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2025 Budget Analysis

Joint Finance and Appropriations committee meeting

Date: 18 March 2025

Outline

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Purpose

- The Parliamentary Budget Office was established to support the Finance and Appropriations Committees in both Houses of Parliament with the implementation of the Money Bills and Related Matters Act of 2009
- The purpose and focus of this presentation is to provide an analysis of the 2025 Budget, particularly to analyse and comment on the fiscal framework within the context of the NDP and the GNU priorities:
  - Despite some improvements, the government is unlikely to achieve the NDP set targets for 2030, which are to:
    - Grow the economy at an annual average rate of 5.4 per cent per year
    - Reduce the unemployment rate from 24.9 per cent in 2012 to 14 per cent by 2020 and to 6 per cent by 2030
    - Increase gross fixed capital formation from 17 per cent to 30 per cent, with public sector fixed investment rising to 10 per cent of GDP by 2030
    - Reduce inequality as measured by the Gini Coefficient from 0.69 to 0.60
    - Totally eradicate poverty
- To assess whether the budget responds to:
  - The strategic policy priorities
  - Socioeconomic realities
  - Operational efficiencies
  - Risk to the fiscus
- Raise matters for further discussion

Introduction

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- The 2025 Budget presents an important opportunity for the South African government. As the first budget of the 7th administration and within the final five years of the National Development Plan (NDP), its significance cannot be overstated
- This budget serves as a critical platform to demonstrate the 7th administration's unwavering commitment to the NDP and Medium-Term Development Plan (MTDP) priorities: fostering inclusive growth, reducing poverty, and building a capable state
- The NDP remains our core blueprint for addressing South Africa's triple challenges: unemployment, inequality, and poverty. While the original 2013 targets (economic growth, job creation, investment, inequality reduction, poverty eradication) have not been met, and conditions have worsened, this budget is an opportunity to change course
- South Africa's prolonged fiscal consolidation has failed to reduce debt, hindering economic growth and exacerbating structural unemployment, poverty, and inequality. This aligns with global evidence showing fiscal austerity's ineffectiveness
- Global trends demonstrate a shift towards increased government spending, even in fiscally conservative nations, in response to current crises. South Africa's unique structural challenges necessitate a departure from austerity, requiring increased investment alongside efficiency measures
- This budget analysis will delve into the strengths and challenges, providing a comprehensive assessment of the 2025 Budget and its potential impact on South Africa's economic and social landscape

Money Bills and Related Matters Act and the Budget-

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Budget proposals include four instruments;

1. Fiscal Framework and all revenue proposals

- The Finance Committees must, within 16 days after the tabling or as soon as reasonable possible thereafter, report to the NA and NCOP- accept or amend the fiscal framework

2. Division of Revenue Bill (DORB)

- After the adoption of the fiscal framework the DORB must be referred to the committee on appropriations of the NA for consideration and report.
- The DORB must be passed within 35 days after the adoption of the fiscal framework by Parliament or as soon as reasonably possible thereafter.

3. Appropriation of the Appropriations Bill

- After the adoption of the fiscal framework
  - Appropriation Bill must be referred to the committee on appropriations of the NA
  - Strategic plans and budget votes for national department and their entities must be tabled
- After the Appropriation Bill is passed by the NA and referred to the NCOP Appropriations Committee
- Parliament must pass, with or without amendments, or reject the Appropriation Bill within four months after the start of the financial year to which it relates.

Money Bills and Related Matters Act 2009- Fiscal framework and VAT increase

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Section	Money Bills Act Provision	PBO analysis
Sec. 8.3 Sec 8.4	*The finance committees must within 16 days after the tabling of the national budget or as soon as reasonably possible thereafter submit a report to the NA and the NCOP, as the case requires, on the fiscal framework (FF) and revenue proposals.* *The FF report must include a clear statement accepting or amending the fiscal framework and revenue proposal.*	*•The finance committees have until 28 March 2025 or as soon as reasonably possible thereafter to consider and report on the fiscal framework and revenue proposals.* *•The report should incorporate the committee's conclusion on the revenue proposals. And it should clearly state that the committees accept or amend the fiscal framework and revenue proposals*
		The VAT Act, s7(4) states – *"If the Minister makes an announcement in the national annual budget contemplated in section 27(1) of the PFMA, Act No. 1 of 1999, that the VAT rate specified in this section is to be altered, that alteration will be effective from a date determined by the Minister in that announcement (01 May 2025), and continues to apply for a period of 12 months from that date subject to Parliament passing legislation giving effect to that announcement within that period of 12 months"*
		The PBO highlights that the VAT Act requires that Parliament must enact the 2025 Rates and Monetary Amounts and Amendment of Revenue Laws Bill (Rates Bill) before the announced increase can come into effect. Parliament has, since 2014, passed the Rates Bill by the end of the third term, or October, annually

Money Bills and Related Matters Act 2009- Fiscal framework and VAT increase

Secti on	Money Bills Act	PBO analysis
		• The VAT Act necessitates parliamentary legislation (Rate Bill) for the 12 March 2025, VAT increase to become effective, with historical precedent indicating passage by October 2025. • The adoption of the fiscal framework alone does not bypass the requirement for the Rates Bill, which must be enacted within one year. • This legislative process of passing the Rate Bill includes mandatory public participation as well.
		• If the VAT increase takes effect (proposed 01 May 2025) prior to the Rates Bill been passed by Parliament, it may undermine Parliament's public participation process. • This would be particularly concerning as the approved fiscal framework (assuming this is done within 16 days or as soon as reasonably possible thereafter) would presumably already reflect the increased revenue from the VAT new rate of 15.5%.
		• As highlighted in the 2018 Finance Committee Fiscal Framework Report: The Rates Bill is the legal mechanism for enacting VAT increases and other tax rate changes. • The fiscal framework, while indicating the VAT increase as a revenue source, is a policy document and does not legally mandate the tax.

Money Bills and Related Matters Act and the Budget-

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Section	Money Bills Act	PBO analysis
		• The PBO notes that the fiscal framework is not a legal instrument to give effect to the VAT increase. Therefore, does it mean that the Rates Bill must be passed before the VAT increase's effective date of 01 May 2025? • Implementing the VAT increase before the Rates Bill approval will undermine parliamentary oversight • Should parliamentary process of considering and the Rates Bill conclude in amendments before being passed, the implemented VAT increase cannot be easily reversed. • To align with the Money Bills Act, the PBO notes that implementing the VAT increase only after Parliament completes its review and public hearing process related to the 2025 Rates Bill. • Parliament has an important role in providing guidance on how the fiscal framework would be considered taking into account the current contestations and debates about the 2025 budget

Budget context: The socioeconomic realities

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- Since 2012, the introduction of the fiscal consolidation, South Africa's official unemployment rate has risen significantly from 24.9 per cent to 32.6 per cent (2024), with the expanded rate reaching 42.1 per cent. This underscores the urgency of addressing economic growth and job creation
- The National Treasury's rationale for the VAT increase, by comparing South Africa to countries with higher VAT rates, has to take into account macroeconomic and developmental indicators too. While these countries may have higher VAT, their unemployment rates for example range from 3 per cent to 13.4 per cent in 2024, significantly lower than South Africa's
- Given South Africa's exceptionally high levels of inequality, policy decisions regarding VAT adjustments must carefully consider the potential impact on vulnerable populations. A substantive analysis of the distributional effects has to form part of the proposed increase tabled
- Although increased spending on crime prevention is emphasised in the budget, the number of funded police posts remains unchanged at 188,018 for 2024/25, a decline from 197 872 in 2012. This raises concerns given the current crime statistics

Budget context: The socioeconomic realities

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- An estimated 100,000 matriculants with bachelor passes were unable to secure university placements due to capacity constraints, highlighting the need for increased investment in higher education
- The substantial reduction in university infrastructure subsidies, from R2.98 billion in 2024/25 to R1.39 billion in 2025/26 (nominal terms), may further strain university capacity and exacerbate student housing challenges
- The average learner-to-educator ratio (LER) for state-paid educators has increased to 35, likely underestimating the severe overcrowding in townships and rural areas. While basic education funding is increasing, it remains to be seen if it will be enough to undo years of underfunding
- South Africa's doctor-to-patient ratio of 0.31 per 1 000 falls significantly below WHO recommendations and lags behind comparable nations with lower VAT rates. The fact that around 1,800 post-community service doctors are unemployed due to funding constraints further highlights the disparity between need and resource allocation

Policy and funding priorities

- Policy priorities of the Government of National Unity (GNU)
- Budget's response to the SONA
- Consolidated budget funding priority trends
- Main changes to function budgets over the MTEF
- Growing the number of jobs and building better lives

Policy priorities of the GNU

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- The 2025 State of the Nation Address (SONA) provided the strategic direction for the 2025 Budget
- Actions in the 2025-2029 Medium-Term Development Plan (MTDP) will advance the GNU's three strategic priorities:
  - To drive inclusive growth and job creation
  - To reduce poverty and tackle the high cost of living
  - To build a capable, ethical and developmental state
- The Medium-term fiscal policy proposes:
  - A fiscal anchor to support responsible borrowing and spending
  - An additional R28 billion in revenue in 2025/26 through an increase in the VAT rate, no inflationary adjustments to personal income tax brackets and other measures
  - Growth-enhancing public investment by ensuring that payments for capital assets at a consolidated level grow faster than inflation
  - Continued support for frontline services and the vulnerable by allocating 61 per cent of consolidated non-interest spending to the social wage, which includes above-inflation increases to social grants to help offset the impact of the VAT increase
- The tables on the next two slides show the direct flow from some of the Presidential pronouncements to the budget. There are, however, other pronouncements made by the President which are not directly responded to, and other budget priorities that were not announced in the SONA

Budget's response to SONA

President's Pronouncements: SONA 2025	Budget's response to SONA
Expanding the support for small and medium enterprises and for the informal economy, which sustains millions of jobs and livelihoods across our country	• The Department of Small Business Development will support about 120 000 competitive small businesses over the MTEF. In addition, government has allocated R313.7 million over the medium term for the establishment of micro, small and medium enterprise hubs to support business expansion
Empowering black people, women and persons with disabilities	• The Department of Women, Youth and Persons with Disabilities is allocated an additional R71.7 million over the MTEF period for operations and public-service wage increases, and to lead the Women Empowerment Working Group of the G20 • The NYDA has been allocated R549.8 million for the national youth service programme
The Department of Science, Technology and Innovation will establish an Innovation Fund to provide venture capital to tech start-ups that emerge from our higher education institutions	• Over the medium term, the Department of Science, Technology and Innovation will invest R3 billion in construction of the MeerKAT array and efforts to secure the hosting of part of the Square Kilometer Array. • R2.9 billion will be invested annually in postgraduate development and research support • Additionally, R3.8 billion will be allocated annually to provide access to cutting-edge research infrastructure
Developing innovative ways of funding infrastructure	• Public infrastructure spending over the next three years will amount to more than R1 trillion
Government is implementing Phase 1 of the comprehensive student funding model for higher education to address the needs of the "missing middle"	• The Department of Higher Education is implementing a pilot student funding model for the "missing middle" • The National Student Financial Aid Scheme will manage these loans using funds provided by the National Skills Fund, amounting to R1.5 billion in 2024/25 and R3 billion over the MTEF period

