



STATEMENT

Post-Budget statement Budget 2.0: An opportunity for Parliament to work towards a pro-poor budget

13 March 2025

This year's "National Budget 2.0" signals a shift in fiscal policy, as the National Treasury has been forced to finally confront the fact that spending cuts do not produce growth. While an end to cuts is long overdue, the budget nevertheless fails to reverse years of damage done by austerity, and to meaningfully combat the economic and social challenges South Africa is confronted with.

Small expenditure increases, while welcome, are not enough. They leave per capita non-interest government expenditure well below pre-Covid-19 levels, while proposed tax reforms disproportionately hit the poor and middle classes. This is all underpinned by a fiscal strategy that prioritises debt stabilisation and maintains a primary budget surplus at the expense of investment in public services and public employment programmes, alongside an increased reliance on private sector finance for infrastructure development.

Unfortunately, this timid approach has been adopted despite the Minister having [publicly admitted](#) that fiscal consolidation has failed to reduce the debt-GDP-ratio and spur growth. This welcome admission of a need for a shift away from an austerity paradigm is not adequately reflected in the budget.

The legislature now has an opportunity to propose and debate amendments that reorientate our fiscal policy towards job creation, wealth redistribution, and inclusive growth. It appears that Parliament is poised to engage with the National Budget more robustly, and possibly propose

amendments for the first time in the democratic era, a positive development. However, it is concerning that some parties in the coalition government have voiced support for spending cuts as being preferable to any new taxation. That would be a dangerous and destructive course of action, deepening our crises of hunger and stagnation.

Revenue and the VAT increase

The National Treasury has persisted with the controversial and ill-advised VAT increase, although at a lower level than initially proposed, and has now proposed two 0.5 percentage point increases over the next two fiscal years. When considered together with social grant allocations, it is unclear whether the 0.5 percentage point VAT increase is less harmful to poor households than the initially proposed 2 percentage point increase. This is because, while the VAT increase is lower, the allocation to social grants – which is the primary source of income for many poor households – over the medium term is also lower by R15 billion compared to the untabled budget.

In addition, the lower increase in the VAT rate is partially compensated for by across-the-board freezes in personal income tax (PIT) brackets. While these PIT brackets have, in the past, been over-adjusted for inflation, the move to freeze all brackets is a very untargeted approach and means individuals in lower-income tax bands will also face higher taxation. This, together with the VAT increase, unduly places the burden on poor and lower-income households. An equitable approach should freeze higher income brackets, ensuring that low-income households are protected from the high cost of living.

In an interview following the tabling of the budget, the Minister [admitted](#) that “we [National Treasury] have been [giving] budget cuts for a number of years and they’ve not achieved the desired outcome. We’ve not achieved fiscal consolidation. Instead, the budget cuts have had an increase in debt-to-GDP ratios. So we have taken a different strategy this time, and that strategy is to go over to the revenue side of the equation and increase revenue...”

It is welcome that the Minister is now acknowledging what we have been arguing for several years - that austerity doesn’t work. The Institute for Economic Justice (IEJ) and many of its partners have [shown](#) that budget cuts are self-defeating. The policy shift is welcome, however, a narrow focus on a regressive VAT increase undermines the shift away from austerity, and is anti-poor. To promote growth, increases in developmental expenditure, have to be combined with a progressive revenue strategy that increases real disposable income in the hands of the majority. The IEJ remains opposed to increasing VAT and believes that if the Minister is serious about a shift to the revenue side, then these funds should be raised from measures that do not raid the pockets of the poor and middle classes.

Potential sources of revenue, some of which can be implemented in the short term as an alternative to the VAT increases, include:

- Raising the Corporate Income Tax rate back to 28% as the previous reduction to 27% failed to attract investment. The CIT rate has declined from nearly 50% in 1993 to 27% today.
- Removing tax breaks for high-income earners (those earning above R750 000 per year), such as those linked to pensions or medical aid contributions.
- Scrapping ineffective corporate tax breaks, such as the employment tax incentives.
- More effectively taxing wealth and income from owning wealth, for instance through greater inheritance taxation, taxing financial transactions, and planning for a net wealth tax.
- Tapping into the Gold and Foreign Exchange Reserve Account (GFECRA) which still has over R300 billion available to the government.

