Budget Speech

Minister of Finance

T A Manuel

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2003 Budget Speech

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> *…Freedom is both the primary objective, and the principal means of development… What a person has the actual capability to achieve, is influenced by economic opportunities, political liberties, social facilities, and the enabling conditions of good health, basic education, and the encouragement and cultivation of initiatives. These opportunities are, to a great extent, mutually complementary, and tend to reinforce one another.*
>
> Amartya Sen, *Development as Freedom: An Approach*

Madam Speaker,

Today we table the tenth budget of a free and democratic South Africa – a South Africa proud in the assumption of the benefits and responsibilities of freedom:
…Freedom we have won to choose our own destiny, and in so doing, to take our development into our own hands.

…Freedom we have won to choose our own representatives, and in doing so, to decide for ourselves the character of our state and the actions we direct it to take on our behalf.

…Freedom, Madam Speaker, of which this Budget is but one expression, albeit one of the most visible.

Freedom, writes the philosopher and economist Amartya Sen, is the primary aim of development, and also the principal means of achieving it.

Budget priorities – development as freedom

Madam Speaker, our long walk to freedom bears testimony to a leadership and a people driven by a commitment to democracy, human rights, peace, shared opportunities and a better life for all. Our history bears testimony to our commitment and determination to do the right thing. We have always done so with the courage, integrity, energy and selflessness borne from the knowledge that our principles and our values are worth fighting for. We fought apartheid because it was the right thing to do. We fought for democracy because it was the right thing do. When on 26th June 1955, the Congress of the People adopted the Freedom Charter, it rose above the tyranny of that time to proclaim with one voice:

> *We, the people of South Africa, declare for all our country and the world to know: that South Africa belongs to all who live in it, black and white…and we pledge ourselves to strive together, sparing neither strength nor courage, until the democratic changes here set out have been won.*

The Freedom Charter reflected our people's aspiration for political freedom, freedom from poverty, freedom to transform our society, its culture and values, freedom to explore our capabilities, the freedom to choose a future for our children.

We fought for that freedom because it was the right thing to do.

And still it was the right thing to do, when on 8th May 1996, in this very House, we adopted our new Constitution, embraced our history and accepted the enormous challenge of rebuilding our country and economy, of healing a nation, of restoring dignity, of inspiring hope and nurturing dreams, of assuming the benefits and responsibilities of our freedom.

In just under nine years we have worked hard to push back the frontiers of poverty, to rebuild a tattered economy, to return pride to our people, to build confidence, to care for the poor and most vulnerable. We have steered clear of the illusion that is populism. We have sought to build rather than postulate. We have chosen decision over vacillation. We have chosen progress over stagnation. We have chosen inclusion over exclusion. We have chosen stability over chaos. We have chosen predictability over irrationality. We have embraced the present, mindful of the past, and boldly face our future. We nurture our youth while caring for our elders. We respect the community and the individual. We cherish our diversity and our common humanity. We have chosen respect over disregard. We have chosen humility over arrogance. We have chosen partnership over isolation. We have chosen learning over assuming. We have chosen frankness over glibness.

And yet, Mr President, you have charged us to do more.

In your State of the Nation Address to this Parliament on 14 February you reminded us that the key task with which we are charged is ensuring a better life for all:

> *…The government must act to ensure that we reduce the number of people dependent on social welfare, increasing the numbers that rely for their livelihood on normal participation in the economy. This is also especially relevant to the accomplishment of the goal of enhancing the dignity of every South African.*

The 2003 Budget extends and strengthens our growth and development strategy and progressively realises the social and economic rights of our people. It embodies a set of policies aimed at pushing back the frontiers of poverty whilst supporting growth and creating opportunities. It seeks to empower people by expanding their capabilities.

This Budget benefits from and contributes to the strong growth performance of our economy. Despite a bleak global environment our economy registered improved growth last year. Our projections indicate that over the next three years we will continue to experience growth and see progress with employment creation, providing the basis for more and more South Africans to 'rely for their livelihoods on normal participation in the economy.'

The 2003 Budget:

- Gives priority to reducing poverty and vulnerability
- Extends the child support grant and increases spending on the primary school nutrition programme
- Increases spending on social grants, text books, medicines, hospital buildings and equipment
- Further reinforces the enhanced response to HIV\Aids
- Gives municipalities additional resources for free basic services, investment in infrastructure and job creation.
- Accelerates spending on land restitution
- Supports further restructuring of universities and technikons
- Invests in skills development
- Strengthens the fight against crime
- Increases spending on foreign representation and support for NEPAD, and
- Gives generous tax relief.

This Budget once again recognises that making the right choices is not just about delivering a better quality of life to our people for a year or two. It is about ensuring that the policy choices we make today are affordable and sustainable ten or twenty years from now.

This is important, because we must recognise that eradicating poverty is complex and takes time. Seemingly simple solutions that rely on weak and generalised assumptions about who the poor are, where they live, what they need and what they want, are destined to fail.

Madam Speaker, as signalled in the 2002 Medium Term Budget Policy Statement, the 2003 Budget builds upon, and takes further, the policy priorities laid down in the 2001 and 2002 Budgets.

But Madam Speaker, as much as we have achieved, it is not enough.

Accountability for service delivery

There are a number of elements of the development equation that are often very hard to quantify yet are fundamental to achieving the outcomes we seek. The first of these is the quality of the services that government delivers. When people experience poor service delivery, or our projects fail, then not only are citizens denied those services to which they are entitled, but in turn their capacity to contribute further to the development process is undermined. Unless our policies are implemented efficiently, courteously, honestly and enthusiastically, we will achieve far less than we intend, and than our people surely deserve.

