

## AFRICA RISK CONSULTING

### South Africa Monthly Briefing March 2025

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#### South Africa Summary 26 March 2025

*The United States (US) declares South Africa's ambassador to the US, Ebrahim Rasool, persona non grata and expels him from the US. This is the latest in a series of developments underscoring the deterioration of South Africa-US relations under US President Donald Trump (2025-present). Finance minister Enoch Godongwana delivers the annual budget speech on 12 March after a three-week delay but notably a majority in Parliament still does not support the budget. The budget highlights South Africa's concerning fiscal position, pushing Godongwana to increase fiscal consolidation to stabilise South Africa's heavy debt burden. The European Union (EU) announces an approximately \$5 billion grant and investment package to bolster the just energy transition and the development of green industries in South Africa.*

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#### United States expels South African ambassador

**United States (US)** secretary of state **Marco Rubio** announced on 14 March that he had declared **South Africa's** ambassador to the US, **Ebrahim Rasool**, persona non grata and ordered him to leave the US within 72 hours. Rubio expelled Rasool after the South African ambassador made disparaging comments about US President **Donald Trump** (2025-present), describing him as a "white supremacist" movement driven by fears over demographic changes in the US, during an online seminar the previous day.<sup>1</sup>

Many South Africans consider Rasool's comments accurate but they provided an excuse for the Trump administration to take further punitive action against South Africa with his expulsion further highlighting the elevated diplomatic tensions between the US and South Africa at present (*See ARC Briefing South Africa Feb 2025*). Declaring a resident ambassador persona non grata is a severe diplomatic sanction and is a disproportionate response to Rasool's comments. Such an action is usually reserved for more egregious breaches of diplomatic protocol such as interfering in domestic politics or espionage.

Yet, Rasool's comments were an unnecessary diplomatic faux pas at a time when the Trump administration is seeking points of contestation with South Africa. Ironically, Rasool was only recently appointed as South Africa's ambassador to the US to improve South Africa-US relations. The South African government hoped that Rasool's previous experience and connections as a former ambassador to the US (2010-2015) would help navigate the current diplomatic tensions.<sup>2</sup> However, his statements at the 13 March seminar revealed that Rasool was ill-prepared to manage the new political reality in the US.

President **Cyril Ramaphosa** (2018-present) has not yet announced who will replace Rasool, instead opting to wait until the commotion around Rasool's expulsions eases before appointing a new ambassador. In the meantime, South Africa's deputy chief of mission, **Ismail Esau**, is expected to manage South Africa's diplomatic presence in **Washington D.C.**

Rasool's expulsion has further aggravated South Africa-US bilateral relations and increased the likelihood that the US will seek to further undermine this relationship. The US government is openly hostile to South Africa's genocide case against **Israel** before the **International Court of Justice (ICJ)**, and South Africa's domestic transformation laws including the **Expropriation Bill** (*see ARC Briefing*

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<sup>1</sup> CBS, 17 Mar 2025

<sup>2</sup> EWN, 14 Nov 2025

South Africa Feb 2025). This hostility has driven the breakdown in South Africa-US relations over the past three months, despite South Africa bringing its **Russia** policy – a previous source of tensions – closer in line with that of most liberal Western states.<sup>3</sup> Notably, the US has now adopted a more favourable position to Russia.

The US government has claimed that it has penalised South Africa for these foreign and domestic policy positions by cancelling aid and assistance to the country. However, the humanitarian and climate funding that the US has withdrawn was expected to be cancelled given the US's wider foreign policy shift under Trump.

It has now also become increasingly likely that South Africa will lose access to the beneficial **African Growth and Opportunity Act (AGOA)** trade programme with the US but there is also a strong possibility that AGOA will be eliminated altogether when it comes up for renewal in September. This will negatively impact several industries, particularly, the citrus and automobile manufacturing sectors.

The larger concern is that the US may seek to impose punitive trade tariffs on South African exports. Trump has displayed a fondness for such tariffs and has already imposed them on major US trade partners such as **Canada** and the **European Union (EU)**. However, it is unlikely such tariffs will be imposed on the critical minerals and metals which form the largest proportion of South African exports to the US.

Relations between South Africa and the US are not expected to improve over the foreseeable future - South Africa will not change its foreign and domestic policies in response to US pressure and the US government will continue to look for points of contestation. This desire to antagonise was confirmed on 24 March when Trump nominated **Leo Brent Bozell III** as the new US ambassador to South Africa.<sup>4</sup> Bozell, a conservative commentator and political activist, is the founder of the US-based **Media Research Center (MRC)**, the purpose of which is combat so-called liberal media biases.<sup>5</sup> Bozell is an avid Trump supporter who is considered to have right-wing sympathies.

