NT Growth Projection Broadly in line with SARB

In the 2025 November Medium Term Budget Policy Statement (MTBPS), the National Treasury (NT) revised its GDP growth forecast for 2025 down to 1.2% from 1.4% in the May 2025 Budget. The downward revision is now in line with the South African Reserve Bank (SARB) and broadly in line with the International Monetary Fund (IMF) at 1.1%.

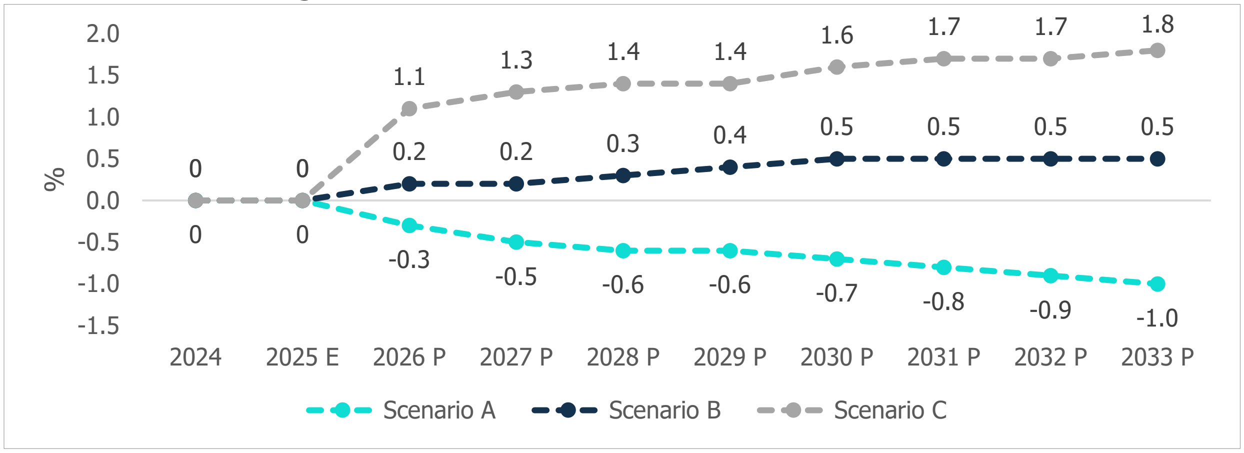
Real GDP Growth Forecasts (%)

Source: National Treasury (NT); South African Reserve Bank (SARB); IMF, World Economic Outlook (WEO), October 2025.

The weaker growth projection is due to weaker quarterly growth outcomes in H1 2025. The forecasts for both 2026 and 2027 remained broadly unchanged, at 1.5% for 2026 and 1.8% for 2027, respectively. Over the medium term (2026-2028), growth is expected to average 1.8%, mainly due to higher infrastructure spending related to structural reforms, as well as increased private sector investment resulting from enhanced business confidence and improvements in structural efficiencies in key sectors, such as energy and logistics. Household consumption expenditure is also expected to be supported by easing monetary conditions. However, downside risks include delays in implementing reforms, which may feed into slower private sector investment. The NT has also modelled three alternative scenarios:

- **Scenario A:** Considers higher effective tariffs from the US, whereby growth is 0.3 and 0.5 ppts lower than baseline forecasts in 2026 and 2027 due to declines in exports and supply chain disruptions.
- **Scenario B:** Considers the return to lower effective tariffs, whereby growth is 0.2 ppts higher in both 2026 and 2027 as normalised trade policy boosts exports due to reduced trade uncertainty.
- **Scenario C:** Considers a successful scale-up in structural reforms under Operation Vulindlela, and private sector investment gathers strong momentum, particularly for the logistics, energy and water sectors. Growth is projected to be 1.1 and 1.3 percentage points higher for 2026 and 2027, respectively, due to enhanced productive capacity and business confidence.

GDP Growth: Percentage Points Difference from the Baseline



Source: National Treasury (NT)

IMF GDP Growth Projections Signal Slow Recovery

In its October 2025 World Economic Outlook (WEO), the IMF marginally revised its 2025 growth forecast for South Africa to 1.1%, from 1% projected in April. While growth is expected to improve from 0.5% in 2024, the forecast is underpinned by fragile domestic momentum in the context of a volatile global environment.

