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The Parliamentary Budget Office (PBO) has been established in terms of the Money Bills Amendment Procedure and Related Matters Act (Act no. 9 of 2009). The PBO provides independent, objective and professional advice and analysis to Parliament on matters related to the budget and other money bills. The PBO supports the implementation of the Act by undertaking research and analysis for the finance and appropriations committees. The PBO provides a quarterly analysis of economic developments for Members of Parliament following the release of quarterly economic data by Stats SA, the South African Reserve Bank and the National Treasury.

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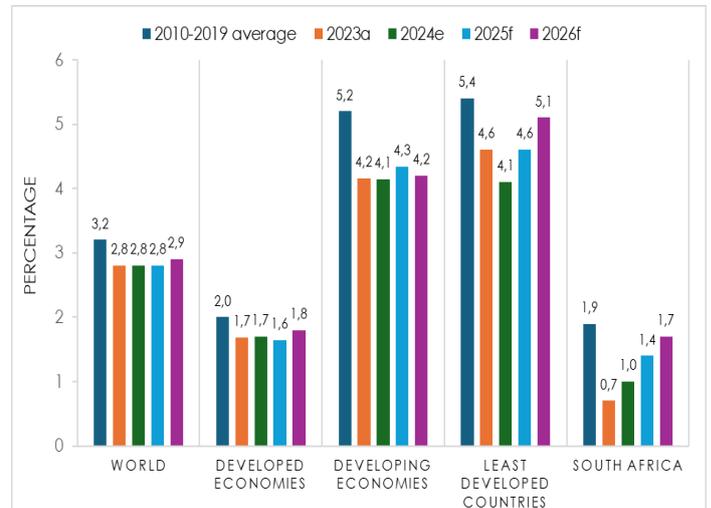
Global economic outlook

The United Nations Department of Economic and Social Affairs (UNDESA) has revised its estimate for global GDP growth in 2024, increasing it by 0.1 percentage points from its mid-year 2024 forecast. The updated estimate projects global GDP growth of 2.4 per cent for 2024, with projections of 2.8 per cent growth in 2025 and 2.9 per cent in 2026, which remain unchanged from earlier projections. UNDESA's outlook suggests that global GDP growth will remain below the 10-year average recorded before the COVID-19 pandemic (2010–2019). This trend is expected to hold across developed, developing, and least developed countries, including South Africa.

Since these forecasts were made in January, the outlook for the global economy in 2025 has become increasingly uncertain. A significant factor

contributing to this uncertainty is the second Trump administration in the United States. This new administration has created ambiguity regarding the USA's role in supporting Ukraine.

Figure 1: GDP growth rates: average for 2010–19, actual for 2023, estimate for 2024 and forecasts for 2025 and 2026 for country groups and South Africa (percentages)



Source: United Nations Department for Economic and Social Affairs, World Economic and Social Prospects, Jan. 2025

Additionally, the new administration has introduced the potential for shifting political alliances and heightened instability in the Middle East. President Trump's announcement that the USA will take control of Gaza has raised concerns among leaders of Middle Eastern countries allied with the USA. These leaders have strongly criticised the plan, with some describing the proposed removal of all Palestinians from Gaza as a form of ethnic cleansing.

The Trump administration recently caused significant concern by increasing tariffs on Canada and Mexico, though this decision was rescinded two days later. Additionally, the administration has initiated a trade war with Europe and China, both of which have retaliated by imposing higher tariffs on imports from the USA. The resulting spillover effects — including heightened geopolitical tensions and economic uncertainty — are expected to have global repercussions.

The shift in the USA's foreign policy regarding Ukraine and Russia, along with its impact on NATO, has prompted the European Union and its member states to reassess their security and military capabilities. Following years of restrictive austerity measures,

European countries have now agreed to increase their military spending.

For example, Germany is likely to rescind a 2009 law that implemented a strict fiscal rule, which required a constitutional amendment. This law limited the issuance of debt, restricting the government's fiscal deficit to 0.35 per cent of gross domestic product. Although the rule was suspended during the COVID-19 pandemic, it has otherwise been strictly followed, despite its significant social and economic costs. Over time, this rigid policy has contributed to deteriorating infrastructure and deindustrialisation. The planned increase in spending and a higher government deficit will provide much-needed funds to rebuild Germany's defence capabilities and reinvest in its infrastructure.

Europe's experience, where austerity measures have resulted in significant socio-economic costs and negative effects on GDP growth, serves as a cautionary tale for developing countries, including South Africa. This highlights the risks of implementing overly rigid fiscal rules. The planned fiscal expansion in Europe, even though much of it will be directed toward military spending, is likely to stimulate economic growth beyond initial expectations. However, the potential negative impact of the USA's recent tariffs on global trade remains uncertain. It is still too early to determine whether the USA will maintain its current tariff policies.

