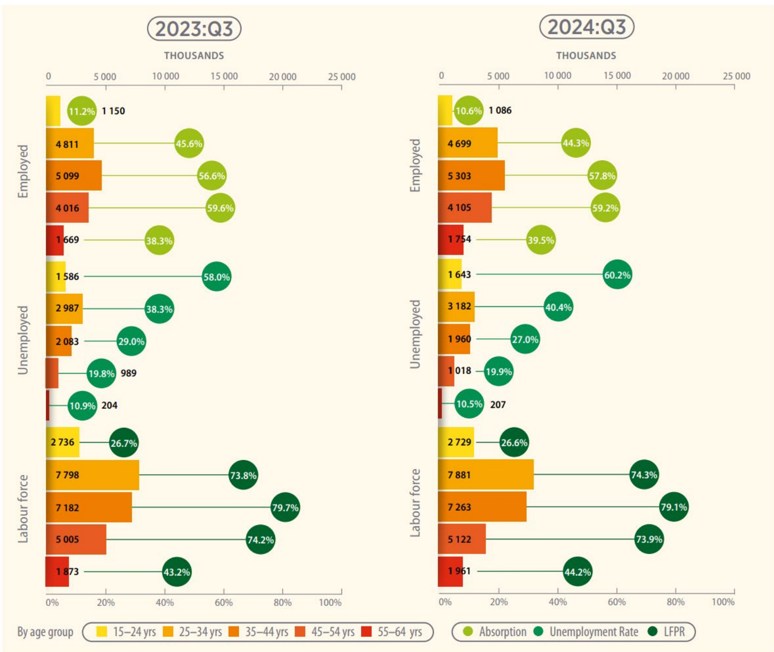
HIGHEST LEVEL OF EDUCATION OF THE EMPLOYED	2023:Q3			2024:Q3		
	'000	Share (%)	Absorption (%)	'000	Share (%)	Absorption (%)
No schooling	189	1.1%	25.0%	179	1.1%	25.2%
Less than primary completed	673	4.0%	30.9%	647	3.8%	30.0%
Primary completed	481	2.9%	28.6%	522	3.1%	32.8%
Secondary not completed	5 100	30.5%	29.9%	5 251	31.0%	30.3%
Secondary completed	6 093	36.4%	46.0%	6 163	36.4%	45.2%
Tertiary	3 984	23.8%	72.6%	3 936	23.2%	72.0%
Other	224	1.3%	49.3%	248	1.5%	44.4%
TOTAL	**16 744**	**100.0%**	**41.0%**	**16 946**	**100.0%**	**40.9%**

4 FACTSHEET-7-7-20-SA-Labour-Force-2025.pdf

59. Education and skills building is a clear advantage in securing employment, including for the youth[5] as shown in the Q1 2025 Quarterly Labour Force Survey.



60. Unemployment is mainly a burden carried by the youth and young adults, partly due to the stagnant economy and also levels of skills required for available employment in the current economy.



Source: Statistics South Africa QLFS 2024Q3 (Nesstar repository, data extracted on 20 November 2024)

[5] CorsaACKUnemployment-rate-by-level-of-education-for-youth-final-.jpg (3000×2047)

61. It is concerning that tertiary education in South Africa is mostly focused on universities and not trades and occupations[6] to build a more balanced economy.

Table 4.3: Number of students enrolled in public HEIs by qualification type and age group, 2023

Qualification Type	≤18 years	19–24 years	25–29 years	30–39 years	40–49 years	50–59 years	≥60 years	Total
Occasional students	74	1 975	1 263	1 381	572	164	29	5 458
Undergraduate Certificates and Diplomas	27 693	161 114	51 739	28 495	5 752	1 296	74	276 163
Undergraduate Degrees	84 943	337 255	84 121	61 747	19 003	4 246	455	591 770
Advanced Diploma and Postgraduate Certificate in Education	0	12 797	11 780	8 989	2 984	1 173	28	37 751
Postgraduate below Master's Level	3	24 529	17 519	21 400	9 102	2 063	187	74 803
Master's Degrees	1	10 546	16 385	21 007	9 072	2 914	370	60 295
Doctoral Degrees	0	354	4 414	10 202	6 194	3 488	823	25 475
Total	112 714	548 570	187 221	153 221	52 679	15 344	1 966	1 071 715

Source: 2023 HEMIS database, data extracted in November 2024.