Budget's response to SONA

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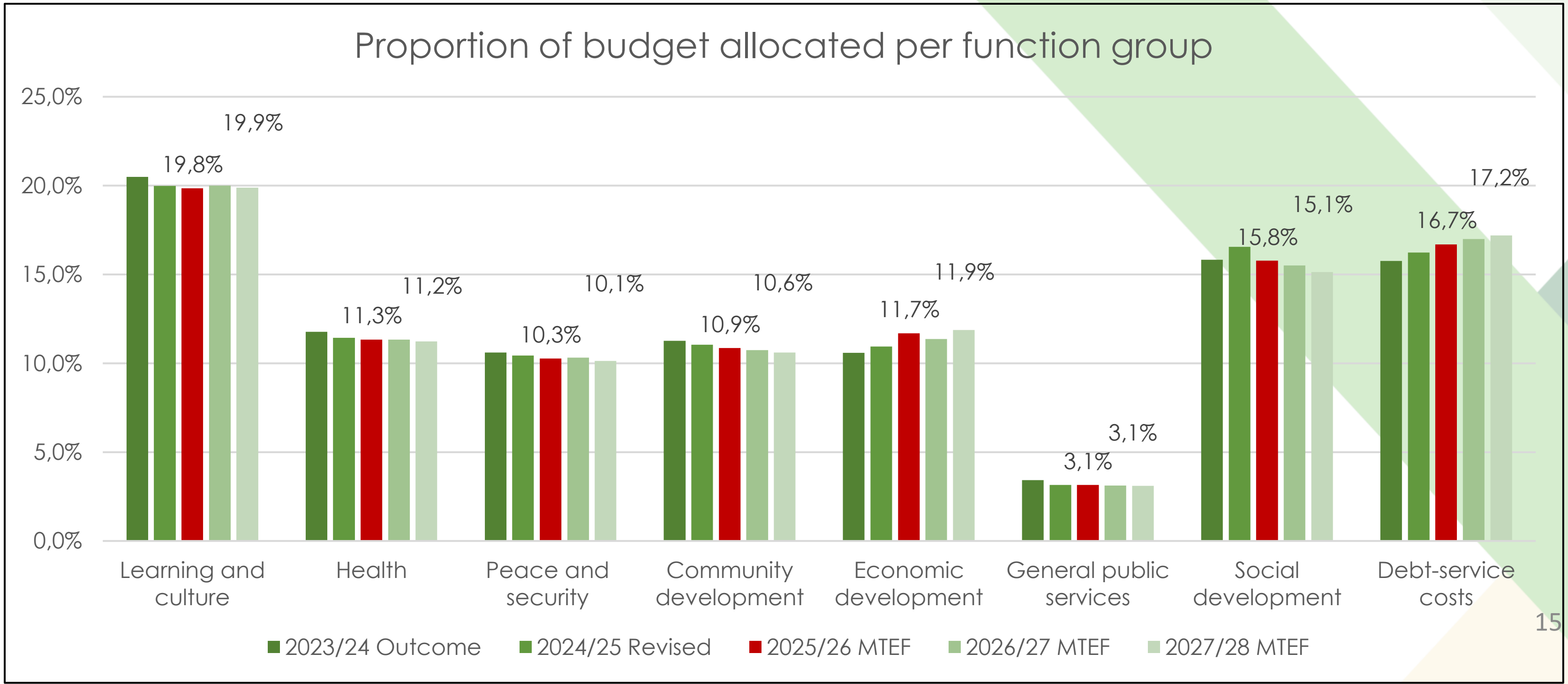
President's Pronouncements: SONA 2025	Budget's response to SONA
Government is working towards the full implementation of the African Continental Free Trade Area, which will tear down the barriers to trade on our continent	• R5.3 billion over the MTEF period for international institutions and agreements, including the Collaborative Africa Budget Reform Initiative, the Monetary Common Area and the International Monetary Fund's Regional Technical Assistance Centre for Southern Africa
Immediate focus is to expand access to early childhood development for every child	• Additional R10 billion over the medium term is allocated to increase the subsidy to R24 per day per child. The extra funding will also support increased access to ECD for approximately 700 000 more children, up to the age of four years old
We want a nation in which everyone is safe	• R9.4 billion is allocated to fund the defence force and correctional services • Over the medium term, R5 billion has been allocated to the Department of Defence to support South Africa's participation in the SADC mission in the DRC and to supplement existing peace keeping activities
Proceed with the preparatory work for the establishment of the NHI A vital part of this is the modernisation, improvement and maintenance of existing health facilities and construction of new hospitals and clinics.	• Over the MTEF period, the indirect and direct conditional grants for NHI are allocated R8.5 billion and R1.4 billion respectively • The total infrastructure allocation is R37.4 billion over the MTEF period • R28.9 billion is added to the health budget, mainly to keep about 9 300 healthcare workers in our hospitals and clinics
The SRD grant is as an essential mechanism for alleviating extreme poverty	• The COVID19 SRD, in its current form, will be extended by a year to end March 2026. R35.2 billion is allocated for this purpose

Consolidated budget funding priority trends

- Proportions of the budget allocated towards function groups remain the same as was presented in the 2024 MTBPS
- Although provisions have been made for the Covid 19 SRD grant it is not included in the consolidated spending in the outer years
- Learning and culture includes Basic education, Post-school education and training as well as Arts, culture, sport and recreation of which basic education receives 13.6 per cent of the consolidated budget in 2025/26
- Debt service cost is still increasing over the MTEF estimated to reach 17.2 per cent of the consolidated budget in 2027/28



Changes to function budgets over the 2025 MTEF

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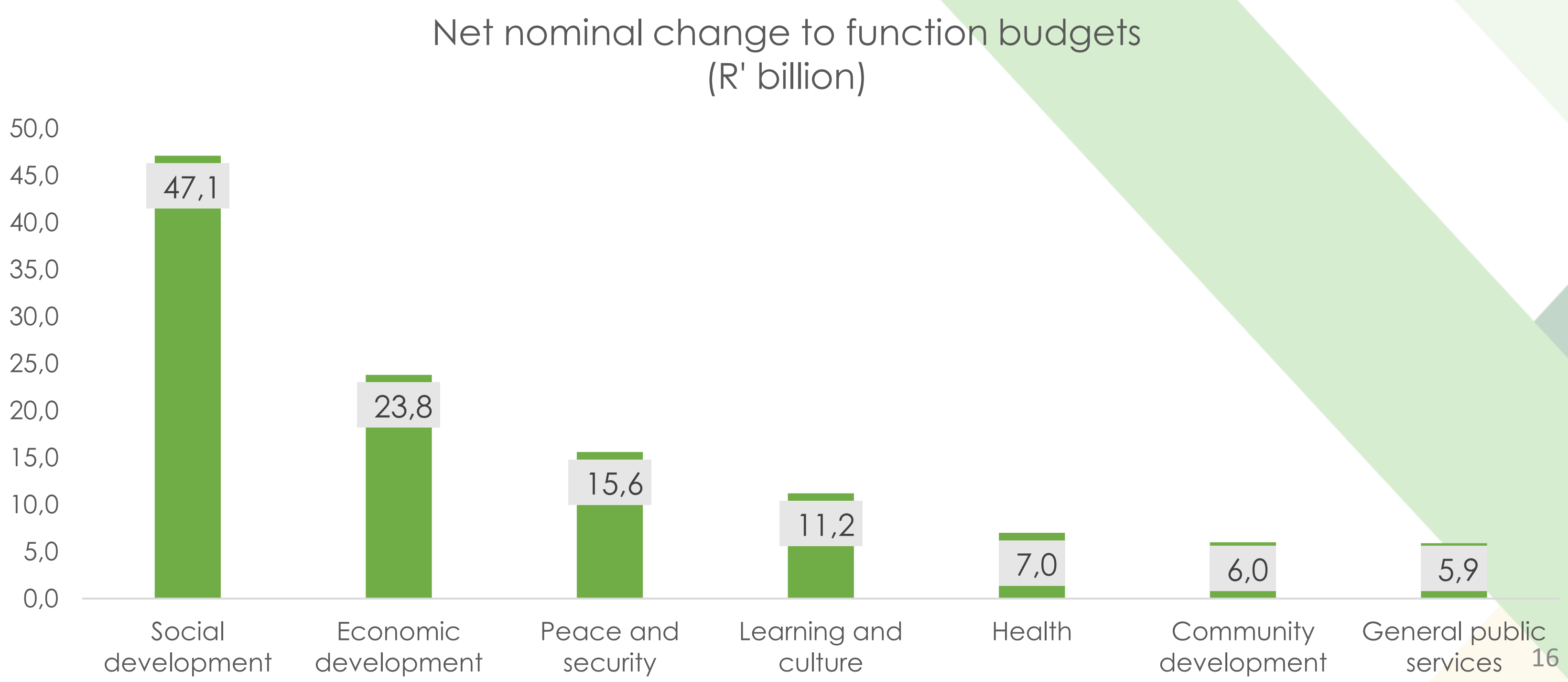
- Provides for the implementation of the wage agreement
- In Social Development: R549.8 million to the **National Youth Development Agency**
- In Learning and Culture: **Teacher assistants programme: R1.2 billion and** Reductions in transfers to SETAs and NSFAS
- Economic development: **IDC for the Social Employment fund: R1.3 billion**



Growing the number of jobs and building better lives

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- Reviews, evaluations and budget analysis are tools to assess the efficiency and effectiveness of budget programmes that should inform budget reprioritisation
- Over time, the PBO's desktop analysis identified several inefficiencies within the structure of government institutions and budget programmes
- Last year a desktop exercise on the number of skills development and job creation programmes in government identified duplication, poor reporting and inefficiencies within these initiatives
- In support of the findings a DPME evaluation on Government's Youth Employment Creation Programmes found that:
    - There are approximately 280 different public employment programmes (PEP) including Youth Employment Creation Programmes (YECP) across the various levels of government
    - YECP contributes to employment, but it cannot be stated that it contributes towards sustainable long-term employment
    - The programmes are largely skills development programmes that focus on the employability of the youth, which is not as severe as the lack of new jobs
    - The need to provide for improved skills amongst youth must, in part, be an indication of a failing schooling system

Growing the number of jobs and building better lives

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- Despite the findings, the **National Youth Development Agency for PEP still** receives funding, for the provision of financial and non-financial support for entrepreneurship and business development programmes
- The **IDC for the Social Employment fund (R1.3 billion)** runs sector programmes, which are already done by the sectors, several conditional grants and SETAs
- **National Empowerment Fund** receives funding from a capital reserve fund increasing from R1.5 billion in 2025/26 to R20 billion in 2026/27 and R35 billion in 2027/28 to increase job opportunities from 10 500 in 2024/25 to 210 000 in 2027/28
- Expanded Public Works Programme (EPWP) not only implements programmes within provincial sectors and municipalities, but also transfers funds to various institutions
- The National Pathway Management Network (NPMN) is a network of networks. It connects major partner networks into a single national network that links young people to existing opportunities, facilitates the creation of new opportunities and addresses barriers young people face in entering the labour market vs. the role of Employment and labour?

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Economic Overview

- Global outlook
- Domestic outlook and assumption
- Socio economic situation

The economic approach in BR 2025

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"A sound macroeconomic framework promotes stable prices and low interest rates, enhancing the economy's resilience to external shocks that tend to disproportionately affect poor households. These factors in turn bring down borrowing costs, anchor investment expectations and boost confidence, promoting economic growth" (2025 BR, p.11)

- The 2025 Budget presents the government's strategy to bolster growth and employment
- The macroeconomic part of this strategy is to continue fiscal consolidation while allocating more funds for infrastructure investment
- It is complemented by structural reforms that the government hopes will increase the competitiveness of the economy and interventions it hopes will help build a more capable state
- To assess the Budget we ask: "what is the economics logic underlying this strategy and will it work?"

