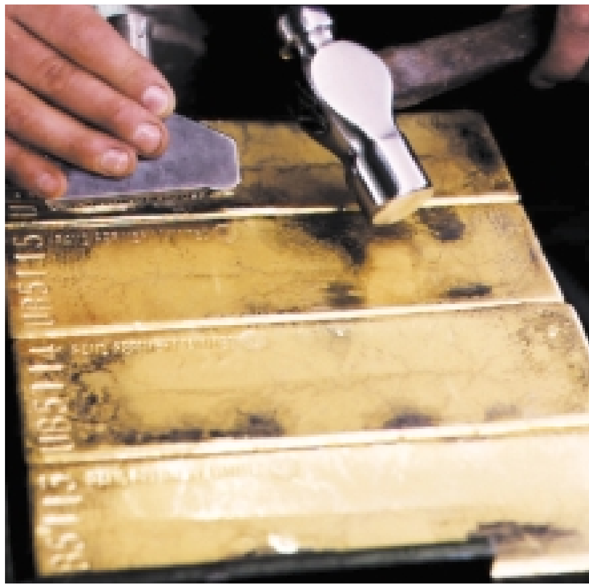
National Finances



The broad parameters and principles governing the management of South Africa's finances and State expenditure are laid out in the Constitution. The Constitution provides for an independent Auditor-General and an independent central bank, and sets out the principles governing financial accountability to Parliament and the annual budget process.

The objectives of the National Treasury are to:

- advance economic growth and income redistribution through economic, fiscal and financial policies that stimulate investment and trade, create employment and allocate budget resources to targeted beneficiaries
- prepare a sound and fiscally sustainable national budget and an equitable division of resources between the national, provincial and local spheres of government
- equitably and efficiently raise fiscal revenue as required through a targeted and fair tax policy and other measures that ensure revenue stability and the efficiency and competitiveness of the South African economy

- soundly manage government's financial assets and liabilities through prudent cash management, asset restructuring, financial management and management of the debt portfolio
- promote accountability through effective and reliable financial reporting systems and internal controls
- contribute to improved financial management by enforcing transparency and the effective management of revenue, expenditure, assets and liabilities in all spheres of government.

South Africa's central bank, the Reserve Bank, formulates and implements monetary policy and regulates the supply (availability) of money by influencing its cost. The Bank is also the custodian of the greater part of South Africa's gold and other foreign exchange reserves.

Debt management

South Africa's debt, both domestic Rand-denominated bonds and foreign debt issues, enjoys increasing recognition on international capital markets and continues to attract a diverse range of investors.

This reflects the country's macro-economic success, a sound and transparent approach to debt management, the healthy balance of payments position and the maturity of South Africa's financial markets. In the course of the last two years, both Standard and Poor's and Moody's Investors' Service upgraded their ratings of South African debt. South African foreign debt continues to trade at tighter spreads than the Emerging

Debt as percentage of GDP, 2002/03 – 2005/06

R billion	2002/03	2003/04	2004/05	2005/06
Net loan debt (end of year)	431.3	459,8	498,4	540,3
% of GDP	38,5%	37,2%	37,1%	36,8%
Net domestic debt	342,6	361,5	382,6	412,7
Foreign debt	88,7	98,3	115,8	127,6
State debt costs	47,3	51,0	53,1	55,1
% of expenditure	16,2%	15,3%	14,6%	13,9%
% of GDP	4,2%	4,1%	3,9%	3,8%

Source: 2003 Budget Review, National Treasury

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Total gross tax revenue collected by the South African Revenue Service amounted to R281,6 billion, which is R1,5 billion above the revised 2003 Budget estimate of R280,1 billion. Revenue collections exceeded the 2002 Budget revenue estimates of R268,5 billion by R13,1 billion.

Market Bond Index, indicating that investors share the confidence expressed by international rating agencies.