The South African economic situation: Gross domestic product¹ (Supply-side)

The South African economy avoided a technical recession in the fourth quarter of 2024. Gross domestic product (GDP) increased by 0.6 per cent during this period following a 0.1 per cent contraction in the third quarter (the contraction in the third quarter was initially estimated at 0.3 per cent).

As a result, economic growth for 2024 was 0.6 per cent, representing a marginal decline from 0.7 per cent in 2023. This growth rate is considerably lower than the average estimate of 4.2 per cent for similar emerging and developing economies in 2024, as estimated by the International Monetary Fund (IMF). Furthermore, it is alarmingly below the estimated economic growth rates for several countries that

have experienced prolonged conflicts or instability over the past decade.

Additionally, the economic growth rate is also significantly weak when compared with the country's estimated annual population growth rate of 1.4 per cent. This low growth rate raises concerns about South Africa's ability to achieve the 5.4 per cent annual economic growth rate target set by the National Development Plan (NDP).

Economic growth remained below 1 per cent despite a nearly year-long suspension of loadshedding (over 332 consecutive days) and the implementation of various supply-side structural reforms aimed at network sectors. The government has claimed that these reforms, accompanied by austerity measures, would address supply-side constraints on economic growth outcomes and stimulate private investment. However, as evident from the fourth quarter GDP results, these measures have not led to growth.

Table 1: Quarterly economic performance by industry

% change q/q	Agriculture	Mining	Manufacturing	Utilities*	Construction	Trade	Logistics**	Business services***	Government	Personal services	GDP
2022Q4	-5,5	-3,4	-2,0	-2,1	0,1	-2,6	0,7	-1,6	-0,6	-0,1	-1,4
2023Q1	-4,6	1,5	1,0	-0,9	0,9	1,0	1,2	0,8	0,4	0,6	0,6
2023Q2	3,4	0,5	2,3	-0,7	-0,2	-0,5	-1,3	0,4	0,6	1,5	0,7
2023Q3	-19,4	-0,7	-1,3	0,3	-3,3	-0,3	0,5	1,1	0,5	0,8	-0,4
2023Q4	-2,4	2,6	0,3	2,3	-1,5	-2,8	3,1	0,8	-0,5	0,9	0,3
2024Q1	14,1	-1,2	-1,2	-0,2	-2,8	0,5	-0,7	0,1	-0,2	0,0	0,1
2024Q2	-3,4	-0,7	0,8	2,3	0,2	0,7	-3,1	1,7	0,3	0,1	0,3
2024Q3	-19,7	0,8	0,3	1,3	0,8	-0,6	-0,5	1,2	-0,1	0,6	-0,1
2024Q4	17,2	-0,2	-0,6	-1,4	-0,4	1,4	-1,0	1,1	-0,5	-0,2	0,6

Source:StatsSA
 *Utilities includes electricity, gas and water
 **Logistics includes transport, storage and communication
 ***Business services includes finance, real estate and business services

Only three of the ten economic sectors positively contributed to the small economic growth in the fourth quarter of 2024. The agriculture sector, which has had large fluctuations in its performance over several quarters, expanded the most compared to other economic sectors. Its gross value-added increased by 17.2 per cent, following a sharp contraction of 19.7 per cent in the third quarter of 2024. This rebound by a sector whose overall contribution to GDP is relatively small was pivotal in preventing the economy from slipping into a technical recession. Improved field crop outputs, driven by better weather conditions, contributed to

¹ All expenditure/growth data is seasonally adjusted and annualised unless otherwise stated

the sector's positive performance. Additionally, a recovery in the livestock subsector, resulting from better control of animal diseases, further supported this growth.

Overall, the primary challenges facing the agriculture sector in 2024, which continue to pose risks into 2025, include livestock diseases and the increasing impacts of climate-related shocks. These shocks encompass droughts, heavy rainfall, heatwaves and diminishing water availability, which have cascading effects on businesses and the cost of living for households.

Gross value added by the finance and trade sectors increased by 1.1 per cent and 1.4 per cent, respectively. While the positive contributions from the finance sector are welcomed, its highly concentrated nature and limited role in advancing long-term investment for building dynamic and productive capacity remains a concern. In 2024, the finance sector was supported by financial intermediation (including banks and insurance companies), real estate activities, and other business services subsectors. However, these subsectors have often prioritised short-term gains over long-term productive investment.

