

COMMENT | 19 FEBRUARY 2025

Budget postponed – initial impressions

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The Budget Speech has been postponed, for the first time. Ahead of the Budget, rumours indicated that there would be significant tax increases including a VAT increase of up to two percentage points. Our initial view is that the postponement will create a wobble in the Government of National Unity (GNU). However, it shows that the smaller political parties are able to exercise leverage, which could be positive for reform in the longer run.

The GNU wobbles but may emerge stronger

The 2025 Budget Speech was postponed with indications that the next Budget will be tabled on 12 March.

There are no immediate economic risks from a postponement. Section 29 of the **Public Finance Management Act** gives some time for a new Budget to be tabled, and allows spending to continue until a budget is passed. However, for the first four months it cannot exceed 45% of the total amount appropriated in the previous annual budget, and for each of the following months exceed 10% of the budget.

This means that spending and revenue collection will continue as before. Indeed, in previous years, budgets passed very late in the financial year without any major concerns.

The short-term impact is positive for borrowing levels, but only briefly. It means that there is an effective wage and expenditure freeze, but an effective tax *increase*. Taxes rise because there is no bracket relief. Both these effects are likely to be unwound when the next budget is tabled (particularly as a wage settlement has been reached).

This means a new Budget is needed. The rumours are that the Budget was postponed due to a contentious VAT increase, which could have been as much as 2%pts. Based on previous experience, this could have raised an additional R40 to R60 billion, but would have had a significant dampening effect on consumption. Moreover, it would be inflationary, giving more arguments to the SARB to delay interest rate reductions.

The economics aside, this could have a sentiment impact. The GNU has been faced with a series of challenges already – on National Health Insurance and the Expropriation Act particularly, but also on the Basic Education Laws Amendment Act (BELA).

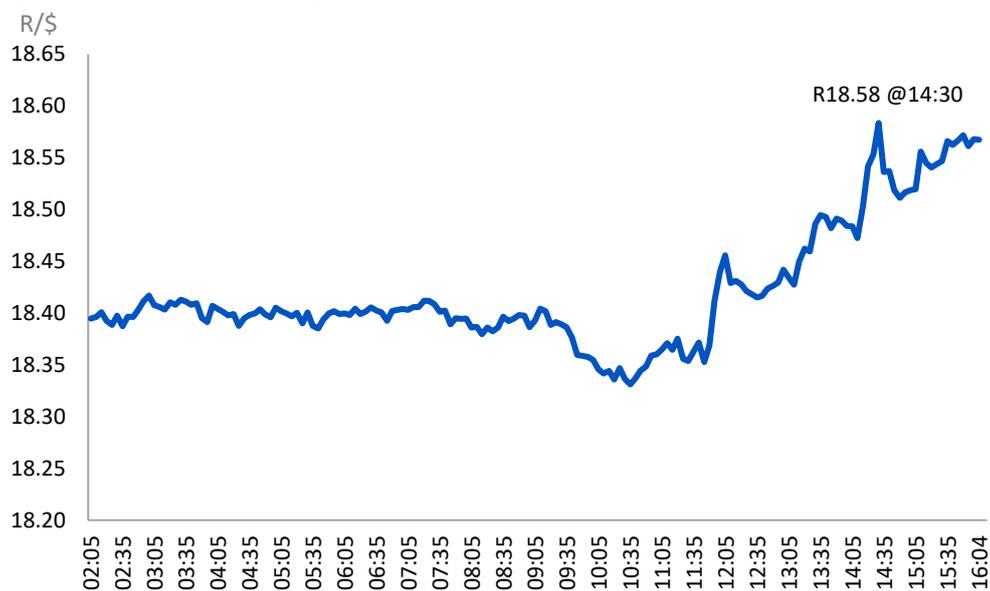
It is unclear why the crisis arose so late in the process. In general, Budgets go through a long internal process starting with the Medium Term Budget Policy Statement (where, usually, any major proposals are signalled to allow for broad consultation). While there were indications in the weekend press of a potential stalling of the Budget, it appears that it was not until shortly before the actual tabling that the postponement occurred.

To some extent, this is the GNU “working”. There had always been concerns that the parties outside of the ANC would not be able to exercise leverage over the direction of the government. However, this shows that they are able to, and are not afraid to. This will bode well for future policy debates on other areas where the ANC has tried to push through its position (Expropriation Act in particular).

The GNU parties were quick to make this point. John Steenhuisen (leader of the Democratic Alliance) and Gayton Mackenzie (leader of the Patriotic Alliance) indicated quickly that the GNU might emerge stronger from this.

The market reacted negative following the unprecedented postponement of the Budget, with the rand reaching R18.57/\$ and 10-year bond yields spiking to 10.869%, up 36bps. While the All Share eased to 88 491pts or down 0.64%. Although the rand could possibly recover (or maybe not!) as the market digests the news, the heightened uncertainty is not positive for the rand, risk premium or bond yields.

Figure 1: Rand-dollar exchange rate (19 Feb 2025)



SOURCE: YAHOO FINANCE

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