The economic approach in BR 2025

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- The macroeconomic approach in BR 2025 is based on a neoclassical economic theory that is focused on transactions within markets where prices determine outcomes and:
  - Generally this approach unrealistically assumes perfect competition and full employment
  - It views fiscal policy as ineffective and wants an independent central bank for monetary policy
  - It generally treats the government as an untrustworthy intruder into the economy whose interventions distort markets and reduce economic efficiency
- Its focus on market transactions steers the focus from that of the classical economists and development economists, who focus on:
  - Production processes and how to produce more productively and competitively
  - The government's role in supporting productivity, reducing environmental and other negative externalities, and to address inequality through developmental and redistributive fiscal policies

BR 2025 view on structural reforms

BR P16: "The percentage of the working-age population that is employed – is about 40 per cent, far below the global average of 55–65 per cent. Compared with similar economies, South Africa has low levels of agricultural employment, self-employment and informal economic activity. Addressing this challenge requires stronger economic growth, and labour demand and absorption" … "Several regulatory obstacles hinder South Africa's ability to create jobs."

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- The solution is not as simplistic as suggested in the BR 2025 because of the negative impact of extreme wealth and market concentration and enduring inequality in agriculture
- The extremely high levels of the immense power of large corporations, whose investment and employment choices shape the direction and growth path of the economy and:
  - Causes anti-competitive behaviour and collusion that negatively affects investment, job creation and growth (Thakoor, 2020, IMF Working paper)
  - Contributes to low levels of informal sector activity and self-employment
- History of colonialism and apartheid created severe barriers to entry in business and employment, particularly for black people, that have not been adequately addressed since 1994
- Inequality destabilises economies and leads to lower growth and employment (IMF website)
- The top 100 corporations by JSE market capitalisation have had good profits but generally have not reinvested those profits to grow their productive investments in South Africa (Vilikazi and Bosiu, 2023)
- Financialisation allocates capital away from productive investments towards increasingly short-term, speculative activities in real estate and financial asset markets (Mohamed, 2017)
- South Africa has had de-industrialisation since the early-1980s and the industrial base has largely been low value-adding and capital intensive

Large market controlling corporations shape the structure of the economy

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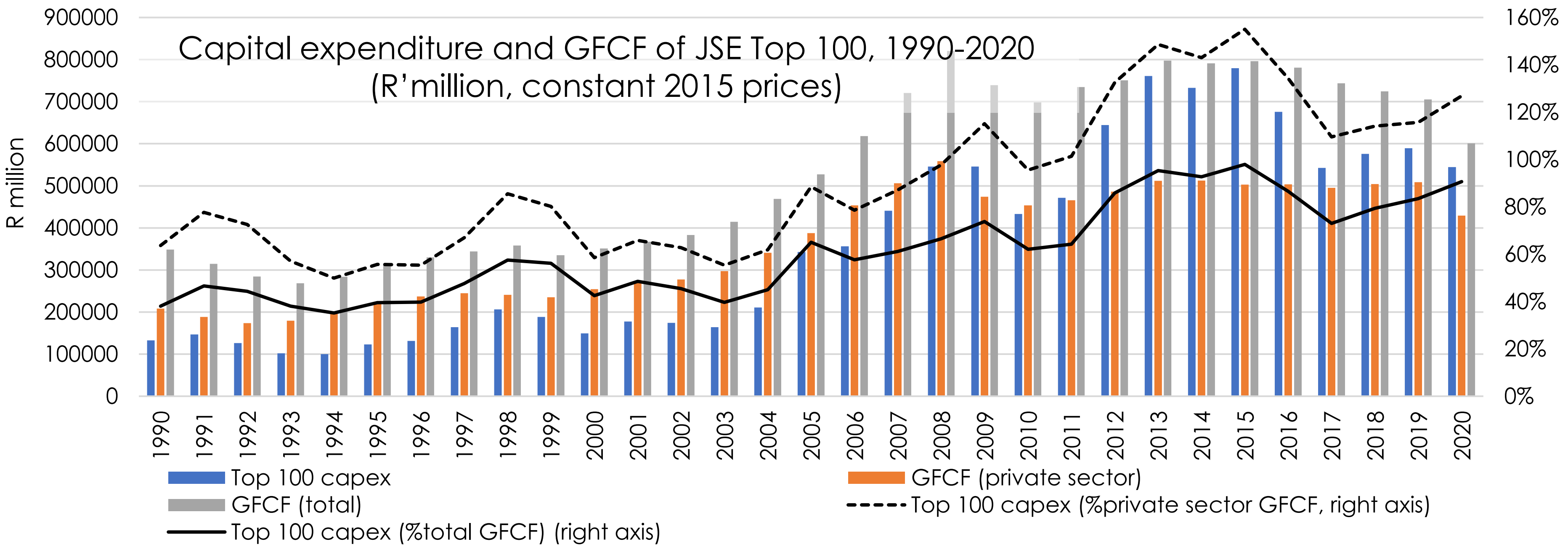
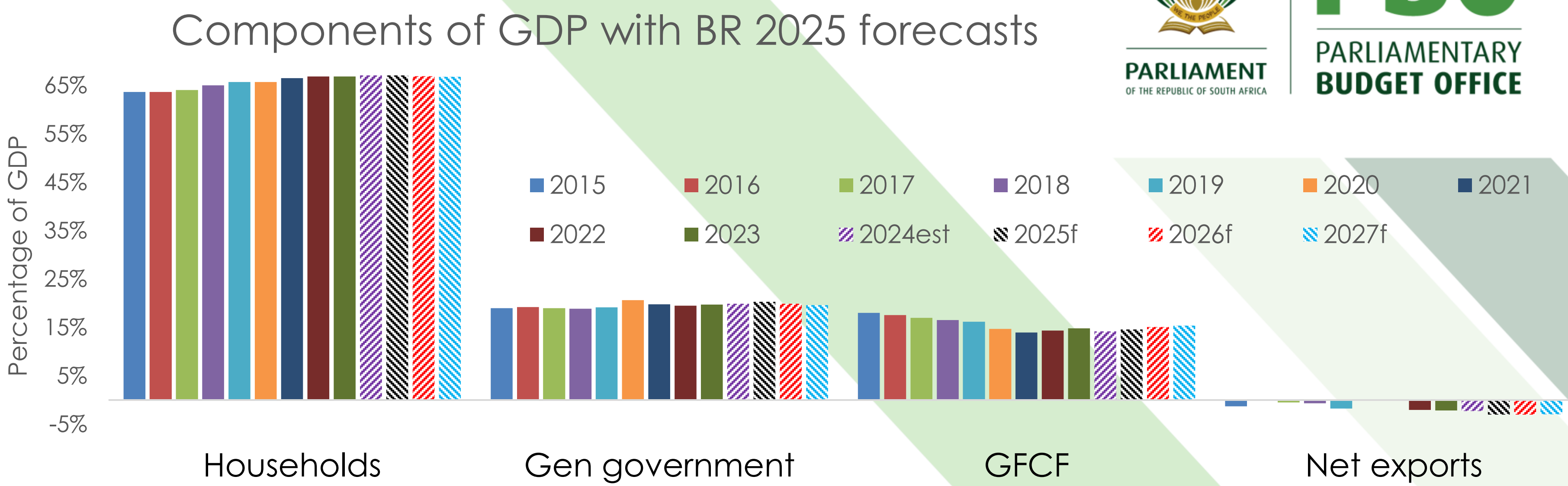


Note: Top 100 capital expenditure represents expenditure per year as reported in company annual reports (in constant 2015 prices adjusted) which includes company investments outside of South Africa which leads to capex in some years exceeding private sector GFCF. JSE top 100 firms' capex not adjusted for annual changes in the composition of the hundred firms

Source: Vilikazi and Bosiu (2023)

- The Top 100 GFCF was 85 per cent of the size of total GFCF for the decade 2011 to 2020
- Significant stagnation of private sector GFCF after the global financial crisis of 2008
- Investments of the JSE Top 100 continued to increase but through internationalisation and foreign investments, large-scale mergers and acquisitions and only replacement of capital (rather than expansionary investments) in domestic fixed assets

Domestic outlook



Source: PBO calculations using growth estimates and forecasts in BR 2025

- Generally, the NT talks about growth as if the government spending to alleviate the impact of UPI on households have little to do with economic activity, aggregate demand and growth
- However, continued fiscal consolidation and VAT on households is a serious risk to household wellbeing and consumption, which contribution has grown to 67 per cent of GDP
- Despite the uptick in business confidence in the RMB/BER Business Confidence Index in 2024, overall confidence of the majority of businesses surveyed remain negative with the low level of demand one of the top concerns
- Growth in South Africa will very likely remain low If the government does not spend enough to adequately address UPI and increase aggregate demand in the economy
- An economic strategy focused only increasing infrastructure spending will not be enough to shift the economy from its current low growth trajectory

BR 2025 modeling and the global and domestic outlooks

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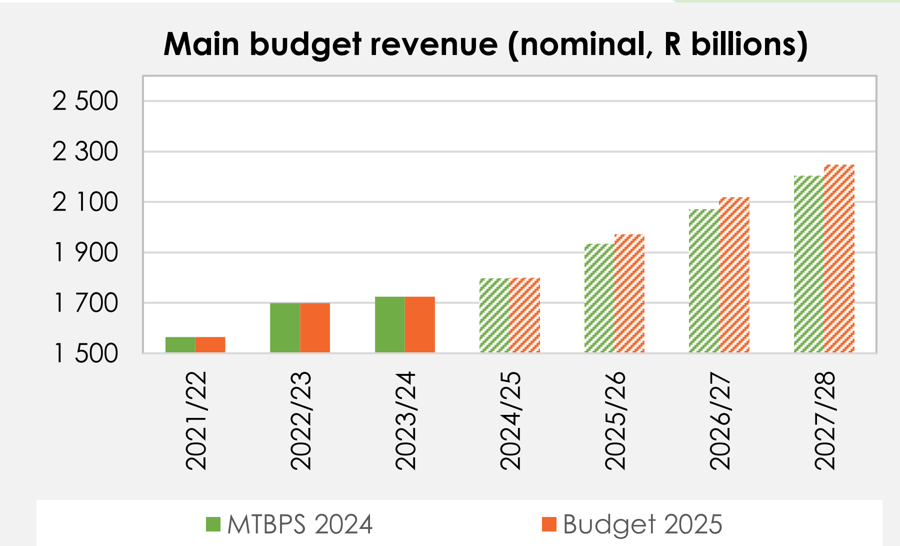
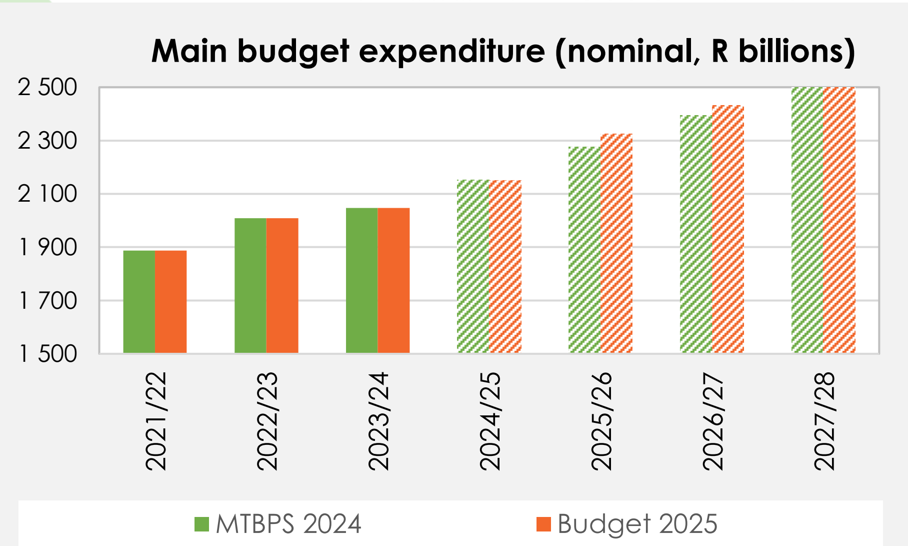
- The UN reported (Jan. 2025) estimates of global economic growth of 2.8 per cent for 2025
- They forecast that the world is set to grow at a slower pace than the pre-pandemic average of 3.2 per cent recorded between 2010 and 2019 due to continued global structural challenges, such as weak investment, slow productivity growth, high levels of debt, and demographic pressures
- Since the January 2025 forecasts, trade restrictions have been announced by countries that collectively contributed around a third of 2023 global trade. The trade war may escalate.
- Expectations for global growth have soured because:
  - The risks that global inflation will increase have increased with increased trade restriction
  - There may be another round of problems in global value chains and increases in energy and food prices.
  - The UN warns that climate-related shocks, including heatwaves, droughts, and floods increase risks to crop yields, intensifies pressures on food prices, endangers shipping channels and hydroelectric power

