NATIONAL TREASURY

A People's guide...

BUDGET 2008

Weathering the storm, investing for growth

World economic growth is slowing down and there is more uncertainty in global markets. This year, the world economy is likely to grow more slowly than any time since 2001. South Africa's economy will be affected by this slowdown, but our economy has a strong foundation, the public finances are sound, investment is rising and the long-term outlook for growth is healthy. We will weather the storm.

Our economy has experienced its longest period of economic expansion in over 50 years, growing by an average of 5 per cent a year for the last five years. Since 2001, we have created about 1.5 million jobs.

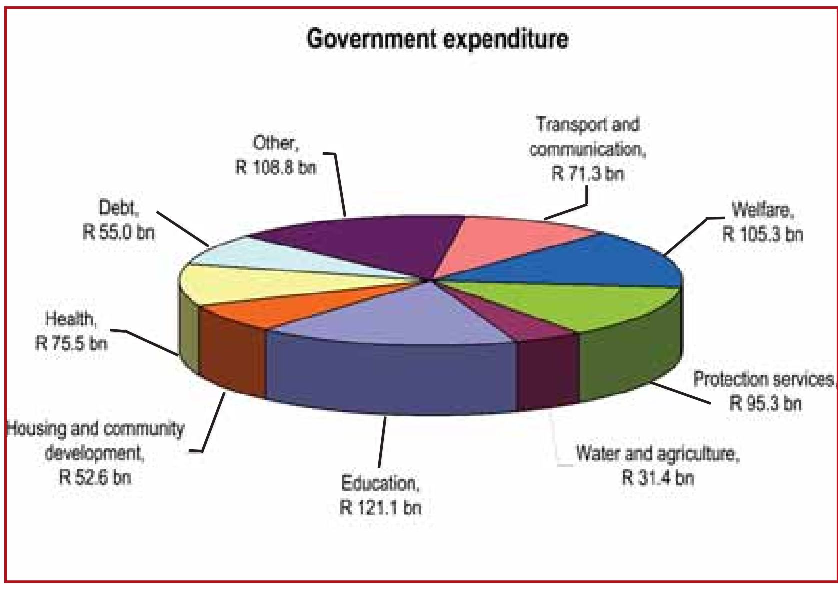
Because of rapid economic growth and proper management of the public finances, government spending has grown rapidly since 2001, much faster than economic growth. As a result, we have been able to provide more resources for education, health, social grants, housing, policing, public transport, stadiums, roads and prisons.

As the economy has grown, we have come up against some limitations. The shortage of skilled people, insufficient electricity, traffic congestion and cement shortages are all signs that the economy is reaching its speed limit. To grow faster, we have to invest even more in skills, in infrastructure, in machinery and equipment, in roads and public transport.

Because of these constraints and because of the weaker global environment, our economy is likely to slow down, growing at about 4% to 4½% a year for the next three years. This is slower than the past five years, but is still healthy growth for a country such as South Africa. And most importantly, we will continue to invest for the future.

Over the next three years, the 2008 Budget allocates more money to extend social grants to men between the age of 60 and 64, increase the coverage of the school feeding scheme, improve the conditions of schools and hospitals, accelerate the delivery of water and sanitation, invest in public transport, raise salaries for teachers and nurses, increase the number of prosecutors and magistrates, expand the capacity of prisons, encourage people to save electricity, and boost our trade and exports. We are also taking steps to make government work better for the people, and to get more value for each rand spent.

Through getting better results from public spending and through higher levels of investment, we can lift our economy towards a growth rate of 6%. We have much work to do. The foundation of our economy is strong and will be tested over the next year or two. With the right policies and hard work from all South Africans, we can grow even faster and make a bigger difference to the lives of all of our people.



What is the National Budget?

In February of each year, the Minister of Finance announces government's spending, tax and borrowing plans for the next three years. This is called the national budget. It describes how government will raise money and how it will be spent. The national budget divides money between national departments, provinces and municipalities.