In contrast, value added by the manufacturing sector decreased by 0.6 per cent, while the logistics sector contracted by 1.0 per cent. Both sectors weighed most of the fourth quarter GDP. Within manufacturing, six out of ten sub-sectors reported negative growth. The winding down of ArcelorMittal's steel operations and cumulative decades of low capital investment in manufacturing have contributed to the overall sector's decline. Additionally, uncertainty regarding the renewal of the African Growth and Opportunity Act (AGOA), which is set to expire in 2025, poses an additional risk to the sector's future performance, particularly for the motor vehicles sub-sector.

While supply-side structural reform interventions are necessary for improved economic performance, there is an urgent need to simultaneously address demand-side constraints, including concentration (both in terms of market share and wealth). Among other considerations, capital investment levels must increase in productive sectors with high multipliers.

Expenditure on GDP (Demand-side)

In the fourth quarter of 2024, South Africa's expenditure on GDP expanded slightly by 0.6 per cent, following a 0.1 per cent contraction in the third quarter. This marginal level of growth was largely driven by increased household consumption spending (1.0%), which contributed 0.6 percentage points to the overall GDP growth.

The positive performance was broad-based across all the major consumer spending components, except for consumer outlays on services (specifically restaurants and transport).

Household consumption accounted for 67.3 per cent of South Africa's GDP in 2024. Given its pivotal role in the country's marginal growth, adopting policies that suppress household consumption spending, will likely, constrain GDP growth.

Net exports made no contribution to GDP in the fourth quarter. The growth of exports (2.1%) was offset by an increase in imports (2.0%).

The intensified reduction in government spending (0.8%) on goods and services and the compensation of employees (i.e. unfilled vacant posts) contributed negatively to GDP.

Gross fixed capital formation (fixed investment) decreased by 0.7 per cent in the fourth quarter of 2024. The decline was driven by a sharp decrease in general government and public corporations' capital spending. On the other hand, private sector capital spending barely increased after three consecutive quarters of contraction.

Table 2: Quarterly sector performance of expenditure components of GDP

% change q/q	Household consumption	Government Consumption	Investment*	Exports	Imports	Exp on GDP
2022Q4	0,6	-1,0	0,4	-3,2	-0,8	-1,2
2023Q1	0,5	1,3	1,9	4,4	4,6	0,6
2023Q2	0,0	1,5	4,1	0,5	3,2	0,6
2023Q3	-0,2	0,5	-4,7	0,9	-8,8	-0,3
2023Q4	0,1	-0,4	-0,2	0,5	4,0	0,3
2024Q1	-0,2	-0,1	-1,5	-0,9	-5,0	0,0
2024Q2	1,1	0,8	-0,9	-0,6	1,6	0,4
2024Q3	0,4	-0,5	0,3	-4,3	-4,2	-0,1
2024Q4	1,0	-0,8	-0,7	2,1	2,0	0,6

Source: Stats SA
*Investment refers to gross fixed capital formation

Employment

The official unemployment rate decreased to 31.9 per cent in the fourth quarter of 2024 from 32.1 per cent in the third quarter of 2024. According to Stats SA, the number of unemployed persons decreased by 20 000 to 8 million. At the same time, employment rose by 132 000 to 17.1 million, and the labour force increased by 112 000 to 25.1 million.

Job gains were mostly seen in finance (up by 232 000) and manufacturing (41 000), while job losses largely occurred in the community and social services (down by 63 000) and trade (32 000) sectors.

Table 3: Key labour statistics – Quarterly Labour Force Survey (QLFS)

	3Q 2024	4Q 2024
Labour force ('000s)	24 957	25 069
Employed	16 946	17 078
Unemployed - official	8 011	7 991
Unemployed - broad*	12 231	12 291
Not economically active ('000s)	16 474	16 492
Discouraged job-seekers	3 355	3 466
Other (not economically active)	13 119	13 026
Unemployment rates		
Official unemployment rate (narrow)	32.1%	31.9%
Broad unemployment rate*	41.9%	41.9%
Labour Force Participation Rate	60.2%	60.3%
* The broad unemployment rate includes discouraged job seekers		
**Data Source: Quarterly Labour Force Survey, Stats SA		

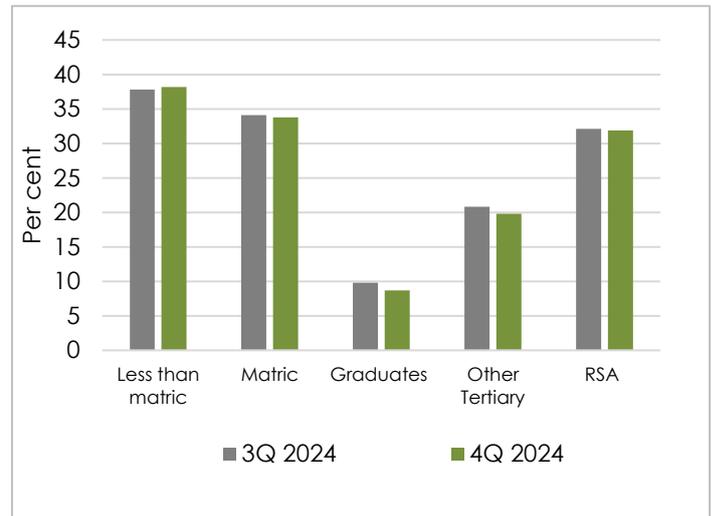
The expanded unemployment rate (which includes individuals who desire employment regardless of whether they actively seek work) remained unchanged at 41.9 per cent in the fourth quarter of 2024.