We simply cannot and must not tolerate those who make pensioners wait for hours in the sun because they have not bothered to arrive on time, or those who bring shame to their profession by treating patients and their families callously, or those who abuse the children in their care, or those who could not be bothered to ensure that hospitals have medicines. We cannot tolerate the breakdown in elementary management that results in rundown facilities, leaking pipes, missing textbooks, slow-moving queues, festering bed-sores, lost case files. Those who do not embrace the spirit of *Batho Pele* should do the right thing and leave the public service. Their lack of commitment and accountability hinder our ability to deliver, and hinder our country's development. They also undermine the efforts of the many thousands of civil servants who care and work hard to deliver a meaningful service, who have grasped with both hands the new challenge of freedom and whose actions embody this nation's philosophy for living: Ubuntu. I am because you are. I cannot be free unless you are free.

But ultimately, Madam Speaker, responsibility stops here.

We in this House, in provincial legislatures and in municipal councils, are charged with ensuring that the funds we vote to departmental programmes and government agencies are responsibly and effectively employed. I hope that the information we table for the first time today in our *Estimates of National Expenditure* on the measurable objectives of our departments will help this House in acquitting that responsibility. The publication of the 2003 *Intergovernmental Fiscal Review* in April will provide all ten legislatures with comprehensive information to exercise their oversight responsibilities. There can be no delivery without accountability, and no accountability without oversight.

Madam Speaker, I would like to take this opportunity to thank the many South Africans who again responded to the 'Tips for Trevor' campaign throughout the past year and vigorously in the past 2 months. Many I hope will recognise their contributions in the Budget we table today, many have raised important issues which we will continue to consider.

Thanks to an innovative and far-sighted project of the African General Equity Foundation, we are joined today by Abongile Zweni, Rashaad Sujee, Mandla Ngobeni and Timothy Keleketse, respectively the Ministers of Finance of Kwa-Bheki Langa

High School, Nirvana Secondary School in Lenasia, Klipspruit West Secondary and Thabo Senior Secondary in Soweto. Drawing on the valued advice of these colleagues, I will shortly outline proposals to spend more on education and health services, to increase social grants and to reduce personal taxes. I have noted in particular Mr Sujee's suggestion – and I know everyone in this House will agree – that 'on taxes, in a perfect world, there wouldn't be any, but we have to be more realistic'. Quite so.

Economic outlook

Madam Speaker, in a perfect world there would not be recessions or economic uncertainty either, but life is not like that.

Ten years ago, the *Budget Review* had to report that a recession, then in its fourth year, had deepened further and the economy had shrunk by 2,1 per cent in the previous year. Employment fell by 6½ per cent between 1989 and 1993 and gross domestic fixed investment declined by 15 per cent. Consumer prices increased by 14 per cent in 1992, and food price inflation averaged 25 per cent. The then Minister of Finance reported a budget deficit of 8,6 per cent of GDP in 1992/93, and proposed a 6,8 per cent deficit for the following year.

Southern Africa has experienced hardship again this past year because of drought, shortfalls in regional grain production and rising food prices. As in the early 1990s, global conditions are unfavourable.

But unlike those years, our economy is growing steadily, jobs are being created, the public finances are in a healthy state and investment is accelerating. Government spending on social services has increased by 35 per cent in real terms over the past decade. Building on the expansionary stance of the 2001 and 2002 Budgets, we are able to plan for real spending growth of 6,8 per cent next year, and 4,5 per cent a year over the forthcoming MTEF period. The budget deficit is expected to be between 2 and 2½ per cent of GDP.

International economic environment

The global economy has passed through a decade of turbulence with four major international crises threatening financial stability. Across all these episodes the resultant contagion has meant that capital flows to emerging markets have declined and, at times, access to international capital markets has been severely constrained.

Several other developments have increased uncertainty and impacted negatively on capital markets and global growth. The spectacular failures in corporate governance in the United States in the past twelve months, the collapse of the dot.com bubble and the massive write-down of assets in Europe have left regulators, company boards, shareholders and citizens searching for answers. Many painful lessons have been learnt. I am pleased to report that the Ministerial Panel for the Review of the

Accounting Professions Bill has been established, has met, and that its work programme is now under way.

Our economic performance is in marked contrast to the experience of the rest of the world.

In the United States, Europe and Japan, the outlook for the years ahead remains depressed.

The potential for war in Iraq raises uncertainty, not only for South Africa, with respect to its inflation raising effects, but for the entire continent. As net importers of oil, African economies will be exposed to higher external liabilities should oil prices stay at current high levels.

Domestic growth, investment and inflation

The resilience of our economy in this global context is testimony to the success of the reforms that we have implemented. Gross domestic product grew by 3 per cent last year. Growth for 2003 is expected to be 3,3 per cent, rising to 4 per cent in 2005.

Investment grew by 6,3 per cent in 2002 and is expected to continue to grow around 6 per cent a year over the medium term. The primary sector expanded by 3,7 per cent driven by solid growth in platinum group metals and the agricultural sector. Buoyed by investment in the manufacturing sector and the strong growth in construction spending, the secondary sector expanded steadily in the first three quarters of 2002, helping to create employment opportunities.

The balance of payments remains healthy. The current account of the balance of payments is expected to record a small surplus in 2002. With buoyant economic growth, it is expected that the current account will move into a moderate deficit of 0,5 per cent of GDP in 2003.

The latest data indicates net capital inflows of R21,4 billion for the year to September. We have also made significant progress in reducing the Net Open Forward Position (NOFP) from US$4,8 billion at the end of December 2001 to US$1,5 billion at the end of January 2003.

