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Budget Preview

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The second take on Budget 2025: Still scrambling for tax revenue

- A revised Budget Statement is due to be tabled on Wednesday after the parties in the Government of National Unity (GNU) rejected the increase in the value-added tax rate to 17% from 15% in the original Budget, released on 19 February. We expect the budget deficit to remain wide over the Medium-Term Expenditure Framework period (MTEF, FY2025/26—2027/28) as revenue growth remains slow despite the mooted tax increase, while expenditure growth will remain sticky.
- Revenue: Over the first 10 months of FY2024/25, tax revenue growth was in line with the estimates in the original budget. Gross tax collections for fiscal year (FY) 2024/25 will slightly exceed the MTBPS estimate but remain below the 2024 Budget projection by almost R20 billion. The key proposed tax measure in FY2025/26 is the increase of the VAT rate, with media reports suggesting a compromise on a figure between 15.5% and 16%. The increase will boost aggregate revenue, albeit marginally, over the MTEF.
- Expenditure: The original figures raised annual total growth to an average of 5.8% over the MTEF, from 4.9% estimated in the MTBPS. Even though we assume slower expenditure growth, we acknowledge that risks are to the upside as expenditure needs continue to mount. The upcoming local government elections could prompt the GNU to introduce the Basic Income Grant in 2026, which would raise the social protection bill significantly. Debt service costs will rise further as total debt increases. The main challenge will be containing the public sector wage bill.
- Budget balance: Consequently, the consolidated budget deficit will remain above 4% over the MTEF, with the wider deficit containing the improvement in the primary surplus.
- Debt metrics: The public debt ratio will rise over the next two fiscal years before slowly starting to ease.

Table 1: Consolidated Budget framework

	2023/24	2024/25		2025/26		2026/27		2027/28
	Feb-24	Oct-24	Feb-25	Oct-24	Feb-25	Oct-24	Feb-25	Oct-24
Revenue (Rbn)	1 941.4	2 021.5	2 053.4	2 166.6	2 186.2	2 314.3	2 295.0	2 420.6
% growth	2.4	4.1	5.8	7.2	6.5	6.8	5.0	5.5
% of GDP	27.4	27.3	27.7	27.7	27.9	27.8	27.5	28.0
Expenditure (R bn)	2 258.8	2 395.0	2 394.3	2 510.3	2 538.0	2 624.4	2 664.9	2 767.1
% growth	5.5	6.0	6.0	4.8	6.0	4.5	5.0	5.4
% of GDP	31.8	32.3	32.3	32.1	32.4	31.5	32.0	31.3
Consolidated Budget Balance (R bn)	-317.4	-373.5	-340.9	-343.7	-351.7	-310.1	-369.9	-295.3
% of GDP	-4.5	-5.0	-4.6	-4.3	-4.5	-3.6	-4.4	-3.2
Debt Service Costs (R bn)	356.1	388.9	385.2	419.1	398.2	445.7	428.7	475.7
% of GDP	5.1	5.1	5.2	5.2	5.1	5.2	5.1	5.2
Primary Balance	33.2	33.2	44.3	75.3	46.5	120.6	58.9	166.7
% of GDP	0.5	0.4	0.6	0.9	0.6	1.4	0.7	1.8
Gross debt-to-GDP ratio (%)*	*74.1*	*74.7*	*76.4*	*75.5*	*78.2*	*75.3*	*77.9*	*75.0*
Nominal GDP (billion)	*7 094.8*	*7 524.1*	*7 417.8*	*8 014.4*	*7 830.2*	*8 532.2*	*8 336.6*	*9 091.9*

Source: MTBPS 2024 and Nedbank Group Economic Unit. Oct-24 shows MTBPS 2024 figures, Feb-25 is our Budget 2025 forecasts

Revenue performance in FY2024/25

The latest revenue collection numbers, which cover the first 10 months of FY2024/25, show collections in line with National Treasury's forecasts in the estimates released on 19 February.

