PARLIAMENT
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# BUDGET 2025

# THE BALANCING ACT: FALLING REVENUES AMIDST RISING SPENDING PRESSURES

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# BUDGET 2025:

## Background

This Bulletin on the 2025 Budget is the fifth in a series on the Budget published by the Parliamentary Research Unit.

**Part 1** of the Bulletin provides an overview of the Budget Review with a focus on:

- The Economic outlook;
- Fiscal outlook;
- Spending priorities over the medium term;
- Division of revenue; and
- Implications for oversight

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## 1. INTRODUCTION

SA is currently facing tough times due to slow economic growth and rising spending pressures particularly for infrastructure, social protection, and public sector wage increases. Growth is projected to average 1.8 per cent over the next three years. The spending pressures propels Government to borrow in order to finance budget deficits which in turn increase debt service costs. The debt to GDP ratio of 76.2 is concerning in the face of slow growth.

The 2025 Budget aims to strike a balance between the urgent need for development and the necessity to maintain the fiscal sustainability of the country's public finances, by protecting critical services, continued economic support, which prioritises reforms and public investment, and stabilising public debt.

The paper analyses the economic outlook, the fiscal outlook, the spending priorities in the medium term as well as the division of revenue between the different spheres. The latter part of the paper analyses the implications for oversight.

## 2. THE ECONOMIC OUTLOOK

**Global growth remains stable in 2025 and 2026[1]**

- Global growth is projected at 3.3 per cent in both 2025 and 2026
- Emerging Market and Developing Economies (EMDEs)[2] are projected to grow at a faster rate than Advanced Economies[3] and the global average in both 2025 and 2026:
    - The growth rate of Advanced Economies is projected at 1.9 per cent in 2025 and is expected to decline slightly to 1.8 per cent in 2026, while the growth rate of EMDEs is projected at 4.2 per cent in 2025 and at 4.3 per cent in 2026.
    - Sub-Saharan Africa's growth is projected at 4.2 per cent in 2025 and 2026.

- **The main risks to the global economic outlook relate to** persistent geopolitical tensions, coupled with rising trading disputes and a slowdown in China's property sector. Additionally, rising commodity prices, financial market volatility and the tightening of financial conditions for developing economies pose a threat to the global economic outlook.[4]

**South Africa's growth projections remain below 2 per cent[5]**

- South Africa's real gross domestic product (GDP) growth is projected at 1.9 per cent in 2025. It is projected to decline marginally to 1.7 per cent in 2026 before returning to 1.9 per cent in 2027.

**The main risks to the domestic outlook** relate to unfavourable weather conditions, rising input costs and logistical challenges[6].

[1] IMF (2025) and National Treasury (2025).
[2] Refers to Emerging and Developing Asia, Emerging and Developing Europe, Latin America and the Caribbean, Middle East and Central Asia and Sub-Saharan Africa.
[3] Refers to the United States, Euro Area (Germany, France, Italy, Spain), Japan, Canada and other Advanced Economies.
[4] IMF (2025) and National Treasury (2025).
[5] National Treasury (2025).
[6] National Treasury (2025).

**Unemployment rates fall in the fourth quarter of 2024, but the youth remain vulnerable in the labour market**

- The country's official unemployment rate, which is calculated using the number of persons who are employed and unemployed, but excludes economically inactive[7] persons, has decreased from 32.1 per cent in the third quarter of 2024 to 31.9 per cent in the fourth quarter of 2024[8].
- **Youth[9] unemployment also falls slightly but remains high**: the youth unemployment rate decreased from 45.5 per cent in the third quarter of 2024 to 44.6 per cent in the fourth quarter of 2024[10].

**Inflation remains well within the South African Reserve Bank (SARB) target range of 3-6 per cent and the repurchase rate decreases.**

- The consumer price index (CPI) inflation is projected at 4.3 per cent in 2025 and is expected to increase to 4.6 per cent in 2026 before declining to 4.4 per cent in 2027.
- Reduction of the repo rate from 7.25 per cent per annum compared to the 8 per cent per annum repurchase (repo) rate[11] at the time of the 2024 Medium Term Budget Policy Statement (MTBPS).