On the domestic front, power supply has improved following reforms at Eskom and the addition of new renewable energy capacity. However, rail and port operations have limited the competitiveness of key export sectors such as mining and manufacturing. The IMF noted that supply-side bottlenecks continue to suppress productivity and investment. On the global front, the evolving effects of US protectionist policies and weaker global demand will also weigh on growth.

Growth is also expected to hold at 1.2% in 2026, signalling a slow and uneven recovery. Over the medium term, South Africa's potential growth is expected to remain capped at around 1.5%. However, this could improve if the country reaps the benefits of structural reforms, which enhance private sector investments.

Upbeat MTBPS Reflects Better Fiscal Path; Risks Remain

The National Treasury (NT) presented the Medium-Term Budget Policy Statement (MTBPS) on November 12, 2025. Overall, the MTBPS reflects a more favourable fiscal path, with the fiscal deficit estimated at 4.7% of GDP in FY26 and projected to decline to 2.9% by FY29, driven by higher revenue growth and a slower increase in key expenditure items, such as debt service costs and historically low wage bill increases. While this progress is encouraging, the general government's gross (GGG) debt to GDP ratio is expected to peak in FY26 at 77.9% and remain elevated at 77% by FY29. The government's bloated redemption profile will still pose a challenge to reducing debt. Lastly, the NT will also finalise a policy proposal for a fiscal anchor in 2026 to guide changes in expenditure adjustments. Below, we discuss the key highlights.

General Government Projections of Key Indicators

	FY25 (A)	FY26 (RE)	FY27 (P)	FY28 (P)	FY29 (P)
	ZAR Billion (unless specified)				
Revenue	**1,809.8**	**1,968.7**	**2,091**	**2,207.9**	**2,336.3**
% of GDP	24.7	25.5	25.4	25.5	26.1
YoY (%)	5.1	8.8	6.2	5.6	5.8
Expenditure	**2,399.4**	**2,588.9**	**2,666.2**	**2,769.8**	**2,882.5**
% of GDP	32.7	33.5	32.4	32.0	32.2
YoY (%)	6.2	7.9	3.0	3.9	4.1
Fiscal Balance	**-352.4**	**-363.4**	**-312.4**	**-285.8**	**-259.5**
% of GDP	-4.8	-4.7	-3.8	-3.3	-2.9
GGG Debt	**5,693.9**	**6,070**	**6,349.1**	**6,677.1**	**6,991.2**
% of GDP	77.0	77.9	77.7	77.4	77.0
Debt Service Cost	**385.8**	**421.5**	**436**	**455.9**	**471.8**
% of GDP	5.2	5.4	5.3	5.3	5.2
YoY (%)		9.3	3.4	4.6	3.5
Real GDP Growth YoY (%)	**0.6**	**1.5**	**1.5**	**1.9**	**2.1**

Source: National Treasury (A=Actual; RE=Revised Estimate; P=Projections)

Revenue

Tax revenue in the first half of FY26 overshot full-year estimates presented in the May 2025 Budget by ZAR 19.7 billion. All major tax categories outperformed expectations, particularly for Value Added Tax (VAT) and Company Income Tax (CIT). VAT gained support from strong household consumption, and CIT was supported by the mining sector, which benefited from record-high prices of precious metals, as well as the retail sector. The NT now anticipates higher tax collections in both FY26 and FY27, with tax collections projected to increase by an average of 6.1% annually over the medium-term expenditure framework (MTEF: FY27 to FY29).

Expenditure

Expenditure growth was upwardly revised for FY26 to 7.9% compared to the 7.5% estimated in the May 2025 Budget. For FY26, higher expenditures are allocated for two freight rail rehabilitation projects, the 2026 local municipal elections, and other initiatives. Expenditure is expected to grow at an average annual rate of 3.4% over the MTEF. We present key updates on key expenditure items below.

Public sector wage bill: While wages for public sector workers increased 5.5% in FY26, over the next two FYs, increases will be driven by the multi-year wage agreement reached in February 2025 and capped at around 4%. Restrictions on new hiring and incentivising early retirement policies will also help contain the growth in the wage bill.