Gross tax revenue was up 5.2% in the FYTD, not too far from the Treasury's projected 5.9% for the FY. Corporate taxes and further withdrawals under the two-pot retirement system will give additional impetus in the final two months of the year. Therefore, the gross tax shortfall over the Budget projection will be close to the Treasury's revised R19.3 billion, lower than R22.3 billion in the MTBPS and our estimate of R21.2 billion.

Personal income taxes (PAYE) were up by 13.1% in the FYTD vs. the National Treasury's forecast of 13.2%. Corporate taxes were down by 0.9% up to end-January. The seasonal rise in tax payments by companies as the tax year-end approaches will likely push the increase for the FY closer to the National Treasury's projected 0.5%. The growth of value-added tax (VAT) picked up further in January, edging closer to the National Treasury's revised estimated growth of 2.8% in FY2024/25.

Table 2: Monthly cumulative tax revenue growth

Tax type, (yoy% change)	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Taxes on income and profits	11.1	5.1	6.6	7.1	8.3	8.4	9.6	7.9	8.3
Personal income tax	*12.7*	*11.8*	*12.6*	*11.7*	*11.9*	*12.9*	*13.3*	*13.2*	*13.1*
Taxes on corporate income	*-0.8*	*-5.5*	*-4.5*	*-1.2*	*1.9*	*-0.6*	*1.3*	*-1.2*	*-0.9*
Taxes on goods and services	-0.9	0.1	-1.8	0.6	0.0	-0.5	0.3	-0.1	-0.6
Value-added tax	*-2.2*	*0.4*	*-2.8*	*-0.7*	*0.1*	*0.6*	*1.6*	*1.3*	*2.4*
Import VAT	*0.5*	*-5.2*	*-5.6*	*-4.8*	*-4.5*	*-3.6*	*-2.3*	*-2.3*	*-1.5*
Fuel levy	*5.7*	*-2.1*	*-1.3*	*-2.7*	*-3.9*	*-5.1*	*-7.2*	*-9.1*	*-8.9*
Gross tax revenue	6.3	3.4	3.4	4.3	5.2	5.2	6.1	5.1	5.2

Source: National Treasury, Nedbank calculations

The expected revenue measures

The revised revenue numbers will hinge on the quantum of the VAT increase. After parties in the GNU rejected the 2-percentage point VAT increase, media reports suggest that a compromise has been reached on a rise of between 0.5 and 1 percentage point.

The 2-percentage point VAT increase was projected to boost net VAT collections by R58 billion in FY2025/26, R61.5 billion in FY2026/27, and R63.9 billion in FY2027/28 (Table 3). To somewhat compensate for the foregone revenue that would have come from the VAT hike to 17%, the Treasury will scrap some tax adjustments and raise the low volume taxes by more than initially planned.

In the original estimates, PAYE brackets were adjusted by less than the inflation for all but the bottom two tax brackets, with the measure raising an additional R4.8 billion over the MTEF. In the revised Budget, we could see the tax brackets left unchanged once again.

Medical aid tax credits were left unchanged for the second consecutive year, at R364 per month for the first two beneficiaries and R246 per month for additional beneficiaries. We expect the revised budget to keep the numbers unchanged as the government prepares to introduce the National Health Insurance Scheme.

Excise duties on alcohol were budgeted to go up by 6.8%, while those on tobacco products rose by between 4.8% and 6.8%, raising an average of R1.1 billion a year over the MTEF. These tax increases will likely be revised higher. Consultations on the proposed three-tier progressive tax rates for wine and beer are planned for 2025. The fuel levy, which has not been adjusted since April 2022, is likely to be hiked by more than the inflation rate for FY2025/26, with high increases also likely in the subsequent years.

