

WEEKLY REVIEW | NUMBER 16 | 25 APRIL 2025

# Budget 3.0 loading; Trump starts to walk back tariff threats and Fed bullying (for now)

## THE WEEK IN PERSPECTIVE

Tracey-Lee Solomon

This week was marked by policy reversals and clarifications both in SA and abroad, as policymakers confronted the consequences of their decisions. In the US, the administration softened its previously hardline stance on tariffs and downplayed earlier critiques of the US Federal Reserve (Fed). At home, SA's National Treasury retracted its VAT increase a mere week before its implementation date (more on that below), while load-shedding returned.

In the US, President Donald Trump walked back his harsh criticism of Fed Chair Jerome Powell, clarifying that he had no intention to fire him. This reassurance aimed to calm markets rattled by concerns over central bank independence, after Trump's remarks that Powell is a "major loser" and that there was "virtually no inflation" sent the S&P 500 and Nasdaq down more than 2% on Monday. Trump's initial remarks followed a slightly hawkish speech from Powell and a warning that the higher-than-expected tariff increases would likely fuel inflation and slow growth, prompting the Fed to adopt a wait-and-see approach rather than rushing to cut rates.

Meanwhile, Treasury Secretary Scott Bessent softened his tone on China tariffs, acknowledging that current levels are unsustainable and suggesting both sides would need to reduce rates for trade talks to advance, as the US would not act unilaterally. In related moves, the Trump administration is reportedly considering exempting carmakers from some China-related tariffs on car parts. Meanwhile, there are rumours of an imminent trade deal between India and the US.

The US is threatening to withdraw from brokering a Russia-Ukraine peace deal. After Russia had earlier refused an unconditional ceasefire, Ukraine has now rejected a proposal involving recognition of Crimea as Russian territory and Ukraine's exclusion from NATO, terms Kyiv says are unacceptable. Russia is continuing deadly attacks on Kyiv, prompting Ukrainian President Volodymyr Zelenskyy to cut short a visit to SA, although still meeting with SA President Cyril Ramaphosa. Ramaphosa had a busy week and also spoke (telephonically) to Trump and his Russian counterpart.

Financial markets reversed in step with the rhetoric change of the US administration and later in the week US yields moved lower, while stock markets rose. The dollar remains the exception and stayed weak. It was still about 0.2% weaker w-o-w against the euro yesterday, having hit its lowest level since 2023 earlier in the week. The rand strengthened against the greenback and even a little against the euro. The JSE All Share had a good week, ending the week at a record high.

Local bond yields moved lower as March inflation came in lower than expected, boosting bets that the SARB will cut rates. Following the inflation print, forward-rate agreements were pricing in a 68% chance of a cut at the May meeting, and nearly 50 bps in reductions by year-end. The withdrawal of the (inflationary) VAT increase added to these expectations. Many economists, including us, are not as easily convinced as plenty of upside risks to inflation remain that are likely to deter the SARB from easing.

In commodity markets, gold surged to a fresh record above \$3 500/oz as investors sought safety amid

persistent volatility – although coming down quite a bit later in the week. The Brent crude oil price initially rose, but came down a little later in the week. New sanctions on Iran and hopes for easing trade tensions between the US and China supported the oil price. OPEC+ also reaffirmed commitments to offset previous oversupply, which means a smaller production increase than initially signalled. However, talk that OPEC+ may accelerate the easing of cuts again in June led to a midweek pullback in prices.

Finally, Eskom announced Stage 2 load-shedding with little notice on Thursday afternoon. This is worrying and suggests serious issues. The Energy Availability Factor (EAF) has been just below 57% for the year to date. Compared to previous Aprils, planned maintenance outages are at the highest level in three years. However, 800 MW Kusile Unit 1 and 800 MW Medupi Unit 4 should come online soon, creating a buffer for winter.

The resumption of load-shedding came shortly after Tuesday’s briefing to parliament by the new Department of Electricity and Energy. The Department forecast that 20 GW of new renewables capacity would be brought online over the next five years and 5 044 km of new powerlines added.