The depreciation of the Rand towards the end of 2001 put upward pressure on inflation. Consumer price inflation as measured by CPIX averaged 10,0 per cent in 2002 and peaked at 12,7 per cent for the year to November. Much of the increase was due to rising food prices, housing and medical costs.

The Reserve Bank responded by raising interest rates by 400 basis points over the course of the year. This has contributed to moderating the inflation trend. The recovery of the exchange rate will also dampen prices this year. We expect average CPIX inflation for the year to be 7,7 per cent, and to fall within the target range of 3 to 6 per cent next year.

Food price inflation has eased somewhat, but remains cause for concern.

We observe that the futures price of white maize has fallen from a peak of over R2000 a ton to R940 currently.

I trust that in the determination of prices by producers, distributors and retailers we will see prompt corresponding downward adjustments, so that the consumer benefits fully from this favourable trend.

We remain committed to inflation targeting and believe that price stability remains one of the cornerstones of sound economic management. The inflation target of 3 to 6 per cent will be retained for 2005. A target range for 2006 will be considered at the time of the Medium Term Budget Policy Statement in October this year.

Employment and broadening development

According to the *Survey of Employment and Earnings*, annual employment growth in the third quarter of 2002 was positive for the first time in 6 years. Unemployment nonetheless remains a critical challenge.

Reducing unemployment and ensuring that the benefits of economic growth and development are more evenly shared remain central policy challenges for Government. Key economic policy initiatives in support of growth and broad based development include:

- The skills development programme
- Stepped up infrastructure investment and tax incentives to boost industrial growth and employment
- Redistribution of land, backed by agricultural support programmes
- Widening access to financial services and the integration of small businesses into the formal economy
- Further easing of the tax burden on low and middle income households.

Black Economic Empowerment

A particular challenge for the decade ahead is the broadening of economic participation. Black economic empowerment has a central role in sustaining South Africa's growth trajectory and improving the distribution of income and opportunities. Alongside sectoral initiatives to deepen participation in the ownership and management of South African companies and implementation of the preferential procurement policy framework, Government proposes to set aside R10 billion over the next five years to support the funding of new ventures and business expansions that meet agreed empowerment criteria. This will in part be financed from the extraordinary proceeds of the exchange control measures announced today. A new mandate for the National Empowerment Fund, and a review of the roles of other development finance and support institutions, to ensure that these resources are effectively and efficiently employed, will be developed by the National Treasury and Department of Trade and Industry.

The budget framework

Madam Speaker, while economic growth provides us with the resources we require to meet our development objective, sound fiscal management ensures that we will continue to be able to do so into the future. It is perhaps opportune to remind ourselves of the journey we have travelled in our public finances since a decade ago.

Following the deep recession of the early 1990s and a rapidly rising debt-GDP ratio, a period of consolidation saw a moderation of expenditure, steadily improving revenue performance and a marked reduction in the budget deficit.

Beginning with the 2001 Budget, a more expansionary fiscal stance has been adopted, with a view to raising the long-term growth capacity of the economy. It allows us to expand our freedoms more deliberately, providing for the progressive realisation of the socio-economic rights set out in our Constitution, and promoting broad-based development, employment creation and redistribution of income and opportunities. Sound public finance management, a sustainable deficit relative to GDP and prudent limits on foreign borrowing remain key elements in protecting the public finances against external risks.

The main budget provides for expenditure of R334,0 billion in 2003/04, rising to R395,6 billion in 2005/06. Revenue increases from R304,5 billion to R361,2 billion over the same period, resulting in a budget deficit of 2,4 per cent of GDP next year, after an estimated 1,4 per cent in the current year.

As in the past, the budget includes an unallocated contingency reserve, rising from R3 billion next year to R8 billion in 2005/06. This allows for unforeseeable and unavoidable expenditure in-year and new policy priorities in future years. The taxi recapitalisation programme, recapitalising the Post Office and further critical infrastructure projects may be financed from this reserve once operational business plans have been agreed.

Debt service costs are expected to fall from 4,2 per cent of GDP in 2002/03 to 3,8 per cent by 2005/06. National government debt, which was 48,1 per cent of GDP at the end of 1996/97, will decline to a projected 36,8 per cent by the end of the MTEF period. The lower our interest bill, the more resources we have to spend on public services. It is also important to note the contribution of reprioritisation to strengthening our development effort. Spending on health, education, welfare, housing and other social services now accounts for 58,3 per cent of non-interest expenditure, up from 52,9 per cent a decade ago.

Division of revenue

Excluding debt service costs and the contingency reserve, the budget framework provides for expenditure of R280 billion in 2003/04 rising to R332 billion in 2005/06 to be allocated between the national, provincial and local spheres. Over the next three years, this budget adds a further R105,4 billion to our spending plans. Of this amount, national departments receive R30,5 billion, provinces receive R69,3 billion and local governments receive R7,3 billion, signalling a marked shift in favour of provinces and local government.

The additional allocations accommodate substantial policy adjustments for all three spheres of government, and also provide for higher inflation than anticipated in 2002.

Medium term expenditure proposals

Significant additions to MTEF spending plans include the following:

- Extension of the child support grant to children up to the age of 14 and stepped up allocations to the primary school nutrition programme, adding a further R11,9 billion to meeting the needs of children.
- R38 billion more to provinces to improve roads, revitalise hospitals, purchase medicines and school books and enhance our response to HIV/Aids.
- A further R6,5 billion for extending free basic services, investing in municipal infrastructure, rural water supply and sanitation and expansion of employment in community services.
- Additional allocations of R2,7 billion for courts and police, to streamline the justice process, and improve protection of women and children.
- R1,7 billion for higher education, and increased skills development funding.
- R1,9 billion more for land restitution and the land reform programme.
- R2,2 billion more for administrative improvements to Home Affairs’ services to citizens and for building capacity of the South African Revenue Services.
- R1 billion to supplement research and technology development.
- R1,3 billion to support a growing international role, peace-keeping missions and the New Partnership for Africa’s Development.
- R1,2 billion for food relief projects.

