

Budget Review

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Republic of South Africa

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Foreword

The 2013 Budget is about national development and fiscal sustainability.

It is the first budget in which government's plans to implement the National Development Plan (NDP) are beginning to take shape. The plan expresses the central priorities of public policy: eliminating poverty and reducing inequality, with a focus on lowering the costs of living and doing business, increasing exports, creating more jobs and making economic growth more inclusive. Government departments will increasingly align their planning and expenditure to meet the objectives of the NDP. At the same time, growing collaborative dialogue between government, the private sector, trade unions and civil society is needed to make the plan a reality.

The national infrastructure programme is the most immediate contribution to the goals of the NDP. Capital investments in economic and social infrastructure will relieve serious constraints in electricity, transport, liquid fuels, water and housing, allowing for improved economic growth and quality of life for all South Africans. A total of R827 billion is budgeted for infrastructure over the next three years, with a wide range of additional projects under consideration. Decisions on whether to proceed with these investments will be taken on the basis of their contribution to long-term development and value for money.

This budget is also an expression of government's resolve, in the face of difficult economic conditions, to maintain firm control over expenditure, ensuring that South Africa's finances remain sustainable so that in 10, 20 or 30 years our children do not have to pay for what we do today.

For five years, government has been budgeting in the context of the global financial crisis and its long-term consequences. Although there are signs that growth will begin to accelerate over the medium term, the risks abound and the world economic outlook remains subdued. South Africa's economy has continued to grow over the past year, but more slowly than anticipated, as a result of both cyclical and structural factors. As a result, revenue has underperformed. A budget deficit of 5.2 per cent is projected for 2012/13, narrowing to 3.1 per cent by 2015/16.

The 2012 *Medium Term Budget Policy Statement* noted that if the economic environment were to deteriorate, realising government's fiscal objectives would require a reconsideration of spending and revenue plans. To ensure that the deficit is narrowed and that the fiscus moves towards debt stabilisation, government is trimming its medium-term spending plans by R10.4 billion.

Government will ensure that national development is financed in a fiscally responsible manner, so that future generations inherit a healthy, growing economy that is creating jobs and that is not burdened by the chains of the past. We will relentlessly look for opportunities to improve the efficacy of spending and tighten supply chain management, starting with national and provincial government.

Given the fiscally constrained environment, this has been a challenging budget to prepare. I would like to acknowledge the hard work by the Ministers' Committee on the Budget, Cabinet and my colleagues across government, who have helped to make some tough decisions.

I extend thanks particularly to Minister of Finance Gordhan and Deputy Minister Nene for their guidance, energy and determination. And as always, I acknowledge the dedication and skills of the staff of the National Treasury, who set the bar for accountability and transparency in public finance.



Lungisa Fuzile
Director-General: National Treasury

Highlights of the 2013 Budget

Economic recovery and employment

- Economic growth projected at 2.7 per cent in 2013, 3.5 per cent in 2014 and 3.8 per cent in 2015.
- Consumer price inflation to remain within target band over medium term.
- Current account deficit to average 6.2 per cent over next three years.
- Moderate employment growth expected over medium term. Pace of job creation depends on faster private-sector growth.

Budget framework

- Tax revenue for 2012/13 expected to be R16.3 billion below 2012 Budget estimate.
- Spending cuts of R10.4 billion over next three years in response to tight fiscal conditions.
- Contingency reserve reduced by R23.5 billion over medium term.
- Real growth in spending to average 2.3 per cent over medium-term expenditure framework period.
- Budget deficit of 5.2 per cent of GDP expected for 2012/13, narrowing to 3.1 per cent in 2015/16.
- Debt stock as percentage of GDP to stabilise at about 40 per cent in 2015/16.

Tax proposals

- Personal income tax relief of R7 billion.
- Employment incentives to support young work seekers and special economic zones.
- Tax relief for small businesses.
- Tax treatment of contributions to pension, retirement annuity and provident funds to be harmonised.
- Phased implementation of carbon tax proposed.
- Increase in general fuel levy of 15c/l.
- Malt beer increases by 7.5c to R1.08 per 340ml can.
- Unfortified wine increases by 15c per 750ml bottle.
- Ciders and alcoholic fruit beverages increase by 7.3c per 330ml bottle.
- Spirits increase by R3.60 to R39.60 per 750ml bottle.
- Cigarettes increase by 60c to R10.92 per packet of 20.

