Budget Speech

2009

Minister of Finance

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> *If the things we face are greater and more important than the things we refuse to face, then at least we have begun the re-evaluation of our world. At least we have begun to learn to see and live again.*
>
> *But if we refuse to face any of our awkward and deepest truths, then sooner or later, we are going to have to become deaf and blind. And then, eventually, we are going to have to silence our dreams, and the dreams of others. In other words, we die. We die in life.*
>
> (Ben Okri, 1997)

Madam Speaker

The storm that we spoke of last year has broken, and it is more severe than anyone anticipated. Confronted with the prospect of an economic cataclysm, world leaders have announced huge supportive interventions. A transformation of the world economy is in progress, which we trust will tame the excesses of unregulated financial markets. A restructuring of global trade and incomes is underway which we hope will bring greater opportunities to the world's poor. But for now, the transition has brought sizeable disruptions.

The budget that I have the honour to table here today, Madam Speaker, remains firmly focused on a longer term transformation challenge. While responding to the changed economic outlook, our primary goal remains the reconstruction and development of our economy, and the progressive building of a shared future in which we can take pride in the quality of our public services, the creation of jobs for our people and security in our communities.

And so, in Ben Okri's words, because we will not silence our dreams, because we choose life and we will not die, we stand ready to face our awkward and deepest truths. We will not be deaf to the voice of those in pain. We will not be blind to incompetence or greed.

Our response to the present crisis is to face the challenges before us boldly, and as a nation united. Our duty is to construct a South African approach, founded on our own vision for a shared future. This approach can only be built on an engagement between social partners, not just at the level of a national dialogue, but on factory floors and in community halls. Our resolve will be tested to its limits. We have to put self-interest aside, we have to face each other honestly and openly. Our task is to see through the challenges of economic vulnerability today to the construction of the new South Africa that is our passion and our pride. We can do this all the better as a united people.

In framing this Budget, therefore, we have been guided by five enduring principles:

- Protecting the poor
- Sustaining employment growth and expanding training opportunities
- Building economic capacity and promoting investment
- Addressing the barriers to competitiveness that limit an equitable sharing of opportunities
- And, in doing these things we must maintain a sustainable debt level so that our actions today do not constrain our development tomorrow.

A global economic crisis

The global economy is experiencing a sharp downturn, spreading from developed to developing countries. Its origins lie in macroeconomic imbalances of an unprecedented scale. An accumulation of debt by firms and households in some countries has been matched by an extraordinary rise in export earnings and savings in other regions. Behind these flows are millions of savers and lenders, linked through a financial architecture of such complexity that neither accounting standards nor regulatory oversight have served their intended purposes: prudential banking rules have been overwhelmed by folly and fraud, masquerading as financial innovation.

This is a cycle that has played itself out periodically – economic historian Karl Polanyi, sixty-five years ago, provided a classic account of how a utopian faith in self-regulation has led repeatedly to exuberances of this kind in the rise and fall of market economies.

The consequences are felt everywhere. If the balance sheet of a bank shrinks, its capacity to lend is eroded. If its lending is curtailed, businesses and households have to reduce their spending. If demand falls in Birmingham, factories close in Beijing. If production lines in China slow, demand for commodities from Africa dries up. The vegetable shop next to the mine closes, and the drivers of the delivery vehicles are asked to work short time, on half pay, and if the driver cannot pay his mortgage, the bank forecloses on his bond, and the bank writes down its balance sheet again...

When a global motor company cuts back on making cars, it cancels its orders for catalytic converters. Madam Speaker, this firm making catalytic converters is not in Detroit or in Shanghai, it is here in the Eastern Cape. The mine producing the platinum that goes into that converter is near Rustenburg. The worker in the factory in Uitenhage and the mineworker in Rustenburg are now without work. And the woman who runs the little stall selling vegetables outside the mine is making less money each passing week. And their families, all of them, face a future made more precarious by the vagaries of global finance.

In a very short period, Madam Speaker, what started off as a financial crisis may well become a second great depression. Last year, 2.6 million US workers lost their jobs. This year, twenty million migrant workers who went home for the Chinese New Year will not return to the cities, because those jobs have disappeared.

In the past ten months, the International Monetary Fund has revised its forecast for global growth in 2009 downwards no less than five times, from 3.8 per cent in April last year to its current estimate of just half a per cent. Initially the downgrades were focused on developed countries, but projections for GDP growth in emerging markets have now halved from 6.6 per cent in April to 3.3 per cent currently.