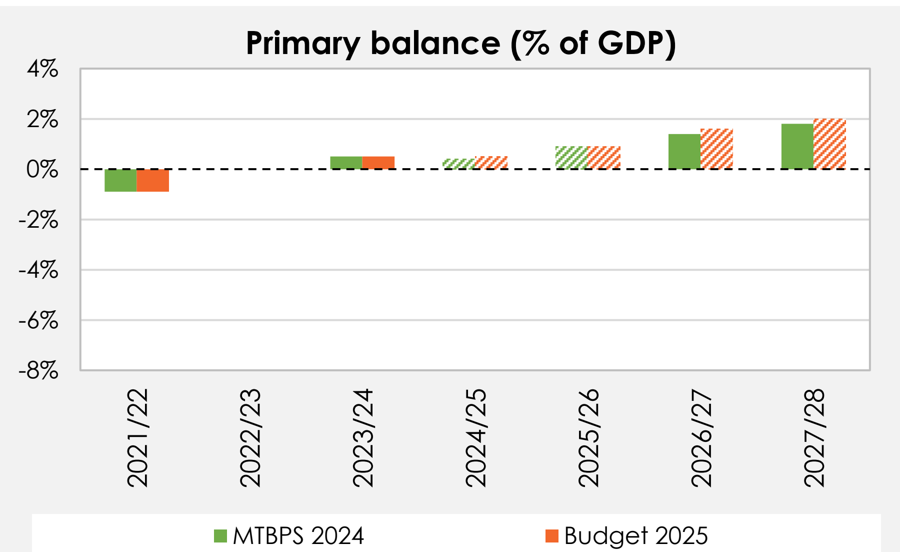
Fiscal Policy

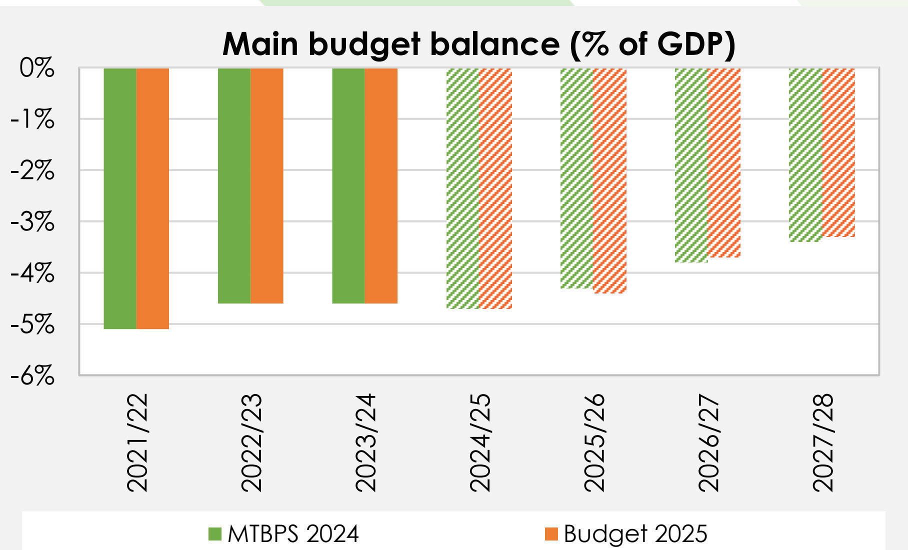
- The fiscal framework
- The fiscal framework has significant socioeconomic and political economic implications
- Investment must prioritise human well-being, not just infrastructure
- Redistribution, social wage, and inclusive growth

The fiscal framework









Source: National Treasury, 2025 Budget Reviews and 2024 Medium Term Budget Policy Statements

The fiscal framework has socioeconomic implications

- While the 2025 medium-term fiscal strategy effectively identifies risks to fiscal targets like the deficit and debt-to-GDP ratio, there's an opportunity to broaden the framework's scope to encompass broader economic and social resilience
- A more expansive fiscal policy could significantly enhance household resilience and stimulate aggregate demand, potentially leading to stronger economic growth, while simultaneously addressing pressing social needs
- The strategy's emphasis on achieving a primary surplus during periods of subdued economic growth raises concerns about potential long-term trade-offs, including weakened public services, diminished capacity to address inequality, and reduced economic security
- The fiscal framework presents a valuable opportunity to serve as a key instrument for redistribution, inclusive growth, structural transformation, and employment creation. It important and necessary to evaluate whether the current fiscal consolidation approach adequately supports these objectives
- The impact of broad-based expenditure cuts on deepening inequality, weakening social services, and constraining economic growth necessitates a more targeted and strategic approach to fiscal management
- The extended period of fiscal consolidation, spanning over 12 years, has not yielded the anticipated reductions in debt-to-GDP and deficit ratios. Therefore, a reassessment of the fiscal strategy's effectiveness is necessary, especially considering the concurrent rise in unemployment and poverty
- The 2025 medium-term fiscal strategy's shift from expenditure cuts to revenue collection, particularly through regressive measures like VAT increases, means government has to provide evidence of its potential impact on vulnerable households and overall economic equity

Redistribution, social wage, and inclusive growth

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- The medium-term fiscal strategy stipulates that 61 per cent of consolidated non-interest spending over the MTEF is allocated to the social wage
- This formulation gives the impression that, on average, the social wage is high and provides greater benefits to poorer households and the unemployed
- However, extreme unemployment and inequality, persistent spatial apartheid, corruption, and poor service delivery performance indicate that the percentage spent on the social wage is an inadequate measure—much like GDP
- Years of fiscal consolidation may have constrained overall expenditure growth, rendering the 61 per cent allocation insufficient to address pressing challenges such as childhood hunger and stunting
- Richer households often benefit more from social wage spending due to better access to public infrastructure and services
- The social wage percentage alone does not necessarily tell us about redistribution and building resilience in our country
- Expanding social security could improve nutrition and enhance access to basic services for the poorest households

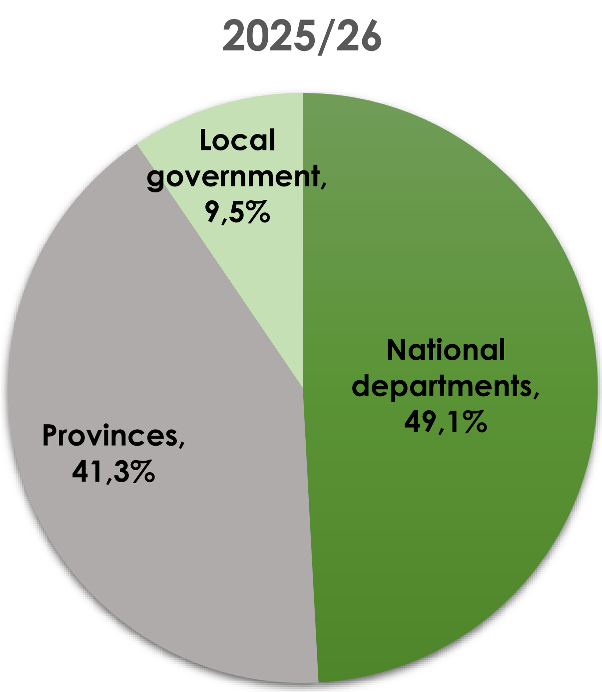
Spending trends

- Division of Revenue
- Real per capita spending trends

Division of Revenue and Provincial Equitable Shares

Continuous estimates to increase the proportion allocated to local government

Nominal changes since the 2024 MTEF:
- R5 724 million in 2025/26
- R4 864 million in 2026/27



R million	2024/25 Estimate	2025/26 Medium-term estimates	2026/27	2027/28	Average annual 2025 MTEF growth	Average annual 2024 MTEF growth
Eastern Cape	78 093	82 452	85 665	89 502	4.6%	3.8%
Free State	33 091	34 836	36 305	37 876	4.6%	3.7%
Gauteng	127 992	133 979	138 934	144 161	4.0%	4.0%
KwaZulu-Natal	121 145	128 095	134 320	141 007	5.2%	3.3%
Limpopo	69 625	74 064	77 792	81 807	5.5%	4.3%
Mpumalanga	49 499	52 487	55 084	57 872	5.3%	4.1%
Northern Cape	16 143	17 111	17 924	18 793	5.2%	4.4%
North West	42 816	44 765	46 200	47 719	3.7%	4.5%
Western Cape	62 071	65 376	68 344	71 507	4.8%	3.7%
Total	**600 476**	**633 166**	**660 569**	**690 243**	**4.8%**	**3.9%**

