INSTITUTE FOR ECONOMIC JUSTICE RESEARCH POLICY ADVOCACY

SUBMISSION

Fiscal Framework and Revenue Proposals

26 May 2025

Attention:

Finance Standing Committee:

Chairperson: Mr MJ Maswanganyi (ANC)
Members: Alexander, Ms W (DA), Bateman, Mr Bateman, Mr AG (DA), Beesley, Mr AD (Action SA), Gcaleka-Mazibuko, Ms NA (ANC), Hadebe, Mr N (IFP) Lekganyane, Mr MS (ANC) Makhubela, Ms LS (ANC), Maotwe, Ms OMC (EFF), Sekoati, Mr SC (ANC), Van Rooyen, Mr DD (MK)

Dear Members of the Select and Standing Committees on Finance and Committee Secretaries,

On behalf of the Institute for Economic Justice (IEJ), thank you for the opportunity to make the following written submission and for the opportunity to participate in the public hearings on 28 May 2025 in response to the Fiscal Framework and Revenue Proposals tabled by the Minister of Finance on 21 May 2025.

Given the centrality afforded to public participation in our constitutional democracy, we trust that you will give meaningful consideration to our submission and the considered and substantiated proposals.

Should you have any questions regarding this submission, please feel free to contact Liso Mdutyana, the IEJ's Debt and Budget Policy Junior Researcher at liso.mdutyana@iej.org.za.

1. Introduction

1.1. The 2025 National Budget has been a watershed moment for our constitutional democracy. Perhaps for the first time, Parliament has taken seriously its role as the ultimate overseer of public finances by engaging more robustly on the proposal contained in the budget. This is a welcome step in the right direction, and we hope this becomes common practice.

1.2. The debate around the VAT increase has brought to the forefront the importance of raising adequate revenue to finance social and economic development. The repeal of the VAT increase must not allow for the National Treasury to retreat into the decade-long pattern of spending cuts. Instead, it should be viewed as an opportunity to fundamentally challenge the overriding fiscal strategy – fiscal consolidation – as well as the ideological outlook – neoliberalism – which have contributed to dampen the transformative potential of the budget.

1.3 Parliamentary engagements must evaluate the Budget against the state's constitutional obligations and the priorities the government has set out for itself in the Medium-Term Development Plan and National Development Plan. These include driving inclusive growth and job creation, reducing poverty and tackling the high cost of living, and building a capable, ethical, and developmental state.

2. The fiscal strategy continues to undermine inclusive growth

2.1. The fiscal strategy pursued by National Treasury is irreconcilable with the government's constitutional mandate to progressively realise socio-economic rights and to spur economic growth. The fiscal strategy consists of at least three elements, two of which are directed at reducing the debt-to-GDP level. The first is to support non-interest spending only to the extent that is allowed, mainly by tax revenues. The second is the attainment of higher primary surpluses. So, not only must non-interest expenditure be lower than total revenue, but the gap between these must increase over time. The third is a hands-off approach towards revenue mobilisation.

2.2. In the context of persistently subdued economic growth, revenue growth will continue to disappoint, which has the following implications for the economy.

2.3. Economic growth will be strangled as public investment will continue to be lacklustre. The R1 trillion provided over the medium term is a far cry from the minimum R800 billion per year needed to achieve the NDP investment target of 10% of GDP. This is likely to encourage an even greater reliance on public-private partnerships (PPPs) as the vehicle for infrastructure development. We discuss the problem with PPPs in a later section of this submission.

2.4. Standards of living will continue to decline as the quality of public services worsens, and social protection allocations will be inadequate to stave off poverty.

2.5. It is possible to pursue a strategy of debt reduction through attaining increasingly higher primary surpluses while at the same time making sizable increases to developmental spending. This would be in line with fiscal sustainability and with the government's constitutional requirements. Such a fiscal strategy, however, requires far more aggressive revenue-raising measures, an expansion of the Treasury's toolkit in dealing with high interest rates, and a rethinking of the role of debt. Debt cannot be assessed as good or bad without reference to what it is taken for, what the terms and conditions are, and what implications it has for fiscal sustainability.

2.6. National Treasury is seeking to entrench the current fiscal strategy through a binding fiscal anchor. This would be in addition to the fiscal anchors currently in operation, the primary surplus and expenditure ceiling. Both of these have worked to advance the Treasury's fiscal consolidation objective.

