Budget Speech

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‘Time is growing… When will our suffering bear fruit? One great thought can alter the future of the world. One revelation. One dream. But who will dream that dream? And who will make it real?’

Ben Okri, Infinite Riches.

Introduction

The Budget we table in this Parliament today bears testimony to the fact that as a nation we dared to dream. That through our tormented past we kept the dream alive. We understood then as we do now that the fruits of progress come slowly, one harvest a little richer than the last. Our great thought was freedom, our dream a better life for all. We dreamt that dream and we have the courage to make it real.

We now face the hope and the excitement of the new century. The last decade has witnessed a dramatic re-ordering of world affairs. Greater prosperity than ever before, further advances in democracy, but also greater uncertainty, more dramatic swings in the fortunes of nations, than we have ever known. So this is a time when the nations of the world, rich and poor, are searching for a new cohesion, a balance between exuberance and order, between the dynamism of the market and the constraints of prudent governance. Along with other nations, we seek to harness the potential of our economy, while investing in a more just, socially responsible future.

In a world where a decision made in a split second on a screen in a trading floor in New York can deny a child in Indonesia an education, we have to find new solutions. To alter the future of the world we have to make people matter, to recognise that prosperity must be shared if it is to be sustained. As a nation we must actively participate in shaping this future, for our country and our children, our region and our continent.

The centrepiece of our new democracy is this, its First Parliament. This is the last budget to be tabled before this Parliament. But the confidence with which we face the new day is embodied in the fact that this will also be the first budget to be implemented by our Second Parliament. We have an election before us. But there is work to be done. And so we table before you a budget that builds on the advances we have made over the past five years and makes clear our plans for the future.

As the record since 1994 confirms, we have brought about a thorough transformation of the priorities and spending programmes of government. We now deliver more and better services to more people. Importantly, we are doing this within an affordable budget framework. The Budget now embodies the goals and operational strategies of the Reconstruction and

Development Programme. And our macroeconomic framework provides the discipline needed for sustainable growth and transformation.

This government is delivering a reconstruction and transformation of public services for sustainable growth and social development. We have had the courage to tackle the poverty and suffering imposed on our people during the long night of apartheid. Our suffering is not over. We have not yet conquered poverty and unemployment. But we have overcome the despair, the fear, the feeling of powerlessness, which was our past. We have advanced the assault on poverty, inequality and unemployment. It is our measured progress in building houses, bringing water and electricity to villages, immunising children and training the unemployed that gives our people hope and confidence in our nation's future.

More. For All. For Ever.

Budget reform

Transformation depends on sound policies and institutions. A major overhaul of financial management and the budget process is in progress. Our mantra has been and will continue to be reprioritise, reprioritise, reprioritise.

This year for the first time we are publishing a separate review of the national budget expenditure estimates. The National Expenditure Survey (NES) is a detailed account of spending and service delivery by national government departments and spending agencies, complementing the printed Estimate of Expenditure. The Survey looks not just at what government spends but at what government does. It sets out policies and goals and the resources that have been allocated to achieve them.

It links departmental expenditure with outputs, enabling us to assess whether spending trends meet the policy priorities we have set for ourselves as a nation.

The survey includes accessible accounts of the programmes on each vote for which Parliament appropriates funds. It also includes selected information on the impact of government spending on women and the redistribution of resources in favour of the poor.

The National Expenditure Survey empowers Parliament and the nation as a whole to monitor what we deliver with the resources available.   It says, here is the value for the money we spend. As government we want to ensure that more and more of every rand we spend makes its way to improving the quality of peoples' lives.

By emphasising the links between spending, service delivery, and outputs the Survey provides a powerful tool with which to call government to account. We hope that the Survey will contribute to informed debate about the outputs delivered by government and thereby promote more effective use of public money.

The 1998 Budget included for the first time three year spending plans – our Medium Term Expenditure Framework (MTEF). The National Expenditure Survey indicates where policy changes or spending trends have led to adjustments to last year's forward estimates. It also reports on spending outcomes for the past three years, indicates the expected outcome for this year and sets out the Budget estimates for the next three years.

This is another step forward in our budget reform programme.

The Medium Term Budget Policy Statement which we tabled in Parliament on 2 November 1998 set out the macroeconomic context, fiscal policy goals and the budget framework. It outlined the division of resources between national, provincial and local government for the next three years and set out broad medium term expenditure projections. Now in its second year, the MTEF budget process has added significantly to the responsible allocations of resources and to improved co-ordination in our evolving intergovernmental system.

Alongside the Budget we now table the 1999 Budget Review, which elaborates the economic context, developments in the public finances and our spending and tax proposals. As in the past our Budget Review is compulsory reading for anyone interested in fiscal policy and public finances in South Africa.

The Budget in brief

The 1999 Budget reflects both the substantial reprioritisation that has been achieved since 1994 and government's expenditure and revenue plans for the next three years.

Our key priorities for the next three years include:

- Investing in people – through better schooling, skills development and access to health care and social welfare.
- Improved policing, more secure correctional facilities and a streamlined criminal and civil justice system.
- Building homes, extending municipal infrastructure and improving living conditions.
- Targeted support for industrial clusters, small business development and strategic trade linkages.
- Extending electrification, telecommunications networks and clean water and sanitation.

