

Budget Review

2002

Budget Review

2002

National Treasury

Republic of South Africa

20 February 2002



ISBN: 0-621-31838-8
RP: 26/2002

The *Budget Review* is compiled with the latest available information from departmental and other sources. Some of this information is unaudited or subject to revision.

To obtain copies please contact:

Communication Directorate
National Treasury
Private Bag X115
Pretoria
0001
South Africa
Tel: +27 12 315 5948
Fax: +27 12 315 5160

The *Budget Review* is also available on the Internet at: www.treasury.gov.za

Foreword

Building on the firm foundations of economic and fiscal policy laid in recent years, South Africa is able to respond positively to the challenges of global slowdown and financial volatility. Despite adverse global conditions, we are able to present a Budget that reinforces growth and deepens the partnership for development that is the hallmark of this Government. The 2002 Budget seeks to address social development, investing in human potential, building infrastructure and improving the lives of our people, as challenges that government shares with communities, workers, business and ordinary people.

As a result of sound economic management, the public finances are healthy and will contribute towards increased social and economic development. This year, we build on the growth-oriented fiscal stance outlined in the 2001 Budget, providing increased resources for public spending, especially on programmes that deliver basic services to the poorest sections of our society.

The South African economy has undergone a significant realignment over the past seven years and is well placed to benefit from a global economic recovery in the year ahead. Strong productivity growth underpins increased competitiveness and widens the frontiers of industrial opportunity.

As we prepare to welcome the nations of the world to a Summit on Sustainable Development later this year, it is appropriate to reflect on how far our young democracy has come in preparing sustainable foundations for growth. And we must face boldly the journey that still lies ahead – to create an economic and social ecology in which respect, dignity and basic human comforts are assured.

The 2002 Budget has been crafted by a dedicated team of South Africans working under increasingly robust political oversight. From all at the National Treasury, a special thanks to the Ministers' Committee on the Budget, the Budget Council and Cabinet for their leadership.

Thanks are also due to the South African Revenue Service, Statistics South Africa, the Financial and Fiscal Commission, the Reserve Bank and so many officials of government departments whose efforts and enthusiasm are the building blocks of the national budget.

Maria Ramos

Director-General: National Treasury

Contents

1. Overview of the 2000 Budget	1
Introduction	1
Economic policy and outlook	2
Fiscal policy and the budget framework	5
Revenue issues	8
Asset and liability management	10
Medium-term expenditure estimates	12
Provincial and local government finance	14
Conclusion	16
2. Economic policy and outlook	17
Introduction and overview	17
Global developments and the balance of payments	20
Foreign reserves	30
Real output and expenditure trends	31
Employment and remuneration	35
Prices and money market developments	37
Global and domestic outlook	41
3. Fiscal policy and the budget framework.....	45
Overview	45
Fiscal policy and the South African economy	46
The budget framework	48
The main budget	52
Consolidated government accounts and the PSBR	56
Investing in sustainable development	59
Conclusion	66
4. Revenue trends and tax proposals.....	67
Overview	67
Consolidated revenue estimates	68
Tax administration	69
National budget revenue	71
Revenue trends 1998/99 - 2004/05	74
Estimates of revenue before tax proposals	75
Outstanding tax reform: 2001 budget	75
2002 tax proposals - overview	77
Direct tax proposals: Individuals	79
Direct tax proposals: Companies and trusts	84
Further tax reform programme	86
Indirect tax proposals	88
Other charges and levies	93
Social security tax changes	94
Regional tax cooperation	95

5. Asset and liability management	97
South Africa in the world capital market	97
An evolving debt management strategy	98
Borrowing requirements	104
Financing the borrowing requirement	107
Financing proposals 2002/03	110
Government debt portfolio	113
Financial statements	118
Cash management	120
Public enterprise restructuring and corporate governance	121
6. Medium-term expenditure estimates	125
Introduction	126
Policy priorities over the medium term	126
Division of revenue	129
Allocations to national departments	135
Trends in consolidated national and provincial expenditure	147
7. Provincial and local government.....	151
Introduction	151
Policy framework	152
Division of revenue	154
Provincial government finance	155
Local government finance	165
Conclusion	171

