

Brief Budget 2025 preview

What are the key themes we looking out for on 19 February 2025

12 February 2025

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Overall, there were no major new announcements in the State of the Nation Address (SONA), which was largely budget-neutral

SOE's

- *“Over the coming year, we will initiate a second wave of reform to unleash more rapid and inclusive growth. Our immediate focus is to enable Eskom, Transnet and other state-owned enterprises...”*
- *“We are repositioning these entities to provide world-class infrastructure while enabling competition in operations, whether in electricity generation, freight rail or port terminals.”*
- *“This includes the work underway to put in place a new model to strengthen governance and oversight of public entities”*

- No hints of further bailouts in the SONA
- Governance and oversight model likely to be focus in Budget with any bailouts tied to very strict conditions

Infrastructure

- *“To achieve higher levels of economic growth we are undertaking massive investment in new infrastructure while upgrading and maintaining the infrastructure we have.”*
- *“Government will spend more than R940 billion on infrastructure over the next three years. This includes R375 billion in spending by state-owned companies.”*
- *“To date, the Infrastructure Fund has secured R23 billion for seven large water infrastructure projects.”*

- The R940bn infrastructure spend is not new, and aligns with previously published MTEF figures
- Further details on the R23bn for water projects needed - it could be part of the previously announced R160bn

Electricity

- *“The measures we have implemented through the Energy Action Plan have reduced the severity and frequency of load shedding, with more than 300 days without load shedding since March 2024.”*
- *“Over 13 billion US dollars have been pledged by the international community and significant private capital is being invested locally.”*
- *“We are determined to meet our carbon reduction commitments, and will do so at a pace and scale that our country can afford.”*

- Investment in the transmission network is still likely going to depend on mobilising private sector investment
- The Just Energy Transition largely being supported from international funding?

Municipalities

- *“Starting this year, we will work with our municipalities to establish professionally managed, ringfenced utilities for water and electricity services to ensure that there is adequate investment and maintenance.”*
- *“...undertake extensive consultation to develop an updated White Paper on Local Government to outline a modern and fit-for-purpose local government system.”*
- *“We will review the funding model for municipalities as many of them do not have a viable and sustainable revenue base.”*

- Lessons from eThekweni to minimise costs likely to be spoken about, for example, tailored local action plans and better coordination to maximise existing resources

Healthcare

- *“This year, we will proceed with the preparatory work for the establishment of the NHI.”*
- *“A number of hospitals are under construction or undergoing revitalisation.”*
- *“Our most immediate priority is to strengthen the health system and improve the quality of care.”*

- NHI is less of an expenditure risk given the apparent deal reached with the DA to allow private medical schemes to co-exist with NHI
- Most of the work going ahead = digital health records and service provider accreditation

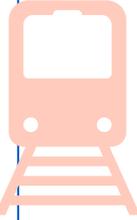
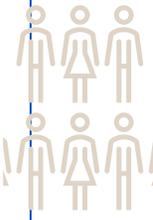
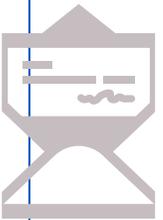
Social welfare

- *“More than 28 million unemployed and vulnerable people receive social grants.”*
- *“The Social Relief of Distress Grant is an essential mechanism for alleviating extreme poverty.”*
- *“We will use this grant as a basis for the introduction of a sustainable form of income support for unemployed people.”*

- We have long been saying that the SRD grant would likely form the foundation of permanent basic income support, however, it does still need a permanent revenue stream to fund it

Expenditure in 24/25 likely to come in below NT estimate owing to lower debt-service costs

What are we looking out for in terms of expenditure?