The fiscal strategy and proposal for a new fiscal anchor

The fiscal strategy set out in the budget is part of the reason that the government is struggling to achieve growth. Successive budget cuts since 2012 have contributed to the increase in debt-to-GDP and low growth. Prioritising a primary budget surplus - where revenue exceeds non-interest spending - limits the government's ability to advance socio-economic rights. Regrettably, this appears likely to be cemented through a fiscal anchor, representing an ongoing intention to limit spending, despite South Africa's multiple challenges. The IEJ has already published a [discussion paper](#) arguing that the role of fiscal rules in addressing debt sustainability should not be overstated. The Minister also expressed doubt about their efficacy stating that there has been no thorough assessment of fiscal rules' impact on inequality and political stability. The IEJ is looking forward to contributing to upcoming discussions to be held by the National Treasury on this issue. Our departure point is that the approach adopted to debt reduction needs to be rethought so that the budget can be used to directly stimulate employment and support public employment, investment, and social services.

With this in mind, tackling the high cost of South Africa's debt is critical. The IEJ has presented a comprehensive [policy toolkit](#) that could be implemented over time to reduce debt service costs. These include the prudent use of capital management techniques such as capital controls to stabilise short-term, speculative capital flows and provide room to reduce interest rates; capital allocation tools such as regulated lending by banks to steer credit to productive sectors of the economy at affordable rates, including through Reserve Bank lending; central bank intervention in the primary market to purchase government bonds; and using prescribed assets to make large pools of capital available at affordable rates.

Decelerating austerity, but austerity remains for key social priorities

Small expenditure increases proposed in the tabled Budget amount to a deceleration of the pace and severity of austerity, in line with arguments advanced by the IEJ and civil society over the last decade, but falls far short of the required sea-change in fiscal policy that is required. Main budget non-interest government spending grows by only 0.85% on average over the

medium term compared to 0.88% proposed in the withdrawn February budget. While this is slightly below what was proposed in the withdrawn budget, it still marks a departure from expenditure cuts implemented in previous years.

Spending towards health and education has grown, but this is still below the required levels to reverse austerity measures that have been adopted since 2012. Healthcare expenditure is proposed to increase by 1.06% over the medium term (in 2019/20 rands) while education increases by 1.42% to support Early Childhood Development (ECD) and headcount shortfalls. This means that the government will spend R3 811.62 per healthcare user in 2025/26 compared to R3 723.78 in 2024/25. This is still R469.11 below pre-Covid-19 levels. Similarly spending per learner increases by R419 between 2024/25 and 2025/26 but is still R657 below 2019/20.

Supporting livelihoods: Social grants and the SRD

The Minister of Finance over the weekend [attempted](#) to justify the VAT hike as being necessary to continue the SRD grant. Having faced backlash—with civil society pointing out that this was a false dichotomy and a ploy to gain political leverage—he tried to walk this back in the budget speech. But we are now presented with the worst of both worlds, VAT is still increased, while funding for the SRD grant is frozen at R370 p/m in 2025, and is not provided for from 2026. A double gut-punch to food insecure households.

Other social grants receive marginal above-inflation increases which, while a step in the right direction, in no way address the erosion of their value over successive budgets. The Child Support Grant at R560 remains well below the food poverty line (R796), and the cost of feeding a child a basic nutritious diet [according to](#) the Pietermaritzburg Economic Justice and Dignity Group (PMBEJD) (R951). Coupled with the VAT increase which will drive up the cost of living further (despite the zero-rating of certain food items), these social grant increases cannot be said to be cushioning the poor, let alone helping them to improve their circumstances. The PMBEJD calculates that with the impact of the VAT increase if Parliament accepts it, there will be no real increase in the value of the social grants. This is another reason why the proposed VAT increase must be rejected.

The life-saving SRD grant has once again been left hanging, with no funding after 2026. Over the coming year its value remains stagnant at R370 (R426 below the food poverty line), and no allocation has been made to expand access to the 10 million eligible people who are currently not receiving the grant. This is in defiance of the Gauteng High Court ruling that a failure to improve the grant's value and coverage amounts to an unconstitutional retrogression in the right to social assistance. Arguments put forward that the allocation to the SRD grant should be redirected to employment programmes ignore its wide reach, and impact on alleviating hunger (but also ignores the fact that the Presidential Employment Stimulus has also been underfunded). The grant supports over 8 million beneficiaries and indirectly benefits 16 million people. While job creation is important, the challenge facing those outside the labour market,

and the unemployed needs to be urgently addressed, and cannot wait for some distant promise of employment. The reality is that the vast majority (over 85%) of the unemployed are long-term unemployed, with virtually no prospect of finding a job in the short term.

