2011 BUDGET PRESENTATION

Presenter: Pravin Gordhan | **Minister of Finance** | **24** February 2011

Budget Highlights

- We table this Budget at a time of immense transition, profound risk and great opportunity for our country
- Our country needs a united effort between business, labour and civil society to achieve faster and more inclusive growth and job creation
- The Budget reflects our commitment to create jobs, improve skills development and create opportunities for young people to participate in the economy
- Priority programmes required for implementing the New Growth Path are funded
- Infrastructure investment remains a core focus
- The budget deficit declines gradually over the MTEF to support sustainability

2

Summary

- The economy continues to strengthen and recover
  - GDP is expected to rise to 3.4% in 2011 and 4.4% by 2013
- Recovery in revenue and moderate growth in public spending lowers the fiscal deficit
  - Deficit declines from 5.3% of GDP in 2011/12 to 3.8% by 2013/14.
  - Government net debt stabilises at 40% of GDP in 2013/14.
- Expenditure rises by R94.1 billion relative to baseline over the MTEF
  - Allocations informed by government's 12 outcomes with priority to education, health, infrastructure and job creation, especially for young people.
- Over the next three years, a total of R150 billion goes towards job creation and skills development programmes and R800 billion to infrastructure investment.

3

The macroeconomic forecast

- **Growth rises from 2.7% in 2010 to 3.4% in 2011 and 4.4% by 2013.**
- **Inflation remains below 6% over MTEF**
- **Private investment and employment recover gradually**
- **Current account deficit widens as demand accelerates and imports rise**

Macroeconomic projections, 2007 – 2013

Calendar year	2007	2008	2009	2010	2011	2012	2013
		Actual		Estimate		Forecast	
Percentage change unless otherwise indicated							
Final household consumption	5.5	2.2	-2.0	4.6	4.2	4.3	4.5
Final government consumption	4.1	4.7	4.8	4.6	4.4	4.1	3.9
Gross fixed capital formation	14.0	14.1	-2.2	-3.6	3.9	5.5	6.8
Gross domestic expenditure	6.3	3.4	-1.7	4.1	4.2	4.4	4.6
Exports	6.6	1.8	-19.5	5.3	6.0	6.4	7.3
Imports	9.0	1.5	-17.4	10.4	8.5	7.0	7.4
Real GDP growth	**5.6**	**3.6**	**-1.7**	**2.7**	**3.4**	**4.1**	**4.4**
GDP inflation	8.1	8.9	7.2	6.3	5.3	5.4	5.8
GDP at current prices (R billion)	**2,016.2**	**2,274.1**	**2,396.0**	**2,615.7**	**2,846.5**	**3,122.0**	**3,445.9**
Headline CPI inflation	6.1	9.9	7.1	4.3	4.9	5.2	5.5
Current account balance (% of GDP)	-7.0	-7.1	-4.1	-3.2	-4.2	-4.9	-5.0

4

Improved global outlook as emerging markets grow strongly

IMF growth outlook

Region / Country Percentage	2010	2011	2012
World	**5.0**	**4.4**	**4.5**
US	2.8	3.0	2.7
Euro area	1.8	1.5	1.7
UK	1.7	2.0	2.3
Japan	4.3	1.6	1.8
Emerging markets and developing countries	**7.1**	**6.5**	**6.5**
Developing Asia	**9.3**	**8.4**	**8.4**
China	10.3	9.6	9.5
India	9.7	8.4	8.0
Middle East and North Africa	**3.9**	**4.6**	**4.7**
Sub-Saharan Africa	**5.0**	**5.5**	**5.8**
South Africa	2.7	3.4	4.1

Source: IMF World Economic Outlook, January 2011.

- **Strong global growth driven by emerging markets.**
- **Recovery in developed countries is still fragile**
  - High unemployment
  - Deflation risk
  - Fiscal vulnerability
  - Bad debts and banking sector reform
- **Inflation and overheating risk in emerging markets.**

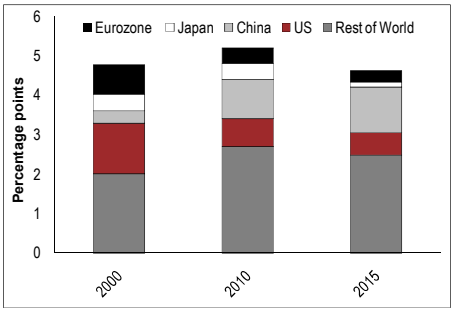
Rising share of emerging markets in global growth contributes to rebalancing

