



NEDCOR

# BUDGET 2004

February 2004

NEDCOR ECONOMIC UNIT

PO BOX 1144, JOHANNESBURG, 2000

## HIGHLIGHTS

- Another expansionary budget as government turns its attention to social needs.
- Revenue shortfalls significantly limit tax relief.
- Domestic financing requirement rises strongly as the deficit worsens to over 3% of gdp.

### Revenue

- Budgeted to rise by 8,9% to R327 billion.
- Thresholds barely adjusted for fiscal drag.
- Marginal rates stay the same over all levels, with the top marginal rate remaining at 40%.
- Company tax and STC left unchanged.
- Retirement tax remains at 18%, but full review underway.
- Threats to car allowances and mining taxes.
- Limited black economic empowerment measures.

### Expenditure

- Increases at national level by an expansionary 11,2% to R368,9 billion.
- Non-interest expenditure rises by 12,0%, again significantly exceeding projected gdp inflation of 5,4%.
- Poverty relief again targeted.
- Spending on HIV/AIDS features but modestly.

### Deficit and financing

- The deficit rises to 3,1% of gdp, from a higher-than-budgeted 2,6% in 2003/04.
- The net borrowing requirement rises to R46,2 billion (from a revised R37,9 billion in 2003/04).
- Net borrowing in the local bond market increases sharply to R34,3 billion from an upwardly revised R26,1 billion in 2003/04.
- Net foreign funding rises to R5,9 billion, compared with a modest R1,2 billion in 2003/04.

### Other issues

- Exchange control on hold as the results of the 2003/04 amnesty are digested.
- Inflation targets stay at 3% to 6%.

## BUDGET 2004/2005

Government's recent more expansionary stance was underlined in this budget. Although the strong rand and subdued global growth in the first half of fiscal 2003 contained revenue and left little scope for largesse on the taxation side, expenditure targets are aggressive. Real non-interest expenditure growth of over 12% and a rise in the deficit to over 3% signal government's intentions clearly.

The changing global policy climate makes this new direction more palatable to financial markets. With the threat of global deflation growing in 2002 most governments in the developed world either consciously adopted more expansionary policies or were forced into them by the business cycle. South Africa's deficits planned over the next few years are therefore not as remarkable as they might otherwise have been. Even so the move to deficits above 3% of gdp represents the first real straying from the objectives set in the GEAR plan in 1996.

As expected there was little further innovation on taxes in line with the planned period of consolidation announced in November. Extremely limited tax relief for individuals were largely offset by vigorous increases in excise duties. However, the Minister indicated that more substantial changes to the taxation of savings, mining as well as car allowances could be expected in the near future.

The emphasis on the spending side of the budget is on social services, which make up over a half of all government spending. Within this category social security and welfare rises to 16,5% of total spending in fiscal 2007 from 14,6% at present and barely 12% only 2 years ago. The extension of the child support grant as a poverty alleviation measure is largely responsible.

Other areas of spending make way for this increased welfare element, with both health and education declining as a percentage of the total despite the imperative of a more highly skilled labour force and the treatment of HIV AIDS. Although much is said about spending on infrastructure the budgeted amounts also seem modest.

The higher budget deficit over the next few years will present more of a challenge to the domestic capital markets given the lack of progress on privatisation. However, provided the rand remains relatively firm,

inflation is unlikely to rebound too significantly and this will help to contain rises in bond yields.

### Economic background and assumptions

Economic growth was disappointing in 2003. Exports floundered in the face of a strong rand and – at least initially – poor global growth. This offset strong growth in domestic spending, particularly in the second half of the year. Consumer spending gathered momentum as interest rates fell and disposable incomes improved. Growth of 1,9% fell well short of government's projected 3,3% made at the same time last year. In nominal terms growth was even more disappointing due to lower-than-expected inflation, itself almost also solely due to the stronger rand. The net effect of this was to contain taxes, especially from export-orientated companies.

The strong rand did, however, have some benefit for the fiscus. Its strength was the prime cause of lower inflation and therefore reduced interest rates and government expenses. Defence outlays in particular have been drastically reduced as a result. Despite this, non-interest spending was surprisingly buoyant, exceeding budget by 0,5%.

The outlook for the year ahead has improved. The global economic recovery gathered momentum in the second half of 2003, pushing commodity prices higher and creating better conditions for export growth. This momentum should be maintained in the year ahead given the massive fiscal and monetary stimulus in many leading economies, but particularly in the US. A more competitive rand would have seen strong export growth rather than the moderate rate now expected this year. Domestic spending should remain firm, helped by low nominal interest rates, low inflation and reasonable growth in real disposable incomes.

