Fiscal Framework and Revenue Proposals: 2025 National Budget

Federal Policy Unit

2025

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Table of Acronyms

AG	Auditor General
APPO	African Petroleum Producers’ Organisation
DA	Democratic Alliance
DDM	District Development Model
DRC	Democratic Republic of the Congo
GDP	Gross Domestic Product
GNU	Government of National Unity
GTAC	Government Technical Advisory Centre
NHI	National Health Insurance
NYDA	National Youth Development Agency
PFMA	Public Finance Management Act
PRASA	Passenger Rail Agency of South Africa
SAA	South African Airways
SABC	South African Broadcasting Corporation
SADC	Southern African Development Community
SAMIDRC	SADC Mission in the Democratic Republic of Congo
SANDF	South African National Defence Force
SAPS	South African Police Service
SARS	South African Revenue Service
SETAs	Sector education and training authorities
SOEs	State-Owned Enterprises
VAT	Value-Added Tax

Problem Statement

On 19 February 2025, South Africa's Finance Minister, Enoch Godongwana, proposed a 2 percent increase in value-added tax (VAT), increasing the VAT rate from 15 to 17 percent, to address the fiscal deficit of approximately R58 billion. However, the Democratic Alliance (DA), alongside other Government of National Unity (GNU) parties, strongly opposed this proposal as it placed the burden of poor historical fiscal policy choices on the poor. As such, the 2025 Budget Speech was postponed, and a revised plan was introduced on 12 March 2025, suggesting a smaller VAT increase of 0.5 percent, which would raise the VAT rate to 15.5 percent from 01 May 2025, with a second rate increase of 0.5 percent set for 1 April 2026, bringing the VAT rate to 16 percent.

However, despite this more gradual approach, the DA still strongly opposes a VAT increase and believes that any VAT increase would disproportionately burden low- and middle-income South Africans who are already grappling with a cost-of-living crisis. Raising VAT would further erode household purchasing power, slow economic growth, and exacerbate poverty. **Instead of resorting to tax hikes, the focus should be on reducing wasteful and unnecessary government expenditure.** In addition, there should be a shift to implementing pro-growth economic policies that will drive investment and job creation.

In response to the National Treasury's call for public input on the *Fiscal Framework and Revenue Proposals* tabled with the 2025/2026 Budget, the DA hereby outlines the following proposed changes:

- A 0 percent increase to VAT, retaining it at the current 15 percent.
- Implementing expenditure reprioritisation measures across departments to free up billions of Rands without reallocating essential services.
- Amending expenditure on non-essential programmes and/or goods and services within departments.
- Amending the allocations to certain departments based on their wasteful expenditures, as reported by the Auditor General (AG).

The DA further proposes the following general measures to provide long-term economic stability:

- Increasing revenue without raising taxes.
- Conducting comprehensive spending reviews to identify wasteful and failing programmes within government departments.

- Facilitating pro-market measures for economic growth and job creation.
- Providing and securing property rights to the domestic and international community.

These general points will be elaborated upon further below.

Main Proposal: No Increase to VAT

The DA's main proposal is to keep the VAT amount set at 15 percent without implementing the 1 percent increase, spread out in 0.5 percent incremental increases over the next two years.

South Africa's VAT rate of 15 percent (increased from 14 to 15 percent in 2018) placed a heavier burden on low-income households. Additionally, it did not generate as much revenue as expected, as per a statement from the South African Revenue Service (SARS) Commissioner, Edward Kieswetter.[1]

Although the 2025 budget proposal expands the number of VAT zero ratings of essential food items, an increase in VAT would considerably increase the financial burden on low-income households – more so than what would be alleviated by expanding the basket of VAT zero ratings.

Lower-income households struggle to afford basic food items due to their limited income and high food prices. Widespread poverty and inequality mean that many households are unable to meet their basic needs, including the need for nutritious food.

Around 20 percent of South Africans live in extreme poverty – below the national food poverty line of R796 per month,[2] and the proportion of South Africans living below the food line has remained unchanged since at least 2008.[3] An increase in VAT will worsen, not improve, this situation.

It is estimated that no increase to VAT will cost R13.5 billion in 2025 and R14.3 billion in 2026 (roughly a R15 billion revenue impact per year).[4] The DA vehemently opposes a VAT increase and proposes several spending efficiency gains to generate at least R15 billion.

We understand there are ongoing negotiations in the GNU on this matter and look forward to the outcomes of such discussions.