62. It is concerning that there is an overall decline in Technical and Vocational Education and Training (TVET) enrolments.

63. Even more concerning is that occupational qualifications declined compared to other TVET and Further Education and Training (FET) tertiary education.

Table 5.1: Enrolment in TVET colleges, 2010–2023

Year	Qualification Category						Total
	NC(V)	Report 191 (N1–N6)	Occupational Qualifications	Other/skills programmes	PLP	Level 5 and Level 6 Qualifications	
2010	130 039	169 774	23 160	35 420	n.a	n.a	358 393
2011	124 658	222 754	20 799	32 062	n.a	n.a	400 273
2012	140 575	359 624	62 359	95 132	n.a	n.a	657 690
2013	154 960	442 287	19 000	23 371	n.a	n.a	639 618
2014	166 433	486 933	19 825	29 192	n.a	n.a	702 383
2015	165 459	519 464	20 533	32 424	n.a	n.a	737 880
2016	177 261	492 026	13 642	22 468	n.a	n.a	705 397
2017	142 373	510 153	10 969	24 533	n.a	n.a	688 028
2018	131 212	482 175	20 106	23 355	285	n.a	657 133
2019	138 912	494 070	22 886	14 025	3 597	n.a	673 490
2020	146 637	274 907	20 130	3 888	5 250	1 465	452 277
2021	141 768	416 949	18 277	6 653	4 581	855	589 083
2022	135 727	356 575	15 837	4 505	4 420	1 520	518 584
2023	134 005	402 653	15 474	6 997	4 323	637	564 089

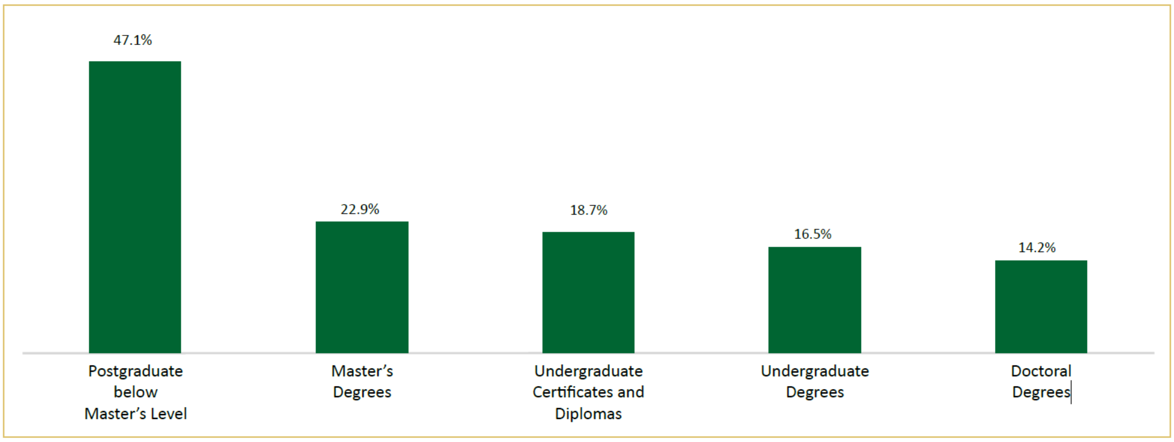
Source: 2023 TVET College Enrolment_Final_02 April 2025.

[6] https://www.dhet.gov.za/Reports%20Doc%20Library/2023%20Statistics%20on%20Post-School%20Education%20and%20Training%20in%20South%20Africa.pdf

64. These numbers do, however, reflect SA Inc's deindustrialisation, with employment in growing sectors such as Finance, Personal Services and Community Services usually requiring graduates as they are in regulated industries.

