NATIONAL BUDGET SPEECH BY TREVOR MANUEL, MINISTER OF FINANCE, 12 MARCH 1997

Introduction

Three years into the life of our young democracy, the political outlook remains exceedingly positive. A solid foundation has been laid with the adoption of our deep, modern and widely-respected Constitution. The support provided by the Reconstruction and Development Programme (RDP) remains firm. We continue to enjoy a good standing in the global community because of our ongoing commitment to sustainable peace and development, particularly on the African continent. Yet, this Government and all South Africans need to do much more to ensure that our hard-won democracy is translated into tangible and significant improvements in the lives of all South Africans.

This endeavour demands that all of us, whether within or outside of government, be equipped with a long-term view and be willing to take appropriate decisions in the short-term struggle for ongoing transformation. Every opportunity which presents itself is important. The annual Budget is one such opportunity. It challenges the Government to exercise choices, not all of them popular, to construct the environment within which all of our people will flourish. Of necessity, these choices must reflect both our immediate priorities and those elements of our longer term vision which make for durable peace, democracy and rising standards of living.

This was the way we approached the making of the Budget which we present today. In essence, the Budget reflects the economic policy of Government through the detailing of financing and expenditure programmes, and it mirrors the choices between accelerated service delivery, the promotion of economic growth, job creation and the containment of inflation.

In this Budget we make a substantial allocation to poverty relief; we invest in people through a significant reprioritisation of expenditures in favour of social development; we are bold in the further integration of South Africa into the global economy by the freeing up of exchange controls; we provide tax relief for those on incomes up to R60 000; we improve the competitiveness of our financial markets by reducing the marketable securities tax; and we ensure the stability and integrity of macroeconomic policy by delivering on our commitment to a 4 per cent deficit.

This Budget tells the story of a government determined to effect deep transformation and to live within its means. It makes significant investments in the RDP, mindful of the targets which had been set in the strategy for Growth, Employment and Redistribution (GEAR). It demonstrates unequivocally that the success of the RDP is dependent on the successful implementation of the GEAR. More importantly, it reminds us that we remain firmly on course to secure a Better Life for All.

I will proceed in four parts:

* I first outline the economic conditions which form the backdrop to the Budget;
* Part 2 provides a brief outline of the framework for intergovernmental finances envisaged in the Constitution;
* I will then set out the choices we have made in regard to expenditure;
* finally, I will discuss the financing of the Budget, tax proposals and the deficit and borrowing requirements.

Part 1: Economic overview

The RDP and GEAR

The RDP is the embodiment of the commitment of this government to the elimination of poverty in a rapidly growing economy and in the context of an open, peaceful and democratic society. For this vision to materialise, policies must be oriented towards the provision of basic needs, the development of human resources, and a growing economy capable of creating sustainable jobs. The success of the RDP is inherently bound by our ability to generate this developmental and redistributive thrust within a sound fiscal and macroeconomic framework.

To give effect to the RDP in the context of a rapidly globalising and highly competitive international environment requires a significant change in the path of economic growth and development. The challenge to Government is to align economic policy in a way that will ensure an acceleration of economic growth and a substantial improvement in job creation by the turn of the century. The policies set out in the GEAR programme are designed to achieve these objectives.

* The GEAR strategy is an economic reform programme directed towards:
* a competitive fast growing economy which creates sufficient jobs for all jobseekers;
* a redistribution of income and opportunities in favour of the poor;
* a society capable of ensuring that sound health, education and other services are available to all; and
* an environment in which homes are safe and places of work are productive.

At the centre of the GEAR strategy is investment and job creation. The two go hand-in-hand. Growth without job creation does not address the challenges we face. Job creation is the one area lagging behind the targets we set ourselves. However, this Budget and the policy stance it embodies will provide an impetus for both investment and job creation.

So yes, investment is important. Sustainable job creation requires a steady stream of capital investment. And, in cases such as our own where savings ratios are low, we need to compete to attract savings from elsewhere in the world. For all these reasons, it is imperative that we take stock of the disciplines of the global economy. We need to examine continually how we integrate into that economy without sacrificing our fundamental and implacable commitment to social transformation.

Moreover, we live in the information age. Today investors and savers, wherever they are, have access to a vast array of information from which to make investment decisions. Quality, transparency and availability of information is more important now than ever before. As part of the drive to improve the availability and quality of information. South Africa now subscribes to the Standardised Data Dissemination Service of the International Monetary Fund, and the full details of today's Budget will be available immediately all round the world on the Internet.

Growth

The South African economy grew by 3,1 per cent in 1996, making this the fourth consecutive year of growth. This performance stands in sharp contrast to the 1980s and early 1990s when growth averaged just 1 per cent per year. It is also encouraging to note that real income per person is some 4 per cent above the 1993 level.

Investment in the real economy

Evidence is emerging that structural changes are well underway in the non-agricultural sectors of the economy and in the manufacturing sector in particular, reflecting the changes that the GEAR is designed to sustain. Overall, investment will in due course lead to stronger employment creation, whilst productivity should continue to rise, keeping unit labour costs in check. Capacity utilisation is high, inducing private sector led investment in a number of sectors.

Notwithstanding the recent dip in real gross fixed investment, which slowed down from 10 per cent growth in 1995 to 7 per cent in 1996, the ultimate outcome has been an expansion in manufacturing output and manufactured exports. A closer examination of the manufacturing sub-sectors shows that the extent of structural change varies. Some manufacturing sectors have registered a decline in employment while others have shown increases. Significant investments are also taking place in several industries.

Such changes are essential and need to be accelerated if we are to compete internationally. In GEAR the strategies set out to do this are:
* continued tariff reform;
* supply-side industrial support measures;
* strategic links between industrial policy and infrastructure development and provision; and
* the integration of industrial strategy with labour market and institutional transformation strategies.

The government sector has also played an important role in capital formation. Real fixed investment by public corporations increased by 10 per cent during 1996. In addition there is now an acceleration in RDP projects and other capital outlays by government departments.

Infrastructure

The expansion of infrastructure plays a number of crucial roles including:
* the provision of basic services;
* increasing the level of investment;
* creating opportunities for private-public sector partnerships;
* modernising information technology, telecommunications and transport capacity so as enhance efficiency and competitiveness; and
* creating potential for further technological innovation which in turn could enhance the delivery of services and increase participation in economic activity.

In combination, these factors add to new economic activity and thereby increase substantially the job creation potential of the economy.