Table 1: Proposed Expenditure Amendments for the 2025/26 Estimates of National Expenditure[i].

Department	Item	Reasoning	Spending Efficiency Gain (R millions)
Cooperative Governance (Vote 3)	Municipal Systems Improvement Grant (for the DDM)	DDM One Plans have cost R100m in the last five years, for only three pilot municipalities,[5] and none of them have been implemented. The DA also objects to the DDM on the grounds that it is unconstitutional and duplicates municipal Integrated Development Plans.	151.1
National Treasury (Vote 8)	International Financial Relations	It is unclear what this funding is for or how it impacts everyday South Africans. These kinds of expenditures are unaffordable during times of extreme financial distress.	2 942.8
Higher Education (Vote 17)	Sector education and training authorities (SETAs)	The government spends over R19 billion on as many as 20 SETAs. Many are mismanaged, having received qualified audits and been subject to Special Investigative Unit investigations. It is unclear whether the skills provided lead to economic growth or jobs. We believe companies are incentivised to fund skills training themselves and do not need the government to act as an expensive and inefficient intermediary.	9 000
	National Skills Fund	The National Skills Fund (separate and distinct from NSFAS) received a qualified audit, and it is unclear that taxpayers are getting anything close to value for money.	2 000

[i] A full analysis of spending efficiency gains for the MTEF can be found in Annexure A.

Department	Item	Reasoning	Spending Efficiency Gain (R millions)
		Together, the SETAs and National Skills Fund comprise 17 percent of the total Higher Education budget allocation. Given the lack of value for money, we propose this should be reduced down to a maximum of 10 percent of the total allocation.	
	Commonwealth of Learning	It is unclear what this expenditure is for or how South Africans benefit.	4
Health (Vote 18)	National Health Insurance (NHI) Direct Grant	The DA does not support the NHI in its current form. The DA firmly believes that the NHI will be both unaffordable and unimplementable in practice. The NHI will not be a feasible solution to our nation's healthcare issues until corruption and maladministration within the national department, the provincial departments, the public healthcare system are addressed, and the country’s fiscal status has sufficiently stabilised. R28 million has already been spent on *advertising* the NHI, even though the NHI Act was only signed into law in May 2024. Despite this, it was claimed there were no funds to fill the 2000 vacant medical positions in public hospitals, contributing to an unacceptable decline in healthcare standards for South Africans. Our doctor-to-patient ratio stands at 1:2230, and the nurse-to-patient ratio is 1:762. It is inconceivable that the Health Department, which cannot at present provide basic healthcare services to its people, assigns millions more to a financially unimplementable healthcare scheme.	467
	National Health Insurance (NHI) Indirect Grant		3 283

Department	Item	Reasoning	Spending Efficiency Gain (R millions)
Women, Youth & Persons with Disabilities (Vote 20)	National Youth Development Agency (NYDA)	There is very little to show for historical expenditure, and a lack of appropriate finance and accounting controls persists. Youth development is already baked into the mandate of many government departments and other programmes. A separate agency is not necessary in a constrained fiscal environment.	1 120
Defence (Vote 23)	Regional Security (DRC component)	SADC has decided to withdraw troops, including our SANDF members, from the DRC, ending the SAMIDRC. Therefore, the proposed revised budget, with additions to spending on the SANDF deployment to the DRC, can be spent elsewhere.	1 800
Employment & Labour (Vote 31)	Productivity South Africa	While there are examples of good work being done in supporting companies, it is not clear that R64 million is being optimally used, especially considering its reported funding challenges and the need for additional funding to cover operational costs.[6] Questions have also been raised on whether organisations like Productivity SA are still necessary or effective.[7]	64
Mineral & Petroleum Resources (Vote 34)	Petroleum Agency South Africa	Private sector companies are willing to invest in South Africa's petroleum resources. The agency's existence is redundant and serves only to centralise what should be a market-based good.	91
	African Diamond Producers Association	Given South Africa's increasing domestic financial pressures, budget priorities should be focused on local development instead of prioritising intergovernmental organisations, which offer limited evidence of economic gains. The funds could be better allocated to direct investments that provide immediate benefits to local communities and industries.	5.1

