



The economy and the markets after the Budget.

Brian Kantor for GSB Association

28th February 2011



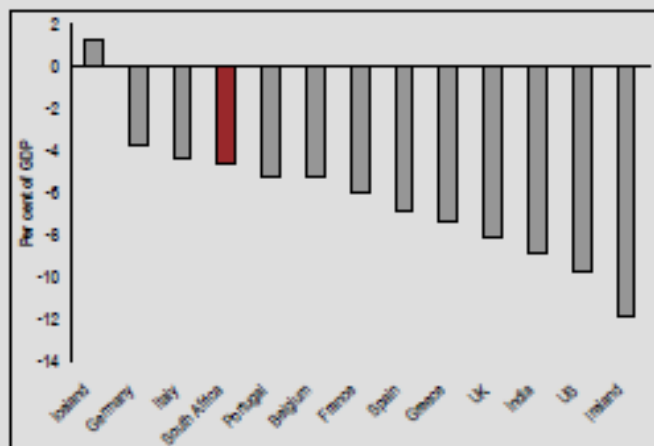
Debt to GDP and Debt Costs



Table 1.4 Projected state debt and debt costs

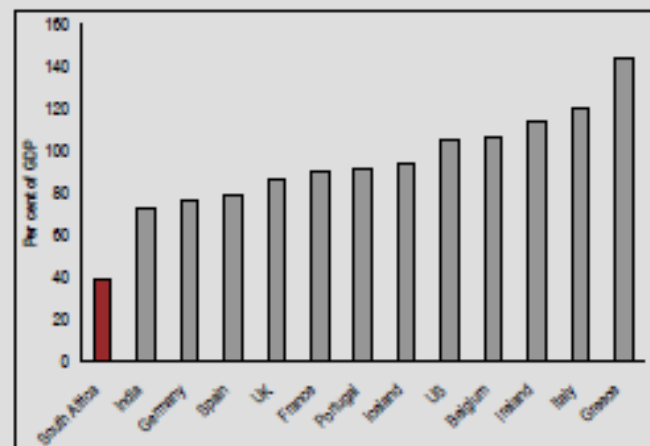
R billion	2010/11	2011/12	2012/13	2013/14
Net loan debt	822.4	998.8	1 199.7	1 388.3
<i>Percentage of GDP</i>	30.8%	34.3%	37.5%	39.3%
Net domestic debt	784.3	970.6	1 148.0	1 313.1
Foreign debt	38.1	28.2	51.7	75.2
State debt cost	66.6	76.6	90.8	104.0
<i>Percentage of GDP</i>	2.5%	2.6%	2.8%	2.9%