**Business confidence remains unchanged, and consumer confidence decreases slightly[12]**

- Business confidence remains unchanged at 45 index points in the first quarter of 2025 according to the BER Business Confidence Index[13].
- Consumer confidence declined slightly from -5 index points in the third quarter of 2024 to -6 index points in the fourth quarter of 2024[14].

## 3. THE FISCAL OUTLOOK

- Tax revenue was lower due to underperformance in import VAT collection and contraction in fuel levy falling demand and large refund payment. It is increasingly difficult to exceed revenue expectations given low growth.
    - Revenue outlook has declined with tax estimates expected to be lower than the 2024 budget estimate by R16.9 billion.
    - Value Added Tax (VAT) and Personal Income Tax (PIT) were revised downwards. Despite domestic VAT performing better than expected, the contraction in import VAT led to significant downward revisions to net VAT collections compared with 2024 Budget estimates. PIT collection grew with the larger than expected tax receipts from the withdrawals of the two-pot retirements regime.

- Revenue projections over the medium term remain elevated due to changes in tax policy which will translate into improved tax revenue.

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[7] A person is considered to be economically inactive if they were able and available to work in the week prior to the Quarterly Labour Force Survey being administered, but did not work or look for work or start their own business.

[8] Stats SA (2025).

[9] Youth refers to 15-34 years.

[10] Stats SA (2025).

[11] The repo rate determines the interest rate at which the central bank lends money to commercial banks — which then affects the amount they lend to their consumers.

[12] BER (2024).

[13] 0 indicates extreme lack of confidence and 100 indicates extreme confidence.

[14] First quarter of 2025 data not yet available.

- Over the medium term, notwithstanding the growth outlook, revenue is expected to be higher by R137.8 billion with positive expectations from VAT and PIT. National Treasury (NT) outlined a 0.5 percentage increase in the VAT rate in 2025/2026 and no inflation adjustment to PIT.
- Tax policy proposals are expected to raise R28 billion in 2025/26 and R14.5 billion in 2026/27, adding significantly to tax collections over the medium term. The greater proportion of this increase will be generated from VAT and PIT.
- Revenue collection is expected to increase by 8.7 per cent, 7.8 per cent and 6.6 per cent over the next three years as economic growth gradually improves. This translates into gross tax revenue increasing from an anticipated R1.85 trillion in 2024/25 to R2.31 trillion in 2027/28.

- Infrastructure investment geared to support economic growth

  - Investing in strategic infrastructure, supporting job creation and maintaining a growth-friendly fiscal policy will underpin government policy over the medium term
    - Public Infrastructure Investment: R1.03 billion over the medium term with an allocation in roads (R402 billion), energy (R219.2 billion)
    - Institutional Reform for Infrastructure Delivery: National Treasury will oversee this single structure to coordinate in project preparation and planning.
    - Budgeting and financing for infrastructure: Approved nine projects with the value of R55.5 billion. The SOE, public entities and municipalities will fund R748.5 billion of total public sector capital investment.
    - Public-Private Partnership Reform: Revised manuals and guidelines on PPPs and reducing approval requirement for projects below R2 billion form June 2025.
    - Performance based financing: The 2025 Budget introduces a performance-based conditional grant for certain trading service entities that provide basic services, such as municipal water. This will incentivise financial and operational reforms to improve their functioning and sustainability.

- The 2025 budget introduces various tax proposals on the back of low growth and falling revenue collection.