However, substantial amounts of capital are required to finance the scale of infrastructure we need. A new financing strategy based on a dynamic partnership between government and the private sector is evolving. Government's role is to act as a catalyst to generate the level of resources required. Government, development finance institutions and public corporations are already pooling resources to finance development more creatively.

Supply side measures

The importance that Government attaches to investment is reinforced by the approach we have adopted in relation to the supply-side measures introduced to enhance and support trade and industrial development. Tax incentives were introduced in 1996 and will be available for a period of three years. A range of other measures aimed at assisting firms to expand or improve production, productivity, exports and employment are also in place, including the Technology and Human Resource for Industry Programme (THRIP), which supports links between industry and tertiary education institutions, and the Support Programme for Industrial Innovation (SPII), to name but two.

Combined with the results of a number of cluster studies and the spatial development initiatives, the supportive environment for investment and thereby job creation has been significantly strengthened.

The Inter-Governmental Conference held in February set in motion a more co-ordinated process between all three levels of government in regard to infrastructure and investment initiatives. This will facilitate the spatial development initiatives that will unfold in the course of 1997.

Small and medium-sized enterprises

The promotion of small, medium-sized and micro enterprises is a key aspect of Government's economic policy. The National Small Business Act was passed in November 1996, providing for the establishment of Ntsika Enterprise Promotion Agency and a National Small Business Council, and for a mechanism to review the impact of training and proposed legislation on small businesses. In addition, the Khula Enterprise Finance Company is operational, and has initiated a credit guarantee scheme and a capacity building project aimed at supporting targeted retail financial intermediaries. A loans programme will get underway in 1997.

Restructuring State Assets

The opportunities for infrastructure expansion are enormous. The financing strategy is crucial since government budgetary resources alone are inadequate. Similarly, the future of state-owned enterprises will depend in part on the successful enhancement of their access to capital and technology.

For these reasons, Government embarked on the process of restructuring its enterprises. The National Framework Agreement is an enormous asset in respect of building a consensus on the approach to each enterprise.

Detailed analysis is being undertaken of all state owned enterprises. Work has begun on the restructuring of subsidiaries of Transnet and an enterprise restructuring committee has been formed at Eskom. Enterprises which should restructure or, in some cases, be wholly sold during this year include Sun Air, Aventura, and the Airports Company. Significant preparations should be concluded on Safcol, Alexkor, and Autonet during this year. Final negotiations are now underway on the sale of 30 per cent of Telkom to a consortium comprising SBC Communications (USA) and Telekom Malaysia. This transaction should see a significant injection of foreign capital into the economy. Improvements in the efficiency, cost-effectiveness and service orientation are expected.

A National Empowerment Fund (NEF) will be established during this fiscal year in order to assist in the broadening of the ownership base and thereby contribute to creating a more equitable distribution of incomes and wealth.

Inflation

Price stability is an important determinant of economic well-being. Substantial progress has been made in recent years to bring inflation down. Consumer price inflation for 1996 was 7,4 per cent, the lowest since 1972. However, the depreciation of the rand has put some upward pressure on inflation. Rising prices need to be checked, partly because this is the best way of ensuring that wages hold their real value. Our international competitiveness also depends on maintaining an effective counter-inflationary stance.

The rand

The stability of the rand throughout 1995 created a false sense of comfort for both South Africans and foreign investors. High real exchange rates and a mildly appreciating currency attracted substantial capital flows during 1995. However, from mid-February 1996 the rand started to fall and volatility in the foreign exchange markets became the order of the day. The nominal effective exchange rate fell by 22 per cent between the end of 1995 and the end of 1996, whilst the real effective exchange rate fell approximately 16 per cent during the course of the year.

The volatility in the exchange rate throughout 1996 served to remind us that we are fast integrating into the global economy. Still, it was not easy to witness such a marked depreciation of the currency.

The GEAR strategy was nevertheless designed to take advantage of the depreciation to boost exports and simultaneously make progress with tariff liberalisation. Considerable progress has been made in this regard, and tariff reform will continue. Although the more competitive rand has helped put an increasing number of firms on an export-oriented footing, the depreciation last year went further than was necessary, and provided a cushion to exporters which could lead to a sense of complacency. In line with GEAR we are considering compensatory tariff reductions to neutralise these effects.

Balance of payments

One of the positive outcomes of the depreciation of the rand is the improvement that has taken place in the current account of the balance of payments. The deficit on the current account fell from 2,1 per cent of GDP in 1995 to 1,6 per cent in 1996. This was due primarily to the strong performance of merchandise exports which grew by 12 per cent in volume and 21 per cent in value. The growth of imports slowed down considerably. For 1996 as a whole the current account deficit was about R8,5 billion.

However, the volatility in the foreign exchange market and the accompanying depreciation of the rand resulted in a slowdown in the inflow of capital. Net capital inflows for 1996 were R3,9 billion, compared to R19,2 billion in 1995. Foreign reserves, which had fallen by R4,3 billion in the first three quarters of 1996, started showing some improvement in the fourth quarter. At the end of 1996, the country's gross reserves were R16,8 billion, sufficient to cover about five and a half weeks worth of imports.

Financial markets

The turbulence in the foreign exchange markets put pressure on the domestic financial markets. In response to tight money market conditions the South African Reserve Bank increased the bank rate twice during the course of 1996. In April the bank rate increased from 15 to 16 per cent and in November it increased to 17 per cent. The banks responded by increasing the prime overdraft rate to 19 per cent and 20 per cent respectively.
The changes in the exchange rate, fears of rising inflation and tight money market conditions had a marked impact on the trend and volatility of bond yields. The monthly average yield on long-term government stock increased from 13,8 per cent in January 1996 to 16,2 per cent in December. Bond prices for the first two months of this year improved significantly to around 15 per cent, reflecting the positive change in fundamentals and consequently sentiment.

Outlook for 1997/98

A review of international economic trends indicates a positive overall outlook. Output growth in industrial countries is expected to accelerate marginally to about 2,5 per cent in 1997, with inflation rates remaining between 2 and 3 per cent. The growth in world trade is expected to expand quite considerably in 1997.

For emerging markets the story is very positive. Real growth in developing countries is expected to average about 6 per cent in 1997, with average inflation declining to around 10 per cent from over 13 per cent in 1996. Growth in several of our SADC neighbours has exceeded 5 per cent per year and is expected to remain at these levels for 1997, creating a brisk trading environment.

I expect the South African economy to grow at 2 per cent in 1997.

The manufacturing sector, which should benefit substantially from supply-side measures, should expand considerably faster than in 1996. The downswing in merchandise imports and the strong export growth are expected to lead to a lower current account deficit in 1997 than in 1996. A continuation of the recovery in capital inflows which has occurred since the beginning of this year should result in a considerable capital account surplus over the current balance, resulting in an improvement of our foreign reserve position.