The United States has been in recession since the last quarter of 2007 and its economy is expected to contract by 1.6 per cent in 2009. The official interest rate has been cut to almost zero. Growth in Europe has slowed to 1 per cent in 2008 and is forecast to contract by 2 per cent in 2009. The UK economy is expected to shrink by 2.8 per cent in 2009.

China's GDP growth fell to 6.8 per cent in the final quarter of 2008 and will slow this year to its lowest level since 1990. India's growth will fall by almost half.

Sub-Saharan Africa is feeling the effects of the commodity price plunge and declining investor confidence. Projected growth slows to 3.5 per cent in 2009 from 5.4 per cent in 2008.

In responding to the crisis, immense commitments of funds have been made by the governments of major economies in support of their financial institutions, and central banks have lowered interest rates to historically unprecedented levels. However, low interest rates do not automatically translate into easily available credit. Households remain wary of further debt, and firms that face trading losses are not yet creditworthy. In an ironic twist, capital is leaving emerging markets and flowing into reserve currencies such as the US dollar or the euro, seemingly undeterred by the institutional origins of the financial collapse. Countries such as Brazil, India and Russia cannot raise debt except at premium interest rates. South Africa's cost of borrowing on international capital markets also increased sharply late last year and remains high.

Madam Speaker, while many countries are borrowing heavily to finance their bailouts and deficits, which may well be the correct policy approach to restore confidence in their economies, this build up of debt will have to be paid back, with interest, by future generations. It will require higher tax rates in future, slowing growth for decades to come. The re-evaluation of the world cannot be indefinitely deferred.

We should also appreciate that the causes of this crisis run deeper than its financial currents. It is embedded in the structure of growth and trade, and the widening inequality that we have seen in the past decade and a half. In responding to this crisis, on a global scale and here at home, we must tackle its root causes. Financial systems cannot go unregulated, trade arrangements cannot be subordinate to short-sighted protectionist influence, the distribution of income cannot be entrusted to the merciless counterpoise of executive greed and unsupervised labour market dynamics. In Polanyi's words, our task is to harness the instrumentality of both power and planning in pursuit of more abundant freedoms. To say that this can be done, Madam Speaker, nationally and globally, is to place democratic governance in its rightful place at the head of the global development agenda.

And in facing these things that are greater and more important than the arithmetic of our revenue and expenditure plans, we will at least begin the re-evaluation of our world.

This means protecting the poor. It means employment and training. It means investing in infrastructure and building a competitive economy. It means sustainable public finances.

Outlook for the South African economy

Let me share with the House the Treasury's expectation for the South African economy over the period ahead.

Incomes and output slowed sharply in the second half of last year, bringing growth for 2008 to about 3.1 per cent. With commodity prices generating lower export earnings, weak consumer spending and slowing private sector investment, growth in 2009 is forecast to be 1.2 per cent, the lowest rate since 1998. We expect output growth to improve in 2010, supported by public infrastructure spending, lower interest rates, the 2010 FIFA World Cup and a recovery in the world economy. But trading conditions are tough and are likely to deteriorate further in the short term.

In 2008, South African producers were affected by a series of economic shocks including electricity shortages, rising input costs, higher interest rates and slowing demand. This led to a marked slowdown in consumer-oriented sectors and weak mining and manufacturing output. Several sectors, including mining, manufacturing, retail trade and residential construction, have retrenched workers and the pace of job losses may accelerate further.

However, civil construction has performed well, supported by ongoing infrastructure investment. Our agricultural sector has grown strongly in response to higher prices and better rains.

Sharply lower oil prices – a barrel of crude oil has fallen by 69 per cent from a peak of US$145 a barrel in July 2008 to about US$45 per barrel at present – will help to cut our import bill, but we are also experiencing a fall in export earnings. The platinum price has fallen by about 60 per cent, from a high of US$2 254/oz in March 2008 to about US$980/oz currently, following the decline in world car sales.

Lower consumer demand and the softer real exchange rate will dampen import demand in 2009, but infrastructure investment will continue to draw in capital goods. This will continue to generate a sizeable current account deficit, expected to average 6.7 per cent a year over the period ahead.

Over the past five years the financing of our international balance has been heavily dependent on portfolio inflows to the equity and bond markets. Though still adequate to finance the current account deficit, the composition of inflows changed significantly in 2008, including increased use of loan financing and repatriation of foreign assets by the banking sector.

Our development expenditure over the period ahead will require both improved domestic saving and continued capital inflows. And so a sound banking system, healthy fiscal position, credible monetary policy and appropriate foreign exchange regulations will continue to limit our exposure to the international downturn, while serving as key building blocks in financing future growth and development.