♦ Targeted poverty relief programmes.

♦ Implementing our Jobs Summit commitments.

The 1999 Budget provides for expenditure of R216,8 billion or 30,6 per cent of the Gross Domestic Product (GDP). From this we deduct R48,2 billion for debt service costs, R750 million of donor financed projects and R1,1 billion as a contingency reserve leaving R166,7 billion to be shared. The Division of Revenue Bill, which I hereby table, provides for the resources to be equitably divided between national, provincial and local government. It also sets out the equitable division of resources between provinces which is done on the basis of a formula.

Taking into account amounts provinces will later receive for improvements in conditions of service, the equitable division in 1999 is as follows:

♦ National government gets R78,7 billion or 47 per cent of the total.

♦ Provincial governments get R86,3 billion or 52 per cent of the total.

♦ Local government gets R1,7 billion.

The national share includes R8,8 billion in conditional grants for provinces and local government, mainly in support of health services.

In line with our priorities, national and provincial government will spend R103,7 billion of the available resources on social services. Social spending now accounts for 61 per cent of non-interest spending.

Spending on police, prisons and justice services amounts to R23,5 billion in 1999. Our expenditure on crime prevention includes provision for modernisation of policing systems, upgrading of security at prisons and several initiatives aimed at improving the efficiency of the courts.

We have also set aside R1 billion for targeted poverty relief programmes in 1999, giving effect to several Jobs Summit commitments. This rises to R1,2 billion and R1,5 billion in 2000 and 2001.

Fairness and redistribution are also promoted through the tax system. The South African Revenue Service (SARS) has had considerable success in broadening the tax base and combating tax evasion. Our tax system is strongly redistributive in its impact.

It is our commitment to lower the overall tax burden, particularly on low and middle-income working people. In this Budget we again make significant progress in lowering the income tax burden.   We have also continued to raise taxes on tobacco and alcohol products, contributing in this way to healthy living in this Chamber and elsewhere.

Total revenue in 1999/00 will be R191,7 billion. This brings the deficit for the year to R25,1 billion, or 3,5 per cent of GDP – consistent with the medium term outlook we tabled in November 1998.

Madam Speaker, in preparing the 1999 Budget, our main focus has been to align our spending and revenue plans with our policy objectives. We can say with confidence that the objectives of our reconstruction and development programme are deeply embedded in this Budget which reflects the substantial reprioritisation we have effected over the past five years. This is our investment in the future of our children and grandchildren. It is this that gives us hope.

This reprioritisation has been achieved in a context of slow economic growth and considerable financial uncertainty. We have had to make some changes to our spending plans, but sound fiscal and financial policies have protected us from more severe adjustments. The Budget leaves unchanged our allocations to provinces for their core education, health and welfare functions. Our social and development programmes will continue to strengthen as growth returns to our economy over the next few years.

Sustainable social development and globalisation

The global economy has been rocked in the past eighteen months by one financial crisis after another. Economies that were once fast growing now face recession, increased unemployment and social deprivation. Globalisation has brought increased uncertainty and the world appears to be inadequately prepared to deal with the risks and equitably share the opportunities.

These crises have challenged many accepted paradigms of economic theory and policy. They have dented confidence in the integration of global markets and have pointed to some of the shortcomings in the international institutional environment.

More importantly, the global crisis has highlighted that it is the poor and vulnerable and in particular women and children who bear the greater burden of the pain when economic institutions fail. In the countries worst affected by financial distress severe cuts in social spending have occurred, large numbers of people have been pushed into unemployment, the children of the poor have been taken out of school, primary health care projects have been stopped. The social consequences of these financial crises have been devastating.

The sudden reversal of capital flows to Asia resulted in recession in many countries in that region. The Asian melt-down spread rapidly to other parts of the world as investors panicked and demanded higher and higher premiums for holding emerging market assets. Given their debt positions many countries (including Russia and Brazil) could not afford their increased interest costs. What started as financial distress quickly became a deep economic crisis in many countries, requiring tough and painful adjustments.

We have in the past year actively participated in an international dialogue on dealing with the crisis and creating more efficient and effective global capital markets, better able to make rational assessments and differentiate more appropriately between different countries and the credit risks that they present.

We have emphasised the importance of improved financial regulation domestically and internationally. We believe that regulation and oversight of all financial institutions (yes, including hedge funds) is necessary. We want to see increased compliance with appropriate international standards and not only by the emerging economies, but also by the major industrial economies where most speculative funds reside unhindered by regulatory constraints. We will continue to review and update our own financial regulation and supervision to ensure that it remains state of the art.

Through our participation in various international forums we have repeatedly emphasised the importance of putting people at the centre of the economic debate. This is the distinguishing characteristic of our reconstruction and development programme, of our macroeconomic strategy and our approach to fiscal policy.

