Mini-Budget: a positive surprise

The 2025 Medium-Term Budget Policy Statement (MTBPS), or "Mini-Budget", marked a significant and positive milestone for South Africa's economy. The standout announcement was Finance Minister Enoch Godongwana's adoption of a new, lower inflation target of 3%, a move that coordinates policy with the South African Reserve Bank. This decision, coupled with better-than-expected revenue and new savings initiatives, has put the country on track to achieve its fiscal targets. Key goals, such as stabilizing national debt for the first time since 2008 and achieving a primary budget surplus, were met with a positive reaction from financial markets, strengthening the rand.

Willie Pelser

After the Main Budget was delayed back in February (we all remember the political wrangling over that VAT increase!), it wasn't a huge surprise that the "Mini-Budget" was also a month late, landing in November instead of October. However, unlike the last time, this delay didn't feel sinister. In fact, looking at the smooth, unchallenged delivery of the speech, it seems the Government of National Unity (GNU) parties may have actually "worked hard together" over the last six months. The result? A mini-budget that was refreshingly positive and, dare we say, optimistic.

The Big Problem We Faced

Let's be honest, the backdrop wasn't pretty. For years, South Africa's debt has been escalating, climbing to around 77% of our entire economy (GDP). This debt mountain was forced up by high spending, wasteful bailouts for State-Owned Enterprises (SOEs), and led to threats of higher taxes to pay for it all. It had gotten so bad that 21 cents of every rand the government collected in tax was being spent just on paying interest on our debt. As a financial institution, we often advise clients drowning in debt to renegotiate their terms. Well, South Africa just did that, but on a national scale.

The Big Positive News, Part 1: A New Target for Inflation

The biggest news from the budget is a major policy shift that will affect all of us. The Finance Minister announced that the Treasury is officially adopting the SA Reserve Bank's (SARB) inflation target of 3% (with a 1% tolerance band on either side). This is the first change to the target in 25 years.

SPEED READ

- **New Inflation Target: The government has set a new 3% inflation target (with a 1% tolerance band) to coordinate policy with the Reserve Bank, setting in motion a structurally lower interest rate environment.**
- **Debt is Stabilizing: For the first time since 2008, public debt is set to stop growing as a percentage of GDP, stabilizing at 77% this year.**
- **Surplus and Deficit: A primary budget surplus (revenue exceeding non-interest spending) will be achieved for the third year in a row, with the main budget deficit narrowing to 4.5% of GDP.**
- **Private Sector Partnership: A key strategy shift is using public money and new, faster rules to "crowd in" private sector investment for major infrastructure projects at Transnet and in municipalities.**
- **Positive Market Reaction: The Rand and bonds strengthened on the news. The positivity was reinforced last Friday when S&P raised our sovereign credit rating, the first upgrade in sixteen years**

Why does this matter to you?

- Teamwork: It gets the Treasury and the Reserve Bank in "lockstep", working together towards the same goal.
- Lower Interest Rates: This move is designed to anchor inflation at permanently lower levels, which should, in time, create a lower interest rate environment.
- A "Virtuous Cycle": The hope is that this kicks off a positive feedback loop - lower inflation leads to lower borrowing costs, which boosts confidence and investment. This, in turn, strengthens public finances and leads to faster economic growth.

**The Big Positive News, Part 2:
The Numbers Look Good?**

This is the part that caught the market by surprise. For the first time in a very long time, the numbers are pointing in the right direction.

- Debt is Stabilizing: For the first time since 2008, our national debt is set to stabilize this year. It's budgeted to stop growing as a percentage of the economy, holding at 77.9% of GDP.
- We're in Surplus (Sort of): We are set to achieve a primary budget surplus for the third year in a row. This simply means we are collecting more revenue than we are spending, before we pay the interest on our debt.
- Less Borrowing Needed: The government's total borrowing requirement for this year is R20 billion less than they thought it would be in May. This is thanks to stronger-than-expected revenue collection and lower debt-service costs.