Real per capita spending per function group

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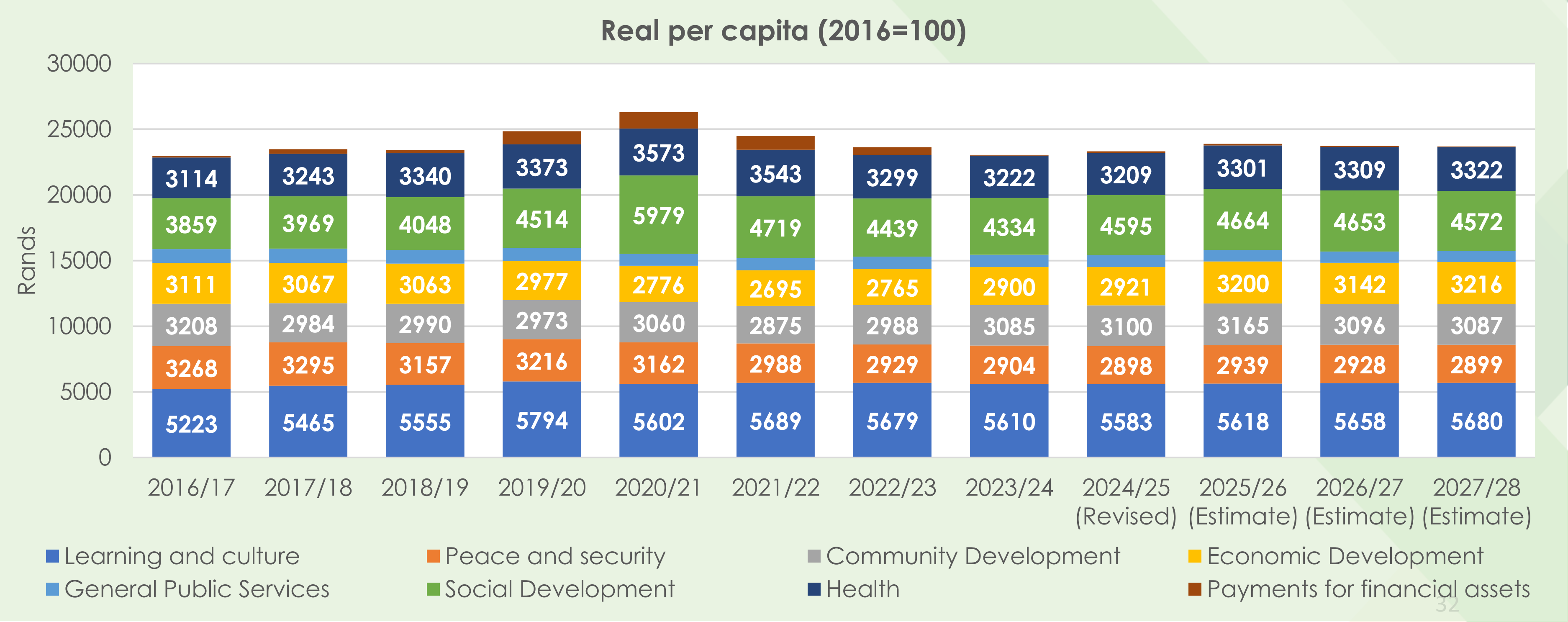
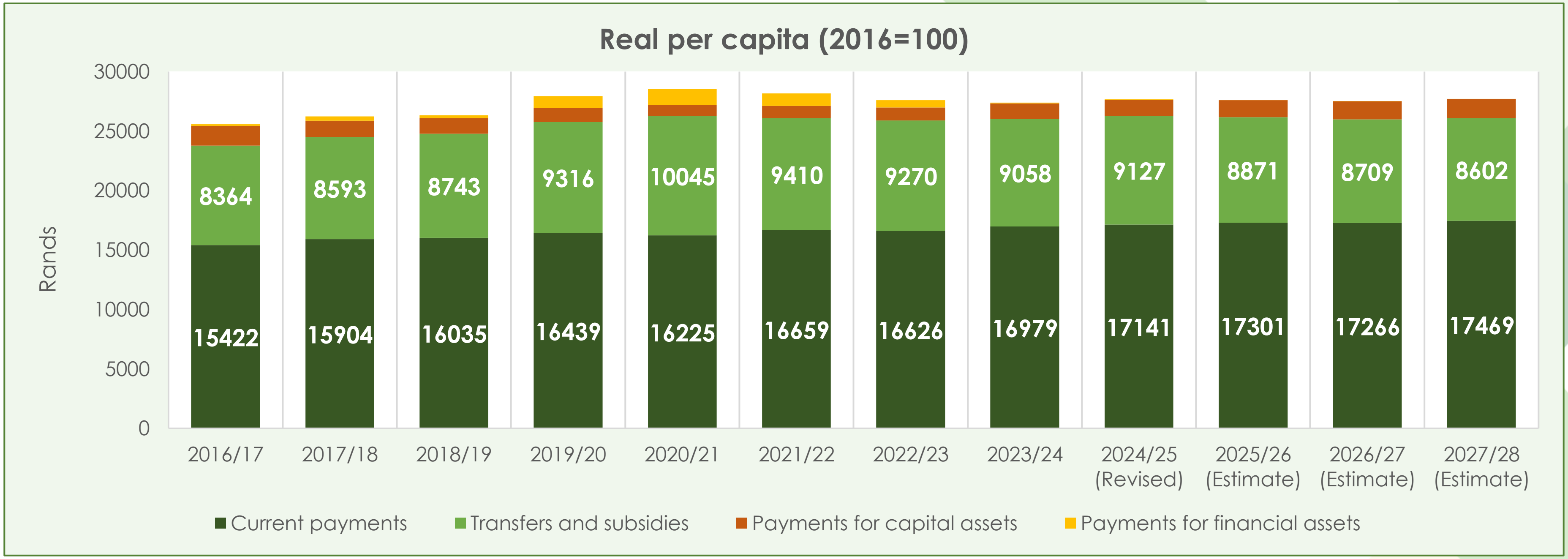
- Total real per capita expenditure estimates are higher than the estimates in the 2024 MTBPS. In 2016/17, total real non-interest expenditure per capita was estimated at R22 979, and the projection is that it will increase to R23 686 in 2027/28
- The total real per capita expenditure has been revised upward to R23 883 in 2025/26, an upward revision from the R22 922 in the 2024 MTBPS



Source: PBO calculations based on National Treasury and Stats SA population data

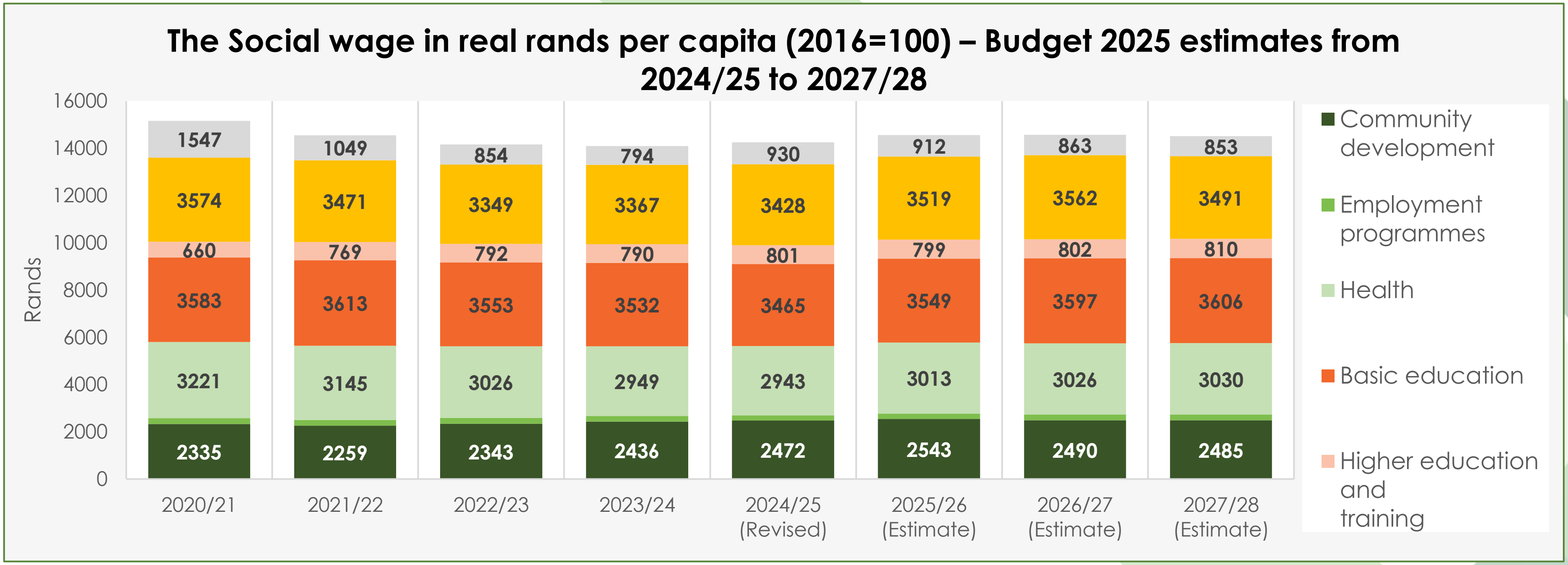
Real per capita spending per economic classification

- In 2016/17, total real expenditure per capita (including debt service cost) was R25 568. In 2027/28 it will be R27 719. This is the same value as projected in the 2024 MTBPS in real terms
- In the 2024 MTBPS, the contingency reserve was estimated to be R20.8 billion in 2027/28, higher than the R7.6 billion in 2025/26
- However, in the 2025 budget, the contingency reserve is now estimated to be R11.1 billion in 2027/28. The contingency for 2025/26 is now estimated to be R5.0 billion



Source: PBO calculations based on National Treasury and Stats SA population data

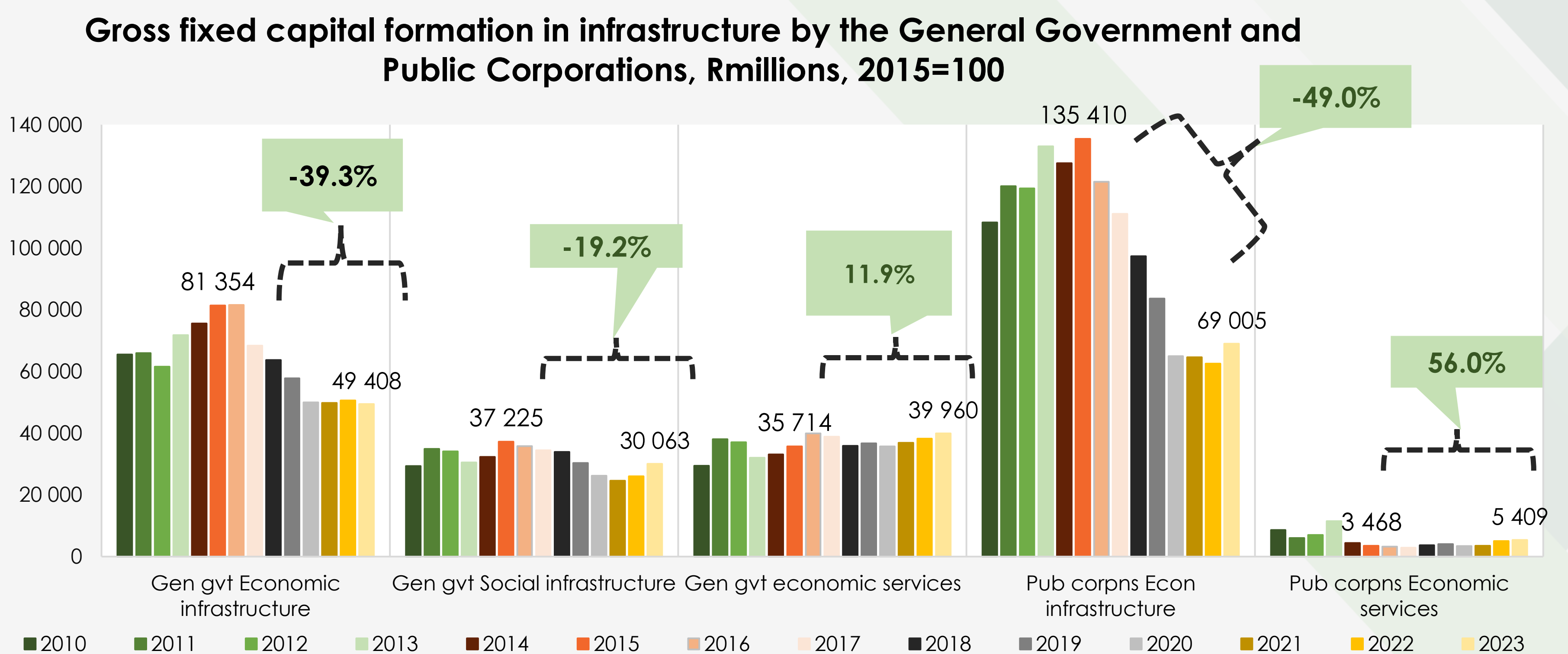
Real per capita spending on the "social wage"



- Between 2021/22 and 2023/24 the real per capita social wage declined
- The real per capita on the "social wage" is estimated to be higher in the medium term than the previous estimate in the 2024 MTBPS
- In the 2025 budget, the real per capita expenditure in 2024/25 is estimated to be R19 822. It is estimated to be R22 250 in 2025/26 and then declines to R20 161 in 2027/28
- There remain significant backlogs in public basic service provisioning. The increases in proposals are unlikely to course correct the real per capita declines over time. For example, medical price inflation (9.5% on average) is higher than the inflation adjacent (4.3% in the medium term) revisions

Public infrastructure backlog

- GFCF Total was R796 138 million in 2015 and decreased by 13.9 per cent to R685 575 in 2023
- Current increases in infrastructure spending are inadequate to address the backlog over the past decade



Economic infrastructure: Roads, bridges, dams, electricity and water supply, etc.
Social infrastructure: Schools, hospitals, etc., and administrative services.
Economic services: Business enterprises not included in economic infrastructure