  - Tax increases impede economic activity, and its impact is more pronounced when growth is weak. Without higher economic growth to support long term revenue collections, options to stabilise the fiscus are becoming increasingly limited and NT has proposed a higher VAT rate by 0.5 percent in 2025/2026 and 0.5 percent in 2026/27 from 1 May 2025 and 01 April 2026 respectively to fund policy priorities. VAT is an indirect tax and second highest source of revenue.
  - Although goods and services are taxed at the same rate with the new proposed rate of 15.5%, effective 1 May 2025 and rising to 16% in 2026/27. VAT is a regressive tax. In the context of South Africa where a large segment of the population is poor, a greater proportion of low-income households tends to spend much more on food items which carry VAT.
  - The regressivity will somewhat be reduced with the expansion of zero-rated goods which currently include 21 basic items such as maize meal, vegetables, canned products etc. The list will be expanded to include edible offal of sheep, specific cuts such as heads, feet and tongues. Revenue forgone is estimated to be R2 billion of zero-rated products.
  - Personal income tax is the most important form of direct taxation and largest source of tax revenue in the country. Like most countries, South Africa's PIT is a progressive tax which means people with higher incomes pay a larger percentage of their income in tax

than people with lower incomes. Although tax rates have not been increased, PIT will not be adjusted for inflation therefore any individual receiving an increase in salary large enough to move them into a different tax bracket will pay more tax. This is referred as bracket creep. The zero-inflation adjustment will raise R19.5 billion in 2025/26.
  - The introduction of Global Minimum Tax which was a policy change effected in 2024 Budget which will yield CIT revenue over the medium term and reduce incentives for large firms to shift profits.
  - To reduce pressure on households, fuel levy will not be adjusted for inflation. Relief has been granted to leave the levies unchanged, leading to revenue forgone of R4 billion.
  - There is an inflation adjustment to transfer duty which will move upwards by 10% in the current year.
  - Renewable energy tax incentive was extended to encourage investment to alleviate energy crisis. First time investment for businesses were allowed to make deductions of 125% without limit to threshold on generations from 1 March 2023 until 28 February 2024. The temporary incentive fell away on 28 February 2025. After careful assessment, it is proposed that these two design features remain unchanged.
  - Government proposed to extend the tax incentives on urban development zone- to allow proper time to consult with municipalities, the incentive is extended by 5 years to 31 March 2030.
  - Changes to the tax treatment of cross border retirement funds where changes to the rules of exempting lump sums, pensions and annuities received by South Africa residents from foreign retirement funds for previous employment outside South Africa is causing non-taxation especially for those granted taxing right by treaty.
  - Excise duty on alcoholic beverages, cigars and pipe tobacco will both increase by 6.75 percent. Cigarettes and electronic nicotine will increase by 4.75 percent.
  - Responding to climate change mitigating efforts, the levy will increase from 2 April 2025.
  - The health promotion levy increase is cancelled in order to allow for more time to restructure a response to regional competition.

- Government using bond switch programme to mitigate refinancing risk, elevated borrowing costs in a low growth, high inflation environment over the medium term.
  - The risks to funding government debt include: Higher borrowing costs as a result of geopolitical risks and exchange rate volatility, weaker economic growth, which could reduce revenue performance and lower the demand for inflation-linked bonds, materialisation of contingent liabilities at state-owned companies.
  - A €400 million loan from the French Development Bank for the implementation of the country's Just Energy Transition Investment Plan was concluded, with €200 million expected to flow in by the end of 2024/25 and the remainder in 2025/26.
  - Gross borrowing requirement will increase from R582 billion in 2025/26 which includes the Eskom-debt relief arrangement. The debt requirements are declining in 2026/27 to R441 billion and increase to R600 billion in 2027/28. The bond switch programme is being used to mitigate refinancing risks by spreading redemptions over time.
  - Government debt rising to 76.2 percent of GDP in 2025/26. Gross debt stock is expected to increase from R5.69 trillion in 2024/25 to R6.81 trillion in 2027/28. Net loan debt – gross loan debt less cash balances – will increase from R5.47 trillion to R6.7 trillion over the same period.
  - Debt-service costs are revised upwards by R7.4 billion compared with the 2024 Budget estimate, mainly due to a higher budget deficit. As a share of GDP, debt-service costs are projected to average 5.3 per cent over the medium term.

