Budget Speech

2008

Minister of Finance

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Madam Speaker

The global economy grew by an average of 5 per cent from 2003 to 2007. It was a period of robust expansion but also of widening international imbalances. Now there are storm clouds ahead.

In North America, severe turbulence in the housing market will continue to rock credit markets around the world and lower the near-term prospects for growth in the world's largest economy. The losses due to bad lending practices in America's housing markets appear to be worse than we thought – estimates now reflect a combined loss of US$400 billion.

These disruptions have travelled across the global landscape rapidly. Finance capital knows no boundaries and globalisation's trade currents reach every corner of the world. Higher oil prices are lowering growth prospects in Europe and Japan and raising the inflation outlook everywhere.

China's economy, in contrast, continues to expand rapidly, growing by 10 per cent in 2007 and an expected 9.5 per cent in 2008, driven by booming exports and an investment to GDP ratio of 45 per cent.

Yet even these regions with their high savings and investment rates will experience some moderation as a result of weaker demand for their exports, and international investors' aversion to warm climates will slow growth in other emerging market economies.

China's expansion and global growth have impacted on the prices of all major commodities, including oil. Some of this is good news – higher prices benefit mineral-rich economies – but rising food and fuel prices, cause discomfort and hardship.

Prospects for the South African economy

For the time being the cross-currents of commodity prices remain supportive of economic growth in many parts of Africa, for South Africa and in Australia. But there are signs of uncertainty: since the beginning of the year for example, R24 billion in foreign holdings of rand-denominated bonds and equities has been sold. Inflation and our own lack of savings increase our vulnerability to financial turbulence.

Our economy's longer term outlook, however, remains favourable. Key policy anchors are in place to provide a solid mooring while enabling the economy to adapt to the cross-currents. The prudent fiscal stance, international reserves of US$33.6 billion, the inflation targeting regime and a floating exchange rate cushion us against shocks and reduce pressure on interest rates.

We took these decisions early and we implemented them when times were good. We took them in the face of some severe criticism, even in this House. It is precisely because of the macroeconomic policies put in place since 1996 and the fiscal stance in operation that we can be confident that we will weather this storm. We have seen investment as a share of GDP rise from about 15 per cent to 21 per cent. Our sound footing will enable us to grow at a faster pace, and generate the resources to broaden participation and improve the lives of all South Africans progressively and sustainably.

Madam Speaker, the South African economy has expanded continuously since September 1999. Its pace of growth slowed slightly in 2001 and 2002, and since 2003 we have grown by an average of 5 per cent a year. This is the longest continuous period of growth on record. GDP per person has increased by over 20 per cent since 2000. During the past five years, employment has increased at a faster pace than at any point in the past twenty years, adding over 1.5 million jobs.

As we present a picture of where we are now, we must also tell South Africans and the world that our ship is stronger and we are better prepared than during previous episodes of global turmoil. It is time for neither gloom nor panic.

But the course ahead will be somewhat tougher.

We are all in this together – business and community organisations, labour and government; the employed, the self-employed and the unemployed; the urban and rural; men and women. We may not all be affected in the same way, but we face the same headwinds and uncertainties. None of us has the privilege of perfect foresight; none of us is isolated from the tides and turbulence of the global markets.

During periods of uncertainty, it is important that we keep focused on the things required to raise long term growth. The circumstances call to each one of us to do more, to act with greater determination and to act together. This Budget and many of government's programmes and plans contribute to raising our growth potential in the future. Our investments in physical infrastructure, education and skills, research and development, fighting crime and contributing to regional peace are aimed at improving our growth prospects and broadening opportunity, so that when the storm abates, we will grow even faster, with more equitable outcomes.

Investment in fixed capital expanded rapidly in 2007 and will remain a key support to GDP growth over the medium term, driven by widespread public sector infrastructure development and its effect on private investment and capacity. Spending on energy intensive projects may be deferred over the medium term. Growth in fixed capital formation is expected nonetheless to average near 10 per cent over the next three years.

During the course of 2007, food prices increased by over 10 per cent. Mainly driven by global factors and poor weather at home in 2006, the price of a 12.5 kg bag of mealie meal, the staple diet for most South Africans, went from about R37 to R49. This is also a global problem. The prices of basic foodstuffs – maize, wheat, soyabeans and rice – have increased as a result of changing climatic conditions and rising demand. Supply constraints for goods such as cement and refined petrol and diesel added to inflationary pressures, pushing up inflation to 8.6 per cent in December last year and an average of 6.5 per cent in 2007. As is always the case when inflation rises, the poor have been hardest hit.

Madam Speaker, we recognise the hardships that all South Africans are experiencing as a result of higher food and petrol prices. We also commend the work of the Competition Commission and the Competition Tribunal for their diligence in investigating companies that collude to keep prices higher than they should be. This government is vigilant and will act in instances where companies collude to profit from the impoverishment of ordinary people.

While we may debate the best method of fighting inflation, there can be no doubt in the minds of caring South Africans that rising prices must be countered and that this must remain the key objective of monetary policy. The steps taken by the Reserve Bank to bring down inflation are working. Inflation is projected to fall within the target range by the end of this year and to average 4.9 per cent in 2009. A policy stance that accommodates higher inflation cannot be consistent with a government that is intent on reducing poverty.

One of the points of vulnerability in our economy is that we import far more than we export – this gap, called the current account deficit, has widened to an estimated R143 billion a year. Part of this is because we are investing heavily in infrastructure expansion, we are importing machinery and capital goods, in addition to the imports of fuel and other goods. The value of our exports, although boosted by high commodity prices, is insufficient to pay for our imports. The South African economy evidently has a savings ratio that is too low to support our levels of growth. This gap, of almost R3 billion a week now, has to be financed by savings from abroad.

The current account deficit makes the economy more vulnerable, especially during times of stress in global financial markets. Our ability to continue boosting investment to drive long term growth therefore depends on increasing savings and expanding exports. Further progress is required on the microeconomic policy front if we are to address this macroeconomic imbalance. Barriers to faster export growth include skills shortages, transport capacity constraints, high telecommunications costs and tariffs that raise the price of imported intermediate and capital goods. These are challenges we need to address jointly with all stakeholders – business, labour, government and regulators: for the process of discovery of microeconomic solutions is at least as important as the decision itself.