At a provincial level, the largest employment increases were recorded in Western Cape (up by 62 000), KwaZulu Natal (52 000) and Gauteng (45 000). Employment losses were recorded in Free State (down by 25 000), Northwest (20 000) and Limpopo (16 000) in the fourth quarter of 2024.

South Africa's labour market continues to be marked by significant gender and racial inequalities. In the fourth quarter of 2024, the unemployment rate for women was 33.9 per cent, while it was 30.1 per cent for men. Moreover, the unemployment rate for the black population was 35.8 per cent during the same period, significantly higher than the 6.7 per cent unemployment rate for the white population.

Youth in South Africa have an unemployment rate higher than the national average and continue to suffer due to labour market conditions. According to the Quarterly Labour Force Survey (QLFS), South African Youth aged 15-34 years recorded an unemployment rate of 44.6 per cent.

Figure 2: Unemployment rate by education level – third quarter of 2024



Source: Stats SA

The most recent unemployment data indicates that having a tertiary education, particularly a degree, increased the probability of finding employment. In the fourth quarter of 2024, individuals with educational attainment below matric recorded an unemployment rate of 38.2 per cent, while graduates experienced a decrease in the unemployment rate of 1.1 percentage point to 8.7 per cent compared to the previous quarter. Even though the probability of finding a job with a degree is higher, the unemployment rate for graduates remains high.

Exchange rate

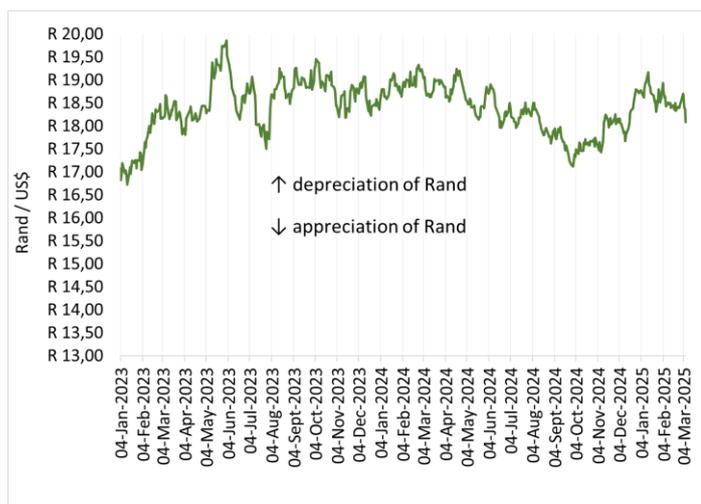
The South African rand experienced notable volatility between January and March 2025, reflecting deeper economic challenges within South Africa and the global financial system. In January 2025, the rand depreciated, reaching a peak of approximately R19.20 against the US dollar. This sharp decline largely reflects currency traders' speculations about various domestic and global events. Moreover, it underscores South Africa's long-standing structural vulnerabilities, including its dependence on volatile capital inflows, weak industrial base, and persistent socioeconomic inequalities. These conditions have exposed the rand to external shocks, reinforcing the

country's fragile economic position in the global financial system.

The rand partially recovered in February, with the exchange rate improving to an average of R18.49 to the US dollar. The appreciation of the rand occurred alongside the South African Reserve Bank's decision to cut the repo rate by 25 basis points to 7.50 per cent.

In the beginning of March, the rand strengthened further, reaching R18.05 against the US dollar. Commodity prices played a key role in the rand's appreciation, with rising gold prices improving South Africa's trade balance. The country's reliance on commodity exports is an unstable way to maintain currency stability, as it leaves the economy vulnerable to changes in global demand. Without strong investment in industries that drive productivity, innovation, and job creation, commodity exports alone are unlikely to provide sustained economic resilience.