#### **WEEK AHEAD: EZ AND US GROWTH IN FOCUS**

With public holidays interrupting the week, the domestic data calendar is light. Instead, much of the attention will be around the National Treasury’s reversal of the VAT increase and the future of the GNU.

A packed international calendar will compensate for this week’s lull in domestic releases. On Tuesday, attention turns to the Eurozone with a slew of sentiment indicators, including Germany’s GfK consumer confidence for May and the April readings on consumer, economic, services, and industrial sentiment. While last week’s interest rate cut may buoy confidence, ongoing US tariff tensions continue to cast a shadow over the outlook. Additional releases include retail sales, unemployment, and preliminary April CPI inflation, with last month’s figures just above the ECB’s 2% target. The final manufacturing and services PMIs for the region will also be closely watched. While there is ordinarily not a big difference between the preliminary and the final numbers, this time may be different as key developments, including shifting tariff policies, occurred during the latter part of the survey window.

In the US, the week begins with the March job openings report. Despite signs of softer economic activity, the job market remains tight, with openings still outnumbering available workers, a

Weekly Key Indicators		
	Close	w-o-w
R/\$	R18.74	-0.4%
R/€	R21.32	-0.2%
R/£	R24.95	0.2%
\$/€	\$1.14	0.2%
Brent	\$66.13	-2.7%
Gold	\$3 326	0.7%
Platinum	\$978	2.0%
JSE ALSI	90 552	1.2%
10y gov. bond	10.68	23bps
FRA (1x4)*	7.48	-2bps
*Forward rate agreement		

trend that has kept the Fed focused on inflation risks. Key inflation data arrives on Wednesday with March's core PCE (the Fed's preferred measure), and Friday brings the all-important nonfarm payrolls report. Both are critical for gauging which side of the Fed's dual mandate, employment or price stability, deserves greater focus.

China will publish its official and private manufacturing PMIs for April. Both were in expansionary terrain in March. Markets will be watching to see whether the latest round of tariffs has started to affect factory activity.

Finally, both the Eurozone and the US will release Q1 GDP figures. While ECB officials have voiced concern about growth amid tariff pressures, US analysts note that a surge in imports ahead of new tariffs may have weighed on Q1 GDP. Growth concerns are reflected in both market sentiment and forecasts. Just this week, the IMF downgraded its global growth projections (see more below).

*Due to the upcoming public holidays, the next Weekly will be released on 9 May 2025.*

Date	Event	Latest
Tuesday (29 Apr)	DE: Gfk Consumer confidence (May)	-24.5
Tuesday (29 Apr)	EZ: Economic, Services, Industrial sentiment (Apr)	95.2; 2.4; -10.6
Tuesday (29 Apr)	EZ: Consumer confidence (Apr)	-14.5
Tuesday (29 Apr)	US: JOLTs Job openings (Mar)	7.57m
Wednesday (30 Apr)	CN: NBS & Caixin Manufacturing PMI (Apr)	50.5; 51.2
Wednesday (30 Apr)	DE: Retail sales (Mar); Unemployment rate (Apr)	4.9%; 6.3% y-o-y
Wednesday (30 Apr)	DE: GDP growth rate (Q1); CPI inflation (Prel, Apr)	-0.2% q-o-q; 2.2% y-o-y
Wednesday (30 Apr)	EZ, US: GDP growth rate (Q1)	0.2%; 2.4% q-o-q
Wednesday (30 Apr)	US: PCE Price index (Mar)	2.5% y-o-y
Thursday (1 May)	US: ISM Manufacturing PMI (Apr)	49
Friday (2 May)	EZ, DE: S&P Global PMI (final, Apr)	48.6; 48.3
Friday (2 May)	EZ: CPI inflation (flash, Apr), unemployment (Mar)	2.2%; 6.1% y-o-y
Friday (2 May)	US: Non-farm payrolls; Unemployment rate (Apr)	228k; 4.2% y-o-y

## WHAT'S NEXT FOR THE BUDGET?

Roy Havemann

### MINISTER CANCELS VAT HIKE, WHAT'S NEXT? TLDR: BUDGET 3.0 WITH LESS SPENDING LIKELY

On Thursday night / early Friday morning, National Treasury issued a **press statement** indicating that the proposed 1%pts increase in VAT over the next two years will not be implemented.

