

BER COMMENT | 11 MARCH 2025

# The Budget that will be?

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It does not feel like Budget Week. Given last month's events, it also feels a bit risky to put out a preview note the day before the Budget is supposed to take place. It is not impossible for the Budget to be postponed again. Still, this note assesses some of the possible outcomes.

**The 2025 Budget, which was supposed to be presented on 19 February, was postponed to 12 March.** At the time of writing, it is unclear whether the Government of National Unity (GNU) has reached an agreement on the budget's content.

**A further postponement brings few fiscal or financial risks – bond coupons can be met, and spending can continue.** Indeed, it will be fiscally positive as spending cannot legally rise beyond the previous fiscal year's level, but tax revenue will continue to increase due to inflation. Indeed, bracket creep means a bump up in revenue relative to projections. The package of budget bills is usually passed by Parliament late in the calendar year. At this stage, the most straightforward option (not necessarily the best, but the simplest given where we are at) would be a compromise of a one-year budget and a VAT increase of 1 percentage point, which would bring certainty to markets, ensure key spending items can be protected, and create time for proper debate on the way forward.

## What are the next steps?

### THE LEGAL POSITION

**A comprehensive "new" Budget is legally problematic given the timeframe.** Three pieces of legislation are of relevance: the Public Finance Management Act (the "PFMA"), the Money Bills Amendment Procedure and Related Matters Act (the "MBAPRMA") and the Intergovernmental Fiscal Relations Act (the "IGR Act"). These require substantial consultation prior to a Budget being tabled, including:

- The adoption of a fiscal framework (section 8 of the MBAPRMA)
- Consultation with the Budget Council (IGR Act)
- The submission of various recommendations from Parliament (section 5 of the MBAPRMA)

- The Financial and Fiscal Commission recommendations

**Failure to meet these requirements makes the budget vulnerable to legal challenge on procedural grounds, e.g., by non-GNU members.** Even if the challenges have no merit, a protracted court process will delay the budget and potentially embarrass the GNU. The most likely challenge would be that there was a lack of “meaningful consultation.” The courts may require evidence that Budget Council, for example, was meaningfully consulted on a near-final version of the Budget.

**Given the short time frame, it is arguably best for the National Treasury to table the minimum content possible.** In our understanding, the minimum is prescribed in section 27 of the PFMA read together with section 7 of MBAPRMA, which is:

- The annual budget together with in-year projections (section 27 of the PFMA); and
- The three-year fiscal framework – only the framework, not an entire three-year budget (section 7 of the MBAPRMA).

**That said, NT will likely want to table a “proper” budget—i.e., a full three-year budget.** The question is whether or not they were able to negotiate such a thing in the last three weeks.

**We outline a set of scenarios below.**

## SCENARIO 1 – BUDGET POSTPONED AGAIN

**The Budget could be postponed again.** The DA has publicly stated that it is against any VAT increases, while the National Treasury needs to ensure fiscal discipline and requires a source of revenue for the additional expenditures it has identified as necessary. The DA might be willing to concede on a small VAT increase, should it receive guarantees of other pro-growth measures (for example, a commitment to accelerated structural reform and reigning in wasteful and irregular expenditure). Should the DA not be willing, the Cape Times reports that the ANC is seeking EFF support for a VAT increase. We do not think this is likely to happen.

**A postponement has very few immediate risks and will buy time.** The market has processed the legal position and seems nonplussed by a postponement. There is no default risk, only a risk of embarrassment:

- In terms of section 73 of the PFMA, read together with section 213(2)(b) of the Constitution, interest costs are a direct charge on the National Revenue Fund, i.e., it is not necessary to appropriate them. This means that there is no need for the Budget to be passed for interest costs to continue to be serviced. SA’s debt obligations will continue to be met automatically.
- Section 29 of the Public Finance Management Act essentially allows for spending to continue provided that the amount does not exceed the amount appropriated in the previous year (see Appendix for full text of the section).

**Overall, this is good for gross borrowing needs.** In the short-run, spending is capped in nominal terms, meaning a real reduction in spending. Moreover, at least for now, personal income tax is not adjusted for bracket creep.

## SCENARIO 2 – BUDGET TABLED WITHOUT GNU SUPPORT

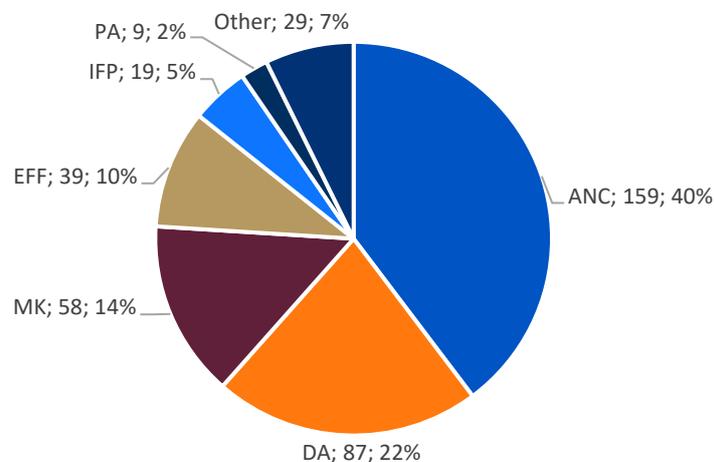
**Ahead of the Budget, the Minister of Finance expressed his view that a VAT increase would go ahead, with the DA opposed.** The Minister could table the Budget without the support of the GNU and call their bluff. Would they stop it?

**This would be risky for Treasury.** As highlighted in the steps below, Parliament plays an active role in processing the Budget. Directly after the budget, there is a *joint sitting*, and the two committees—the Standing Committee on Finance and the Standing Committee on Appropriations—play an important role.

