

MTBPS 2025:

Monetary Dominance



Presentation to parliament's joint finance committees on the
2025 Revised and Proposed Fiscal Framework
19 November 2025



Key Messages

- The 2025 MTBPS is tabled in a context where **monetary policy has effectively become the dominant driver of fiscal outcomes**, with Treasury adjusting the fiscal framework to align to SARB's disinflationary stance.
- **Lower inflation has sharply reduced nominal GDP**, which in turn weakens revenue, worsens debt ratios, and forces deeper expenditure compression — even as real economic activity remains broadly unchanged.
- The **consolidation path** is now effectively **structural or secular**, not temporary, with Treasury committing to primary surpluses for the rest of the decade, implying sustained real declines in per-capita allocations to essential services.
- The MTBPS is ultimately **a statement of intent rather than a deliverable budget**, as implementation will require giving effect to a continued austere path for public spending.
- Parliament must interrogate **who bears the short- and medium-term costs** of the lower inflation target and whether the policy stance advances or undermines socio-economic rights and long-term developmental priorities for the South African state.
- The 2025 Budget Review marked a significant departure from the 2024 MTBPS, with expenditure increasing in 2025, suggesting that the protracted austerity could be drawing to a close. The 2025 MTBPS suggests it is here to stay for longer.



The 2025 MTBPS

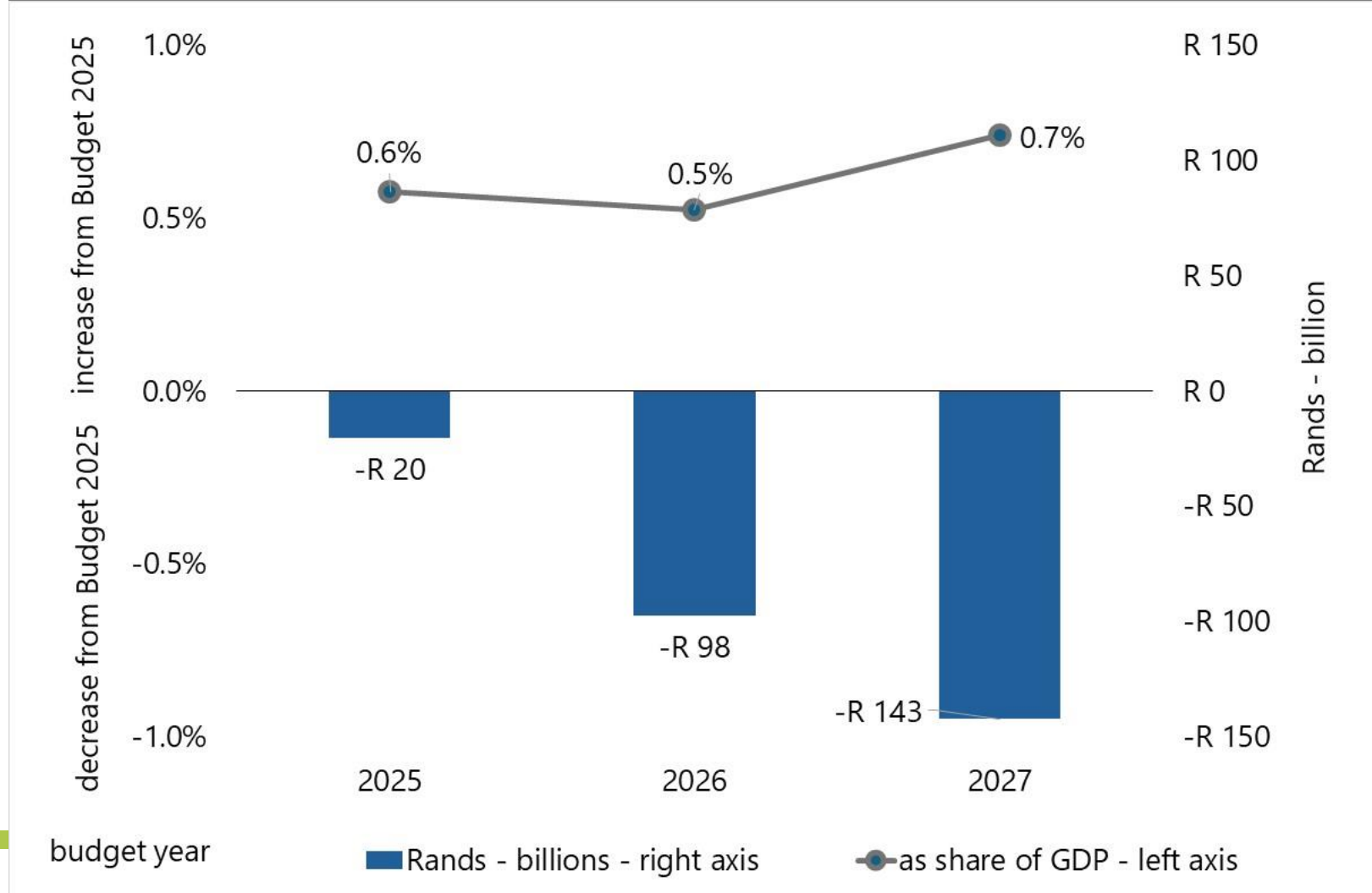


The macro-fiscal outlook

- The economic outlook has weakened across the medium term, with both real and nominal GDP revised downward compared with the 2025 Budget Review. This reflects the cumulative effects of tighter monetary conditions, weak consumption, and subdued investment.
- The downgrade in **nominal GDP** carries the most significant fiscal implications because it reduces the revenue base, elevates fiscal ratios, and tightens the overall fiscal envelope even if real activity is broadly stable.
- This creates a situation in which **macro-financial conditions, rather than fiscal policy choices**, now determine the path of the budget, the pace of consolidation, and the outlook for frontline services.
