The National Treasury is responsible for managing South Africa's national government finances.

Supporting efficient and sustainable public financial management is fundamental to the promotion of economic development, good governance, social progress and a rising standard of living for all South Africans. South Africa's Constitution mandates National Treasury to ensure transparency, accountability and sound financial controls in the management of public finances.

In support of government's Accelerated and Shared Growth Initiative for South Africa, National Treasury's work on fiscal policy and budget reform is focused on strengthening infrastructure investment and maintenance, broadening participation in the economy and improving the quality of social services. Improved budget planning, better documentation and greater transparency in public finances continue to be key priorities. National Treasury is expanding its capacity to provide technical support, particularly for infrastructure planning and project management.

Fiscal policy framework

The Minister of Finance, Mr Trevor Manuel, presented the national Budget for 2009/10 in February 2009.

The economy and fiscal stance

Highlights included:

- gross domestic product (GDP) growth of 1,2% in 2009 before recovering to 4% by 2011
- consumer price inflation to fall to 5,8% in 2009
- over R780 billion of public infrastructure spending planned for the next five years
- real growth in consolidated government spending (excluding interest) of 5,1%.

Tax proposals

Highlights included:

- personal tax relief for individuals of R13,6 billion
- new motor vehicle excise taxes to tax carbon emissions and a new tax on energy-intensive light buls
- an increase in the plastic bag levy by 1 cent per bag.

Spending on public services

Highlights included:

- R24,8 billion to provinces for increasing services mainly in health and education
- R4,1 billion for the second phase of the Expanded Public Works Programme
- R4 billion more for the School Nutrition Programme to feed more children more often
- R2,1 billion more for provincial infrastructure
- R1,9 billion for municipal infrastructure and R1 billion for regional bulk water infrastructure
- R600 million for municipalities to extend free basic services
- R3,7 billion more for increased housing provision
- R932 million for the treatment and prevention of HIV and AIDS
- R5,4 billion for the criminal justice sector overhaul, including fingerprint and DNA databases
- R12 billion more for social grants and R1,2 billion for grant administration fees
- R6,4 billion for public transport, roads and rail infrastructure
- R700 million for investing in rural development.

In January 2009, South African retail chain Pick n Pay won the Washington DC-based National Retail Federation (NRF) International Retailer of the Year, a coveted international award given to firms that achieve a global reputation for excellence and service to the retail industry.

Pick n Pay, with 162 supermarkets, 127 family stores and 19 hypermarkets across South Africa, registered turnover of over R23 billion for the year ended August 2008, representing year-on-year growth of 16,4%. It was added to the JSE's Top 40 Index in December 2008.

Unlike many other retail awards, those awarded by the NRF involve a selection process by global industry leaders.

The NRF is the world's largest retail trade association, representing more than 100 organisations in the United States of America and abroad, covering retailers and suppliers from specialty, discount, catalogue, Internet, independent, chain, chemist and food stores.

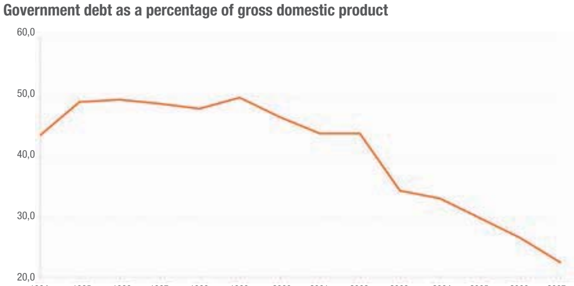
Debt management

A further priority for National Treasury is the prudent management of government's financial assets and liabilities, including the domestic and foreign-debt portfolio. The main debt-management objective of financing borrowing requirements at the lowest cost within acceptable levels of risk, has shifted towards actively pursuing government's macroeconomic objectives, particularly reducing sovereign external vulnerabilities.

Many years of prudent macroeconomic policy have contributed to a economy capable of both sustaining and accelerating the growth trajectory. The uniqueness of South Africa's economic landscape is reflected in the fact that government is increasing capital and socio-economic expenditure, even as it continues to enjoy a positive fiscal balance, and is reducing the amount of money it needs to borrow.

Government debt fell from 43,5% of GDP in 1994 to 22,3% in 2007. This led to low debt servicing costs for the Public Sector. Revenue collection increased, while spending was controlled. This provides protection against turbulence in international financial markets and frees resources for investment towards a more productive economy and expansion of social services.

Government debt as a percentage of gross domestic product



Source*: Development Indicators, 2008*

Market performance
Bond turnover

The Bond Exchange of South Africa (Besa) is an independent, licensed exchange, constituted as a public company, and responsible for operating and regulating the debt securities and interest-rate derivative markets in South Africa. Besa was granted its exchange licence in 1996 and over the past 10 years has been at the forefront of market developments in South Africa.

In December 2007, Besa entered a new era, successfully converting from a mutual association to a public company. As the direct regulator of the bond market, Besa operates within the framework of the Securities Services Act, 2004 and a set of rules and directives approved by the Financial Services Board (FSB).

The South African bond market is a leader among emerging market economies. Turnover reported on Besa in 2007 reached a record R13,8 trillion while offshore trades in bonds settled through local infrastructure totalled R9,6 trillion for 2007. This represented a turnover velocity of 30 times market cap. By December 2007, Besa had listed some 967 debt securities, issued by 104 sovereign and corporate borrowers, with a total market capitalisation of R862 billion.

Managing public finances

Transforming public-sector financial management is one of National Treasury's key objectives. To this end, National Treasury has been implementing the Public Finance Management Act (PFMA), 1999 since 1 April 2000.

