

AFRICA RISK CONSULTING

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South Africa Summary 25 June 2025

South Africa's Government of National Unity (GNU) coalition marks one year in office despite numerous points of tension. The passing of the latest iteration of the fiscal framework underscores the GNU's resilience but tensions remain, which the upcoming 2026 local government elections will exacerbate. Auditor general releases its latest report on municipal audits for the 2023/24 financial year, revealing that only 16% of municipalities received a clean audit, indicating the poor state of public financial management at the local government level. Financial Action Task Force (FATF) reveals that South Africa has completed all 22 items on its action plan to address the shortcomings in its anti-money laundering and counter-terrorism financing (AML/CFT) regulatory regime, increasing expectations that the country will be removed from the grey list in October.

Coalition government survives its first year

South Africa's Government of National Unity (GNU) coalition marked one year in office on 14 June, successfully completing its first year in office despite moments of friction and serious internal tensions, and disagreements.¹ The coalition was formally announced on 14 June 2024 following the watershed national general election on 29 May 2024, in which the **African National Congress (ANC)** lost its ruling majority for the first time since it was initially elected in 1994. President **Cyril Ramaphosa** (2018-present) would go to announce his new cabinet comprising ministers from the various member parties on 30 June 2024.²

Key issues of the last year include the prolonged dispute over the inclusion of a value-added tax (VAT) increase in the 2025/26 annual government budget (*see ARC Briefing South Africa Apr 2025*). This dispute was primarily between the GNU's two largest parties, the ANC and the **Democratic Alliance (DA)**, with the DA vehemently opposed to any VAT increase. This dispute threatened to collapse the GNU, or at least the DA's presence in the coalition, after the ANC sought support from outside the GNU to pass the fiscal framework on 2 April. However, when it became apparent that finance minister **Enoch Godongwana** still did not have sufficient support to pass the budget, he capitulated and withdrew the budget. A new budget was then tabled before parliament on 21 May that did not include any VAT increase, which was uniformly backed by the GNU and the new fiscal framework approved by parliament on 11 June (*see ARC Briefing South Africa May 2025*).³ The remaining budget bills are also expected to pass without issue.

The showdown over the budget appeared to carry important lessons for the GNU's major members. The ANC was forced to truly reckon with the fact that it no longer had a governing majority. Ramaphosa's deft political manoeuvring, combined with the power of the presidency, had enabled the ANC to wield outside influence within the coalition government. However, this was not sufficient to counter the simple mathematical reality that the ANC has substantively lost its parliamentary majority. Going forward, Godongwana will likely amend his practices and ensure that he has a consensus for the budget before tabling the matter before parliament. In fact, this will be necessary for any legislative item that the GNU wishes to pass which means parliament will likely be

¹ EWN, 14 Jun 2025

² The Presidency, 30 Jun 2024

³ Daily Maverick, 11 Jun 2025

comparatively unproductive during this cycle, as any legislation submitted to the house will need to be acceptable to enough GNU members to secure a majority.

For its part, the DA appears to have realised that its strength within the GNU is more muted than it initially believed. Furthermore, the erstwhile opposition party is clearly struggling with its pivot to being a member of a governing coalition. The DA's brinkmanship over the budget risked his position in the coalition, a fact that will not sit well with the DA's support base, which is eager for tangible governance change, and for the DA to ensure that the parties such as the opposition **Economic Freedom Fighters (EFF)** and the **uMkhonto weSizwe Party (MKP)** remain out of power.

Although there are persistent tensions and ideological tensions within the GNU, the numerous disputes over the past year have also underscored the coalition's resilience and it is evident that the member parties are adamant about remaining in the coalition. The GNU is also a source of political stability as it is more challenging for the president to reshuffle his cabinet, especially ministers who are members of other parties, meaning the current cabinet is expected to remain fairly static for the length of the GNU.