Department	Item	Reasoning	Spending Efficiency Gain (R millions)
	African Petroleum Producers' Organisation	With the volatility in global energy markets and the economic strain felt locally, it is important to focus resources on national projects that address energy sustainability and economic resilience. Continuing to support continental energy organisation may divert critical funds from more pressing domestic needs. South Africa's participation in APPO may be less beneficial than previously thought. Major oil companies such as BP, Shell, and TotalEnergies are scaling down operations or have withdrawn from the country, primarily due to the South African economy's poor performance, with growth averaging only 1.1 percent from 2000 to 2023.[8] Additionally, APPO's call for member countries to contribute $83 million each to establish the $5 billion Africa Energy Bank may burden South Africa financially, given its current economic situation.[9]	3.3
Small Business Development (Vote 36)	*Phasing out the Department*	The Department of Small Business Development is meant to be the engine driving small business development. However, during its tenure, it has presided over a sector marked mostly by stagnation, low survival rates, and decline. The Department has not delivered the results the country needs and its functions could be easily rehoused within the Department of Trade, Industry, and Competition.	1 896.8
All Departments	55% reduction in government *Advertising* budgets	Non-essential expenditure item.	305.4

Department	Item	Reasoning	Spending Efficiency Gain (R millions)
	33% reduction in *Travel and subsistence* expenditure across departments	Non-essential expenditure item.	102.1
	33% reduction in *Catering: Departmental activities* expenditure across departments	Non-essential expenditure item.	1 954.5
	30% reduction in *Consultants: Business and advisory services*	This is to curb excessive expenditure on external consultants, particularly in areas where their impact has been minimal. For example, local municipalities spent about R1 billion in 2024 on consultants to assist with audits. Despite this extremely high cost, the AG report only had 34 out of the 257 municipalities secure a clean audit.	1 402.7
	20% reduction in *Minor assets* expenditure	Non-essential expenditure item.	158
	30% reduction in *Consumables: Stationery, printing and office supplies*	Non-essential expenditure item.	325.6
	20% reduction in *Training and development*	Non-essential expenditure item.	186.1
	Spending efficiency gains from fruitless and wasteful expenditures		490.5
Total			**27 749.8**

The proposed amendments will save approximately R27 billion for the 2025/2026 period. **This is sufficient to offset the revenue lost by keeping VAT at 15 percent.** The additional funds, about R12 billion, can be allocated to Treasury's reserves as a financial buffer.

While the proposed expenditure gains provide some immediate budget relief and eliminate the need to increase VAT, they alone will not be sustainable in the long term. Since the tax burden is already high, South Africa has a tax-to-GDP ratio of 26 percent,[10] the government should focus on growing the economy to improve revenue collection and not rely on extracting more from an already strained tax base.

To that effect, the DA proposes 1) several economic policies to grow the economy and 2) more long-term budget restructuring measures to generate revenue without the need for further borrowing or tax increases.

Policy Recommendations

The DA's policy position has been clear: no new taxes. South Africans are already heavily overburdened by existing taxes. A small tax base cannot continually provide revenue for poorly inefficient government expenditure. It is crucial we broaden the pool of taxpayers.

Our policies comprise two sets of recommendations. The first comprises an underlying approach to strengthen key areas of the economy. The second comprises more specific recommendations for how to amend the 2025/26 budget to be more pro-growth.

Recommendations to Grow the Economy

These are designed to broaden responsibly the tax base. As our Economic Policy outlines, we must create an environment to ensure: more businesses thrive, more jobs, and increased tax revenue. These include:

- **Fiscally responsible governance:** Stabilising the national budget by ensuring that government departments and entities spend within their means and minimising spending inefficiencies.
- **Promoting competitive industries:** Creating a competitive and diversified industrial base by reducing regulatory red tape, fostering innovation, and increasing investments in key sectors.
- **Labour market reform:** Reforming labour laws to make hiring more flexible, incentivising businesses to employ more workers, and reducing business costs in South Africa.

- **Enhancing trade opportunities:** Expanding South Africa's trade relationships globally to open new markets for South African goods and services.
- **Simplifying business start-ups:** Making it easier for entrepreneurs to start and run businesses, reducing bureaucratic barriers, and offering targeted incentives for start-ups.

These policy reforms will help stimulate economic activity, create jobs, and expand the tax base without imposing additional tax burdens on struggling South Africans.

Recommendations to Further Promote a Pro-Growth Budget

Recommendations to promote a surplus budget and reduce dependency on increasing taxes to fund government expenditures include:

- **No more borrowing.** Interest rates on repayments are incredibly high; now, 22 percent of our total GPD goes to debt repayments. Treasury must implement a fiscal anchor to prevent the government from living beyond its means, considering that our debt-to-GDP ratio currently stands at 76%.