Democratic values and public policy

Madam Speaker, our integration into the world economy is a circumstance of modern times and we would not wish to retreat into a disengaged zone of false hopes and self-defeating loneliness. But we have no sympathy with the view that globalisation is there on a 'take it or leave it' basis, and all we can do is to have more or less of it on its own terms. No! We seek to engage with the world economy on terms that are fair and that will benefit all of our people.

In his recent book on social democratic policy challenges, Harvard academic Roberto Unger, currently a minister in the Brazilian cabinet, speaks of the need to energise democracy by confronting the interplay of global and local forces, by building the capacity to negotiate from a position of strength, by mobilising the resources of local knowledge and national capabilities. Unger points out for example that higher national savings is about expanding the scope to benefit from globalisation, and fiscal and monetary policies must be focused both on adapting to new circumstances and strengthening local institutions. It was in this spirit, Madam Speaker, that we embarked on our Reconstruction and Development Programme in 1994, and we constructed a macroeconomic framework in 1996 that was of our own making and not dictated by external multilateral institutions.

In revisiting our strategic priorities for the decade ahead, we therefore seek to engage proactively with the global environment, its threats and opportunities, while remaining firmly rooted in the principles on which our democracy is founded. The mandate that we draw from the Preamble to our Constitution compels us to

> *Heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights;*
>
> *Lay the foundations for a democratic and open society in which government is based on the will of the people and every citizen is protected by law;*
>
> *Improve on the quality of life of all citizens and free the potential of each person; and*
>
> *Build a united and democratic South Africa able to take its rightful place as a sovereign state in the family of nations.*

Madam Speaker, we invited reflection at this time last year on whether our policies and spending programmes give proper recognition to the idea, which we affirm once again, that "human life has equal worth". Freedom has afforded us the opportunity to build a society that is different, built on the principle of social solidarity, the recognition that each of our destinies is intertwined.

This is a question to which we will have to return, again and again, in the context of our own war on poverty, in the context of our infrastructure utilities and financial institutions and their regulation, but also in the context of the global environment of which we are a part. And in this regard, Madam Speaker, there are steps we have to take to change the legacy we will leave our children: adjustments to our growth path we have to make as a global community, as nations working together, as citizens of a shared humanity, in response to the challenge of climate change and environmental responsibility.

We are in these things together, the war on poverty, infrastructure development and financial stability, responding to global warming – we share these obligations: rich and poor, urban and rural, men and women, business and community organisations, labour and government.

…because we march together under the banner of social solidarity to improve the lives of all South Africans.

Public priorities and spending plans

The economic expansion since 1999 has allowed public spending to rise rapidly in all areas. We have accelerated investment in housing, water, sanitation and economic infrastructure, we have extended education services, health care, welfare programmes social grants, policing and access to the courts, we are strengthening the machinery of government and enhancing South Africa's contribution to Africa's development and conflict resolution. Over the period ahead, government's spending plans again allow for a progressive extension of public services, informed by the "apex priorities" outlined by President Mbeki in the State of the Nation Address.

Economic growth and employment

Our high rate of unemployment remains our greatest economic challenge. Over the past decade we have done much to reshape our economy and since 2002 there has been significant progress in job creation. But our response to the unemployment challenge needs to be better coordinated – this is at the centre of our war on poverty. In particular, efforts to increase employment of young people have to be intensified and skills development better focused. Options for a wage subsidy to contribute to employment creation are being examined. Tax measures introduced in this budget broaden the internship allowance to include longer term apprenticeships, targeted at technical skills.

Support for small businesses is also focused on encouraging job creation. Over the longer term, the shift towards a more energy-efficient economy will be positive for employment creation, and our land and agricultural policies have key roles to play.

This budget supports our industrial policy framework, through an additional R2.3 billion for the Department of Trade and Industry over the next three years and tax incentives of R5 billion in support of industrial investment and employment creation. Business development is not a core responsibility of government, but where it contributes to broadening opportunities, to drawing the marginalised and excluded into the mainstream of economic activity, then it has a rightful claim on public support. And yes, this House and every taxpayer shares with us a responsibility to question continuously whether our incentives are based on sound policies and criteria, not on favours or special interests masquerading as the public good.

This budget recognises that there is considerable scope for job creation in several areas of public service delivery. Programmes under the umbrella of the expanded public works programme which have demonstrated the ability to create jobs are supported with a further R1 billion over the period ahead. Social development programmes such as early childhood development, the expansion of Grade R enrolment and community and home-based care, for which funds are allocated to provinces, are labour intensive and contribute strongly to social cohesion in poor communities.

Poverty reduction and social security

Alongside job creation, government's poverty reduction strategy also prioritises the social security net and extending the social wage – which includes services such as water, electricity, sanitation, education, health care and public transport.

Madam Speaker, the progressive extension of social security is a central element of our anti-poverty strategy, made possible by the fiscal space created over the past decade. An interdepartmental task team has made progress over the past year in developing the proposed framework for a contributory social security system to complement our social assistance grants programmes, and regulatory overhaul of the retirement fund industry is in progress. These are complex reforms that will give practical content to our social solidarity commitment over the long term. This year will see the start of an engagement within Nedlac on implementation challenges.

In this budget, we are able to announce several steps in extending social security over the period ahead. The social grant increases this year match or exceed inflation, and take into account the disproportionate impact of price increases on the poor. The maximum values of the disability and old age grants will increase by R70 a month to R940 in April this year, while the child support grant will increase by R10 in April and by a further R10 in October, to R220 a month. Together with measures to extend the social security net, the additional social assistance cost amounts to R12 billion over the next three years. The total number of grant beneficiaries is 12.4 million, and expenditure on social assistance will be R75.3 billion next year.

Drawing on the work of the interdepartmental team on social security reform, we will begin to address the difficulties of the present means tests. The qualifying household income threshold for the child support grant will be raised and the means test formula that applies to the old age grant and disability grant will be revised, contributing both to easier administration of these restrictions and broader access of the poor to income support. Details of these reforms will be contained in amendments to the Social Assistance Act and its regulations, which will be tabled by the Minister of Social Development.