Although the GNU successfully surviving a year is commendable, the government's actual performance is mixed. The coalition government has achieved some practical outcomes. The department of home affairs has addressed its visa backlog and made progress in reducing corruption within the department. Additionally, the country's electricity stability has improved over the past year. These gains have contributed to an improvement in South Africa's business confidence. The latest **South African Chamber of Commerce and Industry (SACCI) Business Confidence Index** has increased by 8.8 points from 114.7 points in March 2024 to 123.5 points in March 2025.⁴ The **RMB/BER Business Confidence Index** has also noted a moderate improvement during the GNU's tenure, seeing business confidence increasing to 40 points in June 2025 from 35 in June 2024.⁵ However, this still indicates that sentiment remains in negative territory.

This is likely due to South Africa still registering lacklustre economic growth - South Africa's economy only grew by 0.1% of real GDP in the first quarter (Q1) of 2025 (January-March).⁶ Such flat economic growth is insufficient to address South Africa's major economic and social challenges and will fuel disillusionment in the ruling coalition.

South Africa will hold its local government elections in 2026, which will aggravate tensions within the GNU as the coalition is a governing one and not an electoral one. As such, the composite members of the GNU will compete with one another in these elections. This will involve levelling increased political attacks and accusations at one another, which will place further strain on the coalition. The post-election coalition-building in South Africa's municipalities will be a test of the coalition's strength and resilience. The national government is not expected to dissolve because of disagreements but would be strengthened if the GNU were to be replicated at a local government level.

Auditor general highlights poor municipal governance

South Africa's local government elections are particularly important given the poor state of the country's municipal governance. Local government is a driving force behind service delivery and utility provision, and the substandard state of the country's municipalities is a major factor in suppressing economic growth in the country.

This poor state of local governance was highlighted by the auditor general **Tsakani Maluleke's** latest municipal audit outcomes, which covered the 2023/24 financial year, released on 28 May.⁷ Only 41 out of South Africa's 257 municipalities received clean audits (16%), which essentially means that 85% of local governments have shortcomings when managing public funds.⁸ A further 99

⁴ SACCI, Mar 2025

⁵ BER, 4 Jun 2025

⁶ StatsSA, 3 Jun 2025

⁷ Sowetan, 28 May 2025

⁸ Daily Maverick, 28 May 2025

municipalities received unqualified findings, 90 received qualified findings, six municipalities were issued with adverse findings, and 11 municipalities received disclaimed audit opinions. Notably, ten municipalities did not even properly submit the financial documents to be audited and, as such, marked as having outstanding audits. **Cape Town (Western Cape Province)** was the only one of South Africa's major metro municipalities to receive a clean audit; by comparison, South Africa's commercial capital, **Johannesburg (Gauteng Province)**, received an unqualified audit with findings, while the executive capital, **Tshwane (Gauteng)**, received a qualified audit.⁹

Politically, the DA was the standout performer as several municipalities it governs received clean audits. However, Tshwane's poor audit outcome could potentially hurt the party in the 2026 local government elections, as it had control of the city in the 2023/24 financial year. The ANC will likely use this to dismiss criticism aimed at that party's poor stewardship of other key Gauteng metros, which are expected to be fiercely contested in 2026.

Regardless, it is evident that public financial management at South Africa's local government level remains a point of deep concern. The auditor general report does not necessarily confirm the presence of widespread corruption, but such poor public financial management is typically an indicator of corruption or at least conditions under which corrupt activity can flourish.

South Africa on track to be removed from grey list

Global money laundering and terrorist financing watchdog, the **Financial Action Task Force (FATF)**, revealed on 13 June that South Africa had completed all 22 items on its action plan needed to be removed from the FATF's grey list of countries under increased monitoring.¹⁰

The FATF placed South Africa on its grey list in February 2023 after the country's anti-money laundering and counter-terrorism financing (AML/CFT) regulatory regime was found to be deficient. Being grey listed means that a country does not meet the international standard for AML/CFT and, as such, presents an increased exposure risk. This is distinct from the FATF's blacklist, which indicates a jurisdiction is high risk.¹¹

South Africa's presence on the grey list has had real-world economic and operational consequences. Many international institutional investors are prohibited from investing in South Africa or purchasing government bonds due to these organisations' low risk threshold. Companies that are in South Africa or are interested in investing in the country have faced high due diligence and compliance costs when doing business in the country.¹²

In addition, the **European Union (EU)** makes no meaningful distinction between grey listed and blacklisted countries. As such, South Africa's grey listing has meant that the country is included on the EU's list of high-risk third countries.¹³ South Africa was similarly included on the **United Kingdom's (UK)** high-risk third countries list.¹⁴ As such, South Africa is subjected to increased scrutiny and EU and UK operators are compelled to conduct additional, more costly due diligence when operating in South Africa or working with South African firms. This acts as a barrier to entry, increasing the cost of doing business in South Africa.