The provincial and local government spheres are at the forefront of delivering the social and economic services which this Budget supports. The provincial share of nationally raised revenue is projected to rise by 6,1 per cent in real terms from 56 per cent in 2002/03 to 57,6 per cent, while the share going to municipalities rises by

12,2 per cent in real terms and from 3,6 per cent to 4,4 per cent of the total over the MTEF period.

Addressing poverty and vulnerability

Social assistance grants provide critical income support to vulnerable groups – the elderly, young children and people with disabilities. This is our largest and most effective redistribution programme. In keeping with the advice of the Youth Minister of Kwa Bheki Langa High School, with effect from April 2003 the pension and disability grants increase by R60 to R700 a month and child support grant will go up by 14 per cent to R160 a month. Once again we are able to give real increases in these grants. The cost of the adjustments is provided for in the provincial equitable shares.

Over the next three years, we will also extend the means-tested child support grant to children in need up to their 14th birthday, raising the total number of social assistance beneficiaries to more than eight million by 2005.

This Budget sets aside R1,1 billion, R3,4 billion and R6,4 billion over the next three years to phase in extension of the grant. This means that seven- and eight-year olds will qualify for grants in April 2003, nine- and ten year olds in April 2004, and 11- to 13-year olds the following year. The funding will be directed to provinces through conditional grants. The national Department of Social Development gets additional funds to improve the capacity of the grants payments system.

Children receive further priority in the expansion of the integrated nutrition programme. The grant-funded programme increases from R592 million this year to R809 million in 2003/04 and further to R1 042 million in 2005/06, more than offsetting the impact of food inflation. The programme will be extended to Grade R pupils and to a larger number of schools.

Investing in health and education

Our future is in the hands of our children. Education expands abilities and opportunities. It is a great freedom in itself, and opens the doors to other freedoms.

We recognise this. That is why, at 23,2 per cent of non-interest expenditure, investment in education and deepening of the skills base of the economy is our largest expenditure area.

Spending on school education at the provincial level is budgeted to grow from R59 billion in 2003/04 to R67 billion in 2005/06. Raising the level of funding for learner support materials tops education priorities this year. More money will be spent on school building and maintenance as well as textbooks, stationery, mathematical sets and science kits, supporting effective teaching and learning in schools.

At the national level, R800 million is directed towards restructuring of the higher education system over the next three years. These allocations will contribute towards recapitalisation and facilitate restructuring of higher education institutions. A further R280 million replenishes the National Student Financial Aid Scheme, making tertiary education a reality for poorer students.

In preparing the 2003 Budget, we have given special emphasis to the critical requirements for improving the quality of provincial health services – supplies of medicines, hospital and clinic management and staffing. We also ensure that over the next three years 18 additional hospitals will be upgraded and refurbished through the hospital revitalisation programme.

The Budget provides for a substantial reinforcement of our response to the health care challenges we face. Over the next three years, an additional R3,3 billion has been added to the provincial equitable share and conditional grants to extend preventative programmes and finance medically appropriate treatment for HIV/Aids.

This Budget provides additional funds for land restitution. Recognising the critical role that it plays in restoring what rightfully belongs to those formerly dispossessed, R1,9 billion is provided to accelerate this programme, together with enhanced agricultural development support. It is the right thing to do.

Investment in infrastructure and technology advancement

We are setting aside a further R1 billion to increase expenditure on the National Research and Development Strategy for programmes relating to health, industrial biotechnology, food security and agricultural production.

The 2001 Budget introduced a renewed focus on infrastructure investment, given effect through targeted allocations to national votes, a supplementary infrastructure grant to provinces and a number of grants to local government targeted at infrastructure. Investment in infrastructure allows us to expand the provision of basic service, contributes towards economic growth and strongly supports job creation.

Over the next three years Government will spend over R105 billion on physical assets and capital transfers.

Further allocations to national departments are made for office accommodation and technology investment by Home Affairs, maintenance and general repair of government buildings, forensic laboratory equipment in Health, further upgrading of court buildings and security, investment by the SA Police Services in buildings, vehicles, computer equipment and a new radio communications system in Gauteng, and additional investment in rail commuter rolling stock.

Infrastructure grants to local governments grow strongly over the MTEF period and include a further R1 billion for labour-intensive community development, as part of the consolidated municipal infrastructure programme.

Government's economic and industrial strategy includes several core spatial development initiatives. Construction of an industrial zone and a new R3,2 billion deep-water port at Coega near Port Elizabeth has begun.

Partnerships with local government

Real development largely happens at a local level. Strengthening partnerships in our communities helps us to listen to people's different needs and work together to improve access to services and opportunities at the local level.

We know that access to basic services – electricity, water, sanitation – advances local development. The Budget sets aside more than R23,7 billion over the next three years to assist municipalities to extend basic service delivery to poor households. This budget provides a further R4,1 billion for free basic services over the next three years, including for electricity. Other allocations are directed towards community infrastructure investment and rehabilitation, including water schemes, electricity and sanitation facilities, roads and community facilities. Since 1997, the municipal infrastructure programme has benefited some 2,5 million people.

We are working hard to place municipal government on a sound footing and give impetus to the rural development and urban renewal strategies.