Ranking and % share of global GDP, 2000 – 2015

2000		2010		2015	
1 United States	31.0%	1 United States	23.6%	1 United States	22.0%
2 Japan	14.5%	2 China	9.3%	2 China	12.2%
3 Germany	5.9%	3 Japan	8.7%	3 Japan	8.0%
4 United Kingdom	4.6%	4 Germany	5.3%	4 Germany	4.5%
5 France	4.1%	5 France	4.1%	5 France	3.6%
6 China	3.7%	8 Brazil	3.3%	7 Brazil	3.4%
9 Brazil	2.0%	10 Russia	2.4%	8 Russia	3.0%
13 India	1.5%	11 India	2.3%	9 India	2.9%
19 Russia	0.8%	27 South Africa	0.6%	26 South Africa	0.6%
30 South Africa	0.4%				
BRIC	8.0%	BRIC	17.2%	BRIC	21.6%

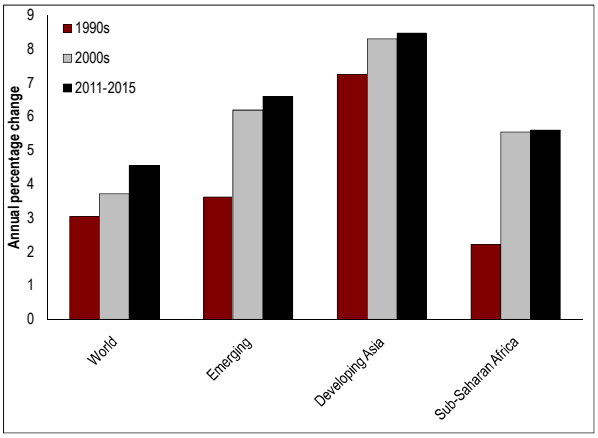
Source: IMF

Higher growth contribution from emerging markets



Robust and durable expansion in sub-Saharan Africa

Real GDP growth in sub-Saharan Africa and rest of the world



Regional growth driven by:

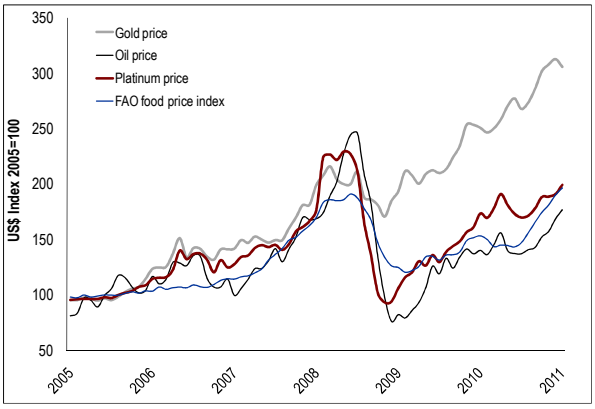
- High commodity prices and strong Chinese demand
- Infrastructure development and cheap global financing
- Prudent macroeconomic management
- Young and growing populations

Boosting regional trade:

- DBSA plans to invest R3.9bn to improve SADC infrastructure (energy & transport)
- Discussion of enlarged regional free-trade area

Strong commodity gains support exports, but also push up import costs and inflation

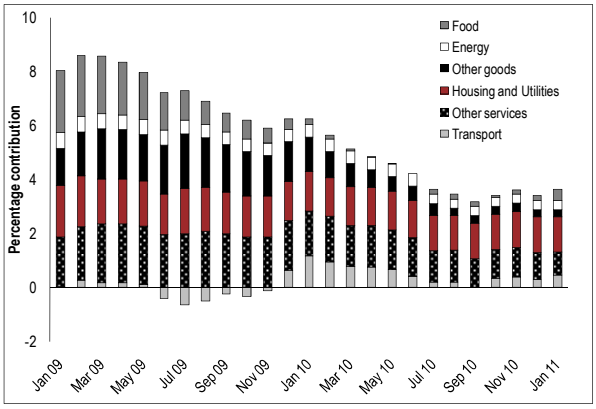
Index of US$ commodity prices



- **Oil price above US$100/bbl**
  - +33% since July 2010
- **International food prices at record highs**
  - +37% since June 2010
- **Prices of SA's main export commodities remain high supported by strong demand in China**