It is proposed that the qualifying age for men for the old age pension should be reduced from 65 to 63 this year, to 61 in 2009 and to 60 by 2010.

The child support grant will be extended to include children up to their 15th birthday with effect from January 2009. The Minister of Social Development has indicated the need to review eligibility criteria or conditions, in line with practice in many countries, aimed at reinforcing the responsibilities of caregivers towards benefiting children. These might include regular school attendance, for example, or immunisation of children in keeping with health requirements. There is rightly public interest in these matters, and we should ask this House to lead an active debate.

Social transfers are just part of the war on poverty, and must be matched by investment in capabilities and opportunities through skills, economic expansion and development of social infrastructure. To fight poverty in a holistic manner, a developmental state must balance growth in social assistance with progress on other fronts. Our budget proposals therefore reflect both a balance amongst various spending measures, and progressive implementation of reforms.

Fighting poverty also requires reliable monitoring and measurement tools. Following public consultation on the proposals outlined in a discussion document last year, Statistics South Africa will introduce an official poverty line index in three weeks time.

Allocations to provinces

Members of the House will know that the Division of Revenue Act provides for a substantial share of nationally collected revenue to go to provinces to meet the costs of services that are their responsibilities, as set out in the Constitution. Allocations to provinces will amount to R238 billion in 2008/09, and the increase over baseline for the next three years amounts to R46 billion, to provide in particular for improvements in education, health, welfare and housing programmes. The equitable share and provincial grants also provide for investment in roads, agriculture, economic affairs and tourism, including allocations for labour-intensive programmes falling under the expanded public works programme.

Improving the quality of services for which responsibility is shared concurrently between national and provincial government presents particular challenges. In some instances, provincial budgets do not always reflect national priorities, while national departments sometimes introduce priorities that are not well costed. We call on provincial legislatures and the public to raise their vigilance to ensure that priorities we hold dearly, especially education and health, are funded adequately.

Better health services for all

I am pleased to be able to report that improved remuneration and training have contributed to an increase in health personnel of 39 600 over the past four years, and a further 25 000 posts will be filled by 2010. The hospital revitalisation programme is targeted for additional allocations, the conditional grants for HIV and Aids will increase and tertiary health services are prioritised. Together with additional resources for multi-drug resistant and extreme drug resistant tuberculosis and for higher pay for nurses, spending on health services is projected to grow by over 10 per cent a year over the next three years.

I have just gone through a tip that I received from Mr. William Makhale from Moroka North in Soweto. He is a practicing traditional doctor and he has asked for money to be allocated for traditional health practitioners and that the Minister of Health instruct SALGA to work with traditional healers to set up clinics of traditional medicine. Mr. Makhale, thank you for taking the time and effort to write a 99 page submission by hand. I promise that I will pass this on to my colleague.

Education and skills development

Education is central to our objective of broadening opportunity and fighting poverty. This budget prioritises school building, early childhood education, school books and educator remuneration. Over the next three years, provinces have budgeted to spend over R18 billion on school infrastructure and equipment, so that we can indeed eradicate unsafe schools. The expansion of early childhood education to about 600 000 more children will put basic pre-school education within reach of even the poorest of households. In addition, the school nutrition programme increases by over 30 per cent next year so that we can feed more children, in more schools, more days of the year. In 2007/08, education spending in total exceeded R105 billion, rightly signifying that investing in the capabilities on which dignity, self-reliance and social progress are built, is at the centre of our development strategy. And so we have an obligation to ensure that our democracy is invigorated by schools that are equipped and furnished, curricula that are right for our times – and in the words of the January 8th statement of the ANC: teachers in school, in class, on time, teaching; no abuse of learners and no neglect of duty – non-negotiable.

Additional allocations are also proposed for higher education and the National Student Financial Aid Scheme this year, and further education colleges have been recapitalised. Under the Deputy President's leadership we have made considerable progress over the past two years in identifying priority skills and constructing innovative partnerships to address these needs. Revenue from the skills development levy is projected to rise to over R9 billion by 2010/11. By any measure, this is a substantial amount of money. It is under the trusteeship of representatives of organised business and labour and, Honourable Members, we owe it to our young people and taxpayers to ensure that these funds leverage visible and lasting improvements in our further education and training programmes and in economic productivity. Government is exploring ways in which skills levy funds could be used to support FET colleges.

Intensifying the fight against crime

Reinforcing the fight against crime is both about effective institutions and appropriate mobilisation of resources.

An electronic case-flow management system has now been implemented in 466 courts, document scanning and digital recording systems have been introduced and the Justice Department's financial systems have been modernised. A major IT and telecommunications upgrade is in progress in the Police Service and over 1 100 community policing forums have been established across the country. Additional allocations over the next three years amount to over R10 billion, including expansion of police numbers to reach over 200 000 in 2010/11, more prosecutors, judges and magistrates, further investment in forensic science laboratories, building of 40 police stations and construction over the period ahead of 18 000 additional prison spaces. While acknowledging that there is much to be done to improve law enforcement and courts administration, the statistics show that progress is being made and we are mindful of the debt we all owe to those whose work involves exposure to danger and heavy caseloads.

Infrastructure investment

In recent years, we have seen increasingly robust growth in government spending on infrastructure. Improvements in access to basic household services are tangible signs of progress in living standards and they broaden opportunities for economic participation. A total of R17 billion is added to the budgets of the departments of housing, provincial and local government, water affairs, sport and recreation and transport over the next three years, mainly for infrastructure. The R6.5 billion added to the local government equitable share extends further the resources available for free basic services to poor households. Investments in public transport, which are made in partnership with our cities, are already beginning to reshape the urban landscape. Spurred on by their 2010 FIFA World Cup commitments, our larger cities have begun to modernise public transport arrangements. These reforms go well beyond the requirements for 2010, and are central to the modernisation and sustainability of our urban environments. The public transport infrastructure systems grant includes R11 billion for these programmes over the next three years.

Over the period ahead, Transnet will invest in excess of R78bn in infrastructure. About 45 per cent will be spent on improving freight rail infrastructure and rolling stock. Projects include expanding the coal line and the iron ore line. To increase port capacity, Transnet is widening and deepening the entrance to the Durban harbour, building a new container terminal at Coega, expanding the Cape Town container terminal and buying new equipment to handle increased volumes. Investments also include the construction of a liquid fuels pipeline between Durban and Gauteng at a cost of R11.5 billion.