Just over R2 billion of national spending has been directed to the 21 nodal municipalities identified by the President in the Urban Renewal Programme and the Rural Development Strategy, targeted at financing anchor projects.

And this year, for the first time, we are publishing all transfers to local government by municipality on Budget day, four months ahead of the next municipal financial year. We ask that municipalities take hold of this opportunity and plan their budget and spending activities early so that the monies are spent timeously, improving community service delivery, all in the spirit of the Municipal Finance Management Bill presently before Parliament.

Enhancing safety and security

The criminal justice sector receives a further R2,7 billion to fight crime and ensure the safety of our communities. We have to build communities that do not live in fear, where we can reclaim the streets from criminals, where our magistrates feel safe in our courts. Safety and Security receives additional funding to hire more police, and further expand the sector policing strategy, enhance the vehicle fleet, and improve communications. Recognising the debt we all owe to police officers who lose their lives in the course of duty, provision is made for a supplementary death benefit of R200 000.

Justice and Constitutional Development receives resources to improve court performance, upgrade the Masters' Office and improve protection of women and children in the court process. Improving the links between the criminal justice agencies through information technology systems is critical to reducing levels of crime in the country. Correctional Services receives money to expand accommodation for the growing prisoner population, to fight corruption and address urgent repair and maintenance requirements.

Additional allocations to the South African National Defence Force provide for the acquisitions of four maritime helicopters and R200 million a year to contribute to the costs of peace support operations.

The Budget also provides for an enhancement of capacity in the intelligence agencies and the establishment of the Financial Intelligence Centre, aimed at combating money-laundering.

Regional development and NEPAD

South Africa remains at the forefront of multilateral initiatives aimed at promoting a more equitable international order and ensuring a better future for Africa's people. The 2003 Budget accommodates a phased expansion of missions in African countries, funding for the African Union and the NEPAD secretariat and increased contributions to regional development through the African Renaissance Fund administered by the Department of Foreign Affairs.

Total expenditure

This brings total expenditure on the national budget to R334,0 billion next year, rising to R395,6 billion in 2005/06.

Which is the right thing to do.

Tax proposals

Madam Speaker, let me turn to our proposals for financing our spending plans.

Buoyant revenue collections over the past year again reflect improvements in tax administration and the longer term benefits of sound tax policy reforms.

Main budget revenue is now expected to be R275,7 billion in 2002/03, or 4,0 per cent higher than the original estimate. Higher personal income tax receipts, robust company tax trends and higher VAT receipts are the main sources of higher than anticipated revenue. Since 1994/95, revenue has consistently exceeded budget projections, contributing both to the lower deficit and to the relief we are able to afford, while maintaining a broadly stable revenue share of GDP.

The 2003 Budget tax proposals again provide relief for individuals and also several stimulus measures aimed at encouraging business investment.

Tax relief for individuals – personal income tax rates and brackets

The personal income tax remains South Africa's most important revenue source, contributing nearly 34 per cent of main budget revenue in 2003/04.

Taking into account the marked improvements in tax collection efforts and supported by sound base broadening initiatives, we propose this year to reduce income taxes on individuals by R13,3 billion. The personal income tax reductions primarily benefit lower and middle-income households. The adjustments against compensate fully for inflation, and provides real relief to all taxpayers.

- The primary rebate is raised to R5 400, increasing the threshold below which no tax is paid by 11,1 per cent to R30 000 a year.

- The tax threshold for taxpayers aged 65 and over is raised to R47 222, or 10,7 per cent more than the current level.

- Brackets are adjusted to provide relief across the entire income spectrum.

- Of the total relief, 56 per cent accrues to taxpayers earning less than R150 000 a year, and 23 per cent to those earning between R150 000 and R250 000 a year.

Since 2000, the minimum tax threshold has been increased by over 50 per cent for individuals below the age of 65 and by 40 per cent for those over 65. This means that over a million people, ordinary workers and pensioners, who would otherwise have had to transfer part of their monthly pay to the fiscus, pay no income tax at all. I believe, Madam Speaker, that we can take some pride in the fact that we are able to raise progressively this elementary measure of solidarity on which our tax structure is built.

Interest and dividend exemption

As in 2002, we propose to complement this personal income tax relief by increasing the domestic interest and dividend exemption thresholds. The exemption is increased from the current R6 000 to R10 000 for taxpayers under the age of 65 and from R10 000 to R15 000 for senior citizens.

This proposal will encourage savings and assist those who rely on interest income. The change will take effect on 1 March 2003, at a cost to the fiscus of R227 million.

Stamp duty and transfer duty

As a further step in tax simplification and to reduce costs of financial services this year, stamp duty on insurance policies and fixed deposit receipts will be eliminated. This proposal will come into effect from 1 April 2003 at an estimated cost of R200 million.

Again this year, we are able to contribute to making home ownership more affordable, by amending further the graduated transfer duty rate structure in respect of the acquisition of fixed property. The duty exempt level will be increased from the current R100 000 to R140 000.

The average duty on property with a value of R200 000 will fall from 2,5 per cent to 1,5 per cent; the duty on property with a value of R400 000 falls from 4,5 per cent to 3,9 per cent. These duty adjustments will apply to property acquired from 1 March 2003 and will cost the fiscus R435 million.

Tax on retirement funds

The tax treatment of retirement savings is currently under review by a task group that includes representatives from the National Treasury, SARS and the Financial Services Board. As part of this review, an open three-day conference was held in September 2002, including representatives of the retirement industry, other stakeholders as well as South African and international experts.