Additions to spending plans over next three years

- R5.2 billion for local government equitable share to help smaller municipalities meet developmental commitments.
- R4.2 billion to provincial equitable share to phase in adjustments resulting from Census 2011.
- R3.2 billion to Passenger Rail Association of South Africa for rail signalling infrastructure.
- R2.6 billion for regional bulk water infrastructure.
- R1.9 billion for the *municipal water infrastructure grant*.
- R1.5 billion for De Hoop dam.
- R1.4 billion to South African National Roads Agency Limited for road construction and maintenance.
- R1.1 billion for Square Kilometre Array and R0.6 billion for science and technology infrastructure.
- R1 billion to provinces to increase number of teachers and R0.8 billion for grade R teachers.
- R1 billion to *human settlements grant*.
- R0.9 billion to integrated national electrification programme.

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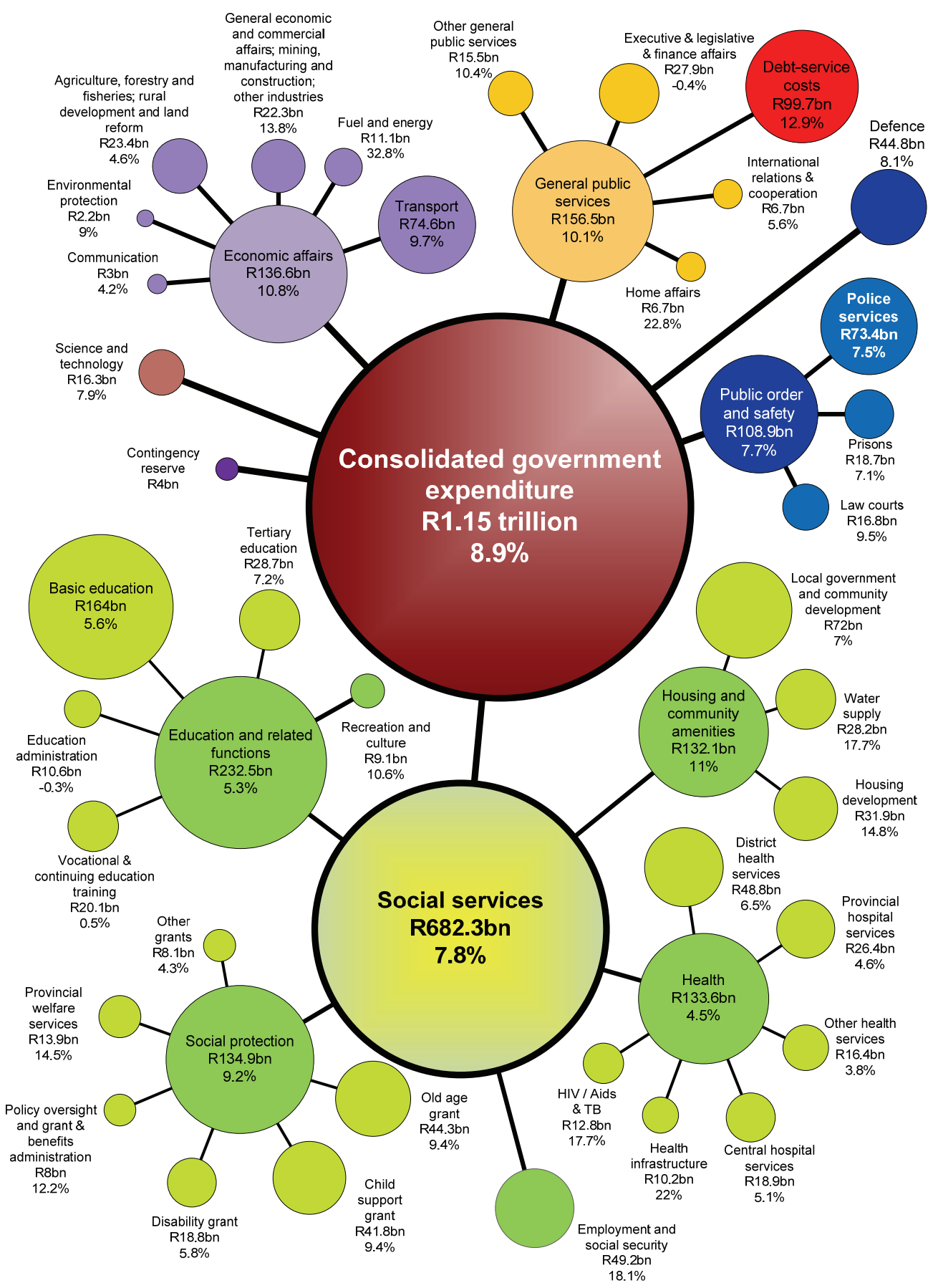
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