The soundness of South Africa’s financial system was subjected to an international assessment last year, which concluded that our banking system is diversified and is supported by an appropriate financial infrastructure and a generally effective regulatory framework. Although South African banks were not significantly exposed to sub-prime related products, they are nonetheless affected by deteriorating credit conditions. That our banks are mainly capitalised in rands is an important strength. This is a key element of our evolving macro-prudential framework.

Nevertheless, it is incumbent on us to remain vigilant, to sharpen our regulatory oversight and to work with banks to identify any potential problems early and deal with them decisively. Credit extension has slowed, probably more rapidly than is desirable. We expect our banks to continue to extend credit to worthy customers, noting that it is precisely the rapid withdrawal of credit that has plunged much of the developed world into crisis.

Budget policy in a time of crisis

The central goals of economic policy remain accelerating growth and job creation, broadening economic participation and reducing poverty. Progress in these areas will be more difficult over the period ahead. Policy adjustments need to reinforce macroeconomic stability in the context of a deteriorating international environment and provide a temporary cushion to the domestic economy. Lower inflation in the months ahead should contribute to moderating interest rates.

Under the leadership of President Motlanthe, a task team comprising of business, organised labour, community organisations and government has been convened to agree on an appropriate South African response to the current crisis. Chaired by the managing director of Nedlac, Mr. Herbert Mkhize, this initiative is rightly focused on both the immediate response required and our longer term policy goals.

I have alluded already to the five principles that have informed our budget planning this year: Protecting the poor, creating employment, investing in infrastructure, promoting competitiveness and fiscal sustainability.

The largest adjustments to spending plans go to *poverty reduction:* R25 billion is added to the budgets of provinces, mainly for education and health care, and R13 billion for social assistance grants and their administration. R4 billion is added to the school nutrition programme and R2.5 billion goes to municipalities for basic services. Madam Speaker, the quantum of the rands and cents allocated to these programmes is not what provides relief. No, we can only be satisfied when we know that the quality of life of the poor is improving, that children are being properly educated, that learners have access to food in schools, that mothers visiting clinics get proper and dignified treatment, that the criminal justice system is putting those who rob and thieve behind bars. It's what the money buys that matters, and so fixations with the size of deficits or surpluses are illusory detours.

Secondly, greater effort is needed to *accelerate employment growth.*

Government will work with business and organised labour to protect work opportunities and accelerate skills development over the period ahead. Additional funding over the medium term will go to the Working for Water and Working on Fire programmes, and R1 billion goes to the Umsobomvu Youth Fund. R3.7 billion is added for low-income housing projects and R4.1 billion is set aside for the second phase of the expanded public works programme.

I propose that participating departments, provinces and municipalities should be challenged to exceed their targets for creating EPWP jobs over the period ahead, and so the contingency reserve this year has been increased to allow for additional funding of employment projects in the 2009 Adjustments Appropriation, if sufficient progress is made.

Building our capacity to grow is the third thrust of our spending plans. It is reflected in government's R787 billion infrastructure investment plans and is a cornerstone of our development contract with business, organised labour and other social partners. In this budget a further R6.4 billion is added for public transport, roads and rail networks, R4.1 billion for school buildings, clinics and other provincial infrastructure projects, and R5.3 billion for municipal infrastructure and bulk water systems. Major investments in power generation, transport networks and telecommunications are in progress, building an environment within which mining and industrial development, tourism and our services economy will prosper, even if the short term outlook is poor.

Fourthly, a time of restructuring is an opportunity to *address regulatory and microeconomic barriers to our competitiveness.* This involves detailed sectoral analysis, and ongoing consultation with affected industries and interest groups – it is the key to sustained, faster, long-term growth. In this budget, R1.6 billion is added to industrial development and small enterprise support programmes, and R1.8 billion goes to rural development and small farmer support. A further R1 billion is added for electricity demand management, together with tax incentives for investment in energy-efficient technologies. The new automotive production and development programme includes a production subsidy, which receives R870 million over the next three years. Additional funding also goes to consumer protection, the competition authorities and enhanced testing capacity of the SA Bureau of Standards.

The fifth principle is the *sustainability of the public finances*. In the present global uncertainty, our task is to respond to the economic downturn without putting our long-term financial position at risk. Although the budget deficit will rise to 3.8 per cent of GDP next year, debt service costs will remain moderate over the next three years, at about 2.5 per cent of GDP. This is possible because we have had the courage to make the right choices, over the past decade.