During the course of this year, a second discussion document will be released and further consultations will be held with a view to ensuring that the final proposals and legislation represent a fully deliberated product. We hope to include the reform of the tax treatment of retirement savings in next year's budget proposals.

Members of the House will recall that the tax on retirement funds was first introduced at a 17 per cent rate in 1996, and then increased to 25 per cent in 1998. At that time, our thinking was primarily motivated by concern about neutrality between retirement funds and other savings vehicles. It remains, nonetheless, an important objective of public policy that all individuals should be encouraged to provide adequately for retirement. Many members of contractual savings plans that are subject to the 25 per cent retirement fund tax, would ordinarily be subject to an 18 per cent rate on their income from savings. Added to this has been the increase over time in the domestic interest and dividend exemption threshold, which does not apply to savings held in retirement plans.

Against this background, it is proposed that the retirement fund tax rate be reduced from 25 per cent to 18 per cent. This change will take effect from 1 March 2003 at an estimated cost of R1,85 billion. We invite pensioners and fund members to ensure that the benefits of this change accrue to them.

Encouraging business investment

There are also several proposals set out in the Budget Review aimed at encouraging business investment.

- The accelerated depreciation arrangements for manufacturing assets, introduced as a temporary measure, will be retained as a fixed element in our tax policy.

- In keeping with practice in many other jurisdictions, relief will be provided where business asset sale proceeds are reinvested within 18 months.

- Taxpayers will be allowed to claim losses from ordinary revenue on the sale of devalued depreciable business assets with short economic lives.

- An accelerated four-year write-off period is proposed for capital expenditure relating to research and development in the field of natural and applied science.

- A double deduction is proposed for the first R20 000 of costs incurred in the start-up of new businesses.

- The turnover limit for small businesses qualifying for a lower company tax rate will be increased from the current R3 million to R5 million.

These general business tax stimulus measures will be effective from the date promulgated into law and will cost approximately R80 million in 2003/04.

Encouraging urban development and support for public benefit organisations

Many urban areas in South Africa suffer from inadequate infrastructure maintenance and environmental decay. Urban renewal requires greater business investment in the regeneration of inner city areas. With this in mind, it is proposed that investment in refurbishment or construction of buildings in certain urban areas receive special treatment. Taxpayers refurbishing a building within designated zones will receive a 20 per cent straight-line depreciation allowance over a 5-year period. Construction of new buildings within such a zone will receive a 20 per cent write-off in the first year and 5 per cent a year for a further 16 years. This benefit will be available to owners as users of the building or as lessors/financiers of these investments.

Relevant criteria, to be included in legislation, are noted in the Budget Review. This incentive will last for four years, and is allocated R1,3 billion of tax revenue foregone over the period.

A complementary proposal extends tax advantages to public benefit organisations that provide affordable housing to low-income households in underdeveloped urban areas, as part of a more comprehensive broadening of the list of activities qualifying for tax-deductible donations.

Tax treatment of foreign dividends and related tax preferences

South African taxpayers became subject to tax when receiving foreign dividends from 23 February 2000, and since January 2001 they are taxed on their worldwide income.

The current system of taxing foreign dividends has the unintended effect of discouraging dividend inflows. In order to eliminate this disincentive, the tax on foreign dividends will be removed where a South African taxpayer has a meaningful interest in the foreign subsidiary paying the dividend. This removal necessitates a number of collateral changes, including the removal of indirect foreign tax credits for shareholdings falling below a meaningful threshold, the review of other anti-avoidance measures, the removal of the designated country exception and improved exchange of information between the Reserve Bank and SARS.

The Budget Review also contains details of the removal of some tax preferences. The tax exemption for a foreign owned gold share company will be removed with effect from 1 January 2004. In addition, we will scrap a potentially harmful tax practice in the form of the International Headquarter Company regime as the need for this exemption is obviated by the removal of the foreign dividend tax.

These changes together with amendments ensuring consistency will simplify administration and compliance significantly.

Indirect taxes – alcohol and tobacco duties

I turn now to the indirect tax proposals.

The following adjustments to taxes on alcohol and tobacco products are proposed:

- Beer and ciders are raised by 10 per cent, bringing the proposed excise duty to 48 cents per 340ml can or an average increase of 4,4 cents per can.

- Sorghum beer and sorghum flour duties will not be increased for a second year running, thereby reducing the indirect tax burden in real terms.
- Duties on unfortified and sparkling wine are raised by 11 per cent.
- Duties on fortified wine are raised by 10 per cent.
- Duties on spirits are increased by 10 per cent, bringing the average total duty to R13 per bottle
- Taxes on tobacco products are raised by an average of 11 per cent, increasing the excise tax to R3.89 per packet of 20 cigarettes.

And this, too, is the right thing to do.

These excise measures will raise additional revenue of approximately R907 million.

Taxes on fuel

There were no increases in the general fuel levy on diesel and petrol last year. The tax burden on fuel has now fallen from an average of 45 per cent of the pump price in 1998 to approximately 31,4 per cent in 2002/03.

Taking into account the current strength of the rand and the adoption of a more streamlined approach to fuel pricing, the following adjustments are proposed:

- The general fuel levy on both leaded and unleaded petrol will increase to 101 cents per litre – an increase of 3 cents per litre on leaded petrol and between 6,2 and 9,2 cents per litre on unleaded petrol.
- The general fuel levy on diesel will increase by 4 cents to 85 cents per litre.
- The Road Accident Fund levy will increase by 3 cents from 18,5 cents per litre to 21,5 cents per litre.

The proposals will raise approximately R642 million in 2003/04 for the National Revenue Fund and an additional R474 million for the Road Accident Fund. These adjustments will take effect from 2 April 2003.