Figure 3: The rand-dollar exchange rate



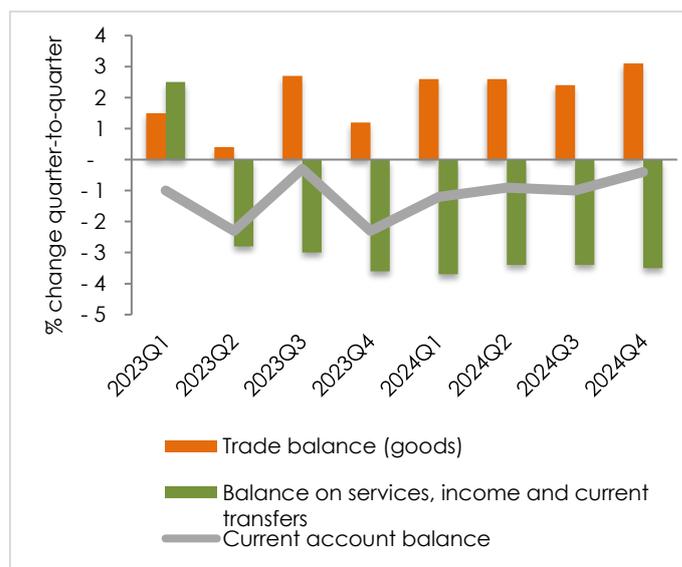
Source: SARB

Current account

South Africa's current account remained in a deficit in the fourth quarter of 2024. The deficit on the current account narrowed to R31.6 billion (0.4% of GDP) from a revised deficit of R55.6 billion (0.8% of GDP). On an annual basis, the deficit on the current account narrowed to R44.5 billion (0.6% of GDP) in 2024 from R112.1 billion (1.6% of GDP) in 2023. The main reason for the negative current account balance remains net outflows due to the balance on the primary income account and current transfers.

The shortfall on service, income and current transfers account widened from R256.1 billion in the third quarter to R264.5 billion in the fourth quarter. As a ratio of GDP, the services, income and current transfers broadly remained the same at 3.5 per cent from the third quarter to the fourth quarter. The wider deficits were driven by a larger shortfall on the income account, partially offset by smaller deficits on the services and current account transfers.

Figure 4: Change in the balance of the current account (as a percentage of GDP)



Source: SARB

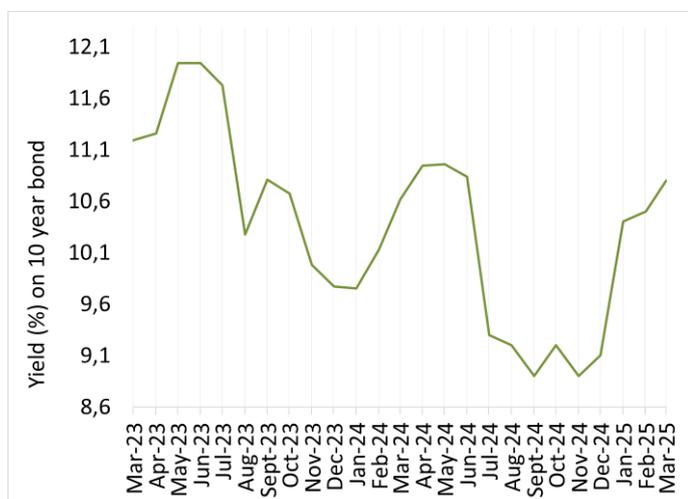
South Africa's trade surplus widened between the two quarters from R200.4 billion in the third quarter of 2024 to R232.9 billion in the fourth quarter, with the value of merchandise exports increasing more than that of imports.

The persistent current account deficit and declining trade surplus reflect structural imbalances in South Africa's economy, driven by reliance on commodity exports, high net outflows from primary income and transfers, and limited industrial capacity. These trends exacerbate external vulnerabilities, weaken aggregate demand, and constrain domestic resource mobilisation, impacting government revenues. Addressing these challenges requires transformative policies, including reindustrialisation, diversification of the export base, progressive taxation, and strategic public investment to stimulate demand and reduce reliance on volatile external flows. By prioritising inclusive growth and reducing structural inequalities, South Africa can build a more resilient and equitable economy.

Sovereign debt

Following a decline in the fourth quarter of 2024, the yield on South Africa's (SA) 10-year bond—a key indicator of market perceptions regarding the riskiness of government debt—increased during the first quarter of 2025, reaching 10.8 per cent at the beginning of March. This surge in SA's 10-year bond yield reflects not just market fundamentals but also the influence of financial speculation, policy uncertainty, and structural constraints in the domestic economy. Concerns over global inflation amid trade tensions, the postponement of the budget, renewed energy generation constraints, and SA's tensions with the US may have contributed to the bond market's more pessimistic view.

