

Budget 2025 hurts people & the economy.

The Pietermaritzburg Economic Justice and Dignity Group (PMBEJD) notes with reservations the budget that was tabled by Finance Minister Enoch Godongwana in parliament on Wednesday.

The dogged pursuit of VAT to generate revenue was unfortunate, given that the Minister had far more effective revenue-raising options available to him, for example: removing the retirement fund tax breaks for high-paid employees earning above R750 000 per annum; or instituting a tax holiday on the Government Employees Pension Fund; amongst others, as suggested by various CSO's prior to the budget speech. These options would have raised billions of rands, far beyond the revenue gained from increasing VAT. Raising VAT is not necessary when these options are still at hand.

Dropping the proposed VAT-rate increase from 2% to 0,5% still hurts people and still hurts the economy. Increasing VAT will run through the economy and make every good and service more expensive. It will hurt people and it will hurt businesses, and it will hurt the economy.

A 0.5% VAT increase

Using PMBEJD's latest February 2025 price data, a 0.5% will result in:

- **A Basket of food:** a 0,5% VAT-rate will add R10,80 onto VAT, and bring the total 15,5% VAT on a basic basket of household groceries to R334,81, with the total basket increasing to R5 324,02 (from R5 313,22).
- The expanded list of zero-rated items announced by the Minister – 4 such foods are included in our basket - 2 kg chicken feet; 2kg gizzards' 2kg chicken livers; and 6 cans of canned baked beans. If VAT zero-rated these items could potentially result in a savings of R59.46 for the consumers, **lowering the VAT on the basket to R275.35 and the overall cost of the basket to R5 264.56**. This saving would depend on the producers and retailers passing this VAT zero-rated saving to consumers.
- **A Basket of Household Toiletries and Domestic Products:** a 0,5% VAT-rate will add **R4,50** and bring the total 15,5%VAT on a basic basket of household toiletries and domestic products to **R139,53**, with the total toiletries increasing to **R1039,74** (from R1 035,24).
- **Electricity:** a 0,5% VAT-rate on top of Eskom's 12,7% increase due to come into effect in July (of R115,18) will add **R5,11** onto VAT, and bring the total 15,5% VAT on a household's basic 350kWh consumption of electricity to **R158,42**, with the total monthly cost of prepaid electricity for households increasing to **R1 180,53** (from R1 175,42).

A 0,5% VAT increase on goods and services and its implications

The 0,5% increase on a household food basket, basic toiletries, and prepaid electricity works out to be an increase of **R20,41**. *Total VAT on these three items will be **R573,30***. This cumulative VAT total on just three items of food, household toiletries and electricity are extremely high relative to the monies available to households living on low incomes. VAT hurts consumer spending, it hurts being able to invest and save, it reduces household options to engage in income generating activities. R573,30 a month – on just the 3

items tracked – this amount will be much higher when other goods and services are included. Imagine what South Africans could do with this money in their pockets, and the choice of how and where to invest and spend?

Expanding the VAT Zero-rated Basket

The additional items to be zero-rated, as mentioned above, will provide a savings of R59.46 in the PMBEJD Food Basket. However, when we consider that a 0,5% VAT-rate on top of Eskom's 12,7% increase due to come into effect in July will add R158,42 to the household electricity bills of low-income households using 350kWh of pre-paid electricity, then households will have R98.96 less, even with the VAT zero-rated savings.

It is for this reason that **we advocate for 350 kWh of pre-paid electricity to be included in the basket of zero-rated goods because electricity is essential for the cooking and preservation of food.**

Social grants: women and children

We are disappointed that the Minister chose to pull-back on the R50 for the Child Support Grant and instead reduce it to a mere R30. Not even enough to buy a small jar of peanut butter, even if it excluded VAT, which it doesn't. In February 2025, the average cost to feed a child a basic nutritious diet was R951,64. A R30 increase on the Child Support Grant, taking it from R530 to R560, may mean, using our February data, that the Child Support Grant of R560 will be 30% below the Food Poverty Line of R796, and 41% below the average cost to feed a child a basic nutritious diet (R951,64).

Economic growth requires investment in human capital. For South Africa with such enormous problems of undernutrition, investing in our children is an essential political and economic priority. Our child stunting rates still take our breath away – 30% of boy children and 25% of girl children under the age of 5 years of age are stunted. Added to this, 12,7% or nearly 8 million of our people have HIV. The access to affordable nutritious food is at the core of our developmental trajectory – it cannot be ignored. Increasing the VAT-rate does not lessen this crisis – it reinforces it.

While we welcome the increase on the allocation of Early Childhood Development from R17 per child since 2019 to R24, the several years of underfunding and the now only R7 extra per child is unlikely to be enough to ensure the best possible nutrition for our youngest citizens at both the peak and greatest vulnerabilities of their cognitive and physical development. We can do better.

A country that seeks to develop its economy puts investment on human capital at the centre. Therefore, we believe that the government needs to ensure a greater level of commitment to economic growth by ensuring that food and all our basic necessities are affordable for all of us. Including allowing us to have more money in our pockets to spend and invest, locally where we are, to engage in economic activities and be part of and contribute to the broader economy.

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