Average consumer price inflation will be somewhat higher in 1997 than last year, but the trend is expected to slow down during the course of the year as a result of a decline in the public sector borrowing requirement and a contraction in credit growth and money supply.

This is a year of consolidation. We will steer the economy firmly along the growth path envisaged in our macroeconomic strategy. The medium-term prospects are positive: a sound macro and fiscal framework has been adopted and implementation has begun; investment in infrastructure financed through partnerships between the public and private sectors is set to take off; and there has been a substantial acceleration in exports across various sectors of the economy, indicating that our trade and industrial policies are taking hold. We are on track for an acceleration in growth and job creation. Improved co-ordination of policies, co-operative government and responsible governance will ensure that attention will be squarely on delivery.

Exchange Controls

Our analysis shows that countries that have had most success with exchange control liberalisation are those that have done so as part of a comprehensive package of macroeconomic reforms. These reforms have often included a strengthening of the fiscal position, appropriate prudential regulations and requirements, internationally competitive interest rates and competitive exchange rates. In the case of industrial countries, capital account liberalisation has typically followed broad trade reforms. I believe that the conditions are now right for a significant instalment in the relaxation of exchange controls. After extensive consultation with the Governor of the South African Reserve Bank, we feel the time has come to make significant changes.

South African individuals and corporations will in future be allowed the freedom to transact internationally, as envisaged in the macroeconomic strategy. The package of exchange control reforms placed before this House today moves South Africa to a system with a positive rather than a negative bias and the Exchange Control Regulations will revised to accommodate this fundamental change in philosophy. The objective is to reach a point where there is equality of treatment between non-residents and residents in relation to inflows and outflows of capital.

The position of our balance of payments and the South African Reserve Bank's involvement in the forward market make it impractical to permit unlimited transfers of capital at this stage. To give the economy time to adjust and to avoid unnecessary volatility, certain limits will remain, but the emphasis will increasingly be on the positive aspects of prudential financial supervision. The full details of the changes are set out in a comprehensive press statement released by the Department of Finance and the South African Reserve Bank. The following are some of the important features of the package:

* with the exception of discretionary type expenditure such as maintenance payments whose limits have been substantially revised, most remaining controls on current account transactions will be abolished;
* travel allowances are increased to an annual allowance of R80 000 per adult and R25 000 per child;
* individuals will be allowed to remit an amount of capital abroad, with extended limits for the acquisition of fixed property in SADC countries; will be able to maintain foreign currency denominated deposit accounts subject to a prescribed ceilings with South African banks; and will be permitted to retain foreign income earnings in foreign currency accounts;
* corporations wishing to establish new ventures will be permitted to transfer up to R30 million as a proportion of their investment, or R50 million in the case of SADC investments;
* South African corporations will be allowed to raise foreign funding on the strength of their South African balance sheets; and when circumstances permit, South African corporations will be free to invest abroad a percentage of their assets (based on audited balance sheets) for portfolio investments;
* institutional investors will in 1997 be allowed to invest up to 3 per cent of the net inflow of funds during the 1996 calendar year; the definition of qualifying institutions for asset swaps will be broadened to include regulated fund managers, as well as to allow unit trusts more flexibility in applying the current 10 per cent limits;
* the South African Reserve Bank will supervise the implementation of a dollar/rand futures contract issued in South Africa;
* the non-resident ownership level at which foreign controlled resident entities become subject to limits on local borrowing will be raised from 25 per cent to 50 per cent; and
* the limits for the completion of forms A and E for the purchase and sale of foreign exchange will be increased from R2 000 to R40 000.

South African individuals and corporations will have to provide authorised foreign exchange dealers with a tax reference number and sign a declaration of good standing in respect of their South African tax obligations before being permitted to remit funds offshore.

The changes in the exchange control regime announced here are profound. We move now to an environment in which South Africans can make ordinary transactions abroad freely, while the constraints which remain on large movements of capital will increasingly give way to procedural and prudential supervision.

Summary

Although GDP growth has slowed somewhat in 1996 and 1997, the transformation which our economy requires to strengthen its underlying potential for growth and a more just distribution of incomes and opportunities is now well underway.

Gross domestic fixed investment remains robust and the planned infrastructure developments provide a strong basis for improvements in gross domestic fixed investment. The depreciation of the rand has begun to have the desired effect, increasing exports and enhancing competitiveness; capital inflows have started improving; and responsible macroeconomic policies have ensured that inflation has been kept in check. It is against this background that the further relaxation of exchange controls has taken place.

Part 2: The budget and the Constitution

Three spheres of government: national, provincial and local

The Constitution of the Republic of South Africa was adopted in December 1996 and took effect on 3 February 1997. It provides the framework within which budgetary and fiscal policies are formulated and sets out the competences of national, provincial and local government. It also describes the framework for intergovernmental finances and requires that by January 1998 these be embodied in appropriate legislation.

Although the new Constitution has been adopted, the lengthy budget cycle means that the 1997/98 budget was prepared under the authority of the interim Constitution. The 1997/98 budget process nonetheless represents an important step in implementing the framework of intergovernmental finances envisaged by both the interim and the new Constitution.

At the heart of the new national-provincial budget process is the Budget Council. It is a co-operative decision-making body consisting of the nine MEC's of Finance, the Minister and Deputy Minister of Finance, and senior officials from the Departments of Finance and State Expenditure, and the provincial Treasuries. The Financial and Fiscal Commission (FFC) attends as an observer. The Budget Council recommends to Cabinet the shares that each province should receive after taking into account national priorities and the proposals of the FFC.

Based on a considered appraisal of the Constitution's precepts regarding the equitable sharing of revenue, the FFC recommended a formula for the allocation of revenue to provinces, to be phased in over a six-year period. In its recommendations, the FFC noted the difficulty of defining clearly the meaning of 'equitable share' as required by the Constitution, particularly when taking account of the developmental needs of the provinces and local authorities, their fiscal capacity and efficiency, past inequities and the affordability of service standards, while balancing these with the national interest. The whole area of revenue sharing requires more work and will receive priority attention this year.

