

BUDGET SPEECH

TREVOR A MANUEL
MINISTER OF FINANCE

REPUBLIC OF SOUTH AFRICA

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Madame Speaker
President Mbeki
Deputy President Zuma
Cabinet Colleagues
Honourable Members
Distinguished Guests
Ladies and Gentlemen

I turn again to the words of that great African author, Ben Okri, who writes
‘They tell me that nature is the survival of the fittest. And yet look how many wondrous gold and yellow fishes prosper amongst the silent stones of the ocean beds, while sharks eternally prowl the waters in their impossible dreams of oceanic domination and while whales become extinct; look how many does and antelopes, ants and fleas, birds of aquamarine plumage, birds that have mastered Chinua Achebe’s art of flying without perching, how many butterflies and iguanas thrive, while elephants turn into endangered species, and while even lions growl in their dwindling solitude... Nature and history are not just about the survival of the fittest, but also about the survival of the wisest, the most adaptive and the most aware
Ben Okri ‘A Way of Being Free’

Our history implores us to use our freedoms to light the path to a more humane, more caring society. It demands that we lift our sights far into the horizon. That we use our voices to proclaim our freedoms. Our history teaches us courage and resilience. That we embrace the challenges. That we be strong. That we be confident. That we be humble. That we be patient.

It demands that we overcome fear and embrace the power of transformation. That we grasp the complexity of each other and of the world that we live in. That we see beyond the illusions and the truths we create for ourselves. If we see only the beauty of the yellow and gold fish and the fierce jaw of the shark, we will not believe that they swim in the same waters. But they can and they do and they thrive. We need to accept that reality to understand why.

It is the ability to understand, to change, to adapt, to experience suffering and to learn from it, to see beyond the illusion of power that determines success. Our history demands that we show the world that the butterfly does not have to die so that the elephant is saved. That the shark and the yellow fish can thrive in the same water.

Our history of struggle, and the indomitable spirit of our people have taught us that survival is not about fitness alone. It is about perseverance, comradeship, wisdom and caring. To grow and develop you need to be strong to stay the course, to adapt to change and to take care of those displaced by it.

Madam Speaker what we present today represents yet another step in the process of creating a society that is strong, responsive to our changing circumstances and sensitive to the needs of those adversely affected by the old and the new. We need to see beyond the illusion of easy solutions. We need to avoid what the economist Paul Krugman calls “Pop

Internationalism” – a doctrine that offers the gain of apparent sophistication without the pain of hard thinking.

According to this, the pretender sophisticates, recites standard texts about what the markets demand, but does not think about what real people should do to end human poverty, the underdevelopment of entire societies and the denial of dignity of billions across the globe.

This is the fourth year I stand before this House to present a Budget. In the Budgets of the past four years we have remained true to the reconstruction and development goals we set ourselves, and we have been alert to the changes required by the circumstances and challenges of our time.

Our vision and our commitment are clear, to build a better life for all our people. This is our course. Sustainable growth and development call for on-going structural transformation of our economy so that we can take advantage of the untapped potential in our midst and the opportunities presented by globalisation. Sustainable growth and development also depend on our ability to overcome the scourge of poverty and the deep inequalities that we inherited. Each one of the Budgets we have put before our nation, including the Budget we present here today, advances these objectives, step by step.

In 1997 we integrated the Reconstruction and Development Programme (RDP), provided significant tax relief to low income earners, announced a substantial liberalisation in exchange controls, and introduced a range of new industrial policy measures to assist firms to expand, invest in technology and take advantage of export opportunities.

In 1998 we published the first three-year Medium Term Expenditure Framework. The 1998 Budget also introduced a formula-based equitable division of revenue between national, provincial and local government, as required by the Constitution. The RDP initiatives were expanded and reinforced. A demutualisation charge was announced to finance the establishment of the Umsobomvu Fund, and the budget granted further relief to income-earners.

In 1999 we published the first National Expenditure Survey, providing a comprehensive review of spending programmes and policy commitments. We announced the introduction of the skills development programme, and the lowering of the company tax rate to encourage investment. In the context of severe macroeconomic uncertainty and a slowdown in growth, we succeeded in protecting social spending and extending government’s poverty relief programmes.

In this Budget, we are able to lower the tax burden again. We can announce increases in spending on public services of more than R8,3 billion above earlier estimates. We anticipate a budget deficit of 2,6 per cent of GDP in 2000/01. We take further steps in relaxing exchange controls.

The Budget confirms several fiscal objectives to be achieved by 2002. We will ensure that government’s current expenditure is brought in line with revenue – that we eliminate the negative contribution of the public finances to national saving. We will continue to lower the burden of debt service costs in the budget; and we aim to maintain real growth of more than 5 per cent a year in capital spending.

A healthy fiscal policy must be matched with sound monetary measures. We have agreed an inflation target with the Governor of the Reserve Bank.

Mr President, as you stated in your State of the Nation Address at the opening of Parliament ‘... *at no point during its entire history has our country been in a better position to confront the challenges we face than it is today.*’

Growth and development

The fundamental challenge we continue to face as a country is how to grow our economy in a sustainable way so that poverty is eradicated and the prosperity and well-being of all our people is increased. How do we construct a vibrant, flexible and competitive economy able to take advantage of the resources of our people and the opportunities of the global economy?

For small open economies like ours, we have to think hard about the world we live in – a world that is becoming increasingly more complex, where time differences and geographical distances have disappeared, where real time and virtual reality are the order of the day. It is a world where the borders between countries are little more than picket fences. We inhabit a world that is now infinitely more prosperous than at any point in recorded history. But it is also a troubled world, where poverty and inequality between and within nations abides.

We need to understand that when the hype and glamour – gigabytes and cyberspace, multi billion dollar mergers and acquisitions, Seattle protesters posing as television stars – are stripped away, the issues are really no different from one hundred, two hundred, three hundred years ago.

At the heart of this is our capacity and ability to respond to change – how we choose to overcome our own fears, prejudices, sectoral interests and biases. It is about extending the limits of our potential whilst replenishing and reaffirming our humanity, our values, our beliefs.

We have to consider how we protect the poorest and most vulnerable in our society. We have to ensure that growth leads to greater equity and prosperity for all and to the narrowing of the chasm between rich and poor. These are the challenges we face. As Okri writes ‘*Nature and history are not just about the survival of the fittest, but also about the survival of the wisest, the most adaptive, and the most aware.*’

Growth

Madam Speaker, our economy has undergone a substantial transformation. We now have a more open economy, which competes with the rest of the world. Mature industries have restructured and many new industries have developed. The transition to democracy in 1994 marked the turning point in our country’s economic performance. Economic growth recovered, capital inflows resumed and business and consumer confidence increased.