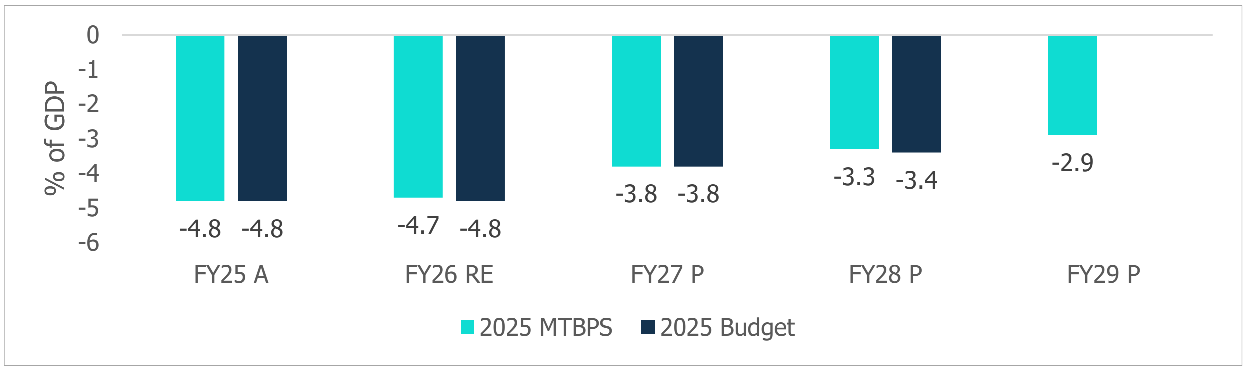
Debt service costs: Growth in debt service costs is now projected to increase 9.3% for FY26 compared to the 10.5% projected in the May 2025 Budget. As such, interest to revenue payments will peak at 21.4% in FY26 and average 20.6% over the MTEF.

The Social Relief of Distress (SRD) grant: This will be extended for another year, until March 2027. Although the SRD has been extended for only one year, the extension highlights the inflexibility in social expenditure, given the challenge of low growth and high unemployment.

Fiscal metrics

The fiscal deficit is expected to be marginally lower at 4.7% of GDP in FY26, compared to the 4.8% estimated in the May 2025 Budget, due to an upward revision of revenue and lower debt service costs. Over the MTEF, the fiscal deficit is expected to fall to 2.9% by FY29.

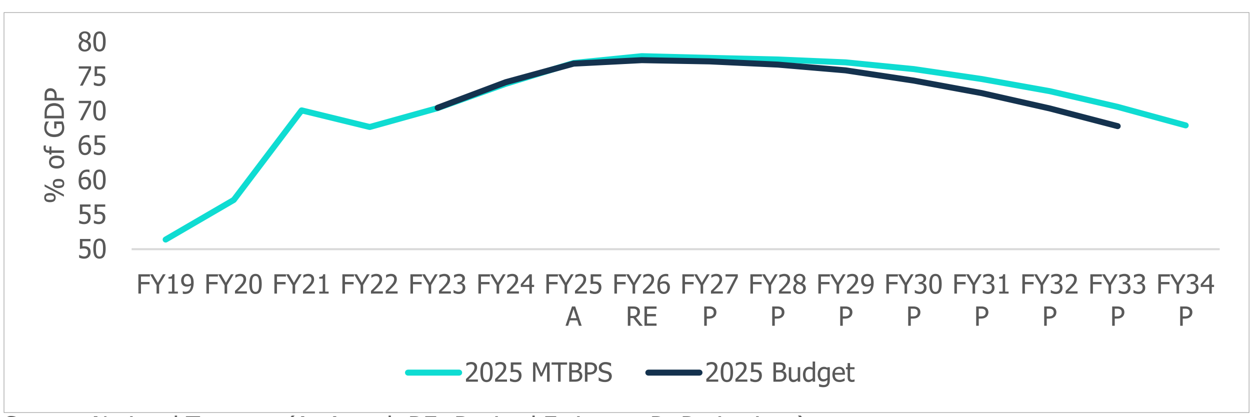
General Government's Fiscal Deficit



Source: National Treasury (A=Actual; RE=Revised Estimate; P=Projections)

On the other hand, the gross general government (GGG) debt is revised marginally higher in FY26 at 77.9% from 77.4% in May. It is expected to decrease at a slower-than-anticipated rate compared to the May 2025 Budget estimate, due to lower nominal GDP forecasts. Over the MTEF, GGG's debt-to-GDP ratio is expected to reach 74.7% by FY29.

