

Medium-term Budget Statement

30/10/2001

Section 1 - Interpretation

A. Any changes in political direction or commitment?

- No changes in direction. The delay in the Telkom IPO is the result of market conditions and not a change in political will.
- Political will can be judged from the fact that, *inter alia*, provision is made for more privatisation proceeds in 2002; and R70 million has been set aside for a publicity campaign to promote the Telkom IPO amongst previously disadvantaged South Africans.
- Next year's budget will be slightly expansionary, with the budget deficit increasing from 2,3% of GDP to 2,6%. At 2,6% it will be equal to capital expenditure, thus remaining low enough to eliminate government dissaving.

B. Any changes to previous BoE Private Clients forecasts?

(This is the section where we always eat humble pie!)

- STC is likely to remain. Thus a tax on dividends is unlikely.
- The Telkom IPO will not happen before the end of March. It should be expected late in fiscal 2002/3.

C. Implications for the financial markets?

- The delayed receipt of privatisation proceeds and the modest budget deficit will result in a lower supply of government paper in 2002, keeping long rates at current levels.
- The lower inflation targets set for 2003/4 will reinforce this trend.
- This may make high-yielding investments like property trusts more attractive.
- Companies involved in government capital expenditure projects will benefit from the substantial increases in capex allocation, provided all the capex spending does in fact take place.
- Most important of all, the consistency and predictability of the Government approach create an environment of political and policy certainty.

Section 2 – The bare facts

Inflation targets

- No change for 2003 – 3% to 6%.
- A lower upper level for 2004 and 2005 – 3% to 5%.

Tax changes planned for 2002

- More tax relief for lower and middle-income groups.

- A reduction “in due course” in the gap between the top marginal rate and the company rate, i.e. 42% and 30%: “The 12% difference is too much.”
- Following the review of the insurance sector in 1999 and the banking sector in 2001, more sectors of the economy will be reviewed to determine their effective tax rates.
- An administrative review to reduce paperwork for taxpayers and SARS.
- The next budget will be a “budget of consolidation”. Therefore, little structural change should be expected.

Review of taxation on the retirement industry

- A discussion document will be released in 2002. Expect changes only in the 2003 budget.

Commitment to clear the NOFP

- A categorical undertaking is given that it will be cleared in 2002.
- This implies the following: foreign borrowings of \$1,0 billion; proceeds of Telkom and M-Cell are estimated at \$2,0 billion; new privatisation earnings of about \$0,6 billion.
- The idea of borrowing money overseas to cover the entire NOFP is categorically rejected.

Growth

- The forecast for economic growth is adjusted down, from 3,7% to 2,4%.
- The expected GDP is down by 1,3% – from R987,2 billion to R974,1 billion.
- For the next fiscal year, Government assumes 3,1% growth, against the February 2001 prediction of 3,5%. This is higher than private sector estimates (although for the calendar year Government predicts 2,8%).

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