**The Big Positive News, Part 3:
The "Flywheel" Starts Turning (With Private Sector Help)**

Perhaps the most significant long-term shift in this budget isn't just a number, but a philosophy. The government is openly acknowledging it cannot fix the country's infrastructure alone and is now actively shifting its role from being the only provider to being a partner and enabler for the private sector.

President Ramaphosa has long called infrastructure the "flywheel of our economy", and this budget finally puts serious money and policy behind that idea. The clear message is a pivot from consumption (like wages) to investment (like ports and power lines). Here's how they're doing it:

- Unlocking Transnet: The new budget doesn't just bail out Transnet; it uses public money to "crowd in" private funding. A R8.3 billion allocation is being provided to Transnet to support the rehabilitation of key rail corridors. This, in turn, is expected to unlock an estimated R12.4 billion in private sector funding. This is already in motion: 11 private train operators now have slots on 41 routes, and the first request for proposals on a major rail corridor is expected by December 2025.
- Fixing Municipal Infrastructure: At the local level, the government is reforming the Municipal Infrastructure Grant to stop rewarding failure. For municipalities that "persistently fail," the delivery of infrastructure will be shifted to an indirect model through agencies like MISA and DBSA, who can actually get the job done. For metros, a new reform is linking funding directly to performance, forcing them to improve billing, cut losses, and run water and electricity services with financial discipline.
- Making it Easier to Partner: To speed things up, the rules for Public-Private Partnerships (PPPs) have been amended to streamline approvals. Crucially, new guidelines for "unsolicited bids" have been issued. This creates a clear pathway for a private company to bring an innovative project to the government, rather than waiting years for a tender.
- Putting Money Where the Mouth Is: This isn't just talk. Capital payments (spending on assets) are now the fastest-growing item in the budget, set to grow at 7.5% over the medium term. To fund this, a new Infrastructure Bond will be launched to raise a minimum of R15 billion from investors specifically for these new projects.

How Did This Happen?

So, where did this good news come from?

1. A More Stable Economy: We are finally seeing some "green shoots". And let's not forget the most obvious sign: as of the budget, we had experienced 167 consecutive days without load-shedding, providing much-needed certainty for homes and businesses.
2. Better-than-Expected Revenue: The taxman had a R20 billion windfall. This came from higher VAT collections (people are spending) and better commodity prices, which meant higher tax payments from the mining sector. This extra cash might even be enough to cancel the planned tax hike for 2026/27.
3. Cutting Waste: The government has introduced a new "Targeted and Responsible Savings" (TARS) initiative. This isn't just talk; it aims to cut R6.7 billion by shifting funds from "low-priority and underperforming programs". This includes tackling social grant fraud and rooting out "ghost workers" from the public payroll, where an initial audit has already flagged nearly 9,000 high-risk cases.

The Outcome: The Market's Vote of Confidence

The markets, which are usually our toughest critics, loved it. The JSE moved higher, the Rand strengthened to trade below R17 to the Dollar for the first time in ages, and bond yields (the interest rate the government pays) declined.

This positive update now puts real pressure on the credit rating agencies. Two days after the Budget, S&P Global upgraded our sovereign credit rating from BB- to BB, but importantly, they maintained the positive outlook which implies the optionality of further upgrades. This is the first time in sixteen years that South Africa has had a ratings upgrade. Let that sink in. It is likely that in time, the other agencies (Moody's and Fitch) will follow suit. Combined with being removed from the Grey-List last month, SA is becoming investable again.

As we said, it is a surprising - and very welcome - dose of good news

Another year has come and gone, a year that has thrown up its fair share of surprises. Please join us for our year end seminar which will see us dusting off the crystal ball and looking into 2026 for clues as to what the new year might hold."

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Topic: Outlook for 2026

Natal Midlands

Date:	Thurs, 4th of December, 2025
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	Thurs, 27th of November, 2025
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	Tues, 25th of November, 2025
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Morne du Plessis Boardroom, 4th floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

HARVARD HOUSE GROUP

3 Harvard Street, Howick, 3290, South Africa
P.O. Box 235, Howick, 3290, South Africa
+27 (0) 33 330 2164
+27 (0) 33 330 2617
admin@hhgroup.co.za
W www.hhgroup.co.za