Dangers to the global economy and an unstable rand remain the key risks to the government's forecasts set out below. These predictions are not significantly different from consensus although our own present a weaker picture from 2005 onwards, principally because of a more negative global view.

Budget assumptions					
	2002	2003	2004	2005	2006
	%	%	%	%	%
Real gdp growth	3,6	1,9	2,9	3,6	4,0
Real hce growth	3,2	2,9	3,4	3,4	3,8
Real gfcf growth	6,1	8,3	6,6	6,9	7,3
Current account % gdp	0,3	-0,8	-1,3	-1,8	-2,1
Gdp inflation	10,1	5,7	4,8	5,9	5,1
CPIX inflation	9,3	6,8	4,8	5,6	5,0

### The policy framework

Government's sixth MTBPS released in November 2003 again set the tone for this year's budget. The MTBPS provides a rolling 3-year budget that allocates resources over the medium term and helps to promote efficiency and transparency.

Last year's MTBPS already signalled that government was considering a more expansionary approach than that envisaged in earlier budgets. Since the Growth, Employment and Redistribution (GEAR) strategy announced in June 1996

government has generally committed to keeping the deficit below the psychologically important 3% of gdp level. However, in November 2003 the Minister announced that a 3,2% deficit would be budgeted for in 2004/05. This was not too significant a breach and encouragingly, the other key commitment in GEAR, keeping revenue below 25% of gdp, was reiterated.

The MTBPS not only set these broad parameters but also gave advance warning of some of the detail to be expected in the budget. This included hints that issues such as black economic empowerment (BEE), the taxation of financial instruments, mining royalties and retirement fund taxes would be addressed. Expenditure priorities outlined included BEE, social assistance, jobs and infrastructural spending. These themes were developed further in the budget.

Medium Term Budget Policy Statement – November 2003					
As % gdp	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Revenue	24,8	24,8	24,8	24,8	24,8
Expenditure	26,0	27,5	28,0	28,0	27,7
Deficit	-1,2	-2,6	-3,2	-3,1	-2,8

### Budget arithmetic

The budget arithmetic is summarised in the following table. It details last year's (2003/04) budgeted figures and the expected outcome, and the budget for 2004/05, which starts on 1 April 2004. The assumptions for nominal gdp on which all the calculations are based are also shown.

	National budget					
	2003/04				2004/05	
	Budget		Outcome		Budget	
	Rbn	Y-o-y %	Rbn	Y-o-y %	Rbn	Y-o-y %
<b>Revenue</b>	304,5	10,4	300,3	7,8	327,0	8,9
Income taxes	177,9	9,5	172,0	4,5	189,2	10,0
Sales taxes	109,6	12,4	110,6	13,3	121,5	9,9
International	11,3	15,3	8,8	-8,5	10,5	19,0
Other	15,4	8,8	18,7	24,5	19,1	2,1
Less SACU	9,7	17,7	9,7	17,7	13,3	37,1
<b>Expenditure</b>	334,0	14,4	331,7	13,8	368,9	11,2
Debt service	51,0	7,9	47,3	1,1	50,4	6,6
Other spending	283,0	15,7	284,4	16,2	318,5	12,0
<b>Deficit</b>	29,5		31,4		41,9	
% gdp	2,4		2,6		3,1	
<b>Primary surplus</b>	21,5		15,9		8,5	
% gdp	1,7		1,3		0,6	
<b>Gdp (Rbn)</b>	1235	10,2	1223	6,4	1332	8,9

### Expenditure

Expenditure at **national level** in 2003/04 is estimated to have increased to R331,7 billion compared with the originally budgeted R334,0 billion, representing an undershoot of R2,3 billion or 0,7% and an increase of 13,8% over 2002/03. However, this was solely due to reduced state debt costs. Non-interest expenditure overshot budget by 0,5%, a surprising development given lower than expected inflation over the year.