65. Enrolment numbers for tertiary education are not particularly low; it is rather completion rates which contribute to the low level of tertiary-qualified labour. Our investment return as SA Inc in tertiary education are therefore extremely low, with less than 20% of enrolment resulting in graduation/completion. There is a sharp increase in the level thereafter, once a first degree is obtained, suggesting a larger problem with the secondary school pipeline.

Figure 4.12: Average graduation rates in public HEIs by qualification type, 2023



Source: 2023 HEMIS database, data extracted in November 2024.

66. In comparison with Brazil as a developing economy, 49% of under graduate's graduate within the prescribed 3-year time for a bachelor's degree. The OECD average is 70%. This confirms that there is a misalignment and challenge in the system [7].

67. Submission: Parliament is recommended to review what economy South Africa wants to build in terms of the macro-economic policy and whether the investment by government into the economy with deliver such economy. This includes building the skills that such economy will require.

C. REVENUE ESTIMATES

68. **HALF-YEAR ASSESSMENT**: National Treasury has revised the tax-to-GDP ratio upwards over the medium term, compared to its 2025 Budget estimates. This suggests the likelihood of tax increases over the medium term either through rate increases or continued "tax by inflation".

69. In his 2025 MTBPS speech, the Minister noted that National Treasury will continue to monitor SARS' revenue performance for the remainder of the year and that this assessment will inform

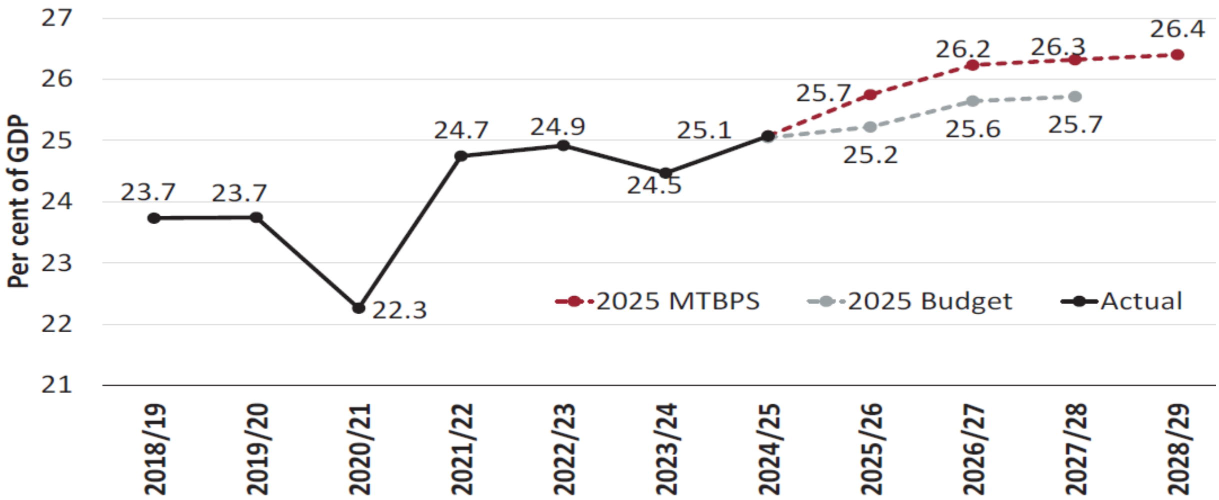
[7] Education GPS - Brazil - Overview of the education system (EAG 2025)

whether the R20 billion in additional tax increases for the 2026 Budget, as earlier proposed, can be withdrawn. He further noted that a final decision on whether there will be tax increases will be announced in the 2026 Budget.

70. The South African public, including parliamentarians, strongly opposed the proposed 2025 VAT increase, as well as the subsequent fuel levy increase (although the latter materialised).