- Contingent liabilities from State Owned Entities amount to R491.9 billion with exposure amount of R439.2 billion in 2025/26

- The realisation of contingent liabilities, which would affect the sustainability of the public finances continues to be a challenge. The total guaranteed amount is R491.9 billion on 31 March 2025, and the exposure amount is R439.2 billion over the same period.[15] These include Transnet, SANRAL, Trans- Caledon and Eskom.
- Eskom's debt remains elevated and is the largest guaranteed exposure at about 81 per cent of the portfolio.
- Government's largest contingent asset is the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). GFECRA is estimated to reach R343.7 billion by 31 March 2025.

## 4. EXPENDITURE PRIORITIES

- **Macroeconomic stability, structural reforms, and improved state capacity**

  - In the current context of financial market vulnerabilities, trade disputes and global uncertainty – the Government's economic strategy focuses on maintaining macroeconomic stability to reduce living costs and grow investment, executing reforms to promote a more dynamic economy, building state capability in core functions and supporting growth-enhancing public infrastructure investment.
  - Over the medium term, the Budget allocates R1 billion for growth-enhancing infrastructure investment. The allocation targets three sectors: transport (R402 billion), energy (R219.2 billion), water and sanitation (R156.3 billion).
  - Operation Vulindlela[16] is set to intensify institutional reforms and interventions, with phase 2 of the programme set to prioritise improving municipal accountability and capacity and creating an enabling environment of great private sector involvement in public infrastructure projects.

- **Medium term expenditure priorities**

  - Over the medium term, consolidated government spending increases by 1.1 per cent in real terms from R2.4 trillion in 2024/25 to R2.83 trillion in 2027/28.
    - Additional funding of R232.6 billion is proposed to accommodate funding pressures in key programmes including infrastructure investment, social protection, higher than anticipated public service wage agreement, and provisional allocations for critical frontline services.
    - The proposed additions to the budget fund the following programmes:
      - R46.7 billion for infrastructure investment;
      - R35.2 billion for the extension of the *COVID-19 social relief of distress grant* until March 2026;
      - R23.4 billion for the costs of the 2025 public-service wage agreement;
      - R11 billion to implement early retirement measures in 2025/26 and 2026/27;
      - R8.2 billion to increase the value of social grants by more than inflation;

[15] Government's guarantee exposure consists of the sum of the outstanding value of a loan, accrued interest and adjustments to inflation-linked bonds.
[16] Operation Vulindlela is a joint initiative of the Presidency and the National Treasury to accelerate the implementation of structural reforms and support economic recovery. The Unit aims to fast track the implementation of high impact reforms, addressing obstacles or delays to ensure execution on policy constraints.

        - R5 billion for the carry-through costs for the deployment of South African National Defence Force (SANDF) in the Democratic Republic of the Congo; and
        - R16.6 billion for debt repayment related to the Gauteng Freeway Improvement Project (GFIP).[17]
- Government spending remains highly redistributive, with a majority of the budget allocated to the social wage
    - The *Learning and Culture* function proportionally receives the highest proposed allocation at R1.6 billion
        - Over the medium term, Government provides additional allocations of R19.1 billion for the employment of approximately 11 000 teachers; as well as additional funding of R10 billion for the upward revision of the early Childhood Development (ECD) subsidy from R17 to R24 and expand access to ECD services to approximately 700 000 children up to the age of four (4) years.
    - *Health* spending is proposed to grow from R277 billion in 2024/25 to R329 billion in 2017/28. This allocation includes additional funding of R28.9 billion, mainly for the employment of approximately 9300 healthcare workers and 800 community service doctors
    - The *Social Development* function grows at an annual average 4.5 per cent over the medium term from R422.3 billion in 2025/26 to R452.7 billion in 2027/28
        - This allocation includes an inflation-adjusted increase to social grants, which are R284.7 billion for 2025/26 for an estimated 28 million beneficiaries
        - Furthermore, R35.2 billion is provided for the extension of the *COVID-19 Social Relief of Distress (SRD) grant* in its current form. In 2023, approximately 3.7 million households faced moderate to severe food insecurity, while 1.5 million endured severe hunger.[18]
    - To address the current 31.9 per cent official unemployment rate[19], Public employment programmes receive a proposed R4.6 billion in 2025/26, and a provisional allocation of R15.2 billion for the outer two years of the MTEF.
- The public service wage bill grows by an annual average 5.7 per cent over the MTEF from R822.8 billion in 2025/26 to R900 billion in 2027/28, comprising an estimated 31.9 per cent of consolidated spending.
    - To accommodate the 2025 public service wage agreement, Government provides an additional allocation of R23.3 billion over the medium term
- Over the medium term, the *Economic Development* function will primarily focus on economic regulation and infrastructure, with average growth of 8.1 per cent from R252.4 billion in 2024/25 to R318.4 billion in 2027/28.
- The *Peace and Security* function grows by 4.7 per cent annually, from R250.4 billion in 2024/25 to R287 billion in 2027/28
    - The proposed allocation includes R5 billion allocated over the MTEF for the deployment of the South African National Defence Force (SANDF) in the

