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# Make South Africa's budget dull again

Roy Havemann and Claire Bissek

Who would have thought that Barbara Streisand and the National Treasury would have anything in common, but after the aborted budget last week, the National Treasury briefly tried to ban the 2025 Budget Review. Within minutes, the document was on WhatsApp groups. It has been one of the most read budgets in years.

This is known as the Streisand effect - if you try to ban something, it only draws attention to it. (It relates to Streisand's attempt to ban an obscure picture of her home in 2003 which made it go viral.)

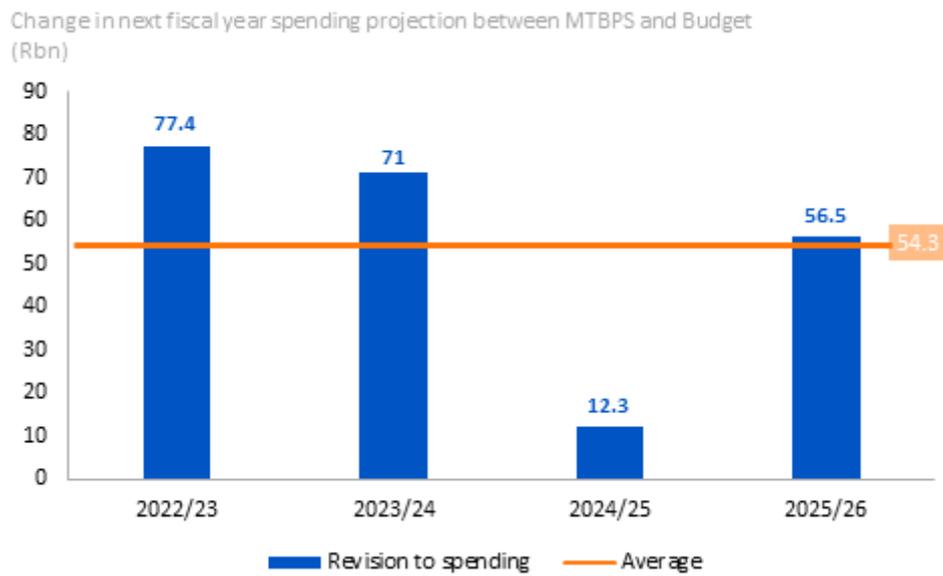
So, suddenly everyone has an opinion about the merits of tax increases versus expenditure cuts. More importantly, everyone now understands what R60bn is worth in real money. It's a 2%point increase in VAT.

The day of high drama may have been exciting politically, but the type of investors that South Africa wants to attract are the big pension funds that want to park their money in a dull, predictable country with decent growth prospects, not speculators that buy or sell bonds on cabinet leaks about the budget 48 hours before it is delivered.

So, how do we bring back the dull?

During the Trevor Manuel years, budgets were predictable and boring. But in recent years, the budget has become more and more surprising. On average R54.3bn is added to the budget between the October medium-term budget policy statement (MTBPS) and Budget day in February, just over three months later. This time, the upward revision was R56.5 billion, or 2%pt of VAT.

**Figure 1: The Budget always brings a spending surprise**



Source: BER Analysis

Note: Figures are main budget expenditure, 2023/24 Budget spending includes Eskom

The problem is that unexpected spending increases need unexpected tax changes; and unexpected spending cuts result in badly planned cuts to services. The consequences are distressed taxpayers, more potholes, and hospitals without doctors.

What was better in Manuel's day? Then the MTBPS was the real budget process, not a side-show. It set out the three-year budget agenda. At each new MTBPS, a new outer year was added. Since the first two years of the MTBPS are relatively pre-determined, the system is predictable in the short term, which is good since neither the markets nor taxpayers like nasty surprises.

Three-year budgeting also allows the finance minister to do big things, though they need to be flagged well in advance and phased in. Many of the solutions to South Africa's fiscal hole will require a few years to get through.

For instance, there are several state agencies that duplicate each other and state-owned enterprises (SOEs) that have outlived their usefulness. It is unclear, for instance, why the South African taxpayer still subsidises the arms manufacturer, Denel.

There are also fledgling processes underway to blend private and public funding. The renewable energy independent power projects (IPPs) are an example of how new models of infrastructure finance can crowd-in private sector finance with multiple benefits for growth and the fiscus. Setting realistic three-year targets for other infrastructure to be shifted into an IPP-type framework would open up considerable fiscal space.

In short, there are many ways to reduce government spending inefficiency. The Treasury has been conducting expenditure reviews and has excellent ideas on where savings can be achieved.

What hasn't happened is a sober, evidence-based discussion on what the country's medium-term expenditure priorities should be, and how the cuts can be implemented while protecting frontline services. Instead, in recent years, budgeting in South Africa has just been about borrowing more and more to match ever-higher spending demands. One canny politician described it as "pay-as-you-go budgeting".

In the end, the Treasury had little option but to turn to the big bazooka of a 2%pt VAT increase. The fact that this option has been rejected forces us to confront the fact that South Africa's growth is too low and spending too high given the size of the country's tax base. For South Africa to be returned to long-term fiscal sustainability, spending must be reduced to align with the level of economic activity. If we cannot grow much faster, we will have to spend much less.

The budget crisis has brought sharply into focus that:

- SA should return to the discipline of three-year budgeting
- The GNU must align its policy agenda to the country's limited fiscal resources
- The state must review expenditure with a view to closing non-performing programmes and entities, and excising waste and inefficiency
- Large savings may require dismantling costly bureaucratic architecture. This will take time, but SA needs to start now
- There is no substitute for economic growth, but this will require more ambitious and faster structural reform

The bungled budget has dented South Africa's fiscal credibility but is also an opportunity for the GNU to confront the hard policy trade-offs required to secure the country's long-term fiscal sustainability. It doesn't have to fix everything by March 12 when a new budget will be tabled, but it does have to make a credible start.

But above all, it must bring back the dull. Budgets are not supposed to be like the movies.

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## CONTACT US

**Tel:** +27 (21) 808 9755

**Email:** [royh@sun.ac.za](mailto:royh@sun.ac.za)

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