2008 Budget lowers taxes, keeps surplus

By Shaun Benton

20 Feb 2008

Minister of Finance Trevor Manuel, prior to delivering his 2008/09 Budget speech on Wednesday, dismissed doomsday economists worried about the current global economic downturn and insisted that the South African economy will weather any coming storms.

"The economy is strong ... we are staying the course," Manuel told a media briefing shortly before delivering the Budget speech in the National Assembly at 2pm.

While National Treasury has shaved 0.5% off projected gross domestic product growth for the coming financial year, placing it now 4%, Manuel said the South Africa economy remains "resilient" to external pressures.

"We should be able to deal with those challenges we are facing," said the Finance Minister, as he queried the empirical basis of the bleaker forecasts made in the past few weeks and months by many so-called economic analysts.

Global forecasts

Other developing countries were also slightly downgrading growth forecasts, including China and India, said the minister, adding that a "rebalancing" of the economy did not necessarily mean that medium-term economic goals could not be met.

GDP growth in India, for instance, is expected to moderate from 8.4% in 2007 to 7.8% this year, while that of China's is expected to soften to 9.5% from 10% last year.

Treasury director-general Lesetja Kganyago indicated that increased real volatility would likely impact on global growth, but that Treasury was taking a longer view.

"The focus is not in that we are in the middle of a storm ... the focus is on what we do post- the storm [of a global economic downturn]," Kganyago told reporters, insisting that 6% GDP growth after 2010 remained a possibility.

As such, the Finance Minister defended another "sunny" Budget for South Africa this year, pointing out that five years of economic growth will continue to stand the economy in good stead and that "we are very confident about where we are taking things".

That direction is unassailably towards wider participation in the economy, according to the Constitution's exhortation to "unlock the potential of all South Africa", Manuel said.

Breathing a sigh of tax relief

The sunny Budget therefore brings another surplus, lowered taxes and increased spending in continued moves to address "binding constraints" to economic growth, such as skills capacity, infrastructure and better systems.

The 2008 Budget Review points to a 4% GDP growth that will rise to about 4.6% by 2010, backed up by fact that gross fixed capital formation – fixed investment – reached 21% of GDP last year and that this pace is expected to remain "robust".

Tax relief of R10.5 billion is being proposed for the 2008/09 financial year, with personal income tax relief for individuals forming the bulk of this, at R7.7 billion.

At the same time, corporates get a reduction too: the headline corporate tax rate is reduced by one percentage point, bringing it to 28%.

Small businesses get a massive boost, with the compulsory VAT registration threshold raised from R300,000 to R1 million, while R5 billion in tax subsidies over the next three years will support "emerging industrial policy".

Wish granted

Meanwhile, there are virtually all-round additions to spending over the next three years: an additional R12.5 billion goes to social grants, with the extension of the child support grant to children up to their 15th birthday as of next year.

This amount also caters to the promise made by President Thabo Mbeki in his State-of-the-Nation address to lower the age of eligibility for men to receive the old-age pension to 60.

Also in the Budget is an additional R8.2 billion for public, transport, roads and railway infrastructure, while there is an additional R2 billion for 2010 FIFA World Cup stadiums and related infrastructure.

An additional R2.6 billion goes to agriculture and land reform including restitution, with Manuel defending this number by refusing to put a potential price on farmland that could be earmarked for redistribution or restitution to members of the country's dispossessed majority.

An additional R2.5 billion goes to industrial development and small, medium and micro enterprises, while an additional R1.4 billion is set aside for higher education, research and knowledge development.

This is while the Budget surplus is held over from last year, remaining at 1%, with this budget balance as a percentage of GDP projected to fall to 0.6% in 2009/10 and rise slightly to 0.7% by 2010/11.

Overall, the resilience of the country's economy to global economic shocks is supported by steady growth in net foreign reserves, which reached US$32 billion by the end of last month.

Article published courtesy of BuaNews