2.7. We invite caution to the proposal of a binding fiscal anchor. The IEJ's recent discussion paper on fiscal anchors shows that they: undermine legitimate contestation and negotiation over the budget by stakeholders; encourage opaque accounting techniques; stifle growth; and are frequently violated. Internationally, success in implementing fiscal rules depends crucially on government-wide consensus. The current political context of the GNU shows that consensus is not easily achieved.

The IEJ recommends that:
2.8. National Treasury must be held accountable for the continued pursuit of what the Minister of Finance admitted to be an ineffective debt reduction strategy. The Minister of Finance noted that budget cuts contributed to an increase in the debt-to-GDP ratio. Yet budget cuts continue as when accounting for inflation, main budget non-interest spending declines by -0.29% and -0.19% in 2026/27 and 2027/28, respectively.

2.9. National Treasury's debt reduction strategy must address high debt service costs and interest rates more directly:

- Using capital management techniques such as capital controls to stabilise short-term, speculative capital flows. This can provide room for the SARB to reduce interest rates.
- Using prescribed assets to make large pools of capital available at affordable rates for the fiscus.
- Engaging in debt renegotiation to get concessions (for example, haircuts or grace periods) on outstanding debt. A portion of the debt owed by state-owned enterprises is a good candidate for renegotiation as it is held within the public sector through the Government Employees Pension Fund.
- The South African Reserve Bank can intervene in the primary market by purchasing government bonds at less-than-market (that is, affordable) interest rates. Numerous central banks around the world undertake this policy successfully.

3. A shift towards revenue that burdens the poor and low-income households

3.1. The budget sees minimal changes to taxes, with a great deal of new revenue set to be gained by making no inflation adjustments for personal income tax (PIT). In light of the spending demands we highlight in the section below, this tame approach to revenue mobilisation must be amended by Parliament. Moreover, the proposed inflation adjustment for the general fuel levy is likely to have a similarly negative impact on low-income households as the VAT increase.

3.2 In the current year, the government proposes tax measures that will bring in an additional R18 billion. Among the tax proposals are no inflationary adjustments to personal income tax brackets and rebates (R15.5 billion), and medical credits (R1.2 billion). On top of this, the government, for the first time in three years, increases the general fuel levy (R6.3 billion). These measures will raise an estimated R78.5 billion over the following two years.

3.3. The proposal to freeze PIT brackets across the board will mean that low-income earners are pushed into higher tax brackets due to inflation (and associated cost-of-living increases in earnings). This means they will be paying more on income tax and VAT, leaving less disposable income available for other household expenses such as education, healthcare, electricity, and so on. This disproportionately increases the tax burden on middle and low-income earners.

3.4. The increase in the general fuel levy is likely to have far-reaching effects for poor households. First, fuel affects the price of transportation, and transportation comprises a relatively large share (which can go as high as 51%) of the income of poor households. Moreover, transportation also affects all other goods in the economy. One study indicated that an increase in the general fuel levy has the same distributional impact as a VAT hike. Both proposals would make the tax mix in the country less progressive.

3.5. The shift to raise additional revenue to finance social priorities is welcome. Increases in developmental expenditure, however, have to be combined with a progressive revenue strategy that ensures the rich and corporations pay their fair share of taxes, rather than sacrificing the poor.

3.6. While it is true that South African income tax is concentrated on the top deciles (79% of the top decile pays income and payroll taxes in 2021), an increase in market income inequality between 2011 and 2020 means that income tax has reduced in progressivity over time. Therefore, there is still a need to ensure that tax proposals raised are in line with this context and improve tax progressivity over time.

3.7. The South African Revenue Services (SARS) commissioner presented that there are 2 800 individuals who have locally registered assets amounting to R460 billion and R150 billion offshore. Adequate resources need to be directed to SARS to build administrative capacity to collect tax from these individuals sustainably.

The IEJ recommends
3.8. The Committee rejects the proposed increase in the general fuel levy. Instead, the revenue gap can be filled by drawing further on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). GFECRA has swelled to R390 billion, R140 billion above what is considered an adequate buffer by SARB and National Treasury.

3.9. Raising the CIT rate back to 28%. This would have raised an extra R12 billion in 2024/25.

3.10. Removing retirement fund tax deductions for those earning above R1 million. The government could have raised approximately R51 billion in 2022/23 (equivalent to R60.4 billion in 2024/25)

3.11. The Committee mandates the National Treasury to propose options for taxing wealth, and income from owning wealth, for instance, through greater inheritance taxation, taxing financial transactions, and planning for a net wealth tax. These can be debated in parliament with evidence for each proposal carefully studied based on its impact on the economy, revenue potential, and impact on inequality.