Air passenger tax and other excises

The air passenger departure tax has not been adjusted for inflation since its introduction in 2001. It is proposed that this tax be increased by R5 to R55 per passenger departing to Botswana, Lesotho, Namibia and Swaziland and by R10 to R110 per passenger departing for all other international destinations. This increase will raise approximately R30 million in additional revenues in 2003/04 and will take effect from 1 July 2003.

After consultation with the motor vehicle manufacturing industry, it is proposed that the graduated formula for ad valorem excise duty on new motor vehicles be adjusted to address the inflationary element. This formula draws a distinction between vehicle types and the weight of vehicles, translating into a more moderate excise duty charge on lower priced cars.

This will cost the fiscus approximately R243 million in revenue foregone next year.

It is also proposed that with effect from 1 April 2003 the ad valorem excise duty on computer equipment be abolished. This will benefit both businesses and consumers investing in information technology equipment, contributing to technology advancement and improved competitiveness. This will cost the fiscus R572 million in 2003/04.

Total main budget revenue

These proposals, taken together, amount to aggregate tax relief of R15,1 billion in 2003/04, bringing the projected total tax revenue estimate for the year to R310 billion. After taking into account departmental receipts of R4,2 billion and payments of R9,7 billion to our Southern African Customs Union partners, main budget revenue of R304,5 billion is projected.

Aspects of tax administration

In noting this target for the next financial year, it is perhaps appropriate to record also the contribution that enhanced administration plays in sustaining the robust revenue trend we have seen in recent years. Key initiatives include the launch of a Service Monitoring Office in October last year, strengthening of enforcement powers, creating a mechanism for resolving past non-compliance and ongoing reorganisation of the SARS office structure. The Siyakha administrative reforms and systems modernisation of tax offices were implemented in KwaZulu-Natal in 2002 and will be rolled out in the Western Cape and Gauteng in 2003. The Budget Review details a range of revenue activation measures that will be prioritised over the year ahead, contributing further to reducing the outstanding tax debt and securing improved compliance with the tax laws.

I have described a number of steps directed at meeting the challenge of broadening the base and improving the tax compliance culture of South Africans. Members of the House will agree that the complexity of compliance challenges faced by SARS requires that serious consideration must be given to further steps to broaden the tax base and improve compliance.

South Africa continues to play a leading role in promoting tax cooperation within the SADC, including capacity building initiatives, developing a tax database for the region, formulating a common approach to tax incentives, administrative coordination and eliminating harmful tax practices. The Southern African Tax Institute was established last year, as a key initiative in promoting relevant research and training. The South African Revenue Service is also involved in several capacity development initiatives in other SADC states.

Following eight years of negotiations, a new Southern African Customs Union Agreement was signed in October 2002. It provides for joint participation in SACU institutions, decision-making and significant revisions to revenue-sharing arrangements.

Further steps in exchange control liberalisation

Government remains committed to a gradual approach to exchange control liberalisation.

Part of this process of gradual exchange control liberalisation and financial sector strengthening is the shift to a system of prudential regulation. Prudential regulations are applied internationally to protect policyholders and pensioners from excessive risk, and typically include restrictions on foreign asset holdings.

Institutional investors will be allowed to invest, on approval, up to existing foreign asset limits. These foreign asset limits are 15 per cent of total assets for long term insurers, pension funds and fund managers, and 20 per cent of total assets for unit trust companies. The previous restriction based on 10 per cent of the prior year's net inflow of funds will no longer apply. The Exchange Control Department of the South African Reserve Bank reserves the right to stagger transfer of such funds in the interest of overall financial stability. The new dispensation will become operational 1 May 2003, once revised reporting requirements are in place as part of the shift to prudential regulation.

The global expansion by South African firms holds significant benefits for the economy – expanded market access, increased exports and improved competitiveness. In October 2002, the exchange control allowance for foreign direct investment into Africa was increased from R750 million to R2 billion, in line with South Africa's commitment to NEPAD. In order to facilitate global expansion of South African companies from a domestic base, the exchange control allowances for direct investment outside of Africa is increased from R500 million to R1 billion.

The global expansion by South African firms should result in inflows from dividends and other income earned. The current tax and exchange control dispensation presents a disincentive for the repatriation of dividends and income. Accordingly, it is proposed that dividends repatriated from foreign subsidiaries should be eligible for an exchange control credit, which will allow them to be re-exported, upon application, for approved foreign direct investments. This change will be synchronised with the removal of the foreign dividends tax, where the taxpayer has a meaningful say in the foreign subsidiary paying the dividend.

Foreign exchange control amnesty and accommodating tax treatment

Exchange controls are designed to protect the growth and development objectives of the nation. As such, contravention of exchange control regulations by individuals at the expense of society as a whole cannot be condoned. However, Government also recognises that exchange control contravention may have taken place in the past for a variety of reasons. At the same time, many South Africans with funds held illegally offshore are realising that foreign markets do not present the nirvana they sought and that South Africa offers both higher returns and lower risks than many perceived. They wish to bring these funds back to South Africa, but are unable to do so without risk of prosecution. It is thus appropriate at this point, marking almost ten years of democracy and thriving growth, that we are able to announce plans to assist individuals in repatriating these funds and to regularise their tax affairs in respect of foreign assets:

An amnesty will be offered with respect to foreign assets in terms of both the Exchange Control Regulations, together with supporting relief measures in terms of the Income Tax Act. The window period for filing for amnesty relief will run from 1 May 2003 to 31 October 2003. Individuals filing for the accommodating Exchange Control relief are released from all civil penalties and criminal liabilities stemming from the illegal shifting of funds offshore in contravention of exchange controls on or before 28 February 2002. Individuals filing for Income Tax amnesty relief are released from all income taxes, interest, civil penalty and criminal penalties stemming from the failure to disclose gross income or capital gains from foreign sources arising on or before 28 February 2002. In return, individuals filing for exchange control amnesty are subject to a 5 per cent Exchange Control charge on funds repatriated back to South Africa, or a 10 per cent charge on any foreign assets remaining offshore. A zero per cent charge will apply for all assets that can be held legally offshore under the normal Exchange Control limits.