[17] This SANRAL GFIP debt repayment is shared between national government (R3.2 billion) and the Gauteng Provincial government (R13.4 billion
[18] StatsSA (2025a)
[19] This is the official unemployment rate as at the fourth quarter of 2024 (StatsSA, 2025b)

Democratic Republic of Congo and supplement other peace keeping initiatives.

- Debt-service costs are higher than estimated in the 2024 MTBPS due to the annual budget deficit, elevated interest rates, a weaker exchange rate and Government spending on debt-service costs remains higher than spending on health, basic education or social development.

## 5. DIVISION OF REVENUE

- **Division of Revenue among the three spheres of Government has taken into consideration, the spending priorities over the 2025 medium term and each sphere's revenue-raising capacity. In 2025/26, the equitable division of revenue share among the three spheres is as follows:**

  - 49.1 per cent of available non- interest spending to National Government;
  - 41.3 per cent to Provinces, and
  - 9.5 per cent to Local Government.[20]

- **Provincial Government receives R767.8 billion in transfers in 2025/26, which accounts for over 96 per cent[21] of the provincial revenues and is comprised of:**

  - Equitable share allocation of R633.2 billion; and
  - R134.6 billion in conditional grant transfers.[22]

- Provincial Government has limited revenue-raising capacity,[23] hence the reliance on the equitable share allocation and conditional grant transfers to fund and fulfil their mandate of the provision of social services (i.e., health, education, public transport etc.).

- **Additional funds to alleviate employee compensation budgetary pressures within the Provincial Government sphere:**[24]
  - An additional R14.5 billion (i.e., R4.8 billion in 2025/26)[25] is added to the Provincial equitable share allocation to assist with the implementation of 2024 Public Wage Agreement over the 2025 medium term;

  - R1.2 billion is added to the Provincial equitable share in 2025/26 through the Presidential Employment Initiative to fund the Teacher Assistants Programme that was introduced in 2020;[26] and

[20] Budget Review Annexure (2025), p. 7.
[21] Budget Review Annexure (2025), p. 11.
[22] Budget Review Annexure (2025), p. 7.
[23] The legislation governing Provincial Government revenue-raising abilities is restrictive and limits revenue efforts to a few revenue sources (mainly motor vehicle licenses, gambling licenses and user charges for hospital services).
[24] Budget Review Annexure (2025), p. 13.
[25] Budget Review (2025), p. 65.
[26] Budget Review Annexure (2025), p. 13.

- R861 million is added to several conditional grants that fund compensation of employees over the 2025 medium term.

- **Local Government receives R184.7 billion in transfers in 2025/26, which is comprised of:**[27]
    - R176.8 billion in direct transfers, which includes the Local Government equitable revenue share of R98.1 billion and R53.9 billion in direct conditional grant transfers; and
    - R7.9 billion in indirect conditional grant transfers.