- The most important revision in the MTBPS is the significant reduction of the **GDP deflator**, reflecting SARB's shift toward a lower inflation target. The lower deflator reduces nominal GDP even though the real economy has not deteriorated as sharply.
- Since the debt ratio and revenue base depend heavily on nominal GDP, a smaller nominal economy **automatically worsens debt-to-GDP** and constrains expenditure ceilings, irrespective of actual fiscal performance.
- This revision underscores that **monetary policy, not fiscal behaviour, is responsible for the deterioration in the fiscal outlook**, raising questions about the coherence of macro-fiscal coordination.

A lower debt level, but higher debt ratio

Change in gross loan debt outlook: MTBPS 2025 - Budget 2025





Monetary dominance

When Monetary Policy Drives Fiscal Outcomes

- SARB's disinflationary stance — and Treasury's acceptance of a lower inflation target — has materially reshaped fiscal space. Lower inflation pushes down nominal GDP and revenue, while increasing the real burden of existing nominal debt.
- Treasury has had to respond by tightening expenditure ceilings, continuing real reductions in per-capita spending, and continuing the disproportionate burden of consolidation on expenditure.
- This dynamic reflects **fiscal policy now adjusting to monetary policy**, not the other way around, which raises concerns about democratic accountability and developmental alignment.

Who Gains, Who Pays?

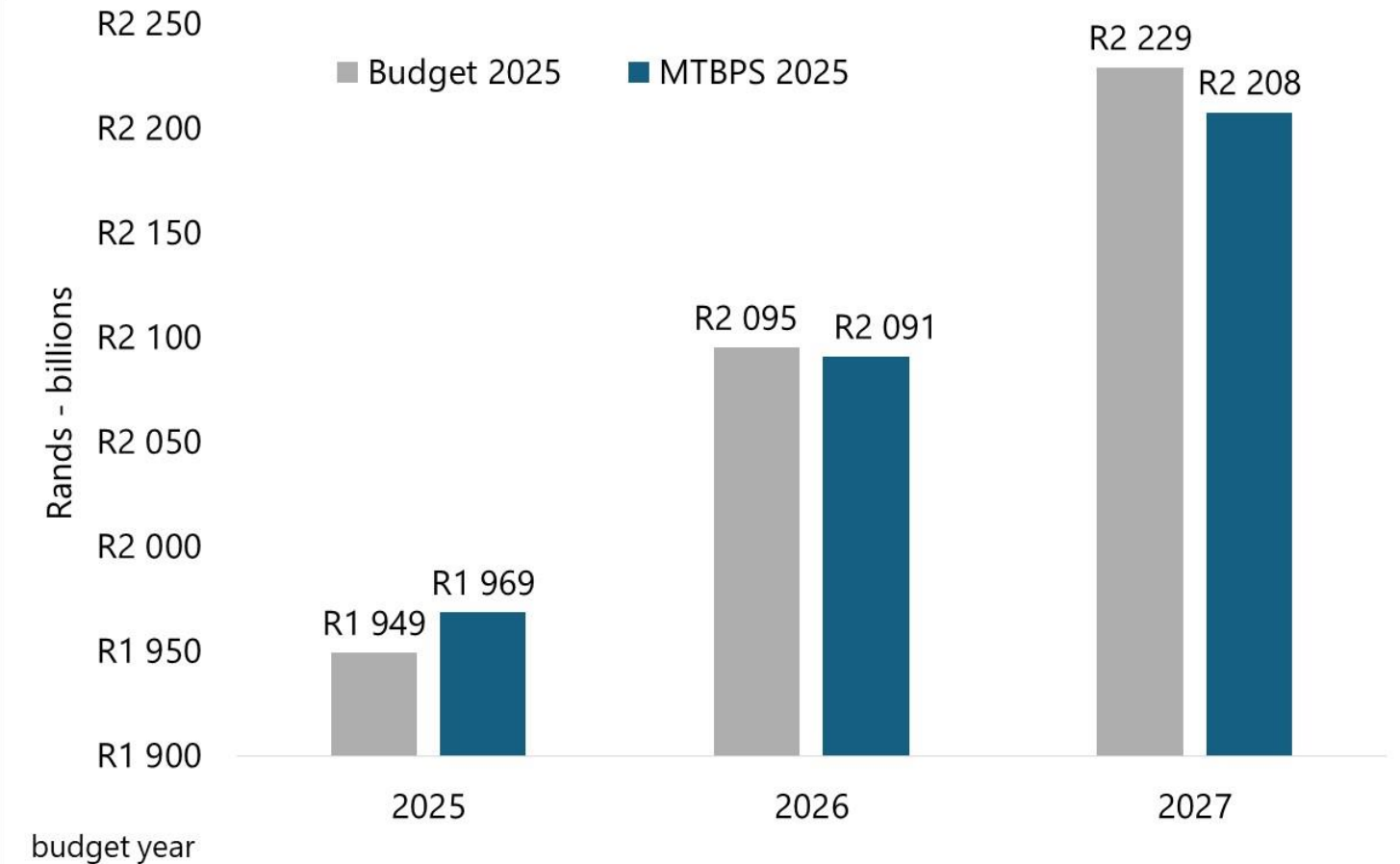
- The decision to lower the inflation target produces **distributional winners and losers**. Bondholders and financial institutions benefit from lower inflation, as the real value of their assets is preserved and expectations of tighter policy enhance yield stability.
- Whilst households benefit from slower erosion of purchasing power, households with high debt burdens experience the opposite effect: slower nominal wage growth raises the real cost of debt servicing, reducing household consumption and deepening VAT weakness.
- Parliament must evaluate whether this distribution is socially and economically justifiable.