Government is set to continue with the expansionary stance adopted in 2001, with expenditure budgeted to rise by 11,2% to R368,9 billion in fiscal 2004/05. At **consolidated government level** (which includes provincial and social security funds), expenditure is set to increase by 9,9% to R386,3 billion in 2004/05 and at an annual average rate of 9,3% during the next three years. The more expansionary fiscal stance is clear in the sharp rise in expenditure as a percentage of gdp. This is set to increase from 27,1% in 2003/04 to 27,7% and 27,8% in 2004/05 and 2005/06 fiscal years respectively, before easing to 27,6% in 2006/07. The expected continuous easing in debt service costs, budgeted to fall from 3,9% of gdp in 2003/04 to 3,8% in 2004/05 and to 3,6% in 2006/07 will result in increased resources for spending on other key social and economic programmes. Government also aims to keep **personnel costs** under control, but still above inflation target limits, with remuneration of employees budgeted to slow to 34,1% of total consolidated spending in fiscal 2004/05 from 34,4% in the previous fiscal year and to rise at an annual average rate of 6,9% during the next three years. Other changes in expenditure are in line with the announcements made in the MTBPS released in November 2003.

Under government's new accounting treatment **capital spending** excludes capital transfers and therefore gives a more accurate but, unfortunately, less flattering picture of fixed investment spending. Payments for capital assets rise to 4,7% of total spending by 2006/07 from 2003/04's 4,4%. This is significantly higher than 2000/01's 2,9%, but is still relatively small.

In line with the priorities set out in this year's budget, spending on **social services** is budgeted to rise by 10,9% over 2003/04, with its share of total non-interest expenditure increasing to over 58%. Government continues to prioritise welfare (including social security) within the social services budget. This sub-category is set to rise by 16,4% in fiscal 2004/05 and by an annual average rate of 13,6% over the next three years. State pensions have increased from R700 to R740 and child support grants rise to R170 from R160.

The health budget continues to receive a smaller percentage of the total pie, with government seemingly passing on increased responsibility to the private sector through various legislative changes. Although it rises by an annualised 8,4% over the period it eases to 11,2% of the total from 11,6% three years ago. Expenditure relating to HIV/AIDS, including provision for antiretroviral treatment programmes has been given a boost, with an additional R2,1 billion budgeted over the next three years through different tiers and areas of government. However, over half of this allocation is in the final year of the MTBPS period.

The largest component in the social services category, education, is budgeted to increase by 7,2% over the period, with its share falling from the current 19,9% of total spending to 18,8%.

Spending on **protection services** is set to rise by 7,3% during the next three years and government

has allocated an additional R1,9 billion to police services and R475 million to justice to improve the efficiency of courts. The government's aim to invest more in infrastructure, higher education and skills development, has led to an increase in **economic services** spending. Spending on this category will expand by 9,8% in 2004/05 and by 9,9% over the next three years, while its share of total spending increases slightly to 12,8% compared with 12,4% on the previous fiscal year.

Government expenditure at a consolidated level				
	Budget 2003/04- 2004/05 % change	% of Total Spending 2004/05	Annualised changes	
			2003/04- 2006/07 % change	2000/01- 2003/04 % change
<b>Protection services</b>	<b>8,4</b>	<b>16,4</b>	<b>7,3</b>	<b>12,7</b>
Defence	3,2	6,0	4,3	13,4
Police	11,0	6,6	9,1	12,2
Prisons	11,8	2,3	8,6	10,9
Justice	14,6	1,5	9,4	15,6
<b>Social services</b>	<b>10,9</b>	<b>50,9</b>	<b>9,5</b>	<b>14,9</b>
Education	8,6	19,6	7,2	10,9
Health	7,3	11,0	8,4	12,1
Welfare (incl soc sec)	16,4	15,5	13,6	21,6
Housing	12,1	1,6	8,9	11,5
Community development	11,9	3,1	8,0	30,1
<b>Economic services</b>	<b>9,8</b>	<b>12,8</b>	<b>9,9</b>	<b>23,4</b>
Water schemes	5,4	1,6	7,4	19,3
Fuel and energy	8,7	0,6	7,4	51,5
Agric, fishing, forest.	7,1	1,8	9,6	16,8
Mining, manufacturing and construction	36,3	0,5	21,4	8,6
Transport, comms	6,4	4,5	7,7	21,2
Other economic services	14,7	3,7	12,9	32,4
<b>Gen government services and unallocated</b>	<b>2,1</b>	<b>6,2</b>	<b>5,9</b>	<b>15,7</b>
<b>Allocated expenditure</b>	<b>9,6</b>	<b>86,3</b>	<b>8,9</b>	<b>15,6</b>
Interest	6,6	13,1	7,0	0,7
Unallocated	0,0	0,6		
<b>Consolidated expenditure</b>	<b>9,9</b>	<b>100,0</b>	<b>9,3</b>	<b>13,1</b>
<b>Memorandum item</b>				
Remuneration	9,0	34,1	6,9	9,1

## Revenue

Revenue for **fiscal 2003/04** will be well below the original budgeted increase of 9,4% set in February last year and was also slightly lower than the revised target set in the MTBPS released in November last year. Revenue is now expected to increase by around 7,6% to R300,3 billion. The main shortfall occurred on company taxes, where a strong rand and a sluggish global economy eroded corporate profits, particularly that of the large exporters within the mining and manufacturing sectors.