Fiscal deficits by country, 2011



Source: IMF

Gross government debt, 2011



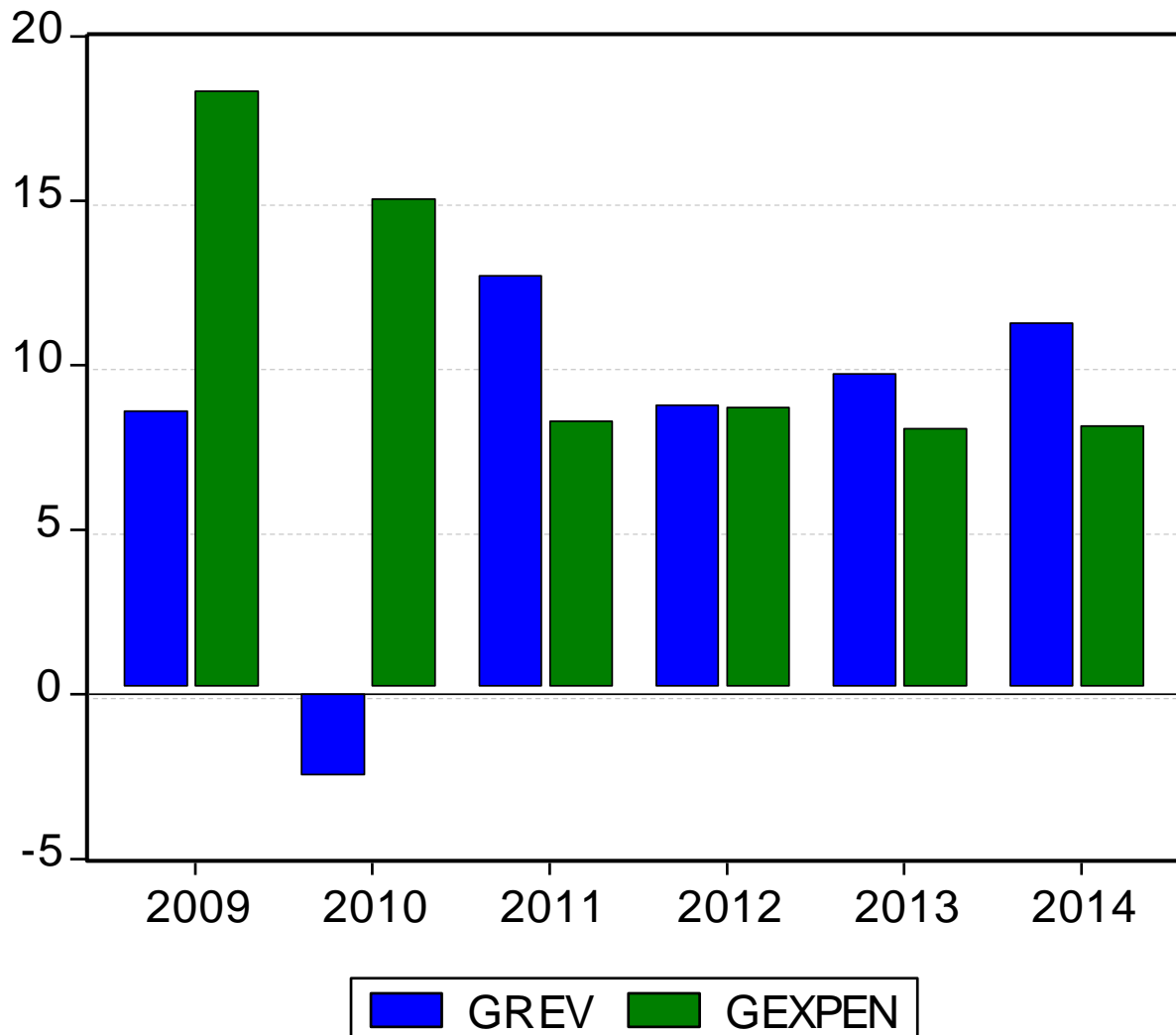
The key fiscal ratios



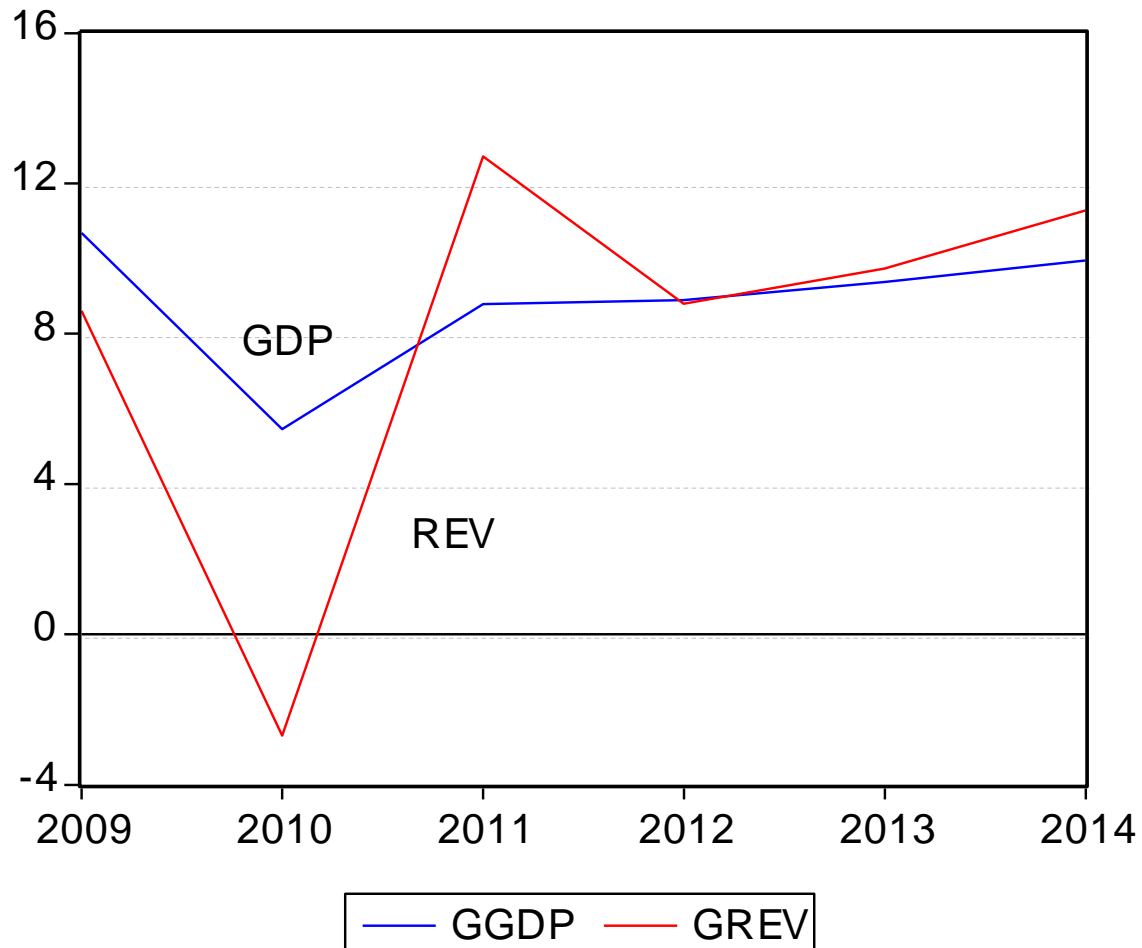
Table 1.2 Consolidated government fiscal framework

R million	2010/11 Revised estimate	2011/12	2012/13	2013/14
Revenue	755.0	824.5	908.7	1 017.2
<i>Percentage of GDP</i>	<i>28.3%</i>	<i>28.3%</i>	<i>28.4%</i>	<i>28.8%</i>
Expenditure	897.4	979.3	1 061.6	1 151.8
<i>Percentage of GDP</i>	<i>33.6%</i>	<i>33.6%</i>	<i>33.2%</i>	<i>32.6%</i>
Budget balance	-142.4	-154.8	-152.9	-134.6
<i>Percentage of GDP</i>	<i>-5.3%</i>	<i>-5.3%</i>	<i>-4.8%</i>	<i>-3.8%</i>
<i>Gross domestic product</i>	<i>2 666.9</i>	<i>2 914.9</i>	<i>3 201.3</i>	<i>3 536.0</i>

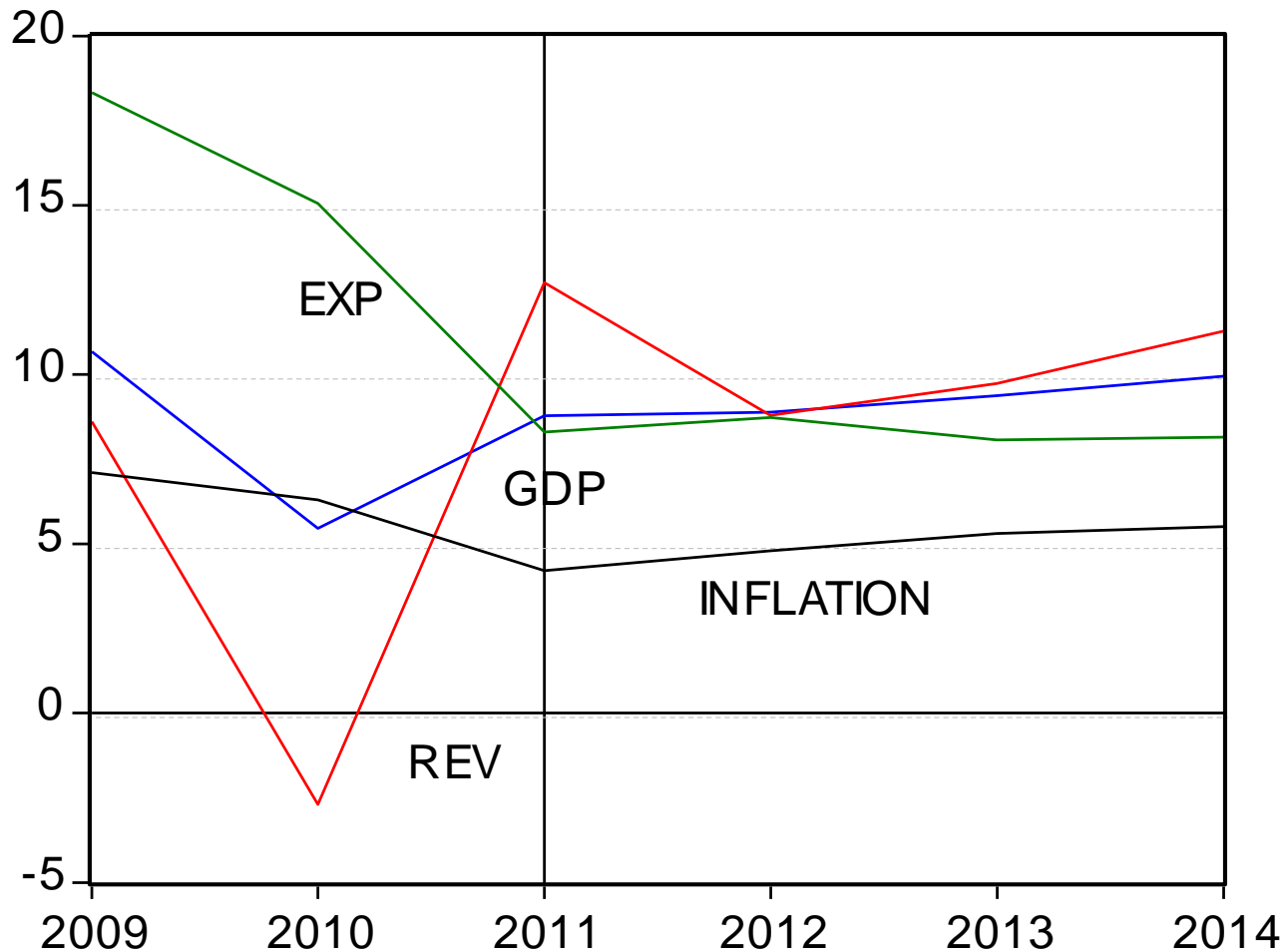
Growth in government revenue and expenditure