71. Although the Minister noted that there is no final decision yet on whether there will be tax increases, National Treasury's own tax-to-GDP ratio calculation per the 2025 MTBPS seems to suggest otherwise:

Figure 3.7 Tax-to-GDP ratio



Source: National Treasury

72. As the phrase suggests, the tax-to-GDP ratio is a measure of a country's tax revenue as a percentage of GDP. In effect, the ratio serves as an indicator of whether citizens are overtaxed, and South Africa's Katz Commission has already identified a ratio above 25% as likely to be detrimental to the economy.

73. It is worth noting that the National Treasury's projected increase in the tax-to-GDP ratio is not because of the expected increase in tax collections as a result of SARS reducing its historical debt book.

74. Additionally, National Treasury has projected gross revenue collection to fall short of 2025 Budget estimates by R15.7 billion in 2026/27 and 2027/28, arguably leaving the Minister in the difficult position of having to consider a tax rate increase.

75. Notwithstanding the fact that there have been no formal changes to rates on direct taxes over the past few years, we note that the government has indirectly levied more taxes on South Africans, this by National Treasury not adjusting the tax brackets for inflation, as indicated in the table below from the 2025 Budget Review:

Table 4.3 Impact of tax proposals on medium-term revenue[1]

R million	2025/26	2026/27	2027/28
	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

76. Submission: Parliament should clarify whether "tax by inflation" is a fiscal policy it expressly supports given that it does not require Parliamentary oversight or input. In this regard refer to our submission on the 2025 Rates and Monetary Amounts and Amendment of Revenue Amounts Bill.

D. TAX DEBT AND COLLECTIONS

YEAR	2024/2025	2025/2026	2026/2027	2027/2028
BUDGET 2024	R1863bn	R1991bn	R2133bn	
BUDGET 2025	R1855bn	R1986bn	R2142bn	R2287bn
MTBPS 2025	R1855bn	R2005bn	R2143bn	R2269bn

77. **HALF-YEAR ASSESSMENT:** SARS has collected R924bn, of which R47bn was from its debt book. This was R18bn higher than the mid-year YTD estimates.

78. SARS typically collects a little more in the second half of the fiscal year and would need collections of **R1081bn to meet its revised target**. In the 2024/2025 fiscal year, R846 bn (45.6%) of the R1,855bn total was collected by mid-year. If the exact same collection's progress percentage is maintained, SARS should exceed the revised estimate by almost R20bn.

79. Tax buoyancy was adjusted upwards from 1.12 to 1.54, indicating efficient collections, though this is also partially attributable to the reduction in estimates of GDP growth. It reduces significantly at the end of the medium term, though this could be National Treasury being a bit more conservative, given the projected short-term pressures on GDP growth and collections, which is a good approach until the monetary and fiscal policy transitions are made.

Table 3.3 Revised gross tax revenue projections

R billion	2025/26	2026/27	2027/28	2028/29
2025 Budget	**1 985.6**	**2 141.8**	**2 286.5**	
Buoyancy	*1.12*	*1.29*	*1.05*	
Revised estimates	**2 005.3**	**2 143.1**	**2 269.4**	**2 396.3**
Buoyancy	*1.54*	*1.40*	*1.06*	*1.06*
Change since 2025 Budget	**19.7**	**1.4**	**-17.1**	

Source: National Treasury

80. These collections come from current SARS assessments, and the **historical undisputed debt book**, the latter of which has grown from **R415bn to R459bn Year-To-Date** (10,6% increase) by additions from the current fiscal year.

81. This means the debt book grew (R44bn) nearly as fast as SARS' collection (R47bn). It is unclear why this is occurring, given the increases in taxpayer voluntary compliance noted earlier this year by SARS[8].

82. In addition, the **disputed tax debt book has grown from R108bn to R113bn** (4,6%), i.e. 19,8% of the total debt book is under dispute, and therefore subject to adjustment in collections should the dispute be in the taxpayer's favour. This equates to R22.6 bn if taxpayers only succeed with 20% of disputes. The increase in the disputed tax debt book also warrants further examination of what is contributing to it. This could include the quality of assessments or disputes taking very long to resolve.