Ours is an integrated strategy that sees the state redirect its spending towards core public services – education, health, welfare, social infrastructure, an effective system of justice. It is a strategy that recognises the enormity of the backlogs we inherited and the needs of our people. But it also recognises that our resources are limited. Success depends on a sustainable balance between taxes, spending and the resources we borrow, ensuring that we maximise service delivery within the available resources.

Our commitment to sound and sustainable economic policies is increasingly recognised as a strength. One measure of this recognition is that, after thorough review, our investment grade ratings have been confirmed by two international credit rating agencies.

Integrating the South African economy into the world economy has been a major challenge in the past four and a half years. We inherited an uncompetitive, inward looking, protectionist economy. We have since 1994 sought to open up the economy in a measured and sustainable way.

Recognising the importance of becoming globally competitive, we have discarded expensive and inefficient export and industrial incentives. In their place we now have a portfolio of targeted support programmes. These focus on key industrial clusters, the small business sector and strategic trade negotiations.

We have pursued a responsible path of exchange control reform, abolishing or easing a plethora of control measures. Ours has been and will continue to be a gradual approach. This approach appears to have gained support internationally. We expect to be in a position to announce further relaxation in exchange controls later this year.

Attracting foreign investment remains important to an economy such as ours. As a nation we do not generate enough savings to finance the levels of investment that we require to create jobs. We therefore have to attract foreign investment, making our international relations a key focus of economic policy.

Economic policy and outlook

We have already noted that South Africa did not escape the impact of the international financial crisis. As in other emerging markets investors withdrew funds from our capital markets in 1998 putting the rand under pressure. The ensuing financial uncertainty caused interest rates to increase to very high levels, which dampened confidence. Monetary policy was under enormous pressure during the past year as the Reserve Bank tried to restore stability to the currency whilst attracting sufficient foreign investment to finance the current account deficit.

Hardest hit by the high interest rates have been ordinary working people who have had to struggle to keep up the payments due on their home loans. The struggle to make ends meet has been worsened by the fact that many working families were over-indebted when interest rates started to rise. Also badly affected have been small and medium size businesses that depend on bank overdrafts and loans to finance themselves.

Of course we are deeply concerned by the effect of the high interest rates on people's lives. We are also concerned about their impact on growth and job creation in our economy. We are often asked how globalisation affects ordinary people's lives. For many, the steep rise in interest rates last year was a sharp reminder that there are both costs and benefits of more open international markets. It also signalled the importance of improving our saving performance, reducing our reliance on foreign capital flows.

We expect to see interest rates come down further during the course of this year. This will help ease the burden, although we know that many people and businesses will take some time to recover.

In the midst of this and as people struggle to make ends meet too many people have become hostage to unscrupulous money-lenders. There is a place for the micro-lending industry. But we will not tolerate the blatant exploitation that appears to be taking place at the moment. It is illegal to take people's Identity Documents as collateral, it is illegal to charge people usurious interest rates and it is bad practice to lend to the point where a person's entire wage is consumed by the repayment of the loans. Moreover, all micro-lenders are subject to normal tax provisions. The Revenue Service will pay particular attention to this in the coming year.

The Portfolio Committee on Trade and Industry has scheduled hearings on micro lenders. Based on the outcome of these hearings we will as government take the appropriate steps. We want to make it very clear that we will not hesitate to prosecute unscrupulous moneylenders.

The economy slowed down significantly in 1998, and after six years of growth, output and national income fell in the second half of the year. It is estimated that Gross Domestic Product (GDP) grew by 0,1 per cent in 1998, well below what was expected when we tabled the 1998 Budget.

The impact of instability in the global financial markets is registered through the balance of payments, and in the present crisis was initially felt through the capital account. From 1994 to mid-1998 a net surplus, peaking at R34,6 billion, was recorded on the capital account. However, from May 1998 investor sentiment changed leading to an outflow of R5,4 billion in the third quarter. Conditions stabilised somewhat in the fourth quarter, when foreign investors were net buyers of bonds and equities.

The current account of the balance of payments is expected to register a deficit of 2 per cent in 1998, compared to 1,5 per cent in 1997. Deteriorating trade conditions resulted in lower exports, while increases in investment by public corporations contributed to higher import growth. Exports are expected to increase modestly in 1999 as international trade recovers and our exporters take advantage of the weaker currency. Given the slower growth and the weaker currency demand for imports is expected to remained subdued in 1999. However, capital equipment imports are expected to continue to grow due to demand from public corporations extending infrastructure investment. For 1999, the current account deficit is expected to be 1 per cent of GDP.

Gross foreign reserves increased in the first half of 1998 as a result of capital inflows. After falling from June to November, gross official reserves at the end of January 1999, were R32,6 billion, enough to cover 2,4 months worth of imports. Net official reserves were $2,4 billion at the end of January 1999.

Inflation has remained subdued, despite the weakening of the rand last year. After falling to 6,9 per cent in 1998 – its lowest level in 25 years – consumer price inflation is expected to fall steadily further in the next three years. This reduction in inflation safeguards the purchasing power of working people's wages.

The economy is projected to grow by 1,8 per cent in the 1999 fiscal year and by 3,2 and 3,8 per cent in 2000 and 2001 respectively.