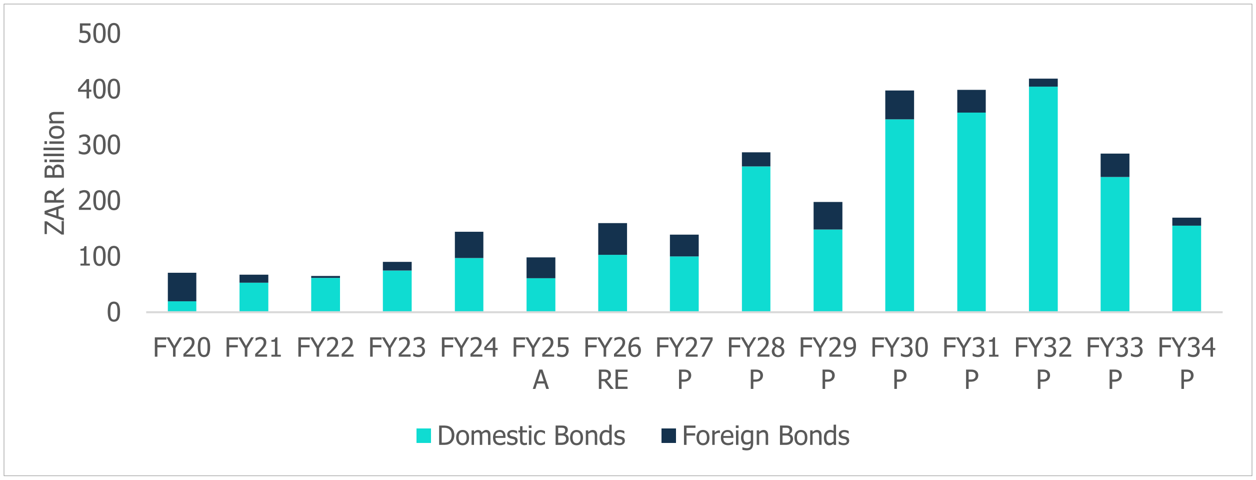
General Government's Gross Debt



Source: National Treasury (A=Actual; RE=Revised Estimate; P=Projections)

The lower fiscal deficit and higher Gold and Foreign Exchange Contingency Reserves (GFECRA)[1] drawdowns will together decrease the GGG borrowing requirement by ZAR 20 billion to ZAR 586.2 billion in FY26, compared to full-year estimates in the May 2025 Budget. However, it is still much higher than ZAR 397.5 billion in FY25, due to a bloated redemption profile.

General Government's Redemption Profile



Source: National Treasury (A=Actual; RE=Revised Estimate; P=Projections)

Looking ahead, the 2025 MTBPS is encouraging and reaffirms the government's commitment to fiscal consolidation. We note that fulfilling the projected revenue targets will remain dependent on growth forecasts, while execution risk remains a key factor in achieving the forecast expenditure.

Rand Holds Firm on Supportive Global and Domestic Factors

Between May and October 2025, the South African Rand (ZAR) appreciated by 4.7% against the US Dollar, with a gain of 2.4% recorded over the past three months (August–October 2025). The strengthening of the Rand reflects a combination of global and domestic factors supporting investor sentiment.

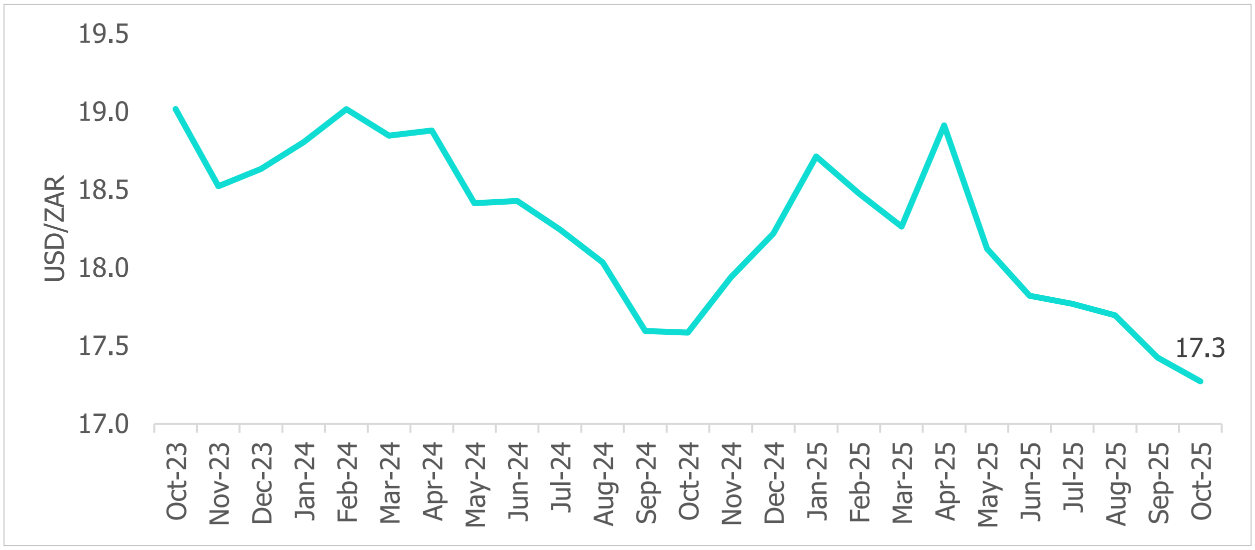
On the global front, the US Fed's 25bps rate cut in late October weakened the US Dollar and boosted risk appetite for emerging market currencies. Meanwhile, relatively firm commodity prices, particularly for gold and platinum-group metals, have also been supportive of the Rand. Lastly, the currency also gained support following a shift in global risk sentiment after US President Donald Trump reached a trade agreement with Chinese Premier Xi Jinping.