Revenue for **fiscal 2004/05** is budgeted to rise by 8,9% to R327 billion, which is slightly above the R325,7 billion expected in November last year. The slightly higher revenue target appears to be realistic given the expected recovery in both the local and international economy during the course of the year. Government is also planning to keep revenue as a percentage of gdp relatively unchanged, with revenue set to remain at around 24,6% of gdp in 2004/05 before edging up slightly to 24,7% of gdp in both 2005/06 and 2006/07.

Last year's disappointing revenue growth largely eliminated any scope for substantial tax relief in this year's budget. **Personal income tax** relief amounting to only R4 billion is minor compared with the more generous R13 billion relief last year and the R72 billion provided since 1994. Although all

marginal tax rates remain unchanged –including the top rate of 40% - there are some modest adjustments to the income thresholds to compensate, at least partially, for the effects of inflation. The bulk of the relief was also largely focused on the lower- to middle- income earners, principally by lifting the income tax threshold (the point at which individuals start paying taxes) to R32 222 from R30 000 for taxpayers under age of 65 and to R50 000 from R47 000 for taxpayers over the age of 65. The top marginal tax rate threshold is now R270 000, up from R255 000 previously. Apart from these changes, further tax relief was given through the upward adjustment of the primary rebate to R5 800 from R5 400, while the secondary rebate was edged up to R3 200 from R3 100 previously. Finally, tax relief was provided through raising the exemptions on domestic interest and dividend income, with the exemption for taxpayers under the age of 65 raised to R11 000 from R10 000, while that of taxpayers over 65 was increased to R16 000 from R15 000 previously. On the negative side, National Treasury aims to review the tax treatment of motor vehicle allowances in the coming fiscal year as it feels that many taxpayers are abusing the system. The deemed expense schedule will therefore be reviewed.

There were no significant concessions for **companies**, with modest changes aimed at supporting investment activity and promoting BEE. The company tax rate and the secondary tax on companies (STC) were once again left unchanged at 30% and 12,5% respectively. However, ad valorem duties on all computers, printers, recorded and prepared unrecorded media including magnetic tapes, print film, photocopiers, certain cosmetic products, watches and clocks were scrapped. BEE measures were limited to encouraging the broader ownership of companies by employees. Shares can now be issued to low-income employees at reduced or no cost without the profits being deemed as income for income tax purposes, provided that the shares are held for a prescribed period of time.

Other issues concerning companies included the delay in finalising the Mineral Royalty Bill, government's continued preference for charging the royalty on revenue instead of profits and the proposed review of the mining tax regime.

Expected changes to the tax treatment of **retirement fund income** were again delayed. The tax rate on retirement fund income was left unchanged at 18% after being reduced to this level from 25% in 2003/04, but the government has promised to review this tax and the treatment of alternative savings instruments during the course of the fiscal year. The ultimate aim is to establish a tax system that would both protect and encourage savings. Apart from this, government also aims to implement anti-avoidance measures in the tax treatment of **hybrid financial instruments**. Other measures included reductions to transfer duties, with many of the reductions aimed at encouraging lower- to middle-income earners to buy property. To this end, the exemption threshold on transfer duties was raised to R150 000 from R140 000 in the 2003/04 year. The government will also eliminate **stamp duties** on all debt instruments this year. Last year stamp duties

on fixed deposits and non-convertible debentures were removed and this year those on mortgage bonds and negotiable certificates of deposit (NCDs) will be removed.

As expected, there were the usual increases in so-called **sin taxes**, with government expecting to make up most of the projected increase in revenue from indirect taxes in general. The fiscus aims to net around R2,1 billion from this source in 2004/05. Most excise duties increased in line with inflation, with the exception of alcoholic beverages and tobacco products, which go up dramatically. The increases in excise duties on tobacco products are expected to raise about R794 million in additional revenue while that on alcohol will raise an additional R660 million. The general **fuel levy** on both diesel and petrol will be increased by 10 cents a litre to R1,11 and R0,95 per litre respectively, while the **Road Accident Fund Levy** on petrol and diesel will be increased by 5 cents per litre with effect from 7 April 2004. Various measures were introduced or modified to help small businesses, including raising the mandatory VAT registration threshold to R300 000 from R150 000 to simplify compliance. The VAT rate remained unchanged at 14%.

