Minister Trevor Manuel

2004 BUDGET SPEECH

18 February 2004

The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare - all this and more is written in its fiscal history, stripped of all phrases ... The public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life. (Joseph A Schumpeter)

Madam Speaker,

We were rightly reminded by our President at the opening of Parliament of the vision and values that were so clearly stated by former President Mandela a decade ago:
* creating a people-centred society,
* expanding the frontiers of human fulfilment,
* extending the frontiers of freedom.

The Budget, and its progressive evolution, as one of the great commentators on economic development, Joseph Schumpeter, pointed out, is a powerful index of a society's values, not merely in its language and numbers, but in the lived experience of its impact on people, families, workers, businesses and organisations.

Development as freedom

We have made progress together, over the first ten years of democracy, South Africans of all ages, colours, circumstances, lifestyles, aspirations, occupations, with our individual strengths and weaknesses, likes and dislikes, quirks and oddities.

We have walked together, one step at a time, on our journey towards growth, towards learning, towards reconstruction, towards solidarity, towards reconciliation, towards prosperity, towards development, towards freedom.

We have walked together, on this journey, with hope, with confidence, with humility, with enthusiasm, with perseverance, with industriousness.

We have stayed together on this journey, because we share that vision, and we will continue, day by day and year by year, to translate the resources at our disposal and the opportunities before us into people-centred development, human fulfilment and freedom.

Last year, in tabling the 2003 Budget, we reflected on Amartya Sen's brave formulation of the central intent of economic progress: freedom is the primary aim of development, and also the principal means of achieving it.

And we reflected on a formulation of that intent that goes back 49 years, to the 26th of June 1955: the Freedom Charter reflects our aspiration for political freedom, freedom from poverty, freedom to transform our society, its culture and values, freedom to explore our capabilities, the freedom that will grant our children choices that our parents did not enjoy.

This is a freedom that opens up opportunities, but also imposes disciplines; it is a freedom that creates capabilities, but expects stewardship; it is a freedom that rewards enterprise, but calls for accountability.

It is a freedom we have used to build a new society, mould a new culture and create hope and opportunity for future generations.

Budget priorities - past, present and future

This is the vision that has inspired us for the past ten years, and it remains our guiding light for the decade ahead. Yet from one year to the next, we have to adapt our plans to the progress we have actually made, and the changes in circumstance around us.

In 2002, we tabled a Budget in which R63 billion was added to our three-year spending plans; last year an additional R105 billion went to national departments, provinces and municipalities. This year, we are able to add a further R44, 5 billion to our highest priority public service delivery programmes.

Last year, we were able to provide R13 billion in personal income tax relief. This year, we can accommodate more modest relief of R4 billion.

Last year, we projected a budget deficit of 2,4 per cent for the year ahead; this year it widens to 3,1 per cent of GDP.

Economic growth in 2003 lagged somewhat behind our expectations, but we are nonetheless able to steer a course that builds on the spending and tax plans announced in previous years, and we can take several significant steps forward in progressively meeting the social and economic development challenges before us.

Before turning to the specific proposals for 2004/05 and beyond, Madam Speaker, let me share with the House some of the thinking, some of the key considerations that lie behind this Budget. Government's preliminary review of progress over the past decade, published as Towards a Ten Year Review, provides both an instructive account of what we have achieved and a reminder of the journey ahead. Cabinet's deliberations on budget policy and priorities have drawn on this work, and have also benefited from the work of the five cluster committees and their interdepartmental teams.

Reconstruction and development in review

It is important not just to look back at the journey we have walked, but to look back from the perspective of the aspirations and expectations, a decade ago, of our people. Expectations that emerged from many thousands of meetings, consultations, iimbizo, people's forums, in the lead-up to the 1994 democratic elections.

First among the aims of the Reconstruction and Development Programme was to meet the basic needs of all South Africans. And so successive budgets have progressively extended the resource envelope devoted to services in poor communities.

* 1,6 million houses have been built.
* 700 new primary health clinics have been constructed, 212 upgraded and 215 mobile clinics established.
* Potable water supplies have been extended to some 9 million people. 6,4 million people now benefit from new sanitation facilities.
* About 4,5 million children benefit from the Primary School Nutrition Programme.
* The number of social grant beneficiaries has increased from 2,9 million to over 7,4 million, including recipients of the new child support grant.

But we recognise that vulnerability remains deep-rooted, exacerbated by rising unemployment and the long shadows cast by the social dislocation and exclusion of the past. The fight against poverty will continue, focused increasingly in the years ahead on creating work opportunities and building sustainable communities and safe residential neighbourhoods.

The second challenge of the Reconstruction and Development Programme was building the economy. Following a decade in which average growth was just 1 per cent a year and investment and productivity had steadily declined, the challenge of building a dynamic economy able to support rising living standards has been huge. For the last ten years, growth has averaged 2,8 per cent a year, productivity has increased strongly and many industries have successfully adapted to international competition.