A Budget for sustained social development

The overall objective of government's fiscal policy continues to be effective and balanced spending on public services, an efficient tax system, and a moderate level of borrowing.

Our focus has been on reprioritising expenditure within the Budget. In practical terms this has meant protecting provincial spending on social services and ensuring steady improvements in provisions for the justice system.

1998 Budget Outcome

Madam Speaker I have already stated that economic growth for the 1998/99 fiscal year was much slower than we had expected. However, despite the slower growth, ordinary revenue increased by 9,6 per cent to R179 billion, exceeding the Budget estimate by R2,3 billion. Including grants and repayments, revenue is expected to be R180 billion.

The revised estimate of national expenditure in 1998/99 is R204,3 billion, a 7,2 per cent increase on 1997/98. At the time of tabling the Adjustments Estimate we revised our deficit to 3,9 per cent of GDP. We now estimate that the deficit for 1998/99 will be R24,3 billion or 3,7 per cent of GDP.

Sound fiscal management has been a defining characteristic of provincial finances in the current fiscal year. The most visible measure of this is that the consolidated government deficit in 1998/99 (including national and provincial accounts) is expected to be 3,6 per cent of GDP – down from 5,4 per cent in 1997. The consolidated deficit is expected to decline to below 3 per cent in 2000. By bringing their spending under control provinces have created an environment for improved delivery of social services over the coming years.

Our commitment to improving the lives of all our people finds expression in the fact that despite an exceedingly tough year for the economy we have protected our commitments to education, health, social welfare, housing, water provision and poverty relief. We have maintained these expenditures because they are the core commitments of our social and economic transformation.

The 1999 Budget framework

The 1999 Budget provides for total expenditure next year of R216,8 billion, increasing to R247,2 billion in 2001. National budget spending will increase by an average of 6,6 per cent a year over the next three years. As in 1998, the budget framework includes an increasing reserve set aside for contingencies.

The 1999 Budget provides for revenue of R191,7 billion, including grants and recoveries, and thus a budget deficit of R25,1 billion.

The slowdown in economic growth and the impact of high interest rates on debt costs led us to revise our deficit target for fiscal year 1999. In the Medium Term Budget Policy Statement in November 1998, we announced that the planned reduction in the deficit to 3 per cent of GDP would be deferred by a year. Consistent with the framework set out in the 1998 Medium Term Budget Policy Statement, our budget deficit will be 3,5 per cent in 1999, coming down to 3 per cent in 2000 and 2001.

Like any household government cannot spend what it does not have, and increasing the level of indebtedness will simply make us vulnerable and threaten our transformation agenda. Already we spend too much on debt service costs. Reducing the overall burden of debt so as to release more resources for development remains a key objective of Government.

Our approach to fiscal policy has also contributed positively to lowering inflation, keeping basic goods affordable and protecting the incomes of the poor.

Poverty relief and job creation

At the Presidential Job Summit we committed ourselves as a nation to a strong programme of action for job creation. The 1999 Budget includes R1,0 billion for poverty relief and employment projects, increasing to R1,5 billion in 2001. The "working for water" programme, community based public works projects, rural infrastructure investment and development projects managed by non-governmental organisations will all receive increased allocations from these funds.

In total almost R3 billion on the Budget is linked directly to job creation programmes. This includes spending on working for water, the municipal infrastructure programme, rural water supply and sanitation, community-based public works programmes, income-generating welfare programmes, training for the unemployed and employment services.

Once demutualisation is completed in the latter part of this year the Umsobomvu Fund is expected to have in the order of R1 billion of capital and will be in a position to start investing in training and development programmes for young people.

We also applaud the initiative taken by Labour at the Jobs Summit to pledge one day’s wages to a special fund for job creation and business sectors’ R1 billion contribution.

Social spending

Recognising a legacy of under-investment in people and past discrimination in social services, spending on education, health and welfare has increased strongly since 1995.

Education expenditure increased by over 35 per cent between 1995 and 1998. It will grow from R48,5 billion in 1999 to R54,1 billion in 2001.

Expenditure on health has increased by almost 45 per cent since 1995 and is budgeted to reach R24 billion in 1999 and R28,3 billion in 2001.

Welfare services and social grants increased by more than 30 per cent over the last three years and will amount to R19,8 billion in 1999, rising to R21,6 billion in 2001.

Social Infrastructure

Local government is undergoing a dusty rebirth. Towns and cities are becoming construction sites. Expenditure on housing and water schemes increased by over 25 per cent a year between 1995 and 1998 and will continue to grow steadily over the next three years.

Improved policing and justice

Spending on prisons and justice has grown by 25 per cent a year since 1995, reflecting both increases in prisoner numbers and improved prison standards. Expenditure on police services has grown by over 12 per cent a year since 1995. Combined spending on these functions has increased to R23,5 billion in 1999 and will rise to R26,4 billion in 2001.

Economic services

Spending on agriculture, industry, transport and communication has grown by between 4,7 and 7,7 per cent a year since 1995. Spending on these economic functions is projected to grow modestly over the next three years.