 <h3>Transnet</h3> <ul style="list-style-type: none">• Treasury has been resolute about not providing an equity injection, but it has restructured its budget facility for infrastructure (BFI), which makes cash available to fund specific infrastructure projects under tight conditions, which often require co-funding from the private sector.• Question is whether Treasury will 'budge' from its tough love approach to provide more direct fiscal support to Transnet	 <h3>Social Relief of Distress (SRD) grant</h3> <ul style="list-style-type: none">• Pretoria High Court has declared some Social Relief of Distress (SRD) grant regulations unconstitutional• Social Development Department has announced its intention to appeal the judgment• A note on the social grant system was promised post-Budget, so we expect this to be kicked down the road	 <h3>Basic Income Grant (BIG)</h3> <ul style="list-style-type: none">• A leaked ANC January 2025 Lekgotla document confirms support for a 2025 BIG rollout, using the SRD to phase it in• Funding options: "new progressive tax measures, including a social security tax" and "maximising fiscal space by effectively utilising existing resources"
 <h3>Public sector wage deal</h3> <ul style="list-style-type: none">• Latest offer at 5.5% for 2025/26 (this is above budget) accepted by some unions• Probably too late to bake into the latest fiscal numbers although some upward adjustment to budgeted figures would be prudent	 <h3>National Health Insurance (NHI)</h3> <ul style="list-style-type: none">• Medium-term development plan removed reference to the NHI – but there was never funding for the NHI in the budget in the first place• A toned down NHI would present less of a risk over the medium term	

Expenditure in 24/25 likely to come in below NT estimate owing to lower debt-service costs (continued)

What are we looking out for in terms of expenditure?



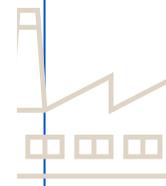
Eskom

- NT is likely to transfer R64bn worth of cash to Eskom by the end of the fiscal year
- NT has indicated that only R40bn of next year's R110bn debt relief will be in the form of a cash transfer, which Eskom is likely to use to redeem a bond that matures in April 2026 (R70bn balance will have the option to switch their Eskom bonds for SAGBs, only due when matures)
- Investment towards transmission will be key



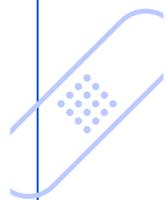
Defense budget

- Overstretched SANDF is carrying out deployments in the Democratic Republic of Congo, Mozambique, internally and on SA's borders
- Speculation about increasing to 1.5% of GDP (currently 0.7% of GDP, vs the international norm of 2% of GDP)



Possible ArcelorMittal SA (Amsa) deal/support

- It is in discussions with the government on the future of the longs business with an announcement expected in the second half of February
- Likely not in time for Budget



Replacement for foreign aid received from US

- Despite US President Donald Trump's cutting aid to SA, PEPFAR - the only aid SA receives from the US - is set to continue indefinitely after a waiver issued by US Secretary of State Marco Rubio ([click here for more](#))
- Therefore, no fiscal implications, for now



G20

- The 2025 fiscal framework will include provisional allocations for selected departments (for example, policing and communication)
- Treasury has asked departments and institutions involved to try to fund activities by reprioritising within their current budgets

Despite revenue running behind because of sluggish corporate tax receipts, we still expect revenue to exceed NT's 2024/25 projections, led by a tax windfall from two-pot pension fund withdrawals and improved VAT collections

What are we looking out for in terms of revenue?

Two-pot pension fund withdrawals windfall

- Windfall R11-12bn in PIT (budgeted for about R5bn) according to Kieswetter
- Sars had the first right to receive tax or to collect any outstanding debt with R1bn worth of outstanding debt had been collected by 31 January
- Sars received 2.6m applications for tax directives, which told retirement funds how much tax to withhold, and issued just short of 2.4m such directives
- R43bn has been withdrawn from retirement funds by 31 January
- Side note on the R43bn that has helped current expenditure: If people were buying disposable goods, they were paying VAT on that, or sin taxes

Proposed excise tax changes

- "The Taxation of Alcoholic Beverages" proposal could be implemented following Budget 2025 (to do with minimum unit pricing and timing of excise adjustment)
- South Africa Wine submitted a "comprehensive response" to NT and warns of job losses, reduced investment and "irreversible damage to rural economies"
- Could significantly impact the sustainability of the wine sector
- Proposed 72% weighted average increase in excise rate
- 80% of SA wines would face the highest tax band
- Already operating above global competitor tax rates
- Could also present an upside to the inflation forecast if implemented

Lower borrowing requirement

- Better-than-expected revenue collections
- NT suggests that 'government will take over a maximum of R70bn of Eskom's debt by switching selected debt instruments into government debt'
- Implies NT will not need to fund R70bn of next year's R110bn Eskom debt relief during 2025/26, but rather only in the year in which the SAGBs that are issued during these switches ultimately mature, effectively reducing NT's borrowing estimates