Revenue estimates				
	2004/05 (Rm)	% growth	% of tax	Proposals (Rm)*
<b>Total revenue</b>	326 956	8,9		-2 300
<b>Total current revenue</b>	326 310	8,9		-2 300
<b>Non-tax revenue</b>	5 944	0,0		0
<b>Tax revenue</b>	333 694	10,0	100,0	-2 300
Income and profits	189 198	10,0	56,7	-4 062
Individuals	105 938	7,9	31,7	-4 062
Companies	68 800	13,4	20,6	0
STC	6 760	12,7	2,0	0
Retirement fd tax	6 000	7,1	1,8	0
Other	1 700	10,4	0,5	0
Payroll and workforce	4 300	7,5	1,3	0
Skills Dev Fund	4 300	7,5	1,3	0
Property	6 870	5,4	2,1	-100
MST	1 200	20,0	0,4	0
Transfer duties	5 200	2,0	1,6	-100
Other	470	11,9	0,1	0
Goods and services	121 549	9,9	36,4	2132
VAT	89 400	10,5	26,8	0
Fuel levv	17 409	6,5	5,2	909
Excise duties	13 112	12,4	3,9	1453
Other	1 528	13,1	0,1	230
International trade	10 476	19,0	3,1	0
Customs duties	9 500	11,8	2,8	0
Other	976	225,1	0,3	0
Stamp duties and fees	1 300	-10,3	0,4	-270
Less: Customs UA	13 328	37,1	-4,0	0
Memorandum items:				
- Direct taxes	193 968	10,0	58,1	-4 062
- Indirect taxes	139 725	10,0	41,9	1762

\* Proposals show the gain or loss to the fiscus resulting from the proposed taxation measures

### The deficit and its financing

The **deficit before borrowing** is budgeted to rise to 3,1% of gdp in 2004/05, up from the revised 2,6% in the 2003/04 fiscal year, but lower than the 3,2% anticipated in the November 2003 MTBPS. The deficit is then expected to remain at around 3,0% in 2005/06 before easing to 2,8% in 2006/07. Total state debt increases slightly as a percentage of gdp to 32,2% in 2004/05 and 32,5% in 2006/07. However, this is well below the 40% level that prevailed prior to 2001/02.

The **net borrowing requirement** is expected to rise steadily over the next two years, to R46,2 billion in 2004/05 and R48,8 billion in 2005/06 from R37,9 billion in 2003/04, before easing to R44,9 billion in 2006/07. Extraordinary receipts, which include privatisation proceeds, are expected to be modest. This follows on from 2003/04 when R5 billion was expected from privatisation, but only R8 million – from Telkom IPO ‘overflows’ - was achieved. Most of the R5 billion-odd expected from extraordinary receipts over the next two years will flow from restructuring, but no information as to how this will be achieved is given.

The burden of the **funding** will fall on the domestic bond market. Of the R46,2 billion needed in 2004/05, 74,3% or R34,3 billion will be raised in the local bond market. This is substantially higher than the R26,1 billion raised from this source in 2003/04, when conditions were perfect as the unexpectedly strong rand pushed inflation and short-term interest rates lower. The remainder of the borrowing requirement will be financed through short-term domestic loans and foreign loans, with around R6 billion expected from each of these sources in the year ahead. A similar financing pattern is also envisaged for the next two years. The local bond market will remain under pressure, with government aiming to raise a further R30,7 billion and R32,6 billion in 2005/06 and 2006/07 respectively. Short-term loans are set to increase slightly to R8 billion in the last two years of the MTBPS, while reliance on foreign funding is budgeted to increase to just over R10 billion in 2005/06 before dropping to only R4,3 billion in 2006/07.

Government financing			
	2003/04		2004/05
	Budget	Outcome	Budget
	Rbn	Rbn	Rbn
<b>National deficit</b>	29,51	31,39	41,95
Plus extraordinary transfers	7,00	7,44	7,00
Less extraordinary receipts	6,34	0,89	2,74
<b>Net borrowing requirement</b>	<b>30,17</b>	<b>37,94</b>	<b>46,21</b>
<b>Financing</b>			
Domestic	15,30	32,08	40,33
Short-term loans	6,00	6,00	6,00
Long-term loans	9,30	26,08	34,33
Financing loans	2,30	18,92	27,33
New loans	29,28	46,13	57,53
Less: Discount	-0,54	-0,65	-3,67
Redemptions	26,44	26,56	26,53
Buy backs	0,00	0,00	0,00
Switches	0,00	0,12	0,00
Loans for extraordinary reasons	7,00	7,28	7,00
Net foreign	11,77	1,15	5,88
Changes in cash balances	3,10	4,71	0,00
Opening balance	9,60	11,21	6,50
Closing balance	6,50	6,50	6,50
Finance raised	30,17	37,94	46,21

### Other issues

The government normally uses the occasion of the budget to make announcements on other non-fiscal issues. In particular, exchange control issues and changes to inflation-targeting ranges are normally dealt with at this time.