Prudent fiscal management, lower inflation and renewed capital inflows allowed interest rates to fall sharply during the course of 1999, thereby reducing the cost of capital and creating the conditions for an acceleration in investment spending over the next three years. Lower interest rates are also providing welcome relief to many ordinary people as

is reflected in lower household debt levels. The economy is poised to grow robustly at an average rate of 3,4 per cent over the next three years. The deficit on the current account of the balance of payments is expected to average around 1 per cent of GDP. Inflation is expected to remain well within the band that we announce today.

This Budget makes a strong contribution to enhancing the growth and development potential of our economy.

- Our expenditures grow markedly in real terms over the next three years and remain strongly redistributive in favour of the poor.
- We plan to reduce the fiscal deficit to 2,2 per cent of GDP in 2002 so that we reduce our dependence on borrowing and, over time, our interest costs. More importantly, we are on track to eliminate government dissaving by 2002, thereby improving the economy's ability to finance a higher level of investment, enhance the infrastructure we pass on to our children and maintain and create productive employment opportunities.
- In this Budget we make the most far reaching tax reforms in decades, bringing our tax structure more in line with international practice, introducing measures aimed at promoting small and medium sized enterprises and rewarding the development efforts of the non-profit sector.

Lokhu-kwabiwa kwezimali kudlala enkulu indima ekukhuleni nokuthu- thuka komnotho wezwe lethu.

Eminyakeni emithathu ezayo, uhulumeni uzokwe nyusa kakhulu incitho mali yakhe (expenditure), ikakhulu kubantu abantulayo.

Sihlose futhi ukwehlisa izinga lemali eshodayo (fiscal deficit) kuya ku 2,2 % wenani lomnotho wezwe- (GDP) ukuze sigweme ukwethembela kwethu ekutshelakeni imali, nenzalo ekumele siyikhokhe.

Okusemqoka ukuthi, sisindleleni yokuqeda ngonyaka ka-2002 ukunga londo lozi(dissaving) imali yombuso, lokhu kuzosiza ekutheni sikwazi ukukhokhela ukwakhiwa kwamathuba emisebenzi, sizobhekela nezingane zethu.

Kulo-kwabo mali, siletha enkulu inguquko kwintela njengoba sizama ukuthu-thu kisa oso mabhi zinisi abasa khulayo nalezonhlangano ezingasebenzeli inzuzo, njengoba kwe nziwa emhlabeni jikelele.

Price stability and inflation targeting

One of the objectives of economic policy is price stability. What does this mean? Simply put, our aim is to counter the erosion of people's incomes and living standards that comes with rising prices and to remove the fear of future inflation that undermines investment and savings decisions.

Enye yezinhloso zomgomo womnotho ukuthi kuzinze indlela izinto ezibiza ngayo (price stability). Ngamanye amazwi, lokhu, kuzosiza ekuvikeleni izimali zabantu ngokuthi intengo yemali ingehli kakhulu uma ukubiza kwezinto kwenyuka njalo

As we were saying, price stability is about two things that directly affect the lives of ordinary people.

- The first is the cost of living – how much prices go up, and how often they change. High inflation eats away the value of people's income. For a pensioner on a fixed government pension it matters deeply whether the price of bread goes up by 10c or 20c a loaf and whether it goes up every single week or once a year.

- The second is the disempowering effect of uncertainty on household and business decisions. There is an element of risk in an unpredictable inflation trend that weakens our capacity to transact, whether as businesses engaged in large international investment projects or as individuals seeking to protect family savings for our retirement years.

Maintaining the value of the rand in support of sustainable economic growth is the constitutional responsibility of the South African Reserve Bank. Its main instrument in executing this responsibility is the level of interest rates and rising inflation is consequently accompanied by higher interest rates. We know that high interest rates impose a heavy burden on families and small businesses.

We have agreed with the Reserve Bank that this responsibility should be more transparently formulated. We should share, as a nation, a common understanding with the Bank of the level of inflation we accept as realistic and prudent. Such an understanding can itself contribute to price stability, and confidence about future price trends. An inflation target also gives the Reserve Bank an anchor or objective for its monetary policy decisions. When interest rates rise or fall, we will then know that this relates to the target for price trends on which we have agreed.

Inflation targeting increases the transparency and accountability of monetary policy. It provides stability in the value of money, which in turn enhances growth prospects.

Inflation targeting is not about setting wages and prices. It does not undermine collective bargaining, nor predetermine the outcome of wage negotiations, nor interfere with price competition. But it creates a benchmark against which price and wage adjustments can be compared, and provides an assurance that unanticipated inflation will not be allowed unfairly to erode the real value of workers' wages or pensioners' spending power.

In the early 1920s, the economist John Maynard Keynes cautioned that inflation and deflation cut the moral link between effort and reward, leading to the unjustified enrichment of some and the unjustified impoverishment of others. He highlighted the critical importance of price stability for the well-being of the economic system. This has not changed – indeed the extraordinary record of price volatility of the twentieth century has confirmed the value to ordinary people and large enterprises alike of price stability and confidence about future inflation.

Mr President, you announced on the 4 February that the Government would today be making an announcement on inflation targeting. The Governor of the Reserve Bank and I have agreed on a target band of 3 to 6 per cent. The objective is to bring inflation within this band by 2002. To ensure that the Bank is targeting an appropriate measure, a new index of consumer prices – CPIX – has been introduced. This includes the full basket of goods and services that a typical household consumes – measured by the familiar consumer price index (CPI), but excludes interest costs as these are a direct outcome of monetary policy.

In this way, we seek to ensure that the substantial progress we have made in reducing inflation is secured and extended into the future.

This is just one of many structural improvements we have achieved over the past five years and on which we will build further over the decade to come.

Structural challenges for improved economic performance

After falling in real terms between 1990 and 1994, gross fixed capital formation grew by 4,2 per cent a year between 1995 and 1999. Over the years ahead we must achieve a further expansion in the share of national spending that goes to investment in productive infrastructure.

Growth in real exports averaged 7,4 per cent a year between 1994 and 1999. We must ensure that our trade performance continues to strengthen and diversify.

Over the past five years, industrial productivity has improved by some 4 per cent a year, contributing to steady increases in real wages in the private sector. Over the next decade we intend to deepen and extend this trend. We must ensure that productive employment opportunities are opened up for new workseekers. We aim to improve the effectiveness of our labour markets, and we plan to invest more in skills development and training.

The public service is being comprehensively transformed and public enterprises are being restructured. These processes will intensify in the years to come – our commitment to improved service delivery and effective governance leaves no room for complacency.

And as a nation, we must save more. We will continue to rely on foreign investment to complement our own savings effort, but sustained higher rates of economic growth cannot be achieved unless we increase the share of national income we make available for productive investment.

