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COMMENT ON THE 2025/26 SOUTH AFRICAN BUDGET SPEECH BY PROF. JOSEPH SEKHAMPU

The 2025 budget speech was a lesson in fiscal restraint amid economic stagnation. With growth projected at a modest 1.8% over the medium term, South Africa faces an unsettling reality: it is consolidating its finances in a climate of sluggish expansion. The key question is whether this budget is a strategic reset or merely a survival mechanism that delays an inevitable economic reckoning.

At first glance, the government plan to stabilise debt and reduce the budget deficit seems prudent. Maintaining a primary surplus may reassure investors, but these targets rest on a familiar and precarious assumption: that growth will accelerate despite years of stagnation and inefficiency. This has long been the Achilles heel of South Africa's economic strategy. Rather than fostering a dynamic, growth-driven environment, the state continues to adjust taxes and trim spending, while failing to address fundamental economic weaknesses.

The most contentious aspect of the budget is the planned VAT increase. While the government argues that raising corporate or personal income taxes would deter investment and job creation, VAT is a regressive tax that disproportionately impacts low and middle-income households. Even with an expanded list of zero-rated food items, the combination of higher VAT, rising transport costs, and stagnant wages will weaken consumer purchasing power, potentially stalling GDP growth rather than stimulating it.

Beyond taxation, revenue collection efficiency remains a concern. While the South African Revenue Service (SARS) has improved tax collection, illicit financial flows, tax evasion, and administrative inefficiencies continue to erode revenue. Strengthening tax compliance and broadening the tax base through economic expansion, rather than increasing rates, should be a key priority.

A defining feature of this budget is the government's reliance on social grants to maintain social stability. With R284.7 billion allocated for social assistance, almost 28 million South Africans now depend on grants. The extension of the COVID-19 Social Relief of Distress (SRD) grant to 2026, highlights the government's failure to meaningfully reduce unemployment. Although grants are essential in an unequal society, they cannot substitute for economic participation.

The sustainability of these transfers is uncertain. Debt service costs signal a government operating on borrowed time. If growth remains weak, the state will face tough choices: raising

taxes further, increasing borrowing, or cutting spending elsewhere. The real risk is that fiscal constraints could eventually force abrupt reductions in grants, triggering social unrest. A sustainable approach would integrate welfare with employment and skills development, fostering economic mobility rather than long-term dependency.

The budget allocates R1 trillion to infrastructure investment in transport, logistics, energy, and water. While this is promising, history suggests that government-led projects are plagued by inefficiencies and delays. Without structural reforms in procurement and execution, much of this investment risks failing to deliver its intended economic benefits.

Public-private partnerships (PPPs) could attract private capital, but investors need certainty of policies, transparent procurement, and protection against bureaucratic inefficiencies. Infrastructure reform must also prioritise maintenance and operational efficiency. South Africa's deteriorating roads, rail, and municipal water systems are evidence of chronic neglect. Building new projects without addressing these systemic failures will have limited economic impact.

The budget assumes that economic growth will recover naturally, but this is wishful thinking without deep structural reform. Logistical inefficiencies and unreliable electricity supply continue to inhibit productivity and deter investment.

Ultimately, this budget may stabilise the economy, but it does not chart a course for sustainable growth. By prioritising fiscal restraint without growth stimulation, the government is attempting to manage decline rather than drive prosperity. South Africa needs more than cautious fiscal adjustments; it requires bold reforms to unleash economic potential.

If the state continues to rely on short-term tax adjustments and social transfers without creating an enabling economic environment, the next decade will mirror the last: stagnant growth, rising unemployment, and deepening fiscal strain.

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