VERBATIM

March 2025

ISSUE 113

MINISTER OF FINANCE, ENOCH GODONGWANA'S BUDGET SPEECH FOR 2025

After a false start in February, the Finance Minister delivered his Budget Speech on 12 March 2025.

The context

Over the past nine months, South Africa has benefited from improved sentiment following the successful transition to a government of national unity and the stabilisation of electricity supply. But this optimism needs to be translated into more determined action and measurable results, specifically in the form of higher economic growth and improved living standards. The 2025 Budget proposes steps to achieve these outcomes.

Source: Dr Duncan Pieterse, Director General

ECONOMIC OUTLOOK

South Africa's economy is predicted to grow at an average of 1.8% over the next three years and encouragingly the fiscal strategy remains on course. Over the medium term, the budget deficit is expected to narrow to 3.5% of GDP. Critically, the debt-to-GDP ratio will stabilise at 76.2% in 2025/2026, declining thereafter. Debt-service costs, which consume 22 cents of every rand of revenue, stabilise in the current year.

The consolidated budget deficit is expected to narrow from 5% of GDP this year to 3.5% of GDP in 2027/28.

To bolster growth and employment, government's economic strategy prioritises:

- **Maintaining macroeconomic stability** and reducing volatility to reduce the cost of living and encourage investment.
- **Implementing structural reforms** to increase efficiency and promote a competitive economy, while addressing constraints to job creation and employment.
- **Building state capability** by identifying and solving problems in the delivery of core functions, supported by digital transformation.
- **Supporting growth-enhancing public infrastructure investment** to increase productivity and long-term economic prospects.

Risks to the domestic outlook are balanced, but the global outlook faces risks from rising trade disputes and geopolitical tensions, financial market volatility, tightening financial conditions for developing economies, rising commodity prices and China's property sector slowdown.

Domestically, fiscal risks, adverse weather events, rising input costs and logistical issues could threaten growth. Conversely, lower interest rates, greater-than-expected withdrawals from the two-pot retirement system and progress on economic reforms could boost confidence and demand.

INVESTMENT IN INFRASTRUCTURE

In support of its aim to enhance growth and employment, government has committed to spending R1 trillion over the next 3 years in infrastructure – reducing the backlog in delivery and creating jobs. This includes:

- **R402bn** – Road infrastructure
- **R219bn** – Energy infrastructure
- **R156bn** – Water and sanitation infrastructure

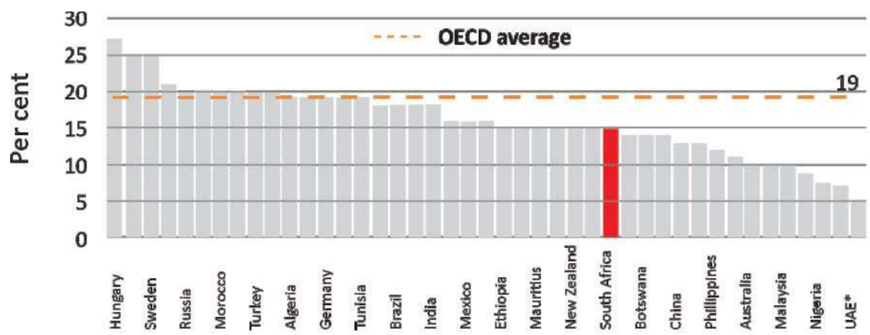
Importantly, the rules around public-private partnerships (PPP's) have been simplified to attract funding for this.

REVENUE COLLECTION: TAX

The Budget proposed a 0,5% increase in VAT for the 25/26 tax year, followed by another 0.5% increase in the 26/27 tax year. Meaning, from 1 May 2025, VAT will increase to 15.5% and will go up to 16% on 1 April 2026.

By comparison, South Africa's VAT rate is still relatively low:

Fig 1: Comparative standard VAT rates by country, 2024/25



*UAE refers to United Arab Emirates
Source: https//www.vatcalc.com/vat-rates/and National Treasury calculations

This (and other revenue increases) will provide more funding for several frontline functions, with investments in education, health, early childhood development and commuter rail services.

To cushion this increase, new food items have been added to the basket of goods that are zero rated for VAT, above-inflation increases have been given on social grants and the fuel and Road Accident Fund levies have not been increased.

No changes are proposed to **corporate tax**.

No adjustments have been made to **personal income tax** rates, but neither have inflationary adjustments been made to tax brackets (for the second year in a row) and rebates.

No changes are proposed to **medical tax** credits.

The monetary thresholds for **transfer duties** will be adjusted by 10% to compensate for inflation. The transfer duty tax rates, however, remain unchanged.

Changes are proposed to the rules that currently exempt lump sums, pensions and annuities received by South African residents from **foreign retirement funds** for previous employment outside South Africa, with amendments in the current legislative cycle.

Excise duties on alcoholic beverages will increase by 6.75% on 1 April 2025.

Tobacco excise duties will increase by 4.75% for cigarettes and vapes, and 6.75% for pipe tobacco and cigars, on 1 April 2025.