Our vision is firmly focused on the future. It will take time to meet these restructuring challenges. But we will in due course raise our capacity to grow beyond the 3,4 per cent or so we are able to project for the next three years. There are no quick and easy solutions – there is hard work ahead of us, reinforced by our commitment to succeed and our extraordinary ability as South Africans to find the way forward.

Restructuring of state assets

Our growth strategy also includes a substantial restructuring of state assets and extended involvement of the private sector in public service delivery. Our objectives here are two-fold – to improve economic efficiency and to extend services to more people.

Government has adopted a strategic framework to improve the delivery of some public services through innovative public-private partnerships. The objective is to secure more efficient and improved services. We acknowledge that there are many areas of public sector responsibility in which the private sector is better placed to deliver effective services, perhaps because the dynamics of competition can be brought into play, or because technical capacity exists in the private sector or because the investment risks can be better managed this way.

To assist with this, the Treasury is establishing a Unit that will help national and provincial departments in identifying, procuring and implementing public-private partnerships. Treasury regulations will also be promulgated to provide a proper framework for the development of partnership transactions.

By bringing private capital expertise into state enterprises, we have gained access to technology, skills transfer, capital needed for expansion and organisational renewal.

A further economic benefit arises from the reduction of government debt we have achieved through privatisation. In the current, year, some R6,9 billion in restructuring proceeds has flowed to the exchequer, mainly through the conversion of the South African Special Risks Insurance Association to a public company with a reduced level of reserves. This has brought debt service costs down, freeing resources for spending on social services and infrastructure. We anticipate that privatisation proceeds will contribute R5 billion to debt reduction in 2000/01, increasing to R10 billion in 2002/03.

The benefits of restructuring are much wider than this – renewal of public enterprises includes a strong focus on service delivery, such as the roll-out of telephones to more people and the extension of broadcasting and public information services. Bold initiatives in restructuring public entities are in progress, under the energetic leadership of several Cabinet colleagues.

International trade and finance

In our international economic relations, we have also taken several brave steps. Our involvement in the Southern African region is steadily increasing – both in expanded trade and in co-operation across many fields of public policy – health care, education, transport infrastructure, regional water and energy matters, air traffic control, co-ordination of tax affairs.

Trade and financial flows are expected to strengthen considerably without Grappa as a result of trade agreements with the European Union and the Southern African Development Community and new opportunities created by the unbundling of industries and accelerated restructuring of state assets.

Confidence in our democracy and our economic prospects has contributed to a strong increase in foreign direct and portfolio investment. Since 1994, South Africa has annually received foreign savings averaging 1,0 per cent of GDP.

Portfolio inflows into the equity market remain an important source of financing. Our standing as an investment destination is gaining ground, as is evidenced by the 10 per cent weight South Africa now enjoys in the emerging market funds.

Attracting foreign savings and investment remains an important part of our strategy. It enables us to finance increased levels of investment, which over time will create more jobs. Foreign investment brings with it access to markets and new technology, while allowing us to meet the deficit between our export earnings and spending on imports from abroad.

Our ability to grow depends in part on improved export performance. In the past five years our economy has become more open to trade, with both imports and exports growing strongly. Trade relations have also diversified considerably in recent years including rapid expansion into the Asian and American markets.

Access to markets and administratively streamlined international trading arrangements are critical issues for small open economies. We will continue to press the international community and the G7 nations to overcome their own protectionist tendencies so that a new round of World Trade Organisation negotiations with a development agenda can proceed, bringing fair access to markets for developing countries. We are conscious that we will ourselves sometimes have to make difficult adjustments, that in some industries jobs may be lost, but that our region and the developing nations of the world have far more to gain from open dynamic and competitive international relations than from pursuing insular protectionist interests.

Exchange control liberalisation

This approach is also reflected in our regulation of financial markets.

Since 1994, South Africa has substantially reduced exchange controls on companies, institutions and individuals. It is worth reminding ourselves that there are no exchange controls on non-residents. We chose a gradual approach to the liberalisation of the capital account, recognising that these reforms had to accompany other developments in our international trade relations, financial structure and tax environment. The wisdom of this approach has been amply demonstrated by our success in negotiating the stormy waters of the global economy over the past three years.

Today we are able to take several further steps in deregulating foreign exchange transactions consistent with the perspectives described by the outgoing Managing Director of the IMF, Mr Michel Camdessus as the 'orderly liberalisation of capital flows'. The Reserve Bank will publish the details. Amongst other measures:

- Companies will be allowed to use local cash holdings to finance up to 10 per cent of new foreign investments.
- Companies will be allowed to use local cash holdings to repay up to 10 per cent of foreign debt they raised to finance foreign investment.
- Companies wishing to establish or acquire new companies abroad will be allowed to make use of corporate asset swaps to finance these investments.
- Unit trusts will be permitted to invest up to 20 per cent of their total assets under management by way of asset swaps.
- Pension funds, long term insurers and unit trusts will be allowed to make foreign currency transfers in 2000 of up to 10 per cent of the net inflow of funds during the 1999 calendar year, subject to overall limits of 15 per cent of assets under management for pension funds and long term insurers and 20 per cent for unit trusts.
- Travel allowances and other limits applicable to individuals will be raised.

We are also in a position to clarify the conditions that will apply to companies wishing to establish primary listings offshore. Consideration will be given in cases where:

- Foreign expansion is necessary and integral to the company, given its size and the nature of its business,
- A significant proportion of revenue is derived from outside South Africa, making the company in effect an international concern,
- There are clear monetary and balance of payments benefits to South Africa; and
- A substantial advantage can be demonstrated over alternative approaches to raising the required capital.

Companies and individuals will need to continue to satisfy the authorities that their tax affairs are in good standing.

The Budget framework

Madam Speaker, we brought to this House the proposed framework for the 2000 Budget in October last year in the *Medium Term Budget Policy Statement*. We indicated there the need to achieve a balance between three broad objectives:

- Providing for the Government's social, development and infrastructure expenditure responsibilities,
- Reducing the overall burden of tax, so as to decrease the costs of investment and job creation and release household spending power, and
- Lowering the budget deficit, to contribute to lower debt service costs and declining interest rates.

The underlying goals of fiscal policy remain economic growth and job creation, improved public services and reduced inequality.

This Budget strongly supports these goals. It contributes to the health of the economy by ensuring that our finances are in order and that we are not borrowing more than we can afford. The 2000 Budget takes several steps to improve the tax structure and continues the Government's reprioritisation of spending in favour of reconstruction and development commitments.

Public Finance Management Act (PFMA)

Budget reform is part of Government's broader reform programme, aimed at providing secure foundations for continual improvements in public finances. The Public Finance Management Act is the cornerstone of this framework. It sets out principles of accountability that devolve responsibility for outputs and service delivery to departmental managers. It sets out clearly the role and responsibilities of accounting officers and it lays the foundations for improved government accounting standards.