Over the next five years Eskom's capital expansion plans will amount to R343 billion, with about 73 per cent earmarked for power generation projects. The return-to-service of previously mothballed power-stations, Camden, Grootvlei and Komati, will add a combined 3 677MW of generating capacity by 2011 and other smaller projects will produce about 2 000 MW. Two major new coal-fired plants, Medupi in Lephalale and Bravo near Witbank, will each cost in excess of R80 billion and produce about 4 500 MW each. To improve transmission capacity, Eskom is strengthening the Cape grid, and building new lines from Majuba to KwaZulu-Natal.

Let me express a word of thanks to 244 South Africans who have sent me advice on options for encouraging energy efficiency on building standards, subsidising solar powered geysers, supporting the replacement of incandescent light-bulbs or reducing unnecessary energy use, in government offices, in mines and factories, in ordinary homes. These are issues to which we will return once there has been time to absorb and assess reform options more fully. There are some competing perspectives to consider. There have been some appeals for financial assistance in purchasing electricity generators, for reasons we all understand. But several correspondents have also pointed out that subsidising fossil-fuel burning generators would send the wrong signal in the light of environmental considerations.

I mention this to illustrate, Madam Speaker, that careful thought needs to be given to the fiscal measures we adopt in response to short-term challenges. We have an opportunity over the decade ahead to shift the structure of our economy towards greater energy efficiency, and more responsible use of our natural resources and relevant resource-based knowledge and expertise. Our economic growth over the next decade and beyond cannot be built on the same principles and technologies, the same energy systems and the same transport modes, that we are familiar with today.

Peacekeeping and development in Africa

Madam Speaker, growth in sub-Saharan Africa averaged 6.8 per cent in 2007 and is projected to remain above 6 per cent this year. Our own contributions to peacekeeping efforts, investment promotion and economic cooperation have gained impetus, and are supported further in the spending proposals for the period ahead. The budget also supports our diplomatic efforts on the continent as well as in emerging Asia. This year, provision is made for the construction of the Pan African Parliament to be located in Midrand, Gauteng.

After being the recipient of development assistance from many countries during our transition, South Africa is increasingly becoming a donor in its own right. Mainly channelled through the African Renaissance Fund, we are budgeting to spend over R1.3 billion over the next three years to support development and the attainment of the Millennium Development Goals on our continent and beyond. We play a catalytic role in ensuring that developed countries honour their commitments to stepping up development finance allocations. We have pledged R272 million to the International Development Association of the World Bank and the African Development Fund over the next three years. To date, the Development Bank of Southern Africa has lent over R7 billion to our continental neighbours.

Performance information and accountability

In October last year, when we tabled the *Medium Term Budget Policy Statement*, we announced that we have asked departments to identify R2.3 billion in cuts to spending on items that were not core service delivery activities. Instead of fruit and trees, Honourable Members, our offering to Parliament this year is a new, improved version of The *Estimates of National Expenditure*, which now includes updated programme objectives and performance indicators. Although these will be further refined in years to come, they are already significant instruments of accountability. We ask of Parliament and the public to put them to use.

Consolidated expenditure estimates

Madam Speaker, for the next three years non-interest public spending is projected to grow by 6.1 per cent a year in real terms, after growth of almost 10 per cent a year over the past five years. Over the next three years, R116 billion is added to the spending plans tabled a year ago. In addition to higher spending on services prioritised for key social and development programmes, allocations include provision for the 2007 public service salary agreement and occupation-specific salary dispensations, in particular for teachers and health workers. The budget framework also includes an unallocated contingency reserve of R6 billion in 2008/09 rising to R20 billion in 2010/11 to provide for unanticipated pressures next year and new priorities in the years ahead.

Our spending proposals cannot accommodate every request tabled during the course of the medium term expenditure planning process, and from time to time the House will hear rumours of discontent from disappointed policy advisors or programme planners. This is as it should be, for there will always be an abundance of ideas that exceeds the bounds of fiscal responsibility. Part of our job is to ensure that development and social solidarity investments are reconciled with a sustainable budget framework.

Fiscal policy and long run growth

Members of the House will recall that in October last year, in tabling the *Medium Term Budget Policy Statement*, we gave special consideration to the cyclical benefit that South Africa has enjoyed as a result of high commodity prices. Buoyant economic growth over the past four years has partly been the result of the favourable terms of trade – higher prices of exports relative to imports – and in turn tax revenue has benefited from the boost to income and profits in the mining sector and related industries.

We introduced a new measure of the fiscal stance, the cyclically-adjusted budget balance, which takes into account these temporary revenue gains. We indicated that the moderate budget surplus recorded in the present period is the correct fiscal response to these circumstances, and that it represents a strengthening of the state balance sheet in anticipation of future investment requirements and as protection against financial risks or deteriorating trade conditions.

The national budget balance – comprising the main budget and social security funds – is expected to record a surplus of 1 per cent of gross domestic product this year and an average of 0.7 per cent a year over the next three years. Government's net debt is projected to be 16 per cent of GDP by 2011, from 33 per cent three years ago, and the costs of servicing that debt continue to fall. As I have noted, this provides protection against the present turbulence in financial markets, and we can continue to invest in a more productive economy and expand public service delivery.

Madam Speaker, what this means in practice, is that we will weather the present storm and continue to invest for growth.

Revenue estimates and tax administration

Let me turn to the revenue proposals that must accompany our spending plans.

There is again an upward revision in the revenue estimate for the present financial year, in part because inflation has been higher than we anticipated. Consolidated national revenue of R580 billion is expected in 2007/08, about R15 billion more than the budget estimate a year ago and 15.7 per cent more than the 2006/07 outcome. Whereas company tax receipts were the main source of higher revenue last year, it is personal income tax that has outperformed expectations this year, increasing by nearly 20 per cent year-on-year.

The revenue performance again bears testimony to the extraordinary work of the South African Revenue Service, and its ongoing administrative capacity building. The 2007/08 filing season has seen a number of innovations in the income tax assessment process. The simplified two page tax returns and extended taxpayer services were well received, and together with modern data management have enabled SARS to provide a better service while at the same time managing risk more effectively. A record number of tax returns were submitted by the deadline, including more than 750 000 taxpayers who submitted electronically this year.