Domestically, the Rand has also benefited from renewed investor confidence following South Africa's removal from the Financial Action Task Force's (FATF) "grey list" on 24 October 2025, as well as signs of fiscal consolidation, following the delivery of the MTBPS in November. The SARB's pause in its interest rate cutting cycle in September also served to maintain the currency's appeal, further supporting the Rand.

[1] Higer gold prices have increased the GFECRA account. For FY26, the NT will drawdown an additional ZAR 31 billion.

Looking ahead, the Rand will be influenced by global and domestic monetary trends, commodity price dynamics, and the execution of domestic policy.

USD/ZAR Movement



Source: CEIC

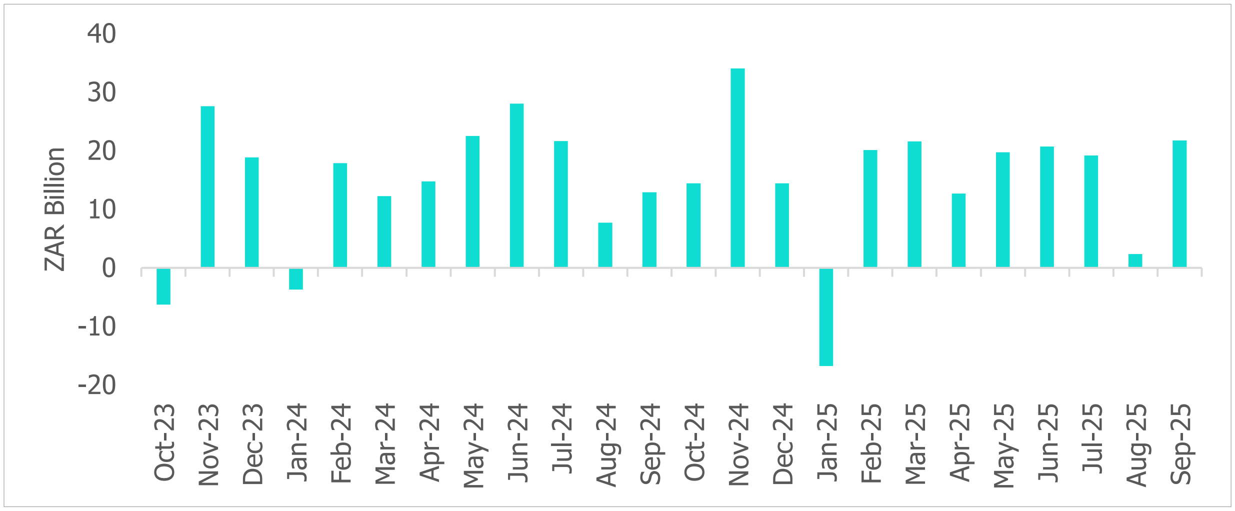
Trade Surplus Rebounds in September After August Dip

South Africa recorded a trade surplus of ZAR 21.8 billion in September 2025, up from ZAR 12.9 billion in the same month last year. The increase was driven by a stronger YoY rise in exports compared to imports. Exports grew by 9.1% to ZAR 186.4 billion, supported by higher shipments of vehicles and mineral products, which are benefitting from robust gold and platinum prices. Imports increased by 4.2% to ZAR 164.6 billion, reflecting stronger domestic demand and investment-related inflows.