Bozell is a clearly a polemic figure who will view his role as ambassador as a confrontational rather than diplomatic one. As the head of the US mission in South Africa, Bozell will likely seek to further criticise South Africa's domestic transformation policies and engage with fringe conservative organisations and **Afrikaner** nationalist lobby groups like **AfriForum**. These acts will be viewed as incendiary by the government, especially the **African National Congress (ANC)**, which retains strong influence over South Africa's foreign policy leading to a further deterioration in the bilateral relationship.

### Budget speech delivered without coalition consensus

South Africa's foreign policy may be dominated by its tense relationship with the US, but domestic developments have continued to centre on the country's annual budget. Finance minister **Enoch Godongwana** finally delivered his annual budget speech on 12 March and tabled the country's relevant budget bills before **Parliament**, delivering this address even though the budget still lacks majority support in the **National Assembly**.<sup>6</sup>

The budget was initially scheduled to be presented on 19 February but was forced to cancel at the last minute after failing to secure sufficient support from within the ruling **Government of National Unity (GNU)** coalition.<sup>7</sup> This dispute was primarily related to opposition to Godongwana's proposed increases to value-added tax (VAT) and insufficient fiscal consolidation measures and cuts to government expenditure (see *ARC Briefing South Africa Feb 2025*). After three weeks of negotiations,

<sup>3</sup> Daily Maverick, 25 Feb 2025

<sup>4</sup> News24, 25 Mar 2025

<sup>5</sup> Daily Maverick, 25 Mar 2025

<sup>6</sup> Reuters, 12 March 2025

<sup>7</sup> M&G, 27 Feb 2025

the GNU still failed to reach a consensus by 12 March despite Godongwana reducing his planned 2% VAT increase to a 0.5% increase this fiscal year and another 0.5% increase in 2026.<sup>8</sup>

The **Democratic Alliance (DA)**, which is the second-largest party within the GNU, has remained steadfast in its insistence that it would not support any VAT increase.<sup>9</sup> It is currently unclear whether other GNU members that opposed the initial budget, such as the **Patriotic Alliance (PA)** and **Vryheidsfront Plus (VF Plus)**, have changed their position. Regardless, it is unlikely that the budget could pass in its current form.

Accordingly, the National Assembly is expected to debate the budget with an unprecedented level of detail and may even utilise its powers under the **Money Bills Amendment Procedure and Related Matters Act**.<sup>10</sup> This law allows Parliament to amend the budget after the finance minister has submitted it.

The lack of parliamentary support for the budget is concerning but it is not yet an urgent issue. Parliament has until the end of August to pass the package of bills that comprise the annual budget, namely the fiscal framework, the **Division of Revenue Bill**, and the **Appropriation Bill**.<sup>11</sup> Until then, the government will continue to be financed under the previous fiscal framework. However, if the budget fails to pass it will be an existential threat to the government and will likely trigger a vote of no confidence in the GNU itself.

This process has underscored the difficulty with which the ANC, the GNU's largest party, is adapting to no longer having a parliamentary majority. Godongwana's failure to properly consult GNU members ahead of the budget and the ANC's continued insistence on attempting to push through the budget in its current form indicate a level of denial over its lost legislative power.

Godongwana and the ANC need 201 votes in the National Assembly to pass the budget. At present, the budget has at most 193 votes if the PA and **Inkatha Freedom Party (IFP)** vote for the budget. The ANC has been petitioning parties both within and outside the GNU for support with little success. On 24 March, **ActionSA**, which has six seats in the National Assembly, refused to support the budget citing a lack of measures to combat wasteful spending.<sup>12</sup> This means that without the DA the ANC will likely need support from either the **Economic Freedom Fighters (EFF)** or **uMkhonto weSizwe Party (MKP)**. Both opposition parties are interested in the GNU failing to pass the budget as it will endanger the government's survival. Furthermore, both will also demand heavy concessions from the government for their support. Illustrative of this, the EFF has revealed that it would only agree to discuss supporting the budget if the DA and VF Plus are removed from the GNU.<sup>13</sup> Even in such an eventuality, it is unlikely that the EFF would support the budget in its current form, especially the VAT increase.