This year there was little expectation of news on either of these issues. **Inflation targeting** had already been dealt with in detail in the November

2003 MTBPS where the 3% to 6% target range was confirmed over the medium term and where the change from an average annual target to a monthly target had been introduced. The current targets were therefore just confirmed. With the election looming and the results of the tax and foreign exchange amnesty still uncertain very little in the way of **exchange control relaxation** was announced. The existing limits for individuals and institutions remain unchanged while relatively minor changes for local and foreign companies were announced. For foreign investments local companies will be able to borrow 20% (up from 10%) of the excess cost that can be funded from South Africa. Foreign companies will now be able to borrow up to 300% (previously 100%) of their total shareholders' investment in the local market and other measures will be implemented to enable foreign firms to raise debt and equity finance on the local markets.

### Assessment

There were very few surprises in this budget. Part of this was due to the exemplary medium-term budget planning process that has been introduced in recent years and part of it due to a needed period of consolidation after several years of major change. However, it was also partly the result of more limited room for manoeuvre due to tax shortfalls and the looming elections.

The budget has widely been described as expansionary, which it is in the technical sense of an expanding budget deficit and more aggressive spending. This approach will increase government's direct contribution to the economy, but its ultimate success will depend on the efficiency of delivery. Government clearly feels that additional funds – extracted from the private sector - can now be spent effectively by provincial and local governments, after some focus on improving and increasing capacity within the civil service during the past two years. However, anecdotal evidence suggests that service delivery remains a contentious issue and that much progress still needs to be made in this area.

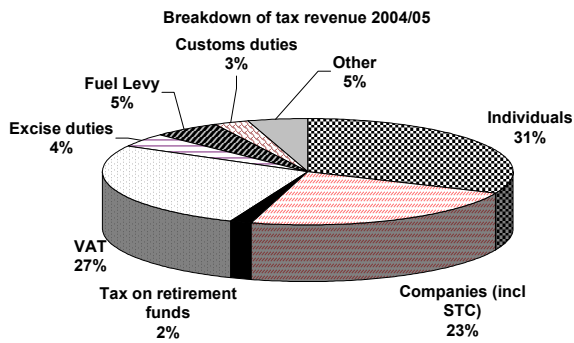
While the changed focus may be understandable this year, it would be disappointing if longer-term objectives such as equalising the individual and corporate tax rates are put on hold indefinitely. Also of concern is the growing tendency to complicate the tax system, especially with increased demands to address black economic empowerment and other social objectives through the tax structure.

Despite these reservations, the budget represents a reasonable compromise under relatively difficult circumstances. The budget may support growth through increased spending, but the impact of higher budget deficits and borrowing requirements could be negative for inflation and interest rates over the medium to longer term.

*While every care is taken to ensure the accuracy of the information and views contained in this document, no responsibility can be assumed for any action based thereon.*