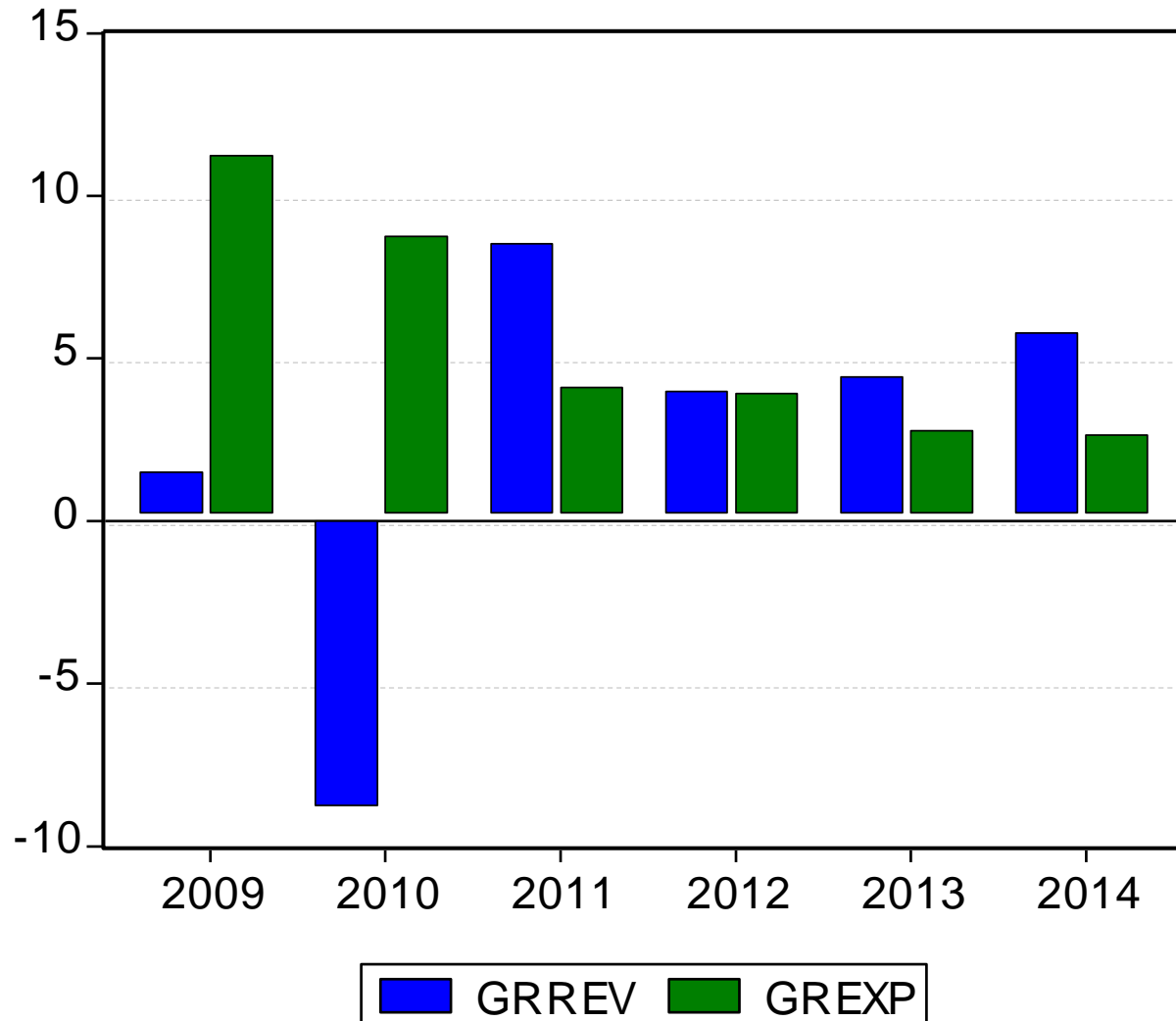
Growth in GDP and revenues



Growth in Revenue, expenditure, GDP and Prices



Growth in real revenue and expenditure



The structure of taxes- little change



Figure 4.1 Structure of tax revenue, 1996/97 – 2013/14

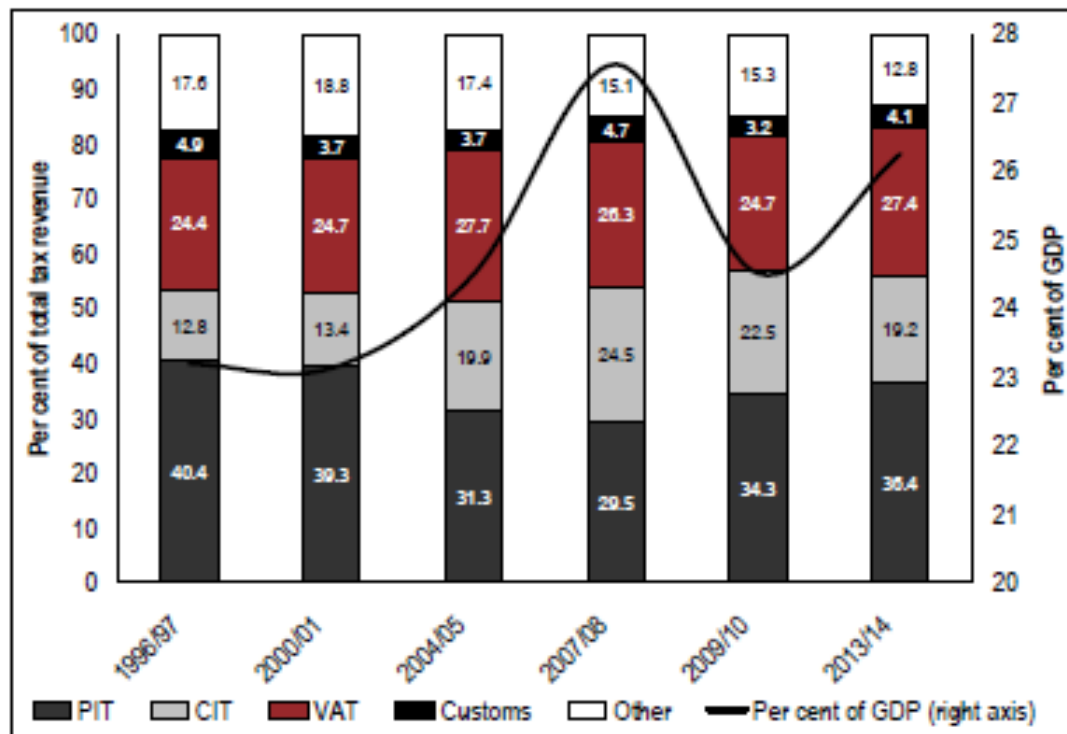


Table 4.2 presents consolidated government revenue outcomes from 2007/08 to the present, and the three-year projection.