In 1996 public debt was 48 per cent of GDP and rising. We brought to this House a macroeconomic strategy that confronted the problem, boldly and decisively. Today, public debt is 23 per cent of GDP. Reducing the budget deficit was neither easy nor popular. But it was the right thing to do, and the outcome is that, year by year, the burden of debt service costs has declined and resources have been released to spend on education, health care, housing and infrastructure. This also means that today we are able to respond to the economic downturn, boldly and decisively. We are able to announce a countercyclical fiscal stimulus, on the strength of a secure and sustainable fiscal position.

Members of the House will know that substantial capital spending projects are under way in the electricity sector, in the construction of new commuter rail facilities and in improving the Gauteng freeway network, that are financed outside of the main budget framework. Taking the financing needs of these entities into account, the public sector borrowing requirement for next year is expected to be 7.5 per cent of GDP, or some R186 billion to be raised from domestic institutions, investors, multilateral institutions and portfolio inflows from abroad.

This is a substantial fiscal boost, against the background of the budget surplus recorded over the three years to 2007/08. But Members of the House, and fellow South Africans, we are borrowing not to rescue failed banks or to artificially delay the restructuring of our industry and trade, but to construct the roads and the power stations, the classrooms and hospital wards, to modernise technology and transform public service delivery, as the foundations of growth and broad-based development in the decades ahead.

The term ‘shovel ready’ has sometimes been used to distinguish projects that are ready for implementation from those that have still to be planned, designed and contracted. We are fortunate in that so much of our spending programme is not just “shovel ready”, but is “already shovelling”. The expansion of our public employment programme has been a year in the planning and is ready for implementation. Rapid bus transit systems, freeway improvements, electricity and water systems and rail projects are under way. And so our roads, our airports and our railway stations have become construction sites, as millions of inconvenienced commuters experience daily.

The national budget contributes to the financing of some of these investments, and there is also a role for our development finance institutions in supporting state owned enterprises, municipalities and private companies raise the finance required for major capital projects.

The success of Siyenza Manje in bringing in skills in support of municipal infrastructure investment is an example of how a developmental state can better coordinate its interventions. The Development Bank of Southern Africa is now considering broadening this model to support the financial management and delivery capacity of municipalities. In addition, a proposal to strengthen the balance sheet of the Development Bank of Southern Africa is currently under consideration, to enable it to expand its contribution to financing municipal infrastructure improvements in partnership with private sector lenders.

Key to transforming rural livelihoods is to better enable small scale farmers to use land more productively. Improved support to farmers is important, but access to long term finance is a critical ingredient too. Following good progress in repairing its integrity and in giving effect to its core mandate to support agricultural investment, government will also consider proposals by the board of the Land Bank to strengthen its balance sheet.

The Industrial Development Corporation is currently assessing its possible role as a partner in supporting investment and employment in sectors or industries affected by the cyclical slowdown. Differentiating the effects of short term cyclical difficulty with the need for longer term industrial restructuring is difficult and sometimes involves policy considerations, and so risk sharing with the private sector has its place in preparing for future growth. At the same time, government is mindful of the need to avoid passing on risks to taxpayers that would be better managed in the business sector. Though there may be a role for public funds in support of businesses in difficulty, we need to ensure that an undue capitalisation of private wealth does not result in a financial burden of debt on future generations.

Madam Speaker, there is also an expanding role for our housing finance institutions, and for the agencies that support small enterprise development and economic empowerment transactions in the evolution of our development finance architecture. These are the instrumentalities of our developmental state, not in isolation from the wider financial system, but sharing risk, co-financing investment and jointly engaging with the banking sector in constructing a vibrant growing economy.

Public expenditure plans: growth, employment and social development

Total government spending next year, Madam Speaker, will amount to R834 billion, including the second tranche of the R60 billion loan to Eskom and an unallocated contingency reserve of R6 billion. Real growth in spending on public services will average 5.1 per cent over the next three years. Let me elaborate briefly on some of the key spending proposals that are provided for in the medium term expenditure framework set out in this year's Budget Review and the Estimates of National Expenditure.

Education

Government's contribution to public education remains our single largest investment, because we know that it is the key to reducing poverty and accelerating long-term economic growth. Education spending has grown by 14 per cent a year for the past three years and accounts for R140.4 billion in the spending plans of provinces and national government for 2008/09.

We received a tip from Mr. Xolani Notshe of Port Elizabeth thanking us for allocating money to libraries. He says “libraries are central in community development. Libraries will assist your successor to collect more taxes because we would be an educated and skilled nation”. I agree entirely.

