

# Things are looking good for Budget 3.0



The head of South Africa's second-biggest political party said talks about the nation's revamped budget are "are going very, very well," a signal that the coalition government is resolving differences that derailed the National Treasury's previous tax and spending proposals.

"We had a wonderful presentation by the minister of finance," on a third iteration of the budget, Democratic Alliance leader John Steenhuisen told reporters at the Nampo Harvest Day expo in the central Free State province on Friday. "I think we're certainly getting there."

"There really is a sense of collaboration and working together to put on the table a credible budget that will be a strong, stable platform for us to go out and seek confidence from our investors and also to start growing the economy and creating jobs here in South Africa," he added.

Steenhuisen's comments follow an assertion by Deputy Finance Minister David Masedo, on Thursday that he is "very confident that we're not going to have budget 4.0," and that lawmakers will approve the proposals in parliament on 21 May.

Last year's election failed to produce an outright winner, with the African National Congress forming a 10-party coalition in June, a month in which it lost the parliamentary majority it had held since the end of apartheid in 1994.

The DA and African National Congress have since February sparred over issues including the National Treasury's proposal to hike value-added tax – all of which raised questions about the alliance's durability.

Tensions escalated last month, when the ANC enlisted the backing of parties that aren't part of the coalition to pass the fiscal framework – legislation that underpins the budget – after the DA withheld its support. The DA then filed a lawsuit contesting the adoption of the legislation on procedural grounds.

The Treasury backed down, saying it would scrap the planned VAT hike and cut spending to fill a R75 billion gap in the budget over the next three years, and seek to settle the court case with the DA.

## Inflation target changes

The rand surged to its strongest level against the dollar in two months and government bond yields fell after Masondo said an announcement on the country's inflation-targeting regime is imminent.

The South African Reserve Bank and National Treasury are “working very hard to establish the appropriate inflation framework” and an announcement would be made “very soon,” he said at an investor conference in Cape Town.

The rand jumped as much as 1.1%, leading emerging-market currency gains, on expectations that a lower inflation target would keep monetary policy tighter for longer to put a brake on price increases.

The yield on benchmark 2035 bonds fell seven basis points to the lowest since early March.

“A lower inflation target will imply real rates remain higher than would otherwise have been the case, which is rand-supportive,” said Mamokete Lijane, global markets strategist at Standard Bank Group Ltd.

“Also, the expectation would be that there would be inflows into government bonds which is supportive of capital inflows.”

The Treasury and SARB have been in talks on a new inflation framework since February 2024. The current target band is 3% to 6%, with a preference for price growth to be anchored at the midpoint.

Central bank Governor Lesetja Kganyago has advocated a single-point inflation target of 3%, which would be more in line with South Africa's peers.