NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

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Dr D T George (DA) to ask the Minister of Finance:

(1) With regard to the macroeconomic policy response as set out in the framework for South Africa's response to the international crisis, (a) what (i) fiscal and (ii) monetary measures will be taken and (b) how will these be combined;

(2) What resources will be made available for industrial policy interventions;

(3) Whether he intends providing tax relief for (a) low-income workers, (b) the poor and (c) companies in distress; if not, why not; if so, what are the relevant details?

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REPLY:

(1) Sustained public spending and a flexible approach to monetary policy have enabled South Africa to weather the global crisis relatively well compared to many other countries. While there are indications that the South African economy might have reached the bottom of its sharp downturn, the road to recovery will be slow and gradual as the world recovers from the worst economic crisis in 80 years.

(a) (i) The 2009 Budget made provision for a countercyclical fiscal response to the economic crisis to cushion the impact of the crisis on demand. Revenue receipts have been severely affected by the slowing economy, but growth in public spending has been sustained to build on the public-sector investment programme already under way, to expand labour-intensive employment progrmmes, to broaden social security benefits, to continue to invest in education, health and other public services, and to support well-targeted industrial development. Provision was made for consolidated non-interest government expenditure to grow by 5.1 per cent a year in real terms over the next three years. Our budget deficit estimate for 2009/10 was revised to 3.8% of GDP, a swing of nearly 5 percentage points, and the public sector borrowing requirement was sharply increased to reflect the policy intention to raise borrowing from domestic and foreign sources to support demand in the economy as a whole. The latest revenue data suggests that tax receipts will be at least R60 billion below target this year, which will result in a considerably higher fiscal deficit than originally expected. Full details will be published in the Medium-term Budget Policy Statement on 27 October 2009. Government is mindful of the difficulties of raising large amounts of debt in the present environment, and that maintaining a prudent level of borrowing and keeping borrowing costs and inflation low is critical to sustaining South Africa's developmental objectives. For these reasons areas need to be identified where spending efficiencies and better public services can be achieved.

(ii) The South African Reserve Bank has responded to the crisis by easing the repo rate by 500 basis points to 7% between December 2008 and August 2009. CPI inflation has been above the 3-6% target range for 28 months since April 2007. More recently, inflation pressures have moderated along with the widening output gap and the decline in commodity prices. CPI inflation fell to 6.7% in July 2009 from 8.1% in January and the SARB expects it to return to the 3-6% target range in the second quarter of 2010. Real interest rates are close to zero when calculated using actual inflation and this should provide support to household consumption and investment in the second half of the year

(b) Fiscal and monetary policy measures, which have resulted in a much wider budget deficit and lower interest rates, are working in tandem to support domestic demand and investment in the economy.

An important part of the crisis response has been to ensure that Development Finance Institutions are providing financial and technical support for public sector investment taking into account both immediate and long term needs (see details below)..

(2) The final regulations with respect to the previously announced industrial policy tax incentives will be published soon. This incentive will provide for additional deductions for qualifying manufacturing companies amounting to tax relief of R5.6 billion over a three to five year period. Qualifying criteria will include energy efficiency, business linkages, skill

training and job creation. The Department of Trade and Industry's budget for transfers and subsidies has increased by 70% since 2006/07 and 30% since last year to R5.3 billion in 2008/09. In particular the amount allocated to public corporations and private enterprises has more than doubled since 2006/07 to R3.88 billion in 2008/09.

The global economic meltdown prompted government to request the DFIs to consider mitigating the effects of arising diminished access to finance. The Development Bank of Southern Africa's (DBSA) capital structure will be enhanced by increasing its callable capital from R4.8 billion to R20 billion. This will effectively help the DBSA to leverage on its borrowing up to R140 billion. The Industrial Development Corporation (IDC) intends to inject more than R70 billion into the economy over the next five years, of which R6.1 billion is set aside to assist distressed companies through the financial crisis. Further, the government has increased the guarantee to the Land Bank from R1.5 billion to R3.5 billion and will convert it into capital injections over next four years.

(3) Tax relief measures:

(a) As part of the support measures agreed to by all social partners the taxation of withdrawals from retirement savings as a result of involuntary retrenchments (including severance/retrenchment packages) will qualify for favourable tax treatment.
The first R300 000 lump sum payment from retirement savings prior to retirement and as a direct result of involuntary retrenchment will be tax free. This is the same tax treatment of lump sum payments upon retirement. However, it should be noted that a lifetime aggregation principle will apply: once the R300 000 tax free amount has been "used" any additional lump sums whether received as a result of a retrenchment or upon retirement will be tax at higher marginal rates.

(b) Any additional tax measures to support poor households will only be announced in the Budget in February 2010. However, income support to households will be maintained through the provision of social grants to qualifying recipients. These are the most effective and targeted support measures for those in need. The expanded public works programme should help to provide additional job opportunities. For those who have lost their jobs, the Unemployment Insurance Fund (UIF) provides a crucial means of support. Claims hit their highest level in July with new claims amounting to 85 562, up 38% from 61 965 in July 2008. Additional measures like the proposed training layoff scheme provide a layer of protection for workers, giving firms an alternative to retrenchments during the recession.

(c) Any additional measures relating to company taxes will only be announced in the Budget in February along with other tax proposals. Qualifying companies in distress will be considered for support measures through a facility to be managed by the Industrial Development Corporation (IDC).