Macro-assumptions



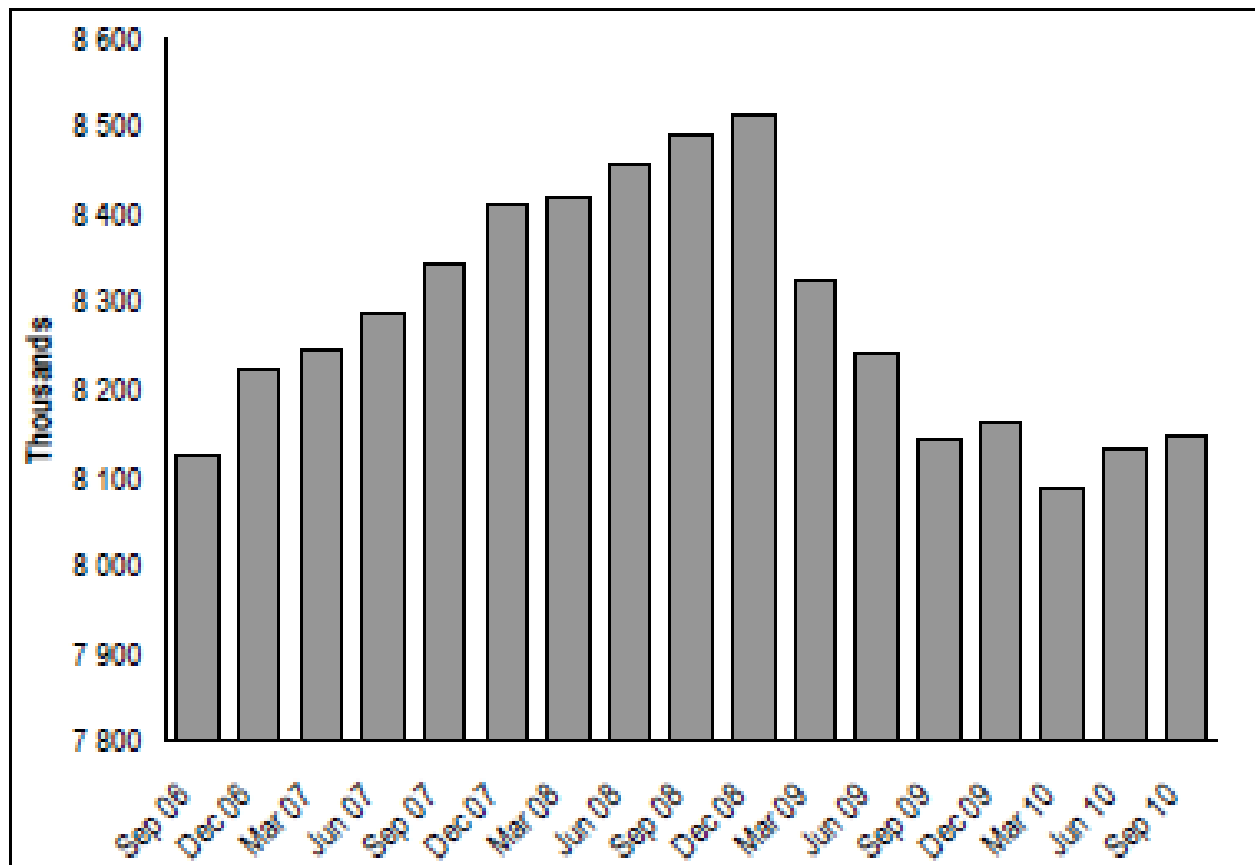
Table 2.1 Macroeconomic projections, 2007 – 2013

Calendar year	2007	2008	2009	2010	2011	2012	2013
	Actual			Estimate	Forecast		
<i>Percentage change unless otherwise indicated</i>							
Final household consumption	5.5	2.2	-2.0	4.6	4.2	4.3	4.5
Final government consumption	4.1	4.7	4.8	4.6	4.4	4.1	3.9
Gross fixed-capital formation	14.0	14.1	-2.2	-3.6	3.9	5.5	6.8
Gross domestic expenditure	6.3	3.4	-1.7	4.1	4.2	4.4	4.6
Exports	6.6	1.8	-19.5	5.3	6.0	6.4	7.3
Imports	9.0	1.5	-17.4	10.4	8.5	7.0	7.4
Real GDP growth	5.6	3.6	-1.7	2.7	3.4	4.1	4.4
GDP inflation	8.1	8.9	7.2	6.3	5.3	5.4	5.8
GDP at current prices (R billion)	2 016.2	2 274.1	2 396.0	2 615.7	2 846.5	3 122.0	3 445.9
Headline CPI inflation	6.1	9.9	7.1	4.3	4.9	5.2	5.5
Current account balance (% of GDP)	-7.0	-7.1	-4.1	-3.2	-4.2	-4.9	-5.0

