NO PRIVATISATION THIS YEAR ■ NEW INFLATION TARGETS

RAND WITHSTANDS EMERGING MARKET STORM

Tax cuts next year will boost economy

Linda Ensor

Political Correspondent

CAPE TOWN — Finance Minister Trevor Manuel is set to give SA's ailing economy a shot in the arm by cutting taxes next year.

Tax relief in the next budget was one aspect of a package of important news presented to Parliament yesterday.

Another — in sharp contrast to President Thabo Mbeki's views on HIV/AIDS — was the increase in government grants to the provinces to combat the epidemic, from R110m this year to almost R550m in 2004-05.

Manuel's medium-term budget policy statement brought certainty on key issues and set fiscal policy irrevocably on a growth path. Government is able to go for growth, now that it has firmly placed a lid on its interest bill.

Manuel, who has come under fire for adopting stringent fiscal policies when the economy is limping along, struck a blow against his critics yesterday.

Tax relief for middle- and low-income earners is a key part of the growth strategy.

Government's aim is to boost growth while lowering inflation. Manuel set new targets for inflation, saying the CPIX inflation target for 2003 would remain within the 3%-6% band but would fall in 2004 and 2005 to 3%-5%. The announcement of a lower target for 2004 and 2005 brought certainty to investors who worried that the pro-growth strategy would come at the expense of higher inflation.

The CPIX inflation rate is expected to average 5,5% next year and 4,5% in 2004-05.

The inflation-targeting framework has also been adjusted to make more concrete the "escape clause" in the event of unavoidable shocks to the economy. If it is expected that the target will be missed, the Reserve Bank will set out the time frame in which inflation will be brought back in line.

Manuel also provided certainty about privatisation this fiscal year. He confirmed the Telkom listing and the sale of the state's M-Cell shares would not take place this year because market conditions were "unattractive". Only R3bn (from specialist insurer Sasria) of the R18bn budgetary provision from privatisation would therefore be forthcoming.

He provided assurances that the undershoot on privatisation would not trigger increased borrowing on the local bond market, where yields are near record lows. Government will not need to tap capital markets due to foreign borrowings and a spectacular revenue overrun of about R4,8bn.

Given past experience, the SA Revenue Service could even exceed its revised revenue target.

It is possible the treasury deliberately under-budgeted for revenue, to give itself a safety net if privatisation failed to materialise. Manuel declined to be drawn on whether this had occurred.

The budget deficit has been revised downwards from the budget's 2,5% of gross domestic product to 2,3%, but is forecast to rise to 2,6% in 2002-03 as spending on social services rises and tax reductions take effect. The deficit is seen falling to 2,4% in 2003-04, reaching 2,2% in 2004-05.

Government will reintroduce a Post Office subsidy to make up its operating losses. This would amount to R600m for this year and last, and R300m for the next three years. The Unemployment Insurance Fund will get a R605m injection this year.

Altogether, government will be spending an additional R8,5bn this year over the amount voted in February but only R2,8bn of this will involve "new money". The rest relates to the R2bn contingency reserve, R1,7bn voted for in the budget but not allocated and R2,2bn in rollovers which will be almost matched by about R2bn in underspending this year.

The statement reaffirmed government's "growth-oriented fiscal stance" and said government would continue its expansionary fiscal policy in next year's budget "while emphasising structural reforms aimed at improving the quality and effectiveness of spending". Real noninterest spending is forecast to grow by an average 3,7% a year over the next three years.

Manuel said the document outlined a "bold" programme of tax relief and strong real expenditure growth. Expenditure increases over the next three years would focus on health services and social grants, municipal infrastructure and housing, improved police and justice services and critical administrative services to citizens.

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