GFECRA

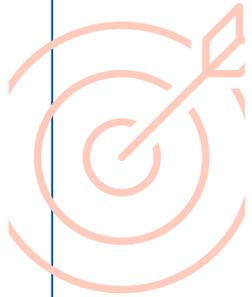
- This year's GFECRA disbursements have already taken place
- Next year's Gold and Foreign Exchange Contingency Reserve Account (GFECRA) drawdowns are likely to be significantly smaller

Taxes

- No changes to VAT, personal or corporate tax rates are expected, but after no inflation adjustments for personal income tax brackets and medical tax credits were made in 2024, some adjustments are possible this year to provide relief

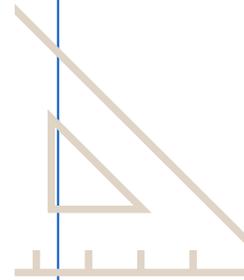
What else are we looking for?

We are not expecting any major announcements (akin to the 2024 Budget's GFECRA) in 2025



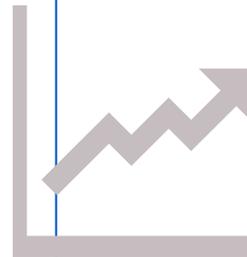
SARB inflation target

- The SARB and Treasury are discussing lowering the SARB's inflation target (currently 4.5%, which is at the midpoint of the 3-6% range).
- While it is possible that the Budget documentation may refer to this, we do not (yet) expect a formal announcement that the target will be changed.



Fiscal rule

- No introduction of a formal anchor is expected – although we believe it could help with fiscal sustainability and fiscal credibility ([click here for an Impumelelo Research Note](#))
- Minister in the presidency for planning, monitoring & evaluation Maropene Ramokgopa essentially ruled it out, as cabinet thought it “will create challenges as it relates to how the Treasury actually implements what they need to do given the environment that we operate in”
- The MTBPS signalled that proposals are under consideration for a more permanent anchor to ensure debt sustainability is embedded in the budget process, with a discussion document outlining the options to be published by the end of March 2025 (i.e., after the 2025 Budget).



Macro forecasts

- Treasury's real GDP forecast for 2024 (1.1%) is likely to be downwardly revised in line with changes in the consensus view since the MTBPS
- The question is whether Treasury will reconsider its medium-term outlook (1.8% growth on average for 2025-2026)
- It will be interesting to see if the Treasury does any scenario modelling around the 3% growth target announced by Ramaphosa in his SONA