The Act applies to all entities under the ownership and control of the state. It is a bold Law designed to transform the way we do things and enhance accountability. The Act places South Africa at the forefront of international developments in public finance management.

The implementation of the Act will be phased in from 1 April this year. Its implementation represents a major challenge to Parliament, Provincial legislatures and national and provincial departments.

The Budget and redistribution

Madam Speaker, this House has heard many a member emphasise that our success as a nation depends on our ability to reduce inequality and overcome poverty and that our focus must continue to be on extending social services particularly to the poorest and most vulnerable. Our future success also depends on our ability to develop the potential of our children and grandchildren, which is largely a responsibility of our health and education systems. The 2000 *Budget Review* provides new insights into the contribution Government makes to the distribution of income and opportunities and the impact of social spending programmes.

Di patlisiso tse di di dirilweng ka 1999 di re fa tiisetso ya gore lekgetho la rone le tlhabolola ba ba tlhokang. Go magato a mararo a a tseilweng go netefatsa gore go abiwa ga madi a setshaba go mo tseleng e e tlhammalletseng, jaka;

- Go thusa ba ba tlhokang ka matlo, ka maemo a botoka a botshelo gape le ka madi a go thusa mo go godiseng bana,
- Gore madi a a aroganyeditsweding dilo tse botlhokwa ja ka tsa lefapha la maphelo a dirisetswe dikliniki tsa ba-agi
- Gape le go dira gore madi a naga yotlhe a dirisetwe bogolo tse di tlhokwang kwa diporofinsing, ditoropong, dikolong kgotsa maokelong.

Go a bontsa gore go simolla ka 1993 go fitlha ka 1997, tiriso ya madi mo go ba ba tlhokang e tlatlogile ka 34%, fa ya barui e fokotsegile ka 20%. Se ke ruri ke sesupo sa tswelopele.

Le fa go sa ntse go nale mathata a magolo a go sa lekanekane, go tshwanelegile gore madi a a leng teng a dirisiwe ka tshwanelo kwa maokelong, dikolong kgotsa matlong.

Kgolo ya ikonomi le go bulwa ga diphatla tsa ditiro ke dilo tseo tse di botlhokwa mo go abeng tshono e ntle ya ikonomi. Ka jalo, go tshwanelegile gore re dirise “budget” gore re tswale makoa ao a bonagalang magareng a ba ba tlhokang le ba ba kgonang.

Preliminary research undertaken in 1999 to investigate the distributional impact of the Budget confirms that our tax structure is strongly progressive and that government spending programmes have become more effectively targeted in favour of the poor.

The expenditure study focused on the incidence of about 60 per cent of government spending – education, health, social grants, water provision and housing – between 1993 and 1997. It concludes that there has been a significant shift in social spending from the more affluent in our society to the poor. An estimated 57 per cent of spending now goes to the poorest 40 per cent of our people; the share going to the wealthiest 20 per cent is now under 9 per cent. Redistribution has been achieved in three distinct ways:

- Increased spending on programmes targeted at the poor, such as housing subsidies, poverty relief and the child support grant,
- Shifts of priority within several spending functions, such as the increased emphasis given by health departments to clinic-based primary health care,
- Redistribution of resources between provinces and between districts or between schools and hospitals within provinces.

Social spending on the poor increased by an estimated 34 per cent between 1993 and 1997, while per capita spending on the rich has declined by over 20 per cent.

This is significant progress – while the benefits of public administration, economic infrastructure, justice and security are more broadly dispersed, it is right that government spending on education, health, welfare and housing benefits should go to those less favoured by circumstance or historical advantage.

Deep inequalities remain. In addition, we are conscious that the benefits of government programmes cannot simply be measured by departmental expenditure records. Much depends on the quality of hospital management, the content of learning materials or how effectively resources are used. Our focus must remain more effective and efficient service

delivery, and an appropriate mix between personnel expenditure, operating costs and maintenance of physical facilities.

Broader economic growth and job creation are undoubtedly the most important elements in redistributing income and economic opportunities. But the Budget also plays a crucial role in narrowing the gap between rich and poor.

1999 Budget Outcome

Revenue this year is expected to be R196,3 billion, or R5,4 billion more than the February 1999 budget estimate and some 6,5 per cent more than 1998/99 receipts. This is once again testimony to the dedication and excellence of the SA Revenue Service.

Expenditure is expected to be R2,1 billion more than budgeted, or R216,0 billion. The revised expenditure estimate takes into account:

- A saving of R1,6 billion in interest on debt,
- Additional transfers to provinces of R2,1 billion,
- A transfer of R855 million to the Umsobomvu Fund not included in the original budget estimates; and
- Allocations made in the 1999 Adjustments Budget, including supplementary amounts for the SA Rail Commuter Corporation, the Independent Electoral Commission and for Y2K-related expenses of local authorities.

The revised estimates indicate a budget deficit of R19,7 billion in 1999/00, which is 2,4 per cent of GDP.

The 2000 Budget

Sterker en doelgerigter ekonomiese groei, verbeterde belasting invordering en laer skuld dienskostes, laat ons toe om besteding op koste te vermeerder tot R8.3 biljoen in 2000/01, bergeleke met ons 1999 Begrotings vooruitskattings. Besteding sal toeneem met 'n gemiddelde van 7,5% per jaar vir die volgende 3 jaar.

Die Begroting maak voorsiening dat die uitgawes van R233,5 biljoen in 2000/01 kan toeneem tot R 266,7 biljoen in 2002/03. Dit sal gefinansier word deur die totale inkomste van R 210,4 biljoen in 2000/01, wat die tekort sal afbring tot R23,0 biljoen of ordegestel 2.6% van die BBP. Die totale inkomste verhoog tot R 243,6 biljoen in 2002/03 en die tekort neem af tot 2,2% van die BBP.

Van die R 233,5 biljoen beskikbaar vir uitgawes in 2000 word R 46,5 biljoen afgetrek vir skuld dienskostes en R 2,0 biljoen as gebeurlikheids reserwe.

Die balans van R 185 biljoen word dan proporsioneel verdeel tussen nasionale, provinsiale en plaaslike regerings.

Provinsies sal R 106,0 biljoen ontvang in die komende boekjaar, wat 57% verteenwoordig van die rente vrye uitgawes in hierdie begroting. Hiervan sal R 94,4 biljoen berdeel word tussen die provinsies volgens die prorata aandeel formule.

Die R11,6 biljoen balans in die begroting word ge-oormerk as voorwaardelike toekenning aan provinsies vir nasionale begrotings poste. Die aandeel van plaaslike regerings beloop R 2,8 biljoen.