* Consumer inflation has averaged 7,3 per cent since 1993, compared with 14,3 per cent over the previous decade.
* Interest on public debt has fallen from 6,4 per cent of GDP in 1996 to 4,7 per cent in 2003.
* Manufactured goods now comprise 38 per cent of exports, up from 25 per cent in 1994.
* Private sector investment growth has averaged 5,4 per cent a year over the past decade.

But we recognise that the pace of economic growth has to be accelerated. Investment in industry and infrastructure and an expansion of job opportunities are critical challenges for the decade ahead - both to underpin growth and expand room for broad-based empowerment.

The third task we set ourselves was democratising the State and society.

Construction of a vibrant democratic State, founded on the rule of law, has been an unparalleled success of the past decade. Key elements include our Constitutional order, rationalisation of the local government sphere into 284 municipalities, and independent agencies with well-defined responsibilities - a Constitutional Court, a Public Protector, a Human Rights Commission, a Gender Commission, the National Economic Development and Labour Council, amongst others.

Building on the work of the Growth and Development Summit in 2003, Towards a Ten Year Review proposes an "encompassing framework", a partnership that better integrates the activities of government and harnesses efforts of communities, labour, civil society and business to focus on the long-term development goals of our country.

Fourth, we gave priority to developing human resources.

Education, training and skills development are key foundations of social and economic progress, and preconditions for addressing inequality and division in society. Over the past decade:

* School education numbers have grown by 1,5 million to some 12 million, with broadly equal enrolment of girls and boys, and marked reductions in out-ofage enrolment.
* 56 000 school classrooms have been constructed.
* A skills development strategy has been launched, 25 sector education and training authorities (SETAs) established, 478 learnership programmes registered, 70 000 learners enrolled and an estimated 29 per cent of workers underwent training in 2002/03.
* Renewal of further education has begun with the consolidation of technical colleges into 50 new institutions.
* Restructuring of higher education is under way, with a view to creating 21 consolidated institutions out of the former 36 universities and technikons.

Over the decade ahead, investment in the quality of education and promotion of work-related training opportunities will remain amongst the foremost priorities of Government.

The fifth RDP theme was implementation - building the capacity and the institutions to deliver.

Progress on that front underpins everything else that we have achieved. And again, we have to say there is more to be done - as President Mbeki reminded us, our work is not complete until the spirit of Batho Pele permeates every administrative office, every magistrate's court, every clinic, every classroom and every licensing counter.

Policy priorities for 2004 and beyond

Our achievements are not mere statistics, they tell a story of fundamental transformation, on which we look back with pride. We can celebrate the many ways in which we have pushed back the tide of poverty, and pushed forward the frontiers of our freedom and humanity.

But as we look forward to the second decade of democracy, we know that we still have far to walk. Too many South Africans are trapped in the "second economy", characterised by poverty, inadequate shelter, uncertain incomes and the despair of joblessness. And many of those whose circumstances are most vulnerable are young and marginalized.

A recent study of household dynamics in KwaZulu-Natal illustrates starkly how vulnerability is experienced in impoverished villages. Income security can be overturned in many unpredictable ways - loss of a job by a breadwinner, loss of livestock or crops through disease or theft, drought or flood, the impact of disease on family members, the reality of conflict and crime. Circumstances can change rapidly over time, and vary greatly between one community or neighbourhood and another. These kinds of vulnerability hurt families and especially children not just once but in recurring ways, not just through distress or hunger, but in wounded minds and fractured communities.

And so when we talk of development, and building capabilities, and empowering our people, these are the lives, these are the experiences, that we seek to change. These are the reasons why the Growth and Development Summit last year set a target of halving the unemployment rate by 2014. These are the reasons why President Mbeki has challenged us to increase the number of people in society who depend for their livelihood, not on social grants, but on normal participation in the economy. But these are also the reasons why we are progressively extending the social security system, with a focus particularly on the needs of children, who cannot be expected to provide for themselves.

In reflecting on the challenges that lie ahead, Cabinet has had to confront difficult choices.

Our task is, simply put, to accelerate the pace of growth and job creation and extend the scope of development and empowerment. Our approach has four key priorities for the decade ahead.

* We aim to increase the share of investment and saving out of national income, to provide the infrastructure and industrial capital formation required for sustained output growth. Our policies must aim to raise the level of investment in the economy from its present 16 per cent to 25 per cent, and to halve the unemployment rate by 2014.
* We will improve the quality of education and access to training opportunities, to ensure that skills development and productivity enhancement contribute to expanding participation in social and economic development.
* We will reduce poverty by creating work opportunities and building sustainable communities, alongside consolidation of the social security system. Over time, we will diminish the inequality and economic divisions that characterise our society through broad-based empowerment.
* And we must continue to build sound institutions - competitive markets, support for emerging entrepreneurs, better governance and regulation, rigorous monitoring and measurement of public service delivery.

Ten years from now, when we look back on what we have achieved in our second decade of freedom, what will we celebrate? What are the values that future investigations of our society will see etched in our social and economic history, and documented in the records of our programmes and policy implementation?

We will want to say that we have built a caring society.