In the 2008 financial year, SARS will continue its efforts to reduce red tape, modernise tax administration and encourage improved tax compliance. It has commenced the process of enhancing the role of employers and payroll organisations in the tax assessment process.

The face of customs administration is also changing world wide. Increasing international trade requires more visible and effective customs capability to improve trade facilitation, risk assessment, and border enforcement. Amendments to the Customs and Excise Act will be introduced to strengthen customs enforcement and the implementation of the revised Kyoto Convention. SARS has also stepped up its training efforts to develop skilled customs professionals who will be deployed in the new Customs Border Control Unit.

Tax proposals

Madam Speaker, we have once again been able to draw on an extensive catalogue of advice from many hundreds of South Africans in compiling this year's budget. The Tips for Trevor we receive from so many citizens and taxpayers is a sign of democracy at work and tangible evidence of the creativity and diversity of our people. Advice on tax matters understandably features prominently.

I was particularly struck by this tip from Mrs Lebo Monyatsi, who writes

" I am a faithful tither in my church (I am paying 10% of my gross salary to the church) – which is in compliance to God's instructions as outlined in the book of Malachi 3, 8-11. In verse 11 God advises us that when we pay our tithes, He shall rebuke the devourer. And surely the taxman is a devourer. I am therefore of the opinion that the tithe constitutes a donation for a good cause (expanding the kingdom of God, winning lost souls, converting criminals from their bad lifestyles) and therefore tithers should qualify for a tax rebate."

Mrs Monyatsi, I asked my advisors to review the revenue laws to enable me to respond appropriately, but this was unhelpful. I have therefore taken advice from another quarter. I found in St Paul's letter to the Romans 13 confirmation that "rulers are not a terror to good works," and a corresponding injunction to "Render therefore to all their dues: tribute to whom tribute is due; custom to whom custom; fear to whom fear; honour to whom honour." I hope, Mrs Monyatsi, that you will agree that Romans has the advantage, and on that authority allow me to indicate the tax proposals for the 2008 Budget.

The estimate of main budget revenue before tax proposals for 2008/09 is R636 billion, taking into account projected economic growth of 4 per cent this year, inflation of 7 per cent, the buoyant trend in wages and salaries and continued growth in imports.

The tax proposals for this year provide net relief of R10.5 billion, bringing the projected main budget revenue to R625 billion, which is 12.1 per cent more that the 2007/08 revised estimate.

Personal income tax

Adjustments to the personal income tax schedules will provide direct relief of R7.2 billion, fully compensating for the effects of inflation. About one-third of the benefit goes to those whose taxable income is below R150 000 a year, and 28 per cent benefits those in the R150 000 to R250 000 income bracket. No income tax will be payable by those who earn less than R46 000 a year, and the tax threshold for people over the age of 65 rises to R74 000 a year.

The monthly monetary caps for tax-free contributions to medical schemes will rise from R530 to R570 for the first two family members, and from R320 to R345 for each additional beneficiary.

Increases in the tax-free thresholds for interest and dividend income are proposed, from R18 000 to R19 000 for individuals under the age of 65 and from R26 000 to R27 000 for those over 65. The annual exclusion threshold for capital gains or losses will rise from R15 000 to R16 000.

As part of the broader review that is underway of social security and retirement savings arrangements, a simplified approach to taxing lump-sum payments on retirement was tabled last year. Similar proposals will be made for the taxation of other withdrawals from retirement funds, together with revisions to the various monetary thresholds and percentage contribution limitations.

Measures to boost growth and job creation

Madam Speaker, I have drawn attention to the widening gap between demand and supply that has accompanied our expansion since 2002 – the gap between what we spend and what we produce – and to the need to focus economic policy on supply-side measures that will boost output and job creation.

The higher growth of the past few years, the broader tax base and improved corporate compliance create the scope for a further reduction in the corporate tax rate, from 29 per cent to 28 per cent. This will contribute to lowering the cost of capital for new investment.

Further details are also set out in today's budget papers of the reform of the secondary tax on companies announced last year. In effect, this converts the STC to a tax on shareholders, consistent with international practice. The rate will remain 10 per cent, the tax will not apply to tax-exempt entities such as retirement funds and public benefit organisations and all STC credits will expire when this change is implemented in 2009.

Other tax measures focused on the supply side of the economy include an extension of learnership allowances for the full duration of apprenticeships. Employers and public benefit organisations (PBOs) are also encouraged to contribute to financing education opportunities. The tax-free fringe benefit threshold for bursaries granted to an employee's dependants increases from R3 000 to R10 000 a year, for employees earning up to R100 000 a year.

The urban development zone incentive will be extended for another five years to enable the private sector to play its part in developing our inner cities. The depreciation allowances for employer-provided low-cost housing will be reviewed, together with the R6 000 deductible limit, with a view to further encouraging the kind of partnerships between government, the financial sector, developers and social housing organisations that are needed for a vibrant, fast-growing affordable housing sector.

Support for small and medium-sized businesses

We will also take further steps to reduce the tax compliance burden on small businesses. This follows the introduction in 2001 of a lower rate structure, capital gains tax relief and an enhanced depreciation regime for incorporated small businesses, and in 2005 of relief from the skills development levy for businesses with a payroll of less than R500 000 a year.

Khallid Ballim, Katie Schoeman and Altan Zeki have all written to ask for us to look at the VAT system for small businesses. I am glad to announce that the 2008 Budget reduces the administrative burden on small businesses by introducing a presumptive turnover tax as an alternative to income tax and VAT for businesses with a turnover less than R1 million a year. The threshold for farmers and businesses who submit VAT returns every six months or four months, respectively, will be raised from R1.2 million to R1.5 million. The VAT registration threshold will be raised from an annual turnover of R300 000 to R1 million. These measures will significantly reduce paperwork for small businesses while encouraging regular bookkeeping in preparation for migration to the normal income tax system.