4. Insufficient spending toward social priorities

4.1. The latest budget sees a reversal of the modest gains made in the now withdrawn budget tabled in March. The withdrawn budget saw inflation-adjusted main budget non-interest spending grow positively in each year over the medium term. Meanwhile, the latest budget sees inflation-adjusted main budget non-interest spending grow positively (2.95%) in 2025/26, and then decline by -0.29% and -0.19% in 2026/27 and 2027/28, respectively.

4.2. Healthcare expenditure (in real terms) is proposed to increase by 1.28% over the medium term, while education increases by 1.14% to support Early Childhood Development (ECD) and headcount shortfalls.

4.3. The government will spend R4206 per healthcare user (adjusted for inflation) in 2025/26 compared to R4100 in 2024/25. These allocations mark a shift in the right direction compared to previous budgets. However, this is still below pre-Covid-19 levels of R4280. Real spending per learner increases by R477 between 2024/25 and 2025/26.

4.4 These allocations are inadequate given that the learner-to-teacher ratio has increased to 35 from 33 in 2009/10, while there are 94 medical professionals per 100 000 uninsured users in 2023/24 - up from 71 in 2009/10. Failure to address these ratios will undermine the quality of basic services, especially in rural areas and townships.

4.5 Across the country, it is women in particular who will bear the costs of the failure to resource public services, as they are forced to give up more of their time, unpaid, to care for young children and sick and elderly family members. Moreover, women are more likely to spend income that is desperately needed for other essentials like food, on securing private healthcare and early childhood education services, which should be publicly available.

4.6 Allocations to social grants are proposed to increase above inflation, although the Social Relief of Distress (SRD) Grant remains at R370. While we welcome the above increase to social grants, it appears that this is limited to the current fiscal year (2025/26). For social grants to remain an effective tool in combating poverty, National Treasury must provide for increases that are commensurate with inflation.

4.7. The Child Support Grant at R560 is still far below the Food Poverty Line (FPL) of R796, and R391 below the cost of feeding a child a basic, nutritious diet.

4.8. A worrying development in recent months is that National Treasury is looking to attach conditions to SASSA's budget, which are ostensibly to reduce the volume of fraudulent recipients. Part of these conditions are for SASSA to extend the procedures applied to the SRD grant to other grants such as the Child Support Grant and the Older Persons' Grant. These procedures include bank verification of income and cross-checking with other government databases. As argued by the Universal Basic Income Coalition and confirmed by the Pretoria High Court, these measures have served to wrongfully exclude millions of potential recipients of the SRD grant.

4.9. The value of the SRD grant remains at R370, R426 below the FPL, and is now only worth the equivalent of R293 in 2020 rands, the year of its implementation.

4.10. There is still no clear commitment to how and when the SRD grant will be extended and expanded into a Basic Income Support programme as announced by the President in his State of the Nation (SONA) address. Instead, we find that National Treasury remains hell-bent on converting the SRD to a job-seekers grant. This would result in a massive decline in the number of beneficiaries. Moreover, placing work-seeking conditions on the SRD grant would be costly and counter-productive. South Africa has high unemployment because of structural factors, not because people are not looking hard enough for work. It would force people to look for jobs where they simply don't exist. Furthermore, there is no conclusive evidence that such policies improve labour market outcomes.

4.11. Meanwhile, 10 million eligible persons (working-age adults living in food poverty) are excluded from accessing the SRD grant due to the arbitrary budget cap imposed by successive budgets. This policy contradiction and lack of clear commitment to the improvement of the SRD's value and coverage amounts to an unconstitutional retrogression of the right to social assistance.

4.12 The static allocation to the SRD also defies the Pretoria High Court ruling that the (real terms) rolling-back of access to the grant is unconstitutional. We are disappointed but not surprised that the government has decided to appeal this groundbreaking ruling. The prolonging of this matter will put the most vulnerable at risk of destitution.

The IEJ recommends:
4.13. The allocation to the SRD grant is increased to cover all eligible beneficiaries at an adequate value (at least equivalent to the FPL and increasing over time to meet the UBPL).

4.14. The Committee seeks clarity on the future of the SRD grant. In particular, the government should provide clear timelines on when the grant will be converted into a Basic Income Support system.

