ADDRESS TO THE NATIONAL ASSEMBLY ON THE TABLING OF THE MEDIUM TERM BUDGET POLICY STATEMENT AND THE ADJUSTMENTS APPROPRIATION BILL, 2003

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Madam Speaker

Honourable Members

South Africa is a great place to be in. A few weeks ago, Tom Ainsley, the CEO of Elliot International, one of the larger removal companies in the country, was speaking on a business radio show. In discussing his company's financial results, he commented that in the 1980s, the number of people that his company moved out of South Africa exceeded the number of people moving in by about ten times. For the past two years however, the number of people leaving the country has roughly equaled the number of people being brought into the country. In September this year, for the first time since his tenure began in 1979, the number of people being brought into the country exceeded the number of people leaving. Skilled South Africans are coming back, skilled professionals are choosing to move here.

While this may be anecdotal, it signals a realisation by people of good judgement that this country is a great place to be in. A realisation that if you take a serious look around, you soon recognise that you'd rather be here than anywhere else.

Madam speaker, it is this confidence that we are here to speak about today. We are here to talk about the way in which we have weathered the storm of global uncertainty, the way in which we are standing tall… and about why this country is a great place to be in. But more importantly, our confidence is driven by our ability to give meaning to our vision of a better life for all South Africans, especially the poor. We are progressively realising the social and economic rights of our people, we are building the foundations for stronger growth and employment creation, we have a policy framework in place to bridge the divide between the first and the second economies that is still such a pervasive feature of our society, as President Mbeki reminded us yesterday.

Under the leadership of the Policy Coordination and Advisory Service in the Presidency, the impact and effectiveness of our policies and programmes since 1994 have come under considered scrutiny. The findings of this review are set out in a publication titled Towards a Ten Year Review – a careful and frank assessment which I would like to commend to this House as compulsory reading, not just for the insights it contains, which are many, but also because it provides an intelligent and balanced point of departure for the next phase in our transformation journey.

In framing this year's Medium Term Budget Policy Statement, we have drawn strongly on this work and the challenges it presents for the years ahead. We have also had the benefit of the results of the 2001 Census, published by Statistics South Africa earlier this year. The census and various publications of Statistics SA are the sharp-edged tools of our policy analysis. They show where we have made progress – bringing electricity and water to townships and rural communities, improving access to schools and clinics, improving growth and investment in our economy. They also outline the magnitude of the challenges before us – creating enough jobs for those who seek work, addressing the remaining backlogs in water, electricity and sanitation infrastructure and improving the quality and relevance of further education and training programmes.

In keeping with the spirit of the Growth and Development Summit Agreement this year, these challenges call for partnerships between government, business and civil society. The financial services charter signed last month takes several steps forward in this transformation agenda. It sets targets for several empowerment challenges: transforming management, in addition to ownership, corporate social investment alongside financing empowerment transactions, access to financial services and small business development. The charter sees the delivery of services to the 'unbanked' as both a social objective and an opportunity for business growth.

Macroeconomic developments, growth and development

When we tabled the Budget in this house earlier this year, we were optimistic that the global economy would recover. This has not materialised. While growth in the US shows signs of recovery, most developed countries are still in difficulty. GDP growth in Europe, our major trading partner, this year is forecast at just ½ of a per cent. Against this background, our economy has displayed a remarkable degree of resilience.

Yes, it is true that our economy has grown more slowly than we initially anticipated. The global slowdown in 2001 and 2002, coupled with the dampening effect of the strong rand on our foreign trade performance, have held back faster growth. At the time of the Budget we anticipated growth of 3,3 per cent this year. The revised estimate is growth of 2,2 per cent in 2003, rising to 3,3 per cent next year and 4 per cent by 2006. However, domestic demand in our economy is growing strongly due to lower interest rates, expansionary fiscal policy and the relative stability of the currency. Investment spending is at its highest level in almost a decade.

A sustained higher rate of economic growth is clearly a central requirement if we are to achieve our objectives of employment creation, poverty reduction and broadening participation in economic opportunities. This means we need to boost investment in our people, our physical infrastructure and industrial capacity.