Formal employment – down 400,000

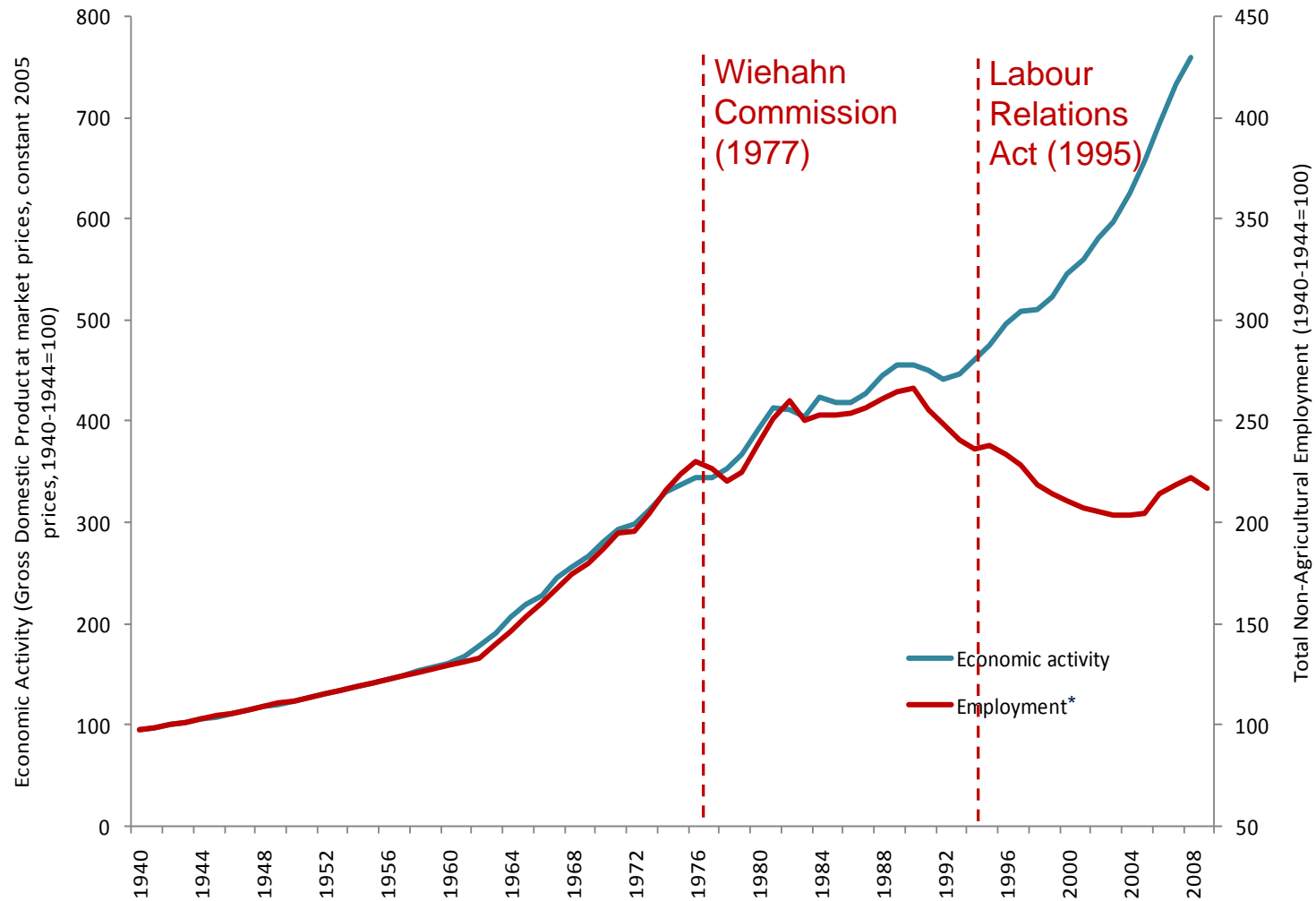


Figure 2.9 Formal sector non-agricultural employment, 2006 – 2010



Source: Stats SA, Quarterly Employment Statistics

The inconvenient truth

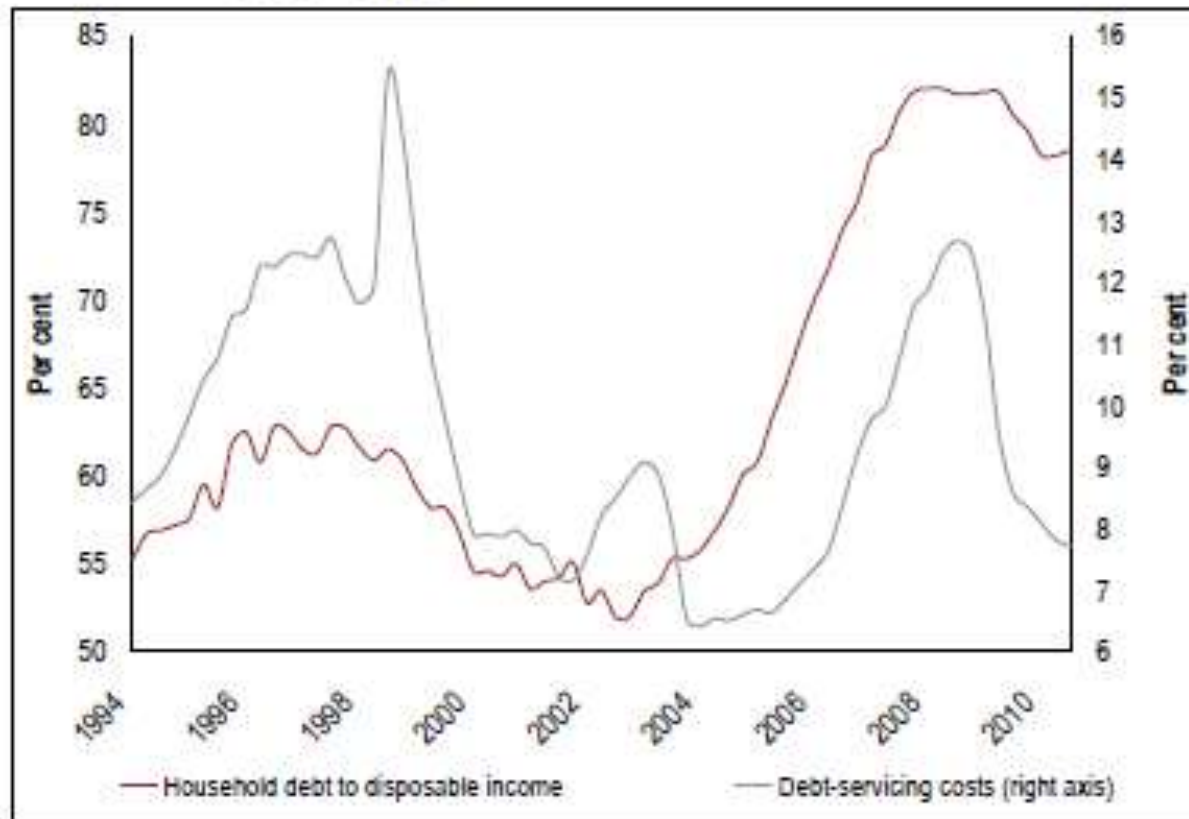


Note: * Excludes rebasing of underlying South African Reserve Bank and Statistics SA indexes in Q3-2002, Q4-2004 and Q2-2006.