The primary objective of domestic debt management has shifted to reducing the cost of debt to within acceptable risk limits, while diversifying the range of funding instruments and ensuring flexible government access to markets. Recourse to foreign borrowing has been stepped up, allowing the fiscus to contribute to reducing the foreign currency exposure of the South African Reserve Bank in its forward market portfolio. Domestic debt management reforms have addressed several policy and instrument gaps. These reforms include introducing lower-coupon bonds, a move aimed at reducing inflation and boosting co-ordination on monetary policy between the National Treasury and the Reserve Bank. Illiquid bonds have been bought back, thus strengthening the integrity and efficiency of the Government securities market.

State debt costs continue to fall as a share of government expenditure. It is projected to be 4,1% of gross domestic product (GDP) in 2002/03 and is expected to decrease to 3,9% of GDP in 2005/06.

Liquidity in the domestic Government bond has improved substantially in recent years, especially since the appointment of primary dealers in government bonds in April 1998. Bond market turnover has increased further to R10,6 trillion and R12 trillion in 2001 and 2002 respectively. Bond yields continued to decline from the highs of 22% in 1998 to single digits in November 2001, but reverted to double digits on the back of the Rand's decline in the last quarter of 2001. Early in 2003, the Rand's position strengthened remarkably.

Taxation

The South African Revenue Service is an administratively autonomous organ of the State. It aims to provide an enhanced, transparent and client-orient service to ensure optimum and equitable collection of revenues

With effect from January 2001, residents are (subject to certain exclusions) taxed on their worldwide income, irrespective of where the income was earned. Non-residents are taxed on their income from South African sources.

Foreign taxes are credited against South African tax payable on foreign income. Foreign income and taxes are translated into the South African monetary unit, the Rand.

Capital Gains Tax was introduced from 1 October 2001. It forms part of the income tax system and includes capital gains made upon the disposal of assets in taxable income.

Value-added tax (VAT) is levied at a standard rate of 14% on all goods and services subject to certain exemptions, exceptions, deductions and adjustments provided for in the VAT Act, 1991 (Act 89 of 1991 as amended).

Transfer duty, estate duty, stamp duty, marketable securities tax, uncertified securities tax, customs duty and excise duty are also levied. Regional Services Councils levy turnover and payroll taxes at fairly low rates. Local governments levy rates on the value of fixed property to finance the cost of municipal services.

In 2001/02, considerable progress was made in reaching agreements with other countries on the avoidance of double taxation in respect of income accrued to South African taxpayers from foreign sources or to foreign taxpayers from South African sources.

In November 2001, the total number of individual taxpayers registered in

South Africa had increased to 6,9 million. Tax is levied on taxable income which, in essence, consists of gross income less allowable deductions.

Companies are taxed at a rate of 30%. In addition to this, a secondary tax is levied on companies at a rate of 12,5% on all income distributed by way of dividends.

A formula tax applies to gold-mining companies. Small business corporations (annual turnover of less than R3 million) benefit from a graduated tax rate of 15% on the first R150 000 of taxable income and can write off certain investment expenditure in the year in which it is incurred.

The Auditor-General

The Constitution guarantees the independence and impartiality of the Auditor-General. The Auditor-General's office audits national and provincial departments, local governments as well as a number of miscellaneous accounts. It also ensures that public funds and assets are safeguarded, accounting systems are functioning properly and public monies are spent effectively.

The Auditor-General has the power to investigate and audit the activities of public entities without the necessary approval of the CEO or board of directors.

The South African Reserve Bank

The South African Reserve Bank and the Ministry of Finance form the monetary authority in South Africa. The Reserve Bank has been given a significant degree of autonomy in terms of the Constitution, and must perform its functions independently.

The Bank formulates and implements monetary policy and regulates the supply of money by influencing its cost. Consistent combating of inflation is the cornerstone of the Bank's policy. Monetary policy is set by the Bank's Monetary Policy Committee, consisting of the Reserve Bank's governors and other senior officials. It usually meets once a quarter, DiD YOU KNOW?