83. Furthermore, taxpayers are owed **R83bn in refunds,** which has declined from R92bn since the beginning of the year. Once paid to taxpayers, these will reduce net collections, i.e. if SARS should pay 20% of the refunds without increasing the credit book, collections will decline by R16bn.

84. Submission: SAICA continues to express concern over the quality of the SARS debt book, which also puts undue pressure on SARS to collect debt that is irrecoverable. Furthermore, the impact of the disputed debt book and unpaid refunds will put pressure on final collection revenue. We recommend that Parliament enquire as to the quality of the debt book and the risks of disputes and refunds to meeting revenue targets.

E. DEBT

85. We welcome the Minister's ongoing commitment to stabilise and eventually reduce unsustainable public debt.

[8] Media release: SARS is committed to serving South Africans | South African Revenue Service

Gross Debt Estimates

AR	2025	2026	2027	2028
DGET 2024	R5.56trn	R6.09trn	R6.82trn	
DGET 2025	R5.69trn	R6.09trn	R6.44trn	R6.82trn
BPS 2025	R5.69trn	R6.07trn (6.67% YoY)	R6.35trn (4.61% YoY)	R6.67trn (5.04% YoY)

86. **HALF-YEAR ASSESSMENT: Gross debt estimates have stabilised (i.e. growing much more slowly**) and are estimated to slightly decline in the medium term. This will be supported by a lower interest rate target, as well as strengthening currency and sovereign credit rating improvements. The government is to be commended for sticking to its debt stabilisation trajectory under difficult circumstances.

87. The fiscal policy intent to stabilise debt is occurring, with the Government able to maintain its primary surplus target. Delivering on the fiscal policy intent has come with a welcomed rating upgrade by S&P Global, which will further assist in reducing debt costs and possibly future borrowing requirements.

88. However, public debt is still growing at nearly three times the projected economic growth in the medium term. In the medium term, the Minister also notes that Debt-to-GDP will decline due to the expected short-term decline in GDP estimates as a short-term detriment in ensuring long-term fiscal recovery remains on track.

89. The debt mix has also mainly remained the same from the 2024 Budget to the 2025 MTBPS, with foreign loans at just over 10% of total debt for the 2026/2027. However, it is now estimated that this will increase marginally to 11.4% by 2029.

Table 7.7 Total national government debt[1]

End of period	2022/23	2023/24	2024/25	2025/26	2026/27
R billion	Outcome	Estimate	Medium-term estimates		
Domestic loans[2]	**4 209.8**	**4 641.1**	**4 949.2**	**5 364.8**	**5 640.0**
Short-term	422.6	510.5	543.5	590.5	624.5
Long-term	3 787.2	4 130.6	4 405.7	4 774.3	5 015.6
Fixed-rate	*2 743.8*	*2 982.9*	*3 220.0*	*3 394.3*	*3 461.3*
Inflation-linked	*992.2*	*1 029.7*	*1 031.2*	*1 184.9*	*1 314.3*
Floating rate note	*51.2*	*118.0*	*154.4*	*195.1*	*239.9*
Foreign loans[2]	**555.7**	**566.2**	**573.0**	**594.4**	**653.1**
Gross loan debt	**4 765.4**	**5 207.3**	**5 522.2**	**5 959.2**	**6 293.2**