Gender Responsive Budgeting

Following years of advocacy, the budget also tabled a gender budget statement. This represents a step forward in thinking about how the budget impacts gender inequality. The gender budget statement, however, can be improved by an interrogation of the impacts of the current fiscal strategy on women's rights. The gender budget statement cannot be reduced to an exercise of identifying women's empowerment that is isolated from understanding how their failure to resource public services, and increasing VAT, disproportionately harms female-headed households. It must reflect on the increasing burden that is placed on women to perform unpaid care work while public services are inadequate, as well as emphasising the need to adequately resource the full range of care policies in South Africa.

Job creation and public employment programmes

The allocation for public employment programmes over the medium term shows improvement compared to previous years with an average real growth of 3.03% over the medium term. Whereas in the preceding period, 2021/22 - 2024/25, it fell by an average -2.6%. However, the ground-breaking Presidential Employment Stimulus is allocated only R4.3 billion, far below its initial phase which was allocated R12.6 billion in 2020/21. Slight improvements in spending in public employment programmes are welcome but the context of unemployment in South Africa means these efforts must be rapidly and significantly upscaled. The PES in particular supported local economies and provided over [1.5 million](#) work opportunities to young people. It is unacceptable that public employment programmes are still less than 1% of consolidated government spending.

Public-private partnerships in SOEs and infrastructure development

The extent to which the government is set to scale up public infrastructure has been wildly overstated by the media, the Minister of Finance, and the President. Over the previous period, 2021/22 to 2024/25, average growth in public-sector infrastructure was 12.73%. By comparison, over the medium term 2025/26 - 2027/28, the average is only 4.88%. Leveraging additional funds through public-private partnerships has been proposed as part of the solution to still scale up public sector infrastructure in the face of woefully insufficient public investment. Public-private partnerships are particularly worrisome when it comes to the provision of essential services such as water and sanitation. The financing framework for PPPs typically involves partial or full cost recovery. Therefore in effect, essential services would be provided only to those who can afford them.

The budget makes an additional strong push to increase private sector ‘de-risking’. The government’s commitment to purchase renewable energy from independent power producers (IPPs) is one such example. This programme has exposed the government to debt worth R229.5 billion (in the form of ‘contingent liabilities’). Despite this large state exposure (equivalent to spending on social development in 2027/28), IPPs still play an extremely small role (less than 10% of electricity consumed) in the provision of power. Moreover, while the state shoulders a great deal of the risk arising from the operations of these IPPs, the financial benefits only accrue to the producers. The insistence on private sector profit-making off the provision of public goods is ideologically driven and ignores international [evidence](#) on the failures of PPPs.

While much attention has been drawn to the operational failures of major state-owned enterprises like Eskom and Transnet, national development finance institutions (DFIs) have been a quiet success in the background and DFI funding should be rapidly scaled up. The Development Bank of South Africa (DBSA), Industrial Development Corporation (IDC), and the Land Bank (which recently underwent rescue/recapitalisation) all saw profitable years while extending funding to strategic sectors. Yet, their relatively small balance sheet (compared with commercial banks), the cost of market borrowing, and their bias towards more established sectors of the economy, all mean their potential to promote industrial development and diversification, and economic growth remains stunted. The IEJ’s recent [work](#) on the potential of DFIs to finance the climate transition shows that ‘assertive fiscal policy’ can play a key role here. This can include carbon pricing and mineral royalties, whose revenue could be transferred to these DFIs, allowing them to grow their expertise and accelerate a nationally owned just energy transition.

Looking ahead

For the first time in South Africa’s democratic dispensation, Parliament is likely to use its powers to amend the proposed budget. The amendments proposed should be driven by evidence-based analysis taking into account the short, medium, and long-term implications of the proposed fiscal framework, division of revenue, National Budget, and the “long-term growth potential of the economy and the development of the country” as is set out in [Section 8\(5\)\(e\)](#) of the Money Bills Amendment Procedure and Related Matters Act 9 of 2009.

A minimum set of essential proposals that should be tabled include the removal of the VAT increase, the increase of the CIT rate to 28%, the removal of retirement fund tax credits for those earning above R1 million, and an increased allocation to the SRD grant. More broadly, the fiscal framework should be rethought in line with efforts to tackle unemployment, stimulate demand, and expand supply in the economy, while proposals tabled for mobilisation of domestic resources should go far beyond considering narrow revenue options presented by Treasury, namely VAT PIT and CIT together with their real, and supposed limitations.

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