Source: SARB

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A capable state

- Operational efficiency and effectiveness
- Operational spending to build a capable, ethical and developmental state:
  - State capacity

Operational efficiency and effectiveness

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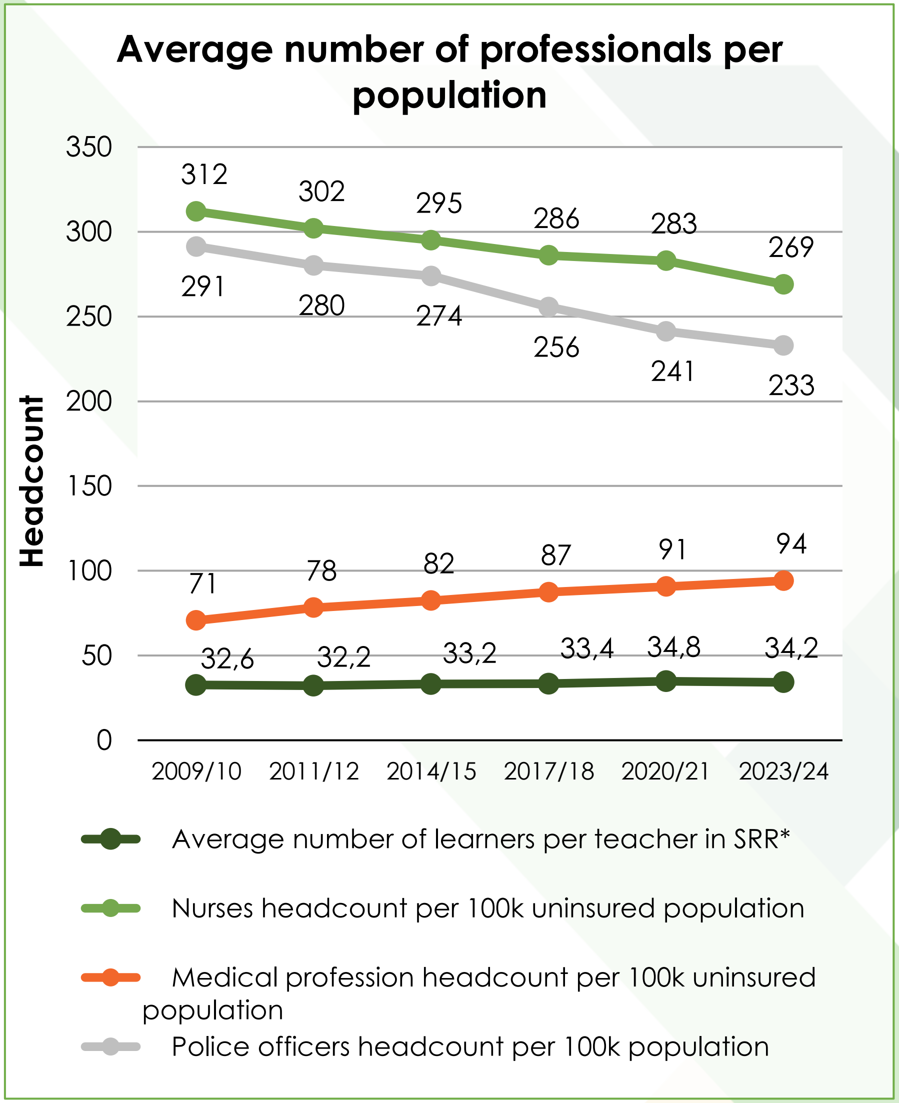
- Over time efficiency and effectiveness factors, not dependent on funding, have been identified, specifically in SOEs that needs to be addressed to ensure that the more than 700 institutions (including Public entities), assist the State in addressing issues of social and economic transformation, providing infrastructure and services on which the economy depends and in bridging the inequality gap

- **Promises by the executive of:**
  - Overarching legislation for state-owned companies, that would be tabled in Cabinet in 2021/22 and in Parliament in 2022/23
  - A centralised SOE model would be implemented in 2021/22, which would ensure standardised governance (salary structures), financial management and an operational performance framework for all SOEs
  - Public Expenditure Reviews (PERs), which is a tool used to assess the efficiency, effectiveness, and equity of public spending, providing evidence to inform fiscal savings, expenditure rationalisation, and policy decisions

- **Disappointing when:**
  - The inefficiencies in SOEs and public entities are not addressed
  - In some instances the results of PER show that data from a variety of sources were examined to try and quantify the level of spending by government and its impact, but perhaps the most significant point is that existing data — both on spending and outputs — are deficient, making it impossible to draw meaningful conclusions (GTAC)

State capacity

- Building state capacity is understood, by government, as the efforts by governments to professionalise the public sector at the political and administrative levels
- State capacity includes a combination of the number of staff as well as improving management, operational structures, systems and reporting
- The AGSA has highlighted that government institutions have not demonstrated quality service delivery, good performance, and strict financial and compliance disciplines
- As per the 2024 MTBPS, an R11 billion allocation is proposed for the early retirement programme for two years for at least 30 000 public servants
- The reductions in headcounts and high rates of vacancies in departments continue to negatively impact their capacity to deliver quality public basic services:
  - Government must provide impact assessments of these headcount reductions on service delivery



Source: National Treasury, 2024 MTBPS

State capacity

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- On 31 March 2025, National Government had 411 260 funded posts and 4 427 additional posts to the establishment (total of 415 687) of which 400 307 positions were filled (12 002 less than 31 March 2020 (Do we regard this as vacancies or redundant structures?)
- The majority of these positions are in Correctional services, Defence and the Police. Over the 2024 MTEF, the Police services intended to improve efficiency, rationalise its organisational structure, implement cost containment measures and improve operations. Over the 2025 MTEF, the Police services intends not to increase staff numbers resulting in a reduction of the compensation budget of R342 million from the previous MTEF
- Another example is the transformation of the South African Revenue Service that is currently transforming from an fragmented set of internal directorates to an integrated and autonomous body that resulted in increasing revenue collection. This transformation includes the building of a skilled staff base
- The provision of national government services are mostly transferred to provinces and public entities
- The role of Parliament in building a capable state
  - The monitoring of the requirements for a capable state (NDP) should be mainstreamed within all committees
  - Identify inefficiencies and effectiveness
  - Consult with other oversight bodies such as the Presidential State-Owned Enterprises Council (PSEC)
  - Ensure clear lines of accountability between the executive and state-owned enterprises (SOEs)
  - In 2021 a NCOP Committee on Public Enterprises and Communication committed to review SOE corporate plans to ensure that appropriate systems are in place to monitor implementation of such plans. Are these available and implemented?

Revenue trends and tax policy changes

- Expected impact of tax proposals on 2025/26 revenue
- Proposal for a Value Added Tax (VAT) increase
- Alternative tax revenue sources

Expected impact of tax proposals on 2025/26 revenue

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Budget 2025 tax changes:

- R28 billion in additional tax collection
- There are no inflationary adjustments to the tax brackets as well as medical aid credits
- These tax proposals to PIT and medical tax credits were projected in the 2024 budget for 2025/26
- The PBO has previously highlighted how tax changes can have progressive and regressive impacts on various income groups
- Non-inflationary adjustments disproportionately impact those at lower income levels through budget creep
- The non-adjustment to the fuel levies may provide some relief in the context of high inflation and a cost-of-living crisis
- In the 2020 budget, the government stated that its objectives are to broaden the tax base, improve administration of revenue collection, lower tax rates and provide tax relief. The objectives are seemingly changing

Effect of tax proposals	R billion
Gross tax revenue (before 2025 Budget tax proposals)	**1 978.1**
2025 Budget proposals	**28.0**
Direct taxes	**19.5**
Personal income tax	
No inflationary adjustment to tax brackets and rebates	18.0
No inflationary adjustment to medical tax credits	1.5
Indirect taxes[3]	**8.5**
Value-added tax (VAT)	
Increase in VAT rate — 2025/26	13.5
Increase in VAT rate — 2026/27	
Additional zero rating	-2.0
No adjustment to general fuel levy	-4.0
Above-inflation increase in excise duties on alcohol and tobacco	1.0
Gross tax revenue (before 2025 Budget tax proposals)	**2 006.1**

Source: National Treasury

Proposals for a Value Added Tax (VAT) increase

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2018 VAT increase justification

- The 2018 VAT increase was predicated on arguments that South Africa's rate was below peer countries, VAT was less harmful to growth than other taxes, and zero-rating mitigated regressivity

Persistent concerns

- These arguments, then and now, lacks evidence backing it. Comparative analyses must extend beyond simple rate comparisons, and consider diverse socioeconomic realities and developmental objectives
- The claim that raising VAT is less harmful to growth than other taxes, lacks concrete evidence
- Evidence suggests zero-rating has not effectively shielded households from VAT's impact. As noted by the Davis Tax Committee (DTC), zero-rating is a blunt tool for equity

Revenue realities

- The projected revenue gains from the 2018 VAT increase did not materialize. The 2019 budget revealed a R22.2 billion deviation in VAT collections from initial estimates, raising questions about the accuracy of revenue forecasting
- Therefore, it is prudent to question the revenue projections of the 2025 VAT increase, and to assess if the same errors are being made

Key consideration

- The effectiveness and equity of VAT adjustments must be rigorously evaluated within South Africa's specific economic and social context, prioritising evidence-based policy decisions

Proposals for a VAT increase

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- When VAT was increased in 2018, the government committed to a review in 2021
- It remains unclear whether such a review was conducted
- VAT is particularly regressive in the context of a protracted cost of living crisis that many households are facing
- Based on our modelling of the initial 2 per cent proposed, the PBO found that:
  - The bottom two quintiles of the population currently contribute about 30 per cent of the total annual VAT revenue
  - 50 per cent of the VAT burden would fall on the top two quantiles
  - A VAT increase would disproportionately impact low-income households, potentially exacerbating poverty and inequality

The PMBEJD estimates that 0.5% will result in….

The total basket increasing to R5 324.02 (from R5 313,22)

The total toiletries increasing to **R1039.74** (from R1 035.24).

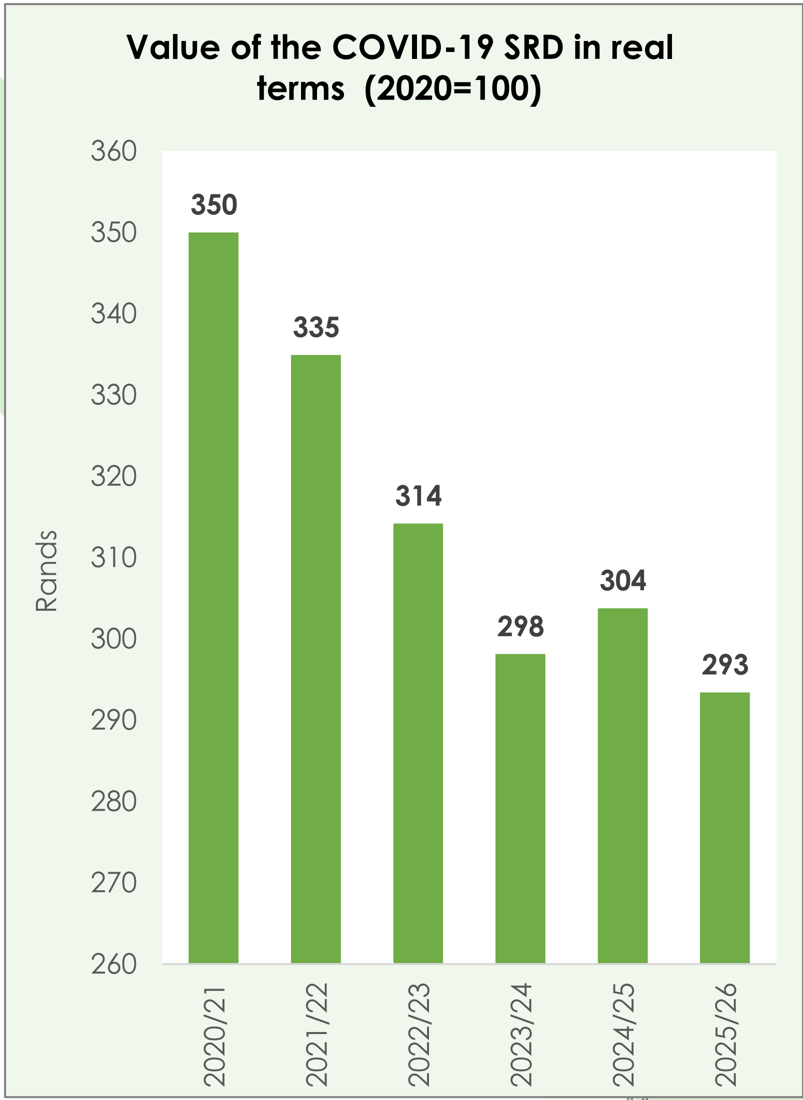
The total monthly cost of prepaid electricity for households increasing to **R1 180.53** (from R1 175,42).