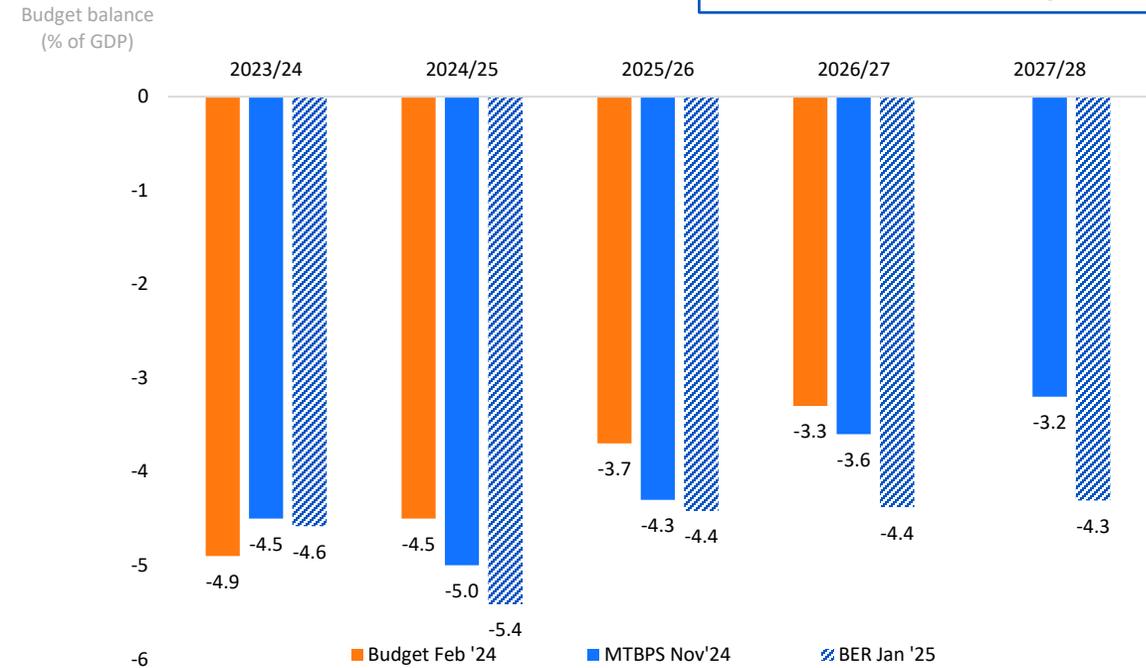
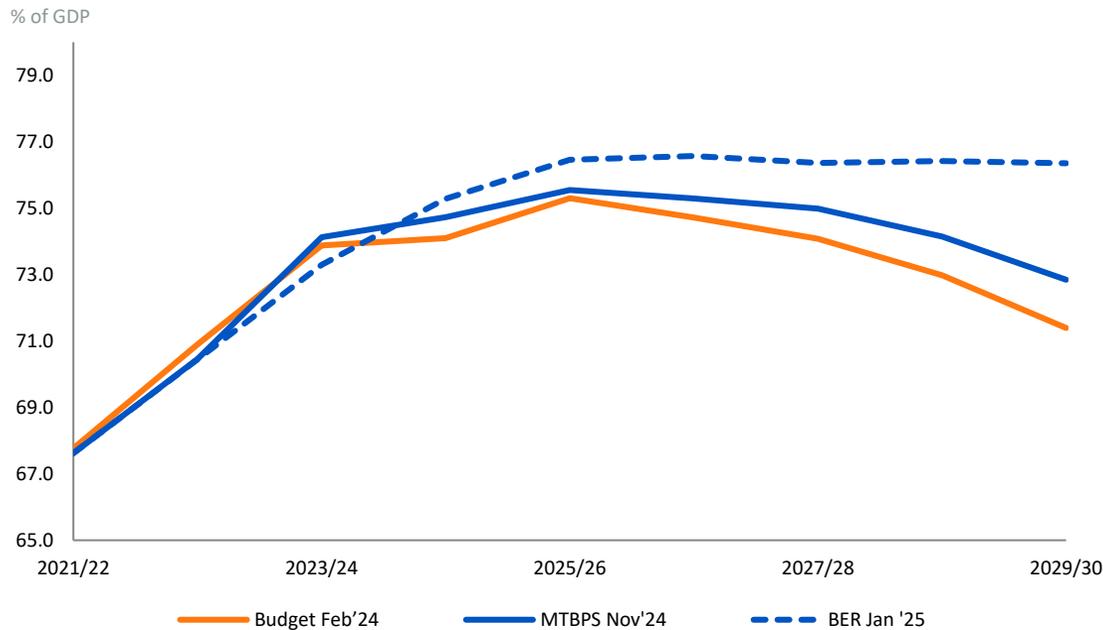
Comparison of National Treasury, SARB and BER outlook

	NT MTBPS Nov'24 (Budget'24 in brackets)				SARB Jan'25 MPC				BER Jan'25			
	2025	2026	2027	Average	2025	2026	2027	Average	2025	2026	2027	Average
Real GDP growth	1.7 (1.6)	1.7 (1.8)	1.9	1.8	1.8	1.8	2.0	1.9	2.0	2.1	1.9	2.0
Nominal GDP growth	6.8 (6.2)	6.4 (6.4)	6.5	6.6					7.1	6.1	5.6	6.3
CPI inflation	4.4 (4.6)	4.5 (4.6)	4.5	4.5	3.9	4.6	4.4	4.3	4.2	4.3	4.3	4.3
Current account (% of GDP)	-2.1 (-3.0)	-2.2 (-3.0)	-2.5	-2.3	-1.9	-2.6	-2.7	-2.7	-1.8	-2.5	-3.4	-2.6

NT's longer-term growth forecast would be a significant indicator for reform "buy-in"

Implies shrinking tax base, keeping an eye on NT's tax buoyancy assumptions

Will be interesting to see if NT inflation forecast hints towards a target change



Source: National Treasury, SARB, Stats SA, BER

THANK YOU.

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