Budget Highlights

The main changes to the budget for the next three years are:

Spending highlights

- R12 billion more for social grants
- R7.6 billion more for public transport, roads and railway infrastructure
- An extra R8.7 billion for housing, water and general built environment
- R2 billion more for 2010 World Cup Stadiums and related infrastructure
- An additional R6.7 billion for HIV and Aids, hospitals and tertiary services, TB- MDR and XDR
- R2.5 billion for industrial development and SMMEs
- R2.6 billion more for agriculture and land reform
- R2.7 billion extra for forensic laboratories and additional police personnel
- R2 billion more for correctional facilities
- R1.4 billion more for higher education, research and knowledge development

Tax proposals

- Total tax relief for individuals of R7.7 billion
- Measures to encourage employers to provide bursaries to the children of low and medium income employees
- A reduction in the corporate income tax rate to 28 per cent
- A simplified tax regime for small businesses
- R5 billion in tax subsidies set aside over the next five years to support investments in labour intensive industries and to support government's industrial policy
- Fuel (petrol and diesel) taxes will increase, as from 2 April 2008, by 11 cents per litre
- A packet of 20 cigarettes will cost 66 cents more
- A 750 ml bottle of wine will cost 9 cents more
- A 340 ml can of beer will cost 7,2 cents more, and
- A 750 ml bottle of liquor (spirits) will cost R2,17 more

Issued by the National Treasury, Private Bag X115, Pretoria, 0001

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Preparing for kick-off: the 2010 FIFA World Cup

South Africa's plans for the 2010 FIFA World Cup are being rolled out rapidly. We are building stadiums, training venues, fan parks and public viewing areas. We are improving public transport. We are planning for every aspect of the event - from electrical power to broadcast and telecommunications, visitor accommodation, tourism, city promotion and beautification.

We are planning health and disaster management, event operations, safety and security, volunteer training and recruitment, environmental rehabilitation and waste management, event communication, legacy and cultural activities.

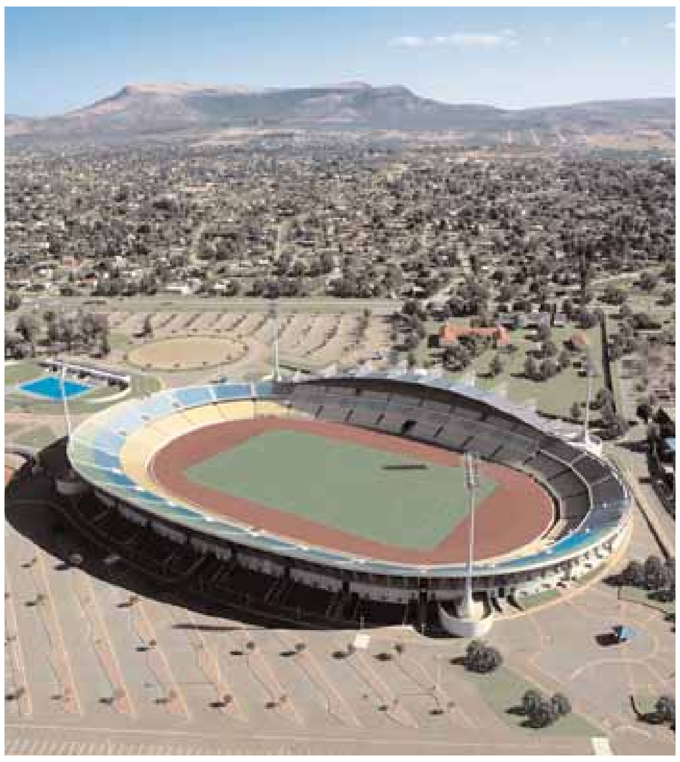
Five new stadiums are being built - in Cape Town, Johannesburg, Mbombela, Nelson Mandela and eThekwini. Construction began in 2006. Five stadiums are being upgraded - in Johannesburg, Mangaung, Polokwane, Rustenburg and Tshwane. The upgrading process began in September 2007.

Construction of the new stadiums is creating about 170 000 temporary jobs.