We will want to say that we have reduced pain and extended joy.

We will want to say we have rewarded creativity and invested in capabilities.

We will want to say that compassion and industry have overcome greed and despair.

We will want to say that those among us who enjoy the privilege of power or riches have ploughed and not plundered our lands.

The shape and trajectory of the public finances will impact in important ways on this journey. The 2004 Budget signals a clear direction. In the years ahead:

* We will continue to expand housing, water and community services - the fastest growing categories of expenditure over the past decade - because these are the investments that contribute most to the health, safety and comfort of our children and our children's children.
* We will continue to extend and improve spending on health services, which has grown in real terms by 4,3 per cent a year since 1992/93.
* We will continue to broaden the tax base, in the interests of both fairness and efficiency, and because a broad, well administered tax structure is an important bulwark against unproductive or opportunistic forms of self-enrichment.
* We will continue to manage the public finances in a responsible manner that ensures that debt service costs decline as a share of expenditure and of GDP, releasing resources for productive service delivery.

But there are other areas in which we will need to seek a changed trajectory, a more agile state, more vigilant institutions. One of our central achievements over the past years has been the reinforcement of the social security net. In the period ahead we will complete the phasing in of the child support grant and we will see continued growth in provision for those who qualify for old age and disability payments. We propose to consolidate the grants delivery system in a new national Social Security Agency. Improved food security and partnerships with non-governmental organisations are also ongoing priorities. Including adjustments for inflation, welfare and social security spending is projected to grow by 13,6 per cent a year over the MTEF period.

Given the challenges we face, we have made these choices. But in the longer term, it seems clear that we will need to seek a better balance between growth in welfare spending and our investments in education and infrastructure development. In this Budget, we take several steps in this direction - an expanded public works programme through increased allocations for provincial and municipal infrastructure, a renewed focus on learner support materials and facilities at disadvantaged schools, further allocations for the restructuring of higher education institutions.

These are orderly and well-considered shifts, over time, in the structure of our public finances. But they rest on the same fundamental vision and values that underpinned the first Presidential lead projects announced just under 10 years ago.

And in all of this, we must seek not just improvements in the quality of public service delivery, but also firmer partnerships with the business sector and civil society, drawing on the energy and capacity of all our people.

Economic outlook

Madam Speaker, let me turn to the outlook for the economy.

Global economy

The 2004 Budget is tabled against the background of a global economy characterised by extraordinarily uneven growth. An expansion in world output is strongly driven by the recovery of the US economy - underpinned by historically low interest rates, tax cuts and unchecked defence spending. China continues to grow rapidly and Japan is showing greater confidence after a long slowdown. However, most of Europe, South Africa's main trading partner, is still reporting growth below 1 per cent.

While the recovery has gained momentum, there are imbalances that threaten its sustainability. The United States' current account and fiscal deficits and the weakness of the US dollar have led to immense shifts in international capital flows, including attempts by Asian and other countries to prevent their currencies from appreciating by amassing dollars. This, in turn, impacts in unpredictable ways on the currencies and markets of emerging economies. South Africa has benefited from rising commodity prices and declining interest rates worldwide, but the relative strength of the rand and weakness of the dollar - the currency in which most of our trade is denominated - have impacted negatively on many exporters and import competing industries.

Prospects for the domestic economy

Although exchange rate volatility remains a concern, the South African economy is in a much better position to take advantage of the emerging global economic recovery today than it was a decade ago.

We are now integrated into the global economy and we have diversified our trade, by product and region. A healthier balance of payments position means that faster growth can be sustained without the boom-bust cycles of the past. We now have access to international capital markets, allowing us to source long-term foreign capital to supplement domestic savings. An inflation-targeting framework has assisted in anchoring price expectations, while making monetary policy more transparent. Wide-ranging reforms have reduced the vulnerability of the fiscus and we have a well-regulated financial system that has enabled the economy to withstand several shocks to the international financial system over the past decade.

Within this context of a strong macroeconomic and fiscal framework, we have to streamline the operation of the economy, encourage investment, address barriers to business development and invigorate job creation and labour market processes. Key microeconomic reforms include:
* Improving the efficiency of communication and transport flows, including investment in ports, road and rail networks
* Easing the regulatory burden for small businesses
* Extending access to financial services
* Consolidation of further education colleges and expanding training and skills development opportunities
* Capacity building in trade administration, regulation of public utilities and competition policy.

Our economy has expanded for 20 consecutive quarters - the longest period of continuous growth for over fifty years. However, the preliminary estimate of output growth of 1,9 per cent last year is rather lower than the 3,3 per cent projected this time last year. Factors contributing to slower growth included a sharp decline in agricultural production as a result of adverse weather conditions, weak demand in several trading partner countries and the impact of the strength of the rand on industry and tourism-related sectors.

Gross domestic product is expected to increase by 2,9 per cent during 2004 and accelerate further to 3,6 per cent and 4 per cent in the next two years.

