

February 2025

Economic, Social, and Public Finance Context for the 2025 Budget: PBO Pre-Budget Briefs

Purpose of the Pre-Budget Briefs

The Parliamentary Budget Office (PBO) provides these briefs to Members of Parliament (MPs) to offer a comprehensive understanding of the economic, social, and public finance context in buildup to the 2025 Budget. These briefs help MPs track budget progress, assess alignment with the country's development plan, and identify key oversight areas. This cover page summarises each brief, with links to the full documents for further detail.

Need for a guiding Medium-Term Development Plan

The 2025 Budget is the first in the final five-year cycle of the 2030 National Development Plan. It is essential that Parliament oversight over the budget is guided by a clear five-year strategic plan. During the 2024 MTBPS analysis, the PBO noted that the lack of an adopted 2024-2029 medium-term development plan (MTDP) is likely to hinder the assessment of budget efficacy and alignment with long-term development goals. While progress has been made on some the 2030 National Development Plan indicators, challenges like unemployment, poverty, and inequality persist, partly due to the continued disconnect between planning and budget frameworks. President Ramaphosa's announcement of the 2024-2029 MTDP in the 2025 State of the Nation Address (SONA) is a significant step in the 7th Administration, enabling Parliament to use this plan as a lens to assess the 2025 Budget proposals. It is there crucial the Parliament has access to the adopted 2024-2029 MTDP when assessing the 2025 budget proposals.

Global Economic Outlook

The global economic outlook is uncertain, with GDP growth projected to remain below pre-COVID-19 levels. Developed economies are expected to grow slower than developing countries. Geopolitical instability, including conflicts and tensions, further adds to this uncertainty. Addressing these challenges requires increased investment in development, creating opportunities for vulnerable populations, and strengthening state capacity to foster inclusive development. It is crucial that Parliament's consideration of the 2025 Budget takes into account the context of slow global growth, regional instability, and geopolitical uncertainty which may directly or indirectly South African economy. The document can be accessed [here](#).

Trade Relations with the USA

South Africa's trade with the USA is concentrated in a few sectors, making it vulnerable to shocks like US tariffs. This highlights the structural imbalance in South Africa's trade, which relies heavily on raw materials and semi-processed goods. While strengthening trade relations with the USA is important, South Africa should pursue policies that reduce reliance on volatile foreign markets. This includes regional integration in Africa, strengthening domestic value chains, and state support for industrial upgrading and technological development. The ultimate goal is long-term economic sovereignty through localized production, worker-led industrialisation, and reduced commodity dependence. The document can be accessed [here](#).

Sovereign Debt

South Africa's debt-to-GDP ratio is rising due to weak economic growth, high deficit financing, elevated interest rates, and a depreciating rand. However, there is lack of evidence that the country is in an immediate debt crisis danger due to factors like a long debt maturity profile, prioritising debt service costs, and deep domestic capital markets. The government should consider leverage debt strategically for economic development and job creation, particularly in infrastructure, education, healthcare, and social programs. A multi-pronged approach involving fiscal reforms, broadening the tax base, optimising debt servicing costs, and utilising monetary sovereignty is crucial. Parliamentary oversight is essential to ensure responsible debt management and alignment of public spending with developmental priorities. The document can be accessed [here](#).

Rethinking Fiscal Policy

The current fiscal consolidation strategy has not achieved its goals of debt reduction and growth stimulation. Instead, the evidence shows that it has contributed to economic stagnation, worsening unemployment, poverty, and inequality. A rethinking of the fiscal framework is needed, pivoting towards a more expansive, growth-oriented strategy. This involves leveraging the full public sector balance sheet, building resilience and productivity in households and businesses, enhancing domestic resource mobilization, and managing interest rates on government bonds. Parliament to consider that the continued budget cuts and a focus on supply-side structural reforms without addressing the broader economic context should be avoided. The document can be accessed [here](#).

Municipal Finance

South African municipalities face challenges in service delivery, financial management, and governance. Key issues include service delivery failures, lack of technical skills, insufficient reinvestment in infrastructure, weak governance, fragmented approaches, and lack of digital capabilities. Government interventions are planned to address these challenges. Currently, 33 municipalities are under Section 139 intervention, mostly due to financial distress. The effectiveness of these interventions has been mixed. Significant disparities in revenue collection and expenditure patterns exist across municipalities, with persistent challenges like capital underspending and debt write-offs. The high number of interventions highlights the need for comprehensive reform in the local government sector. The document can be accessed [here](#).

Government Spending and Revenue

The 2025 budget proposals will be presented amidst ongoing fiscal contractionary measures, leading to real per capita declines in spending on essential social services. This has resulted in staff shortages, inadequate resources, and declining service quality, disproportionately impacting vulnerable groups. The government's pursuit of a primary budget surplus until 2030 suggests these measures will continue, raising concerns about achieving socio-economic goals. Fiscal contractionary policies also impact revenue generation by limiting economic growth. Additionally, the government has not implemented significant tax reforms to progressively increase revenue collection. While the upcoming 2025 budget may see a slight upward revision of the 2024/25 revenue outcome, the overall fiscal context remains constrained. The document can be accessed [here](#).

Social Relief of Distress Grant

The future of the Social Relief of Distress (SRD) grant is uncertain as its scheduled end approaches, 31 March 2025. The grant has been crucial in providing support to vulnerable individuals, alleviating poverty, and stimulating local economies. However, legal challenges around eligibility criteria and administrative issues persist. A sustainable solution is needed to address poverty and inequality, considering the Constitutional mandate to provide social security. The document can be accessed [here](#).

Updates on the Expanded Public Works Programme (EPWP)

The EPWP is a vital job creation mechanism in South Africa, aiming to create work opportunities and provide training for unskilled, marginalized, and unemployed people. The EPWP grants incentivise labour-intensive methods in various projects. While there have been improvements in fund utilisation and employment generation, challenges remain, including underspending, declining job durations, and inconsistent reporting. The document can be accessed [here](#).

Update on Capital Expenditure and Funding

The government plans to consolidate financing, preparation, and planning for large projects into a single entity to attract private-sector funding and expertise. This includes increasing the use of public-private partnerships (PPPs) and streamlining project appraisal and financing processes. The total infrastructure investment planned over the 2024 MTEF amounts to R943.8 billion. State-owned companies and public entities are estimated to spend the largest proportion of government capital spending. However, government spending is weak due to poor governance in municipalities and state-owned companies. Several reforms have been implemented to improve infrastructure delivery and funding, including the establishment of an Infrastructure Fund and the Budget Facility for Infrastructure (BFI). The document can be accessed [here](#).

Fiscal Brief

Tax revenue collection increased by 5.3 per cent year-on-year to R1.32 trillion as of December 2024, while R1.56 trillion (72.6%) of the consolidated budget had been spent, a R47 billion increase compared to the same period in the previous financial year. Overspending in some departments and underspending in others highlight issues with budget planning and execution. Concerns remain about slow spending on capital assets by provincial departments. The AGSA report notes improvements in financial and performance outcomes but also highlights challenges like unauthorized expenditure, unresolved claims against departments, and the financial health of auditees. The document can be accessed [here](#).

All PBO briefs can be accessed at <https://www.parliament.gov.za/parliamentary-budget-office> under the Budget Analysis Publications.

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