Government originally allocated R8.4 billion to build and upgrade these stadiums. However, tight deadlines were set. Stadiums needed for the Confederations Cup had to be finished by December 2008, and the 2010 stadiums had to be finished by December 2009. To meet these tight deadlines, required contractors to work quicker. To respond to cost increases, an additional R1.2 billion has been allocated, taking the total amount provided for stadiums to R9.6 billion.

In addition, a total of R9 billion is allocated to public transport projects related to the World Cup.

Host cities will also receive funding of R684 million to conduct operations during the 2009 Confederations Cup and 2010 FIFA World Cup.



Social grant increases and extension of our grant system

More than 12 million people in South Africa receive a social grant. Grants are part of a safety net provided by government to protect people during vulnerable stages in life, such as old age and childhood, or if they are disabled and cannot work. The available grants are the old age pension, the disability grant, the child support grant, the foster care grant and the care dependency grant. Over the past 10 years, government has gradually increased its coverage of children through the care dependency, child support and foster care grants.

The child support grant has been central to this effort. In this budget, we make provision for an increase in the coverage of the child support grant to children up to their 15th birthday.

The old age pension is one of main the pillars of our grants system. For most recipients of the old age grant, this monthly transfer is their only source of income, which they rely on to buy food and other basics. The 2008 Budget also makes provision to phase in a reduction of the age of eligibility for men from 65 to 60 years - which is the same for women.

In 2008/09, total spending on grants will increase to R69 billion, which is 10% of total government spending. This makes South Africa one of the world's biggest spenders on social grants.

Social grant increases for this year are as follows:

- The old age pension, disability and care dependency grant grow from R870 to R940 a month
- The child support grant grows from R200 to R210 a month on 1 April 2008, and from R210 to R220 a month on 1 October 2008
- Foster care grants grow from R620 to R650 a month.

Many other government programmes support vulnerable households. Children who receive social assistance do not have to pay school fees. Children who do not receive a grant may also be exempt from paying school fees, depending on their parents' level of income. All children under the age of 6 are entitled to free primary health care. All beneficiaries of social grants who are not members of private medical aid schemes are fully subsidised to receive health services at public hospitals.

Investment in electricity

Eskom has 26 power stations with the capacity to generate 37 761 megawatts (MW) of electricity in total. However, only 35 436 MW is normally available, with 2 325 MW used exclusively during peak times.

Due to growing electricity demand, Eskom's ageing plants are operated at maximum capacity, which often leads to equipment failures and less electricity available to the national grid that powers South Africa. Together with reduced capacity when plants are shut down for regular maintenance, this means that Eskom is not able to generate enough electricity to meet demand by households and industry. This results in power cuts.

Capital investment

To address the urgent electricity supply shortage, Eskom, which is owned by government, is investing about R342 billion over the next 5 years in new power plants.

Short-term capacity expansion includes:

- Return to service of three power stations that were in long-term storage - Camden, Komati and Grootvlei - which jointly provide an additional 3 677 MW.
- Construction of two gas-fired power plants - open cycle gas turbines in Mossel Bay and Atlantis. These will provide an additional 1 042 MW.
- The Gas1 project, which will add 1 036 MW of capacity to already completed open cycle gas turbine plants.

Long-term capacity expansion includes:

- Construction of a pump storage project, Ingula, in northern KwaZulu-Natal. Ingula will generate 331 MW of electricity by 2012 and an additional 993 MW by 2013.
- Building a new power station, Medupi, at Lephalale. This will generate an additional 4 788 MW of electricity, with the first generating unit available at the beginning of 2012 and the last one by 2016.
- Developing Project Bravo, near Witbank, which will provide an additional 4 818 MW. The first generating unit will come online by July 2012 and the last unit in December 2015.
- A 100 MW wind farm on the Cape West Coast due for completion by 2010.

Together, these investments will increase South Africa's long-term capacity to provide power to homes and businesses. However, the electricity crisis also shows the need for all of us to conserve electricity and use it more efficiently.