**The Finance Committee chair should support the budget, however, the Appropriations Committee chair may not.** Finance is chaired by Joe Maswanganyi, one of many ANC members from Limpopo, while Appropriations is chaired by Mmusi Maimane, the former leader of the Democratic Alliance and the current leader of Build One South Africa (BOSA).

**There are a few combinations that work.** Assuming all party members vote on party lines, the ANC + DA = 62%. ANC + EFF = 50% (but due to the formula, only 198 seats, which is two short of what is required, although they will likely be able to make that up from smaller parties). ANC + MK = 54% (= enough). Should the ANC opt to ‘push through’ the Budget without the support of the DA (and/or fellow GNU parties), there could obviously be long-term implications for the GNU. Of course, talks between parties will continue after the Budget is tabled. So, while the initial reaction from the different parties following the Budget will be insightful, the conversation will continue. The parliamentary process does allow for changes to be made to a budget after it has been tabled, but only within fairly rigid parameters prescribed by law.

**Figure 1: Seats won in 2024 election (Party; Seats; Percentage)**



**The first thing that needs to be passed is the fiscal framework, within the first two weeks of the Budget being tabled.** The “Fiscal Framework and Revenue Proposals” must be approved within effectively two weeks of tabling (section 8 of the MBAPRMA) by a joint sitting of the upper house and lower house finance committees. They need to ensure that *“(5) When amending the fiscal framework, a money bill or taking any decision in terms of this Act, Parliament and its committees must— (a) ensure that there is an appropriate balance between revenue, expenditure and borrowing; (b) ensure that debt levels and debt interest cost are reasonable”*.

**Any tax increase is essentially in the fiscal framework, and the upper and lower house Finance Committees are unlikely to pass it.** These are both chaired by the ANC (Sanny Ndhlovu and Joe Maswanganyi), but the ANC does not have the majority on the committees. Indeed, “weekend special” former Minister Des van Rooyen represents the MK on the more powerful Standing Committee. There is also the question of whether all ANC MPs themselves would back a VAT increase. So, the ANC would be taking a political risk by taking a budget that lacks cabinet support through the committee system.

**There are a number of Bills that are tabled, each of which is important from a different aspect, and which may pass or fail.** The Bills are:

- The Appropriations Bill, which allocates funds to government departments, is debated and voted on in the National Assembly. Parliament can suggest reallocations but cannot increase spending. The upper limit of spending is constrained by the fiscal framework.
- The Division of Revenue Bill, which divides up revenue between national and provincial spheres.
- The Rates and Monetary Amounts and Amendment of Revenue Laws Act, which is effectively the instrument that will amend the VAT Act. It also adjusts all the
- The Taxation Laws Amendment Bill, which mainly amends the Income Tax Act to deal with policy and anti-avoidance provisions.

## SCENARIO 3 – VAT COMPROMISE

**Several media outlets have reported that President Cyril Ramaphosa has proposed a VAT compromise of an increase of between 0.5 and 1 percentage point.**

**This could be the simplest outcome.** We are not arguing that this is the best outcome from a long-term fiscal sustainability perspective, merely that it would satisfy many of the legal, procedural, and economic issues, for now. It would create certainty over the short term while allowing time for a proper debate about the country’s long-term fiscal trajectory.

- From a procedural point of view, a one-year full budget tabled now, together with the three year-fiscal framework tabled at the medium-term budget in October 2025, would satisfy the legal and procedural perspective.
- It is likely that the Treasury will consider consulting the Budget Council as, arguably, the budget has changed substantively between Council meetings.

**Following Treasury's calculations, a one-percentage-point increase in VAT will raise R30 billion in additional revenue.** The remaining R30 billion must be found elsewhere to achieve the overall fiscal framework as per the Budget planned for 19 February.

**In this aborted budget, the Treasury announced a gross spending increase of R108.7 bn in 2025/2026, financed by drawing down on contingencies and reserves of R40.8 bn and tax changes of R58 billion.** Of course, the argument can be made that not all this expenditure is required. Quick wins would be to remove the early retirement scheme (as there are no savings to the programme, only costs). This would save R4bn. Employment programmes can be delayed until a new funding model is found (R4.6bn), while the expansion of compulsory schooling to Grade R and the incorporation of early childhood development (ECD) can also be delayed (R5bn). One could also argue that a 1%pt-VAT increase does not require the same cushioning as the Treasury deemed necessary with 2%pts. This means that the above-inflation increases in social grants (R6.3bn) and the reversal of the fuel levy change (R4bn) could contribute, at least in part - although this will likely result in a big public outcry. Indeed, the call for more goods to be zero-rated will likely increase with any VAT hike, undermining the potential revenue.

**It is important to remember that any VAT hike carries inflationary pressure and, depending on second-round effects, could lead to a more restrictive monetary policy stance.** Our modelling of a 2% VAT increase, based on the Taylor rule, illustrates this risk and can be found [here](#).

## CLOSING REMARKS

**The postponement, while understandable, has put the National Treasury in an uncomfortable position.** We have always quipped that a Budget needs to be boring. The markets essentially need to know what is coming, and there should not be major surprises on the day. The way the GFECRA announcement was handled in 2024 was a good example of how a 'curveball' can be well-telegraphed in advance to smooth the way. The 19 February Budget was everything but boring, with the postponement adding another layer of unnecessary excitement.

**We will know more in 24 hours when the Minister is scheduled to start his speech.**

There will certainly be more speculation before then; there will also likely be more 'leaks' that provide more clarity. We will keep our clients up to date with a detailed Comment on the Budget tomorrow (assuming that there will be one).

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