The Revenue Triple Whammy

- Lower GDP inflation depresses nominal revenue collections, regardless of real activity. This is the first strike.
- At the same time, debt stock and interest obligations are also nominal. Lower nominal revenue growth therefore **weakens the ability to service existing debt**, contributing to the deterioration in debt-to-GDP. This is the second strike.
- Compounding this, the political and social appetite for tax increases is extremely limited. The 2025 Budget showed strong resistance from many segments of society, and coalition partners. As a result, **expenditure must now bear a disproportionate burden for consolidation**, raising concerns for service delivery and equity.

Main budget revenue outlook

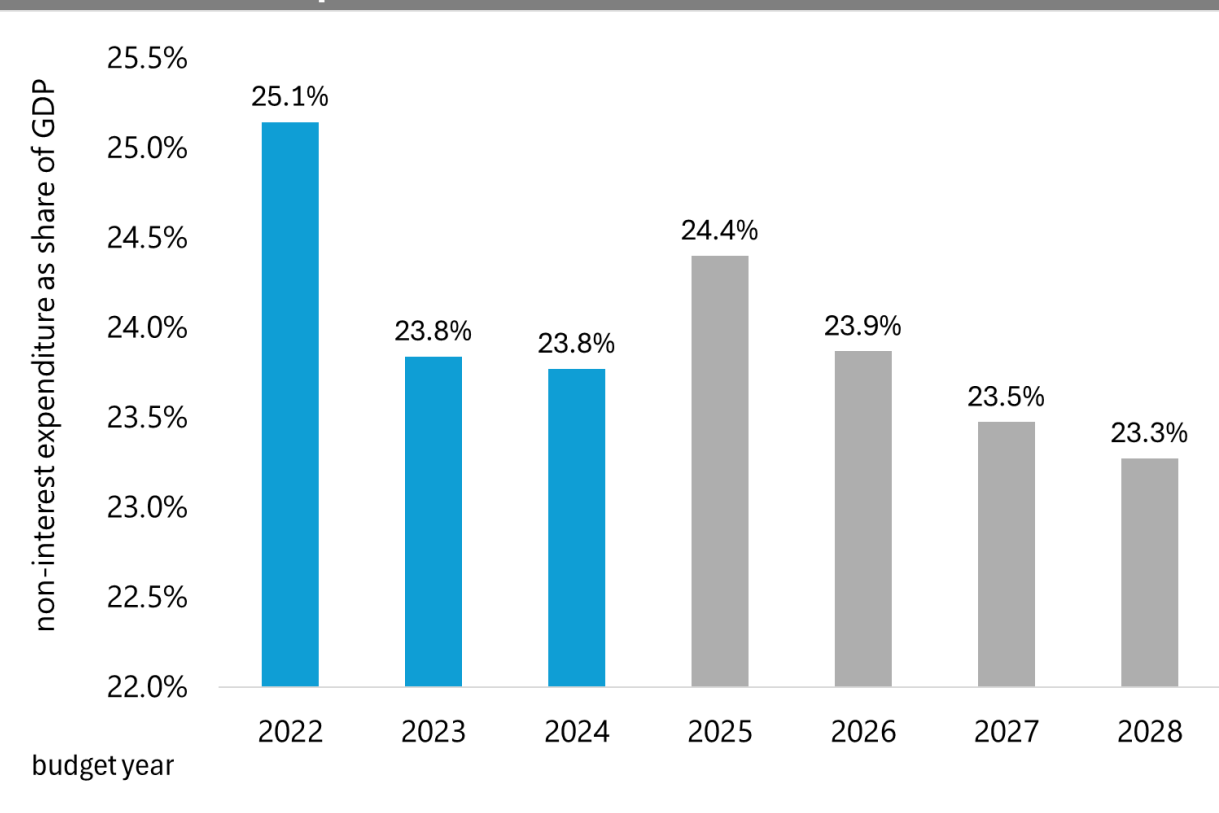




Wither the developmental state?

- Non-interest expenditure as a share of GDP falls from **25.1% in 2022 to 23.3% by 2028**, reflecting a continuing structural reduction in the size (and role) of the South African state.
- This contraction is not driven by efficiency gains, but by prolonged consolidation, and reductions in standards of service delivery, such as increasing pupil-teacher ratios.
- Real per-capita allocations for health, education, and policing continue to decline. These reductions compound **more than a decade of attrition in provincial budgets and frontline services**.
- Provinces face rising wage pressures, leading to deteriorating quality of care, learning environments, and policing capacity.

Non-interest expenditure as a share of GDP



Source: Public Economy Project calculation based on National Treasury budget data

- The declining share of non-interest expenditure undermines the state's ability to maintain service, and deliver on its constitutional obligation, **critical if the social contract is to hold**.



Credibility Concerns in the MTBPS

- Treasury assumes **zero real growth in final government consumption** in 2027 — an implausible scenario given existing contracts, wage commitments, and cost pressures that do not track CPI.
- Implementation will require renegotiating fixed-price contracts, absorbing above-inflation administered costs, and cutting programmatic spending in already constrained departments.
- TARS, whilst essential, is expected to only yield modest savings over the medium-term.
- The 2025 MTBPS does not provide satisfactory detail on governments plans for key emerging expenditure pressures.
- These assumptions raise concerns about **budget credibility**, forward guidance, and Parliament's ability to rely on the MTBPS as a realistic planning tool.
- Treasury's exclusion of Eskom support from non-interest expenditure leads to an inflated primary balance. When correctly accounted for, South Africa is projected to *actually* run a **primary deficit of R12 billion** this year. A primary surplus may emerge next year.