The recommendations of the FFC were considered by the Budget Council in its deliberations, but they were not /98 budget, it alaccepted in full. It relied on a different approach for the purposes of the 1997/98 Budget, particularly concerning the division of the revenues between the national government and the provinces. The Budget Council accepted that the first charge against revenue is government debt costs. For the 1997so agreed that improvements in the conditions of service, the carry-through costs of social pensions and RDP commitments and an allocation to the housing programme would be set aside, to be deducted from revenue before the division was made between the provinces and national government. The Budget Council recommended that the remaining 1997/98 revenues be divided between the national and provincial levels in the same ratio that applied in the 1996/97 budget. To allocate the basic amount available for provinces (excluding the amounts set aside), the Budget Council relied on a percentage distribution calculated by the FFC.

Based on these recommendations, the national budget allocates a global amount to each province which then has the responsibility of developing its own budget within the constraints of an agreed framework. Important planning and budgeting tasks are now devolved to the provinces, which are charged with providing many of the country's crucial public services either exclusively or concurrently with another sphere of government.

There are also significant changes in progress at the local government level. Municipal budgets for 1996/97 total over R45 billion, or approximately 7,5 per cent of GDP. Of this, R11,5 billion is on capital expenditure. Unlike provinces, however, local governments have a substantial tax base. Own revenues account for over 90 per cent of their income. Although the Constitution protects their equitable share of revenue and there are substantial flows of funds from the national and provincial levels to local government, the services which municipalities provide are mainly self-financing.

Some concern has been expressed over the state of local government finances. On balance, local government has run a consolidated deficit of about 0,2 per cent of GDP in recent years, consequently adding little to the gross public sector borrowing requirement. Municipalities are not allowed to run operational deficits.

However, there are problems which need to be dealt with. The first is the problem of non-payment. The total amount of outstanding debts to local authorities at the end of October 1996 stood at 25 per cent of annual income from rates and service charges. This is clearly unsustainable and unacceptable. It is neither right nor fair that on average only 69 per cent of residents pay on a regular basis. A democratic South Africa cannot afford a culture of non-payment. For their part, municipalities must also exercise better financial management through improved administration including the implementation of proper credit control systems.

Part 3: The 1997/98 expenditure budget

The policy choices which government makes are reflected in its expenditures. For this reason the evaluation of expenditure proposals is at the heart of the budgetary process. The assessment of expenditures has to take place within the framework of social, developmental and economic priorities identified by government and has to take account of the macroeconomic environment.

This assessment depends on the quality and integrity of the information available. Several reform initiatives aimed at improving the effectiveness of fiscal planning as an instrument of governance have been initiated. These include the development of a medium term expenditure framework and a forward-looking approach to fiscal planning which will assist with the reprioritisation of expenditure and ensure a better fit between policy and rands spent; legislative reforms as set out in the Constitution; changes to accounting methods; improvements in the government's data base so as to improve expenditure planning; and improvements in budget documentation. To this end the Departments of Finance and State Expenditure will publish a White Paper on budget reform during the course of 1997.

As part of the constant drive to improve governance and ensure the efficiency and effectiveness of spending, government as the single largest purchaser in the country, has embarked on a thorough review of its procurement policies. I will shortly be releasing a Green Paper on Public Procurement Reform. These institutional reforms are wide reaching and will entrench a culture of governance and delivery. It is against this backdrop that expenditure decisions were taken this year.

National budget expenditure for 1997/98

The estimated level of national government expenditure for 1997/98 is R186,747 billion. This includes the Printed Estimate of Expenditure, several supplementary amounts and standing appropriations. This represents an increase of 6,1 per cent on the revised expenditure level for 1996/97 and is equal to 30 per cent of expected GDP.

In line with the goals of the RDP and GEAR, the analysis of expenditure which follows shows a clear shift in priorities towards poverty relief, social development and crime prevention.

Investing in poverty relief

The legacy of apartheid is most stark when we consider the abject poverty which characterises the lives of a substantial portion of our population. It is well understood that growth and job creation are critical elements in redistributing income and reducing poverty. The quality and availability of educational opportunities are also key components in the battle against poverty. Supplementary proposals, which will be included in the Second Print and the Adjustments Estimate when they come before Parliament later in the financial year, provide poverty relief in several ways:

* We are setting aside R300 million for community based poverty relief programmes. In allocating these resources special attention will be given to programmes that target poverty relief in rural areas and that benefit women.
* here will be an increase of R1 billion in provision for social security. This means that the grant for elderly persons without other means will increase from R430 to R470 per month, from 1 July 1997, which is a 9,3 per cent increase.
* Cabinet has now approved the main recommendation of the Lund Committee Report on Child and Family Support for a flat-rate child support benefit, to replace the existing maintenance grant over a period of years. R75 million has been set aside for this.

Investing in social development to build a better life for all

The 1997/98 Printed Estimate provides for transfers to provinces totalling R80,4 billion. Together with supplementary amounts and improvements in conditions of service which will be distributed at a later stage, provinces will receive about R84 billion, or 57 per cent of the budget, excluding interest on government debt.

Provincial expenditure is strongly concentrated on education, health and welfare services. Calculated on a consolidated basis, these social functions will take up 55 per cent of non-interest spending by the national and provincial governments in 1997/98.

Education

Expenditure on education will account for 21,3 per cent of total government expenditure and 6,5 per cent of GDP. These proportions are high by international comparison - 5,4 per cent of GDP in industrialised and 3,9 per cent in developing countries - signalling the high priority which the Government attaches to investing in our children's future.

In 1997/98 a total of R5,431 billion will be provided for universities and technikons, including an increase in general subsidy formula allocations of 12 per cent and R200 million for the National Student Financial Aid Scheme. An additional R100 million is to be made available from donor funding. The average funding level of higher education institutions will be 65,6 per cent. In addition, the Government will be increasing expenditure on adult education from R6,5 million in 1996/97 to R13,1 million in 1997/98.

Health

Government as a whole will be spending 3,3 per cent of GDP on health (10,7 per cent of total budgeted expenditure). Although this is below the level of public expenditure on health in industrialised countries (5,6 per cent of GDP) it is well above the average for developing countries which is a mere 0,9 per cent.

Substantial positive changes have taken place in the health sector. Primary health services are now free of charge at the point of delivery. During 1996 a clinic building and upgrading programme was initiated and a total of 102 new clinics were built or are in the process of being built. Provincial health departments plan to build a further 272 new clinics and upgrade 326 in 1997. The majority of these are in under-privileged areas.

Focus areas for the national department in 1997 will include immunisation campaigns against polio and measles; and expanded programmes to combat the HIV epidemic and tuberculosis.

Welfare

The White Paper for Social Welfare Services was tabled in Parliament on 19 February 1997. The document provides clear directives for a national developmental welfare strategy.