The MTBPS outlines our strategy for reinforcing investment and broadening participation in the South African economy. Building on the agreements reached between government, business, labour and community constituencies at the Growth and Development Summit in June this year, we have a shared vision for improving the performance of our economy.

Key initiatives include:

- Enhancing public infrastructure capacity, including critical transport and communication linkages;

- An expanded public works programme, extending job creation initiatives across a broad developmental front;
- Improving the regulatory environment and resolving obstacles that stand in the way of the expansion of small businesses;
- Expanding education and training and accelerating enrolment in learnerships to underpin long-term job creation;
- Deepening social security programmes to provide income support to the most vulnerable;
- A broad-based black economic empowerment strategy; and
- Strengthening sectoral partnerships and local development initiatives.

This development agenda rests on the foundations of the macroeconomic consolidation we have achieved – a moderate budget deficit, a healthy balance of payments and lower inflation.

Members will recall that we were obliged to correct an error in the consumer price indices earlier this year. Partly as a result of this correction, but also because the underlying rate of inflation has decreased steadily, we now expect CPIX inflation to average 6,9 per cent in 2003, compared with the February budget estimate of 7,7 per cent. Following an increase in CPIX inflation to 11,3 per cent in October 2002 after the steep depreciation of the rand in the second half of 2001, year-on-year inflation fell to 5,4 per cent in September this year. This brings inflation well within the target range of 3 to 6 per cent, and we expect it to stay in this range over the three years ahead.

The moderation in inflation over the past year has enabled the Reserve Bank to lower interest rates by five percentage points since June, bringing welcome relief to households and creating a decidedly more favourable environment for business investment. The prime lending rate is at its lowest level in seventeen years. There are also benefits to the fiscus, as government is currently able to borrow at lower interest rates than we have seen since June 1974.

Our thanks and congratulations are due to Governor Mboweni and his team at the Reserve Bank – may they continue their good work.

I am pleased to report that we have agreed on a number of amendments to the inflation targeting framework within which the Reserve Bank conducts its monetary policy responsibilities. Rather than expressing the target as an annual average for each calendar year, the 3 to 6 per cent range will now be a continuous target within which the Bank will seek to maintain the monthly rate of CPIX inflation, as measured on a year-on-year basis. This range will remain in place for 2006 and future years, until a revised target is set. The procedures for dealing with unanticipated shocks to the inflation trend have also been refined. These adjustments bring greater clarity and practicality to the inflation targeting framework.

Lower inflation, lower interest rates and a relatively stable currency have contributed to a marked improvement in business confidence in the second half of this year.

Fiscal policy and tax considerations

The proposed framework for the 2004 Budget again gives priority to reinforcing growth, creating a conducive environment for job creation while deepening social security spending and infrastructure investment targeted to address poverty and vulnerability.

We have revised down our revenue estimate for this year by R5 billion. This is partly because the economy is growing more slowly than anticipated, and also because corporate profits have fallen in the wake of the economic slowdown and the appreciation of the rand. For the years ahead, a stable tax-GDP ratio of just under 25 per cent of GDP is projected for the national budget.

Taking into account the revised financing requirement, lower interest rates and lower rand costs of servicing foreign debt, total debt service costs of R47,2 billion in 2003/04 are anticipated, which is R3,8 billion less than the original budget estimate. This brings debt service costs down to 3,9 per cent of GDP from 4,2 per cent last year, again releasing resources for allocation to productive expenditure. For the MTEF period ahead, debt service costs are expected to decline further to 3,7 per cent of GDP in 2006/07.

Debt costs together with the revised estimate of R284,3 billion in non-interest expenditure this year bring total expenditure on the main budget to R331,5 billion. The budget deficit will be R31,6 billion, which is 2,6 per cent of projected GDP, compared with a main budget estimate of 2,4 per cent.