On a cumulative basis, exports amounted to ZAR 1.5 trillion between January and September 2025, marking a 25% decline YoY, while imports decreased by 24% to ZAR 1.4 trillion over the same period. Despite the significant contraction in trade volumes compared to last year, South Africa continues to post a surplus. Exports have remained resilient, driven by higher prices of gold and platinum, with additional support from stockpiling by US companies that occurred ahead of the imposition of US tariffs.

Looking ahead, the trade balance will remain sensitive to movements in commodity prices, especially in precious metals, as well as broader global demand conditions. The recently introduced 30% reciprocal tariff on US goods, together with other sectoral tariffs, could negatively impact trade flows if negotiations do not make progress towards a bilateral agreement. Domestically, the ongoing recovery in private investment and infrastructure projects is expected to sustain import demand over the medium term.

South Africa's Monthly Trade Balance

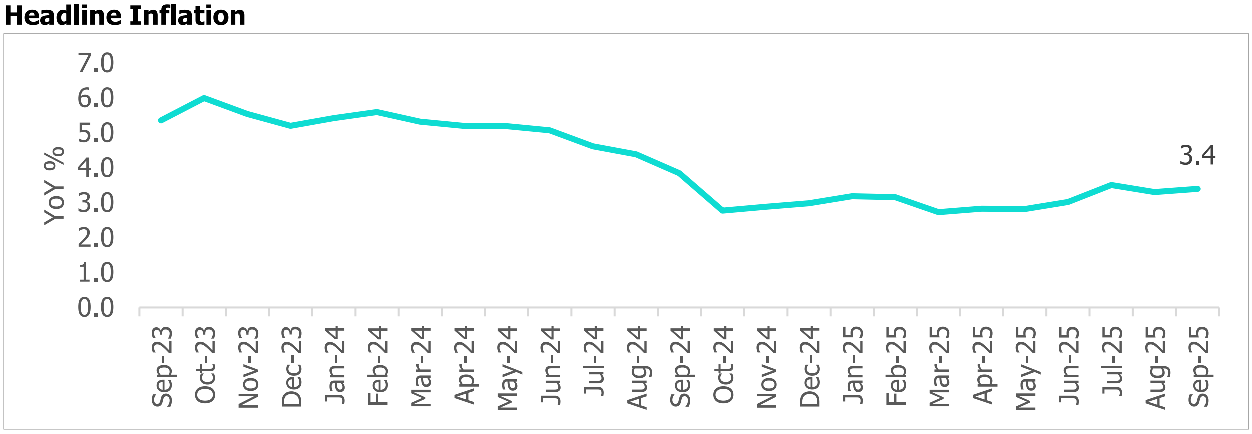


Source: South African Revenue Service

Marginal Uptick in Inflation

Headline inflation increased slightly from 3.3% YoY in August to 3.4% in September. There was upward pressure from housing and utilities inflation, which rose from 4.3% to 4.5%, due to higher actual rentals and owners' equivalent rent, both of which were surveyed in September. There was also slower fuel price deflation, decreasing by only 2.2%, compared with a 5.7% fall in August. This was driven by a rebound in Brent crude oil prices over the month, which partly offset the benefit of a stronger Rand. Conversely, food prices slowed significantly, from 5.2% to 4.4%. Subdued cereal prices and lower fruit and vegetable prices helped mitigate the impact of a further rise in meat prices, which increased from 11.3% to 11.7%, still reflecting supply pressures caused by outbreaks of foot-and-mouth disease.

Headline Inflation



Source: CEIC: Statistics South Africa; South Africa Reserve Bank

Looking ahead, delays in vaccinating livestock against foot-and-mouth disease will likely keep meat prices higher for an extended period. Favourable weather conditions may partly offset these pressures. The national energy regulator of South Africa (NERSA) approved a 12.7% electricity tariff hike for FY26 and 8%

for the next 2 FYs. Nonetheless, lower fuel prices may help offset the inflationary effects of rising food and electricity costs.

NT Announces Revised Inflation Target

The NT announced in the November 2025 MTBPS that it is adopting a revised inflation targeting framework. The target range has been revised to 2—4%, down from 3—6%, with the midpoint now at 3%. This new target band is designed to lower inflation and support reduced interest rates. Consequently, this should decrease debt service costs and free up fiscal space for other expenditures priorities.

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