Debt and debt service ratios



Figure 2.10 Debt-to-disposable-income and debt-service costs, 1994 – 2010

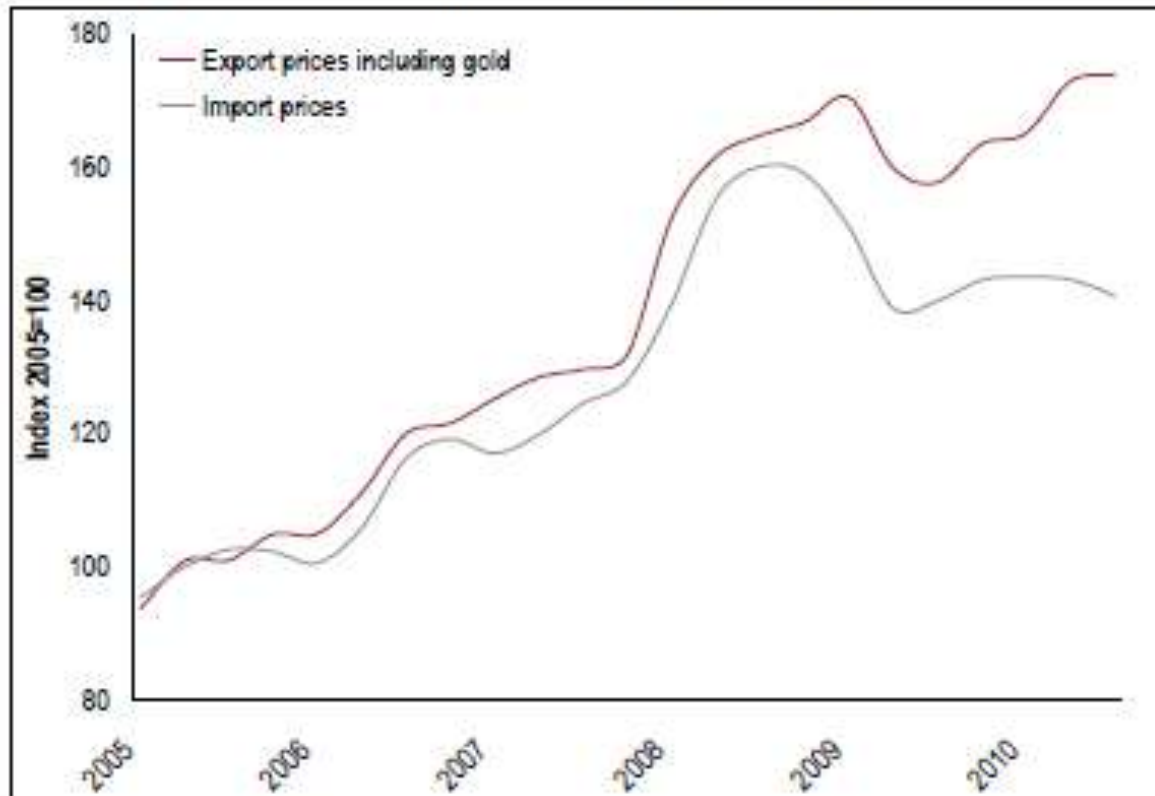


Source: Reserve Bank

Terms of Trade- in SA's favour- until this week



Figure 2.4 Export and import prices, 2005 – 2010



Source: Reserve Bank

Major infrastructure projects

Table 4.4 Major infrastructure projects

Project name	Total project cost R billion	Implementation agent	Project objective and completion target date
Energy			
Kusile power station	142	Eskom	Construction of a 4 800MW coal-fired power station (to be completed in 2012).
Medupi power station	125	Eskom	Construction of 4 788MW coal-fired power station (to be completed in 2015).
Ingula pumped-storage scheme	15.6	Eskom	Construction of a 1 332MW hydroelectric power station (first unit to be completed in 2013).
Eskom's return-to-service projects	27	Eskom	Demothballing of three coal-fired power stations - Camden, Grootvlei and Komati (to be completed in 2012).
Transport			
Gauteng freeway improvement scheme	20.7	South African National Roads Agency Limited	Upgrade and lane additions to Gauteng's highway. Phase 1 (2012) and phase 2 (2020).
New multi-product pipeline phase 1	23.4	Transnet	Construction of a 8.7 billion litres per year pipeline (to be commissioned in 2011).
Iron-ore line	11.6	Transnet	Upgrade of the iron-ore line to 80 million tons per year (scheduled for completion in 2013).
Ngqura container terminal	10	Transnet	Improving port capacity by an additional 800 000 20-foot equivalent units (scheduled for completion in 2013).
Water			
Mokolo-Crocodile water augmentation project	15	Trans-Caledon Tunnel Authority	Phase 1 to deliver water (2012) and phase 2 (2015).
Olifants River water resource development project	16.1	Trans-Caledon Tunnel Authority	Construction of a dam and bulk distribution (to be completed in 2016).
Housing			
Cornubia housing development	5.1	The Housing Development Agency and eThekweni Metropolitan Municipality	Construction of 19 313 mixed-income, mixed-density houses (scheduled to be completed 2016/17).
N2 Gateway	2.3	The Housing Development Agency	The creation of sustainable communities through the construction of 22 000 low-income houses (scheduled for completion in 2013).
Hospitals			
Limpopo Academic Hospital	4	Limpopo Department of Health	Development of an academic hospital with tertiary facilities and services (scheduled for completion in 2013).
Nelson Mandela Hospital	4	Eastern Cape Department of Health	Improved health care through the upgrade and rehabilitation of the Nelson Mandela Hospital (scheduled for completion in 2013).
Chris Hani Baragwanath Hospital	4	Gauteng Department of Health	Improved health care through the upgrade and rehabilitation of the Soweto hospital (scheduled for completion in 2013).
Dr George Mukhari Hospital	4	Gauteng Department of Health	Improved health care through the upgrade and rehabilitation of the George Mukhari Hospital (scheduled for completion in 2013).
King Edward VIII Hospital	4	KZN Department of Health	Improved health care through the upgrade and rehabilitation of the King Edward VIII Hospital (scheduled for completion in 2013).
Correctional			
PPP Prisons	8	Department of Correctional Services	Upgrading of accommodation and related services to support the transformation process of correctional services facilities (scheduled for completion in 2013).



National health- up from R60 to R110 billion in three years



National health insurance

Government expects that national health insurance (NHI) will be phased in over 14 years. While initial allocations are made in the 2011 Budget, the NHI system will require funding over and above current revenues allocated to public health. Preliminary analysis indicates that the phasing in of a payroll tax (payable by employers), an increase in the VAT rate and a surcharge on individuals' taxable income could be considered as funding options. The feasibility and practicality of co-payments or user charges will also be explored. Announcements about specific funding instruments will be made in the 2012 Budget.

Retirement funds



- An employer's contribution on behalf of an employee will be deemed a taxable fringe benefit in the hands of the employee. Individuals will be allowed to deduct up to 22.5 per cent of their taxable income for contributions to pension, provident and retirement annuity funds.
- To ensure greater equity, two thresholds will be established – a minimum annual deduction of R12 000 and an annual maximum of R200 000.
- The base on which contributions to retirement funds and other social security taxes is calculated will be streamlined.

Interventions in the labour market



Learnership tax incentive

The learnership tax incentive, designed to support youth employment, will expire in September 2011. The tax expenditure associated with this incentive is estimated to have amounted to R324 million in 2007/08, but its effectiveness is difficult to assess. Government proposes to extend the incentive for five years, subject to an analysis of its effectiveness by businesses, sector and training authorities, and the Department of Higher Education and Training. The review will take place during 2011.