The MTBPS proposes a framework that allows for real growth in non-interest spending of 5,7 per cent next year and an average of 4,4 per cent over the next three years, after over 10 per cent real growth this year – a strong fiscal stimulus in response to the current slowdown in economic activity, made possible by the healthy state of the public finances after several years of consolidation.

The main budget deficit will rise to 3,2 per cent of GDP next year and then decline to a projected 2,8 per cent by 2006/07. However, the consolidated national deficit, which takes into account projected surpluses on the social security funds, is expected to remain below 3 per cent of GDP over the MTEF period. After providing for extraordinary payments and receipts and the financing requirements of provinces, municipalities, other government bodies and public corporations, the aggregate public sector borrowing requirement is expected to be 3,5 per cent of GDP next year.

This is a growth-oriented fiscal framework that affirms Government's commitment to long-term sustainability – reflected in the continued declining cost of servicing debt as a share of GDP. It is a framework that provides for strong growth in infrastructure investment by national and provincial government, while also accommodating the increasing capital requirements in the years ahead of the major parastatals, including Eskom, Transnet and its subsidiaries and our larger water utilities.

Major tax reforms of recent years – the introduction of a capital gains tax, adoption of a residence-based income tax system and other base-broadening measures – have put tax policy on a sound footing and allow for a period of consolidation in the years ahead. Certainty in both the tax policy framework and its administration creates an environment conducive to growth and investment.

Nonetheless there are refinements to the tax structure in progress, or under consideration. These include:

- Reform of the taxation of retirement savings;
- Introduction of accelerated depreciation allowances for designated urban development zones;
- Tax relief to support business investment, research and development and business start-up expenses;
- Tax relief on dividends from foreign investments;
- Rationalisation of the principles governing VAT on government grants to public entities and subsidies to businesses;
- A levy on plastic bags, in recognition of environmental considerations; and
- Development of a royalty regime for mineral and petroleum products.

In several of these areas, legislation is already before Parliament – in others, such as the proposed royalty regime, comment from interested parties is under review and revised proposals will be tabled during the course of next year. The deadline for the foreign exchange amnesty announced in February this year is now extended to 29 February 2004.

I am also advised by Commissioner Gordhan that the Revenue Service is working tirelessly in its efforts to meet revenue targets this year, despite the downward revision in projections. Active measures are focused on areas where non-compliance remains high or fresh evidence of abuse has emerged.

We have been gratified to see the public response this year to SARS's return filing campaign, which included widespread advertising, help kiosks in shopping and community centers and extended office hours. On the deadline date of 11 July, 410 752 returns were submitted – hugely exceeding expectations. Additional staff are being appointed to deal with the processing of returns. Other initiatives that have proved successful include the launch a year ago of SARS Service Monitoring Office, which has dealt with about 5 000 incidents in its first year of operation, and the introduction this year of an alternative dispute resolution option, which will shortly also be adapted for the customs and excise environment.

The Medium Term Expenditure Framework and division of revenue

Madam Speaker, I turn now to the proposed Medium Term Expenditure Framework for the next three years.

The budget framework provides for an additional R37 billion to be allocated to national votes, provinces and local government transfers over the next three years.

Drawing on the findings of the Ten Year Review and the 2003 Growth and Development Summit Agreement, spending plans for the next three years will include an Expanded Public Works Programme to contribute to job creation, reinforcement of infrastructure investment and maintenance, provision for higher education transformation and skills development, and further investment in municipal infrastructure and services. These policies were reaffirmed through the GDS process in which Government, business, labour and community representatives committed to work together to foster people-centred development.

Significantly, employment creation and skills development emerged as the focus of social partners and is indeed at the centre of Government's development strategy for the next decade. As outlined by His Excellency, President Mbeki, in the NCOP yesterday, the Expanded Public Works Programme will be central to meeting this goal and is one of the key agreements arising from the Growth and Development Summit. A growing proportion of current infrastructure allocations will be directed towards labour-based construction methods, resulting in more jobs for low-skilled individuals and valuable training to serve them in future years. Infrastructure grants to provinces and municipalities rise by R3,2 billion over baseline and will be the main source of funding for this programme with technical support from a dedicated unit in the national Department of Public Works.