Die Begroting sluit ook in 'n gebeurlikheidsreserwe van R 2,0 biljoen vir 2000/1 wat verhoog word na onderskeidelik R 4,0 biljoen in 2001/2 en R 8,0 biljoen in 2002/3, wat voorsiening maak vir makro-ekonomiese en ander onvoorsiene uitgawes. Ons voorsien om 'n gedeelte hiervan vir die herstel van skade deur die onlangse vloedrampe te voorsien.

Stronger economic growth, improved tax collection, and lower debt service costs allow us to raise spending on services by R8,3 billion in 2000/01, compared with our 1999 Budget forward estimates. Spending will increase by an average of 7,5 per cent a year for the next three years.

The Budget provides for expenditure of R233,5 billion in 2000/01 rising to R266,7 billion in 2002/03. This is to be financed by total revenue of R 210,4 billion in 2000/01, bringing the deficit to R 23,0 billion, or 2,6 per cent of GDP. Total revenue increases to R243,6 billion in 2002/03 and the deficit falls to 2,2 per cent of GDP.

From the R233,5 billion available for spending in 2000 we deduct R46,5 billion for debt service costs and R2,0 billion to provide for contingencies. This leaves R185 billion to be divided equitably between national, provincial and local government. Provinces will receive R106,0 billion in the coming year, representing some 57 per cent of non-interest expenditure in this budget. Of this, R94,4 billion will be distributed between provinces by the equitable share formula. The remaining R11,6 billion is identified in the Division of Revenue Bill as conditional grants to provinces on national budget votes. The local government share amounts to R2,8 billion.

The Budget also includes a contingency reserve of R2,0 billion in 2000/01 increasing to R4,0 billion in 2001/02 and R8,0 billion in 2002/03, providing for macroeconomic and other uncertainties. We expect to allocate a portion of this reserve to repair damage caused by the devastating recent floods.

The deficit

The budget deficit has now been brought firmly under control, reducing our annual borrowing requirement and steadily contributing to a lower burden of debt service costs in the annual expenditure estimates.

In this way, tax resources are released for allocation to government's spending priorities. The lower deficit also means that government does not consume quite so much of the country's savings, releasing finance for investment in industry and job creation and reducing the pressure on interest rates.

In 1999/00 debt service costs were R44,5 billion, or R1,6 billion less than budgeted. Higher than expected proceeds from state asset restructuring contributed significantly to the lower debt costs.

Debt service costs are expected to be R46,5 billion in 2000/01, or 5,3 per cent of GDP, falling to 4,9 per cent of GDP by 2002/03.

Total government debt is projected to be R398,3 billion on 31 March 2001 or 45 per cent of GDP compared with the estimated 46,5 per cent of GDP at the end of 1999/00. Government debt is expected to fall to 42 per cent of GDP by the end of March 2003.

Madam Speaker, the deficit is a tax on future generations. By reducing it we free our children and grandchildren from this burden. We have reversed the spiraling upward trend in interest costs on the budget and the strain on available resources that this inevitably brings. The interest charge is now falling, allowing us to spend more on services for the poor and most vulnerable and on infrastructure.

Medium term expenditure trends and priorities

We launched the Medium Term Expenditure Framework in Budget 1998. Planning for three years ahead, and updating those plans every year, allows Government to combine stability and consistency with reprioritisation. All Government expenditure has now been scrutinised and planned in three successive Budgets.

In this Budget, we make certain changes to the baseline projections for 2000/01 and 2001/02 made in last year's expenditure framework.

Defence

A R30 billion investment in modernising defence equipment begins in 2000/01. This follows after sharp declines in defence spending in previous years. The decision is based on intensive analysis of the economic and fiscal impact of the procurements.

To accommodate this programme, defence spending increases by R2,8 billion above the baseline next year, and R3,9 billion the year after. The procurements cost some R5 billion in 2002/03 and after 2003/04 its costs will stabilise in real terms and then fall.

Recognising that the arms contracts are import-intensive, Government and the supplier companies have agreed to industrial participation programmes that are designed to boost investment and exports.

The financing of the purchases forms part of the planned foreign borrowing requirement of the budget deficit. Export guarantees by supplier countries and innovative financing have allowed South Africa to secure favourable terms and conditions. They have helped to keep the purchases affordable and to contain the financial risks.

Fighting crime

Fighting crime is a key national priority. This Budget provides support to that fight with substantial extra spending on police and justice. The emphasis is on vigorous, focused, co-ordinated programmes to strengthen and integrate prevention, detection, prosecution and punishment of crime.

The police receive R1,1 billion more over the next two years above the 1999 Budget projections. This will enable improvements in information technology for co-ordinating the fight against crime. It will provide for better finger print identification and electronic access to criminal records. Improvements in the police's social crime prevention activities will also be financed.

The Department of Justice receives around R470 million extra over the next two years. This will support law enforcement by the Directorate of Special Operations and the National Prosecuting Authority. It will also target improvements in the courts'

administration in order to ensure that cases can be processed as fairly and effectively as possible.

Correctional Services is proceeding with an innovative public-private partnership to construct two maximum security prisons.

Other spending also supports the fight against crime. The Department of Home Affairs' National Identification System receives R1,0 billion over five years. This system will improve the service offered to the public. But it will also help identify and combat fraud.

Social services

Spending on social services – education, health and welfare – will continue to take up the bulk of non-interest spending in 2000/01. It is projected to grow moderately in real terms over the next three years. Over this time, personnel spending will grow less quickly than spending on other elements of social services. This will mean more to spend on inputs such as medicines and textbooks.

Other reforms also contribute to more effective spending.

Supported by Budget funds, education departments have been implementing programmes to improve management capacity, including financial management. In the 2000 Budget we provide R272 million to be used for teachers' professional development and to support the culture of learning, teaching and service campaign.

Provincial welfare departments pay monthly benefits to more than 3 million beneficiaries at a cost of about R1,4 billion per month. These go to the most vulnerable in society – the elderly and disabled as well as to poor families with children. This social safety net is currently being widened substantially by the phasing in of the new Child Support Grant. In January 2000 about 217 000 children received this benefit, up from 28 000 in March 1999. About 20 000 new beneficiaries are added per month. This grant will eventually double the number of welfare beneficiaries as it reaches its target population, the three million poorest children in our country.

In addition to this widening of the social safety net, Government will again increase the value of social grants to reduce the impact of inflation on recipients of the grant. After consultation with the Minister of Welfare, the Welfare MinMEC and the Budget Council an increase of R20 a month to R540 has been agreed in the maximum value of the old age, disability, war veterans and the care dependency grants. Other grants will be increased in line with this, except for the Child Support Grant which will remain at its current level. This increase will cost provincial governments an estimated R472 million in 2000/01 while the increase in the number of beneficiaries (particularly because of the increase in child support grant beneficiaries) and carry-through costs from the previous year will require an additional R827 million.