The need for this enhanced due diligence can also negatively affect South African nationals on an individual level, as it creates an additional obstacle to South Africans serving on trusts and key decision-making entities overseas such as the EU and the UK.

The FATF's statement that South Africa had completed its 22 action items has led the South African government to be confident that it will be removed from the grey list following the FATF's next

⁹ Daily Maverick, 28 May 2025

¹⁰ News24, 14 Jun 2025

¹¹ FATF, 25 Jun 2025

¹² Investec, 25 Jun 2025

¹³ European Commission, 13 Jul 2023

¹⁴ HM Treasury, 27 Mar 2025

plenary in October.¹⁵ However, before this, the FATF will conduct an in-country visit to assess South Africa's true progress. South Africa will need to display a clear commitment to continuously strengthening its AML/CFT regime and assure the FATF team that the measures implemented to address its shortcomings are effective.

South Africa's removal from this list would lower the barriers to investment and opportunities caused by its grey listing and provide a much-needed boost to business and investor confidence in the country.

Planner

20-24 Oct 2025 **Paris (France) Financial Action Task Force (FATF)** plenary meetings;
 22-23 Nov 2025 **Johannesburg (South Africa) G20 Leaders' Summit**;
 Apr 2026 **(South Africa) Democratic Alliance (DA)** elective conference;
 Oct/Nov 2026 **(South Africa) Local Government Elections**

Chronology

25 Jun 2025 **Johannesburg (South Africa) Citizen**. Johannesburg mayor **Dada Morero** survives a vote of no confidence despite his coalition partner, **ActionSA**, abstaining from the vote;

25 Jun 2025 **Cape Town (South Africa) News24**. **Democratic Alliance (DA)** leader **John Steenhuisen** indicates his desire to run for re-election as the party's federal leader at its upcoming elective conference;

25 Jun 2025 **Cape Town (South Africa) EWN**. **Electoral Commission of South Africa (IEC)** warns parliament that if it does not appoint new election commissioners by the time the current tenure of three of the IEC's five commissioners expires, it could affect the organisation's ability to organise the 2026 local government elections;

25 Jun 2025 **Markman (South Africa) Algoa FM**. Kidnappers release a woman kidnapped in **Markman (Eastern Cape Province)** on 21 June and while it is unclear if ransom was paid, the incident underscores the rising risk of kidnapping in Eastern Cape;

24 Jun 2025 **Johannesburg (South Africa) News24**. President **Cyril Ramaphosa** faces calls to fire higher education minister **Nobuhle Nkabane** after she misled parliament about the controversial appointment of politically connected figures as chairpersons for the country's **Sector Education and Training Authorities (SETAs)**, including falsely claiming a respected advocate led the selection panel;

24 Jun 2025 **Mthatha (South Africa) EWN**. **South African National Taxi Council (SANTACO)** confirms that its national chairperson, **Zola Yolelo**, died in a shootout with police during anti-extortion operations, underscoring concerns about the connection between South Africa's taxi industry and organised crime;

24 Jun 2025 **Cape Town (South Africa) Business Day**. Trade industry and competition minister **Parks Tau** informs parliament that he will investigate allegations of conflicts of interest involving the consortium that won the national lottery licence;

24 Jun 2025 **Pretoria (South Africa) News24**. Department of home affairs gazettes new regulations that would increase the price of real-time verifications against the national population register by 6,500% from R0.15 (\$0.0084) to R10 (\$0.56);

23 Jun 2025 **Pretoria (South Africa) EWN**. **National Treasury** announces that it had signed a \$1.5 billion loan agreement with the **World Bank** to finance infrastructure development;