The proposed division of revenue sees a gradual shift of resources in favour of provinces and municipalities. The majority of social services are, in fact, delivered by provinces where health, education and welfare spending are prioritised. Programmes in this sector embody Government's core commitment to human capital and social development. This forms the bedrock of our strategy to reduce poverty and support vulnerable groups, including the aged, children and the disabled. That is why social development budgets will continue to grow strongly to meet our constitutional commitments of providing for the needs of these groups, amongst others.

Notably, phasing in the extension of the child support grant to children up to the age of 14 accounts for continued rapid growth in social security expenditure. Including sharp increases in the numbers of recipients of disability grants over the past year, we are now paying monthly grants to over seven million people – up from under 3 million six years ago. Starting from about 2 per cent of GDP, the social security system now takes up 4 per cent of GDP. A recent research project focused on the child support grant has again confirmed that our social grants programmes are well targeted, contribute on a large scale to reducing income poverty, and that the new grant is making significant progress in meeting the needs of vulnerable children.

Local government receives the biggest percentage increase in the proposed framework due to its vital role in delivering basic services to poor communities. Government is committed to investing in low-income neighbourhoods and under-served communities, in part through the free basic services programme which provides a minimum package of municipal services including electricity, water, refuse removal and sanitation. This is a big challenge for municipalities and will remain a priority for the medium term. As part of the process to create sustainable neighbourhoods, local government is stepping up infrastructure delivery through a consolidated Municipal Infrastructure Grant. Through this new mechanism, Government will target the removal of backlogs in water, sanitation and electricity, thus promoting the social and economic rights of citizens over time.

There are several other priorities in the social services. The years ahead will also see about R3 billion spent on the transformation and recapitalisation of higher education institutions, and rapid growth in the number of workers and learners benefiting from skills programmes overseen by sector education and training authorities (SETAs).

Education continues to dominate social services. Funding of learner support materials and other supplies for schools will be strengthened and the primary school nutrition programme will shift from health to education departments. These targeted interventions seek to improve the quality of learning for students, particularly those in poor areas. Over time, the substantial and growing investments in school education together with ongoing reforms in higher education will create a deeper pool of skills to support economic growth. It is notable that the National Student Financial Aid Scheme (NSFAS) is producing solid financial results while continuing to increase the number of awards to academically deserving and financially needy students.

The budget framework makes provision for the roll out of treatment programmes in response to HIV and Aids. Earmarked allocations on the national Health vote will go up to R1,1 billion next year, rising to R2 billion by 2006/07. Total expenditure in response to HIV and Aids, including amounts directly spent by provincial health departments, will exceed R3 billion next year, R4 billion in 2005/06 and R4,8 billion in 2006/07. As the costs of drugs come down and our capacity improves, the ability to treat an even larger group of people becomes possible.

Spending on justice, crime prevention and security services will expand moderately over the years ahead, with additional resources earmarked for establishing Child Justice Centres, modernisation of court management and information systems and further expansion of the Police Service. We have consistently made allocations to this sector in order to stabilise and reduce the incidence of crime. We believe that progress is being made in the fight against crime, though much more can be done, and will be done, through increased resources, better management, and better systems to allow the departments in this sector to work more closely and more efficiently. Children bear an inordinate burden of crime and violence in our country. Ultimately, reducing levels of crime improves the quality of life for all South Africans and benefits the most vulnerable.

Priorities in the economic services include further investment in water services and sanitation, provision for infrastructure associated with industrial development zones and enhanced spending on land restitution and land reform. Strong support continues for investment in housing and basic water, sanitation, electrification, transport and communication services. The budget framework includes amounts of R1 billion in 2004/05, R2 billion in 2005/06 and R3 billion in 2006/07 set aside to support the broad-based black economic empowerment strategy.

South Africa's diplomatic services and peace-keeping operations, in support of NEPAD objectives, regional development and international cooperation will be enhanced. Provision is made for forthcoming elections, and allocations to support improved services of the Department of Home Affairs are proposed.

