South Africa Budget Preview: February 2025

Details:

Finance Minister Enoch Godongwana will deliver his 2025 Budget Speech before the National Assembly on Wednesday, February 19, at 12:00GMT/14:00SAST. The speech will be broadcast live on Parliament TV as well as Parliament's website and social media platforms.

MNI Point of View: Little Room For Manoeuvre

Fiscal consolidation is expected to be the main theme of this week's Budget Speech 2025, with markets looking ahead to the way in which Finance Minister Enoch Godongwana performs his difficult balancing act this time around. Cyclically resurfacing tensions within the Government of National Unity (GNU) suggest that the coalition's honeymoon period is over and despite tentative political stability, any major reforms may generate renewed frictions. Against this backdrop, the Finance Minister seeks to continue his efforts towards fiscal consolidation and stable public finances.

Over the weekend, the Sunday Times reported that the government plans to "squeeze more out of taxpayers to fund a projected ZAR300 billion shortfall." According to the report, Godongwana was considering VAT, fuel levy and sin tax hikes, alongside increases in personal-income and corporate-income taxes, with rumours of a potential introduction of a wealth tax also doing the rounds. Meanwhile, it may be politically challenging to implement any significant tax increases amid an immediate pushback from the African National Congress's (ANC's) partners from the Democratic Alliance (DA) and Congress of South African Trade Unions (COSATU).

Another way to signal a credible commitment to fiscal consolidation would be through reductions in public spending, but the Finance Minister faces severe constraints on this front too. Ailing state-owned enterprises Transnet and Eskom continue to rely on short-term relief measures, the government has just approved an increased public-sector pay rise offer, while an escalating geopolitical crisis in the Democratic Republic of the Congo (DRC) inspires calls for a boost to South Africa defence budget.

Investors will also look for more details on several key policy measures that have been put to discussion withing government circles. First, the National Treasury has been mulling the implementation of a fiscal rule, which would increase the credibility of its attempts to stabilise public finances. However, Minister in the Presidency Maropene Ramokgopa recently revealed that the government decided against introducing a fiscal anchor, despite debating the idea internally. Second, the Treasury has been in talks with the South African Reserve Bank (SARB) over a revamp of the inflation target. However, a recent Bloomberg survey showed that most investors and analysts expect the changes to be delayed until next year, when the target could be narrowed and lowered to +3.0% Y/Y.

Overall, the main challenge before Godongwana will be to convince investors and market participants that the GNU is capable of and committed to delivering fiscal consolidation and implementing structural reforms that will unlock South Africa's growth potential. This will constitute a difficult balancing act, as low-growth environment and political constraints on tax hikes and austerity measures limit Godongwana's room for manoeuvre.

Sell-Side Views

Bureau for Economic Research: No Major Surprises

- They note that President Cyril Ramaphosa's State of the Nation Address (SONA) did not signal any major new policy announcements, suggesting the minister will likely maintain his focus on fiscal discipline. As a result, they do not expect any major surprises in the Budget.

Goldman Sachs: Finance Minister To Confirm On-Track Fiscal Consolidation

- In their view, Minister Godongwana is likely to emphasise an on-track fiscal consolidation in his annual budget speech, maintaining deficit and debt projections roughly unchanged relative to the 2024 MTBPS. They expect a rising primary surplus over the forecast horizon that stabilises public debt at 75% of GDP in FY2025/26 and gradually reduced debt over time. They do not anticipate major new initiatives or policy announcements, but see scope for some smaller, targeted measures relating to SOEs that are generally growth-supportive and in their view likely to be received positively by the market.
- Revenue data in the last several months have in their assessment somewhat disappointed MTBPS projections (and Goldman's expectations), implying a shortfall of some ZAR2-9bn or up to 0.1pp of GDP for the full fiscal year; however, they expect this to be offset by a commensurate level of underspending, leaving nominal deficit targets intact. The deficit ratio to GDP could nonetheless widen slightly in the current fiscal year on account of weaker nominal GDP dynamics (mainly given the surprise contraction recorded in Q3 2024). However, they do not anticipate that this will have a major effect on the overall fiscal trajectory.