Higher food and oil prices will raise inflation

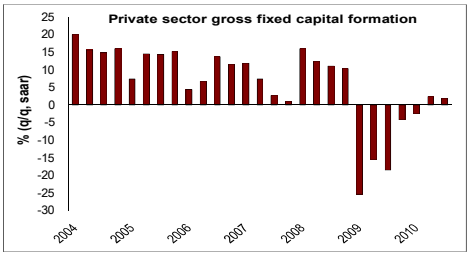
Contributions to CPI inflation

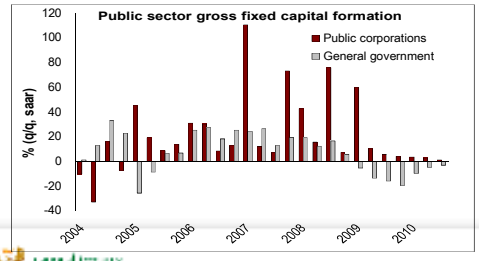


- **CPI inflation projected to rise gradually to average 4.9% in 2011.**
- **Rising contribution from food and petrol**
  - CPI food index +2.4%m/m in January
  - Petrol price +11.6% since Sep 2010
- **Weaker rand will boost import prices**

Tentative signs of investment recovery

Growth in gross fixed capital formation





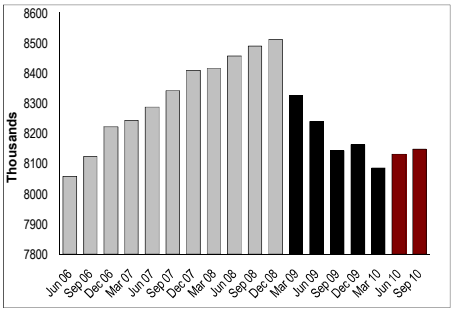
Source: SARB

- **Investment ratio fell to 20 per cent in 3rd quarter 2010 from peak of 24.6 per cent in 4th quarter 2008.**
- **Low capacity utilisation and uncertainty deter investment**
- **Tentative signs that companies are starting to invest again (mining, transport).**
- **Gradual recovery expected as capacity utilisation rises and demand strengthens supported by low interest rates.**
- **Delayed SOE investment expected to come on stream later.**

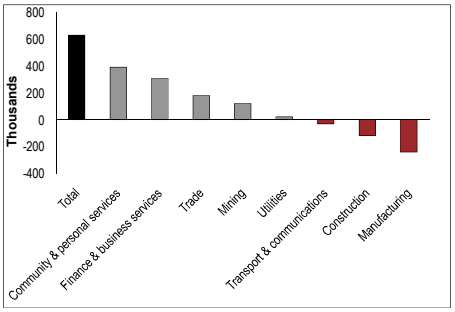
Stabilisation of the labour market with jobs created in the services sector

- **157 000 jobs were created in the fourth quarter of 2010.**
- **Gradual recovery in most sectors, and the bottoming out of job losses in manufacturing and construction, suggests that a moderate improvement in the jobs market will occur during 2011.**

Formal sector non-agricultural employment



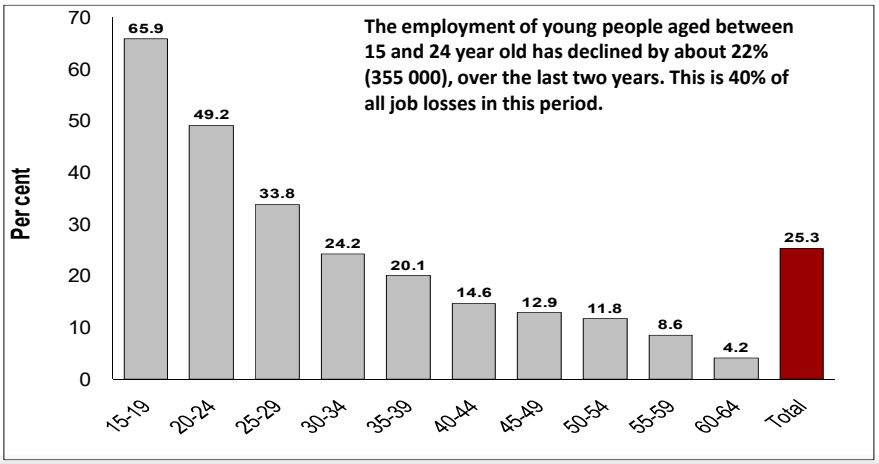
Employment change over the last six months



Source: Statistics SA Quarterly Employment Statistics

Youth unemployment is acute: More than half 15-24 year olds are jobless

Unemployment rate by age, Q3 2010



The employment of young people aged between 15 and 24 year old has declined by about 22% (355 000), over the last two years. This is 40% of all job losses in this period.

