

Snap | 12 March 2025

SOUTH AFRICA

South Africa's budget rerun provides more questions than answers

South Africa's finance minister presented a revised budget today, but the compromises so far are not enough to convince coalition partners

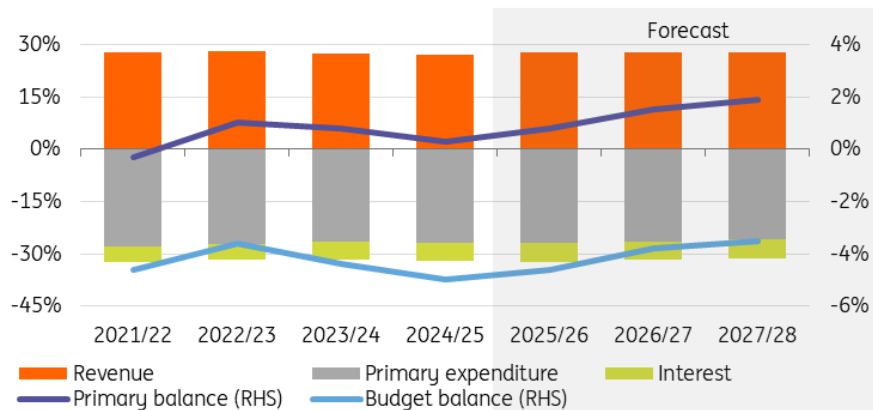


South Africa Finance Minister Godongwana presented a revised 2025 budget

South Africa's finance minister Enoch Godongwana today presented the country's 2025 budget, having already delayed the process from 19 February amid disagreements within the ruling Government of National Unity (GNU). However, despite signs of compromise from the largest party African National Congress (ANC) compared to February's plans, the coalition partner Democratic Alliance (DA) made it immediately clear they were still unwilling to support the budget in its current format. This leaves investors with plenty of uncertainty as to how the ANC intends to pass the budget through parliament, with debate set to continue over the coming days. DA leader John Steenhuisen expressed disappointment but claimed "Hopefully it's not too late, and before these are voted on in parliament, we can find each other".

The revisions since February see the main budget deficit next year 0.2% of GDP wider than projected before, with the consolidated budget deficit set to narrow gradually from 5% of GDP in 2024/25 to 3.5% of GDP in 2027/28.

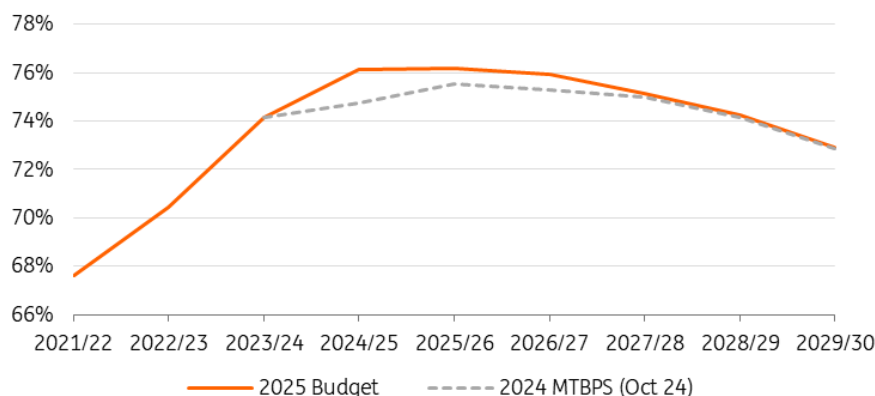
South Africa consolidated budget projections (% of GDP)



Source: National treasury, ING

In terms of the details, the ANC put forward plans to increase the VAT rate by 0.5 percentage points in 2025/26 and a further 0.5pp in 2026/27, while highlighting the possibility to reassess the need for the second hike in 2026/27 if other revenue-raising measures are more successful than anticipated. This cumulative 1pp increase represents a softening of plans relative to the 2pp increase initially put forward in February, but is clearly not enough to placate opposition within the GNU. Other key measures include over ZAR1tn in public infrastructure investment over the next three years, along with a wider basket of VAT-exempt goods, and social grants to be increased above inflation, while Eskom debt relief is revised down from ZAR70bn to ZAR50bn. This leaves government debt ratios still forecast to peak in 2025/26, albeit at a higher level than projected in October's Medium Term Budget Policy Statement (MTBPS) – government debt-to-GDP now seen at 76.2% next year, compared to 75.5% previously, before falling below 70% by 2032.

Government debt-to-GDP projections over time



Source: National treasury, ING

The market reaction to the latest developments was understandably negative on the whole,

with the rand initially selling off by over 1% against the dollar today before reversing some of the losses, while South Africa's dollar bonds modestly underperformed their peers on the day. This followed an initial sell-off and recovery last month on 19 February amid the budget delay announcement, along with more broadly some softness in terms of sovereign credit performance in recent months given signs of tension within the GNU and headline noise from the US administration.

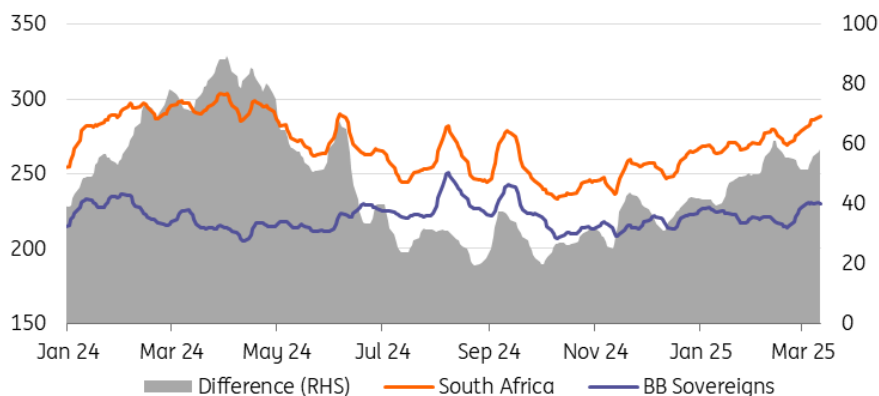
USD/ZAR exchange rate



Source: Refinitiv, ING

We expect volatility to continue in the coming days at least given the ongoing uncertainty – if a budget can eventually be passed with some form of revenue-raising measures, this will likely be perceived as a credit positive, but for now this seems a difficult prospect, and a potential downside tail risk scenario remains of a complete breakdown of the GNU if differences cannot be rectified. South Africa's sovereign dollar bonds now offer an attractive pickup over BB-rated peers when compared to valuations late last year, but we expect most investors will wait for more clarity on the next steps for the budget and the GNU in general before being able to reengage with the positive reform story in the country.

EM USD sovereign bond spreads (bp)



Source: ICE, Refinitiv, ING

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