Key priorities in education include extending the no-fee schools policy to 60 per cent of schools, from 40 per cent at present, expanding the school nutrition programme, reducing average class sizes in schools serving lower income communities, increasing expenditure on school buildings, strengthening teacher training programmes and recapitalising technical high schools over the next three years. An additional R700 million is allocated for higher education subsidies and to accommodate the anticipated growth in student enrolment from 783 900 last year to 836 800 in 2011. The National Student Financial Aid Scheme receives an additional R330 million. Funding is provided for a new National Education Evaluation Unit.

Many South Africans will agree, I am sure, with Mr. Paul King who writes, “Regarding the salaries of teachers, I personally feel that we do not reward them enough for what they do and what we expect from them in terms of the daily care and education of our children.” Madam Speaker, a new salary dispensation for teachers was introduced last year, linked to school and teacher performance, hence the urgency of establishing this new Evaluation Unit.

Health services

A new unit to address the quality of service provision is also included in our health spending proposals. This will be named the National Office for Standards Compliance, and it will set and audit norms and standards for hospitals and primary care centres.

We are profoundly conscious of the complexity of the challenges facing our health services, and the strain on resources associated with a rising disease burden. Policy interventions supported in this budget focus both on health facilities and services and on more aggressively combating the causes of ill-health. An additional R1.8 billion is budgeted to introduce three new child vaccines, which have proved effective in preventing infant and child deaths. The tuberculosis and HIV and Aids programmes both receive additional resources. We are budgeting to extend screening of pregnant mothers coming into the public health system and to phase in an improved drug regimen to prevent mother-to-child HIV transmission. Our anti-retroviral programme now covers 630 000 people, and the medium term expenditure framework provides for an increase to 1.4 million by 2011/12.

The 2009 Budget makes provision for further improvements in the remuneration of health professionals, and for continued expansion of the hospital revitalisation programme. A total of 31 hospitals are under construction, 18 of which will be completed over the next three years.

The development of a national health insurance system is aimed at improving the equity of health care financing and enhancing the quality of care for all South Africans. These are complex reforms and the task team on social security has been mandated to conduct research and advise on the way forward.

Fighting crime

The fight against crime is drawing on the work of the criminal justice sector review. Efforts to overhaul the forensic and investigative capacity of the police are under way, together with enhanced use of available technology. A further R5.4 billion is allocated to interventions aimed at improving criminal justice services, the creation of an integrated fingerprint and DNA database, improving detective capacity, upgrading IT and telecommunications systems and increasing the number of police officials from 183 000 last year to over 204 000 in 2011/12. Funding is provided for additional policing capacity during the 2010 FIFA World Cup, for construction of new prisons and for implementation of the Child Justice Bill.

Agricultural support and rural development

A notable tip on to the current economic situation and the steps which can be taken to alleviate its effects came from Mr Lazarus Lamola of Polokwane. He writes that when he was a teenager, “the villagers used to plough their land and harvest enough food to last at least a year. There was plenty of maize, beans and other vegetables, and except for drastic drought years, we would never go hungry. The subsistence farming system has totally collapsed in many areas. It is sad to see vast amounts of land go to waste when we have a food price problem.” He suggests the encouragement of partnerships between private farmers and villagers to once again use the land for food production and sustenance.

Madam Speaker, increasing agricultural output, raising rural incomes, supporting small scale farmers and investing in rural roads are key objectives of government’s rural development strategy. The budgets of the Illema/Letsema campaign, which distributes agricultural starter packs to poor households, the comprehensive agricultural support programme and allocations to targeted rural infrastructure projects receive a further R1.2 billion boost. The budget for land reform and land restitution over the next three years totals R20.3 billion.

Investing in housing and municipal infrastructure

Housing and the eradication of informal settlements remain at the forefront of our infrastructure investment plans, and impact significantly on both employment creation and poverty reduction. In the past three years, the municipal infrastructure grant programme has spent about R32 billion. Over the next three years, infrastructure grants to municipalities total R67 billion, and a further R45 billion will be spent on the Breaking New Ground housing programme. Together with investment in roads and public transport, these constitute one of the largest areas of expansion of public sector spending, and are rightly prioritised as part of our response to the current deterioration in employment and economic activity.

Social grants

The budget adds R13.2 billion to our social grants programme. The extension of the child support grant to 15 takes effect this year and the reduction in the eligible age for men to 60 is in progress. Strengthening our social security safety net is critical during this period when many more poor families are vulnerable.