Source: Statistics SA Quarterly Labour Force Survey

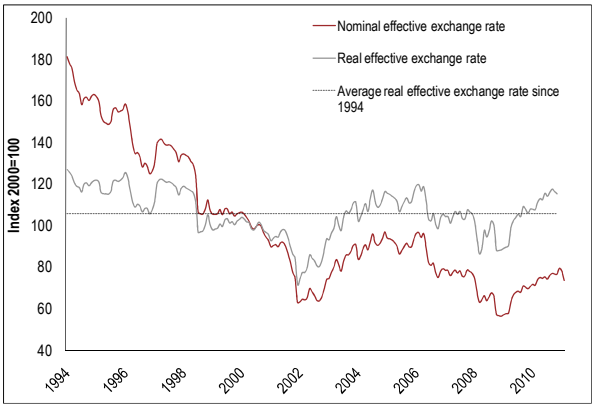
A package of measures for job creation and skills development

- Investment in further education and training (FET) colleges
- Stepped-up training for work-seekers under the auspices of Sector Education and Training Authorities and the National Skills Fund
- Expansion of public works programme activities, including community-based projects, and maintenance of roads and infrastructure
- Renewed tax incentives for manufacturing investment
- Investment in housing, and residential infrastructure and services
- Small enterprise development, including consolidated small business finance support and employment activation by the National Youth Development Agency
- A youth employment subsidy, implemented through the tax system
- A Jobs Fund to co-finance innovative public- and private-sector employment projects
- Initiatives to promote rural employment, and stepped up support for agricultural producers, particularly emerging farmers
- Support for renewable energy, environmental protection and "green" economy initiatives.

13

Moderation of rand strength since MTBPS

Nominal and real effective exchange rate indices



- The rand strengthened by 12 per cent in 2010 but has weakened by about 10 per cent since December
- Moderation of capital inflows due to global factors
- Domestic policies:
  - Reserve purchases worth R53 billion
  - Exchange control reform
- Ongoing monitoring of measures to offset the impact of capital inflows on currencies internationally.

14

Comparison of capital account management tools and objectives

Measures implemented since January 2010 to manage capital flows and reduce exchange rate appreciation

Country	Measure	Objective
Colombia	Reimpose w ithholding tax on income from foreign borrow ing by domestic companies	Reduce foreign borrow ing and financial vulnerability
Costa Rica	Impose reserve requirements on banks for short-term foreign borrow ing	
Indonesia	Reinstate limit on short-term foreign borrow ing by domestic lenders	
Peru	Raise reserve requirements for foreign currency bank loans	
Brazil	Increase tax on fixed-income securities from 2% to 6%	Reduce foreign demand for local bonds borrow ing and financial vulnerability
Taiw an	Limit foreign holdings of local bonds	
Thailand	Impose w ithholding tax on interest earned and capital gains on government and state-ow ned enterprises bonds	
Brazil	Impose reserve requirements on banks' short positions in the currency	Reduce speculative trading and violatility
Indonesia	Impose one-month minimum holding period for bond ow nership	
Israel	Impose reserve requirements for foreign exchange sw aps forw ard transactions and increase reporting requirements for large bond transactions by foreigners	
Peru	Limit local bank trading in foreign exchange derivative transactions	
South Korea	Restrict local and foreign banks' derivative positions in the foreign exchange market	
Taiw an	Limit banks' holding of foreign exchange derivatives	
Chile	Increase limits on foreign investments by pension funds	Encourage capital outflow s
South Africa	Reduce restrictions on overseas FDI and portfolio investments	
Thailand	Reduce restrictions on overseas FDI and portfolio investments	

Proposals to safeguard the financial sector from future crises

- **National Treasury has published a policy document *"A safer financial sector to serve South Africa better"* that proposes:**
- **Better regulation**. Separate prudential and market conduct regulation.
- **Financial stability.** The Reserve Bank's mandate for financial stability will be underpinned by a new Financial Stability Oversight Committee, co-chaired by the Reserve Bank Governor and the Minister of Finance.
- **Consumer protection.** Government will enhance consumer protection. The mandate of the Financial Services Board (FSB) will be broadened to include a banking services market conduct regulator to regulate bank charges and retail bank activity.
- **Access to financial services.** Financial access will be broadened. The Financial Sector Charter will be reviewed and reforms undertaken to encourage "microinsurance".
- **Coordination.** Regulatory coordination will be enhanced, and regulators strengthened as required. The Council of Financial Regulators will be formalised.
- New legislation will be required to implement the proposals. Several bills dealing with banking, financial markets, credit rating agencies and the regulatory powers of financial supervisors will be tabled in Parliament during 2011.