Figure 5: Yield on SA 10-year bond

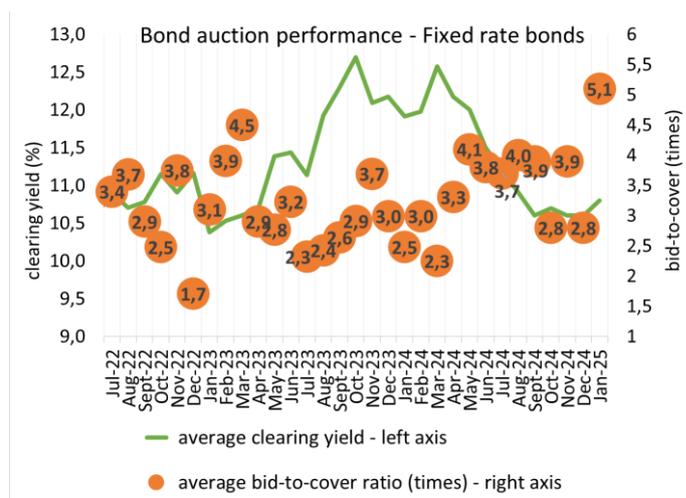


Source: Quantec

The surge in borrowing costs highlights how bond markets, driven by short-term profit motives, amplify financial instability rather than serving as an objective measure of sovereign risk. The delay in the budget, energy supply challenges, and geopolitical tensions contribute to investor uncertainty, but these concerns are often exaggerated by rating agencies and global financial institutions that impose restrictive fiscal expectations on developing economies. Instead of pursuing contractionary policies to soothe the bond markets, South Africa should adopt a counter-cyclical, growth-driven strategy—prioritising public investment in social services and infrastructure as well

as industrial development to structurally reduce financial vulnerability.

Figure 6: Bond auction performance - All fixed-rate bonds



Source: National Treasury, PBO calculations

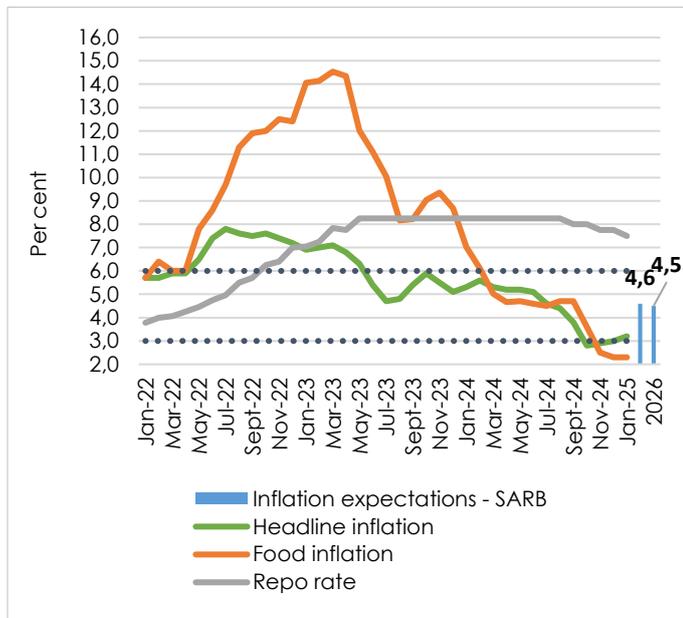
In January 2025, the average clearing yields — the interest rates the government must pay to finance its budget deficit and refinance maturing debt — increased alongside rising demand for domestic bonds at the government's weekly bond auctions. The high demand for these bonds was reflected in an average bid-to-cover ratio of five, indicating that bids received were five times greater than the number of bonds available for sale.

Inflation and monetary policy

Headline consumer price inflation (CPI) for all urban areas increased to 3.2 per cent in January 2025, from 3 per cent in December 2024. This was the highest inflation outcome in four months; however, it remains well below the South African Reserve Bank's preferred midpoint target of 4.5 per cent.

The most notable contributors to the annual inflation rate were housing and utilities, as well as restaurants and hotels, which increased by 4.5 per cent and 4.9 per cent respectively. Food and non-alcoholic beverages also increased in January 2025 (up 2.3%). Given lower domestic inflation and reduced interest rates in advanced economy central banks, the SARB's Monetary Policy Committee (MPC) lowered the repurchase rate by 25 basis points to 7.50 per cent during its January 2025 meeting.

Figure 7: Inflation is below the SARB's target range



Source: Stats SA, BER

With the poor GDP growth recorded in 2024 and inflation projected by the SARB to remain near the midpoint of its 4.5 per cent target over the medium term, the modest rate cut is unlikely to provide sufficient stimulus to revive weak domestic demand. South Africa still has one of the highest real interest rates globally. A more aggressive rate reduction could have offered additional relief to households and eased the government's substantial debt servicing costs.