With effect from April this year, the maximum values of the old age, disability and care dependency grants will rise by R50 to R1010 a month, the foster care grant will increase to R680 and child support will rise to R240 a month. Compelling evidence that the phasing-in of the child support grant has contributed significantly to reducing child poverty has emerged in recent research, and so consideration is being given, subject to affordability, to the extension of the child support grant to the age of 18.

Madam Speaker, the budget papers contain details of many more areas of public expenditure – increased allocations for roads and commuter transport services, an allocation to the Universal Access Services Agency to subsidise set-top boxes as part of the digital television broadcasting initiative, an expansion in training capacity for the Reserve Force of the Department of Defence, upgraded IT systems for the Department of Home Affairs and to modernise immigration and customs services at border control points. Funding goes to the Independent Electoral Commission for 30 000 barcode scanners and 105 000 transparent ballot boxes. We are budgeting for R1.6 billion for South African Airways to support its turnaround strategy, which includes reducing costs and improving efficiency. I am sure that the House will agree with my hope that this will not be a recurring allocation.

Efficiency and effectiveness

Budgeting is not only about expanding expenditure on constructive and necessary activities, it is also about rooting out waste, promoting cost-efficiency and phasing out ineffective programmes. Departments have again been asked to identify savings, and cuts amounting to R19 billion were effected in the final stages of preparing the 2009 Budget.

In the period ahead, it will be necessary to take stronger action in pursuit of efficiency and better targeted expenditure. There is insufficient control of foreign travel, advertising and public relations activities and consultancy services. Stricter oversight of the activities and executive remuneration in agencies and government enterprises is also required. I believe, Madam Speaker, that Parliament and our committees should play a more active role in challenging accounting officers to plan their efficiency saving initiatives up front, and report regularly on progress. A greater sense of responsibility needs to permeate the ethos of government all the way through the accountability chain.

Madam speaker, the next few years are going to be tougher. If we are to afford continued expansion of social services and our social wage, then, in addition to the need for greater efficiency, we have to conduct a thorough assessment of all of government's programmes to see how we can improve value for money and to identify areas where we can eliminate or reduce wastage. The Ministers' Committee on the Budget intends, in its handover report to the new administration, to propose that the incoming President announce a Comprehensive Expenditure Review. Its aim would be to ensure that as we spend more, we also spend better. In addition, should confront the awkward truth that there are programmes of government that do not work, and on which we should spend less.

Revenue estimates and tax proposals

Madam Speaker, the revised estimate of revenue for 2008/09 is R14.2 billion less than we planned in the 2008 Budget. For the year ahead, the main budget revenue estimate is R50 billion lower than we projected in February last year, against the background of slower growth, depressed trade and declining company profits.

In setting the gross tax revenue target of R659 billion for the year ahead, we have taken into account the need to provide relief to households and encouragement to the business sector, while continuing to broaden the tax base through which the requirements of the fiscus have to be met.

Personal income tax

The proposed adjustment to the personal income tax schedules will provide relief of R13.6 billion to individual taxpayers, compensating fully for the effects of inflation and providing further relief mainly to lower and middle income earners. The tax-free income threshold next year will be R54 200 for taxpayers below the age of 65 and R84 200 for those over 65.

It is gratifying to note that there has again been excellent progress in expanding the number of registered taxpayers. In view of progress in simplifying the tax return process and the waiver of the annual filing requirement for qualifying taxpayers, it is proposed that the current Standard Income Tax on Employees system should be discontinued by 2010. I appreciate that the administrative reforms, the adjustment to e-filing arrangements and the construction of more effective communication channels between SARS and individual taxpayers are huge reform projects, on the one hand, and sources of numerous personal inconveniences, on the other. But we are getting there, and these improvements will serve as a platform for improved fiscal integrity for decades to come.

Mineral and petroleum royalties

After discussions with both labour and the mining industry and taking into account the potential impact of the economic slowdown on the mining industry, I propose to defer the mining royalties regime from this year to 2010. This provides a boost to the industry of about R1.8 billion, which will assist in minimising job losses. I have agreed with the mineworkers' unions and the Minister of Minerals and Energy that government will consider establishing an agency, to be jointly managed by business, labour and government, to invest in economic development in mining towns or labour-sending areas affected by retrenchments.

Madam Speaker, perhaps it is because miners are used to digging deeper, that their creativity and commitment to improve conditions for mining communities serve as an example of the kinds of partnership required to ensure that South Africa emerges stronger from this global crisis. If the new development agency can be established this year, we will make an allocation towards its activities in the adjustments budget.

Environmental fiscal measures

Tax tips continue to make up the majority of the tips submitted. Mr. Saul Margolis of Johannesburg called for a tax to be imposed on incandescent light bulbs to encourage people to use compact fluorescent lightbulbs and save energy. Mr. Margolis, I have asked that this be included in the revenue proposals this year.