¹⁵ EWN, 24 Jun 2025

22 Jun 2025 **Johannesburg (South Africa)** *News24*. South African think tank, the **Social Research Foundation (SRF)**, releases a new political poll which reveals that the **African National Congress' (ANC)** support has stabilised at 40%; the DA at 26%, the **uMkhonto we Sizwe Party (MKP)** at 18%, the **Inkatha Freedom Party (IFP)** at 5%, and the **Economic Freedom Fighters (EFF)** at an all-time low of 3%;

20 Jun 2025 **Pretoria (South Africa)** *EWN*. Former **National Assembly** speaker **Nosiviwe Mapisa-Nqakula** briefly appears before the **Gauteng** high court before her corruption case is delayed until 18 August;

20 Jun 2025 **Bloemfontein (South Africa)** *EWN*. A fifth group of **South African National Defence Force (SANDF)** soldiers arrive in Bloemfontein as part of the ongoing SANDF withdrawal from the **Democratic Republic of Congo (DRC)**;

20 Jun 2025 **Pretoria (South Africa)** *EWN*. President **Cyril Ramaphosa** calls on **Iran** and **Israel** to engage in dialogue to end hostilities between the two countries;

19 Jun 2025 **Johannesburg (South Africa)** *EWN*. Opposition **ActionSA** party calls on the national director of public prosecutions, **Shamila Batohi**, to resign over the **National Prosecuting Authority's (NPA)** lack of successful high-profile state-capture prosecutions;

19 Jun 2025 **Gqeberha (South Africa)** *News24*. Officials reveal that the death toll from the recent flooding in the **Eastern Cape Province** has reached 92;

19 Jun 2025 **Johannesburg (South Africa)** *Daily Maverick*. Former **uMkhonto we Sizwe Party (MKP)** secretary-general **Floyd Shivambu** indicates his intention to start his own political party called **Mayibuye iAfrika**;

14 Jun 2025 **Johannesburg (South Africa)** *EWN*. Officials reveal that President **Cyril Ramaphosa's** planned **National Dialogue** will cost around R700m (\$39.34m), prompting an outcry against this proposed process;

14 Jun 2025 **Johannesburg (South Africa)** *EWN*. **African National Congress (ANC)** secretary-general **Fikile Mbalula** warns party members against discussing the party's leadership succession amid rumours that billionaire businessman (and President **Cyril Ramaphosa's** brother-in-law) **Patrice Motsepe** is considering contesting the party presidency at the next elective conference in December 2027;

12 Jun 2025 **Cape Town (South Africa)** *EWN*. President **Cyril Ramaphos** addresses the **Green Hydrogen Summit** and reveals that government has invested over R1.4 billion (\$78.85m) in South Africa's green hydrogen sector;

11 Jun 2025 **Johannesburg (South Africa)** *Daily Maverick*. **African National Congress (ANC)** wins two by-elections in the **Thembisili Hani** local municipality in **Mpumalanga Province** in which the **uMkhonto we Sizwe Party (MKP)** beats out the **Economic Freedom Fighters (EFF)** to secure second place;

9 Jun 2025 **Johannesburg (South Africa)** *EWN*. The **Oxford University**-affiliated **Net Zero Tracker** climate watchdog warns that South Africa's dependence on coal-generated electricity presents a potentially severe economic threat ahead of anticipated global carbon-related trade regulations.

5 Jun 2025 **Bloemfontein (South Africa)** *EWN*. A court postpones the fraud and money laundering trial involving former **Free State** premier **Ace Magashule** until January 2026;

3 June 2025 **Pietermaritzburg (South Africa)** *EWN*. The **KwaZulu-Natal** high court postpones the corruption trial of former president **Jacob Zuma** and the **French** defence firm **Thales** until 4 December;

3 Jun 2025 **Johannesburg (South Africa)** *Mail & Guardian*. Former president **Jacob Zuma** fires Shivambu as the **uMkhonto we Sizwe Party (MKP)** secretary-general;

30 May 2025 **Pretoria (South Africa)** *EWN*. The cabinet approves the **National Labour Migration Policy White Paper**, which aims to limit and regulate the employment of foreign nationals in South Africa.

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