Medium Term Budget

South African assets have been in a positive feedback loop throughout 2025, with some of the spillover benefits reflected in this week's Medium-Term Budget Policy statement.

The South African economy, and by extension, government finances, has received a "sugar boost" from the commodity upswing. This year, two key exports have performed strongly: gold up 57% and platinum has surged 75%, while the country's largest import, oil, is down 12%.

The Budget Update Provides a Snapshot of this Improving Momentum.

For at least a decade, government finances have been under pressure due to sluggish economic growth and rising expenditure demands. This combination led to ballooning public debt and soaring interest costs, which in turn crowded out other spending priorities.

However, this week's medium-term budget marked a potential turning point. The Finance Minister reported, *"This is the first time since the 2008 financial crisis that public debt will not grow as a percentage of GDP."*

Markets had already begun pricing in this improved outlook, and the self-reinforcing nature of these developments has seen the rally in South African assets continue.

Reflexive Nature of Markets

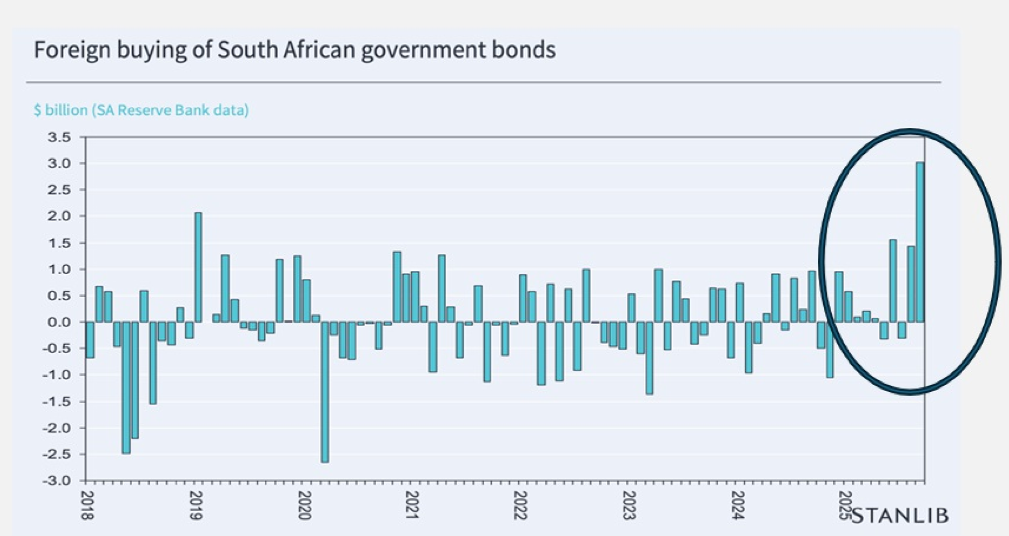
Higher commodity prices and lower oil costs have improved South Africa's terms of trade, which in turn helped the rand strengthen by 9% against the US dollar. These factors also boosted tax revenues, helping to stabilise the debt-to-GDP ratio.

Meanwhile, a stronger rand, lower oil prices, and relatively high short-term interest rates from a hawkish Reserve Bank have helped lower the official inflation to just above the 3% level.

Coupled with high long-term bond yields, these factors have drawn foreign investors back into South African government bonds (see chart below). Net inflows have further reinforced the rand's strength.

Improved inflation dynamics have also enabled the Treasury to formally adopt the Reserve Bank's narrower inflation target of 3%, replacing the previous 3–6% band. Alongside South Africa's removal from the FATF greylist and the potential for a credit rating upgrade, the investment case for local bonds strengthened significantly.

As a result, foreign investors have earned approximately 25% returns in USD on South African government bonds this year — a performance that continues to attract additional capital inflows.



Conclusion

This year's market and government finance developments highlight how quickly sentiment can turn when just a few key factors move in the right direction. While the Finance Minister rightly emphasised that South Africa's most pressing challenge remains accelerating growth to create jobs and reduce poverty, the latest signs point to a shift in momentum.

Ian De Lange CA(SA)
Chief Investment Officer

If you have any questions, Ian and our team would love to hear from you on global@seedinvestments.co.za.

Follow Ian De Lange on Social Media