The fourteen different pension systems of the former welfare departments have now been amalgamated into a single integrated data system. Fraud in social pensions denies benefits to people whose survival depends on these payments. A comparison of records with the Population Register resulted in the suspension of 46 682 beneficiaries and a saving of R241 million per year. Further investigations are in progress and strong action will be taken against these criminals.

Investing in infrastructure and job creation

Housing

The housing allocation for 1997/98 is just over R4 billion. Last year the housing vote was less than half this amount, after substantial underspending in 1995/96. Housing delivery is now accelerating and it is expected that more than 190 000 houses will be built in the subsidy band during the new financial year.

Land Affairs

The Commission on the Restitution of Land Rights is currently processing in excess of 11 000 claims. The Department's budget includes an amount of R418 million for land restitution, redistribution and tenure. Land reform remains an important part of our development strategy and the Department has done substantial work in putting in place the legislative framework required for land reform and development facilitation.

Public Works

Under the auspices of the Ministry of Public Works, a fresh approach to the procurement of construction services has greatly improved opportunities for emerging contractors and there is progress in promoting job creation on infrastructure projects. At grass-roots level the Community Based Public Works Programme is active. Of the R250 million allocated to this project from the RDP fund in 1994/95, R150 million was transferred to the provinces, which implemented 391 projects creating a substantial number of jobs, particularly for women. The remainder of the funding was used to fund an array of projects which together employed some 97 000 people, 13 per cent of whom are in sustainable jobs.

RDP Projects

The 1997/98 budget includes a total of R4,368 billion for the carry through costs of RDP projects. Since the reprioritisation of expenditure is well underway, RDP spending has been incorporated into the budgets of departments. The amount of R4,4 billion includes:

* R680 million for free health care;
* R500 million for the primary school nutrition programme;
* R500 million for the community water supply and sanitation programme;
* R350 million for bulk infrastructure for housing;
* R300 million for land redistribution;
* R245 million for urban renewal;
* R200 million for the Maputo corridor and other spatial development initiatives; and
* R100 million for peace initiatives in KwaZulu-Natal.

The Municipal Infrastructure Programme

The objectives of job creation are also captured in other expenditures in this Budget. One of the most impressive developmental and job creation programmes is the Municipal Infrastructure Programme which provides R1,4 billion for local construction works and currently involves some 1 089 projects. It is estimated that by the end of this year some 242 000 people will have been employed through this programme. In addition, over 94 000 people will have received training.

Water and sanitation

Good progress continues to be made in the area of water provision to communities. The projects in place at the end of 1996 will deliver water to 6,4 million people, and 100 000 people will get adequate sanitation. The fourth RDP programme, which is expected to serve a further 2,1 million people at a cost of R650 million has recently been announced.

The National Water Conservation Campaign has continued to raise consciousness about the value of water resources. The "Working for Water Programme" is a successful public works programme, employing and training almost 7 000 previously unemployed women and men to eradicate invasive vegetation from water catchments and thereby generate water resources.

Supply-side measures

Expenditure on the promotion of industrial development and the stimulation of research and technology development in industry increases from R454 million in 1996/97 to R604,6 million in 1997/98. Two new supply-side measures are to be introduced in 1997 - the Competitiveness Fund and a Sectoral Partnership Facility - which will enable individual firms and organisations to draw on consultant advice in advancing competitiveness. A new Short Term Export Finance Guarantee Scheme for small and medium-sized firms has also been introduced. Investing in a safer society

A safe and peaceful society is essential for democracy and economic development.

Significant steps to reduce crime have been taken with the implementation of the National Crime Prevention Strategy. A brief analysis of the expenditures on protection services which include defence, police, prisons and justice shows a substantial reprioritisation away from defence.

Defence

Spending on defence in 1997/98 will account for 1,6 per cent of GDP, compared to 4,5 per cent in 1989/90. The South African National Defence force needs to be commended for the substantial restructuring which it has undertaken and for the seriousness with which it has approached the Government's efforts to reprioritise spending in favour of social development. The major initiatives which have been undertaken by the SANDF include the White Paper on Defence which was approved by Parliament in May 1996 and the Defence Review process which is currently underway. The SANDF has also played an important role in the National Crime Prevention Strategy, deploying some 50 companies for border protection and the maintenance of law and order in co-operation with the South African Police Service.

The National Crime Prevention Strategy

The first set of projects aimed at making the criminal justice system work better have now begun. The National Crime Prevention Strategy will cost R902 million and will run for three years. An amount of R406 million has been made available in this year's budget for the programme.

Police, Justice and Correctional Services

Expenditure on Police, Justice and Correctional Services will increase by about 15 per cent once improvements in conditions of service are taken into account. This provides a clear indication of the seriousness with which Government is approaching the issue of crime. It is also important to note that in all these departments, and more particularly in the Police Service, a substantial programme aimed at improving the management of resources is underway, including extensive training initiatives. The work, assistance and support provided by the Business Against Crime Project has had a marked impact on the management of the Police Service and Government is in full support of this new partnership.

Public Service Restructuring

A comprehensive programme for right-sizing the civil service is currently being undertaken by the Department of Public Service and Administration. As part of this exercise a voluntary severance package was introduced on 1 May 1996 to facilitate departmental and provincial reorganisation. The right-sizing process and a three year conditions of service adjustments package were agreed to in the Public Service Bargaining Council. This agreement includes, amongst other measures, the adoption of a new grading system comprising a rationalised and simplified public service remuneration structure. The implementation of the second phase of the agreement entails a full year cost of promotions and improvements in the conditions of service of R6,5 billion. Since these increases only come into effect in July 1997, R4,875 billion is provided to cover nine months of this fiscal year.

Summary

The selected expenditure set out above highlights the significant reprioritisation which has taken place. After setting aside R39 billion for interest on government debt, nearly 60 per cent of national and provincial government spending goes to the social services.

* R40 billion for education;
* R20 billion for health services;
* R18 billion for social security and welfare;
* R4 billion for housing.

A total of R30 billion is allocated to our protection agencies. R19 billion is spent on building the economy and supply side measures. This amount includes road construction, water projects, support for agriculture and the new supply side programmes for industrial promotion. In addition, departmental budgets contain several new initiatives which have exciting job creation possibilities, including the municipal infrastructure programme; the community water supply programme; and the land restitution and redistribution programme. RDP initiatives are now included in departmental votes, ensuring that resources allocated to the numerous activities initiated over the last three years are realistically programmed in relation to delivery capacity.