- **Comprehensive spending review.** A three-month emergency spending review must be undertaken to identify wasteful and failing programmes. This will allow:
    - Reallocation of funds to essential public services such as healthcare, policing, and education.
    - The ability to fund legally mandated commitments without tax hikes.
    - The use of the Adjustment Budget Mechanism to shift spending as new revenue streams are unlocked.

      The government can also use adjustment budgets throughout the year by reallocating funds as inefficiencies are identified – no tax hikes are needed.

- Furthermore, conduct **at least a nine-month deep dive** to review outdated expenditures.

- Explore the potential savings, on the order of R12 billion, **that could be generated by the Government Technical Advisory Centre (GTAC) spending reviews**.

- **Review of all Public Entities**. There are at least 286 PFMA-listed public entities in South Africa. Many depend on a subsidy or transfer from the fiscus. Many were established years ago, but there has never been a review to determine whether they are effective, whether their effectiveness matches their cost, and whether any of the entities' mandates overlap. The DA proposes a thorough analysis of all public entities to generate expenditure efficiency gains where feasible.

- **No further bailing out of State-Owned Enterprises (SOEs)**. The DA remains firmly opposed to bailing out SOEs at the expense of depleting the fiscus. Between 2013 and 2023, almost R600 billion was spent bailing out SOEs, with half of that going to just 7 SOEs. A sustainable budget will require no further bailouts for the foreseeable future.

- **Exploring privatisation or partial privatisation of underperforming SOEs**. Many SOEs (e.g., Eskom, South African Airways (SAA), Passenger Rail Agency of South Africa (PRASA), Denel, and the Post Office) continue to be inefficient despite the billions in bailouts. The government has failed to make them profitable, leading to long-term financial burdens. Privatising underperforming SOEs can bring in private-sector efficiency and investment. In particular, port and rail concession agreements must be finalised within the year for private partners to enhance competitiveness and position South Africa as an export-oriented economy. Selling minority stakes in viable SOEs is another alternative.

- **Hiring freeze.** For 12 months, no new hires will be made outside of essential frontline services (health, education, SAPS, and other critical roles).

- **Government-wide ghost employee audit**. A National Treasury-led audit across national and provincial departments, as well as SOEs, should be done to eliminate fraudulent salary payments. Past examples include a ghost employee audit at PRASA that found 3000 ghost employees out of a 16 000 head count, and audits in Limpopo and Gauteng found large numbers of ghost employees.

- **Increasing tax compliance**. An increase in compliance from 63% to 67% could potentially generate R60 billion per year. SARS is owed about R800 billion in uncollected taxes.[11] The additional R2.5 billion allocated to SARS is welcomed insofar as it enhances revenue collection.

Conclusion

The DA’s position is clear: increasing VAT is not the solution to South Africa’s fiscal challenges. Instead, the DA proposes focusing on amending government expenditure, generating extra expenditure efficiency, and implementing pro-growth policies that create jobs, grow the economy, and boost investment. By pursuing these policies, South Africa can achieve long-term fiscal stability without placing additional burdens on its citizens.

Annexure A: Spending Efficiency Gains: Expanded

Table 2: Proposed Spending Efficiency Gains for the Medium-Term Estimates Framework (MTEF)

Department	Item	Medium-Term Estimates (R)								
		2025/26			2026/27			2027/28		
		Estimate	Spending Efficiency Gain	Revised Estimate	Estimate	Spending Efficiency Gain	Revised Estimate	Estimate	Spending Efficiency Gain	Revised Estimate
Women, Youth & Persons with Disabilities (Vote 20)	National Youth Development Agency (NYDA)	1116600000	1116600000	0	591300000	591300000	0	618000000	618000000	0
Cooperative Governance (Vote 3)	Municipal Systems Improvement Grant (for the DDM)	151100000	151100000	0	158200000	158200000	0	165300000	165300000	0
Small Business Development (Vote 36)	*Phasing out the Department.*	2918100000	1896765000	1021335000	3050000000	1982500000	1067500000	3187900000	3187900000	0
Higher Education (Vote 17)	Sector education and training authorities (SETAs)	20804800000	9000000000	11804800000	22248800000	10000000000	12248800000	23818200000	23818200000	0
	National Skills Fund	5201200000	2000000000	3201200000	5562200000	2500000000	3062200000	5954600000	3000000000	2954600000
	Commonwealth of Learning	3991000	3991000	0	4174000	4174000	0	4363000	4363000	0