Essentially, the Minister had two issues. First, his powers to raise VAT by announcement relied on section 7(4) of the VAT Act. The ongoing court case regarding the constitutionality of this section has not been going well. Even if the court found in favour of the National Treasury, it would immediately go on appeal to the Constitutional Court, which would have taken weeks (and take it past the 1 May implementation date). If the Minister lost there, then potentially VAT would have to be repaid. The second problem was that even if he had won the case, the increase would still need to be voted through in the National Assembly. Action SA had indicated they would not support the increase in the National Assembly (despite voting in favour of the fiscal framework). This would leave a very small margin, and to get a majority would require the full support of all ANC MPs and almost all the small parties.

As we flagged in our note a few weeks ago, “**Budget 3.0?**”, this is not unexpected. In that note, we set out the consequences of the Minister tabling a budget without GNU backing and highlighted that a third budget was, in our view, likely.

Effectively, the Minister has withdrawn Budget 2.0. The National Treasury press statement noted: “The Minister of Finance has written to the Speaker of the National Assembly to indicate that he is *withdrawing the Appropriation Bill and the Division of Revenue Bill*, in order to propose expenditure adjustments to cover this shortfall in revenue. Parliament will be requested to adjust expenditure in a manner that ensures that the loss of revenue does not harm South Africa’s fiscal sustainability... The Minister of Finance expects to introduce a revised version of the Appropriation Bill and Division of Revenue Bill within the next few weeks.”

These two bills (together with the Revenue Laws Amendment Bill) make up the “Budget”. Withdrawing these Bills is equivalent to withdrawing the Budget. In terms of process, that means:

- The Treasury will effectively table a new Budget (Budget 3.0). We are waiting for Parliament to give a date.
- This does not pose any risks (other than reputational risks). In terms of the Public Finance Management Act, spending can continue at the same rate as in the previous year.
- Constitutionally, interest payments on debt are ringfenced outside of the Budget (they are “direct charges on the National Revenue Fund”) and continue to be paid indefinitely. There is absolutely no “shutdown” scenario, at least until MTBPS.
- The exact legal status of the fiscal framework is unclear; however, a new fiscal framework seems likely due to the changes in the economic environment and the revenue implications.

#### **WHAT IS LIKELY TO BE IN THAT BUDGET?**

Here, again, the press statement is helpful. It noted that “The decision not to increase VAT means that the measures to cushion lower income households against the potential negative impact of the rate increase now need to be withdrawn and other expenditure decisions revisited. To offset the unavoidable expenditure adjustments, any additional revenue collected by SARS may be considered for this purpose going forward.”

We read that to mean that the above inflation increase in social grants will be reduced (potentially to inflation only, and now at the much lower expected inflation rate). We expect the lack of drag relief on personal income tax to remain.

#### **WILL THE FISCAL POSITION BE BETTER OR WORSE THAN IN BUDGET 2.0?**

This depends on how much the Treasury can cut. Notably, many of the spending increases were tagged as “provisional”. Some of these could be delayed. However, the economic environment has changed, which has both positives and negatives. On the positive side, lower inflation means spending growth can be revised downwards in nominal terms. However, lower growth and lower inflation mean that revenue will also need to be revised. Budget 1.0 and 2.0 were based on 0.8% growth for 2024 (now confirmed at 0.6%) and 1.9% for 2025 (**we are, for example, now at 1.5%**). On balance, Budget 3.0 may well signal a (more credible) larger borrowing requirement. We will provide a (yet another) budget preview ahead of Budget 3.0.

