INSTITUTE FOR ECONOMIC JUSTICE
RESEARCH POLICY ADVOCACY

STATEMENT

Budget 3.0: Taking one step forward and two steps back

22 May 2025

The unprecedented contestation around this year's budget provided a historic opportunity for meaningful alternatives to be advanced. It is deeply disappointing, then, that despite being presented over the past two months with serious, sound, and costed proposals, Budget 3.0 sees a reversal of the modest gains put forward in the two rejected budgets. This ignores commitments by political parties and calls by civil society organisations for a break with harmful cuts that undermine growth and livelihoods. If these expenditure increases were deemed necessary in February, they are certainly just as urgent in May.

The Minister of Finance is adamant that Budget 3.0 is not an "austerity budget". But the numbers tell a different story. Between Budget 2.0 and Budget 3.0, National Treasury claws back R52.5 billion from additions to planned non-interest spending. Moreover, when we account for the effect of inflation, main budget non-interest spending now declines by -0.3% and -0.2% in 2026/27 and 2027/28. Many of these cuts are concentrated on the very frontline services the government has promised to protect and bolster. In the context of a growing population, this means hospitals and clinics will have fewer beds available, while on average, a public school teacher will have to cope with even more overcrowded classrooms.

This makes the Minister's quoting from a letter penned by a UCT medical student so much more harrowing. For just like the patients in the student's story, who are left to die due to the lack of basic medical supplies, this budget leaves the economy ailing, with no prospect of surgery or repair in sight. This cannot continue. If Parliament is to accept this regression, then the political parties that committed to reversing austerity would have betrayed their promises.

The damage caused by a failure to consider alternative revenue-raising measures following the repeal of the VAT hike are shown in the Table below. A snapshot of the two withdrawn budgets, and Budget 3.0 shows a gradual reduction in additional allocations over the next three years.

Selected spending increases to 2024 Budget projections, compared across 2025 Budgets

	Budget 1.0	**Budget 2.0**	**Budget 3.0**
Non-interest spending increase	R173.3 billion	R142 billion	R74.4 billion
Frontline services (education, health, defence) increase	R75.6 billion	R70.7 billion	R41.3 billion
Social grant increases	R23.3 billion	R8.2 billion	R1.59 billion
Infrastructure projects increase	R46.68 billion	R46.68 billion	R33.73 billion
Reductions to provisional allocations	-R66.7 billion	-R66.7 billion	-R81.8 billion

- **Social grant above-inflation increases**: Budget 1.0 provided for above-inflation increases to social grants of R23.2 billion in the medium term. However, Budget 2.0 massively reduced the allocation from R23.2 billion to R8.2 billion (a 65% reduction). Budget 3.0 has proposed further reductions from R8.2 billion to R1.6 billion (an 80% reduction), and there is no above-inflation increase in 2026/27 and 2027/2028. In the weeks leading up to this budget speech, it was revealed that the National Treasury is forcing SASSA to implement measures found to be unconstitutional by the High Court, which are designed to exclude people from social grants, including the child support grant and the older persons grant. SASSA must report quarterly to the National Treasury on the number of grants that they cancel and the Rand savings achieved. This essentially means the National Treasury is working behind the scenes to keep social grant beneficiaries artificially low, to justify its inadequate budget allocations.

- **Infrastructure projects**: Compared to Budget 1.0, Budget 3.0 has reduced spending on infrastructure projects by around R13 billion. The reduction puts the country far off the minimum R800 billion per year needed to achieve NDP public investment targets. While the focus on infrastructure is important, R1 trillion in infrastructure spending over the medium term, and the centering of Public-Private Partnerships (PPPs) will not help achieve the country's long-term economic development plan. Instead, as evidence shows, PPPs will increase risks to the fiscus and lead to inequitable access to public services.

- **Provisional allocation for frontline services**: Allocations to frontline workers are also R33 billion lower than what was proposed in Budget 1.0. Despite thousands of unemployed healthcare and education workers, the decrease in additional support will put further strain on frontline workers today. Last year, the Gauteng and Western Cape Departments of Basic Education stated that they would lose 5,400 teachers collectively in 2025 due to budget cuts. Women are overrepresented in these sectors and generally in care work, and thus will likely shoulder the responsibility for this regression. National Treasury is making a mockery of the tenets of gender-responsive budgeting.

Revenue highlights
Overall, we note that potential increases in spending rest on making savings from the spending reviews and increasing the capacity of SARS to collect existing taxes, but no new progressive revenue proposals are taken up. While the increased allocation to SARS is welcome, it does not negate the need to raise revenue sustainably through progressive taxation.

Tax burden still falls on low-income households
In substituting the VAT increase for a hike in the fuel levy, the Treasury is once again laying the burden of raising revenue on low-income earners and the poor. An increase in the fuel levy, just like a VAT hike, increases the burden on low-income groups, making the overall tax mix in South Africa less progressive. There is very little difference in the distributional outcomes of a VAT and fuel levy increase.

Personal Income Tax brackets are not adjusted for inflation, effectively increasing income tax by about 4%. This measure, alongside the increase in the fuel levy, will increase the cost of living for low-income households by pushing them into a higher tax bracket while their income remains the same. This is in the context of an increase in Eskom tariffs of 12.74% from 1 April 2025.

While it is positive that no inflation adjustments were made for medical aid tax credits, this does not go far enough. The state has no obligation, let alone a need, to encourage high-income individuals to use the private healthcare system. As such, the R39 billion (2022/23) that the government wastes on giving this handout must instead be used to boost the public healthcare system.

Failure to raise the maximum available resources
Shockingly, the Minister of Finance claims that outside of VAT, there were no other viable ways for the government to raise money. And yet, National Treasury has failed to make publicly available any substantial assessment of the numerous revenue proposals put forward by civil society, organised labour, and some political parties. There is no shortage of evidence-based

options. We are simply faced with a National Treasury that is ideologically opposed to undertaking any progressive measures that may threaten the interests of the wealthy, who are always at the centre of the government's growth plans.

An example of a measure immediately available to the government is drawing from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), which has swelled to R390.2 billion. This is R140 billion above what SARB and Treasury deemed to be an appropriate buffer. There has also been no negative financial impact from drawing down from this account so far, contrary to what was predicted by the fear-mongering business press.

Spending reviews

The Minister noted that a saving of R37.5 billion was found through expenditure reviews. The IEJ has supported spending reviews, particularly for inefficient or underperforming programmes. However, spending reviews should be done in a transparent and consultative manner with implementing departments, ensuring that they are not used as an excuse to ramp up budget cuts. We have already noted new conditions imposed by Treasury on SASSA, which will result in "savings" that, in essence, will exclude deserving beneficiaries. Reviews done in this manner will result in short-term savings at the expense of protecting socio-economic rights.

What must be done?

With 12.7 million people unemployed and at least 10 million long-term unemployed, while more than 18 million live below the food poverty line, the budget needs to be bold and transformative rather than a simple balancing act. Proactive measures to raise revenue need to be taken to ensure that these challenges are addressed head-on in line with the country's constitutional obligations. The bare minimum can no longer be accepted. Parliament needs to reject or amend this budget, or the majority will have reneged on promises they made, with great fanfare, less than two months ago.

[ENDS]

For media inquiries, please contact:
Dalli Weyers | dalli.weyers@iej.org.za | 082 460 2093
