market iq

Publication: The Star - Business Report **Page:** 9
Title: Budget negotiations and Trump tariffs spark rand's decline amidst political turmoil **Publish Date:** 31 March 2025
AVE: 108831.09 **Author:** SIPHELELE DLUDLA

CURRENCY

Budget negotiations and Trump tariffs spark rand's decline amidst political turmoil

Unless the ANC embraces coalition governance fully, fiscal consolidation will remain out of reach, says curency strategist Andre Cilliers

SIPHELELE DLUDLA

THE rand fell by nearly 1% to R18.40 against the US dollar over the course of last week as market concerns continued over the National Budget deadlock and whether parties in Parliament will reach consensus before the Wednesday deadline.

Parties within the Government of National Unity (GNU) are divided on whether to support Finance Minister Enoch Godongwana's proposal to increase value-added tax incrementally by 1 percentage point over the next two fiscal years to plug the R58 billion Budget shortfall.

Moody's Investor Services has already fired a warning shot, saying that if the budget fails to pass in Parliament, longer-term fiscal credibility could be at risk.

On the political front, the DA and MK/EFF remain unlikely to back a VAT hike, which is seen as regressive and the parties appear to have called for drastic concessions from the ANC in order to vote for the Budget.

However, the ANC continues to assure the public that it was in control of the situation and was continuing to have discussions with all parties in a bid to reach consensus before the 1 April beginning of the new fiscal year.

Andre Cilliers, currency strategist at TreasuryONE, said a deadlock in Parliament could have dire consequences for the financial markets.

"Unless ANC embraces coalition governance fully, fiscal consolidation will remain out of reach, and bond yields will price that risk," Cilliers said."If the Appropriation Bill fails, SA faces its version of a government shutdown—a breach of constitutional spending limits. This elevates fiscal uncertainty."

Waldo Krugell, an economics professor at North-West University (NWU), said if the Budget is not approved by Wednesday, spending will continue in line with the Medium-Term Budget Policy Statement (MTBPS).

"That would exclude the new spending proposed in the 2025/26 Budget. So no R370 Social Relief of Distress grant, and no money for those teaching and health care positions in frontline services," Krugell said.

"The MTBPS also budgeted for a 4.5% wage settlement, not the 5.5% that was agreed to later. It will be very disruptive and to the detriment of service delivery. The political fallout for the GNU will be significant."

Efficient Group chief economist, Dawie Roodt, was more circumspect, saying nobody knew exactly what was going to happen if the Budget was not passed. "There are a few things we are certain of, the Budget is like a law. There are four pieces of legislation that need to be approved by parliament," Roodt said.

"One or two will be easy, like the fiscal framework, which will be approved, but tax changes will be much more difficult. A VAT increase is a reality and it will be passed on May 1."

This comes as the rand strengthened slightly on Friday, trading around R18.15 despite the dollar's mild pullback as it benefitted from a wait-and-see attitude within the markets ahead of the US' anticipated introduction of reciprocal tariffs next week and drew support from the firm gold price.

Uncertainty in the markets was also exacerbated by the US President Donald Trump following through on weeks of threats with new 25% tariffs on imported cars starting this week, which could threaten the competitiveness of South African automotive exports.

The NWU Policy Uncertainty Index, which last week rose much further into negative territory and hit a record high, had already warned of a convergence of geopolitical risks, elevated economic uncertainty and unpredictability consequent on 'Trumpanomics' and tariffs, and a resultant tangible repricing of risks in financial markets.

Nedbank economist Isaac Matshego said the uncertainty over the impact of the evolving trade war on US and world trade remained the dominant theme in foreign exchange markets over the past week.

"The US dollar stabilised somewhat over the past two weeks after coming under considerable pressure from its highs in mid-January," Matshego said.

"President Trump's decision to press ahead with 25% tariffs on all auto imports to the US weighed on the euro and the Japanese yen due to the prominence of the automotive industry in European and Japanese exports.

ANDRE Cilliers, currency strategist at TreasuryONE, said a deadlock in Parliament could have dire consequences for the financial markets. | NICOLA MAWSON Independent Newspapers