

Budget's focus on macroeconomic stability is welcome

THE 2025 Budget presented by Minister Godongwana is sobering in several respects. On one hand, it reflects a delicate balancing act between measures that support growth, such as infrastructure investment and structural reforms, and social spending, including increases in health, education, early childhood development, and social assistance allocations like above inflation increases in social grants.

At the same time, it aims to avoid increasing borrowing to keep public sector debt to gross domestic product (GDP) under control. However, it serves as a lesson in the consequences of the government's failure to make early trade-offs between growth-enhancing expenditures and consumption spending. If the government had made decisions to curb consumption spending earlier, the need to increase VAT could have been avoided.

BUSA welcomes the Budget's focus on macroeconomic stability, structural reforms, scaling up infrastructure, and enhancing the state's capabilities. However, aside from infrastructure investment, for which some detailed

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plans were outlined, it remains silent on what will be done differently in other areas.

The proposed 1% VAT increase over two years, along with the absence of inflationary adjustments to Personal Income Tax (PIT) brackets, will further strain household incomes, leading to subdued aggregate demand. These tax hikes also impose an additional burden on an already narrow tax base, which shoulders a significant portion of the country's taxes. Given the slow GDP growth outlook over the medium term, relying on yet uncertain spending reviews while expanding government expenditure is a risky gamble for controlling spending.

This Budget lacks specific plans to eliminate inefficiencies, address wasteful expenditure, and identify savings. It is unclear how the government plans to reprioritise and redirect resources



IN light of the government's poor track record in controlling expenditure, BUSA advocates for a legislated expenditure ceiling to ensure accountability and discipline, says the writer. | Independent Newspapers Archives

to fund effective programmes while discontinuing non-performing ones. The 240 spending reviews mentioned by the minister, that have been con-

ducted and yet not acted upon in 12 years, raise concerns about the government's political will to take decisive steps to curb spending. In light of the government's poor track record in controlling expenditure, we advocate for a legislated expenditure ceiling (fiscal rule) to ensure accountability and discipline.

Reducing public expenditure and stimulating economic growth are crucial for bringing down debt-service costs, which pose a significant burden on the fiscus, to manageable levels.

Despite these concerns, BUSA welcomes several positive commitments in the Budget. The partnership between the government and business has yielded positive results over the past 18 months, and BUSA remains dedicated to collaborating with the government to implement reforms that will foster economic growth, enhance business confidence, and generate jobs. Achieving a 3% GDP growth is possible if we maintain our focus on the goal and implement the right actions with increased determination.

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