We will also support greater access to equity finance for small and medium-sized enterprises in high-tech sectors and junior mining exploration companies, in the form of a tax incentive amounting to a 30 per cent up-front deduction for venture capital investments in non-mining companies, and a 50 per cent deduction for investments in junior mining exploration companies (instead of the flow-through share incentive suggested last year).

Excise duties

I need to alert the House, as always, to those tax increases that are aimed at moderating consumption habits. The proposed adjustments to duties on alcoholic beverages will bring the average tax burden, including VAT, to about 23 per cent of the price of a bottle of wine, 33 per cent of the price of a beer and 43 per cent on spirits. Duties on tobacco products are aimed at a total tax burden of 52 per cent. These tax increases vary between 5 and 11 per cent, broadly in line with inflation. The Treasury has once again failed to submit a recommendation in respect of the duty on traditional beer. I intend to seek advice from certain members of the House on the shades that may be influencing my officials on this matter.

Fuel levies

In respect of the general fuel levy, an increase of 6 cents a litre is proposed, which is a 5 per cent increase in the tax on petrol and 5.7 per cent on diesel. The biodiesel fuel tax concession has been raised from 40 per cent to 50 per cent and bioethanol will remain outside the fuel tax net, but subject to VAT at the standard rate. The Road Accident Fund levy on petrol and diesel will be raised again by 5 cents. While this will assist in meeting the fund's cashflow requirements, I need to remind the House that there is still further work to do to implement the Amendment Act passed in 2005 and to develop the envisaged road accident benefit scheme, so that the burden on taxpayers of the present unlimited liability arrangement can be brought to an end.

Supporting sustainable development

These are tax reforms that will take effect mainly during the 2008/09 year. But I have indicated that we also have to focus more clearly on our longer term responsibilities.

The Treasury circulated a draft policy paper on environmental fiscal reform to key stakeholders in 2004, and then published it as a revised discussion paper in April 2006. Since then, the United Nations International Panel on Climate Change, in which a South

African team led by the Department of Environmental Affairs and Tourism played an active role, has added impetus to the need for policy change.

Options that will now come under scrutiny for implementation include the use of emission charges and tradable permits, tax incentives for cleaner production technologies and reform of the existing vehicle taxes to encourage fuel efficiency. A proposal to encourage biodiversity conservation by private landowners through an income tax deduction is under consideration.

There is much to be done to develop specific and practical measures to support sustainable development, both on the tax and the spending side of the budget. I hope that this House will encourage an energetic debate – if that is the right word – and we have to work hard at developing an understanding between very diverse groups of people: scientists, environmental activists, engineers, businessmen, workers, policy advisors, regulators, and every one of us who enjoy the ordinary privilege of having access to light, heat, cooling, television, transport, communications and so much else, at the flick of a switch or the press of a button.

As a first step towards appropriately targeted fiscal environmental measures, and in support of the required demand-side response to power supply shortages, a new levy will be introduced this year on the sale of electricity generated from non-renewable sources, at a rate of 2 cents per kWh. It will be collected at source from the electricity generator, and is expected to raise about R2 billion in 2008/09 and R4 billion a year thereafter.

Madam Speaker, we know that the introduction of a new tax is never a popular move. However, this is an instance where we hope that people will succeed in avoiding the tax. Households and businesses who reduce their consumption by 10 per cent or more will find that this levy does not affect their monthly costs.

Financial support for Eskom

At this point, Madam Speaker, let me now clarify the role of the fiscus in relation to Eskom's financing requirements.

Eskom was initially structured as a non-profit utility to be financed entirely by debt. For the first seven years after it was formed in 1923, it was capitalised by government advances totalling £8 million, subsequently converted into treasury loans with terms of up to 40 years. The framework has changed since 2001 – Eskom is now a corporation owned by the state, and its tariffs are subject to oversight by an independent regulator. But the underlying principle throughout Eskom's history has been that electricity users should bear the costs of its supply, with capital financed through retained earnings and debt on market-related terms. Our public expenditure on electrification has been explicitly targeted at subsidising the extension of supply to low-income consumers, and not at providing finance for the utility itself.

Now that Eskom once again has a major investment programme to finance, its capital should again mainly be raised through debt, and paid for by users over the course of time through appropriately structured tariffs.

However, Eskom's tariffs were steadily reduced in real terms during the 1980s and 1990s, so that electricity prices in South Africa are now far lower than in any other comparable country, and well below full economic cost. The tariff structure is now too low to support the required borrowing.

Over the next few years, while new power stations are being built and tariffs are steadily increased and revised to encourage efficient electricity use, Eskom's balance sheet will be under some stress. It is therefore proposed that up to R60 billion should be provided to support the financing of Eskom's investment programme, on terms structured to assist in meeting cashflow requirements. Madam Speaker, the House should record and the nation needs to know that this is not a grant. The return on an investment in power generation is very long term, and the repayment of debt must be similarly deferred. But we would not be supporting these investments if we were not confident that they are economically and financially viable.

The amount of R60 billion will be required over the next five years, and we anticipate that about R20 billion will be drawn over the MTEF period ahead. This is provided for in the contingency reserve.

We are also setting aside R2 billion over the next three years to support programmes aimed at encouraging more efficient use of electricity, generation from renewable sources, installation of electricity-saving devices and co-generation projects. Intensive work over the next few months is needed to give content to these proposals, so that allocations for this year can be included in an Adjustments Appropriation.

Exchange control reform

Madam Speaker, in keeping with our focus on structural improvements required for long-run growth, there will be further steps in exchange control reform this year. The importance of a sound framework for financial stability has been underscored by the present turbulence in financial markets, and the direction of our reform is focused on replacing unnecessary administrative controls with improved surveillance and prudential limits on foreign exposure risks, as commonly applied internationally.

Exchange controls on institutional investors will be removed and replaced with a system of prudential regulation, involving quarterly reporting and monitoring of foreign exposures by the Reserve Bank. The foreign exposure limits for institutional investors will be raised and banks will be permitted to undertake foreign investment within an appropriate macro-prudential limit. Participation in the rand futures market on the JSE Securities Exchange will be opened up. Remaining administrative procedures will be streamlined and simplified.

This entails a substantial shift of functions and responsibilities of the Reserve Bank's Exchange Control division, which will be renamed the Financial Surveillance Department, in line with its new mandate.