Table 3: The original Budget - Impact of tax proposals on revenue over the MTEF

	2025/26	2026/27	2027/28
R billion		Effect of tax proposals	
Gross tax revenue (before 2025 Budget tax proposals)	1974.1	2115.4	2255.3
2025 Budget proposals	58.0	-1.0	
Direct taxes	3.0	3.2	3.3
Personal income tax			
Partial inflationary adjustment to tax brackets and	1.5	1.6	1.7
No inflationary adjustment to medical tax credits	1.5	1.6	1.6
Indirect taxes	55.0	57.4	60.6
Value-added tax (VAT)			
Increase in VAT rate	60.0	63.7	67.3
Additional zero rating	-2.0	-2.1	-2.3
Fuel levy			
No adjustment to general fuel levy	-4.0	-4.3	-4.5
Diesel refund relief for primary sectors		-1.0	-1.1
Specific excise duties			
	1.0	1.1	1.1
Net impact of tax proposals	58.0	60.5	63.9
Gross tax revenue (after tax proposals)	2032.1	2175.9	2319.2

Source: National Treasury Budget 2025

Expenditure

"Since 2012, successive budgets have reduced the rate of expenditure growth and raised taxes. While this measured path to fiscal consolidation achieved some success, debt continued to rise as a share of GDP as economic growth declined and new spending pressures emerged."

Budget Review 2018, page 28

The above statement captures the budget crisis that has culminated in yet another proposed tax increase. Despite the National Treasury suggesting for some years that fiscal consolidation needed to be deepened by boosting revenue growth and restricting growth in aggregate expenditure, the government has been unable to contain the rapid increase of public debt as the sizeable budget deficit persisted.

The persistence of the trend was visible in the budget numbers released on 19 February. Expenditure was budgeted to rise more than anticipated due to higher non-interest expenditure and some immediate spending needs, with priority given to social services and infrastructure investment. Consolidated expenditure was projected to grow by 8.1% in 2025/26, a jump from 4.8% in the MTBPS estimate.

Over the MTEF, expenditure growth was revised to an annual average of 5.8% from 4.9% in the MTBPS. In FY2024/25, non-interest expenditure was set at R162.1 billion or 8.1% higher than the projected outcome for 2024/25, lifted by higher spending on infrastructure projects and higher social spending, including the extension of the COVID-19 Social Relief of Distress (SRD) grant for one year. Non-interest expenditure growth was estimated to moderate to 4% and 4.5% in 2026/27 and 2027/28. However, no full allocations were made for the SRD grant in FY2026/27 and FY2027/28, with only R443 million and R463 million allocated for administrative purposes for the two years. We believe the SRD grant bill will increase to R40 billion in the subsequent two years after R35.3 billion was budgeted for FY2025/26. Although National Treasury remains committed to restricting new bailouts for the large state-owned enterprises (SOEs), we expect a comprehensive package for Transnet within the MTEF period, which will also raise the non-interest expenditure.

The public sector wage bill is estimated to rise by 8% in FY2024/25, absorbing 38% of revenue to accommodate the higher wage settlements reached in 2024 and enable the hiring of critical workers such as doctors, nurses, teachers, and police officers. The high increase set a high base for the subsequent years, after the government and unions settled on 5.5% in FY2025/26 and inflation increases in FY2026/27 and FY2027/28. In the Budget 2025 numbers, wage bill growth was estimated at an annual average of 5.7% over the medium term. We consider the likelihood of higher increases to be elevated unless departments manage to restrict their headcount.

Budget metrics

We have revised our estimate of the budget deficit and public debt higher. For FY2024/25, we forecast the deficit at 4.6%, revised from 4.4%, while we now expect the deficit to remain sticky just above 4% over the MTEF.

We project the gross debt-to-GDP ratio to peak at 78.2% in FY2025/26, revised from 77.9%, and to ease slowly thereafter.

Conclusion

The revised Budget will mark a significant departure from the figures presented in the original Budget. The lower VAT increase and limited expenditure restraint will alter the trend of limited fiscal consolidation in recent years.

The VAT increase, whatever it will be, will unlikely be the last over the MTEF. In the Budget Review released on 19 February, the Treasury stressed that the local VAT rate is well below the average 19% among South Africa's peer economies. We believe the government will lean towards more increases in the foreseeable future.

The VAT increase should magnify the fiscal crisis that South Africa is headed for. For over a decade, expenditure has outpaced revenue growth, resulting in wide budget deficits and an ever-rising public debt ratio. The time to tackle expenditure inefficiencies seriously is now.

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