The 2003 Medium Term Budget Policy Statement proposes, in sum, progressive strengthening of public expenditure across a broad set of policy priorities, and framed within a consistent and growth-oriented fiscal policy framework and a stable overall tax burden.

The fastest growing category of spending at present is our portfolio of social grants programmes, and in particular, income support for children under the age of 14. This is as it should be – for our children are our future, and while we have such inequality, and such a gap between employment opportunities and the number of workseekers, as we have, we must give priority to this basic contribution to household food security and mitigating income vulnerability.

But over the longer term, over the decade ahead, we must also be mindful of the great responsibility we have to invest in building productive capacity, developing a learning society and creating work opportunities. This is, after all, our investment in the livelihoods of our children beyond the age of 14, and in their capacity to nurture and support our children's children, and beyond. And so we also have to contain the extension of our social security system within reasonable and affordable limits, and channel a growing share of resources to education, to skills development, to housing, water and sanitation, to building roads and modernising our transport networks and to our particular place at some of the frontiers of research, technology and scientific achievement.

This is a question of balance, in the interests of progress across a broad front of social and economic development. The Medium Term Budget Policy Statement proposes a practical, progressive development of public expenditure and services over 2004 MTEF period ahead, which Parliament is invited to consider over the weeks ahead.

The Adjustments Appropriation

The House is also requested to consider an Adjustments Appropriation Bill for the financial year ending 31 March 2004. Its details are explained in the 2003 Adjusted Estimates of National Expenditure.

Why is this necessary? Like the best laid plans, they sometimes need adjusting. This is where, in brief, the Executive appeals to the Legislature for increases in allocations to some programmes, decreases in others, shifts of funds between votes – all by comparison with the appropriations passed by the House just a few months ago. There is of course no limit whatever to the kinds of requests that careless departments might make at this time, but the Public Finance Management Act, in order to avoid unduly trying the patience of the House, sets strict criteria. The most important is that new allocations can only be for emergencies – unforeseen and unavoidable expenditure.

This year, the Treasury Committee has approved, amongst other amounts, the following.

- R103 million for the Department of Home Affairs, mainly for unanticipated costs of the Lindela Detention Centre and for the current ID campaign in preparation for elections next year;
- R34 million for rehabilitation of flood-damaged infrastructure in the Western Cape and for Provincial and Local Government to settle outstanding liabilities to eleven Kwazulu-Natal municipalities;
- R180 million to Public Works for unanticipated rates and municipal charges owing on state properties;
- R90 million for the Department of Health to begin implementation of a broader treatment plan for HIV and Aids;
- R27 million for Correctional Services for unanticipated increases in costs of health care for prison inmates, transport costs and urgent repair works, amongst others;
- R500 million to meet the unanticipated costs on the Defence vote of phase 3 of the United Nations peace mission in the Democratic Republic of the Congo, South Africa's participation in the Burundi peace mission and provision of

support to the UN-mandated Interim Emergency Multinational Force in Bunia from June to August this year;

- R36 million on the Agriculture vote to combat foot and mouth disease and provide emergency fodder assistance to farmers in Limpopo Province;

- R50 million on the Communications vote to meet unanticipated costs of closure of the Bophuthatswana Broadcasting Corporation and settlement of liabilities of the Independent Communications Authority of SA;

- R20 million for the Department of Transport to meet urgent road repair costs at a number of border posts;

- R346 million for Water Affairs and Forestry, mainly to respond to forest fires, meet emergency water supplies in drought-affected communities, settle unrecoverable debt obligations of several water user associations and meet restructuring costs associated with the transfer of staff and infrastructure to municipalities and other entities.

Members of the House will recall that in the main Budget Speech, I announced that an allocation to provide for recapitalisation of the Post Office would be made, subject to a separation of the Post Bank from the rest of the business and agreement on a business plan to put the agency on a sound financial footing. Cabinet has agreed to set aside R750 million for this purpose and the Department of Communications has responsibility for ensuring that outstanding issues are resolved to enable this capitalisation transfer to be effected before the end of the financial year.