Defence

Defence and intelligence spending fell by 1,8 per cent a year between 1995 and 1998. Defence spending will grow moderately over the next three years recognising the need to replace and upgrade ageing capital equipment. The defence procurement programme is to be spread over a 15-year period. This programme has been linked to a number of industrial development projects which will boost foreign direct investment and job creation.

Personnel costs

It would be remiss of us not to note our concern at the growth in the public sector wage bill. Personnel costs increased by 12,2 per cent a year between 1995 and 1998, rising particularly sharply in 1996. In 1999 personnel costs will account for some 51 per cent of non-interest spending.

Government's ability to increase spending on social services and infrastructure is severely limited by rising personnel costs. We cannot afford rising wage costs, improve on the quality of services rendered and maintain the current size of the public service. The further restructuring of the public service in line with the needs and requirements of our country and our development programme is now urgent.

Overhaul of financial management

Government has initiated a financial management improvement programme to improve the quality of managers and accountability in the public sector. It includes the monitoring of expenditure on a monthly basis, improving financial reporting, appointing qualified personnel, training financial managers, and improving software systems. Underlying all these reforms will be the coming Public Financial Management Bill.

Capital spending

Although capital budgets remain modest they are projected to increase. Moreover, they reflect increased partnerships between government and the private sector. These partnerships are extremely valuable since they allow us to tap private sector savings to fund infrastructure, they also open up many opportunities for small and medium-sized business and can add significantly to job creation over the medium term.

Delivery of RDP commitments

Madam Speaker, we stated earlier that the Budget now embodies the RDP. Let me now illustrate why we say this.

Providing safe drinking water to millions of South Africans

Since 1994 the Department of Water Affairs and Forestry has brought 25 litres of potable water per person to over three million people and has created 100 000 jobs every year. Over 55 per cent of these jobs went to women and more than 25 per cent to work-seekers between 16 and 25 years. There are 1 025 projects which are underway, expected to serve 4,9 million people. Sanitation services will be provided to another 50 000 households by the end of 1999.

Working for Water

Over 900 projects have been implemented creating some 40 000 jobs in 1998 under the Working for Water programme, curtailing the spread of alien plants in water catchment areas.   Over half of the jobs on this programme go to women.

Providing access to land

Land reform is gathering momentum. By the end of 1998, 3 623 households had regained their rights to land. Under the land redistribution programme 179 088 hectares of land had been transferred to 33 366 households.

Extending learning opportunities to all

Educational enrolment has increased by over 1,5 million since 1994, while the average number of learners per teacher has decreased from 40 to 34. Improved grade 12 examination results in 1998 signal a turnaround in school performance. Key initiatives are in progress to improve management in schools and strengthen learning and teaching skills. In support of access to higher education, Government funds a National Student Financial Aid Scheme and targets assistance at development and redress in universities and technikons.

Skills development

Developing skills is a responsibility Government shares with its social partners. Agreement has been reached on the way forward. Preliminary organisational work is underway for the creation of education and training authorities and introduction of learnerships as part of a joint strategy for extending improved learning opportunities to all.

The introduction of the skills development levy-grant scheme in April 2000 will yield an estimated R1 billion for training and development in 2000 rising to R2 billion in 2001. Eighty per cent of receipts will go to sector education and training authorities nominated by employers, while 20 per cent will go to a National Skills Fund. This is a key initiative in strengthening learning and productivity throughout the South African economy.

Welfare programmes and social grants

The provincial Welfare departments distribute grants of approximately R16 billion to nearly 3 million beneficiaries of which two-thirds are old age pensioners. About two-thirds of the recipients are women.

Government also channels subsidies of over R1,5 billion a year to about 1 400 non-governmental organisations, focused on developmental welfare services, support for the unemployed and meeting the needs of women and children.

A new social grant was introduced in April 1998. The grant of R100 per month is targeted at the poorest 30 per cent of children under the age of seven. It is given to the primary care-givers and contributes to the strengthening of the social safety net.

Addressing the housing backlog

The housing subsidy scheme launched in 1994 has contributed to the building of 629 449 houses. Approximately 936 754 subsidies have been approved since 1994. Nearly 40 per cent of all approved subsidies were registered to women. The housing programme is redressing decades of discrimination and the pain and suffering of millions of South Africans who were cruelly dislocated by the forced removals of apartheid. The housing programme is about more than just a basic house or a serviced site. The programme assists people to build and develop their own homes, investing in property they can pass on to their children. Through this security of tenure we empower people.

Primary school nutrition programme

The primary school nutrition programme reaches approximately 5 million children in poor communities, contributing to their nourishment, enhancing learning capacity and creating many employment opportunities.

Improved access to health care

Primary health care services are largely provided at no charge. Government has built 638 clinics over the last four years, introduced a cost-effective essential drugs list and conducted successful immunisation campaigns and AIDS awareness programmes. The progressive restructuring of our health services is enhancing access to affordable care to all our people, while preserving the research and teaching capacity for which our medical community is justly famed.