## WHAT DOES THIS MEAN FOR THE GNU?

Every day brings mixed news reports about the likelihood of the DA exiting the GNU (by its own will or by being pushed out by the ANC). To be frank, whether the GNU holds is extremely hard to call, and we need to be mindful that even if it holds for now, it will continue to be tested in the coming years. In an exit scenario, a weak DA within the GNU could be worse for policymaking than a stronger DA in the opposition benches. Without the DA, a new GNU would have exactly 200 seats or 50% of Parliament, so matters who will take the DA's place, a scenario where the EFF or, more worryingly, MKP takes its place would result in a significantly more negative outcome compared to when smaller parties such as ActionSA and BOSA join the GNU. Although with ActionSA and BOSA included, the new GNU would have a very small majority, barely enough to pass major pieces of legislation (including the Budget).



The image is a promotional graphic for a BER conference. It features a dark blue background with a grid pattern. The BER logo is in the top left, followed by the text 'BUREAU for ECONOMIC RESEARCH'. The main title 'BER CONFERENCE' is in white, and the subtitle 'Navigating Change: The GNU and a Trumpian World Order' is in orange. The date and time '6 MAY 2025 - 8h30 - 15h30' and the location 'Balalaika Hotel, Sandton' are listed below. A vertical orange bar on the right side contains the text 'EVENT NOTICE'. At the bottom, there is a call to action in orange text: 'Reserve your seat today to avoid disappointment. BER Clients qualify for three (3) free seats. The conference fee is R1000 per person'.

## DOMESTIC SECTION

Nomvelo Moima

### CPI AND PPI INFLATION EDGE LOWER IN MARCH

According to Stats SA, headline **consumer inflation (CPI)** moderated to 2.7% y-o-y in March, after holding steady at 3.2% y-o-y in February. This was again lower than the consensus forecast (3%). As expected, lower fuel prices (-8.8% y-o-y in March from -3.6% in February) primarily drove the deceleration in headline CPI. However, the downside surprise came from softer growth in education fees, which are surveyed once a year in March (4.5% y-o-y from 6.4%). Food prices accelerated to 2.2% y-o-y in March from 1.9% in the prior month, driven by an uptick in cereals, meat, fish, fruit, and vegetable prices. This increase was partially offset by a slower rise in prices of non-alcoholic beverages, resulting in a modest easing of overall food and non-alcoholic beverage (FNAB) inflation to 2.7% from 2.8%. On a monthly basis, headline CPI rose by 0.4% in March, down from a 0.9% rise recorded in the prior month. Core inflation, which excludes food and energy costs, moderated to 3.1% y-o-y.

Headline **producer price inflation (PPI)** for final manufactured goods slowed to 0.5% y-o-y in March, down from 1% y-o-y in February. This decline was largely in line with expectations and marked a second consecutive month of easing factory-gate inflation. Food products were the largest contributor (up 4.1% y-o-y; +1.2% pts), while coke and petroleum products were the largest detractor (down 4.1% y-o-y; -0.9% pts) as lower petrol and diesel prices continue to exert

downward pressure on PPI inflation. On a monthly basis, PPI quickened to 0.6% in March from 0.4% in February.

#### **LEADING BUSINESS INDICATOR RETREATS IN FEBRUARY**

The SARB's **composite leading business cycle indicator** declined by 0.2% in February from a 1% gain in January. Seven out of 10 available components contributed negatively to the indicator, with the largest being decreases in approved residential building plans and a deceleration in the six-month smoothed growth rate in the number of new passenger vehicles sold. The only positive contributors to the composite indicator were an increase in the US-dollar denominated export commodity price index (buoyed by a record-high gold price) and a broadening of the interest rate spread.

## **INTERNATIONAL SECTION**

Katrien Smuts

#### **MIXED NEWS ON EUROZONE AND US FLASH PMIs in APRIL**

The HCOB Flash **Eurozone** PMI declined from 50.9 to 50.1 in April, reaching its lowest level in four months, though it remains in relatively stable territory. The manufacturing and services components moved in opposite directions. The manufacturing output edged up to 51.2, the best level in nearly three years. The services index fell to a five-month low of 49.7, down from 51 in March.

This divergence was also evident in the Eurozone's two largest economies. However, the overall weakness appears more pronounced in France. While Germany has announced an expansion of fiscal spending on defence and infrastructure, which is expected to support both manufacturing and services over time, France's fiscal position is more constrained, with concerns mounting over its fragile debt situation.