Expenditure, inflation and monetary policy

Gross domestic expenditure increased by an estimated 4,4 per cent during 2003, supported by monetary policy easing last year and the significant tax relief of the past two fiscal years. Despite the slowdown in manufacturing, capital formation remained robust and expanded by about 8 per cent in 2003, laying a firm foundation for future output growth.

With expenditure rising somewhat faster than domestic production, we recorded a rise in the deficit on the current account of the balance of payments. This is expected to increase moderately in the years ahead, but without unduly straining the overall balance of payments, which benefited from healthy capital inflows last year.

Inflation, as measured by CPIX, has slowed down significantly from its peak of 11,3 per cent in October 2002. The tightening of monetary policy during 2002, the stronger rand and a slowdown in the food price trend in 2003 contributed to the moderation in inflation. CPIX is now firmly within the target range of 3 to 6 per cent.

With the producer price index indicating a decline in factory gate prices year-on-year to

December 2003, and inflation expectations steadily declining, our projection is that CPIX inflation will average 4,8 per cent this year and remain within the target band over the medium term.

Employment creation

Our shared vision clearly calls for more vigorous employment creation to accompany improved output growth. We have to confront this challenge forthrightly. In today's world fewer people till the lands, more women are work seekers, technology advances rapidly and there is fierce competition between poor, low-wage economies. Thinking people across the globe are working to give meaning to the nature of work, and sustainability of livelihoods, in this changing environment.

Government cannot tackle this problem single-handedly. Our Growth and Development Summit, last year, and the success of the Proudly South African campaign, are evidence of the creative power of joint responsibility between government, employers, trade unions and communities.

Financial Sector Charter

This spirit of working together also characterised the process of developing the Financial Sector Charter, finally signed on 17 October last year. This important milestone in the evolving framework for empowerment and broadening participation in the economy was initiated and led by stakeholders in the sector. It sets out several specific transformation commitments for human resource development, empowerment financing, procurement and enterprise development, broadening ownership and control and corporate social investment. It aims to extend financial services to 80 per cent of lower income people by 2008. A draft Code of Practice has already been published for empowerment in public-private partnership projects, and other commitments of the Financial Sector Charter will lead to a balanced scorecard and a further Code of Practice, in terms of the Broad-based Black Empowerment Act.

Madam Speaker, when we look back in ten years time, we will measure our progress against these commitments. We will look for evidence not of a few who have made the leap to greater riches, but of a progressive broadening of opportunity for all.

The budget framework

And for the fiscus and the budget framework, we will seek assurance that a progressive realisation of economic development and social rights has been achieved without compromising sustainability and the legacy we pass on to our children's children.

Our fiscal policy is not engineered for short-term gain, but is directed at strengthening economic capacity and the resources of the state over the long haul. So, for example, we can point to the fact that whereas state debt costs have increased by less than 3 per cent a year since 1999, education spending has grown by 10 per cent a year

The framework for the 2004 Budget is, again, able to provide additional resources to spend on our priorities.

In the November Medium Term Budget Policy Statement, we revised downwards our revenue projections for 2003/04 by about R4, 5 billion. The revised estimate for revenue this year is R300, 3 billion, marginally higher than the November number. Taking into account a further appropriation of R250 million for drought relief and a reduction of R3, 7 billion in debt service costs, the projected budget deficit for 2003/04 is 2,6 per cent of GDP.

In keeping with the expansionary fiscal policy stance introduced in 2001, the period ahead will see strong increases in social spending and infrastructure investment, a stable tax burden and declining debt service costs relative to GDP. The budget framework makes provision for an additional R44, 5 billion over the next three years relative to the 2003 Budget forward estimates. The main budget provides for total expenditure of R370 billion in 2004/05 rising to R439 billion by 2006/07. Revenue increases from R327 billion to R394 billion over the same period, resulting in a deficit of 3,1 per cent of GDP next year, declining to 2,8 per cent by 2006/07. After setting aside provisions for interest payments, Government will be spending over R1 trillion on services over the next three years.

Our budget framework makes provision for a contingency reserve. This allows for unforeseeable and unavoidable expenditure in-year and for policy priorities in future years. If further resources are required for relief in drought-stricken areas, they will be expended from this reserve. Similarly, the taxi recapitalisation programme and further critical infrastructure projects in support of industrial investment will be funded from the reserve if planning and project development proceed more rapidly than anticipated.

When looking at the spending of all three spheres of Government, several trends are evident:

* A larger proportion of the budget is now spent at provincial and local government level and in government agencies and entities, signalling significant progress in decentralising budgeting and accountability.
* The share of the budget that is now directly transferred to households increases by 7,3 per cent a year in real terms, strengthening the redistributive stance of the budget.
* Government expenditure on capital and infrastructure is rising as a share of spending, contributing towards increased access to services and facilitating economic development.

The evolution of a stable and well-functioning intergovernmental fiscal system has been a notable success of South Africa's first decade of democracy. In 1994 South Africa had fragmented administrations designed to spend public resources and deliver services along racial lines. Budget decisions were highly centralised and provinces, homelands and black local authorities only existed as mere administrations of the central minority parliament.