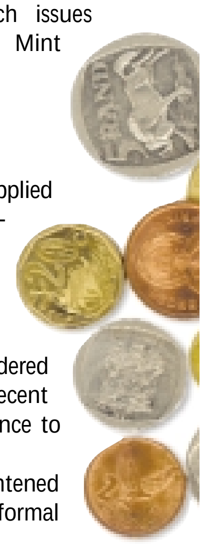
tax reform since 1999 has increased citizens' income by R38,1 billion.

after which it issues a statement indicating its assessment of the economy and policy changes, if any.

An important responsibility of the Bank is ensuring that the South African money and banking system as a whole is sound and meets the requirements of the community.

The Reserve Bank acts as banker to other banking institutions. It is also the custodian of the statutory cash reserves, which all registered banks are required to maintain, and provides facilities for the clearing and settlement of interbank obligations. In 1998, the Bank implemented a system of repurchase transactions (repos) as the main instrument for managing liquidity in the money market. The repo rate is the price at which the central bank lends cash to the banking system. The repo rate has become the most important indicator for short-term interest rates.

The greater part of South Africa's gold and other foreign exchange reserves are held in custodianship by the Bank. It is also the authority which issues banknotes and controls the South African Mint Company (SA Mint).



Monetary policy

Since about 1989, the Reserve Bank has not applied monetary policy as a short-term counter-cyclical instrument but has rather aimed it at creating financial stability, a necessary precondition for growth and development in the long run.

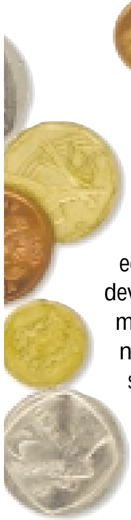
While the broad money supply is still considered an important determinant of inflation, in recent years the Bank has attached greater significance to other financial and economic indicators.

The framework for monetary policy was tightened and made more transparent by adopting formal inflation targeting on 23 February 2000. This was initially set at 3% to 6% for CPIX (Consumer Price Index excluding mortgage costs), and 3% to 5% for 2004 and 2005. However, in 2001, exogenous factors impacting on the inflation rate changed significantly. In the second and third quarters of 2002, though, a slowdown in the growth of M3 and bank credit extensions signalled that inflationary pressures on the economy were easing.

Financial Services Board

Generally known as the FSB, the Board is an independent statutory body financed by the financial services industry itself. It supervises the exercise of control over the activities of financial institutions and financial services, excluding banks and mutual banks. It acts in an advisory capacity to the Minister of Finance. These institutions and services include long-term insurance, short-term insurance, friendly societies, pension funds, unit-trust companies, stock exchanges and financial markets.

The FSB also has an Insider Trading Directorate. Insider trading legislation provides for criminal sanctions, while the FSB can take civil action against offenders. FSB powers include interrogation, search and seizure.



Development Bank of Southern Africa (DBSA)

The primary purpose of the Bank is to promote economic development and growth, human resources development and institutional capacity-building by mobilising financial and other resources from the national or international private and public sectors for sustainable development projects and programmes.

The DBSA operates in South Africa and in all Southern African Development Community countries. It has undergone an extensive transformation process in recent years. Its mandate is focused on infrastructure, acting as a catalyst for investments in partnership with the private sector.

The capital base of the DBSA has been strengthened by government callable capital amounting to R4,8 billion, which can be accessed as and when it is required. The financial resources of the DBSA are made up of the share capital contribution of the National Treasury, borrowings in the financial markets, repayments on loans granted by it, and internally generated funds.

Employment opportunities generated directly and indirectly through projects co-funded by the DBSA in 2001/02 were estimated at 42 000. The ultimate direct, indirect and induced impact on the economy of projects co-funded by the DBSA in 2001/02 was estimated as adding R8,9 billion to GDP.

Land Bank

As a statutory development finance institution, the Land Bank provides a full range of retail and wholesale financial services for farmers and agribusiness at competitive rates. It pays particular attention to the needs of disadvantaged people.