We propose taking further steps to encourage energy efficiency and reduce harmful emissions, some of which have tax implications.

- An incentive for investments by companies in energy-efficient equipment will be introduced, in the form of a supplementary depreciation allowance.
- The levy on plastic shopping bags will be increased from 3 cents to 4 cents.
- An increase is proposed in the international air passenger departure tax, which was last raised in 2005/06.
- The existing excise duties on motor vehicles will be adjusted to take into account carbon emissions.

It is important, furthermore that we should encourage South African companies to take advantage of the clean development mechanism established in the Kyoto Protocol. A favourable tax treatment will therefore be introduced for the recognition of income derived from the sale of emission reductions, as certified through this mechanism.

Customs and excise duties

The tax code discourages another category of atmospheric emissions, Madam Speaker. I refer to the duties on tobacco products. This year's increase in the duty on cigarettes and cigars is 13 per cent, with somewhat lower increases in respect of cigarette and pipe tobacco. A packet of 20 cigarettes will cost 88 cents more. I should also advise that a bottle of wine will cost 10.5 cents more, and a can of beer 7 cents more.

Mr At du Plooy has written to ask, "please be a little more lenient on the tax on whisky for the old folks. We have so little to enjoy, you know things that used to happen after dark, no longer happen. All we have left to enjoy is a little entertainment before supper." He asks for leniency, reminding me that this will ultimately be for my own benefit as well. A bottle of whisky, Mr. du Plooy, goes up by R3.21.

Fuel levies

As road-users, Madam Speaker, we have gained some advantage since mid-2008 from lower international oil prices. As road-users we also know that there is a substantial increase in spending on maintenance and construction under way, and we still face a heavy burden of road accidents and associated compensation claims. These are costs that have to be covered, and so there will be increases in the fuel levies on 1 April this year, of 23 cents and 24 cents per litre in respect of the general petrol and diesel levies, and 17.5 cents in the road accident fund levy.

As indicated last year, it is proposed that the general fuel levy should form part of a new municipal revenue arrangement to replace the former Regional Service Council levies. In 2009/10, 23 per cent of the general fuel levy will be earmarked for metropolitan municipalities to support expenditure on roads and transportation infrastructure.

VAT and Tax administration

Over the years, we have received many tips from people running small businesses, calling for an increase in the VAT registration thresholds. Mr. Ivan Faught wrote in 2003 that “such a change would make it easier to work oneself up to entrepreneurial status.” Effective from this year, the VAT threshold is increased from R300 000 to R1 million.

Several administrative reforms are also in progress at SARS, including customs modernisation in support of the rapidly changing trade environment, and improved use of technology and third-party information to authenticate data and reduce the need for supporting documents.

I am pleased to announce that taxpayers, practitioners and employers can look forward to the return of the traditional tax season deadlines this year. The Tax Season 2009 timetable includes a 60 day reconciliation period for employers in April and May. Tax season for individuals starts in July. The deadline for submission of income tax returns for individuals and trusts is 18 September for manual filers and 20 November for electronic submissions.

Tips for Trevor

Madam Speaker, I need to thank those many South Africans who have contributed to the “Tips for Trevor” campaign. Since it was first introduced nearly 10 years ago, you have sent over 20 000 suggestions, including 2 363 this year.

Your voices have been heard, in countless ways. You advised in the early years that the child support grant should be extended above its initial age threshold of 7, and that has been done. You advised that public benefit organizations needed greater tax relief, and that has been done. You advised that the tax treatment of retirement fund withdrawals was too onerous, and so that has been revised. You have advised in no uncertain terms that the SARS call centre is dysfunctional, and so that is being fixed, as we speak.

The call for the provision of free anti-retroviral treatment was another topic that persistently featured over the years. Jackie Mondi of Berario wrote an extensive tip in 2003, calling for a “special fund for fighting HIV/AIDS; that focus should be on both care and prevention.” In 2004 government was able to roll-out ARV treatment in public health facilities around the country for those living with HIV and Aids. Recent tips reflect appreciation of this, such as the one from Gemi Malau who wrote: “I think the budget needs to be commended as it is now focusing on HIV/AIDS.”

Conclusion

At this time last year, Madam Speaker, we noted that *“…as with the weather…,, 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.”* Every corner of the globe is affected by the economic turmoil that we are currently experiencing. It is not just that the adjustments to the economic crisis may be difficult or expensive, there is also the uncertainty about the burden that will be visited on future generations by the interventions being contemplated today.