Annexure A: Glossary

Annexure B: Statistical tables

Annexure C: Summary of tax proposals

Annexure D: Government accounts

Annexure E: Explanatory memorandum on the division of revenue

Annexure F: Summary of national budget

Tables

1.1	Summary of macroeconomic projections	5
1.2	The consolidated national budget framework	6
1.3	Main budget expenditure framework, 2001/02–2004/05	7
1.4	Summary of tax proposals	9
1.5	Projected state debt and debt costs, 2001/02–2004/05	11
1.6	Consolidated expenditure growth	13
1.7	The division of revenue, 2001/02 – 2004/05	14
2.1	Earnings and debt ratios	24
2.2	Industry shares of total manufactured exports	26
2.3	Changing composition of merchandise exports	27
2.4	Macroeconomic projections (calendar years): 1998 to 2004	43
2.5	Macroeconomic projections (fiscal years): 2001/02 to 2004/05	44
3.1	Key fiscal indicators – 1995–2004.....	47
3.2	Consolidated national budget framework, 2000/01–2004/05	49
3.3	RDP Fund grants and foreign technical cooperation, 1998/99–2004/05	50
3.4	Social security funds, 1998/99–2004/05.....	51
3.5	Main budget framework, 1998/99–2004/05	53
3.6	Revised estimates of main budget revenue and expenditure, 2000/01–2001/02	54
3.7	Main budget medium-term estimates, 2002/03–2004/05	56
3.8	Consolidated national and provincial expenditure, 1998/99–2004/05	57
3.9	Consolidated accounts of general government, 2000/011	58
3.10	Public sector borrowing requirement ¹ , 1998/99–2004/05	59
3.11	Infrastructure related public expenditure	62
4.1	Consolidated national revenue, 2000/01 – 2004/05	69
4.2	Main budget estimates and revenue outcome, 2000/01 and 2001/02	71
4.3	Main budget revenue, 1998/99 – 2004/05	73
4.4	Estimates of revenue before tax proposals, 2002/03	74
4.5	Point-scoring system for strategic investment incentives.....	76
4.6	Point-scoring system for strategic investment incentives	78
4.7	Personal income tax rate and bracket adjustments	79
4.8	Proposed rates of transfer duty	81
4.9	Changes in specific excise duties	90
4.10	Total combined fuel levy on leaded petrol and diesel	91
5.1	Turnover in RSA bonds – 2000 and 2001	103
5.2	Foreign bonds performance – 2 February 2002	103
5.3	Budget deficit and net borrowing requirement, 2000/01–2004/05	104
5.4	Loan redemptions, 2000/01–2004/05	105
5.5	Increase in loan redemptions, 2001/02	106
5.6	Switches in government bonds, 2001/02	106
5.7	Financing of net borrowing requirement, 2000/01–2004/05	108
5.8	Short-term loans outstanding, 2000/01–2004/05	108
5.9	Government bonds issued for financing, 2001/02	109
5.10	Foreign loan issues, 2001/02	110
5.11	Projected state debt costs, 2000/01–2004/05	112
5.12	State debt cost and total debt on an accrual basis, 1991/92–2001/02	113

5.13	Increase in government debt, 2001/02	114
5.14	Total government debt, 1998–2005	115
5.15	Average maturity /duration of domestic marketable	115
5.16	Composition of domestic debt, 1997/98–2001/02	116
5.17	Ownership distribution of domestic bonds bonds	117
5.18	Composition of foreign government debt, 1997/98	117
5.19	Statement of liabilities and financially related assets	119
5.20	Interest on tax and loan accounts, 1996/97–2001/02	120
5.21	Proceeds from the restructuring of state enterprises	122
6.1	Preliminary 2000/01 expenditure outcome and 2001/02 revised estimate	131
6.2	National expenditure – 2000/01 – 2004/05	132
6.3	Additional allocations available for the 2002 MTEF	133
6.4	National budget expenditure, 1998/99–2004/05	136
6.5	Additional allocations to national departments	137
6.6	Poverty relief and Job Summit allocations	47
6.7	Consolidated national and provincial spending by function, 1998/99 – 2004/05	148
6.8	Economic classification of consolidated national and provincial spending	149
7.1	The division of revenue between the spheres of government	155
7.2	Provincial revenue	156
7.3	Total transfers to provinces	156
7.4	Transfers to provinces 2002/03	157
7.5	Provincial equitable shares	157
7.6	Conditional grants to provinces	161
7.7	Consolidated provincial expenditure according to function1	163
7.8	National transfers to local government	167
7.9	Consolidated municipal expenditure budgets	170
7.10	Consolidated municipal operating income budgets	170

Figures

1.1	GDP growth and CPIX inflation	5
2.1	Growth in real GDP and CPIX, 1998-2004	20
2.2	Balance on the financial and current accounts	22
2.3	Net balances on the financial account	23
2.4	Real growth in the value of merchandise imports and exports and the current account balance, 1999–2001 (quarterly data, seasonally adjusted)	26
2.5	Dollar and rand prices of gold and platinum, 1995-2001	27
2.6	The openness of the South African economy, 1990– 2001	28
2.7	Net factor payments as a percentage of GDP in SA, Canada and Australia	28
2.8	Major components of the current account (rand millions, seasonally adjusted)	29
2.9	Exchange rate indices (index 1995 = 100)	29
2.10	The NOFP, in billions of US dollars	31
2.11	Manufacturing and construction output, 1998-2001 (real, monthly data)	33
2.12	Ratios of household consumption and its determinants, 1994-2001	34
2.13	Detailed household consumption categories as a percentage of total consumption, 1985-2000	34
2.14	Real remuneration and productivity, 1980-2001	35
2.15	Investment and saving, 1990-2001 (quarterly data)	36
2.16	Real investment by type of institution, 2000-2001 (quarter on quarter change).....	36
2.17	M3 and credit to the private sector, 1994-2001 (monthly, percentage change over 12 months)	37
2.18	Comparison of yield curves, April 2001, October 2001 and January 2002	38
2.19	Yields on government debt, 1995-2001	38
2.20	Real interest rates and investment, 1989-2001	39
2.21	Producer prices (monthly data, year on year change)	39
2.22	Consumer prices (monthly percentage changes).....	40
3.1	Real non-interest spending and debt service costs as percentage of GDP 1996/97 to 2004/05	52
4.1	Transfer duty average tax rates	81
4.2	Fuel prices January 1996 to January 2002	91
5.1	Turnover in RSA bonds and yield on the R153, monthly averages, 1995-2000	101
5.2	R153 yield and EMBI spread over 10 year US treasuries, 1999-2002.....	102
5.3	Government, corporate and parastatal net domestic bond issues, 1995/96 – 2001/02	102
5.4	Eurorand bond marker issues and redemptions, 1995-2000	104
5.5	Public sector gross borrowing requirement, 2002	107
5.6	Government debt, 1980-2005	114
5.7	Restructured maturity profile of domestic marketable debt, 13 February 2002	116
5.8	Maturity profile of foreign government debt	117
5.9	Consolidated maturity profile of domestic and foreign national government and parastatal debt, 31 December 2001	118
5.10	Monthly gross surplus/deficit before borrowing, 2001/02-2002/03	121
7.1	Growth in categories of spending	164