Department	Item	Medium-Term Estimates (R)								
		2025/26			2026/27			2027/28		
		Estimate	Spending Efficiency Gain	Revised Estimate	Estimate	Spending Efficiency Gain	Revised Estimate	Estimate	Spending Efficiency Gain	Revised Estimate
National Treasury (Vote 8)	International Financial Relations	2942800000	2942800000	0	2993900000	2993900000	0	3141800000	3141800000	0
Defence (Vote 23)	Regional Security (DRC component)	2696100000	1800000000	896100000	2663000000	1700000000	963000000	2422300000	1400000000	1022300000
Health (Vote 18)	National Health Insurance (NHI) Direct Grant	467000000	467000000	0	476000000	476000000	0	497000000	497000000	0
	National Health Insurance (NHI) Indirect Grant	3283000000	3283000000	0	2574000000	2574000000	0	2624000000	2624000000	0
Mineral & Petroleum Resources (Vote 34)	Petroleum Agency South Africa	91243000	91243000	0	95476000	95476000	0	99793000	99793000	0
	African Diamond Producers Association	5106000	5106000	0	5340000	5340000	0	5581000	5581000	0
	African Petroleum Producers' Organisation	3266000	3266000	0	3417000	3417000	0	3572000	3572000	0
Employment & Labour (Vote 31)	Productivity South Africa	64100000	64100000	0	67100000	67100000	0	70100000	70100000	0

Department	Item	Medium-Term Estimates (R)								
		2025/26			2026/27			2027/28		
		Estimate	Spending Efficiency Gain	Revised Estimate	Estimate	Spending Efficiency Gain	Revised Estimate	Estimate	Spending Efficiency Gain	Revised Estimate
All Departments	55% reduction in government *Advertising* budgets	555200000	305360000	249840000	514300000	282865000	231435000	541500000	297825000	243675000
	33% reduction in *Travel and subsistence* expenditure across departments	309500000	102135000	207365000	309200000	102036000	207164000	325000000	107250000	217750000
	33% reduction in *Catering: Departmental activities* expenditure across departments	5922600000	1954458000	3968142000	6145900000	2028147000	4117753000	6322400000	2086392000	4236008000
	30% reduction in *Consultants: Business and advisory services*	4675700000	1402710000	3272990000	4684600000	1405380000	3279220000	4743200000	1422960000	3320240000
	20% reduction in *Minor assets* expenditure	790200000	158040000	632160000	735600000	147120000	588480000	782600000	156520000	626080000

Department	Item	Medium-Term Estimates (R)								
		2025/26			2026/27			2027/28		
		Estimate	Spending Efficiency Gain	Revised Estimate	Estimate	Spending Efficiency Gain	Revised Estimate	Estimate	Spending Efficiency Gain	Revised Estimate
	30% reduction in *Consumables: Stationery, printing and office supplies*	1085300000	325590000	759710000	1130800000	339240000	791560000	1175800000	352740000	823060000
	20% reduction in *Training and development*	930600000	186120000	744480000	1138300000	227660000	910640000	1162500000	232500000	930000000
Total		**54017506000**	**27259384000**	**26758122000**	**55151607000**	**27683855000**	**27467752000**	**57665509000**	**43291796000**	**27191913000**

Departments with fruitless and wasteful expenditures of 0.1 percent against the allocated budget from the previous financial year should see the percentage of that waste decreased in the new financial year's budget. The following departments had fruitless and wasteful expenditure thresholds of 0.1 percent or more in 2023/24:

Table 3: Proposed Spending Efficiency Gains through Wasteful Expenditure

Department	Expenditure by national vote (2023/24)	Fruitless and wasteful expenditure (2023/24)	% of Expenditure	Proposed expenditure by national vote (2025/26)	Spending Efficiency Gain
Water and Sanitation	21 331 600 000	100 269 000	0.5%	26 678 700 000	133 393 500
Defence	55 861 900 000	51 000 000	0.1%	55 940 700 000	55 940 700
Minerals and Petroleum Resources	2 512 200 000	3 048 000	0.1%	2 859 600 000	2 859 600
Other wasteful expenditures:					
Communications and Digital Tech	SABC				60 000 000
Transport	PRASA				109 957 000
Statistics South Africa	Unauthorised				128 307 000
Total					**R490 457 800**

**Note: Given that 2024/25 AG reports are unavailable, 2023/2024 is used as a baseline for 2025/26 estimates.*

Endnotes

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