Municipal infrastructure projects

Over 2 000 projects have been approved under the consolidated municipal infrastructure programme, of which 1 650 have been completed. An estimated 15 579 person-years of employment have been created and 105 083 people have gained access to accredited training opportunities. A total of 1 965 black-owned small and medium-sized businesses were given business opportunities through the programme.

Industrial promotion initiatives

Initiatives to encourage investment, promote business development and create jobs include incentives for investment in manufacturing, support for technical and marketing capacity development and co-ordination of several major spatial investment projects and industrial cluster reviews. The

Industrial Development Corporation facilitated manufacturing investment of R5,6 billion over 1997/98, raising export earning capacity by about R8,0 billion.

Small business development

Support for small business is rapidly gathering momentum. Khula Finance committed R88 million in credit guarantees and approved R57 million in loans in 1997/98, reaching 35 200 beneficiaries through 21 retail financial intermediaries. Ntsika Enterprise Promotion Agency continues to extend non-financial support to the small business sector in the form of training, technology and market information.

Madam Speaker, the gains we have made are palpable in people's lives.

For those millions of people who had been denied water, electricity, housing, education, primary health care, there have been significant changes.

We cannot afford the cynicism of pretending that the progress we have made has not materially improved people's lives. These programmes have opened up opportunities that simply did not exist in the past. Water, electricity and telecommunications are preconditions for a vibrant micro and small business sector. They empower people and by doing so build hope. In particular they empower women by removing the crushing burden of fetching water and carrying wood. They improve the living environment and by so doing reduce the incidence of disease. They allow children to be children, to play and to focus on schoolwork rather than be encumbered by adult chores.

By enunciating these achievements we are not saying that there is nothing left to do, or that we have done everything well. We recognise that we are only at the dawn of our new day. Ahead of us are many exciting and some daunting challenges. We are determined to succeed and we will tolerate neither complacency nor cynicism. As a nation we have rolled up our sleeves and started the momentous job of transforming our country and our economy and we can not afford to allow anything to get in the way. We want our children and grandchildren to bask in the glow of the afternoon sun. The dream is just too important.

Our focus will increasingly be on reprioritisation within votes. The budget process is now more focused on efficiency and delivery. Departments will be asked to define more carefully and precisely what they will deliver with the resources which they have been allocated. We know that we can deliver more and better quality services within the resources available to us. Our focus will be on better value for money. By publishing the National Expenditure Survey we invite Parliament and our people to monitor our performance.

Provincial finances

Madam Speaker, 1998/99 has been a remarkable year for provincial fiscal management. The evolution of the intergovernmental fiscal system envisaged in the Constitution has been a steep learning curve for government. Following several years of strong spending growth, large budget overruns in provinces in 1997/98 resulted in provincial deficits totalling approximately one per cent of GDP.

Most provinces began the 1998 fiscal year with some debt overhang either in the form of bank overdrafts or in unpaid bills. The national government intervened in two provinces, the Eastern Cape and KwaZulu-Natal, in early 1998 in terms of Section 100 (1)(a) of the Constitution.

The intervention included transfers totalling R1,5 billion. These transfers were subject to rather stringent conditionalities, which were set out in the agreements signed between the Minister of Finance and the Premiers of the Eastern Cape and KwaZulu-Natal respectively and gazetted in the National Government Gazette.

Both provinces have made a remarkable recovery, improving their financial management and complying fully with the terms and conditions of the agreements. Indeed both these provinces will run in-year surpluses in 1998/99. These surpluses will be used to pay off debts. It is important to recognise the sterling work of the MEC's for Finance in each of these provinces. Theirs were daunting tasks and they deserve our admiration for bringing a difficult situation under control and for the steps that they have taken to strengthen their treasuries and financial management systems.

Moreover, the improvements in provincial financial management are not limited to these two provinces. Most provinces have made significant progress, introducing tighter control measures to curb unwarranted expenditure. All provinces now use an early warning system to manage their expenditure and effectively prevent over-expenditure. In several provinces anti-fraud units have been established and investigations launched.

Provincial treasuries have also had considerable success in transforming the budgeting and planning process. When we introduced medium-term budgeting we did it at both national and provincial level simultaneously. It was always going to be an ambitious project, but we did it and it is beginning to bear fruit. The budgets that provinces will be tabling over the next fortnight are now more realistic and based on better information. They carry a stronger measure of political accountability than before.

The 1998/99 Adjustments Estimate provided an additional R1 billion for provinces. A condition for this additional allocation was that provinces design a debt repayment schedule for reducing their debt overhang within a three to five year period. All provinces are reserving funds on their 1999 budgets to deal with the accumulated debt and interest costs. Collectively provinces will show a surplus of about R600 million for 1998/99. This is indeed a remarkable turn-around.

Tax proposals

Madam Speaker, the redistribution of resources and the creation of an environment conducive to growth and job creation is not dependent solely on the expenditure side of the Budget. In the past four years we have made significant changes in tax policy. These range from eliminating gender discrimination in the tax law, reforms to fringe benefits taxation, significant changes to tax rates for individuals and corporates, and reforms in customs and excise duties, to name a few.