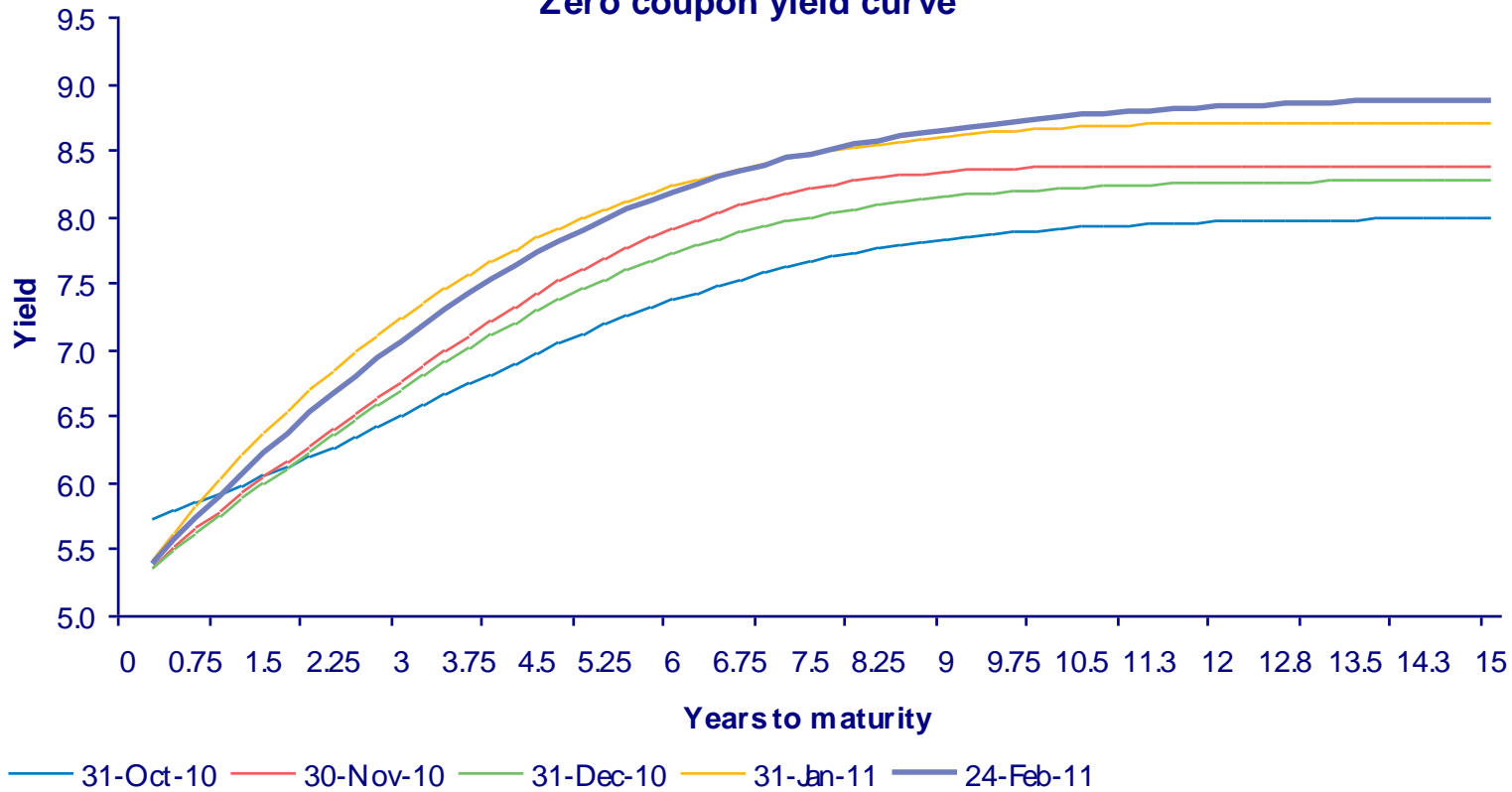
Youth employment subsidy

To support job creation, a youth employment subsidy in the form of a tax credit costing R5 billion over three years will be introduced. It will be administered by the South African Revenue Service (SARS) through the PAYE system to limit abuse, ensure maximum liquidity and ease business compliance.