In the **US**, the moves were in similar directions. The services index dropped to 51.4 in April from 54.4 in March. New business inflows in the services sector saw the second-smallest gain in the past 11 months, with survey respondents pointing to concerns around the economic outlook and tariffs. In contrast, the manufacturing index edged up from 50.2 in March to 50.7 in April. Factory production returned to growth following a slight contraction in March, while new orders grew modestly. Longer delivery times—a typical signal of busier supply chains—were reported again, though slightly less so than in the previous month. The flash S&P Global Composite PMI Output Index declined from 53.5 in March to a 16-month low of 51.2 in April.

Of particular concern is the re-emergence of price pressures. The average prices charged for goods and services rose sharply in 13 months, driven by steep increases in both sectors. Manufacturing price inflation surged to a 29-month high, while the services sector also recorded a seven-month high in output price inflation, which may fuel inflation in the months ahead.

#### **ALL RED FOR FLASH UK PMIS**

The UK Services PMI Business Activity Index fell sharply from 52.5 to 48.9 in April, entering contractionary territory for the first time in over a year, driven by global economic uncertainty and subdued domestic demand. The Manufacturing PMI also continued its downward trend, reflecting weak economic conditions, particularly in key export markets. Employment cutbacks persisted across the manufacturing and services sectors, as firms responded to declining workloads and rising wage costs.

Business confidence deteriorated further, weighed down by increasing concerns over a domestic and global recession. Input cost inflation reached its highest level since February 2023, with firms citing higher employer contributions to national insurance and a rise in the National Living Wage as key drivers. As a result, the Composite PMI declined from 51.5 to 48.2, falling below the neutral 50-point mark for the first time since October 2023.

### IMF CUTS GLOBAL GROWTH FORECAST, WARNS OF LIMITED POLICY SPACE AMID TRADE TENSIONS

As expected, the IMF downgraded its global growth projections in the latest World Economic Outlook (WEO), citing increasing fragilities and constrained policy options. Notably, the US growth forecast was cut by 0.9% pts to 1.8%, while China’s forecast was lowered by 0.6 %pts. to 4.0%. Other significant downward revisions include the UK, Canada, and Mexico. Only Spain and Russia saw upward revisions to their 2025 projections among major economies. The latest outlook incorporates the effects of the ongoing global trade war (as per 14 April), which is beginning to expose underlying vulnerabilities despite a relatively resilient Q1 performance.

IMF WEO (April 2025)  
Real GDP, % change

	Projection		
	2024	2025	2026
<b>World output</b>	<b>3.3</b>	<b>2.8</b>	<b>3.0</b>
<b>Advanced economies</b>	<b>1.8</b>	<b>1.4</b>	<b>1.5</b>
United States	2.8	1.8	1.7
Eurozone	0.9	0.8	1.2
Germany	-0.2	0.0	0.9
United Kingdom	1.1	1.1	1.4
<b>Emerging countries</b>	<b>4.3</b>	<b>3.7</b>	<b>3.9</b>
China	5.0	4.0	4.0
India	6.5	6.2	6.3
Sub-Saharan Africa	4.0	3.8	4.2
Nigeria	3.4	3.0	2.7
South Africa	0.6	1.0	1.3

The IMF’s central message is that many countries have displayed remarkable resilience despite considerable shocks over the past four years. Labour markets have improved, unemployment and vacancy rates have declined, and widespread recessions have been avoided—even as inflation targets remain elusive in several economies.

However, signs of slowing global momentum were evident before the current trade tensions intensified. The concern now is that countries have far fewer fiscal and monetary tools to respond effectively. Monetary policy remains tight, limiting central banks’ ability to cushion new shocks without reigniting inflation. On the fiscal side, governments have spent heavily over the past five years, first to address the pandemic, then to shield consumers from soaring energy prices following Russia’s invasion of Ukraine. This has led to wider fiscal deficits, elevated public debt, and rising interest payments as a share of GDP. As such, the IMF stresses that there is limited policy space to counter further shocks. In fact, fiscal consolidation is now warranted in many countries to ensure long-term debt sustainability.

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