The ANC's lobbying efforts will face its first test on 3 April, which is the deadline for Parliament to vote on the fiscal framework.<sup>14</sup> If a vote is held it will provide insight into the current breakdown of support for the budget within the GNU. However, the debate and vote on the fiscal framework may be delayed as this deadline is not firm and the finalisation of the fiscal framework can take place as soon as "*reasonably possible*" after the deadline.<sup>15</sup>

The GNU will most likely reach a consensus on the budget but will require the ANC to make some concessions to convince the DA to moderate their position. Both parties are invested in the success of the GNU but need to be able to prove to their supporters that they can secure political gains within the coalition.

<sup>8</sup> National Treasury, 12 March 2025

<sup>9</sup> EWN, 14 Mar 2025

<sup>10</sup> Daily Maverick, 12 Mar 2025

<sup>11</sup> News24, 17 Mar 2025

<sup>12</sup> Business Day, 25 Mar 2025

<sup>13</sup> EWN, 21 Mar 2025

<sup>14</sup> Reuters, 17 Mar 2025

<sup>15</sup> News24, 26 Mar 2025

## South Africa faces fiscal challenges

Most discourse around the budget has focussed on the political machinations and lack of parliamentary support for the budget but Godongwana's budget speech itself highlighted a Africa Risk Consulting (ARC) Pty Ltd expressly forbids the collection of information and content from ARC Briefing as data to train generative artificial intelligence models.

© Africa Risk Consulting (ARC). South Africa's general government debt-to-GDP ratio is now projected to reach 76.2% in the 2025/2026 fiscal year, up from a peak of 75.5% forecast in last year's **Medium-Term Budget Policy Speech (MTBPS)**.<sup>16</sup> South Africa will spend R389.6 billion (\$21.4 billion) servicing this debt in the current financial year, which equates to 22% of all government revenue, making debt servicing South Africa's second-largest expenditure item after social grants and security.<sup>17</sup> The budget deficit in the current budget is estimated at -4.6% of GDP which the **National Treasury** expects to narrow to -3.5% by the 2027/2028 financial year. However, this is predicated on South Africa not being subject to any external economic shocks. The possibility of such a shock is currently elevated given the US government's multiplying trade wars.

Yet despite the country's large debt burden, Godongwana sought to avoid any income tax increases noting that the National Treasury believes that any hike in income tax would result in declining collections because of overtaxing. Instead, Godongwana focused on consumption taxes such as VAT and sin tax increases. Notably, the National Treasury did not implement an inflationary adjustment to the tax brackets which will lead to a so-called stealth income tax increase.

Godongwana is aware that South Africa's only viable path out of its current heavy debt burden and fiscal challenges is to stimulate economic growth. The National Treasury has forecast South Africa's economy to grow by 1.9% of real GDP in 2025 and average 1.8% between 2025 and 2027, more optimistic than the **International Monetary Fund's (IMF)** forecast of 1.5% this year.<sup>18</sup> Regardless, this is a significant improvement on the 0.6% real GDP growth recorded in 2024 but well short of the estimated 5% needed to meaningfully reduce unemployment.<sup>19</sup>

To bolster growth the budget has included significant allocations for increased infrastructure expenditure. Public infrastructure spending will exceed R1 trillion (\$54.82 billion) over the next three years, primarily focussed on the transport and logistics; energy; and water and sanitation sectors.<sup>20</sup> This will include both new developments and repairs and maintenance to existing infrastructure.

It should be noted that Godongwana and the National Treasury have limited capacity to truly eliminate wasteful expenditure, increase government efficiencies, and stimulate growth. Such measures will require substantial reforms and interventions in other cabinet ministries and at a local government level. As such, the concessions many of the smaller GNU members want will require Ramaphosa and the ANC to expend political capital and reign in the party's existing systems of patronage and cadre deployment. At present, it is unclear if Ramaphosa has the appetite for such action or if it is viable to secure such concessions from party members.

## European Union commits green funding to South Africa

European Commission president **Ursula von Leyen** announced support during the **EU-South Africa Summit** on 13 March that the EU would provide a €4.7 billion (\$5.08 billion) investment package to support South Africa's just energy transition.<sup>21</sup>

<sup>16</sup> National Treasury, 12 Mar 2025

<sup>17</sup> EWN, 12 Mar 2025

<sup>18</sup> National Treasury, 12 Mar 2025

<sup>19</sup> StatsSA, 4 Mar 2025

<sup>20</sup> EWN, 12 Mar 2025

<sup>21</sup> Mail & Guardian, 13 Mar 2025

This so-called Global Gateway Investment Package comprises €303m (\$327.38m) in grant funding and loans to leverage a further €4.4 billion (\$4.4 billion) in investments.<sup>22</sup> The investment package will be particularly focused on critical raw mineral processing, green hydrogen, renewable energy, transport and digital infrastructure, and vaccine and pharmaceutical production.