Table 3.8 Total national government debt

End of period R billion	2024/25 Outcome	2025/26 Revised	2026/27 Medium-term estimates	2027/28	2028/29
Domestic loans[1]	**5 092.0**	**5 449.0**	**5 683.3**	**5 931.0**	**6 188.1**
Short-term	550.7	589.8	618.3	664.1	700.1
Long-term	4 541.2	4 859.2	5 065.0	5 266.9	5 488.0
Fixed-rate	*3 259.4*	*3 378.1*	*3 439.4*	*3 641.7*	*3 872.7*
Inflation-linked	*1 078.0*	*1 183.4*	*1 290.2*	*1 345.5*	*1 331.2*
Floating rate note	*183.5*	*277.3*	*315.1*	*259.3*	*271.2*
Sukuk	*20.4*	*20.4*	*20.4*	*20.4*	*12.9*
Foreign loans[1]	**601.9**	**621.0**	**665.7**	**746.1**	**803.1**
Gross loan debt	**5 693.9**	**6 070.0**	**6 349.1**	**6 677.1**	**6 991.2**

Spending control – Non-interest spending

YEAR	2025	2026	2027	2028
BUDGET 2024		R1840bn	R1932bn	
BUDGET 2025		R1884bn	R1956bn	R2038bn
MTBPS 2025		R1900bn	R1949bn	R2023bn

90. Ensuring that actual spending is equal to or lower than budgeted spending continues to be a challenge over the full medium term. Additional collections, even at mid-year, are quickly appropriated, even at the risk that full results may be lower. Where R26bn is the difference between a tax rate increase and not, “additional collections” of R19bn should not just be immediately appropriated.

91. The Budget trajectory already exceeds that of Budget 2024 and demonstrates how difficult it is likely going to be to implement spending control over a full medium term. It will require not only the Ministers' estimates, but the Executive to implement and Parliament enforcing to enforce to ensure that the desired results are realised as quickly as possible.

Contingent Liabilities and Guarantees

Overview Table 12: Government guarantee and provisions exposure[1]

R billion	2022/23 Guarantee	2022/23 Exposure	2023/24 Guarantee	2023/24 Exposure	2024/25 Guarantee	2024/25 Exposure
Government guarantees						
Public institutions	470.3	433.0	498.9	433.1	491.9	439.2
Independent power producers	208.5	187.1	277.9	207.1	277.9	229.5
Public-private partnerships	7.1	7.1	6.8	6.8	6.2	6.2
Provisions						
Multilateral institutions	–	578.7	–	593.9	–	538.2
Other contingent liabilities	–	430.4	–	423.9	–	438.9

92. There were no additions to the guarantees between the 2024 and 2025 Budget Reviews, though **an additional R94.8bn in guarantees has been provided to Transnet since then**.

93. The strategy to fund State-Owned Enterprises (SoEs) through guarantees, in order for them to use market debt rather than receive appropriations, remains a risk (and problematic) and results in increased risk that guarantees realise as state debt. ESKOM was a particular example of this.

94. Also, accounting for debt assistance appropriations as outside the primary deficit or surplus, as done with ESKOM, is counter-productive, though an acknowledgement of how SoE debt is practically State debt, not just a guarantee.

95. Transnet, in its 2025 Annual Report, has R232bn in long- and short-term debt and R367bn in total assets. However, as learnt from ESKOM, Transnet property assets are not realisable and many of those are disclosed at market value rather than cost, as seen in the Annual Financial Statements (AFS) note:

9. Property, plant and equipment

Property, plant and equipment is stated at historical cost except for pipeline networks, port facilities and rail infrastructure, which are stated at revalued amounts.

96. These 3 asset classes at net book value are worth R148bn or nearly 50% of the R299 bn of the total non-current assets, i.e., realisable assets are at most, only R216bn vs R232bn in total liabilities.

97. Furthermore, **Transnet only has R9.9bn in cash and in 2025 saw a decrease in total cash flows of R3.9bn,** which triggered its guarantee request from the government.

98. This creates the same cash flow constraint as seen at ESKOM, where its cash from operations was unable to meet operations and debt settlements, relying on the government to continually supplement ESKOM's cash flow needs.

99. Many other SoEs face the same conundrum, and municipalities (especially metros), which borrow from the market, are facing similar cash flow challenges due to over-indebtedness and declining cash flows from operations.