Consolidated government fiscal framework

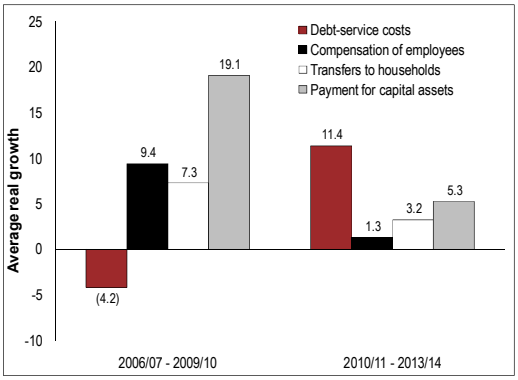
- **Consolidated government deficit projected to recover from 5.3 per cent of GDP in 2010/11 to 3.8 per cent by 2013/14**
- **Improvement driven by**
  - **a recovery in revenue in line with the economy**
  - **a stabilisation in non-interest spending – average annual real growth of 2.8 per cent over the MTEF**

Budget 2011: Consolidated government framework

	2009/10	2010/11 Estimate	2011/12	2012/13 Projections	2013/14
Revenue	**664 840**	**755 023**	**824 466**	**908 714**	**1 017 187**
per cent GDP	27.2%	28.3%	28.3%	28.4%	28.8%
Budget balance	**-161 076**	**-142 353**	**-154 799**	**-152 868**	**-134 586**
per cent GDP	-6.6%	-5.3%	-5.3%	-4.8%	-3.8%
Expenditure	**825 917**	**897 376**	**979 265**	**1 061 582**	**1 151 773**
per cent GDP	33.8%	33.6%	33.6%	33.2%	32.6%
Debt service costs	**57 129**	**66 570**	**76 579**	**90 808**	**104 036**
per cent GDP	2.3%	2.5%	2.6%	2.8%	2.9%
Non-interest expenditure	**768 787**	**830 806**	**902 687**	**970 775**	**1 047 737**
per cent GDP	31.5%	31.2%	31.0%	30.3%	29.6%
Nominal GDP	2 442 593	2 666 894	2 914 862	3 201 299	3 536 002

Baseline additions of R94.1bn over MTEF

Real growth in expenditure



- **Compensation of employees rises by 6.6 per cent p.a.**
- **Real transfers to households grow by 3.2 per cent p.a.**
- **Real interest costs rise by 11.4 per cent p.a. – fastest area of growth.**
- **Payment for capital assets grows by 5.3 per cent on average over then MTEF.**

Public-sector infrastructure spending worth R808.6bn over MTEF

- **R392.6 billion or 49 per cent of spending by non-financial public enterprises**
- **Provinces and municipalities remain significant drivers of spending**
- **82% of spending in economic services such as power plant construction, transport network expansion, and sanitation and water infrastructure**
- **Average spending growth of 8.4 per cent of GDP over the MTEF**

Public-sector infrastructure expenditure and estimates by sector, 2010/11 – 2013/14

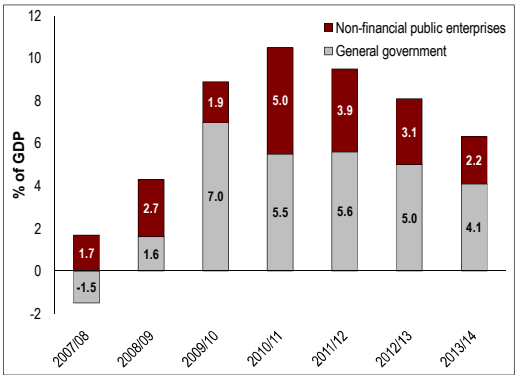
R million	2010/11 Revised estimate	2011/12	2012/13	2013/14	MTEF Total	% of total
		Medium-term estimates				
Economic Services	**228 657**	**216 181**	**219 380**	**228 507**	**664 067**	***82.1%***
Energy	102 782	96 500	98 140	96 769	291 409	*36.0%*
Water and sanitation	20 990	26 836	25 367	28 196	80 400	*9.9%*
Transport and logistics	80 530	67 452	69 096	75 554	212 102	*26.2%*
Other economic services[1]	24 356	25 393	26 777	27 987	80 157	*9.9%*
Social services	**26 249**	**29 519**	**34 932**	**44 268**	**108 719**	***13.4%***
Health	8 546	10 256	15 114	20 624	45 993	*5.7%*
Education	6 757	9 155	10 092	11 487	30 735	*3.8%*
Community facilities	6 045	6 360	5 873	7 952	20 185	*2.5%*
Other social services[2]	4 902	3 749	3 853	4 205	11 806	*1.5%*
Justice and protection services[3]	**3 100**	**3 322**	**7 080**	**10 171**	**20 573**	***2.5%***
Central government administrative and financial services	**2 104**	**3 827**	**7 946**	**3 474**	**15 248**	***1.9%***
Total	**260 109**	**252 850**	**269 337**	**286 420**	**808 608**	***100.0%***
Percentage of GDP	*9.8%*	*8.7%*	*8.4%*	*8.1%*		