4.15. Steps must be taken, with the necessary budget, to increase the ratio of public sector workers to the number of users in education and healthcare.

4.16. The Committee must reject National Treasury's move to put conditions on the SASSA budget as it will inevitably result in the unfair exclusion of millions of grant recipients.

4.17. An impact assessment of the austerity measures that have been implemented so far, which takes into account both macroeconomic and human rights measures. Evidence shows that the impacts of austerity on the economy can last up to 15 years and can permanently (negatively) affect GDP growth. An assessment will provide concrete evidence of the spending levels required to reverse the adverse effects of austerity.

5. Infrastructure and economic development

5.1 We welcome the funding for infrastructure development, however, the levels of public investment are still below National Development Plan targets of 10% of GDP.

5.2 The shift from state-led infrastructure development to Public-Private Partnerships (PPPs) and incentivising private financial investment in social services has failed, worldwide, to mobilise the capital needed for investment. Instead, as research shows, by introducing profit incentives in the provision of basic rights it drives up user fees and hinders access to services, particularly for the most vulnerable.

5.3 The budget also emphasises 'de-risking' as a form of finance mechanism for purchasing renewable energy from independent power producers (IPPs). This programme has exposed the government to debt worth R229.5 billion (in the form of 'contingent liabilities'), while IPPs still play an extremely small role (less than 10% of electricity consumed) in the provision of power. In addition, as per 5.2, IPPs will ultimately pass costs onto the consumer, further raising the cost of electricity for the public, which may need to be subsidised by the government.

The IEJ recommends:
5.4 PPPs should not be adopted as the model for infrastructure development given their long-term impact on the fiscus, the environment, and the widening of inequality.

5.5 Publicly-owned development finance institutions (DFIs) should be leveraged to invest more in critical economic infrastructure that could relieve pressure on the fiscus.

5.6. South African DFIs are recapitalised with public funds and granted access to a stable, low-cost, long-term funding line, either directly as a budgetary allocation by the relevant Ministry, through tax sources, or from the South African Reserve Bank.

6. Job creation and employment programmes

6.1 Allocation for public employment programmes over the medium term shows improvement compared to previous years, with an average real growth of 3.1% over the medium term compared to 2021/22 – 2024/25, when it fell by an average of 2.6%.

6.2 The Presidential Employment Stimulus (PES) is allocated only R4.3 billion, which is far below its initial phase allocation of R12.6 billion in 2020/21.

6.3 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.

6.4. The PES in particular supported local economies and provided over 1.5 million work opportunities to young people.

The IEJ recommends
6.5 A progressive scaling up of all public employment programmes with deliberate steps taken to ensure that they give recipients opportunities for longer-term work.

7. Conclusion

7.1 The IEJ welcomes the commitment by Parliament to consider public submissions in its consideration of the fiscal framework and revenue proposals.

7.2 We wish to emphasise that in assessing this submission, the Committee takes into account the importance of fiscal policy and the budget in maximising economic growth and alleviating unemployment, poverty, and inequality. The state's Constitutional obligations should guide all economic policy decisions and measures to raise revenue and allocate spending. Evidence should also be presented on how these decisions will affect different groups in society.

8. Recommendations

1. Use fiscal policy to address unemployment, poverty, and inequality as part of a pro-employment macroeconomic framework as opposed to narrow debt stabilisation.
2. Rejection of the proposed increase in the general fuel levy.
3. Drawing down on the GFECRA can more than compensate for this gap.
4. Restore the CIT rate to 28%.
5. Remove retirement fund tax credits for those earning above R1 million.
6. Promote a more equitable tax structure by proposing a net wealth tax and improving other forms of taxing wealth.
7. Increase allocations towards the SRD and the CSG to increase their value to at least the FPL and set clear timelines of when the SRD will transition into a UBIG.
8. Take a holistic approach to reducing the cost of debt, including through the use of capital management techniques and prescribed assets.
9. Produce evidence that shows the human rights impacts of its policy of austerity, as well as its impact on the economy.
10. A progressive scaling up of all public employment programmes, with steps taken to ensure that they give recipients opportunities for longer-term work.
11. Publicly-owned development finance institutions (DFIs) should be leveraged to invest more in critical economic infrastructure that could relieve pressure on the fiscus.

The Institute for Economic Justice (IEJ) is a progressive economic policy think tank committed to advancing economic justice, systemic change, and the equitable distribution of resources to ensure rights realisation and planetary wellbeing.

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