From 2 April 2025, the **carbon fuel levy** will increase by 3c/litre to 14c/litre for petrol and 17c/litre for diesel.

An inflationary increase in the **health promotion levy** (sugar tax) was due to take effect from 1 April 2025. Government proposes to cancel this increase to allow the sugar industry more time to restructure in response to regional competition.

There are no changes to the **retirement tax tables**.

No adjustments were made to the maximum contributions that can be paid to a **tax-free savings account**.

TWO-POT TAX COLLECTIONS

The revenue collected from the savings pot withdrawals exceeded the initial estimate of R5 billion for 2024/25, with tax collections amounting to R11.6 billion as of end-February 2025. Withdrawals are expected to continue into the medium term as fund members access their savings component.

GOVERNMENT SPENDING

The health function is allocated R941.5 billion in the next 3 years to support the equitable provision of public health services, including free primary healthcare.

NATIONAL HEALTH INSURANCE (NHI)

As part of strengthening the health system and preparing for the national health insurance (NHI) policy, the Department of Health will fund the development of a patient information system, a centralised chronic medicine dispensing and distribution system, and a facility medicine stock surveillance system. Over the next 3 years, the indirect and direct conditional grants for NHI are allocated R8.5 billion and R1.4 billion respectively.

The budget for **social grants** has increased above inflation by R8.2 billion over the medium term to account for higher costs of living. From April 2025, the new grants will be:

Grant	24/25 (R)	25/26 (R)	% increase
Old age	2 185	2 315	5.9%
War veterans	2 205	2 335	5.9%
Disability	2 185	2 315	5.9%
Foster care	1 180	1 250	5.9%
Care dependency	2 185	2 315	5.9%
Child support	530	560	5.7%
Grant-in-aid	530	560	5.7%

Source: National Treasury

The COVID-19 social relief of distress grant will be extended by another year until 31 March 2026. An amount of R35.2 billion is allocated to extend the payment at the current R370 per month per beneficiary, including administration costs.

No additional funding is allocated to **State Owned Enterprises**.

Over the medium term, consolidated expenditure grows at an annual average of 5.6%. The detailed spending review will be presented to Cabinet in April 2025.

FINANCIAL SECTOR UPDATE

Grey listing – As at February 2025 two action items (from the original list of 22) remained. These relate to demonstrating a sustained increase in the investigation and prosecution of complex money laundering and terror financing. South Africa is working to address both outstanding action items by June 2025 to exit grey listing by October 2025.

Crypto asset policy - The Intergovernmental Fintech working group aims to finalise a set of regulatory recommendations in line with international standards which will be published for public consultation during 2025.

Artificial intelligence (AI) in the financial sector - In 2025, the Financial Sector Conduct Authority (FSCA) in collaboration with the Prudential Authority will publish a market study on the adoption and use of AI in South Africa's financial sector. The research will help to ensure that AI is used ethically, responsibly and effectively while safeguarding the integrity and soundness of the financial sector.

Climate risk - In the first quarter of 2025, the FSCA will run a pilot with key financial institutions to encourage greater adoption of the South African Green Finance Taxonomy. The FSCA is also expected to release further information on climate disclosure requirements.

Two-pot retirement system - Government has received requests to allow access to the retirement component when an individual is retrenched. The restructuring required for this is complex and therefore forms part of the second phase of the two-pot reforms. Government is beginning work and discussions on measures that may allow access to the retirement component if an individual has been retrenched and is in financial distress. Strict conditions will apply to this access.

Unclaimed assets - The National Treasury and the FSCA will work with industry to develop the recommendations around managing unclaimed assets and the establishment of a central unclaimed

Financial inclusion - The National Treasury will develop a national strategy on financial inclusion in 2025 based on the policy paper "An Inclusive Financial Sector for All", which Cabinet approved in 2023.

Conduct of Financial Institutions (COFI) Bill - The final draft of the bill is awaiting certification from the Office of the Chief State Law Adviser, whereafter it will be submitted to Cabinet for approval to be tabled in Parliament. The FSCA is preparing for the bill's implementation, as will be explained in more detail in its 2025 3-year Regulation Plan.

Clarifying payment of death benefits - With the enactment of the Revenue Laws Second Amendment Act (2024), a lump sum payable as a result of the death of a member is still a retirement fund lump sum benefit. However, the definition of "savings component" only makes provision for the treatment of the remaining balance in the savings component on retirement and not on death. As a result, any value in the savings component is only payable as a savings withdrawal benefit on death. It is proposed that an amendment be made that, on the member's death, should the nominees or dependants choose to receive a lump sum benefit, such lump sum benefit will be considered part of the retirement fund lump sum benefit for Income Tax Act purposes.

IS THIS THE FINAL BUDGET?

What is interesting, is that the Budget now goes to Parliament for approval. Parliament has 16 days within which to accept this proposed budget. It is expected that compromises will need to be reached in search of consensus among the parties. There is a scenario where adjustments could be made to the Minister's proposals and the final Budget could look different.