DFIs strategic role in meeting government's growth objectives

- **Asset base of the major DFIs amounts to R153 billion with a lending capacity of R115 billion over the next three years.**
- **Initiatives to create/enhance capacity :**
  - **Increasing DBSA's callable capital to R20 billion;**
  - **Directing the IDC to leverage up to R70 billion on their healthy balance sheet;**
  - **Recapitalising the Land Bank with R3.5 billion;**
  - **National Housing Finance Corporation (NHFC) to borrow R500 million from multilateral development agencies;**
  - **Leveraging on infrastructure grants to reduce the risk of lending to municipalities that are credit risks.**
- **Further assistance will be subject to successful and effective implementation of strategy to increase existing lending capacity.**
- **Leverage DFI's to assist departments with the roll-out and implementation of capital expenditure projects, in particular in education and health.**
- **DFI council will enhance coordination, strategic guidance and monitoring of delivery by DFIs.**

Public-sector borrowing requirement

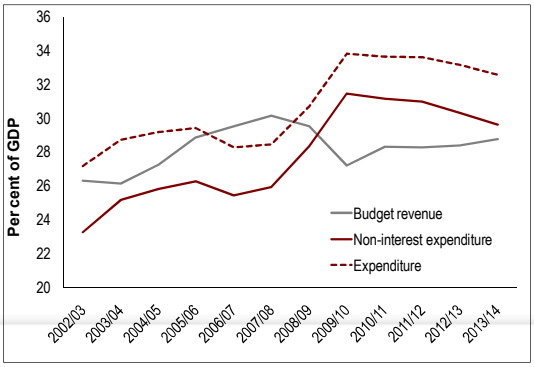
Public sector borrowing requirement



- **PSBR declines from 10.5 per cent of GDP in 2010/11 to 6.3 per cent by 2013/14**
  - **Narrowing of the consolidated government deficit**
  - **Lower borrowing by non-financial public enterprises as own revenue streams come on line once capital projects are completed and become operational.**

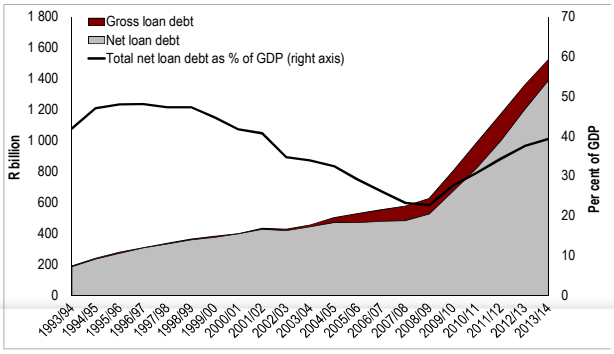
Fiscal sustainability – the primary balance

- **Non-interest spending rose strongly during the economic boom thanks to robust revenue growth**
- **Revenues are currently insufficient to cover non-interest spending and interest payments, but will rise as economy recovers**
- **A stabilisation of non-interest spending and higher revenue reduces the primary budget deficit from of -4.3% in 2009/10 to -0.9% of GDP in 2013/14**



Fiscal sustainability – debt

- The countercyclical fiscal stance led to increased borrowing to meet expenditure commitments
- Debt-service costs rise over the MTEF
- Net debt to stabilises at 40 per cent of GDP by 2015/16
- Guarantees for SOEs increase from R63bn in 2008/09 to R194bn in 2013/14 to reduce their cost of borrowing (particularly Eskom)