Part 4: Revenue

Vision

Government's vision encompasses the internationally accepted principles of taxation: tax neutrality, equity, certainty and simplicity. Our vision is informed by the fact that our tax regime must enhance our competitiveness internationally and that it must be structurally cohesive which means that, amongst other things, we have to broaden our tax base and eliminate damaging tax arbitrage opportunities. Key to our vision is our ability to have in place a tax administration which is efficient, effective and able to maximise the collection of revenues due to the State.

As part of the implementation of this vision and following from the recommendations of the Katz Commission, the Inland Revenue and Customs and Excise branches of the Finance Department were amalgamated into one revenue collection authority, the South African Revenue Service (SARS).

Cabinet has now approved the granting of administrative autonomy to SARS. Legislation giving effect to this will be tabled during the second quarter of this year. Building on the progress made this past year, I am able to include an amount of R2,5 billion in the revenue proposals presented today which will arise from improved collections and receipt of arrear taxes.

The Income Tax Act

The simplification of the Income Tax Act is an important part of our vision. This year the Ministry of Finance will embark on a project to consolidate and simplify the Income Tax Act in a manner that ensures that the contents are easily understandable by all South Africans.

The scope of the project is far-reaching and it is envisaged that it will take several years to complete. The project will serve as a training ground for young tax lawyers and accountants who will be appointed to help with the task of rewriting the Act.

Declaration of Good Standing

I highlighted earlier that democracy brings with it rights, obligations, and responsibilities. As a Government one of our obligations to the people of this country is to ensure equity and fairness in the tax system.

However, our ability to do this is severely hampered by the culture of non-payment and evasion that has come to characterise our tax system. Non-payers and tax-evaders are punishing those with honesty and integrity. Moreover, they stand in the way of significant tax reform and relief.

The Government will more vigorously enforce the tax legislation. We shall actively pursue anyone who breaks the law.

It is fair that only those South Africans whose tax affairs are in order should be allowed to participate and benefit from the economic policies we are introducing. To this end we have decided that any South African be they a natural person or a corporate who wants to tender and participate in any form of contract to provide goods and services to government, or who wishes to access any of the supply-side financial assistance opportunities, or other Government initiatives must be a registered taxpayer and must sign a declaration that their tax affairs are in order.

The provision of tax numbers and a declaration of good standing will also be required from individuals or corporates wanting to avail themselves of foreign currency.

As a Government we believe that the time has come to stop the rot, to ensure that those who pay their taxes are not unfairly prejudiced and do not have to carry the burden for those who do not pay. Part of governance is to ensure that government does not contract with anyone who is abusing the system through non-payment or evasion.

The final tax relief programme

With a view to broadening the tax base and addressing the problem of non-payment of tax, the Government offered a final tax, interest, penalty and additional tax relief programme to certain categories of persons in 1996/97. Following the approval of the legislation by Parliament, the period to apply for relief started on 1 November 1996 and ended on 28 February 1997.

The programme was extensive, covering both registered and unregistered persons. In the case of unregistered persons, no taxes were levied for the tax years before 1 March 1994. For registered tax payers, interest and penalties owing for the periods before 1 March 1994 were written off if certain conditions were met.

Revenue

I come now to this year's revenue proposals.

Total revenue from ordinary taxes is estimated at R161,976 billion which equals 26 per cent of GDP.

Tax rates for individuals

One of the commitments that the Government has made to the people of this country is to ensure that the tax system is fair and equitable. As it is currently structured the burden of taxation falls disproportionately on individuals. Of great concern to us is the fact that those most seriously affected are people on low to middle incomes. Our longer term strategy is to meet the objectives set out in the Third Interim Report of the Katz Commission, namely:

* to reduce the gradation of the marginal rate schedule;
* to reduce the number of marginal rate brackets;
* to raise the tax threshold; and
* to adjust for inflation.

In this Budget we take some steps in meeting these objectives. The good news for individuals is as follows:

* the primary rebate is increased from R2 660 to R3 215;
* the effects of inflation have been reduced for all tax payers and eliminated for those with taxable incomes less than R30 000;
* one tax bracket has been created for those on taxable incomes up to R30 000;
* the marginal tax rate applicable to taxpayers with taxable incomes falling in the range from R40 000 to R45 000 has been reduced from 41 per cent to 32 per cent;
* the number of income brackets is reduced from 8 to 7.

By way of example a person under the age of 65 earning R20 000 will now pay R255 less tax per year. Similarly a person earning R60 000 will pay R805 less tax per year.

This package will cost the Government R2,8 billion in lost taxes, with 60 per cent of this relief going to low and lower middle income earners. Another way of looking at it is to say that these measures put R2,8 billion into the pockets of families who need it.

Standard Income Tax on Employees (SITE)

Currently a person whose income does not exceed R50 000 per year does not have to submit a tax return. This reduces the administrative burden for both the employee and the South African Revenue Service. The limit will be increased from R50 000 to R60 000 as from 1 March 1997, relieving many thousands of taxpayers of the burden of submitting tax returns.

Fringe Benefits

It was never the intention that fringe benefits should be used to structure salary packages in such a way that they create a bias against cash remuneration. The widespread abuse of fringe benefits also results in a substantial loss of revenue to the government and creates inefficiencies in remuneration. The following measures will be introduced to deal with this problem.

(i) Company Cars

The fringe benefit arising from the private use of a company car is taxed at a value equal to 1,2 per cent per month of the cost of the car. For example the private use of a company car costing R100 000 has a monthly taxable value of R1 200. This value is considerably less than the value of the benefit based on the actual cost of purchasing and running such a car. With effect from 1 July 1997 this percentage will be increased to 1,8 per cent.

In addition, with effect from 1 July 1997 the value to be placed on any second or subsequent vehicle is to be increased from the current level of 2 per cent to 4 per cent.

It is estimated that this measure will yield an increase in tax revenue of R150 million.

(ii) Travelling allowances

Travelling allowances are also widely used in the structuring of salary packages. At present where a taxpayer does not keep accurate records of distances travelled and the total kilometres travelled for business and private purposes do not exceed 32 000 kms, a distance of 12 000 kms is deemed to be travelled for private purposes. To bring the tax treatment of this benefit in line with that of company cars, the deemed private kilometres will be increased to 14 000 as from 1 March 1997. The taxable portion for PAYE purposes will be increased from 35 per cent to 40 per cent with effect from 1 July 1997. This measure will yield a cash flow advantage of R170 million for 1997/98.

(iii) Housing

Another area where there has been widespread abuse is in the provisions relating to the determination of the taxable value of residential accommodation provided to employees by an employer or by a connected person in relation to the employer. As from 1 March 1997 where residential accommodation provided as a benefit to the employee is not owned by the employer, or where the employee has an interest in the accommodation in question, such an employee will be taxed on an amount equivalent to the rentals paid and other expenditures incurred by the employer in order to provide such accommodation. The definition of the employee's interest in the accommodation will also be extended to include any connected person in relation to such employees. The percentages which are applied to the formula for determining the taxable value of the housing benefit will be increased by one percentage point as from 1 March 1997.