Ten years later, we have a unitary state, with nine sound provincial governments and a complete set of municipalities, responsible for the delivery of basic services to our people. Each of these governments determines its own budget, taking into account nationally-agreed priorities determined after consultations through forums like sector MinMecs, Budget Council and the Budget Forum, and culminating in an extended meeting of the Cabinet where Premiers and the chairperson of the South African Local Government Association are invited to participate.

Medium term expenditure framework

Let me turn to our spending plans.

In spite of our successes over the last ten years, there is further room for improvement. We need to seek an improved balance between the expansion of social services and reinforcement of investment in infrastructure and economic development. More work needs to be done to improve the quality of spending, especially in the areas of housing, health services and school education. Although improvements have been achieved in financial management, capacity needs to be strengthened to realise better value for money.

Local government challenges include improving service delivery capacity, maintaining and extending infrastructure, collecting revenue, reducing the share of personnel expenditure, and improving accountability through the timely submission of financial statements for audit.

Over the past decade, Government has made concerted efforts to redress poverty and inequality through a substantial redirection of public spending towards key social and economic programmes. Spending on social services has grown from 44,4 per cent of general government expenditure in 1982/83 to 56,7 per cent in 2002/03. Spending on social security, health and housing and water services has consistently increased over the period. Education, at 23 per cent of non-interest expenditure, continues to make up the largest component of the budget. Most of our spending, particularly in social services, is targeted towards poor and vulnerable groups as a basis for broadening economic prosperity through building human capabilities.

Next year, R195, 4 billion of nationally-raised revenue will be transferred to provincial and local governments for the delivery of improved public services to all South Africans. This is about 62 per cent of national revenue after debt-servicing, and represents about 97 per cent of all provincial revenue and 14 per cent of local government revenue.

Provinces and local government are the primary delivery channels for basic services and will receive R30,2 billion of the total R44,5 billion allocated over and above the 2003 budget forward estimates. This will see national transfers to provinces growing by 4,8 per cent in real terms over the MTEF while local government allocations will grow by 5,8 per cent in real terms.

Provinces

In the provincial sphere, the equitable share grows by an additional R19, 7 billion over the next three years. This increase will reinforce pro-poor social services spending on school education, health and social security grants. Existing commitments in the social services and other provincial functions including housing, roads, transport and other infrastructure will also be funded from this source.

Over the medium term, provinces and municipalities will prioritise labour-based infrastructure projects as part of Government's Expanded Public Works Programme. Over the next five years, R15 billion will be channelled to this intervention in part through the provincial infrastructure and municipal infrastructure grants. Together, these grants receive additional allocations of R3, 2 billion over the MTEF, which will be partially earmarked for labour-based public works. Work opportunities will also be created in environmental programmes and in social development initiatives.

Provinces are expected to spend R65 billion on education, R41 billion on health and R48 billion on social grants and welfare services in 2004/05. Much of the additional R26,3 billion allocated over the 2003 forward estimates will go to the comprehensive response to HIV and Aids, further extension of social assistance to the poor and procurement of complementary inputs such as textbooks and other materials in school education.

Provincial social development spending will rise by R6 billion in 2004/05, reaching a total of R47,8 billion in 2004/05 and R62,4 billion in 2006/07. These amounts include R19,8 billion to fund the extension of the child support grant. In addition, provincial budgets provide for increases in April of R40 in the pension and disability grant values to a maximum of R740, and the child support grant increases to R170 a month.

A further priority is to provide comprehensive agricultural support to developing farmers, including those benefiting from the Land Redistribution for Agricultural Development (LRAD) programme. Through a new grant, R750 million will be transferred over the MTEF to provincial Agricultural departments for this purpose.

Local government

Over the next three years, municipalities will receive an additional R3, 9 billion, taking total transfers to local government to R47, 3 billion. Through the local government equitable share, which receives an additional R2, 2 billion, Government reaffirms its commitment to the extension of basic household services. Increased local government allocations are intended to accelerate the delivery of municipal services, especially water and electricity, to poor households. The local government equitable share rises by 12,1 per cent a year with a total budget of R28, 5 billion over the next three years.

Approximately R1, 7 billion of the additional allocation of R3, 9 billion for local government goes directly into the Municipal Infrastructure Grant. This enables municipalities to address backlogs in basic municipal infrastructure in a sustainable manner, and to promote the creation of jobs through the Expanded Public Works Programme. Total grants for infrastructure increase to R5,0 billion in 2004/05, rising further to R5,6 billion and R6,0 billion in 2005/06 and 2006/07. On average, infrastructure transfers to municipalities increase by 13 per cent a year over the MTEF.

Key financial reforms for the local sphere over the next three years will be driven by implementation of the Municipal Finance Management Act, which will take effect on 1 July 2004. A programme for the phased implementation of the Act will be issued shortly. It will take due regard of the uneven capacities of municipalities to implement financial reforms. The legislation allows for a municipality to borrow, and it is expected that these provisions will usher in new players in the bond market. Some large municipalities will be issuing municipal bonds in the near future: we wish them every success, and we note that such borrowing will be undertaken without national or provincial government guarantees.