Investec: Budget Expected To Be Near MTBPS Projections

- They write that the Budget on February 19 is expected to see similar fiscal ratio projections to 2024's Medium Term Budget Policy Statement (MTBPS), where gross loan debt was revised up, both for the current fiscal year, and over the projection period, with the same case for the budget deficit.
- The fiscal slippage has become a general trend in South Africa, as in most cases the fiscal metrics deteriorate, with only very occasional cases of improved outlooks, as occurred when savings in the GFECRA account were earmarked last year.
- Turning to inflation targeting, in the MTBPS, National Treasury stated more work needs to be done in this regard, and some update is expected in the Budget later this month.
- Overall, for the Budget, state finances are not strong, and this weakness, combined with better-than-expected inflation but lower than expected GDP outcomes, means further fiscal slippage remains a risk.

JP Morgan: Key Challenge For Budget Is Fiscal Consolidation

- Softer corporate revenue and a somewhat higher wage bill risk fiscal slippage in FY25/26, but JP Morgan expect incremental tax measures and savings from under-spending to pare back the fiscal impact. They therefore retain their projection for a 4.5% deficit in FY25/26 versus the 4.3% MTBPS target (from a likely 4.8% in FY24/25). They expect the revenue target to be trimmed by R12bn as incremental tax measures mitigate the impact; a lack of policy response could see a bigger miss over the course of the year. They see expenditure marginally increased by R8.8bn, in part for the wage bill.
- They think the significant fiscal risks from a potential Transnet package, SRD grant increase and NHI are not likely to materialise in this budget. Key to this call are the tentative (not explicit) provisions already made in the MTBPS for the Budget Facility for Infrastructure and the overall social protection budget. However, unless a reform of the social protection programme gets underway now, a looming increase in number of qualifying SRD recipients (following a recent high court judgement) may cost a further R11bn (0.15%pts of GDP) by year-end.
- They expect discussions on an integrated social protection programme (incorporating labour market initiatives, BIG), a procedural fiscal anchor, and inflation target change to begin from next month with no firm announcements in the Budget. The consultation phase might continue through to next year.

Nedbank: Better Revenue Growth Reduces Budget Shortfall in FY2024/25

- Nedbank write that the National Treasury will likely reduce its 2024 forecast for real GDP growth to reflect the impact of the sharp contraction in agriculture in Q3. The outlook appears more encouraging as the economy benefits from favourable weather, steadier electricity supply, subdued inflation, modestly lower interest rates, and reasonable global demand. However, downside risks to domestic growth are still elevated primarily due to the looming threat of an escalating trade war between the US and its trading partners. We forecast real GDP growth to average +1.6% Y/Y a year between 2025 and 2027, which aligns with Treasury's +1.8% Y/Y forecast in the 2024 Medium-Term Budget Policy Statement (MTBPS).

- Gross tax collections for fiscal year (FY) 2024/25 will slightly exceed the MTBPS estimate but remain below the 2024 Budget projection by more than R20 billion. Personal taxes have increased sharply, boosted by the two-pot retirement fund withdrawals. At the same time, company taxes will likely beat October's projections. However, VAT growth will probably fall short of the MTBPS's estimate, contained by the faster-than-expected deceleration in inflation. Over the next three years, faster economic growth and rebounding tax buoyancy will boost tax collections but will still be well below the trajectory set out in February 2024.
- Non-interest expenditure rose by less than 3% in the first nine months of FY2024/25, running well below last year's Budget and MTBPS targets. Debt service costs increased less than projected, while Treasury seems to have absorbed the higher wage bill within the original allocations. Although encouraging, the higher-than-budgeted public sector wage settlement will exert upward pressure on expenditure over the Medium-Term Expenditure Framework (MTEF-2025/26 to 2027/28).
- They expect the consolidated budget deficit to narrow slightly to 4.4% of GDP in FY2024/25 from 4.5% in FY2023/24, beating the 5% reflected in MTBPS. The deficit will narrow over the MTEF, driven by stronger revenue growth as nominal GDP increases. The primary surplus will increase over the period. The public debt ratio will rise over the next two fiscal years before slowly starting to ease.
- They expect some clarity on the review of the inflation target and believe that a fiscal rule will not be announced.
- Overall, they think that this year's budget will likely reflect continued progress towards fiscal consolidation and reiterate the government's commitment to structural reforms.