  Local Government is confronted with weak revenue generation as property tax and service charge collections decline in real terms. Hence, there is a growing reliance on intergovernmental transfers, which now account for over 70 per cent of municipal budgets in many cases. Urban municipalities are more resilient due to diversified revenue streams, but rural municipalities remain heavily dependent on transfers, exacerbating inequities in development and service delivery.[28]

  A comprehensive review of the Local Government Fiscal Framework is underway to ensure that the funding model of Local Government is refined and able to respond to the diverse needs of municipalities. Key reforms include, revising the Local Government equitable share formula, to better target poor households and account for cost differences across municipalities. In addition, the National Treasury is consulting stakeholders as part of developing norms and standards for municipal electricity surcharges to help reform municipal revenue collection.[29]

- **Proposed Changes to Conditional Grant allocations and frameworks include:**

    - **Additions to Provincial Government Conditional Grants in 2025/26:**[30]

        - R1 billion is added through the Budget Facility for Infrastructure to the *Education Infrastructure Grant*, to be allocated for the Western Cape Schools Rapid Build Programme; and
        - R858 million[31] is provisionally allocated through the Budget Facility for Infrastructure to the *National Health Insurance Indirect Grant: health facility revitalisation component* for the Siloam District Hospital in Limpopo Province.

    - **Reprioritisation of Provincial Government Conditional Grant funding in 2025/26 and over the 2025 medium term:**[32]

        - R6 million in 2025/26 is reprioritised from the Department of Health to the *National Health Insurance Indirect Grant: health systems component* for the Central Chronic Medicines Dispensing and Distribution programme.

[27] Budget Review Annexure (2025), p. 34.
[28] Budget Review (2025), p. 63.
[29] Budget Review (2025), p. 67.
[30] Budget Review Annexure (2025), p. 13.
[31] Budget Review Annexure (2025), p. 30.
[32] Budget Review Annexure (2025), pp. 13 -14.

- R199 million is reprioritised from the *Comprehensive Agricultural Support Programme Grant* to national government over the 2025 medium term to augment funding for the blended finance scheme administered by the Department of Agriculture.
- R94 million is reprioritised from the *Provincial Roads Maintenance Grant* to the *S'hamba Sonke* Programme within the Department of Transport over the medium term to augment the existing funds allocated towards providing technical support services for the monitoring of road maintenance projects implemented by provinces.

○ ***Merging of Provincial Government Conditional Grant Funding:***[33]

- From 2025/26, the *Expanded Public Works Programme Integrated Grant for Provinces* will be merged with the *Social Sector Expanded Public Works Programme Incentive Grant for Provinces*, combining the allocations of the two grants.

○ **Shifting of Local Government Conditional Grant funding in 2025/26 and over the 2025 medium term:**[34]

- R494 million is shifted in 2025/26 from the direct component of the *Municipal Infrastructure Grant* to the indirect component to address wastewater infrastructure issues in 21 municipalities.
- R245 million is shifted over the 2025 medium term from the *Municipal Infrastructure Grant* to the *Integrated Urban Development Grant*, as the Alfred Duma Local Municipality became eligible to participate in the *Integrated Urban Development Grant.*

○ **Reprioritisation of Local Government Conditional Grant funding in 2025/26 and over the 2025 medium term:**[35]

- R408 million is reprioritised in 2025/26 from the *Public Transport Network Grant* to the Taxi Relief Fund to extend the programme; and
- R40 million is reprioritised over the 2025 medium term from the *Integrated National Electrification (Eskom) Grant* to complete the National Electrification Master Plan.

○ **Merging of Local Government Conditional Grant Funding:**[36]

- From 2025/26, the non-metro component of *Neighbourhood Development Partnership Grant* will be merged with a portion of the *Programme and Project Preparation Support Grant* into a single grant, still called the *Neighbourhood Development Partnership Grant*, with a baseline of R1.4 billion over the 2025 medium term.

○ **Introduction of New Local Government Conditional Grant:**[37]

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[33] Budget Review (2025), p. 69.

[34] Budget Review Annexure (2025), p. 35.

[35] Budget Review Annexure (2025), p.35.

[36] Budget Review Annexure (2025), pp. 36 &53.

[37] Budget Review Annexure (2025), p. 36.

