

2004 Budget highlights

On the economy

- GDP growth was a disappointing 1,9 per cent in 2003, but is expected to strengthen to 2,9 per cent this year, rising to 3,6 per cent and 4,0 per cent in 2005 and 2006.
- Consumer price inflation continued to decline during 2003, in part because further appreciation of the rand contributed to declining prices of imported goods. CPIX inflation is expected to average 4,8 per cent in 2004, well within the target range of 3-6 per cent.
- The Reserve Bank's repo rate and prime lending rates were reduced by 5½ percentage points in 2003, bringing relief to consumers, lowering the costs of investment and signalling lower inflation expectations for the years ahead.
- Gross fixed capital formation increased by 6,1 per cent in 2002 and 8,3 per cent in 2003, providing a foundation for stronger growth and productivity advances in future.
- Export volumes have been sluggish in 2002 and 2003 and imports have grown strongly, leading to a moderate deficit on the current account balance in 2003 after a small surplus in 2002. Strong growth in both exports and imports is projected for the period ahead.
- Substantial capital inflows have contributed to a marked strengthening of South Africa's overall foreign reserves, and the Reserve Bank's forward foreign exchange liabilities are now more than covered by net foreign reserves.
- Building on the spirit of partnership underpinning the Growth and Development Summit Agreement and the Financial Sector Charter, signed in 2003, transformation and broad-based empowerment in the decade ahead will address human resource imbalances, broaden access to economic opportunities, accelerate investment and promote enterprise development – progressively overcoming the inequality and divisions that characterise South Africa's "two economies".

Tax proposals

- Personal income taxes are cut, benefiting taxpayers by a total of R4 billion. People under 65 earning below R32 222 a year or over 65 and earning under R50 000 will not pay income tax next year.
- Interest income exemption is raised to R11 000 for people under 65 and to R16 000 for senior citizens.
- Transfer duty threshold is raised to R150 000. Stamp duties on mortgage loans are eliminated.
- The general fuel levy on petrol goes up by 10c a litre, and the Road Accident Fund levy increases by 5c a litre. The diesel rebate for primary producers is increased by 15c a litre.
- A packet of 20 cigarettes will cost 64 cents more, a 340ml can of beer 4 cents more, wine goes up 21c and spirits 176c per 750ml.
- *Ad valorem* excise duties are eliminated on recorded music, some cosmetic products, print film, watches and clocks, printers and photocopying machines.

Main spending changes over the next three years

- An additional R3,2 billion goes to provinces and municipalities for the Expanded Public Works Programme and infrastructure development.
- R2,1 billion more for the HIV and Aids treatment programme.
- R6 billion for broad-based Black Economic Empowerment Initiatives.
- R2,2 billion more for municipal water, sanitation, electricity and refuse services.
- Provinces get an additional R19,7 billion for social grants, schools, hospitals and clinic services.
- R910 million more for the restructuring of universities and technikons.
- R700 million more for land reform and R750 million for a new farmer support programme.
- R1,9 billion more for more police personnel, vehicles and IT infrastructure in the fight against crime.
- A further R475 million to improve the efficiency of the courts and to cater for vulnerable groups.
- An additional R1,1 billion to Defence for peacekeeping operations in Burundi and the DRC.
- R850 million more to Home Affairs to improve services to citizens, especially in rural areas.

Budget 2004 at a glance

Macroeconomic outlook – summary

	2003 Estimate	2004	2005 Forecast	2006
Real growth				
Household consumption	2,9%	3,4%	3,4%	3,8%
Capital formation	8,3%	6,6%	6,9%	7,3%
Exports	-2,4%	5,1%	6,2%	6,7%
Imports	8,2%	8,0%	5,9%	6,3%
Gross domestic product	1,9%	2,9%	3,6%	4,0%
Consumer price inflation (CPIX)	6,8%	4,8%	5,6%	5,0%
Balance of Payments current account (% of GDP)	-0,8%	-1,3%	-1,8%	-2,1%

Main budget framework

	2003/04 Revised estimate	2004/05	2005/06	2006/07
		Medium-term estimates		
R billion				
Revenue	300,3	327,0	360,3	394,0
Percentage of GDP	24,6%	24,6%	24,7%	24,7%
Expenditure	331,7	368,9	404,7	439,1
Percentage of GDP	27,1%	27,7%	27,8%	27,6%
State debt cost	47,3	50,4	54,0	57,9
Percentage of GDP	3,9%	3,8%	3,7%	3,6%
Deficit	-31,4	-41,9	-44,4	-45,1
Percentage of GDP	-2,6%	-3,1%	-3,0%	-2,8%
<i>Gross domestic product</i>	1 223,2	1 331,8	1 455,6	1 592,6

Breakdown of consolidated expenditure by function

	2003/04 Revised estimate	2004/05	2005/06	2006/07	Average growth 2003/04– 2006/07
R billion					
Education	69,8	75,9	81,1	86,1	7,2%
Health	39,7	42,6	47,1	50,5	8,4%
Welfare and social security	51,5	59,9	68,0	75,4	13,6%
Housing and other social services	16,3	18,3	19,7	20,8	8,3%
Police, prisons and courts	36,0	40,2	43,6	46,6	9,0%
Defence & intelligence	22,4	23,1	25,0	25,4	4,3%
Economic services	45,0	49,4	54,9	59,7	9,9%
General administration	23,5	24,0	26,0	27,9	5,9%
Non-interest expenditure	304,1	333,3	365,4	392,4	8,9%
State debt cost	47,3	50,4	54,0	57,9	7,0%
Unallocated	–	2,5	4,0	8,0	–
Total expenditure	351,5	386,3	423,4	458,3	9,3%

Government Expenditure

