Budgets and tariffs 7 April 2025

Budget 2025

The numbers in the Budget vote

The vote on the Fiscal Framework was 194 for and 182 against, thus a slim majority of only 12. However, 24 members of Parliament (MPs) did not vote. A lot of uMkhonto weSizwe (MK) and Economic Freedom Fighters (EFF) members were absent, and some MPs who spoke against the Budget left the chamber before the vote.

Some calculate that if everyone who had spoken against the budget voted, the 'No' votes would have been 195! As Wellington has reputedly said after the battle of Waterloo, 'It was a damn close-run thing'.

The Democratic Alliance (DA) and EFF have both indicated they want to challenge the adoption of the Fiscal Framework in the High Court, and the DA proceeded to file papers with the court. There will probably be appeals and cross-appeals, and winding through the courts may take a while.

Approval processes

There are still several rounds of approval awaiting the Budget, and the slimness of the margin on the Fiscal Framework vote will make it a closely watched process. Parliament has 4 approvals to make on the budget, which are as follows:

- The first is the approval of the Fiscal Framework, which has been done. It means that revenue, expenditure, and borrowing limits for 2025 have been set. All further changes must comply with the approved framework. Action SA's recommendations that R31 billion must be found within 30 days to avoid the VAT increase and grant inflation relief to taxpayers does not change the revenue amount in the framework. Whether the money is found or not, the revenue remains as is.
- Within 35 working days of the framework approval, revenue division between national, provincial, and local governments must be approved. Counting from 2 April, the due date is then Tuesday 27 May. If Parliament wants to give more money to a province (say for drought relief or flood damage), it has to take the money from some other sphere of government. Total expenditure must meet the Fiscal Framework.
- Within 4 months from the start of the financial year (1 April), the Appropriation Bill, which authorises expenditure, must be approved. The due date is 31 July. Before that, all the different departmental budgets must be approved individually by committee vote. It is the same story: if Parliament wants to change a department's expenditure, it must take the money from some other department. This avoids the Christmas tree effect in, for example, the United States's (US) budget process where more and more gifts are hung onto the tree.
- Lastly, the Revenue Bills must be approved before Parliament rises for the year. Effectively, the Money Bills work retroactively to the beginning of the tax year, namely 1 March.

The fact that the tax year starts on 1 March and the state's financial year on 1 April, puts a serious constraint on delaying revenue decisions. For example, if a VAT increase was pencilled in for 1 May and then delayed until 1 July, it will impact the revenue as approved in the Fiscal Framework. The VAT increase will therefore kick in on 1 May. Otherwise, the Fiscal Framework cannot be met.

Likewise, the 35 days in which the Division of Revenue Bill must be passed put a cap on changes that can be made. If the revenue that will be divided between the 3 spheres of government are uncertain, how does one divide the revenue?

The Minister has indicated that he will submit the Revenue Bills to Parliament by Friday, 11 April, to give effect to the Fiscal Framework. That means the 0.5% VAT increase will remain and come into force on 1

May. It is also very unlikely that the tax tables will be changed to compensate taxpayers for inflation (so-called bracket creep).

Will the DA leave the GNU?

At the time of writing, this is uncertain. There are factions in both the African National Congress (ANC) and DA who would prefer a break. It depends on who prevails in which party. It may well be another 'damn close-run thing'.

At the time of writing, talks between the parties were still going on. A "settlement" will most likely involve that the DA withdraw its court action against the budget, whilst the ANC will likely offer the DA some say in economic matters, like the co-chair of Vulindlela.

The DA's departure would mean the ANC and supporting parties can command a slim majority in the National Assembly, but it will be a very slim majority.

So What the budget?

- Approving the Fiscal Framework was an important decision in the budget approval process.
- The VAT increase will likely go ahead as well, and personal tax tables will remain as they are.
- There are further rounds of approval that the Budget still must go through. Given the slim margin of the first round of voting, the whips from the ANC and supporting parties will have their hands full to ensure a majority is reached. Should the DA persist in not voting for the Budget, further approvals may be 'a damn close-run thing'.

Tariffs

Trump levied tariffs on friends and foes alike. Some 60 countries that are deemed to have unfairly high tariffs against United States' goods have been hit with a 'reciprocal tariff' ranging up to 50%. South Africa attracted a 30% tariff (some reports indicate 31%).

Interestingly, Russia and Belarus are two countries against whom no levies were instituted.

Minerals the United States needs from South Africa will not be hit with tariffs. Iron ore and diamonds will be hit, but copper, zinc, manganese, gold, the platinum group metals, certain chemicals, and wood and nickel products are exempt. Mining commodities make up more than half of all South African exports to the United States, and most of those have been exempted. The other half consists of vehicles, agricultural products, mining equipment, and so on – those will be hit hard.

A White House poster Trump waved around indicated that South Africa has tariffs of 60% against American imports. However, a US agency, the International Trade Administration, has this to say about South African tariffs: 'South Africa reformed and simplified its tariff structure in 1994. Tariff rates have been reduced from a simple average of more than 20% to an average of 7.1% in 2020. Tariff rates mostly fall within 8 levels ranging from 0 to 30%' (dated 1 January 2024 and accessed on 3 April 2025).

Professor Johan Fourie from Stellenbosch University analysed trade data and found that there are only 4 categories from a thousand for which South African levies are higher than 60% tariffs on US's goods. The total value of those imports was $379 000 out of about $6 billion dollars imported from the United States (or 0.0063%).

The White House is as well informed on South African tariffs as it is on land confiscation by the South African government.

African Growth and Opportunity Act

It looks as if these tariffs will replace the African Growth and Opportunity Act (AGOA) arrangements and thus effectively bring AGOA to an end 5 months before its expiry date in August 2025. The previous administration was willing to extend it for 10 years, but Trump was never going to do that as these decisions has proven.

Vehicle exports, in particular, benefited from AGOA, and that gain has now been lost (Ford, BMW, and Mercedes-Benz are all exported from here to the US under AGOA). Likewise for certain agricultural products like citrus, wine and fruit juices.

Impact

The tariffs will no doubt hit SA along with the rest of the world. Its precise impact will only become clear over time, but growth will be slower and jobs will be destroyed. It is only the quantum that is uncertain. We will see in the next weeks how the economists and various researchers adjust their growth forecasts.

The South African government is preparing to table a comprehensive trade and relationship agreement with the US government. Whether the latter would be amenable to such an agreement remains to be seen. I doubt it as Trump has his knife in for SA. Given the issues he is upset about, I do not see scope for concluding a deal.

Diversify

The US is often touted as SA's second-biggest trading partner, but it must be pointed out that it takes less than 10% of SA's exports. The East takes 35%, the European Union (EU) and Africa each 25%, the Middle East 4%, and South America and Australasia the rest. SA has already diversified its trade a lot and further diversification will no doubt follow.

So What?

- Trump has essentially launched a global trade war against the world. It will hit the US, the world, and SA. It will be bad for everybody.
- Therefore, whether SA can hit the growth target of 1.8% over the next 3 years remains to be seen. Population growth is 1.33% (labour force growth is 1.4%), and one wants economic growth at a higher rate than that.
- Given the matters the Trump administration is upset about, the prospect of concluding a deal with the US is very slim.
- SA would have to move on and diversify its exports even more.