We have recognised that reforming tax policy presupposes upgrading tax administration. Without solid administration, tax law and tax reform cannot be given practical effect. It is for this reason that we have focused on enhancing the operational effectiveness of the South African Revenue Service.

Our efforts in this regard are beginning to pay off. Between October 1997 and December 1998, SARS evaluated 760 600 unregistered income tax, VAT and PAYE cases, of which 181 000 proved eligible for registration. This exercise is aimed at broadening the tax base but it goes well beyond it. It ensures that we all pay our taxes so that the tax burden is shared fairly and equitably between all citizens, both private and corporate. There are still too many free-riders in the system. These people limit our scope to move more quickly with tax reform and the easing of the tax burden. Tax compliance is not optional, it is law and as we have demonstrated in the past twelve months, we intend showing no mercy to those who take it upon themselves to break the law.

Our objective is to cultivate a culture of compliance. We are making headway in this regard. Our base broadening exercise has also involved changing the adversarial relationship between the tax collector and the taxpayer. We believe that SARS is making progress in this regard by being visible, accessible and fair in its dealings with all taxpayers.

1998/99 Revenue Outcome

The revised estimate for 1998/99 is R178,9 billion which is R2,3 billion higher than the original Budget estimate of R176,6 billion and 27,4 per cent of GDP. The higher than expected tax revenue is attributable to a number of factors including the broadening of the tax base, improvements in tax administration, and structural shifts in the distribution of earnings.

First Print Estimate of Revenue

Before taking into account the tax changes proposed for 1999/2000, total ordinary revenue is estimated to be R193,8 billion.

The tax proposals we place before Parliament today reduce ordinary revenue to R190,3 billion which is 26,9 per cent of GDP.

The main tax proposals are as follows:

Personal Income Tax

Since 1995 we have worked consistently to provide tax relief to ordinary working people. We have restructured the tax brackets by reducing them from ten to six, and reduced tax rates. We have also taken measures to tax the use of fringe benefits on a more realistic basis as they erode the tax base and create distortions between cash remuneration and other forms of compensation.

Put simply, this means that between 1995 and 1998 we have provided R10,5 billion worth of tax relief to working people. By no stretch of the imagination can this be considered insignificant.

Madam Speaker, this year we have been able to go further. After compensating for inflation we are cutting taxes in real terms. The good news is that:

- The primary rebate is increased from R3 515 to R3 710. In other words, we increase the tax threshold in line with projected inflation. Anyone below the age of 65 earning R19 526 a year or less pays no income tax.

- In addition to the primary rebate, individuals over 65 get a secondary rebate. This is increased from R2 660 to R2 775. A person over the age of 65 receiving an income of less than R33 717 a year pays no income tax.

Tax brackets have been restructured and tax rates have come down. For the income bracket of:

- R46 000 to R50 000, the rate is reduced from 39 per cent to 30 percent.

- R50 000 to R60 000, the rate is reduced from 39 per cent to 35 per cent.

- R60 000 to R70 000, the rate is reduced from 43 per cent to 40 per cent.

In practical terms this means that a person under the age of 65 and earning R35 000 a year will pay R415 a year less in tax. For a person earning R55 000 a year the savings will be R975.

Lessening the tax burden on ordinary working people is a key objective of government. They benefit most from the changes we make today, with over half of the relief going to people with incomes of less than R70 000 a year.

However, all tax-payers will experience some relief. We have again this year sought to protect taxpayers from the effects of inflation on income. Typically what happens is that when wages increase in response to inflation, individuals get pushed into a higher tax bracket, even though in real terms their incomes have not changed. This is known as fiscal drag or bracket creep.

Madam Speaker, these changes represent a substantial step in our on-going programme of tax reform. These changes will cost the government R4,85 billion in lost revenue. In other words we are putting R4,85 billion in the pockets of working people.

This brings the total tax relief granted by this government since 1995 to over R15 billion. We believe that this is an achievement we can justly be proud of.

Company tax

Sustainable growth and job creation require that we strive to make our economy more competitive and that we create an environment where small and medium sized businesses can develop and thrive. We have examined our corporate tax structure and have decided to make changes to company tax rates. The tax rate applicable to undistributed profits of companies is to be reduced from 35 per cent to 30 per cent. Corresponding adjustments will also be made to the rates applicable to gold mines and branch structures of foreign companies operating in South Africa.

We believe this reform measure will enhance investment and job creation in two important ways.

Firstly, they will make South Africa significantly more attractive to domestic and foreign investors. The international trend in recent years has been to reduce tax rates on companies. Secondly, the reduction in company tax will translate into significant cash flow benefits for small and medium sized companies which will enhance their ability to play a leading role in job creation and economic development.

By making a concerted effort to reduce the nominal company tax rate, we are also signalling that we will over time eliminate tax concessions. And so the deadline for specific tax concessions in respect of accelerated depreciation allowances or tax holiday schemes will not be extended when they expire on 30 September 1999. The revenue loss associated with these changes is R2,5 billion.

Transfer duty

The rate structure and exemption levels in respect of transfer duties on the acquisition of fixed property have also adjusted to encourage home ownership, especially for lower income earners. The cost to the fiscus of this measure is R60 million.