100. This poses a significant risk to the debt estimates and trajectory. It is becoming increasingly important that National Government not only stabilise debt, but that more interventions are made to force similar at SoE's and municipalities in particular.

101. Fundamental challenges to the estimate are the ability to maintain the primary budget surplus that will contain the borrowing requirement to balance the budget (i.e. both revenue and expenditure), but also how quickly the private sector takes up and implements the economic plan of increasing GFCF.

102. The latter is largely due to the fiscal strategy not to further increase the state's debt for large capital projects, but rather to reduce private capital investment risks. This strategy comes with its own risks, and in the medium term, the government will have to revert to contributing more to GFCF and achieve its 10% of GDP (2024: 4.6%) contribution as set out in the National Development Plan (NDP) and the current proposed target of 5.5% by 2029 risks being too slow a change in the reformulation of government expenditure.

103. Another ongoing concern remains the **exclusion, from the Budget, of legal liabilities,** particularly in the Health and Police Departments.

104. Looking at just the Health Department in 2023[9]:

[9] PowerPoint Presentation

Medico-legal claims

18

Province	*Total value of total claims (R'000)			Total value of claim payments made (R'000)		
	2023	2022	2021	2023	2022	2021
Eastern Cape	24 565 678	25 076 798	38 608 606	350 685	38 683	866 144,00
Free State	4 645 754	4 663 463	4 501 077	9 863	8 831	584
Gauteng	18 359 387	17 542 171	24 494 229	512 203	369 697	392 000
Kwazulu-Natal	7 342 190	13 180 222	25 244 438	162 681	265 884	92 882
Limpopo	8 848 809	8 334 914	11 939 334	35 500	77 665	72 776
Mpumalanga	7 049 098	7 716 031	9 543 267	163 489	39 640	18 632
Northern Cape	621 640	1 520 424	1 656 795	12 293	59 413	229 814
North West	3 339 470	3 589 144	5 582 950	62 708	18 539	44 856
Western Cape	516 250	186 532	229 655	162 905	47 642	31 990
Totals	**75 288 276**	**81 809 699**	**121 800 351**	**1 472 327**	**925 994**	**1 749 678**


Key Observation

- NDoH did **not meet the targets relating to medico-legal claims** as at 2022-23 reporting period. This could indicate that efforts to curb the medico-legal claims are slow.
- Challenges relating to record keeping were unfortunately still reported in some provinces, mainly due to **inadequate filing** processes.
- Information above indicates that although the claims balance is exorbitant, the actual cash outflow is **2%** (2023), and **1%** (2022) respectively. These could be attributed to the **efforts by the sector to address** medico-legal claims.
- The amounts paid is however, still high with **R 1,45 bn, R926m and R1,75 bn** paid in the past three years, respectively. Payment of these claims puts a strain on the financial viability of the sector.
- Overall, these payments are affecting the budgets of public facilities and in turn will have a **detrimental effect** on the ability of the sector to

105. There is a material difference between claims (R75bn) and actual payments (R1,47bn), though it is unclear how much of the R75bn are settled and unpaid claims. It is also unclear if this is part of the R18,6bn accruals and payables not yet recognised (i.e. pre-spent budget) or whether that is merely daily operations creditors:

Impact/effect on the financial health of the sector

Province	2023/24 *Appropriation	Accruals and Payables not yet recognised	Claims against the Department**	Fruitless and Wasteful**
EC	8 847 009 000	4 764 773 000	26 345 655 000	11 620 000
FS	4 013 623 000	682 362 000	5 130 112 000	231 387 000
GP	22 621 453 000	6 827 872 000	18 152 738 000	266 014 000
KZN	18 419 875 000	1 838 121 000	7 866 847 000	2 700 000
LIM	7 973 705 000	767 038 000	8 862 446 000	313 000
MP	6 971 339 000	825 870 000	7 170 792 000	1 983 000
NAT	3 178 000 000	450 765 000	15 373 000	1 558 000
NC	2 495 858 000	908 471 000	746 781 000	109 020 000
NW	15 219 592 000	959 137 000	3 395 673 000	157 726 000
WC	10 446 562 000	589 529 000	88 731 000	30 000
Total	**100 187 016 000**	**18 613 938 000**	**77 775 148 000**	**782 351 000**
* % of 2023/24 appropriation		**19%**	**78%**	**1%**