Domestic fiscal and economic outlook

South Africa's domestic economic outlook reveals the persistent failures of orthodox economic policies, which have relied excessively on fiscal consolidation, inflation targeting, and supply-side reforms. Despite narrowly avoiding a technical recession, GDP growth in 2024 was a mere 0.6 per cent — far below the National Development Plan's 5.4 per cent target and the IMF's 4.2 per cent projection for comparable emerging economies. This stagnation highlights the limitations of market-driven reforms that prioritise financial stability over developmental objectives.

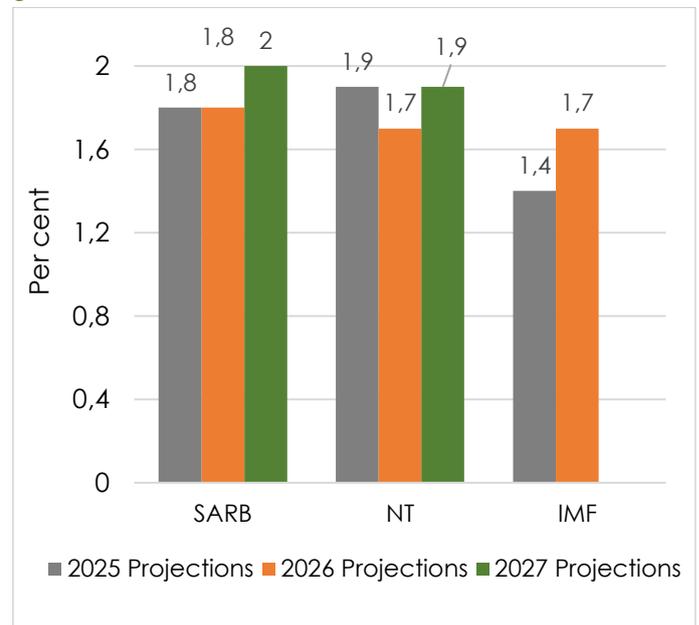
The sustained decline in manufacturing, exacerbated by the closure of ArcelorMittal's steel plant and uncertainty surrounding the renewal of the African Growth and Opportunity Act (AGO), reflects the dangers of an economy that has steadily deindustrialised. The focus on austerity and business confidence, without meaningful intervention to stimulate domestic demand or reduce structural

inequalities, has left the economy stagnant and vulnerable to external shocks.

The limited economic growth occurred despite some positive developments, such as the suspension of loadshedding for nearly a year and consecutive improvements in business confidence. However, these supply-side improvements have not translated into stronger economic outcomes, further highlighting the inadequacy of orthodox strategies that focus primarily on structural reform. The reliance on private sector-led investment has proven insufficient in the absence of proactive state intervention.

To achieve sustainable growth, South Africa must shift focus toward increasing capital investment in productive sectors with high employment multipliers and addressing demand-side constraints such as income inequality and concentrated market power. Without policies that expand economic participation and enhance domestic consumption, growth will continue to lag population growth and developmental needs.

Figure 8: Projections for South Africa's real economic growth



Source: PBO, IMF, National Treasury and SARB

On the fiscal front, South Africa's rising debt reflects both weak economic performance and the misguided pursuit of austerity. The yield on the country's 10-year bond climbed to 10.8 per cent in early 2025, driven by heightened policy uncertainty, delays in budget announcements, and renewed energy supply concerns. However, this increase also

reveals the exaggerated influence of speculative financial markets, which distort perceptions of risk and undermine developmental priorities. By catering to the demands of credit rating agencies and global investors, the government has constrained its ability to invest in vital public services and infrastructure. Instead of relying on short-term debt management strategies that prioritise financial markets, South Africa must pursue counter-cyclical fiscal policies that prioritise economic growth and social development.

To escape this cycle of low growth and entrenched inequalities, South Africa must adopt a bold, growth-first strategy that expands public investment in infrastructure, social support and services, and industrial development. An approach that prioritises social needs and redistributive measures alongside structural reforms is essential for reversing deindustrialisation and rebuilding productive capacity. By strengthening domestic demand, addressing inequality, and promoting inclusive growth, South Africa can break free from its reliance on volatile external capital flows and achieve a more sustainable and equitable economic trajectory.

Box 1: The postponement of the 2025 budget and the VAT debate

The tabling of the 2025 budget was postponed to 12 March 2025. This is the first time in the democratic era that the tabling of the budget has been postponed.

The contentious issue of Value Added Tax (VAT)

In 2018, South Africa increased the Value-Added Tax (VAT) rate as part of the government's efforts to raise additional revenue. The VAT rate was raised from 14 per cent to 15 per cent, effective from April 1, 2018. This was the first increase in VAT since 1993. Government argued that

“Unlike other major taxes, the VAT rate has remained unchanged since 1993 and is lower than the average rate across peer countries. Raising VAT is less harmful to growth than raising other taxes. The zero-rating of basic foods and paraffin limits the regressivity of VAT, and additional adjustments are proposed to enhance the progressivity of the tax system”

A VAT increase has come to the fore again, with similar arguments being made to justify the increase. When the 2018 increase was proposed, the government committed to conducting a three-year review of the change to assess its impacts. This has not been done.