This measure will yield an additional R50 million.

(iv) Holiday accommodation

The value for fringe benefit tax purposes to be placed on holiday accommodation provided by an employer to an employee, is the cost incurred by the employer for the hiring of the accommodation. In any other case the employee is currently taxed at the value of R35 per person per day. As from 1 March 1997 this value is to be increased to R100 per person per day.

Retirement Fund Industry

Following the recommendations of the Katz Commission in its Third Interim Report, a tax at the rate of 17 per cent was imposed on the gross interest and rental income of retirement funds with effect from the 1996/97 fiscal year. This tax is expected to yield R2,4 billion in 1996/97.

Government does not intend to introduce any major changes to the present structure or rate. We will wait for the proposals emanating from the National Retirement Consultative Forum. There are, however, some aspects that require further attention.

In the case of investments made by funds in unit trust schemes with property shares, such funds receive dividends which are derived from property companies. Since these dividends are effectively a distribution of rental income received by the property companies and having regard for the fact that such dividends are distributed before taxation, the taxation of rental income is effectively being shifted to the unit holders.

At present such dividends received by funds are neither subject to normal tax nor tax on retirement funds in the hands of the fund. Given that such dividends effectively represent rental income, they will be subject to the tax on retirement funds with effect from 1 March 1997.

In addition, where a fund lends interest-bearing instruments to a borrower payments by the borrower to the lender for compensation for the loss of interest and use of the instruments will be deemed to be interest and will be subject to the tax on retirement funds as from 1 March 1997.

These two measures are expected to yield an additional R200 million.

(i) Equal tax treatment for members of public and private funds

In terms of present tax rules lump sum benefits payable to members of retirement schemes established by law or for the benefit of local authorities (public sector funds) are not taxable. However, members of private sector funds are liable for tax on lump sum benefits.

Both the Katz Commission and the National Retirement Consultative Forum have recommended that there should be equal treatment of lump sum benefits received by members of public and private sector funds.

Equality between public and private sector funds of the tax treatment of lump sum payments is to be introduced from 1 March 1998 subject to the protection of vested rights.

(ii) Deferred compensation

We are extremely concerned about the practice of using some medical savings schemes and other types of salary sacrifice schemes to reduce the taxable income of a person.

The South African Revenue Service is aware of a number of schemes of this nature and holds the view that interest credited to a savings scheme of this nature is taxable in the hands of the member. We are also investigating these schemes to determine the tax treatment of contributions to such funds as well as the repayment and withdrawal from such schemes.

Marketable securities tax

As part of our commitment to improving the competitiveness of the investment environment the Government has decided to reduce further the rate of marketable securities tax and stamp duty on share transactions. The rate will be reduced from 0,5 per cent to 0,25 per cent as from 1 April 1997.

We are also concerned with the extent to which the exemption from stamp duty in terms of Item 15(3)(nA) of schedule 1 of the Stamp Duties Act, 1968, in respect of arbitrage transactions is being abused. With effect from 1 July 1997, the relevant exemption from the Stamp Duties Act will be deleted with the consequence that the exemption contained in the Marketable Securities Tax Act in relation to the purchase of shares by persons who are not ordinary residents in the Republic, will also be deleted.

We are making provision for a loss of revenue amounting to R125 million. However, it is interesting to note that in 1996/97, these levies were reduced from 1 per cent to 0,5 per cent and although we budgeted to collect R200 million, our revised estimate is R390 million.

Excise duties

As we all know, excise duties are in the main specific levies per unit of volume, rather than ad valorem taxes on value and it is therefore appropriate that we consider these duties annually. The adjustments made reflect trends in prices and incomes and Government's broader policy objectives.

Substantial increases in the excise duties on tobacco products are again proposed. The rate of duty on tobacco will increase by 52 per cent, bringing the tax, including VAT, to 50 per cent of the average retail price. Smokers will have to pay an extra 27 cents per 10 cigarettes. Pipe tobacco will cost an extra R2,49 per kilogram.

The news for drinkers is equally sobering. Some of the highlights are: beer goes up by 8,15 cents per litre or about 3 cents per 340ml can; sorghum beer increases by 2 cents per litre and sorghum flour by 5,5 cents per kilogram; unfortified wine increases by about 8 cents per 750 ml bottle; mineral water and soft drinks go up by 1,2 cents per litre; cane spirits will increase by about 66 cents per 750ml bottle, and similar increases apply to whisky, brandy and gin.

(i) Ad valorem customs and excise duties

The current ad valorem duties range between 6 and 37,5 per cent before VAT. The abolition of these duties was recommended by the Margo Commission and the Katz Commission has also indicated its unease. However, for revenue reasons we are at present unable to justify the abolition of these duties. But we are also aware of the perverse effects that exceedingly high rates of duty have on behaviour. In many cases, the high rates of duty have provided an incentive for tax evasion, often through illicit trade or smuggling and consequently losses of tax revenues. More damaging for the overall economy is the fact that firms operating within the law and in good faith find it impossible to operate in an environment where they are constantly undercut by those operating outside the law. This inevitably leads to job losses.

It is against this background that we have decided to lower the existing rates of 37,5 per cent and 32,5 per cent to 15 per cent. As far as motor cycles are concerned, the rates will be lowered from 32,5 per cent and 17,5 per cent (which applies to cycles with a cylinder capacity of less than 800cm3) to 15 per cent and 7,5 per cent respectively.

We have budgeted for a loss of revenue of R150 million. However, we believe that these measures significantly reduce the incentive for smuggling, which would mean that losses would be partially offset by improved collections.

Source Base

The relaxation of exchange controls announced in this Budget has tax implications. Although the Katz Commission has addressed this matter in the course of its investigations, we will be introducing the following interim measures to protect our tax base in the short term.

The existing provisions of the Income Tax Act which deal with the deeming of the source of income, will be extended to include passive income, namely interest, royalties, annuities and rentals not presently deemed to be from a South African source. The effect of this is that South African residents be they corporate or individual will become subject to tax in South Africa on passive income, regardless of the source, from the date that the exchange controls are relaxed.

The deeming provisions would, however, exclude passive income which is effectively connected with an active business operation (permanent establishment) conducted by a South African resident through a fixed facility outside South Africa.