National spending priorities

As part of the broad strategy to deepen the skills base, the higher education restructuring process receives a further R1 billion. Increased support for curriculum development and implementation, is proposed, particularly in the Further Education and Training sector. Together, these initiatives will enhance the quality of education.

In Health, a further R2, 1 billion is allocated for the comprehensive response to HIV and Aids, including provision for anti-retroviral treatment programmes by provinces through a conditional grant. Health spending will also include implementation of the new rural and scarce skills allowances, which are aimed at improving health services in remote areas and retaining highly skilled professional groups within the health service. Twenty-seven hospitals will also be completely upgraded or replaced as part of the Hospital Revitalisation programme, over the MTEF.

Fighting crime and streamlining the justice process continue to be central priorities. The Budget allocates an additional R1,9 billion over the next three years for enhanced safety and security. In policing, this allows for recruiting additional personnel, modernising and expanding the vehicle fleet and upgrading support systems. To improve the efficiency of courts and reduce the backlog in cases, key interventions are supported to streamline the justice process. A further R475 million is provided for strengthening court administration and prioritising services to vulnerable groups, particularly women and children. The allocations to Correctional Services include provision for establishing new Remission and Parole Boards to bring community involvement into decisions to reintegrate offenders.

In pursuit of more equitable land ownership patterns, the Land Reform and Restitution programmes receive an additional R700 million.

Government is improving the coverage and efficiency of core services in Home Affairs by deploying 67 mobile offices to underserved rural communities. Provision has also been made to computerise regional offices and to upgrade systems in general. These initiatives will be funded through additional allocations amounting to R850 million.

As part of our contribution to the African Union and NEPAD, an additional R1, 1 billion is allocated to support peacekeeping operations in Africa over the MTEF period, and R427 million to enhance diplomatic representation abroad.

Revenue issues

Madam Speaker, we turn now to our revenue proposals. As our economy weakened last year, similarly, our revenue collection has slowed. The revised revenue estimate for 2003/04 is R300,3 billion, or R4,2 billion lower than the original budget estimate.

The shortfall is mainly in company tax receipts. In recent years, our tax reforms have raised revenue from companies significantly, contributing to scope for personal income tax relief. This has unavoidably increased the volatility of overall revenue trends somewhat.

Tax policy over the past decade has been completely reshaped. We have changed from a source based tax system to taxing the global earnings of South African residents. We have begun taxing capital gains, reduced corporate tax rates, and made substantial reductions in personal income tax rates, especially for low and middle-income workers. We have zero-rated paraffin, reduced ad valorem excise taxes and introduced a lower tax rate for small businesses. In total, we have announced over R72 billion in tax cuts since 1994.

Equally impressive is the change in tax administration. In a short period of time, the South African Revenue Service has overhauled many of its procedures and systems. We have created an environment that promotes tax compliance. This is almost unique in developing countries.

The outcome of these policy changes and administrative reforms is that we have been able to reduce the deficit, increase resources available for spending and give considerable relief to individuals. These factors, including improved tax morality, have had an immeasurably positive impact on the economy.

Our revenue projection for the next fiscal year is R327 billion. Although economic performance is expected to rebound this year, the weak revenue performance obliges us to be more prudent with tax relief. The tax proposals contain a moderate easing of the tax burden on individuals and a somewhat higher tax incidence on tobacco products, alcoholic beverages and fuels.

Personal income tax relief

This year, we propose to reduce personal income taxes by R4 billion, providing an adjustment that compensates taxpayers for the effects of inflation. At the lower end of the income spectrum, there is some real relief. Sixty per cent of this relief will go to workers earning less than R150 000 a year. The primary rebate is raised to R5 800, increasing the threshold below which people do not pay any income tax to R32 222. For people aged 65 and over, the threshold is raised to R50 000.

Interest and dividend income

To complement personal income tax relief, we raise the domestic interest and dividend exemption threshold by 10 per cent for those under the age of 65 from R10 000 to R11 000 and for people aged 65 and older, from R15 000 to R16 000. These proposals take effect on 1 March 2004 and will cost Government R62 million.

Transfer duty

The South African housing market has seen a notable recovery since 2000. To facilitate the acquisition of houses in the lower end of the housing market, we are raising the exemption threshold for transfer duty to R150 000 from the beginning of next month.

Stamp duties on mortgage bonds and NCDs

To assist homebuyers further, stamp duties on mortgage bonds will be removed from 1 March 2004, as this constitutes a second levy in addition to the transfer duty. This will cost R250 million. Stamp duty on negotiable certificates of deposit will also be repealed, with effect from 1 April, thereby completing the removal of stamp duty on all debt instruments. Simultaneously, measures to prevent avoidance of duties on leases will be introduced.

Broad-based employee equity participation

We propose to encourage the broadening of equity ownership by employees. An issuance of shares to low income employees at reduced or no cost (subject to a cap) will not be deemed as income for purposes of income tax if the shares are held for a prescribed period of time. These changes will facilitate long-term ownership by workers, facilitating improvements in productivity and broad-based economic empowerment.