- A new *Urban Development Financing Grant* is introduced in 2025/26. The new grant is intended to strengthen the management of and infrastructure investment in municipal entities that supply water and sanitation, electricity, energy, and solid waste management services. The baseline of this grant is funded from the *Neighbourhood Development Partnership Grant: metro component* (i.e., R924 million over the 2025 medium term) and 80 per cent of the *Programme and Project Preparation Support Grant* (i.e., R981 million over the medium term).
- The *Urban Development Financing Grant* also receives an additional R450 million in 2025/26, from the Public Employment Programme, to fund the extension of city-led employment programmes.
- The Budget Facility for Infrastructure also makes an allocation of R56 million in 2025/26 to the *Urban Development Financing Grant*, which is directed to the eThekwini Metropolitan Municipality for a project to address non-revenue water.

○ **Termination of Local Government Conditional Grant:**[38]

- The *Municipal Systems Improvement Grant* will be discontinued, and the baseline funding will be redirected to the Department of Cooperative Governance, which has been earmarked for national government to support municipalities.

○ **Update of Municipal Eskom Debt-Relief Programme – municipalities are not complying with programme conditions and are at risk of removal:**[39]

- Many of the 71 municipalities in the Debt-Relief Programme are not complying with the programme conditions that will enable the national government to write of their arrears' debt to Eskom.
- Persistent non-payment of monthly electricity accounts and the inability to collect the mandated revenue (i.e. 85 per cent), are some of the issues hampering compliance.
- 47 municipalities are at risk of being removed from the programme due consistently defaulting on their payments, despite monthly support from the Provincial Treasuries.
- National Treasury has issued final warnings to several municipalities that they are at risk of being removed from the Debt-Relief Programme.
- Termination will result in severe consequences for these municipalities, which include the full payment of their Eskom debt and accumulated arrears, as well as being subjected to legal proceedings and the imposition of prepaid bulk electricity systems.
- These municipalities need to improve their efforts in meeting their programme obligations by implementing cost-reflective tariffs, better managing free basic services that ensures that only qualifying households benefit, and the implementation of smart prepaid meters to improve revenue collection and financial sustainability.

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[38] Budget Review Annexure (2025), p. 36.

[39] Budget Review (2025), p. 70.

- However, there has been some success with the Debt-Relief Programme. Eleven municipalities had one third of their debt written off after meeting the programme conditions.

## 6. IMPLICATIONS FOR OVERSIGHT

1. The focus on economic growth, employment and efficiency is crucial given the tight trade-offs required to balance the budget. The Government must create fiscal space to counter growing spending pressures, persistent economic stagnation[40], inflated cost of living, and emerging global tensions and uncertainties such as tariffs and trade wars.
2. Government's accruals portfolio has ballooned to R22 billion, threatening the integrity of the current budget, future budgets as well as spending plans targeted to address poverty and inequality.
3. While the Budget makes additional funding available, certain emerging spending pressures could compromise budget integrity. These include:
   a) Implementation of the **Basic Education Laws Amendment (BELA) Act** concerning the universal provision of Grade R in public schools. This relates to the extension of the National School Nutrition Programme, Scholar Transport Programme, construction of early childhood development (ECD) classes/centers, hiring of professional Grade R practitioners, and procurement of Grade R learning materials;
   b) Shortfall in the health sector following the termination of **PEPFAR**[41] funding by the US Government;
   c) Spending pressures arising from the Eastern Cape's High Court ruling against the Eastern Cape Departments for Education (ECDoE) and Transport (ECDoT) on the provision of Scholar Transport;[42] and
   d) Expansion of the **SRD Grant** arising from the court case against the Department of Social Development (DSD) based on findings of the court that the regulations of the grant in its current form are invalid and unconstitutional.[43]
4. Parliament must critically evaluate growth initiatives implemented through programmes such as Operation Vulindlela, the Budget Facility for Infrastructure (BFI), Presidential Infrastructure Coordinating Commission (PICC) to establish the expected fiscal multiplier.
5. There needs to be rigorous interrogation of the spending reviews produced, which the National Treasury uses to identify sources of inefficiency and effectively use existing legal instruments, including the PFMA, to hold accounting officers responsible for the inefficient use of public funds.
6. Greater collaboration with stakeholders that oversee and monitor government-wide performance and expenditure, for example: the Department for Planning, Monitoring and Evaluation (DPME), the Auditor-General of South Africa (AGSA), National Treasury, Department of Public Service and Administration (DPSA).
7. Subnational governments need to implement structural reforms to improve spending efficiency, enhance revenue management and enforce accountability. Strategic