F. INFLATION TARGET

YEAR	2025	2026	2027	2028
BUDGET 2024	4.6%	4.6%		
BUDGET 2025	3.7%	4.2%	4.3%	
MTBPS 2025	3.3%	3.7%	3.3%	3.2%

106. **HALF YEAR ASSESSMENT**: Inflation has remained lower than projected, mainly driven by subdued household consumption and government spending.

107. National Treasury has formally adopted the lower interest rate of 3% with a +-1% tolerance rate from the previous 3-6% band as proposed by SARB.

108. The Minister states:

"In the short term, reducing the inflation target to 3 per cent will result in more cuts in interest rates than would be the case under a 4.5 per cent target. Over time, a lower target will decrease inflation and inflation expectations, creating the space for permanently lower interest rates, which will support household spending and investment – boosting economic growth and job creation. A lower target aligns the country with international best practice and makes the cost of borrowing cheaper by reducing the inflation risk premium that investors demand to lend to South Africa. ***However, lower inflation will also initially slow nominal GDP growth and revenue growth, given that tax receipts are linked to nominal GDP. This will reduce fiscal space, while the real value of public debt will decline more slowly."***

109. **INFLATION** occurs (i.e. cause) when the money supply of a country grows faster than the economic output of the country. The effect of this (symptom) is that the price of goods and services increases for the same number of goods and services, (i.e. the purchasing power with of the same money decreases, making you "poorer").

110. Increases in money supply include:
- money deposits from local savings (i.e. including SARB buying government securities from banks)
- money through new deposits (debt issued without corresponding asset backing, i.e. fractional banking)
- money added through loans from SARB to commercial banks
- money added through the central bank by printing
- money borrowed internationally to fund expenditure (i.e. not funded via taxes collected)

111. As stated by SARB, there are three basic causes of inflation: demand, supply and expectations[10] (our emphasis and insertion).

Demand-side inflation: When consumers (or the government) spend more money, prices tend to rise faster. By contrast, when consumers are under pressure and spend less, prices rise more slowly.

Supply-side inflation: Inflation tends to decrease if it becomes cheaper to produce a good or service. For example, globalisation has made it cheaper to produce manufactured goods such as clothes and electronics. Conversely, inflation could increase if it becomes more expensive to produce goods or services. For example, a drought raises food prices.

Expectations: This is the most abstract cause of inflation, but also the most important, especially for central banks. All countries experience supply and demand shocks, but different countries tend to have markedly different inflation rates. The reason for this is expectations. **People who set prices and wages factor inflation in their decisions.** For instance, employees usually expect a cost-of-living increase each year. Landlords adjust rental rates. Schools raise fees. This logic applies throughout the economy. When inflation expectations get out of control, demand can be very weak, but prices still rise rapidly. (This is called stagflation.)

112. Demand-side shocks, which SARB can influence, seem to contribute most to inflation[11]. However, supply shocks (which the SARB cannot influence), particularly global supply shocks, have increased significantly.

113. To meet the new lower inflation target, the Minister is correct in saying that it will have to impact both public sector spending and the spending power of taxpayers. If public sector spending and borrowing do not decline at a corresponding rate, inflation will remain high, and interest rates will also remain high, potentially discouraging private sector spending even further.

114. There is agreement that the long-term benefits outweigh the short-term negatives; however, **it is the duration of the negatives and the equality** thereof that will require careful consideration and continual adjustment. This is equally dependent on the government improving the productivity and efficiency of spending to achieve these outcomes.

[10] Monetary Policy
[11] Drivers of Inflation in South Africa Before and After the COVID-19 Pandemic | Request PDF