The Adjusted Estimates also provide for R2,1 billion in transfers to provinces to meet unforeseen and unavoidable expenditure, mainly arising from more rapid uptake of disability grants and other social benefits than anticipated. A further R100 million will go to provinces as conditional grants to meet higher than budgeted costs of extending the child support grant to 7 and 8 year-olds this year.

Madam Speaker, Honourable Members will observe that an amount of R400 million is provided for on the National Treasury vote in the Adjustments Appropriation for additional service benefits for Members of Parliament and Members of Provincial Legislatures. Members who do not return to elected office, or who have left their seats, will receive a supplementary service benefit equivalent to annual pensionable salary for a completed term of service, up to a maximum of two terms.

There are certain other adjustments. Taking into account the higher than budgeted public service salary increase in July this year, R150 million is allocated to national departments and R257 million to provinces. Amounts totaling R423 million are appropriated on various votes in respect of self-financing expenditure – donations received for specific purposes, revenue generated from the sale of military equipment, a refund from the Land Bank of unutilised disaster relief funds, a recovery of fraudulently claimed subsidy payments from a bus operator and operational revenue from government forest areas.

The Adjustments Appropriation also provides for R1,1 billion in approved roll-overs of monies unspent by national departments in 2002/03.

In total, R5,4 billion in additional expenditure is proposed, of which R2,5 billion will go directly to provinces.

But there are also savings to report. State debt costs will be R3,8 billion less than anticipated in February. Mainly as a result of the stronger rand, Defence expenditure on the strategic arms procurement programme this year will be R1 billion less than budgeted, and expenditure abroad by the Department of Foreign Affairs is reduced by R114 million. An amount of R250 million budgeted for transfer to the Unemployment Insurance Fund will not be required as the Fund is running a substantial surplus. R200 million for capital works on the Correctional Services vote will not be spent this year, and an amount of R215 million on the Housing vote is surrendered as a result of the disestablishment of the SA Housing Trust and the transfer of its liabilities into government debt.

Taking into account these savings, the contingency reserve of R3 billion in the main budget framework and anticipated underspending of about R700 million on various votes, the revised expenditure level for the 2003/04 is R331,5 billion, or R2,5 billion less than the main budget estimate.

Madam Speaker, on this fiscally responsible concluding note, I commend the 2003 Adjustments Appropriation Bill for the further consideration of the House.

Conclusion

South Africa is a great place to be. Not just because we have a sound economy, beautiful beaches and game parks, cultivate wonderful wine or produce brilliant kwaito music. But because, as a nation, we are building a future. We are confronting our past. We are addressing our challenge, our growth and development performance and the gap between the modern economy and marginalised communities. We are dealing with these issues. We have a sound economy, a responsible budget framework, a plan to raise the level of investment in the economy, firm proposals to tackle unemployment, strong growth in social transfers and a concerted drive to lower the levels of crime.

It is this determination of our people that makes our country a great place to be.

Madam Speaker, in looking back at the development of economic policy in our young democracy over the past decade, there has been one outstanding force we should acknowledge today. I refer to the influence of Maria Ramos, the outgoing Director General of the National Treasury. As a leader in the Treasury and the economic arena in a broader sense, Maria has played a decisive role in strengthening the linkages between growing the economy and fighting poverty. It is her unstinting commitment and understanding of the role that macroeconomic stability plays in reducing poverty and unemployment in the long term that she will be remembered for. On behalf of the National Treasury, and the entire 'team finance', we wish Maria well in her new endeavours.

We are confident that she will make as great an impact on our transport industry as she had on the public finances.

I would also like to thank my colleagues in Cabinet and in particular, members of the Ministers' Committee on the Budget. Special thanks go to provincial finance MECs, the Financial and Fiscal Commission and the SA Reserve Bank.

Finally, I want to express my sincerest appreciation to you for listening to me this afternoon.