Excise duties

For the past seven years, excise duties on cigarettes and other tobacco products carried a total tax incidence of 50 per cent. Evidence indicates that this policy has contributed to reducing consumption of tobacco products. The tax incidence will be revised upwards to 52 per cent for the next three years, taking the tax on a packet of cigarettes up by 64 cents a packet. Increases in tax on tobacco products will raise about R800 million more.

The following adjustments to taxes on alcoholic beverages are proposed:
* Tax on beer is raised by 4,3 cents per 340 ml can.
* To calm the waters in the debate on issues relating to traditional leaders, there is no

change in the tax on traditional beer.
* Tax on fortified wine rises to R2,33 per litre and on natural wine to R1,17 a litre.
* Ciders and alcoholic fruit beverages go up by 3,4 cents a 340 ml can.
* Duties on spirits are raised by R1,76 for a 750 ml bottle to R14,78 cents.

Tax increases on alcohol will raise a further R660 million and these excises take effect immediately.

Fuel taxes

The general fuel levy on petrol and diesel is raised by 10 cents a litre to R1,11 and 95 cents respectively, raising an additional R909 million over the next year.

It is proposed that the Road Accident Fund levy be raised by 5 cents this year. Reform of the Road Accident Fund policy framework and administration is a pressing matter for the year ahead.

The increases in fuel taxes take effect on 7 April 2004.

To offset these fuel levy increases, the diesel fuel rebate is increased by 15 cents a litre, providing relief for the agricultural, forestry and mining sectors.

Ad valorem taxes

In the 2003 budget, ad valorem duties on computers and some printers were removed. This year, we propose the scrapping of these duties on all computer printers, recorded and prepared unrecorded media including magnetic tapes, print film, photo copiers, certain cosmetic products, watches and clocks.

Compliance, administration and further base-broadening initiatives

The filing campaign that SARS launched last year and its simpler returns have received positive feedback from taxpayers. This year, additional work has been done to simplify returns and will be backed by education around the filing process. Taxpayers are once again urged to assist in changing our compliance culture. The Commissioner assures me that they will.

SARS will continue to promote improved relations with taxpayers. A taxpayer charter spelling out the rights of taxpayers is now being discussed and finalised. New service offices will be opened in the next 3 months in Pretoria East and Central Johannesburg.

In the past five years, a number of measures have been introduced to support small businesses. Reducing the regulatory burden on these businesses is a key element of Government's strategy for encouraging employment creation. A working group will be established this year to review the compliance burden on small businesses.

In analysing corporate taxes, it is clear that the low effective tax rates in certain sectors remain a cause for concern. SARS and sector representatives are meeting to discuss collaborative ways of dealing with this. Further analysis is also underway to look specifically at structured finance arrangements and possible reforms in the mining and financial service sectors. I am confident that South African shareholders, company executives and boards will join us in seeking both improved tax laws and full compliance, in keeping with good corporate citizenship.

I am also concerned about the tax loss associated with travel allowances. In the coming year, we plan to review the taxation of the motor vehicle allowance and the ad valorem duty structure on motor vehicles. In conducting this review, there will be proper consultation with all the relevant stakeholders so that all aspects can be taken into account.

In the area of mining, Government will continue its work on the Mineral and Petroleum Royalty Bill, which was initiated by reforms undertaken by the Department of Minerals and Energy relating to the control and development of the country's valuable natural resources. As was announced in September 2003, Government plans to introduce a sales-based revenue royalty charge. However, this will only take effect in 2009, ensuring that the change in tax regime does not interfere with conversion to new-order mineral rights in terms of the Mineral and Petroleum Resources Development Act. These changes to the mining and petroleum tax structure provide an opportunity to review the industry's tax dispensation as a whole.

Further steps in exchange control reform

Since 1995, South Africa has steadily eased exchange controls in line with progress in achieving macroeconomic stability, strengthening of the balance of payments and financial sector development.

Companies' allowed use of South African funds to finance approved foreign direct investment currently stands at R2 billion per project for investment in Africa and R1 billion for projects elsewhere. These limits remain in place, but the percentage of the excess cost that can be funded from South Africa is increased from 10 per cent to 20 per cent.

To improve their access to domestic credit in financing investment in South Africa or domestic working capital requirements, foreign companies or foreign owned South African companies may now borrow locally up to 300 per cent of the total shareholders' investment.

Measures will also be implemented during the course of 2004 to enable foreign firms to list on South African capital markets, thus allowing them to raise debt and equity finance on the JSE Securities Exchange and the Bond Exchange. South African individuals and institutional investors will be able to participate in such listings through their foreign investment allowances.

Lastly, in a further contribution to the aims of NEPAD, we propose to develop a policy framework during 2004 to promote South Africa as a regional financial centre able to cater more fully for the needs of the African continent. It is envisaged that inward listings by African companies, institutions and governments should be encouraged through a special allowance for institutional investors, allowing them to invest up to an additional 5 per cent of their total retail assets in African securities listed on the JSE or Bond Exchange.