Nouriel Roubini, an economist popularly credited with predicting the present financial crisis, recently said, “...while this crisis does not imply the end of market economy capitalism, it has shown the failure of a particular model of capitalism: the laissez faire unregulated (or aggressively deregulated), wild-west model of free market capitalism without prudential regulation and supervision of financial markets and with the lack of proper provision of public goods by governments.”

Fellow South Africans, our response to the challenge before us builds on policies we have consistently pursued over the past decade and half: sound prudential regulation of the financial sector and a strong emphasis on the provision of public goods by government.

Last week, President Motlanthe summarised our response to this financial crisis.

- Over the next three years, we will invest R787 billion in the infrastructure needed for future growth and development.
- We will accelerate the Expanded Public Works Programme, and work with business to mitigate job losses and accelerate skills development
- We will strengthen our development finance institutions, and support industrial restructuring and agricultural development
- Our social assistance programmes will reach over 13 million people and public expenditure on education and health care will increase strongly.

But it is not the numbers in the Budget that will measure the quality of our response to the present crisis, Madam Speaker, but the character of our resolve to work together, putting others before ourselves, confident in the choices we have made and committed to face our awkward and deepest truths.

Madam Speaker, there will be a new administration in place next year, and there will no doubt be new insights on which to draw in framing the next budget and medium term expenditure framework. But the National Treasury as a source of economic and fiscal expertise will still be in place, and I want to commend to the House the constructive role that the Treasury plays in absorbing and synthesizing a vast tapestry of economic and financial statistics, policy documents and programme information, as part of the process of preparing the national budget proposals.

After drawing on advice from so many diverse quarters, I am also indebted to my colleagues in Cabinet who share with me the collective responsibility for the overall integrity and coherence of the Budget. President Mbeki, and in recent months President Motlanthe, have provided the leadership and good judgment required to bring the budget process to a conclusion, ably supported by Deputy Presidents Mlambo-Ngcuka and Mbete.

I am especially indebted to members of the Ministers Committee on the Budget, who have set aside their time, reviewed lengthy budget memoranda and engaged with insight and energy in the debates that contribute to refining the spending proposals.

Deputy Minister Jabu Moleketi served the Treasury with distinction, notably in representing the fiscus on the Local Organising Committee for the FIFA World Cup. His successor, Nhlanhla Nene, has brought a keen eye for detail to the final stages of the budget process. The MEC's for Finance have again been generous in sharing their experience and insights and in dealing with difficult challenges this year – I wish to express a personal appreciation for their support and dedication to the cause of sound public finance.

Our collective thanks are due also to:

- Governor Tito Mboweni, whose leadership of the Reserve Bank is cause for both pride and confidence in our monetary management and banking supervision
- Commissioner Pravin Gordhan and the staff of the South African Revenue Service, who continue to serve the nation and the fiscus with dedication beyond the call of duty
- Mr Howard Gabriels, chair of the Statistics Council, Statistician-General Pali Lehohla and the staff of Stats SA, whose economic reports in recent months have sometimes brought unwelcome news, but nonetheless timely and comprehensive
- The Financial and Fiscal Commission and its chairperson, Dr Bethuel Setai, whose advice remains critical to the integrity of our intergovernmental fiscal system
- NEDLAC, its Managing Director, Mr Herbert Mkhize, and representatives of the business, labour and community constituencies on the Public Finance and Monetary Chamber, particularly for their efforts to bring coherence to a national perspective on the current economic crisis and how we should respond

- The Honourable Arthur Moloto and Honourable Tutu Ralane who chair the Portfolio and Select Committees on Finance respectively and to the joint chairs of the Budget committee, Honourable Louisa Mabe and Honourable Elliot Sogoni.

Lesetja Kganyago leads the National Treasury team with unflagging energy.

The staff in the Ministry still tolerate me with good grace and endless patience.

I also have to thank my family for support and inspiration.

Nineteen years ago, on this date, in this city, just 200 meters down the road, former President Mandela stepped up to the podium to make his first address as a free man.

He said, and I quote, “The need to unite the people of our country is as important a task now as it has always been. No individual leader is able to take on this enormous task on his own.”

Madam Speaker, these words remain profoundly relevant today.

Fellow South Africans, we cannot promise an easy road ahead, or a rapid resolution of the economic and social challenges we face. But we know that the choices we have made set us on a path of shared growth and broadening participation in a fairer and more dynamic economy – there is hard work to be done if we are to achieve the transformation we seek. To travel this road with confidence, we must remain united.

Ngiyabonga