Hospital management is being strengthened and conditional grants provided to rehabilitate hospitals and develop tertiary medical services in under-served provinces.

Provinces and national government continue to work together to improve services and enhance budgeting methodology. In each social service - health, education and welfare -

national and provincial departments and treasuries meet regularly to work together on common issues.

HIV/Aids

HIV/Aids is one of the biggest challenges the country faces. To assist in the fight against Aids this Budget makes a special allocation in addition to existing amounts on departmental budgets to finance an integrated response to the epidemic: R75 million in 2000/01, R125 million in 2001/02 and R300 million in 2002/03. The Departments of Education, Health and Welfare are finalising a strategy for use of this allocation. Principles already agreed are that the broad focus should be on children and the youth, as they are the most vulnerable and affected section of the population.

Poverty, jobs and development

Government's poverty relief, infrastructure investment and Jobs Summit programme continues through the next three years. We have already allocated R1 billion for 1999/00, increasing to R1,2 billion in 2000/01 and R1,5 billion in 2001/02. We now add R1,5 billion to the programme in 2002/03. These funds target the poorest of the poor especially rural areas. They provide jobs and community involvement. The programmes are designed to contribute to the empowerment of people through training and development.

These and other programmes will be implemented within the context of the sustainable and integrated rural development strategy. The programme will be supplemented by the Umsobomvu Fund. They activities will begin this year, focusing on the employment and training needs of young people.

Economic services

The national budget includes the anticipated receipts of the new skills levy assigned to the financing of the National Skills Fund and sectoral skills programmes. R1,5 billion is expected to be raised in 2000/01, increasing to R3,0 billion in the following year.

In addition to training programmes, spending on other economic services also grows. For example, land reform allocations increase, and support for marketing South Africa as an international tourist destination is increased by a further R100 million a year over baseline.

Personnel and other spending

Between 1995/96 and 1998/99 personnel expenditure grew strongly. Beginning this financial year, the proportion of total spending that goes to personnel costs has begun to decline. Although we must not forget that it is people who deliver services we must also acknowledge that a better balance between personnel and non-personnel spending will improve the quality of the services we have to deliver. We cannot deliver services without spending on the maintenance of school buildings or hospitals; or books and medicines.

Improving public services

Improving the quality of public services remains central to the work of Government. Budgeting has an important part to play in this work - and in helping Parliament and the public judge the services they are receiving. With last year's Budget, we published a *Survey* setting out the spending plans for each national department. The second *National Expenditure Survey* is published today. It puts the spending plans of each national department in the context of that department's objectives, its policies and outputs that have

been and will be delivered. I hope that Parliamentarians in general, and Portfolio and Select Committees in particular will find it a useful reference document.

Increased tax collection by SARS has allowed us to increase spending while reducing tax rates and the deficit. In order to build on this success, the Budget allocates a further R447 million to SARS. Fairness and the battle against all forms of criminality demand that tax should be collected from all those from whom it is due.

Provincial and local government expenditure

As set out in the Intergovernmental Fiscal Review, provinces have moved from large deficits to budget surpluses, allowing them to repay debt. Provincial finances have stabilised; budgeting and planning have become thorough. As a result provinces are now able to focus their energies on implementing the micro-reforms necessary for effective delivery of services.

The intergovernmental system continues to evolve. Intergovernmental institutions are maturing, setting the stage for more effective policy and spending coordination. Implementation of the PFMA will help clarify accountability and promote proper financial management. These and other changes will help provincial and local government become more responsive to the needs of people and to be sources of innovation and creativity in delivering public services.

Provincial spending is projected to rise from R101,1 billion in 1999/00 to R108,4 billion in 2000/01 and by an average of 5,9 per cent a year over the next three years. The share of personnel spending declines moderately over the period, as provinces plan to strengthen other operating expenditure.

Provincial budgets suggest that capital spending will grow to address infrastructural investment and maintenance requirements. Several provinces have set aside funds for infrastructure projects from unallocated reserves. In addition, the Department of Finance will administer a supplementary infrastructure grant to provinces in 2000/01.

The Constitution gives provinces certain tax powers. Under the correct conditions, expanding provincial taxing powers could give provinces more flexibility to adjust the mix of services in response to the needs of citizens. Assigning new taxes to the provinces does not, however, guarantee greater accountability and efficiency in spending. For this reason the Budget Council endorsed a gradual approach to extending the tax powers of provinces, as recommended by the Katz Commission. In the mean time, provinces will concentrate on improving the efficiency of spending.

Local government is expected to receive R6,7 billion in grants, agency payments and services in-kind from the national budget. These allocations support vitally important basic services to poor households, such as water, roads, refuse removal and housing infrastructure. We will continue to use local economic development funds further to encourage development in our localities.

It is no secret that many of our local authorities are under financial stress. The coming year will be particularly challenging as the consolidation and transformation resulting from the demarcation process is being implemented. Amidst these problems and uncertainties, however, what is encouraging are the bold reforms being undertaken by

some of our municipalities to restructure and modernise their administrations. To show its support, national government has set aside R300 million to promote such restructuring initiatives in bigger municipalities and another R150 million will be made available for smaller municipalities. A further R50 million is available to support improvements in financial management. Budget reforms, like multi-year budgeting, will be introduced through pilot projects in six large municipalities.

Taxation

Madam Speaker, the tax proposals we table before this House today constitute the most extensive set of tax reforms ever undertaken in this country. They build on the reforms we have undertaken in the past five years and are designed to lift the growth potential of our economy.

Capital gains tax

South Africa does not presently have a tax on capital gains. When considering the matter in 1995, the Katz Commission acknowledged that there was a case for such a tax. However, the Commission argued that given its complexity and the lack of administrative capacity within the revenue service, it was inopportune at that stage to introduce a capital gains tax.

A capital gains tax essentially aims to make the income tax more equitable. Realised capital gains are equivalent to income and can be used in the same way as income.

The absence of a capital gains tax encourages taxpayers to convert income that would ordinarily be taxable into tax-free capital gains. SARS reports that there are many opportunities for this. The result is erosion of both the corporate and individual income tax bases. It is for this reason that a capital gains tax forms an essential backstop to the personal and corporate income tax structure.

Taxes on capital gains are well established in the majority of developed countries, including Australia, Canada, the United Kingdom, the United States of America, and in many developing countries. Its introduction in South Africa would bring our tax dispensation in line with the systems of our major trading partners.

A tax on realised capital gains is accordingly proposed, to take effect on 1 April 2001, and to apply to gains accruing and realised after this date. It will not apply to family homes, private vehicles or ordinary households possessions. Given the complexity of the tax, a discussion document is to be released today and will be widely available from SARS offices as well as on a dedicated website to be established soon. Taxpayers are invited to comment on the discussion paper and the draft legislation to be released later this year.