Stronger Macro-Fiscal coordination is imperative

- South Africa **lacks a formal, integrated macroeconomic framework** that aligns monetary targets, fiscal constraints, and developmental obligations. The fiscal stance is repeatedly adjusted to the SARB's position, but monetary policy does not clearly adjust to fiscal realities, employment pressures, or long-term development needs.
- A **transparent macro–fiscal coordination mechanism** is required—one that preserves SARB independence while clarifying joint responsibilities. This could include **flexible inflation targeting with explicit escape clauses** and a **regular published coordination note** explaining the combined implications of monetary and fiscal decisions.
- Parliament must oversee the **overall macro stance**, not isolated instruments. Uncoordinated tightening—high interest rates alongside fiscal compression—can amount to **de facto austerity**, weakening growth, service delivery, and South Africa's ability to realise socio-economic rights.
- Central-bank independence is essential, but independent institutions in a democracy require **credible accountability**. Monetary decisions have significant distributional effects, yet current transparency and oversight mechanisms are limited. **Enhanced reporting, joint hearings, and clearer communication of trade-offs** can strengthen accountability without undermining independence.



Conclusion

- **Fiscal sustainability is essential**, but stabilisation cannot rely indefinitely on deepening austerity that undermines socio-economic rights, service delivery, and long-term growth.
- The 2025 MTBPS reflects a **monetary-led consolidation path** that compresses the fiscal space primarily through nominal mechanisms rather than structural reform or developmental strategy.
- Parliament now faces the task of ensuring that stabilisation is compatible with constitutional commitments, human development, and a coherent, rights-based macro-fiscal strategy that supports long-term growth.
- A balanced, credible, and developmental approach is possible — but it requires deliberate policy choices that extend beyond the framework presented in this MTBPS.



About

Public Economy Project

*The Public Economy Project aims to build analytical capabilities on macro-fiscal policy and public economics to support deliberation and engagement between government, social partners, and civil society. The project is located within the **Southern Centre for Inequality Studies (SCIS)** at the University of the Witwatersrand*

More about the project here: <https://www.wits.ac.za/scis/research-projects/public-economy/>

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