[40] Economic growth has averaged below 2 percent since 2013.
[41] PEPFAR stands for the United States President's Emergency Plan for AIDS Relief, a U.S. government initiative led by the Department of State's Bureau of Global Health Security and Diplomacy (GHSD) to combat the HIV/AIDS epidemic globally.
[42] LRC (2024)
[43] The judgement was handed down by the North Gauteng High Court (on 23 January 2025). Even if the National Treasury appeals the judgement, the contingency risk remains and any increased funding for SRD cannot be accommodated from the Contingency Reserve and could elevate pressure for reprioritisation from other programmes.

planning and robust financial management are essential to ensure sustainable service delivery and reduce the disparities between urban and rural areas.

  - Provincial Governments have made some progress in reducing wastage and inefficient spending as evident by irregular, unauthorised and fruitless and wasteful expenditure decreasing in 2022/23. However, accruals and payables are increasing, which are particularly pronounced in the health and education sectors. These are due to increasing service demands driven by population growth and sector-related inflationary pressures. Cash flow management needs to be improved, and spending needs to be prioritised within Provincial Government.

- Local Government is confronted with weak revenue generation, which is aggravated by increasing debtor days and increasing number of indigent households. Weak revenue generation and collection leads to cash flow challenge and the non-payment of creditors. A comprehensive review of the Local Government Fiscal Framework is underway to ensure that the funding model of Local Government is refined and able to respond to the diverse needs of municipalities. However, funding is not the only challenge, weak political and administrative management has resulted in persistent failures – as evident by the incurrence of irregular and wasteful expenditure and non-compliance with financial management statutes, thus highlighting the need for stronger accountability. Vacancies in critical senior management positions, weak internal controls and poor implementation of audit findings further undermine financial discipline and service delivery within Local Government.

  - Local Government needs to improve revenue collection efforts, ensure proper implementation of credit control policy, update indigent household registers, improve cash flow management and cultivate a stronger culture of financial discipline and accountability among all stakeholders (i.e. residents and businesses residing in the municipality, municipal administration and leaders and municipal political leaders).

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**Contributors:**

**Contributors:**

Poppie Ntaka: Select Committee on Finance. pntaka@parliament.gov.za
Antonia Manamela: Standing Committee on Finance. amanamela@parliament.gov.za
Noluyolo Magazi: Standing Committee on Appropriations. nmagazi@parliament.gov.za
Musa Zamisa: Standing Committee on Appropriations. mzamisa@parliament.gov.za
Yolanda Brown: Select Committee on Appropriations. ybrown@parliament.gov.za
Gugu Shabalala: Senior Researcher- Finance and Public Accounts Committees. gshabalala@parliament.gov.za

**What we do:**

The Research Unit offers research support to individual Members of Parliament, to Committees and to the Houses. Researchers proactively provide:

- ✓ Summaries and analysis of Bills
- ✓ Analysis of the State of the Nation Address (SONA), Budget Votes, Annual Performance Plans, Quarterly Performance and Expenditure Reports, and Annual Reports
- ✓ Briefing papers in support of Committee meetings on topical oversight issues
- ✓ Comparative studies and international best practices
- ✓ Briefing papers to prepare for oversight visits and on-site oversight visit support
- ✓ Papers in support of House debates

On request, researchers will provide briefings and presentations to Committees, as well as research support to individual Members of Parliament.

For any comments or feedback, please email Gugu Shabalala
gshabalala@parliament.gov.za

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