Excise duties

Madam Speaker, let me now turn to the tax increases, beginning with the famous sin taxes. In accordance with health policy, duty on cigarettes has once again been increased to bring the total tax to 50 per cent of the current retail price. This means another 41 cents on a pack of 20.

In the interests of fairness it is proposed that the same tax incidence of 50 per cent be applied to other tobacco products. This requires some significant once-off adjustments in the excise levels on these products. Cigarette tobacco goes up by 76 cents for 50g. Pipe tobacco goes up by R1,56 per 100g. Duty on cigars goes up by R7,33 per 23g.

It is estimated that these tobacco tax proposals will yield an additional R495 million in 1999.

Excise duties on beer go up by 4,6 cents a litre or 1,6 cents per 340ml can. Unfortified wine goes up by 3,8 cents a litre or 2,5 cents per 750ml bottle. Ciders increase by 8 cents a litre or 2,7 cents per 340ml can. Spirits go up by 75,5 cents per litre or 56,6 cents per 750ml bottle.

The good news is that excise duties on soft drinks have been cut by 19 per cent.

These adjustments are expected to yield R123 million in 1999.

Fuel levy

The fuel levy is increased on leaded and unleaded petrol by 4 cents a litre with effect from 1 April 1999. There is no tax increase on diesel, which will benefit commercial road users. This is expected to yield R472 million.

Madam Speaker, these are our key tax proposals. Taken together they constitute a major step forward in our strategy to create a tax system that is fair, efficient, contributes positively to sustainable growth and development and yields sufficient revenue for government to finance its expenditure commitments.

Conclusion

Madam Speaker, if we allow ourselves to rise above the din we will recognise that we have travelled a long distance in five short years. The record shows that we have brought about a thorough transformation of the priorities and spending programmes of government. The Budget now fully expresses the goals and strategies of the Reconstruction and Development Programme.

As we look back over the road traversed, we should all, with pride, declare that our collective achievements are indeed significant. But this is not the time for complacency. In this Budget we build on our experience of the past five years and aim to do more, better.

Although sound economic and fiscal policies have protected us from more severe international pressure the economy has slowed down and we have not been able to grow public spending as much we would have liked. However, in line with the commitments we have made to our people, we have protected spending on education, health and welfare.

Taking forward our nation's economic and social development programmes we emphasise improved service delivery and value for money. For the first time this year we publish a detailed review of national government expenditure estimates. The National Expenditure Survey looks not just at what government spends but what we spend it on. It builds on our programme of budget reform and it empowers Parliament and our people to track our performance. Our people correctly expect that we shall do all in our power to provide a better life for all. To this end we must retain both a vigilance and a diligence.

This budget, which I am privileged to place before you, is a strong statement of the collective responsibility from cabinet. To prepare cabinet to take the appropriate decisions, we have had the active involvement of a number of ministers who make up the Ministers Committee on the Budget.

I would like to express sincerest gratitude to all those who contributed so selflessly to the compiling of this Budget:

- President Mandela who has been a tower of strength and support. His interest in the Budget, his checking to ensure policy consistency and his mere presence, has played an important part in nurturing and energising the team who worked on this budget.

- Deputy President Mbeki and to all Cabinet colleagues, especially members of the Ministers' Committee on the Budget, for patience, understanding, engagement, tireless support and defence.

- Deputy Minister Gill Marcus who shared energetically in my load.

- "Team Finance" comprised of the nine provincial Executive Committee Members for Finance who battled through this difficult year with us and who have each proven their mettle.

- Those support structures whose contributions have assisted us in shaping what we offer here today –

  - The South African Reserve Bank and especially Governor Chris Stals, who today is here celebrating his active involvement with the last budget of his tenure; and to Mr Tito Mboweni, the Governor-Designate, good luck!

  - The Financial and Fiscal Commission, and to Mr Murphy Morobe, in particular.

  - Professor Michael Katz and the Tax Commission.

  - NEDLAC, and particularly the Public Finance and Monetary Chamber.

- Mr Sipho Mpahlwa and Mr Sintle Fenyane, and their respective committees. Our interactions with Parliament have strengthened our performance considerably this year.

- The leadership and staff of the three departments which are so centrally involved in budget-making:

- Mr Trevor van Heerden, Commissioner for the Revenue Service and the staff of SARS who have exceeded this year's revenue targets and have again committed themselves to further improvements in the efficiency of collections.

- Mr Cassim Gassiep the Director General of State Expenditure and his team for a job well done.

- Ms Maria Ramos, the Director General of Finance and her able team in the Budget Office and in Asset and Liability Management who have worked tirelessly to produce what we have here today.

♦ My immediate family and the extended family, which is what the team in the Ministry have become.

Finally, to each one of you, both in this Chamber and at home, for your patience in listening to us this afternoon.

Madam Speaker, the day ahead is filled with hope and opportunity. In the words of Amilcar Cabral: 'We must preserve for our children the best that we have learned; they are the flower of our struggle.

'**More. For All. For Ever.** This is our goal.