# SELECTED GRAPHS

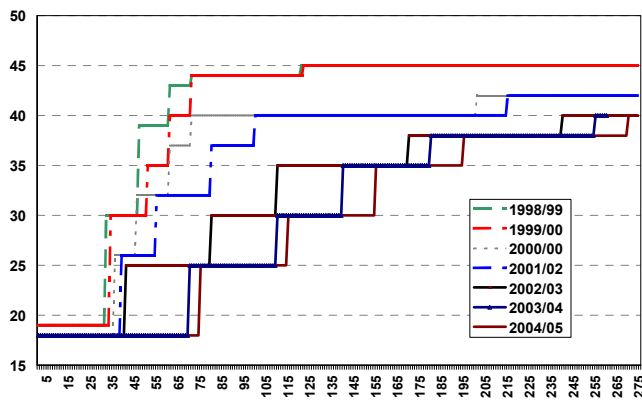
*Breakdown of tax revenue 2004/05*



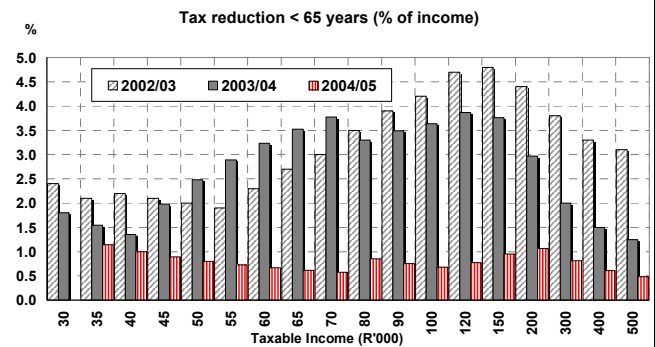
*Tax changes: losses and gains to fiscus*

	Additions	Losses
<b>Direct taxes</b>		<b>4,432</b>
Personal income taxes		4,062
Income tax structure		4,000
Raise interest and dividend exemption <65		50
Raise interest and dividend exemption >65		12
<b>Financial transaction taxes</b>		<b>370</b>
Adjust table transfer duties		100
Remove stamp duty mortgages		250
Remove stamp duty NCDs		20
<b>Corporate income tax</b>		<b>0</b>
<b>Indirect taxes</b>	<b>2,132</b>	
Excise duties	1,453	
Beer (9%)	303	
Fortified wine (16%)	11	
Sparkling wine (28%)	6	
Unfortified wine (30.7%)	98	
Ciders (7.1%)	21	
Spirits (13.5%)	220	
Tobacco products (11.7% to 17.3%)	794	
Fuel levy (10c/l, 7/4)	909	
Removal ad valorem duties on certain products		230
<b>Subtotals</b>	<b>2,132</b>	<b>4,432</b>
<b>TOTAL LOSS TO FISCUS</b>		<b>2,300</b>