The expanded list of zero-rated items could potentially result in a savings of **R59.46** for the consumers, lowering the overall cost of the basket to **R5 264.56**

Source: Pietermaritzburg Economic Justice and Dignity Group

Social grants increase a buffer?

- According to Stats SA (2025), data on food insecurity in South Africa in 2019, 2022 and 2023 shows that:
  - The proportion of grant-reliant households experiencing moderate to severe food insecurity increased from 20.2 per cent in 2019 to 21.8 per cent in 2022, reaching 26.6 per cent in 2023
- The Covid-19 Social Relief of Distress (SRD) grant
  - The SRD grant has only been adjusted once since it was introduced in 2020
  - The buying power of the SRD grant when adjusted for CPI since 2020 is now only worth R293
  - These grants may be further eroded by the VAT increase
- The Child Support Grant (CSG)
  - The CSG is currently below the food poverty line, meaning it doesn't cover the minimum cost of meeting basic nutritional needs
  - Many children remain below the food poverty line despite receiving the grant
  - The CSG increase by R30 doesn't adequately address the shortfall, as well as the VAT impacts



Source: PBO calculations based on National Treasury data

Alternative tax revenue sources

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- **Corporate Income Tax (CIT):** Reverse the CIT decrease if it has negative outcomes on revenue
- **Wealth tax:** Applied Development Research Solutions (ADRS) analysis suggests that a 0.5 -1 per cent wealth tax would have raised R38.4 billion in 2023
- **Employment Tax Incentive (ETI):** The cancellation of the ETI could result in R6-R7 billion a year in additional revenue. The allocation of these funds to other employment initiatives
- **Curbing illicit financial flows (IFFs):** Curbing illicit flows will significantly boost tax revenue. For example, if SARS could follow-up on 10 per cent of IFFs, government would get $350 million (R6.5 billion rands)
- **Systemic review of incentives:** In the 2020 budget, government committed to systematically reviewing tax incentives and repeal or redesign those found to be redundant, inefficient or inequitable over the medium term
- **Diversification of tax tools:** Excess Profits Tax could be implemented on companies that have used the inflation upsurge to boost profit. Windfall taxes for sectors benefiting from the commodity price boom
- **Property taxes:** Property taxes for high value homes need to be increased. Reform is required to also redistribute this revenue

Non-tax revenue alternative measures

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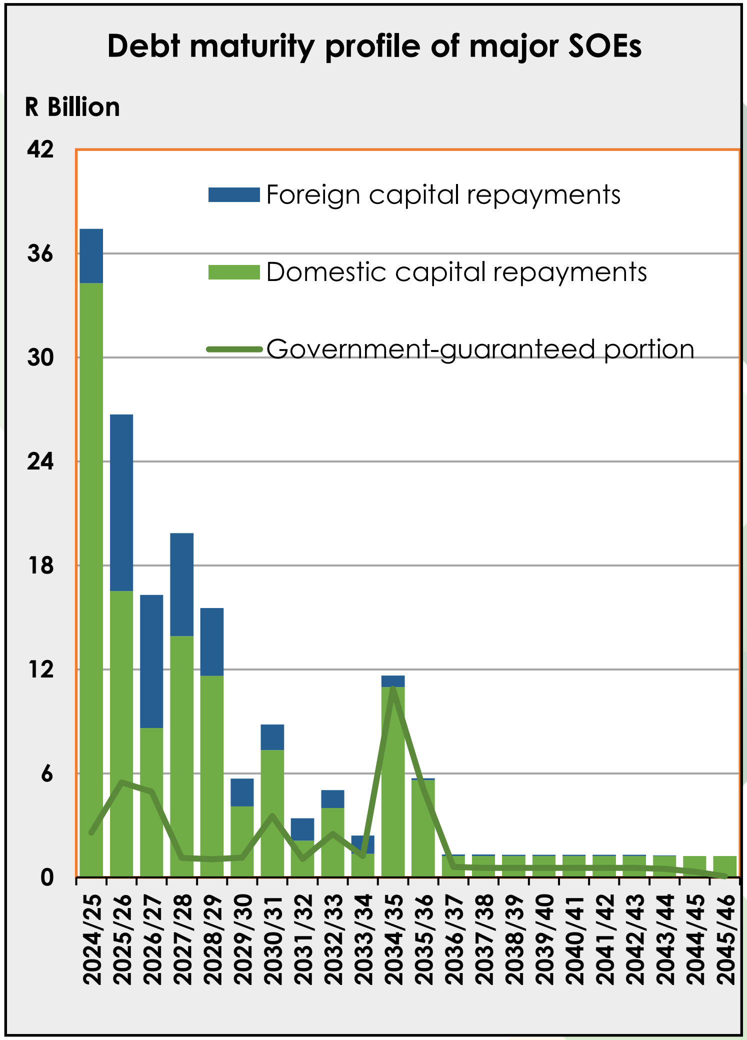
- **Strengthening SARS to improve revenue collection**
  - Over R800 billion in uncollected taxes due to unpaid debts and leakages
  - SARS requires R20 billion to improve compliance, digital systems, and the workforce
  - SARS achieves a remarkable return of R141 for every R1 spent, making it a cost-effective solution
- **Leveraging the public sector balance sheet**
  - Utilise assets from GEPF (R2.3 trillion) and UIF to fund infrastructure, industrialisation, and job creation
  - Explore allocating a portion of GFECRA (~R300 billion) for high-impact investments
  - Encourage domestic pension fund investments to reduce foreign capital outflow
- **Addressing inefficiencies and duplication in government spending**
  - Streamline government functions to eliminate overlaps
  - Improve procurement processes to reduce wasteful expenditure
- **Rethinking fiscal consolidation for sustainable growth**
  - Post COVID-19, the IMF argued that countries must slow the pace of consolidation to support economic recovery
  - Shift focus from austerity measures toward achieving key development objectives, such as reducing unemployment, poverty, and inequality
  - Prioritising strategic public investment in social infrastructure, economic development, and essential services

Risks to the fiscus

- Contingent liabilities and guarantees
- Update on selected State Owned Enterprises (SOEs)
- Public private partnerships (PPPs)

Contingent liabilities and guarantees

- The government's guarantee portfolio declined by R7 billion to R491.9 billion, while exposure increased by R6.1 billion to R439.2 billion by March 2025
- The reduction in guarantees is largely due to the termination of Land Bank's R8 billion guarantee at the end of 2023/24
- The increase in exposure is mainly driven by a R12.3 billion net drawdown on Transnet's guarantee
- Notable repayments include: R6.3 billion towards SANRAL debt reduction and R3.5 billion for the SARB Loan Guarantee Scheme
- Contingent liability risks from Independent Power Producers (IPPs) remain low. As of 31 March 2025, the government's commitment to the Renewable Energy Independent Power Producer Procurement Programme is projected at R277.9 billion
- Public-Private Partnership (PPP) contingent liabilities declined by R600 million to R6.2 billion in 2024/25 as projects matured



Update on selected State Owned Entities(SOEs)

- **Eskom**
  - Revenue grew by 14 per cent to R295.8 billion in 2023/24, primarily due to an 18.7 per cent tariff increase, despite a 3 per cent decline in electricity sales
  - Losses doubled to R55 billion in 2023/24 driven by tariffs that do not reflect costs, poor operational performance, non-payment by municipalities and high finance costs
  - Municipal debt to Eskom surged from R74.4 billion at end-March 2024 to R94.8 billion at end-December 2024
  - By 31 March 2025, government will have advanced R140 billion in debt relief to Eskom. However, debt-relief allocation was reduced by R4 billion after Eskom failed to dispose of Eskom Finance Company within the agreed timeframe
- **South African Post Office**
  - Despite cost-cutting efforts and meeting some operational targets, SAPO remains financially distressed due to persistent net losses and declining revenue
  - 354 branches closed, with 657 remaining operational
  - The R2.4 billion allocated in 2022/23 was used for business rescue efforts, focusing on cost reduction and creditor payments
- **Denel**
  - Denel continues to face financial distress, struggling to meet its obligations
  - The entity is allowed to access R914 million from the R3.4 billion Special Appropriation Act 2022 after implementing turnaround measures. Funds will cover legacy obligations, invest in essential capital projects and optimise restructuring
- **Transnet**
  - High debt levels limit Transnet's ability to raise capital and invest in infrastructure. Since 2018, the entity has redirected funds from capital expenditure to debt servicing
  - Rail freight volumes have declined sharply, from 226.3 million tonnes (2017/18) to 151.7 million tonnes (2023/24), due to derailments, operational inefficiency and infrastructure damage
  - Net loss widened to R7.3 billion in 2023/24, up from R5.1 billion in 2022/23, mainly due to rising finance costs

Public private partnerships (PPPs)

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- Government is committed to expanding partnerships with the private sector to accelerate infrastructure development
- From June 2025, projects valued below R2 billion will be exempt from the rigorous approval processes required for larger projects, allowing for faster implementation
- A clear framework for evaluating and processing unsolicited PPP proposals from the private sector is currently being developed
- Over the medium term, public-sector capital investment is projected at R547.7 billion, allocated to SOEs and public entities
- Public entities rely on capital transfers from the fiscus and SOEs fund projects through a mix of own revenue and borrowing
- A 2019 UK study on PPPs found that they were the most expensive financing method, significantly increasing government costs

R' million	Revised estimate 2024/25	2025/26	2026/27	2027/28	% of total MTEF allocation	Average Annual MTEF growth
Payments for capital assets	**116 466**	**135 215**	**135 692**	**147 130**	**5.2%**	**8.1%**
Buildings and other structures	81 563	99 788	100 531	109 240	3.8%	10.2%
Machinery and equipment	30 355	31 953	32 516	35 187	1.2%	5.0%
Other capital assets	4 548	3 474	2 646	2 703	0.1%	-15.9%

Source: National Treasury, BR 2024

In conclusion

Conclusion

- Parliament needs to ensure that budgets respond to the three priorities of the GNU with proper sector plans and monitoring systems in place
- Continuous reprioritisation, based on reviews, is required to respond to the socioeconomic realities
- Not all Presidential priorities are directly responded to in the budget
- Debt service cost as a percentage of total spending is still increasing over the 2025 MTEF
- The budget provides for the implementation of the wage agreement and continue to fund employment creation programmes
- The 2025 fiscal strategy remains focused on the deficit and debt-to-GDP ratios
- This strategy does not consider risks associated with social unrest and high levels of UPI
- The consolidated non-interest medium expenditure framework allocates 61 per cent to the social wage
- Real per capita spending has been revised upwards since the 2024 MTEF
- Strategic and operational efficiency is required to ensure a capable state
- Professionalisation should be at an administration and political level
- The VAT increase is the main change in tax policy. Previous budgets have increased direct taxes as a strategy for increasing tax revenue
- Non-tax as well as tax alternative sources have been proposed by the PBO
- Can infrastructure investment by SOEs be sustained if they continue to face financial instability