Any individual can apply for relief unless an enforcement investigation has been initiated against him or her.

Going forward, there is no excuse for individuals to be in contravention of exchange controls or taxation on foreign income and assets. Government has taken a number of initiatives, both internationally and domestically, to further improve the efficiency of enforcement. Internationally, the legal environment has become less favourable for illegally held offshore funds through increased possibilities for information exchange. The recent introduction of the Financial Intelligence Centre Act has also increased the risk of holding assets offshore illegally. In recent years, the enforcement efficiency of SARS has increased significantly, and it is proposed that this be strengthened further through increased information sharing between SARS and the Exchange Control Department of the SARB.

A system of exchange control allowances for the export of funds when persons emigrate has been in place in South Africa for a number of decades. Emigrants' funds in excess of the emigration allowance were placed in "emigrants' blocked accounts" in order to preserve foreign reserves. Reflecting the improved strength and resilience of the South African economy, these blocked assets will now be unwound. The following new dispensation will apply with immediate effect:

- The distinction between the settling-in allowance for emigrants and the private individual foreign investment allowance for residents is to fall away and there will now be a common foreign allowance for both residents and emigrants of R750,000 per individual (or R1,5 million in respect of family units).

- Amounts up to R750,000 (inclusive of amounts already exited) will be eligible for exiting without charge. Holders of blocked assets wishing to exit more than R750,000 (inclusive of amounts already exited) must apply to the Exchange Control Department of the South African Reserve Bank to do so. Approval will be subject to an exiting schedule and an exit charge of 10 per cent of the amount. The same dispensation will apply for new emigrants.

Various other limits pertaining to travel, study, gift, maintenance and alimony allowances will be adjusted by the South African Reserve Bank.

Towards the Growth and Development Summit

Madam Speaker, against a background of faltering growth and uncertain prospects internationally, South Africa enters 2003 with a strengthening currency, robust investment growth, rising business confidence and a moderate recovery in the employment trend.

Measures to ensure that broad-based development accompanies this growth will be the subject of a Growth and Development Summit later this year. Our approach places freedoms – political, social and economic freedoms – at the centre of our development strategy. Key elements include:

- Progressive broadening of the income security net, revitalised health services and targeted poverty reduction initiatives

- A national skills development strategy, focused on productivity enhancement and learning opportunities for the unemployed

- Redistribution and restitution of land, coupled with investment in rural development and agricultural support services

- Public administration reform, founded on respect for citizens' rights, courteous and efficient service delivery, modernisation of systems and honest, accountable governance

- Investment in infrastructure, technology advancement and industrial expansion, in partnership with the private sector

- Strengthening the fight against crime and combating corruption

- Widening access to financial services, integration of small businesses into the formal economy and further easing of the tax burden on low and middle-income households

- A sustainable, broad-based and transparent approach to black economic empowerment

- Deepening of democracy, promoting peace and security and expanding investment and trade as principles of international cooperation and the New Partnership for Africa's Development.

Madam Speaker, allow me to express my profound appreciation to:

- President Mbeki for his leadership, support and the manner in which he challenges us to be bold to ensure that our democracy delivers the freedoms we have fought for.

- Deputy President Zuma and my Cabinet colleagues, in particular members of the Ministers' Committee on the Budget for the commitment, support and camaraderie.

- Deputy Minister Mandisi Mpahlwa for sharing the load and for friendship.

- My ‘Team Finance’ colleagues in the Provincial Executive Councils, for the courage and professionalism with which they have tackled the enormous task of maintaining provincial finances healthy.

Our task is always facilitated by many others:

- Governor Tito Mboweni and the team at the South African Reserve Bank,
- Murphy Morobe and the members of the Financial and Fiscal Commission,
- Philip Dexter and Nedlac,
- Ms Barbara Hogan, Ms Qedani Mahlangu, as Chairpersons of the Portfolio and Select Committees of Finance respectively and Mr Nhlanhla Nene and Mr Tutu Ralane, Chairpersons of the newly established Joint Budget Committee.

We have had an overwhelming response to the ‘Tips for Trevor’ campaign. I want to thank the many South Africans who took time and made the effort to respond. Your inputs are much valued and we have tried to accommodate as many of the ideas and suggestions as possible.

The Budget is put together by a group of dedicated, hard-working professionals at the National Treasury and the Revenue Service. Special thanks are due to Maria Ramos and Pravin Gordhan for the leadership they have given.

Thanks are also due to the staff of the Ministry who tolerate us with good cheer.

Last but not least, I’d like to thank my family for their support.

Madam Speaker, this Budget makes an important contribution to the extension of our freedom and the unlocking of our capabilities. We remain true to the spirit, courage, passion, commitment and values that drove our historical struggle for freedom. Something of this spirit is captured in a pamphlet written in January 1955 to the volunteers who collected together those priorities that were chosen for the Freedom Charter: ‘This is a great task,’ the pamphlet concludes:

> *But freedom is not easily won! It is won through hard persistent work, organising the people, mobilising them and leading them forward. LET'S GET DOWN TO IT NOW, WITHOUT DELAY.*

Because it is the right thing to do.