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12 March 2025

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MEDIA STATEMENT – IMMEDIATE RELEASE

Commenting on the amended Budget presented to Parliament today by Finance Minister Enoch Godongwana NWU Business School economist Prof Raymond Parsons says:

'The revised Budget Statement proposing a new fiscal 'mix' of spending, borrowing and taxing as a response to the previous opposition to the 2% rise proposed in the original Budget diverges to some extent from the parameters outlined in the original Budget. There was also welcome emphasis on factors such as avoiding more borrowing, empowering SARS to strengthen tax compliance, and expediting infrastructural spending. The amended Budget therefore seeks to strike a new balance between fiscal sustainability and economic growth.

The promised comprehensive spending review is a step in the right direction, but realistic timelines need to be set. Tough decisions on recalibrating government spending were nonetheless still already needed in the amended Budget. Future risks to the fiscal outlook remain, which the World Bank has also again recently emphasized. It has been the repeated failure over several years to adequately control government expenditure which eventually led to ever bigger budget deficits and a persistent rise in the key debt-GDP ratio now expected to peak this year at 76.2% of GDP.

Hence, on the tax front, although the VAT rate now only rises to 16% over the next two years, that may not be the end of the story, unless more strenuous future efforts are made to rein in the spending side of the Budget. SA therefore now risks drifting into a negative 'tax-and-spend' fiscal cycle, with eventually damaging economic consequences unless higher growth generates more tax revenues. In seeking to enhance investment and growth, the emphasis in the Budget speech on increased collaboration with the private sector is nevertheless welcome.

Whether the Budget has done enough to ignite economic growth to eventually reach the overall target of 3% GDP growth in the GNU's recent Medium Term Development Plan (MTDP) is not obvious. Given a more vulnerable external environment the Budget assumption of 1.8% economic growth this year may also be too optimistic. Higher economic growth and a durable recovery in economic activity require, as the Budget speech also emphasised, a stable macroeconomic environment complemented by rapid implementation of economic reforms and improved state capacity.

However, an extra layer of uncertainty has now inevitably been injected into fiscal policy by the fact that the Budget in its present form now still has to be eventually voted upon and passed by Parliament. There is likely to be a further robust debate around amending the money bills in Parliament. The Parliamentary process will be a challenging one to see whether Parliamentarians can improve on the fiscal 'mix' in the Budget, as well as consider input from other key stakeholders in the economy.'

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