"All hands on deck"

Madam Speaker, the goals and challenges we have discussed, and the constraints of our present circumstances, confront all of us who share a stake in the South African economy, as government, as businesses, as workers, as local communities, as families, as citizens and taxpayers. We are in this together, as President Mbeki put it: "all hands on deck", through the financial storm if it visits our shores, through the construction of better schools and skills programmes, through building clinics and social security reforms, through our infrastructure investments and adjusting to an environmentally responsible future, through our fight against crime, through our war on poverty.

That we have to work together to overcome obstacles and achieve our ambitions is self-evident. That there is hard work ahead is equally clear. I would also wish to affirm that there is a place in this shared future for all of us – we are building an economy in which businesses can grow and prosper, in which productive work will be rewarded, in which community organisations have a place alongside government in delivering public services, in which there is respect and recognition of the skills, the talents, the diversity, the commonality that South Africans have in abundance.

United in our diversity, with social solidarity as our rallying cry, we will work together to build a prosperous non-racial, non-sexist, democratic South Africa.

Honourable members, I have already mentioned a number of concrete steps that this budget takes to ensure that we as a country contribute to protecting our environment.

In the interests of full disclosure of the relevant facts, I need to share with the House also the costs to the environment of the budget documents that we produce. Our estimate is that since the beginning of this year up to the tabling of this budget, the National Treasury's work has caused 38 000 kgs of carbon dioxide emissions. We have used over 37 tons of paper, the equivalent of 726 trees. I am pleased to report that the budget documents are printed on a paper called Triple Green, which is chlorine free and biodegradable, comprises of 60 per cent sugar cane fibre and meets the standard of sustainable forestation. This is a start, but we need to know more. The Director General of the Treasury has therefore pledged to continue to measure, and reduce our environmental footprint in future budgets. We call on other government departments to take up the same challenge.

Conclusion

Each budget that we have presented to this House over the past 14 years has been distinctly different from its antecedents. The important shift this year is that the global economy is so very different – and as with the weather and disease, economic trends do not stop at border posts, they carry no passports, yet they have the potential to wreak havoc, even when plans have been carefully laid.

Madam Speaker, to synthesise a budget that will stand up to scrutiny requires an ability to take advice from many quarters, to analyse and test this, to vary where required and to disagree with proposals, where circumstances demand. This faculty is in the National Treasury which exists as a department in the service of other departments.

Amongst the sources of ideas is the broader public, active and engaged with the process and taking ownership of the Budget. This year, 2 240 of our compatriots shared their ideas with us and I assure you that I have read them all. To all who have taken the time to write in, we say a very big thank you. I have alluded to some of these ideas, frequently focused on a specific issue or two. Occasionally, there are ideas that are more far-reaching – one such proposal came from Mr Jim McNamara – who writes, “our citizens would have greater confidence in their futures if South Africa is seen to have an ‘escalator economy’ versus an ‘elevator economy.” He draws this observation from watching crowd behaviour – for an elevator or lift, the crowds jostle, the strong force their way through and the infirm are left behind; whereas with an escalator, there is a steady upward movement for everybody. So yes, he speaks directly to the social content of our Constitutional imperative.

After having considered all of these proposals, it is important to restate that I am privileged to present this Budget as a statement of collective Cabinet responsibility. Achieving this requires leadership and attention to detail – President Thabo Mbeki, ably supported by Deputy President Phumzile Mlambo-Ngcuka provide the required leadership in abundant measure. They offer a listening post and shoulder to aggrieved colleagues and, most importantly, ensure that we have the consensus on time and in budget.

We have a group of allies, and sometimes combatants, who give so much of their time and energy to the detail of the Budget. They do this way beyond their line function responsibilities – these are the members of the Ministers Committee on the Budget, who deserve our collective appreciation.

Deputy Minister Jabu Moleketi continues to provide sharp analysis and a range of insights to the process; he also deserves our immense appreciation. The MEC's for Finance have melded into a team of tough negotiators – they have squeezed out R238 billion for the next fiscal year – on behalf of everybody who depends on public services, we should say Thank You to them and ask, as we did earlier, that Provincial Legislatures be vigilant about the priorities funded.

Our collective appreciation should also be extended to Governor Tito Mboweni who has faced a challenging year in the context of the global economy. It may take some time to appreciate the value of his firm hand on monetary policy, but I have no doubt that his worth will soon become apparent in the numbers, and his firmness applauded. His presence here today is very special.

Statistician General Pali Lehohla and his team at Stats SA, and the Chair of the Statistics Council, Mr Howard Gabriels, have served us immensely.

The Financial and Fiscal Commission and its chairperson, Dr Bethuel Setai, are thanked for the quality of their advice. I should make special mention of the long-serving Deputy Chair of the FFC, Jaya Josie, who has just retired from the FFC after having served diligently since its inception.

NEDLAC and its CEO, Mr Herbert Mkhize serves the fiscal cause so well by continuing to steer the interactions between the various social partners.

Our appreciation also goes to Hon Nhlanhla Nene and Hon Tutu Ralane who chair the Portfolio and Select Committees on Finance respectively and to the joint chairs of the Budget committee, Hon Louisa Mabe and Hon Buti Mkalipi.

Madam Speaker, on the 1st of March, Mr Pravin Gordhan will mark his 10th Anniversary as Commissioner for the SARS. He can look back over the period with immense pride. During his term, the revenue take has grown from R184 billion to R558 billion. We, who are not of SARS, can similarly look at the period with admiration and an immense appreciation for his leadership and diligence.

I have earlier spoken of the National Treasury as the department in the service of other departments – this is an unbelievably difficult task managed and led with aplomb by Mr Lesetja Kganyago, a true gift to the public service who continues to bring out the sparkle in all of his team. His efforts we warmly applaud.

The staff in the Ministry are a wonderful group of people who give more than what is requested of them – to all of them a huge thank you.

Finally, to my long suffering family – Maria, the boys, my Mom, my Sisters, Oupa and the extended family. Thank you.

And then, to all of you, listening and engaged, thank you so very much for your patience and forbearance, we take no part of it for granted.