The above arguments made for increasing VAT need to be challenged. Firstly, comparisons to “peer” countries need to consider the socioeconomic contexts. Tax policy needs to be in line with the country's developmental objectives, considering the historical context. Government should carefully consider these options and prioritise those that align with its developmental objectives and commitment to equity.

Secondly, there has been no evidence provided in the South African context of the impacts of VAT on growth. Numerous studies have examined the relationship between VAT and economic growth. While some studies have found a negative impact of VAT on growth, others have found no significant effect or even a positive impact. The impact of VAT on growth is likely to depend on a variety of factors, including the structure of the economy, the level of government spending, and the distributional impact of the tax (Cnossen, 2010; Keen & Lockwood, 2010).

Third, zero-rating has not been proven to be effective in cushioning households from VAT changes. Zero-rating has cushioned households from VAT but not enough. The 2018 Davis Tax Committee's final report on VAT highlights the literature on how zero rating provides proportional benefit to low-income earners but provides larger absolute to higher income earners. They DTC argues that “zero rating is a very blunt instrument for the pursuit of equity objectives”.

Lastly, the proposal may not yield the intended outcome, yet many households will feel its effects. The increase of the VAT rate was expected to raise an estimated amount of R22.9 billion during 2018/19. In the 2019 budget, the government noted that VAT collections had been considerably lower since October 2018. Table 4 below shows the changes in VAT estimates and revenue outcomes between the 2018 and 2019 budgets.

Table 4: 2018 and 2019 budget VAT estimates and revenue outcomes

R million	2017/18			2018/19		
	Budget	Outcome	Deviation	Budget	Revised	Deviation
Value-added tax	299 058	297 998	-1 061	348 110	325 917	-22 192

Source: National Treasury, 2019 Budget Review

What would a VAT increase mean for households?

VAT is particularly regressive in the context of high levels of poverty, unemployment and inequality. Based on our modelling, the PBO finds that a two per cent VAT increase from 15 per cent to 17 per cent is estimated to generate R48.6 billion in additional revenue in 2025, increasing to R108.5 billion by 2030. However, VAT is inherently regressive, as 30 per cent of the additional revenue would come from the bottom two income quintiles, while 50 per cent of the VAT burden would fall on the top two quintiles. Using their January 2025 price data, the Pietermaritzburg Economic Justice and Dignity Group (PMBEJD) estimates that a 17 per cent VAT rate increase would increase

- a basic basket of household groceries by R375.16 with the total basket increasing to R5477.84
- increase a basic basket of household toiletries and domestic products by R154.57, with the total toiletries increasing to R1 063.82.
- a household's basic 350kWh consumption of electricity by R153.31 to a total of R1 195.86 (we included Eskom's 12.7 per cent increase of R115.80 which will come into effect in July).

Raising taxes on the poor and middle classes, particularly consumption taxes such as VAT, seems to ignore the fact that households have suffered through rising inflation and high levels of household debt that exacerbate South Africa's long-term cost of living crisis caused by structural unemployment, poverty and inequality.

The debate on VAT around tax has prompted debates with Parliament and in broader civil society on whether the government has considered other revenue sources other than VAT, given its regressive nature as a consumption tax. The PBO has published a [brief](#) providing alternatives.

What comes next?

The postponement of the budget has also prompted a discussion about the legislative provisions of the budget process. The Minister of Finance tabled the 2025 budget on 12 March 2025.

Section 27 of the Public Finance Management Act (PFMA) (Act 1 of 1999) requires that the national budget be tabled before the start of the fiscal year (April – March), except in exceptional circumstances where a delay may be justified. Under Section 29(1), if Parliament has not approved the new financial year's budget by April 1, the Minister of Finance may authorise expenditure up to 45 per cent of the previous year's allocated budget for national and provincial departments.

While Section 29 allows government operations to continue during budget delays, it imposes significant constraints. Departments must prioritise core functions, deferring new initiatives until parliamentary approval. Provinces and municipalities dependent on national transfers may face cash flow pressures if delays extend beyond the 45 per cent threshold, particularly in high-cost sectors like healthcare, education, and infrastructure. Prolonged budget delays could strain departments' ability to manage operational costs, risking service disruptions.

The postponement will delay Parliament's budget review schedule. Parliamentary committees require sufficient time to review departmental allocations and conduct oversight. A postponement shortens this time frame, limiting opportunities for debate and amendments, which in turn reduces the quality of legislative scrutiny.