23

Guidelines for fiscal sustainability

- Protecting our fiscal gains for future generations will require a framework based on the long-run levels of expenditure and revenue that the economy can afford.
- We propose that government:
  - Adopt an annual target for the structural budget balance consistent with long-term growth, the desired level of public debt and inter-generational considerations.
  - Make explicit the costs of existing and new programmes that require a long-term expenditure commitment.
  - Set out a timeline to bring the budget back on target following large fiscal shocks.
- The structural balance target should support the macroeconomic objectives of the New Growth Path by promoting lower interest rates and stability.
- Over the long term, economic stability will contribute to higher growth, protecting the prosperity of our children.

24

Tax revenue estimates

- **Revised tax revenues estimates for 2010/11 up R73.5 billion compared to 2009/10, R24.35 billion above the 2010 Budget estimate but R7.0 billion below the 2010 MTBPS estimate**
- **Strong growth in value-added tax and custom duty revenues**
- **Modest growth in personal income tax revenues**
- **Corporate income tax revenues lagging**

2010/11 Estimates R million	Feb 2010 Budget 2010	Oct 2010 MTBPS	Feb 2011 Budget 2011	Budget 2011 vs. MTBPS	Budget 2011 vs. Budget 2010
Persons and individuals	224,676	230,000	228,000	-2,000	3,324
Companies	133,650	138,000	132,500	-5,500	-1,150
STT	4,100	3,400	3,000	-400	-1,100
Transfer duties	5,000	5,700	5,500	-200	500
Value added tax	164,000	181,000	181,335	335	17,335
Specific excise duties	24,250	24,000	22,900	-1,100	-1,350
Fuel levy	34,600	33,700	34,300	600	-300
Customs duties	20,500	26,000	26,400	400	5,900
TOTAL TAX REVENUE	**647,850**	**679,200**	**672,200**	**-7,000**	**24,350**
Non Tax Revenue	10,380	12,265	12,254	-11	1,874
of which Mineral Royalties	*3,450*	*4,255*	*3,712*	*-543*	*262*
Less: SACU Payments	-14,991	-14,991	-17,891	-2,900	-2,900
TOTAL BUDGET REVENUE	**643,239**	**676,474**	**669,463**	-7,011	26,224

2011 tax proposals

Individuals

- R8.1 billion personal income tax relief
- Introduction of a third rebate for taxpayers 75 years and older
- Adjustments to the monthly monetary threshold as deductions for contributions to medical schemes and converting the medical deductions to a tax credit
- Reforms to the tax deductions for contributions to retirement funds
- Increases in the monetary thresholds relating to the exclusions from capital gains
- Consider tax incentivised savings accounts: (i) first time home deposits and for (ii) higher education
- Taxation of gambling winnings
- Exploring options to fund increased spending on the health system

2011 tax proposals

Business taxes

- The introduction of the new dividends tax on 1 April 2012
- The closing of various dividend schemes
- Review the incentive regime to facilitate equity investments in small and medium size companies and junior mining companies (venture capital company)
- Extending the date of the learnership / skills development tax incentive
- A youth employment tax credit

Indirect taxes

- Transfer duty relief
- Increase in taxes on alcohol and tobacco
- Increase in fuel taxes & the electricity environment levy
- Increase in air passenger departure tax

Social security overview

- **The means test thresholds for the *disability* and *state old-age* grants will be increased to the tax threshold over the next three years.**
- **A higher state old-age grant introduced for those aged 75 and older**
- **Almost 15 million people now receive grants. Expenditure on grants is expected to be R88 billion in 2010/11; this equates to 3.5% of GDP**
- **The Unemployment Insurance Fund continues to provide income support to a large number of unemployed workers and benefits can be improved**
- **The proposed transformation of the RAF into a no-fault road accident benefit scheme has made important progress this year**
- **The inter-Ministerial committee has agreed to align and consolidate social security entities to reduce administrative costs, increase efficiency and improve service delivery**
- **The first steps in introducing National Health Insurance were implemented this year as part of the Minister of Health's ten-point plan for improving health outcomes.**