I want to make one point absolutely clear. We will not tolerate any transactions entered into by taxpayers prior to the effective date for the purpose of stepping up the base of assets to avoid the impact of the capital gains tax provisions. SARS will scrutinise any such transactions to ensure that the base is not overstated. In cases where it is found that this kind of avoidance has taken place, the base cost will be adjusted appropriately and severe penalties will be imposed. Other anti-avoidance measures, including still penalties will also apply from today.

I caution all South Africans to first understand how this tax works and to be careful about taking misguided tax advice. We introduce this tax to promote equity and to benefit all South Africans through lower income tax rates.

Residence-based taxation

There are two alternative approaches to the taxation of income flows across international borders. In a source-based system, tax is levied on income earned from a source within a country irrespective of whether it was earned by a resident or a non-resident. In a residence-based system, tax is levied on the residents of a country irrespective of where in the world the income is earned.

Our tax system is currently based on the source principle. This is increasingly out of line with international practice and inappropriate for the circumstances of the South African economy. It creates considerable scope for tax structuring as taxpayers find ways to change income that would normally be taxed in South Africa into untaxed 'foreign source' income. The increased globalisation of our economy also creates opportunities for taxpayers to avoid tax by routing transactions through countries with low or zero tax rates; or countries with generous tax incentives, such as tax holidays.

We therefore intend to move to a residence-based income tax for South African residents for tax years commencing after 1 January 2001. This measure will significantly broaden South Africa's tax base and limit the opportunities for tax arbitrage. It will also bring our tax system in line with international best practice. As an interim step, foreign source dividends accruing to South African residents become taxable as ordinary income as from today.

The additional revenue from this measure is expected to be R200 million in 2000/01.

Closing tax loopholes

We understand only too well that loopholes in tax legislation are an unintended consequence of the complexity of modern tax systems. When undue advantage is taken of deficiencies in the legislation, the tax base is weakened and an increased burden is placed on other taxpayers. Measures are proposed this year to address the following loopholes:

- Deferring tax liability through structuring the timing of transactions to benefit from immediate deduction of expenses while postponing the accrual of income,
- Use of restraint of trade payments to earn tax privileged earnings,
- Avoidance of tax by employees through the use of personal employment service companies.

These measures are expected to generate R186,5 million in additional revenue. The first two measures will be effective from today.

Repatriation of surplus assets from pension funds

Madam Speaker, there have been certain judgements that allow employers to repatriate surplus assets from pension funds. It is clearly undesirable that an employer should gain a tax advantage from a repatriation of pension funds.

The recoupment of contributions from pension funds is already taxable. With effect from today, the full amount of any repatriation will be taxable and no offsetting loss will be allowed against such income.

Graduated rate structure for SMEs

The development of small and medium size enterprises is fundamentally important to the growth and employment potential of our economy. To complement a number of existing government initiatives directed at SMEs we propose to introduce a graduated company tax rate structure for incorporated small and medium size enterprises. Qualifying small corporations will pay 15 per cent on the first R100 000 of taxable income and 30 per cent thereafter. The new rates apply to tax years commencing on or after the 1 April 2000.

We believe that these measures will further contribute to the development of the labour-intensive SME sector, generating active business income.

Depreciation of permanent structures

Infrastructure development is both a challenge and an opportunity. Meeting the infrastructure needs of our country and our region provides us with enormous potential for growth and development. To foster infrastructural development and to provide strong incentives for private-sector participation, we propose a number of depreciation allowances for new investments in the following types of permanent structures:

- Pipelines used for transporting oil or gas and their derivative products – 10 per cent a year of the cost of the asset.
- Electricity transmission lines, telephone transmission lines and railway lines – 5 per cent a year of the cost of the asset.

These allowances will only be available to taxpayers whose core business is the use of the permanent structure for transportation or transmission.

Tax relief for non-profit organisations

Non-profit organisations play an important role in our society. They assist development by extending social services, often to the poorest of the poor. The Income Tax Act grants tax-exempt status to approved public-benefit organisations and allows for donations to some bodies to be deducted from taxable income. We recognise that it does not go far enough. It was for this reason that the government referred the matter to the Katz Commission.

Having considered the ninth report of the Katz Commission and the preliminary findings of the Portfolio Committee on Finance, it is proposed that:

- Provision be made for a new definition of “public benefit organisations”, which would qualify for tax exemption;
- The tax deductibility of donations be extended to pre-primary and primary schools, children’s homes, organisations caring for the aged and those focused on HIV/AIDS care.

We are also increasing the deduction for individuals, to bring it in line with that of companies, to the greater of R1000 or 5 per cent of taxable income.

Excise duties

Madam Speaker, lest the more technical tax proposals tempt any of the Honourable Members to smoke or drink, I shall now inform the House of the changes we propose to the taxes on tobacco and alcohol.

In accordance with our long-standing health policy, excise duties on tobacco are once again increased to bring the total tax incidence to 50 per cent of the retail price. The duty

on a packet of 20 cigarettes goes up 38 cents, an increase of 10 per cent in real terms. As was the case last year, duties on pipe tobacco, cigarette tobacco and cigars are also increased so that the total tax burden is 50 per cent. In other words duty on 25g of pipe tobacco goes up by 35 cents.

Duties on alcoholic drinks are increased in line with forecast inflation. This means an extra 2 cents on a can of beer or cider and 2,6 cents more on a bottle of wine. Duty on fortified wines such as port and sherry goes up by 6 cents a bottle. The excise duty on a bottle of spirits – whether gin, ouzo, grappa or any other too obscure to mention – goes up by 51 cents a bottle. Tax on sorghum beer is unchanged.

For the second year running we can afford to cut excise duty on soft drinks, this time by 4 cents a litre. We call on bottlers, wholesalers and in particular on the retailers to ensure that consumers generally benefit from this tax cut.

The net effect of all these excise changes will be additional revenue estimated at R565 million.

Madam Speaker, in terms of section 58 of the Customs and Excise Act, 1964, I lay on the Table for consideration by the House the taxation proposals in respect of customs and excise duties.

Airport departure tax

Internationally, taxes are levied on all or certain categories of individuals leaving a country. Such taxes are also known as airport taxes, passenger charge fees or departure taxes. A tax on international air travel of R100 per departure will be imposed from 1 August 2000. In line with international practice, the tax will be payable by the airlines and recovered from travellers as an integral element of ticket prices.

Diesel fuel taxation

Diesel fuel tax weighs heavily on the fishing industry and coastal shipping. In the fishing industry the contribution of the fuel levies to the total cost of production is as high as 21 per cent, which could render this industry internationally uncompetitive. These industries are to receive a total tax rebate of 89,4 cents a litre as from 1 June 2000, at a cost of R66 million.