Additional slides

Structural reforms and macroeconomics in the BR 2025

- Neoclassical macroeconomics focuses on structural reforms because it closes the option of using macroeconomic policies for development
  - "Reforms under way in the rail, energy and water sectors will improve the functioning of these services to ensure businesses can produce more efficiently and investors can plan for the future" (BR 2025, p.12)
- Investment in the physical infrastructure and operational efficiency of SOEs in the rail, energy and water sectors is vital for the productivity of the economy and economic growth but structural reform is not enough. Macroeconomic policy choices to pursue restrictive fiscal consolidation led to real reductions in investment in infrastructure (see next slide)
- Fiscal consolidation has meant that macroeconomic policy choices to restrict government expenditure have hindered the ability of the government to build a capable state:
  - The occupation specific dispensation instituted in 2009 to keep skilled professionals in government service significantly increased the government's wage bill
  - The potential savings from having skilled professionals to improve efficiency within the public sector and reducing the costs of poor service delivery, including in health and education, were ignored
  - The NT blamed the higher cost of employment in government for "crowding out" government capital investment instead of realising that investing in a capable state requires more spending on maintaining and building both a capable public service and infrastructure
  - The NT took a "lawnmower approach" to cutting public sector wages
  - Resistance to this indiscriminate approach from within the public sector can be seen in how the early retirement proposal has been changed to give accounting officers more power

BR 2025 view on structural reforms

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BR P16: "The percentage of the working-age population that is employed – is about 40 per cent, far below the global average of 55–65 per cent. Compared with similar economies, South Africa has low levels of agricultural employment, self-employment and informal economic activity. Addressing this challenge requires stronger economic growth, and labour demand and absorption" … "Several regulatory obstacles hinder South Africa's ability to create jobs."

- The solution is not as simplistic as suggested in the BR 2025 *because extreme wealth and market concentration and enduring inequality in agriculture (ownership and labour relations) means that economic growth and regulation (red tape) is but one variable in the complicated SA economy*
- *Informal sector activity and self-employment is low because of the extremely high levels of concentration of markets and ownership as well as the immense power of large corporations, whose investment and employment choices shape the direction and growth path of the economy*
- *History of colonialism and apartheid created severe barriers to entry in business and employment, particularly for black people, that have not been adequately addressed since 1994*
- *Inequality destabilises economies and leads to lower growth and employment (IMF website)*
- *Extreme economic concentration causes anti-competitive behaviour and collusion that negatively affects investment, job creation and growth (Thakoor, 2020, IMF Working paper)*
- *The top 100 corporations by JSE market capitalisation have had good profits but generally have not reinvested those profits to grow their productive investments in South Africa (Vilikazi and Bosiu, 2023)*
- *Financialisation allocates capital away from productive investments towards increasingly short-term, speculative activities in real estate and financial asset markets (Mohamed, 2017)*
- *South Africa has had de-industrialisation since the early-1980s and the industrial base has largely been low value-adding and capital intensive. SA has* remained dependent on exports of mining and minerals products and other raw materials with low levels of beneficiation
- Much of the growth in services employment has generally been (Tregenna, 2010)

BR 2025 modeling and the global and domestic outlooks

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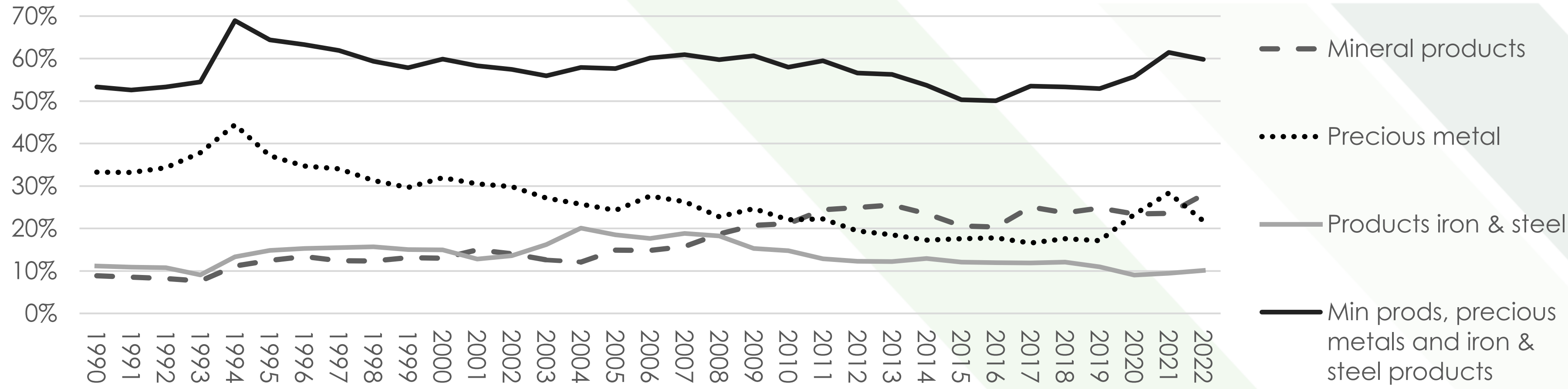
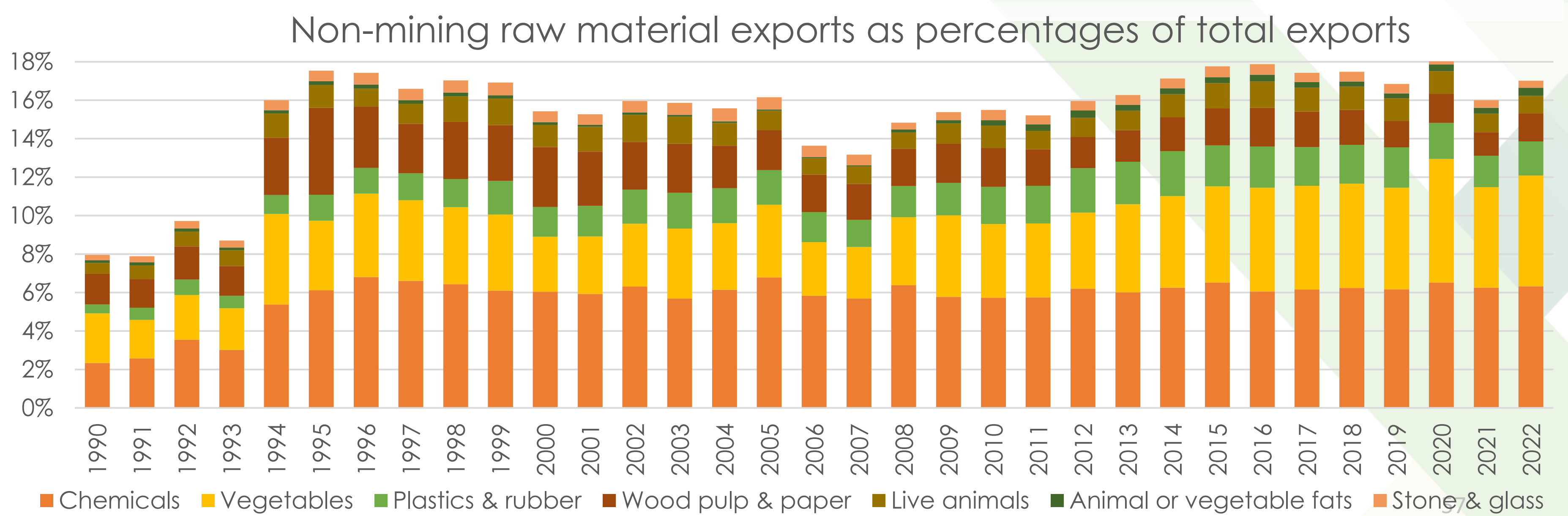
- The 2025 BR box on p.19 compares Optimistic and Pessimistic scenarios with their Baseline Scenario
- The GDP growth in the scenarios is largely due to public sector investment growth
- The relative decline in general government and public sector investment and the high levels of fraud and waste since 2010 raises questions whether the increase in public sector infrastructure investments can happen at the speed assumed in the Optimistic and Baseline scenario
- Events and uncertainty related to trade fragmentation and uncertainty in the global economy are considered in the Pessimistic scenario. The Baseline scenario prudently moves closer to the Pessimistic Scenario from 2026. However, it is unclear whether the risks to the global outlook are adequately incorporated into the scenarios and models
- The UN reported (Jan. 2025) estimates of global economic growth of 2.8 per cent for 2025
- They forecast that the world is set to grow at a slower pace than the pre-pandemic average of 3.2 per cent recorded between 2010 and 2019 due to continued global structural challenges, such as weak investment, slow productivity growth, high levels of debt, and demographic pressures
- Since the January 2025 forecasts, trade restrictions have been announced by countries that collectively contributed around a third of 2023 global trade. The trade war may escalate.
- Expectations for global growth have soured because:
  - The risks that global inflation will increase have increased with increased trade restriction
  - There may be another round of problems in global value chains and increases in energy and food prices.
  - The UN warns that climate-related shocks, including heatwaves, droughts, and floods increase risks to crop yields, intensifies pressures on food prices, endangers shipping channels and hydroelectric power

South Africa is dependent on mining, low beneficiated minerals and other raw material exports





Source: Quantec

Investment must prioritise human well-being, not just infrastructure

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- The medium-term fiscal strategy is to ***enhance public investment by ensuring that consolidated payments for capital assets grow faster than inflation***
- While public investment in roads, rail, and sanitation is essential, the government must also invest in:
  - Human capital development through education and skills training, access to healthcare services, and nutrition
  - Developmental infrastructure — schools, hospitals, and police stations — alongside enhanced oversight and capacity building to address spending inefficiencies at provincial and municipal levels
  - Demand-led growth: With consumer spending accounting for 67 per cent of GDP, increasing disposable incomes for poor households can stimulate demand and drive economic growth
- Infrastructure investment should be aligned with a targeted industrial policy framework that focuses on value addition, local manufacturing, and export diversification
  - Without a clear industrial policy alignment, infrastructure spending alone may fail to deliver the structural economic transformation South Africa urgently requires

Gross tax budget estimates, revisions and outcomes (2012-2025

Source: National Treasury data compiled by the PBO

Growing the number of jobs and building better lives

- Some of the recommendations from this evaluation are:
  - Relocation of YECP at the local government level
  - Expanding funding is not feasible
  - The number of YECPs should be reduced and funding should be consolidated
  - Duplication of efforts should be avoided and reduce the isolated nature of YECPs
  - Proper reporting and M&E
- Despite the findings, the **National Youth Development Agency for PEP still** receives funding, for the provision of financial and non-financial support for entrepreneurship and business development programmes
- The **IDC for the Social Employment fund (R1.3 billion)** runs sector programmes, which are already done by the sectors, several conditional grants and SETAs
- **National Empowerment Fund** receives funding from a capital reserve fund increasing from R1.5 billion in 2025/26 to R20 billion in 2026/27 and R35 billion in 2027/28 to increase job opportunities from 10 500 in 2024/25 to 210 000 in 2027/28
- Expanded Public Works Programme (EPWP) not only implements programmes within provincial sectors and municipalities, but also transfers funds to various institutions
- The National Pathway Management Network (NPMN) is a network of networks. It connects major partner networks into a single national network that links young people to existing opportunities, facilitates the creation of new opportunities and addresses barriers young people face in entering the labour market vs. the role of Employment and labour?