Notably, this package effectively replaces and expands on the approximately \$1 billion in funding under the **Just Energy Transition Partnership (JETP)** that was withdrawn by the US on 10 March as well as the \$2.6 billion in climate funding that the US is currently preventing the **World Bank**-linked **Climate Investment Funds (CIF)** from disbursing to South Africa.<sup>23</sup>

The EU-South Africa Summit highlighted South Africa's strong ties with the EU, which as a bloc is South Africa's largest trade partner and leading source of foreign direct investment.<sup>24</sup> The meeting also sent a subtle message from both South Africa and the EU that they would strengthen other diplomatic and trade relationships in the face of growing US trade antagonism.

## Planner

22-23 Nov 2025 **Johannesburg (South Africa) G20 Leaders' Summit**

## Chronology

25 Mar 2025 **Johannesburg (South Africa) BER**. The **FNB/BER Consumer Confidence Index (CCI)** falls by 14 index points from -6 to -20 as consumers react to tax increases;

25 Mar 2025 **Pietermaritzburg (South Africa) News24**. Former president **Jacob Zuma** applies to have his ongoing corruption case dismissed denying that his legal strategy of seeking numerous delays and postponements played any role in the case's slow progress;

23 Mar 2025 **Johannesburg (South Africa) Eskom**. State-owned power utility **Eskom** announces that it has added a new generating unit to the **Kusile Power Station** bolstering the grid by 800MW;

23 Mar 2025 **Ulundi (South Africa) News24**. The **Inkatha Freedom Party (IFP)** commemorates its 50<sup>th</sup> anniversary at **Prince Mangosuthu Buthelezi Stadium** in Ulundi (**KwaZulu-Natal Province**);

23 Mar 2025 **Johannesburg (South Africa) Reuters**. Transport minister **Barbara Creecy** reveals that the government will issue a request for proposals for private sector investment in the railway sector in August this year;

23 Mar 2025 **Pretoria (South Africa) The Presidency**. The **State Security Agency (SSA)** denies the existence of an intelligence operation dubbed 'Operation Sibonkolo' aimed at advancing the personal political ambitions of minister in the presidency **Khumbudzo Ntshavheni** who oversees the SSA;

20 Mar 2025 **Pretoria (South Africa) News24**. **South African Reserve Bank (SARB)** (central bank) **Monetary Policy Committee (MPC)** elects to leave the repo rate at 7.5% and revises its 2025 inflation forecast down to 3.6% to 3.9%;

20 Mar 2025 **Durban (South Africa) News24**. **Duduzile Zuma-Sambudla**, the daughter of former president **Jacob Zuma**, appears before the **KwaZulu-Natal** high court in **Durban** on charges of inciting terrorism and public violence during the July 2021 unrest;

20 Mar 2025 **Johannesburg (South Africa) EWN**. Health officials reveal that three mpox cases had been confirmed in **Ekurhuleni (Gauteng Province)**;

<sup>22</sup> Daily Maverick, 13 Mar 2025

<sup>23</sup> Reuters, 21 Mar 2025

<sup>24</sup> EEAS, 17 Mar 2025

19 Mar 2025 **Cape Town (South Africa) News24**. The **uMkhonto weSizwe Party (MKP)** wins its first-ever by-election in the **Western Cape** securing Ward 1 in **Middelpos** in the **Saldanha Bay Municipality**;

18 Mar 2025 **Johannesburg (South Africa) News24**. The **Gauteng** provincial government allocates R273.7m (\$14.99m) to political parties represented in the provincial legislature;

17 Mar 2025 **Johannesburg (South Africa) Daily Maverick**. Transport minister **Barbara Creecy** confirms that South Africa's recent air travel delays are due to a combination of critical skills shortages, equipment failures and outdated procedures at **Air Traffic & Navigation Services (ATNS)**;

13 Mar 2025 **Pretoria (South Africa) News24**. The **Southern African Development Community (SADC)** resolves to withdraw the **SADC Mission in the Democratic Republic of Congo (SAMIDRC)** in a move that will cause further damage to South Africa's standing as a regional security guarantor;

10 Mar 2025 **Johannesburg (South Africa) News24**. The **Passenger Rail Agency of South Africa (Prasa)** board confirms that it appointed the law firm **Webber Wentzel** to investigate alleged irregularities related to tender contracts worth R18 billion (\$986m);

6 Mar 2025 **Johannesburg (South Africa) Microsoft**. **United States (US)** technology giant **Microsoft** announces plans to invest R5.4 billion (\$296m) in cloud and artificial intelligence (AI) infrastructure in South Africa.

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