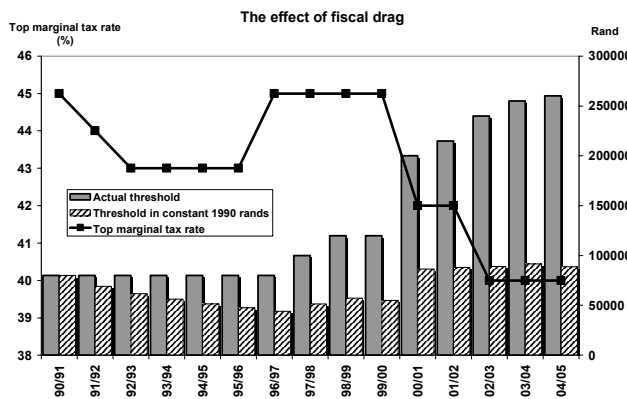
*Tax rates for individuals*



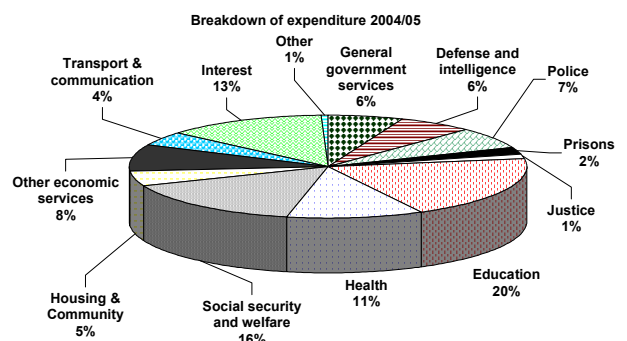
*Benefits as a percentage of income*



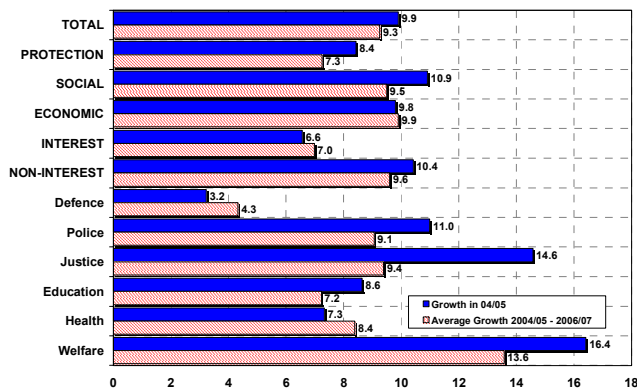
*Compensation for fiscal drag*



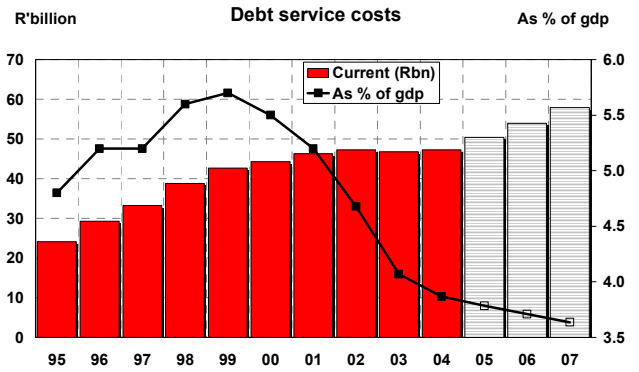
*Breakdown of expenditure*



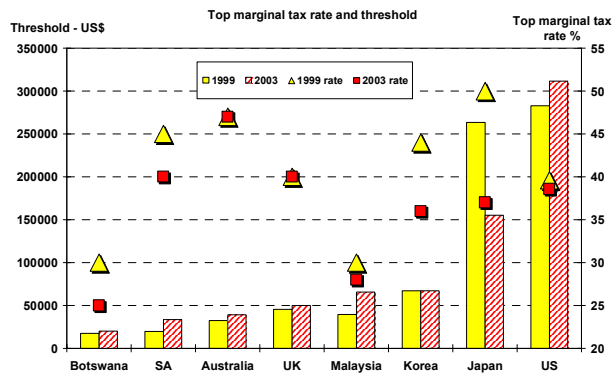
### Increases in expenditure: key items



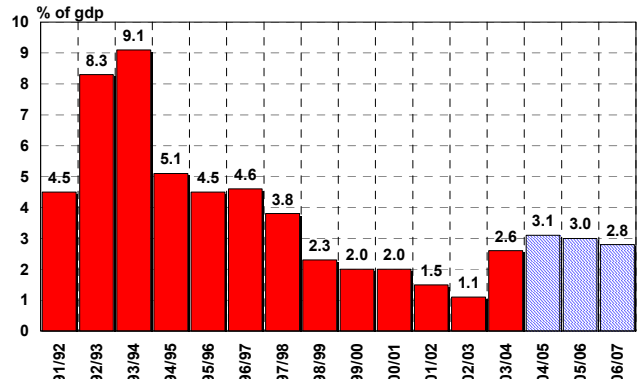
### Debt servicing trends



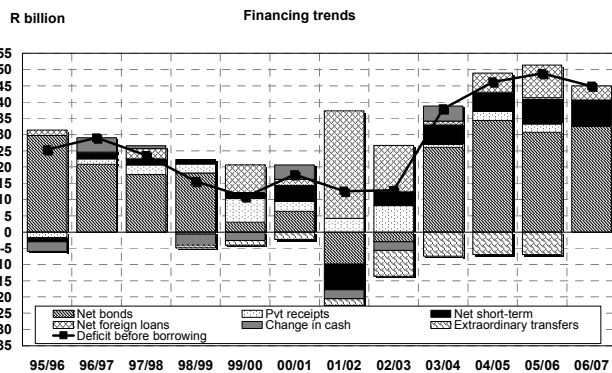
### Top threshold still low



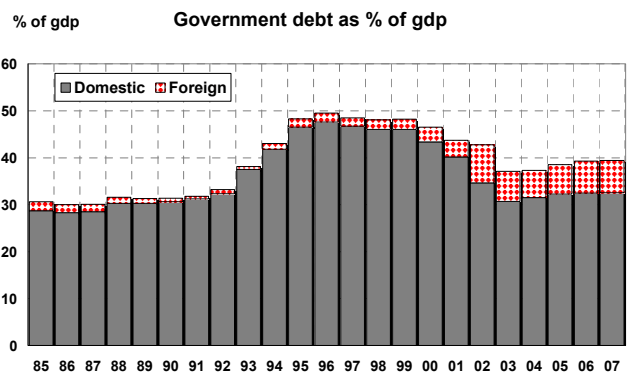
### Deficit remains under control



### Increased reliance on domestic funding



### Debt steady as a percentage of GDP



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For further information please contact Estelle Oberholster:

- Tel: 011 295 6363
- Fax: 011 294 6363
- Email: [EstelleO@nedcor.com](mailto:EstelleO@nedcor.com)
- Postal address: Nedcor Economic Unit, PO Box 1144, Johannesburg, 2000

The Nedcor Economic Unit is situated at:

135 Rivonia Road  
Sandown  
Sandton 2196