Summary of the consolidated national budget

R million	2007/08 Budget estimate	2007/08 Revised estimate	2008/09 Budget estimate	2009/10 Medium term estimates	2010/11 Medium term estimates
MAIN BUDGET REVENUE					
Estimate of revenue before tax proposals			**635 853**		
Tax proposals:					
Taxes on individuals and companies					
Personal income tax			***-7 700***		
Adjust personal income tax rate structure			*-7 200*		
Adjustment in monetary thresholds (medical scheme contributions and savings)			*-500*		
Business taxes			***-7 400***		
Reduction in corporate income tax rate			*-5 000*		
Presumptive tax structure for very small businesses			*-200*		
Industrial policy			*-1 000*		
Adjustment in monetary thresholds (VAT, etc.)			*-500*		
Other tax incentives			*-700*		
Indirect Taxes			**4 600**		
Increase in General Fuel Levy			1 250		
Increase in excise duties on tobacco products and alcoholic beverages			1 350		
Electricity levy			2 000		
Estimate of revenue after tax proposals	**544 602**	**557 962**	**625 353**	**692 888**	**758 956**
Percentage change from previous year			*12.1%*	*10.8%*	*9.5%*
EXPENDITURE					
Direct charges against the National Revenue Fund	**231 696**	**234 000**	**259 788**	**286 625**	**308 447**
Cost of servicing state debt	52 916	52 829	51 236	51 125	51 156
Provincial equitable share	171 271	172 862	199 377	225 466	246 306
Skills development levy	6 000	6 800	7 530	8 245	9 045
Other [1]	1 508	1 509	1 646	1 789	1 940
Appropriated by vote	**299 178**	**308 117**	**345 308**	**382 981**	**416 223**
Current payments	88 427	88 456	99 826	110 625	120 468
Transfers and subsidies	204 104	212 616	238 011	263 204	285 981
Payments for capital assets	6 647	7 045	7 471	9 152	9 774
Plus:					
Contingency reserve	3 000	–	6 000	12 000	20 000
Estimate of national expenditure	**533 873**	**542 117**	**611 096**	**681 606**	**744 670**
Percentage change from previous year			*12.7%*	*11.5%*	*9.3%*
2007 Budget estimate of expenditure		**533 873**	**594 198**	**650 301**	
Increase / decrease (-)		*8 243*	*16 898*	*31 305*	
SOCIAL SECURITY FUNDS					
Revenue	**21 107**	**22 465**	**24 683**	**27 257**	**30 035**
Unemployment Insurance Fund	9 606	10 087	10 965	11 914	12 959
Compensation funds	3 491	4 543	4 827	5 109	5 412
Road Accident Fund	8 009	7 835	8 890	10 234	11 665
Expenditure	**15 377**	**17 979**	**20 454**	**22 521**	**23 795**
Unemployment Insurance Fund	5 017	6 258	7 334	8 141	7 839
Compensation funds	1 644	2 926	3 328	3 496	3 698
Road Accident Fund	8 715	8 796	9 792	10 883	12 258
CONSOLIDATED NATIONAL BUDGET [2]					
Revenue	**565 699**	**580 417**	**650 026**	**720 134**	**788 980**
Percentage of GDP	*29.2%*	*28.4%*	*28.4%*	*28.7%*	*28.6%*
Expenditure	**549 240**	**560 086**	**631 540**	**704 116**	**768 454**
Percentage of GDP	*28.3%*	*27.4%*	*27.6%*	*28.1%*	*27.9%*
BUDGET BALANCE	**16 459**	**20 331**	**18 486**	**16 018**	**20 526**
Gross domestic product	*1 938 934*	*2 045 533*	*2 286 906*	*2 506 870*	*2 758 552*

1) Consists mainly of salaries of members of Parliament and salaries of judges and magistrates.
2) Flows between funds are netted out.

Summary of the consolidated national budget

R million	2007/08 Budget estimate	2007/08 Revised estimate	2008/09 Budget estimate	2009/10 Medium term estimates	2010/11 Medium term estimates
CONSOLIDATED NATIONAL BUDGET [1]					
Revenue	**565 699**	**580 417**	**650 026**	**720 134**	**788 980**
Expenditure	**549 240**	**560 086**	**631 540**	**704 116**	**768 454**
Consolidated budget balance	**16 459**	**20 331**	**18 486**	**16 018**	**20 526**
Percentage of GDP	*0.8%*	*1.0%*	*0.8%*	*0.6%*	*0.7%*
Less: Social security funds					
Revenue	**21 107**	**22 465**	**24 683**	**27 257**	**30 035**
Expenditure	**15 377**	**17 979**	**20 454**	**22 521**	**23 795**
MAIN BUDGET					
Revenue	**544 602**	**557 962**	**625 353**	**692 888**	**758 956**
Expenditure	**533 873**	**542 117**	**611 096**	**681 606**	**744 670**
Main budget balance	**10 728**	**15 846**	**14 257**	**11 282**	**14 286**
Percentage of GDP	*0.6%*	*0.8%*	*0.6%*	*0.5%*	*0.5%*
Extraordinary payments	-400	-771	–	–	–
Extraordinary receipts	1 250	1 837	850	850	600
Net borrowing requirement	**11 578**	**16 912**	**15 107**	**12 132**	**14 886**
FINANCING					
Change in loan liabilities					
Domestic short-term loans (net)	**5 750**	**5 750**	**5 750**	**5 750**	**6 000**
Domestic long-term loans (net)	**-9 019**	**-4 001**	**5 309**	**-3 978**	**-3 911**
Market loans	24 000	25 306	30 000	30 000	30 000
Redemptions	*-33 019*	*-29 307*	*-24 691*	*-33 978*	*-33 911*
Foreign loans (net)	**-2 587**	**-3 471**	**-3 496**	**-7 645**	**-2 671**
Market loans	–	–	–	–	–
Arms procurement loan agreements	3 533	3 691	2 614	438	532
World Bank loans	–	20	–	–	–
Redemptions (including revaluation of loans)	-6 120	-7 182	-6 110	-8 083	-3 203
Change in cash balances	**-5 723**	**-15 190**	**-22 671**	**-6 259**	**-14 304**
Total financing (net)	**-11 578**	**-16 912**	**-15 107**	**-12 132**	**-14 886**

1) Flows between funds are netted out.