Managing Government debt

In line with our approach to govern better, we have embarked on a major project to improve the management of government's assets and liabilities. As part of this project a framework for risk management has been developed and adopted and a two-phased implementation strategy is underway. The strategy has two key objectives: to improve debt and cash management so as to reduce debt service costs; and to improve the structure and liquidity of the domestic financial markets through a series of market reforms.

Phase one of the project which entails the ring-fencing of the funding operations that the Reserve Bank performs on behalf of the Department of Finance is currently being implemented.

Phase two entails the appointment of a number of primary dealers in government stock. This requires a close working relationship with market participants and its success depends on our ability to address some of the structural and liquidity issues which characterise our financial markets. To this end a workshop was held on 7 February 1997 between the Department of Finance and a wide range of market participants.

A number of issues were identified and several working groups were tasked with doing further work on a number of these issues and report back by the end of March 1997.

On the asset side the focus has been primarily on cash management. Cabinet has now granted approval for the formal establishment of a cash management function within the Department of Finance.

The deficit

Despite higher than foreseen nominal capital and money market interest rates and the depreciation of the rand, the cost of servicing government debt for 1996/97 is estimated to remain within the budgeted R34,4 billion. The projected budget deficit for 1996/97 remains at 5,1 per cent.

The projected budget deficit for 1997/98 is R24,771 billion, or 4 per cent of GDP. This deficit is in line with the commitments we made in the GEAR. Unlike previous years when extra-ordinary revenues were included in the calculation of the deficit, for 1997/98 we have only considered ordinary revenue in the calculation.

After taking into account scheduled loan redemptions of R12,278 billion and other items, the gross loan financing requirement for 1997/98 amounts to R36,849 billion.

For the 1997/98 financial year we estimate that the cost of servicing government debt will be R39,6 billion. This includes debt service costs in respect of the former TBVC states and self-governing territories, which have been taken over from provincial governments. Debt service costs are 21 per cent of the total estimated expenditure for 1997/98, and 6,4 per cent of GDP compared with the revised estimate for 1996/97 of 6,5 per cent of GDP.

What this means in very simple terms is that for every rand of tax we collect, about 24 cents is spent on interest on government debt. This leaves 76 cents to be divided up between all other government programmes. Clearly this situation is both untenable and unsustainable.

The first charge against government revenue is interest on government debt. The bigger our deficit, the more we have to borrow, the higher the interest bill and the less money there is available to invest in social development, in poverty relief and in the development of our human resources. It is for this reason that reducing our debt burden is important. It is important because it will free up the resources we need to create a better life for all.

Summary

The commitment to better government is captured in our approach to government finances. In relation to state debt we have committed ourselves to reducing the overall level of government borrowing and thereby reducing over time the burden of debt service costs which constrain our ability to increase expenditures on social development. We also deliver on our commitment to improving the lives of ordinary South Africans by reducing the tax burden for low and middle income earners.

In addition we deliver on our commitment to improve the competitiveness of the South African economy by halving the rate of marketable securities tax, thereby bringing it line with some of our major trading partners.

Conclusion

This Government has set itself the task of transforming our country from its unequal past to one which provides for the needs of all its people. In the parlance of this House, " a better life for all". The budget which we table here, makes huge strides towards this objective. This Budget is a tough budget - it demands substantially more austerity from government than many of its forerunners have - yet it does not sacrifice the fundamental objective of transformation. This year, as we have said repeatedly, is a year of consolidation. Our budget deficit, at 4 per cent of GDP, reflects this, as per our commitments made in this House in June last year.

The realisation of this budget framework can be attributed to four distinct areas:

* Firstly, the deficit target has been achieved in an environment of no new taxes, and no net tax increases. In fact, for the first year in many, we have been able to provide tax relief to working people. In respect of taxes, our endeavour is to turn our commitment to tax equity into reality by improving on the efficiency of our tax collection and administration, and by the improved policing of our tax laws. Tax dodgers and customs fraudsters are guaranteed more attention.
* Secondly, there is significantly better targeting of expenditure programmes on poverty relief, infrastructure development, human resource development and crime prevention each adds to the picture of a government which has exercised choices in policy priorities. Similarly, the budget lines which have been cut add to the total picture.
* Thirdly, there have been substantial improvements in the overall management in government - the management of cash, of assets, of procurement and of logistics, have all been enhanced to ensure that South Africa's taxpayers receive better value for money.
* Fourthly, we now have co-operative governance. The operations of "Team Finance" in the

Budget Council and in the general interactions between ourselves, despite the fact that three different political parties are represented and each MEC fights tirelessly for the interests of his Province, bodes well for the future of co-operation. We should not lose sight of the importance of this co-operation especially in this year of consolidation when, in both real and nominal terms, some provinces and national departments are faced with major cuts in available expenditure.

It is appropriate that I record my profound gratitude to a number of groups and individuals who have made this, my first, Budget possible:

* First, my deepest gratitude goes to Deputy-Minister Gill Marcus, who shared with me a baptism of fire as we lived through the enormous currency volatility during our first year in this office;
* Secondly, that new entity, the living embodiment of co-operative governance which I have named "Team Finance" , is given form by the active participation of the nine MEC's for Finance;
* Thirdly, to those individuals who have given so much of their valuable time - Dr Stals and the senior management of the SA Reserve Bank; Mr Murphy Morobe and Financial and Fiscal Commission; Mr Jayendra Naidoo and Nedlac; and Prof Michael Katz and the members of the Katz Commission stand out amongst those;
* Fourthly, I want to thank Mr Chris Liebenberg my immediate predecessor for his guidance and support.
* Fifthly, to the Directors-General of the three departments which report to us: Mr Hannes Smit of the Department of State Expenditure, Mr Piet Liebenberg of the SA Revenue Service and Ms Maria Ramos of the Department of Finance, and to their teams for the tireless effort and professional advice from which we have benefited so much during this past year;
* Sixthly, each one of you for your patience in listening to us this afternoon.
* Lastly, I need to thank you, Comrade President, Comrade Deputy President, and all of my Cabinet colleagues, for your support and understanding in the formulation of this Budget, and for your encouragement during the difficult period through which we have passed.

In fact, I place before you far more than a statement of revenue and expenditure priorities for debate. What we have here is an instrument by which the commitment and performance of Government can be measured. It is simultaneously an instrument for the transformation of our country from its past to the place where every one of us and millions of other good men and women will want to live and flourish. I have no doubt that the tighter fiscal environment has challenged us to respond to the wider social needs differently, compelling us to prioritise our policies and reprioritise our expenditures, within and between our budget lines. This is what transformation is about.

I thank you.