Exchange control amnesty

Last year, we announced an exchange control amnesty and accompanying tax measures to deal with the contravention of past exchange control transgressions. The exchange control and tax amnesty process commenced in June 2003 with the appointment of an independent amnesty unit. There have been several refinements to the regulations, and the deadline for submission of applications was extended to 29 February 2004. By the end of 14 January 250 applications had been received. The House will in due course be advised of the results of this effort to increase tax and exchange control compliance and the revenue receipts from the process.

Tips for Trevor

Madam Speaker, Honourable Members

As in previous years, we invited input into the Budget from all South Africans. This year, we received over 2 200 Tips for Trevor. I thank the contributors, who have helped me understand many taxpayers' concerns and have added to the diversity of advice I have had to consider. There are many wonderful ideas, and, not unexpectedly, a few which I have found alarming. I want to respond to some of the matters, which I have grouped together because of their similarity.

Firstly, many contributors have raised what appears as a contradiction in the system - workers are encouraged to save for retirement and then live off the interest earned. However, as the economy improves, interest rates decline and incomes of pensioners shrink. The tax aspects of retirement provision are of great importance. I have already asked a team from the National Treasury and SARS to look at the matter and report back.

Secondly, there was a surprisingly large number of "tippers" who have asked that we consider scrapping the Personal Income Tax system and hiking VAT to, say, 28 per cent. The first part of this proposal is appealing, but sadly it does not stand up to scrutiny. Such a change would not accord with the progressive nature of our tax system, which we need to protect because of the huge inequalities in society. These proposals will tend to discriminate heavily against the poor, and cannot find a place in our system.

Thirdly, there have been representations for the abolition of VAT on books. Some time ago, I requested a report on this matter, which I have considered. There are several problems. The definition of a 'book' for tax purposes raises challenges - the case for reducing tax on, say, magazines or coffee-table publications, is not compelling. As it happens, the tax loss would be large, and would very largely go to higher income households. With some personal regret, I cannot see how we could justify this change. I hope it will be appreciated that recent revisions to the tax status of public benefit organisations involved in promoting literacy and reading provide a more efficient and equitable fiscal contribution to this purpose.

Fourthly, there were submissions on the idea of a basic income grant. I have sympathy with the underlying intent. Government's approach, however, is to extend social security and income support through targeted measures, and to contribute also to creating work opportunities and investing further in education, training and health services. This is the more balanced strategy for social progress and sustainable development.

Madam Speaker, over the past five years, President Mbeki has been a pillar of strength, constantly providing leadership and vision. But more importantly, he has challenged us as to do better and more to deepen our democracy. We are all
profoundly indebted.

My gratitude also goes to:

* Deputy President Zuma and my Cabinet colleagues, in particular members of the Ministers' Committee on the Budget, for support and inspiration.
* Deputy Minister Mandisi Mpahlwa for sharing our duties and friendship.
* My colleagues in provincial executive councils who have become known as 'Team Finance', for doing a sterling job under difficult circumstances.

Our task is assisted by many others:

* Governor Tito Mboweni and his team at the South African Reserve Bank.
* Members of the Financial and Fiscal Commission led by Murphy Morobe.
* Herbert Mkhize, the executive director of Nedlac.
* Barbara Hogan and Qedani Mahlangu, as Chairpersons of the Portfolio and Select Committees of Finance, and Tutu Ralane and Nhlanhla Nene, chairpersons of the Joint Budget Committee.
* Pali Lehohla and Statistics South Africa.

Madam Speaker, let me take this opportunity to introduce to this House the new Director-General of the National Treasury, Lesetja Kganyago. He has had a baptism of fire in the past two weeks, and ... friend, its not going to get easier. Thanks also go to Maria Ramos who served as Director-General up to November last year and oversaw much of the period when this budget was put together. Thanks also goes to Ismail Momoniat who served as Acting Director-General of the department from November to the end of January. He did a sterling job in maintaining the high performance standards set by Maria.

Special thanks go to Pravin Gordhan for his wisdom, advice and support. We are deeply indebted to the thousands of people who collect our revenue at the South African Revenue Service. Thanks are also due to the staff of the National Treasury and the Ministry of Finance as well as their families who share our burden.

Last but not least, I'd like to thank my family for their support and for tolerating me during this hectic period.

Madam Speaker, this Budget seeks to express, in Schumpeter's phrase, the collective spirit of our people. It charts a way forward in extending the frontiers of freedom, of human fulfilment, of creating a people-centred society. But Madam Speaker, the legacy we leave must not be told in the numbers, it must be borne out in the values that characterise our time.

* We will create a caring society.
* We will reduce pain and extend joy.
* We will reward creativity and invest in human capabilities.
* Compassion and industry will overcome greed and despair.

And so that our children can enjoy shade in the summer, let us plant and nurture these trees.

Note: Please see www.treasury.gov.za for tables.

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