Government spending and division of revenue

- **Real growth in consolidated government spending moderates from 10.6 per cent on average between 2006/07 - 2009/10 to 2.8 per cent between 2010/11 - 2013/14**
- **Fiscal framework makes R94.1 billion available over MTEF. This includes savings of R30.6 billion, of which R21.6 billion is reprioritised to meet existing outcomes commitments, and R9 billion is added to the fiscal framework to provide more resources for government's priorities**
- **Division of revenue:**
  - **National government: R48.8 billion is added**
  - **Provincial government: R30.1 billion is added to equitable share**
    R10.1 billion to conditional grants
  - **Local government: R1.2 billion is added to equitable share**
    R3.7 billion to conditional grants
    R0.3 billion for general fuel levy
- **Expenditure is channeled towards government's 12 outcomes using government functional groupings as the basis for budgeting, with the main focus on:**
  - **Job creation**
  - **Education and skills development**
  - **Health**
  - **Human settlements**
  - **Rural development**

29

Government's main new spending plans over the MTEF by function

- **Job Creation**
  - R9 billion for job creation
  - R5 billion for youth employment subsidy already announced in the last budget
  - R1.8 billion for creating 41 131 full-time equivalent jobs under Expanded Public Works Programme
- **Education and Skills Development**
  - R9.5 billion for Further Education and Training college expansion and bursaries
  - R8.2 billion for upgrading school infrastructure and facilities
  - R954 million for Funza Lushaka bursaries for teachers and for postgraduate students in the natural sciences
  - R300 million to establish universities in Mpumalanga and the Northern Cape
- **Health Services**
  - R5.5 billion to introduce family health teams and hospital quality improvement
  - R2.5 billion to expand provision of antiretroviral drugs
  - R1.4 billion for maternal and child health

30

Government's main new spending plans over the MTEF by function (2)

- **Housing and Community Amenities**
  - R4.9 billion towards eliminating informal housing and for municipal services
  - R3.6 billion to support water infrastructure and services and response to acid mine drainage
- **Economic Affairs**
  - R2.8 billion for rural development and emerging farmer support
  - R10.3 billion for public transport, roads and rail infrastructure
- **Social Protection**
  - Old age and disability grants are increased by R60 per month to R1 140 and R80 for pensioners over 75 and the child support grant is raised by R10 per month in April and another R10 in October
  - R870 million for the implementation of a more efficient social grant application process that will reduce fraud

Government's main new spending plans over the MTEF by function (3)

- **Public Order and Safety**
  - R2.1 billion for additional police personnel and training
- **General Public Services**
  - For disasters
    - R1.8 billion as unallocated provincial and municipal conditional grants to deal with immediate disaster needs
    - R600 million earmarked for post-disaster recovery and reconstruction, following the floods in early 2011
    - R254 million for prevention and mitigation of disaster risks in the country
  - R500 million for StatsSA for 120 000 temporary census workers in 2011
- **Sports, Arts and Culture**
  - R315 million to National Film and Video Foundation for creating 4 200 jobs by training scriptwriters, script editors, producers and other crew

Provincial and local government spending plans

A) Main funding items to provincial government:

Equitable share:

- R5.3 billion, R5.6 billion and R6.0 billion over the MTEF to cover the 7.5 per cent salary increase and R800 housing allowance
- R1.6 billion, R1.8 billion and R2 billion over and above this set aside for outstanding Occupational Specific Dispensation commitments in Education
- R1.7 billion, R3.8 billion and R4.8 billion to cover a range of pressures in health

Conditional grants:

Direct transfers

- R310 million, R560 million and R2.1 billion for hospitals and HIV and Aids prevention and treatment
- R566 million, R1.3 billion and R1.6 billion for provincial roads
- R641 million, R718 million and R804 million for municipal property rates levied on government accommodation
- R354 million, R536 million and R864 million for Further Education and Training colleges
- R50 million, R175 million and R275 for agricultural production
- R675 million for disasters, currently unallocated to provinces

Indirect transfers

- R8.2 billion over the MTEF to address schools infrastructure backlog

B) Main funding items to local government:

Equitable share:

- R168 million, R339 million and R678 million are set aside over the MTEF for sustainable provision of free basic services

Conditional grants:

Direct transfers

- R396 million, R662 million and R1 billion for the new Urban Settlements Development Grant
- R378 million, R875 million and R1.2 billion for Public Transport Infrastructure and Systems Grant
- R24 million, R 26 million and R27 million for assessing conditions and usage of rural roads
- R470 million, R330 million and R350 million for disasters, currently unallocated to municipalities
- R450 million for drought relief for Nelson Mandela Bay municipality

Indirect transfers

- R 100 million, R384 million and R468 million for Regional Bulk Infrastructure Grant

THANK YOU