Diesel fuel tax is also an important issue in a number of other sectors, like agriculture and forestry, where the granting of a tax relief is complicated by a range of abusive practices, including the mixing of paraffin and diesel for commercial use. The SARS is currently adding to its capacity and implementing a range of measures to deal with these serious abuses.

Fuel levy

The levy on leaded and unleaded petrol will increase by 5 cents a litre and on diesel by 3 cents a litre with effect from 5 April 2000. These increases are below the expected inflation rate and take cognisance of the current high international oil prices. The adjustments will generate R736 million in additional revenue.

Interest income exemption

We have good news for individual tax payers. We have listened carefully to Tips for Trevor from McManus, Mamahlo, Bannister and many old age pensioners, living on very modest incomes, who try hard to save and keep their savings in bank accounts. We have decided to increase the interest exemption from R2 000 to R3 000 a year for all taxpayers and from R2 000 to R4 000 a year for those aged 65 and over. This exemption will also apply to taxable dividends.

These adjustments should promote a culture of savings in our country. Increasing the overall level of savings in our economy is exceedingly important if we are to generate the levels of investment required for job creation.

This measure will cost government R220 million in revenue foregone.

Personal Income Tax

A key objective of our economic policy is to reduce the tax burden on ordinary people. We have in the past five years worked consistently towards achieving this objective. This year we are putting R9,9 billion back in people's pockets. We have significantly cut the rates and restructured the income tax brackets.

The lowest rate has been reduced from 19 per cent to 18 per cent. The primary rebate is adjusted to bring those earning below R21 111 below the tax threshold. Taxpayers over the age of 65 will pay no tax on income below R36 538.

The tax payable on taxable income of R30 000 will fall by 19,6 per cent and by 17,2 per cent on taxable income of R45 000. Middle and higher-income earners will also receive some relief. Taxpayers with income between R50 000 and R200 000 will have their tax liability reduced by about 10 per cent.

Madam Speaker, the biggest beneficiaries of these reductions are people on low to middle incomes. 41 per cent of the benefit goes to taxpayers with income below R70 000, 38 per cent to those with taxable income between R70 000 and R150 000. The total income tax relief granted since 1995 now amounts to over R25 billion.

The changes to income taxes tabled here today are designed to promote equity. By putting a substantial amount of money back in people's pockets we want to reward work effort, savings and entrepreneurship.

Tax administration

Madam Speaker, I have presented to this House a range of ambitious tax reform initiatives, which all seek to broaden the tax base, lower the rates and grant significant tax relief to all taxpayers. In this connection, it needs to be noted that none of these bold steps could have been realised in the absence of a more efficient and effective SARS.

During the previous year, SARS launched a vigorous enforcement campaign, which resulted in a spate of criminal prosecutions and additional collections of revenue. These have included:

- The introduction of the new income tax system (NITS), providing integrated support to tax collection;

- A fraud hotline, encouraging the public to help in the fight against tax evasion;
- A special tax criminal court in Johannesburg, expediting the hearing of statutory offences.

These improvements at SARS will be further strengthened in this year. Because taxpayers have the right to expect good service from SARS, and to be treated in a fair manner, within the ambit of the revenue laws, SARS will launch a public discussion on the development of a new Taxpayer Charter.

This transparent process will be complemented by the significant restructuring of internal processes and other administrative arrangements, including:

- Introducing an automated call centre, increasing SARS's capacity to follow up on debts;
- Implementing a national education and awareness programme;
- Providing for the electronic submission of VAT, PAYE and provisional tax returns;
- Streamlining the processing of objections and appeals;
- Measurably improving tax assessments times.

Tax policy and tax administration continues to be closely integrated. The comprehensive tax reforms I propose today will be underpinned by a further strengthening of SARS administrative capacity.

Conclusion

Madam Speaker, last year, we also started this address with a quotation from Ben Okri. It read, “ *Time is growing....When will our suffering bear fruit?*” What we demonstrate today is that our sufferings are bearing fruit, not yet in ample quantities, but there is fruit; we also know that the fruit now is sweeter than before.

Again, we must warn ourselves against complacency. To harvest fruit to the full potential requires that we continue to prune correctly, and that we shelter our young trees from the ravages of frost, heat and storms.

We are pursuing our policy objectives. This budget again makes a significant installment in the pursuit of fairness in both our expenditures and revenue instruments. Moreover, we again invite all South Africans to share with us these remarkable achievements and to continue to hold government accountable for the taxes we collect and how we spend these. We invite our people to share with us in the vision for the future and in the investments we now make towards that future.

This budget, this set of commitments, is the work of a large collective and a statement of the joint responsibility of Cabinet.

Permit me to express my profound appreciation to:

- President Mbeki for his leadership, support, and attention to detail, but perhaps most of all, for the manner in which he engages with and challenges us to be bold to ensure that democracy delivers.
- Deputy President Zuma and my Cabinet colleagues, especially to the members of the Ministers' Committee on the Budget for participation, support and defence.
- Deputy Minister Mandisi 'Sipho' Mphahlela for burden-sharing, determination and friendship.

- “Team Finance” comprised of the nine Members of Executive Councils (MEC’s) for Finance who remain the shock-troops for fiscal discipline.

Those support structures whose contributions assist so greatly in delivering sound management –

- The South African Reserve Bank, and especially Governor Tito Mboweni – this is his first budget with us formally as governor. He also now will be responsible for managing inflation within the target band.
- The Financial and Fiscal Commission, and to its chairperson, Murphy Morobe, in particular.
- Professor Michael Katz and the Tax Commission.
- NEDLAC, and especially its new Executive Director, Mr Phillip Dexter.
- Ms Barbara Hogan and Ms Qedani Mahlangu, as Chairpersons of the Portfolio and Select Committees of Finance in Parliament, respectively.

The leadership and staff of the departments centrally involved in the budget-making:

- Mr Pravin Gordhan, Commissioner for the Revenue Service, and the staff of SARS who have exceeded the target last year, will achieve the same this year, and whose footprint amongst taxpayers is now unmistakably strong.
- Ms Maria Ramos, who now looks after both the Departments of Finance and of State Expenditure, for her tireless leadership of that very able team of professionals who have produced this budget and will oversee its implementation in the year ahead. Permit me also to express my sincere gratitude to Andre Roux who leaves the Department of Finance at the end of this week.
- To my family – Lynne and the Boys, and also to my Mother, for their support.
- To the Mpahlwa family for their carrying of Siphso.
- To the staff of the Ministry for their role in putting up with us.

Finally, to each one of you, in the Chamber, on trading floors and at home, for your interest and patience in listening to us.

Let me turn to Ben Okri once more,

The worst realities of our age, are manufactured realities. It is therefore our task, as creative participants in the universe to redream our world. The fact of possessing imagination means that everything can be redreamed. Each reality can have its alternative possibilities. Human beings are blessed with the necessity of transformation.