Since the implementation of the PFMA, 1999, there have been measurable improvements in financial management in both the national and provincial spheres of government, which include, among other things:

- an improved linkage between planning and budgeting, whereby departments are now required to compile and table strategic plans that are consistent with their budget envelope
- strategic plans and budget documentation containing improved

information on measurable objectives expressed in terms of quantity, quality and timeliness
- departments submitting monthly expenditure reports on actual expenditure incurred, and on projected expenditure for the remainder of the financial year
- risk-management processes, which are being implemented by institutions
- establishing internal-audit functions and audit committees in all departments
- setting accounting standards in accordance with best accounting practices, both locally and internationally
- finalising and submitting financial statements to the Auditor-General (AG) within two months of the end of the financial year
- tabling annual reports in the legislature within six months of the end of the financial year.

Auditor-General

The Constitution guarantees the independence of the AG. The office audits national, provincial and local government.
The AG has the power to audit the activities of public entities without the approval of the chief executive officer or directors.

Taxation

The South African Revenue Service (Sars) collected a preliminary R571,8 billion during the fiscal year 2007/08.

The preliminary result was R0,8 billion above the revised budget estimate made in February 2008, and R15,2 billion above February 2007's estimate of R556,6 billion.

The preliminary estimate of national expenditure was R541,6 billion, bringing the main budget surplus to R18,5 billion or 0,9% of GDP, which was 0,1% higher than the February 2008 estimate.

Sources of revenue

Income tax

Income tax is government's main source of income and is levied in terms of the Income Tax Act, 1962.

In South Africa, income tax is levied on South African residents' worldwide income, with appropriate relief to avoid double taxation. Non-residents are taxed on their income from a South African source. Tax is levied on taxable income, which, in essence, consists of gross income less allowable deductions as per the Act.

The income threshold below which no tax is payable by individuals under 65 years was raised to R54 200 for the tax year beginning March 2009, and for taxpayers over the age of 65 to R84 200 a year.

The year 2007/08 saw the implementation of a new assessment process that simplified tax returns, did away with attaching supporting documents to returns, automated return processing and encouraged e-filing.

Over a million returns were electronically filed, 3,8 million returns processed automatically and 32% of returns processed within 48 hours.

Value-added tax (VAT)

VAT is levied on the supply of all goods and services rendered by registered vendors throughout the business cycle.

Effectively, VAT is levied on the value added by an enterprise. Vendors levy and pay over the tax included in their prices, resulting in VAT being paid by the final consumer. VAT is also levied on the importation of goods and services into South Africa. It is levied at the standard rate of 14%, but certain supplies are zero-rated or are exempt from VAT.

South African Reserve Bank

The bank, which is independent, formulates and implements monetary policy and regulates the supply of money by influencing its cost.

An important responsibility of the bank is to ensure that the banking system as a whole is sound and meets the requirements of the community.

The bank acts as a banker to other banking institutions. It is also the custodian of the statutory cash reserves and provides facilities for the clearing and settlement of inter-bank obligations.

Monetary policy

Growth in the broad money supply (M3) maintained strong growth during 2007, registering an annual high 12-month growth rate of 25,8% in August 2007, before decelerating moderately to 21,0% in March 2008. Growth over 12 months in banks' total loans and advances similarly remained relatively strong during 2007, peaking at 27,7% in June 2007, before slowing down to 21,8% in February 2008. However, growth again accelerated to 23,6% in March 2008. Asset-backed credit (mortgage advances, leasing finance and instalment sale credit) constituted the bulk of the increase in banks' total loans and advances throughout 2007 and early 2008.

The moderation in the growth in banks' total loans and advances that was evident from the second-half of 2007 was consistent with the gradual tightening of monetary policy since June 2006, accompanied by tighter lending standards set by the National Credit Act, 2005 from June 2007.

The banking industry

The South African banking system remained stable and banks were sound during 2007. Banks maintained capital adequacy ratios above the minimum requirement of 10%. The capital adequacy ratio for the banking sector amounted to 12,78% at the end of December 2007 (December 2006: 12,29%).

By the end of December 2007, there were 33 banking institutions reporting data to the Office of the Registrar of Banks (excluding two mutual banks, however, including one institution doing banking business in terms of an exemption notice under the provisions of the Banks Act, 1990, namely Ithala Limited).

Forty-six foreign banks had authorised representative offices at the end of December 2007. The number of people employed in the banking sector totalled 139 149 at the end of December 2007.

Insurance companies

By March 2008, 82 long-term insurers and 106 short-term insurers were registered with the FSB. According to class of policies, life insurance business forms the bulk of premiums of primary insurers and accounts for almost 50% of net premiums.

Development Bank of Southern Africa

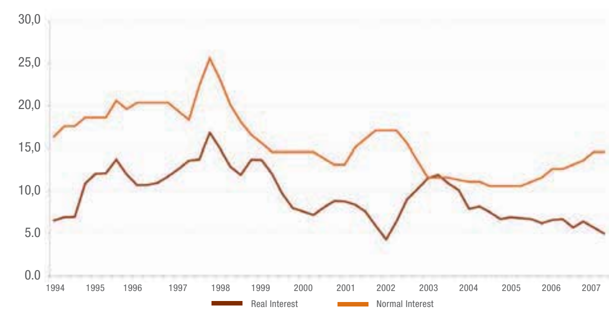
The primary purpose of the bank is to promote economic development and growth, human resource development and institutional capacity-building. The bank's mandate is focused on infrastructure.

Financial Services Board (FSB)

The FSB is an independent statutory body financed by levies imposed on regulated institutions and persons.

The FSB supervises institutions and services, in terms of several parliamentary Acts that entrust regulatory functions to the registrars of long-term insurance, short-term insurance, friendly societies, pension funds, collective investment schemes, financial services providers, exchanges and financial markets.

Interest rates



Source: *Development Indicators, 2008*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