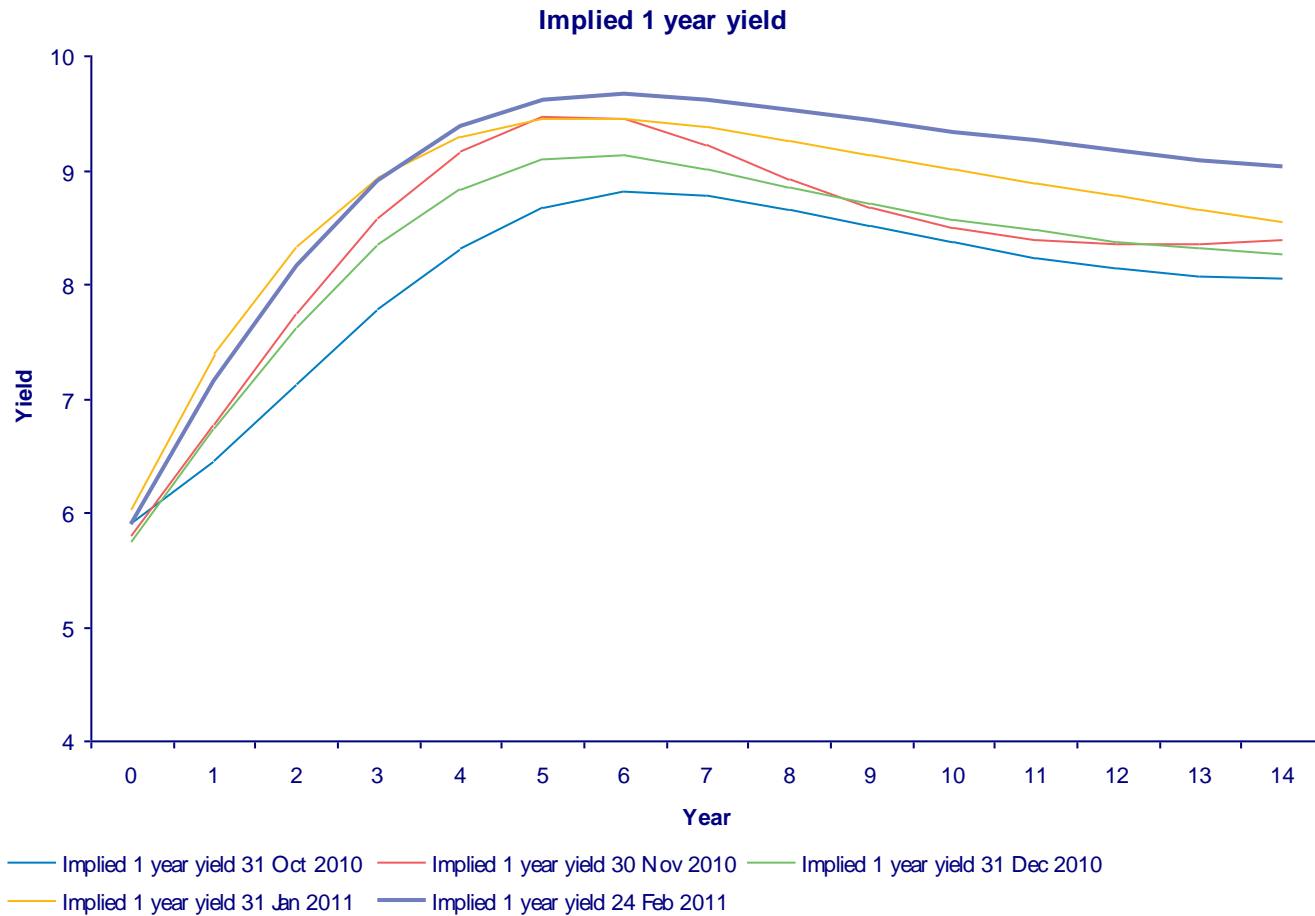
The yield curve



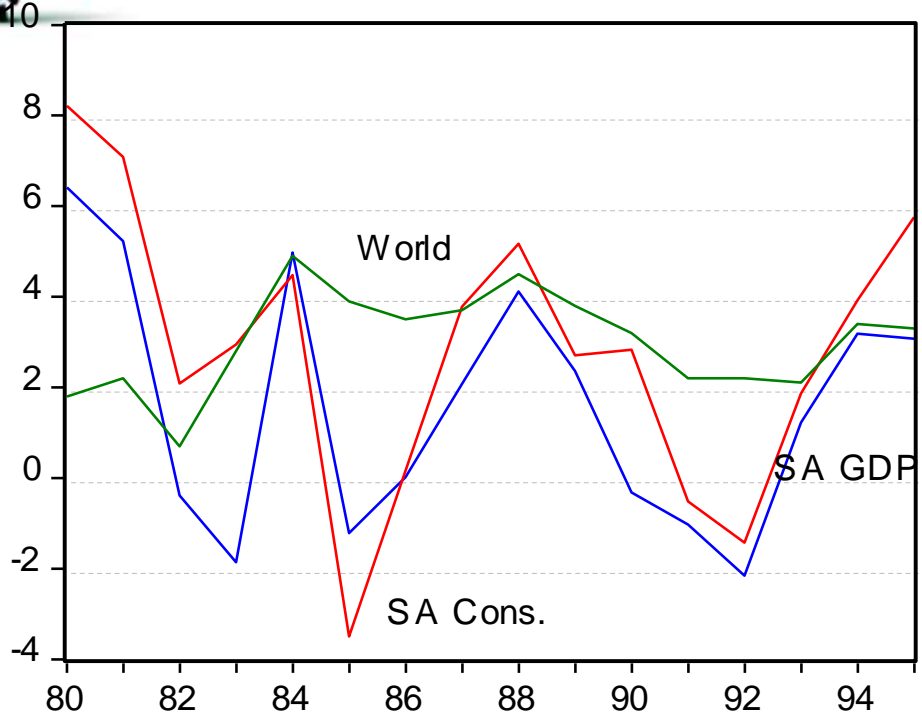
Zero coupon yield curve



Implicit 1 year interest rates

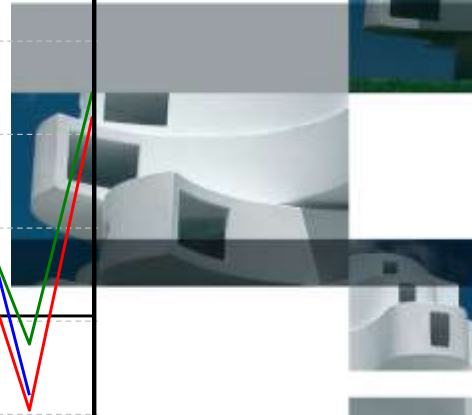
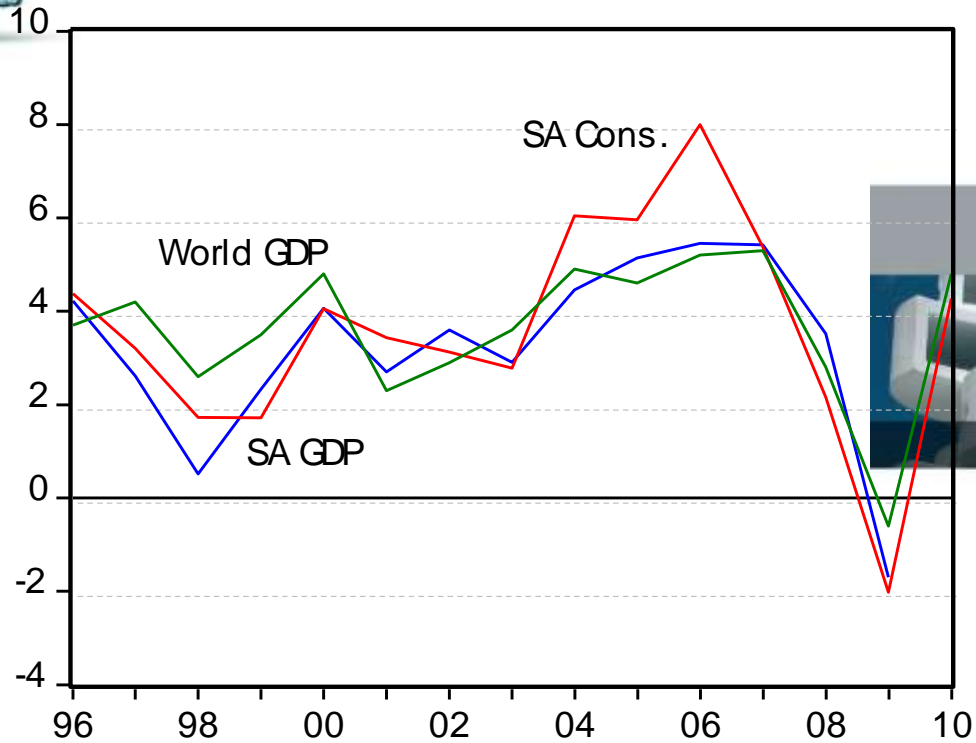


World and SA GDP growth 80- 95 – growth rates very different



— SA GDP growth — SA HH Consumption — World GDP Growth

World and SA growth 96-2010

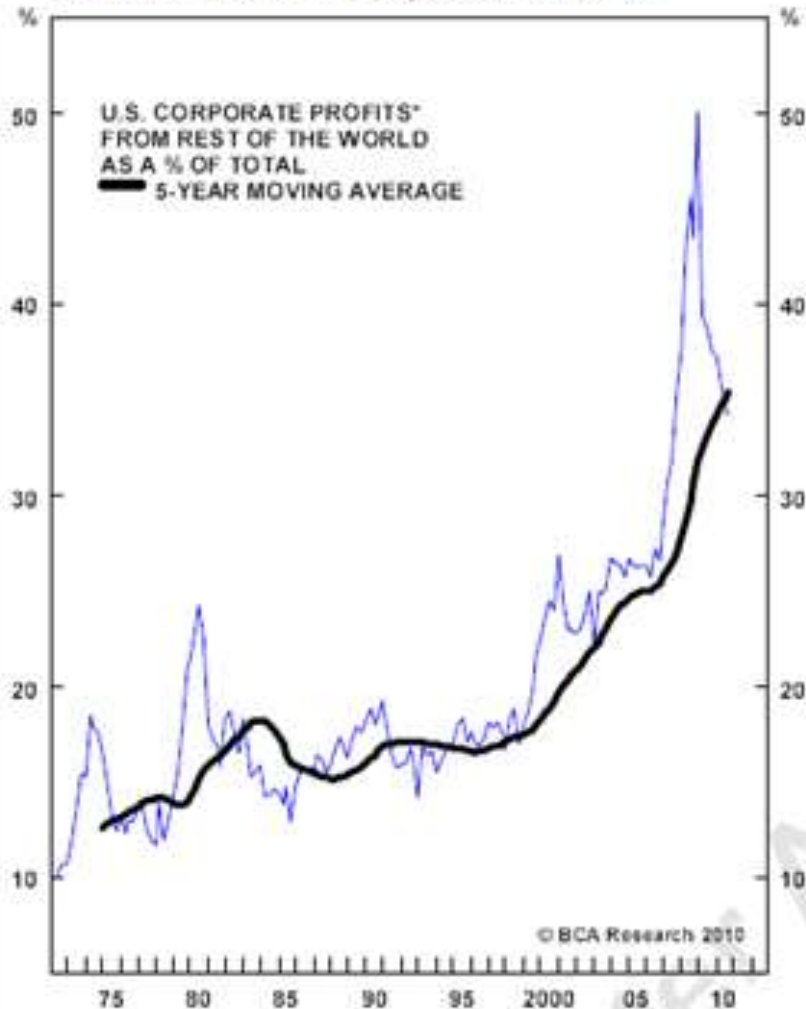


— SA GDP Growth — SA HH Consumption growth — World GDP Growth

The S&P is a play on the global economy – as is the JSE – even more so

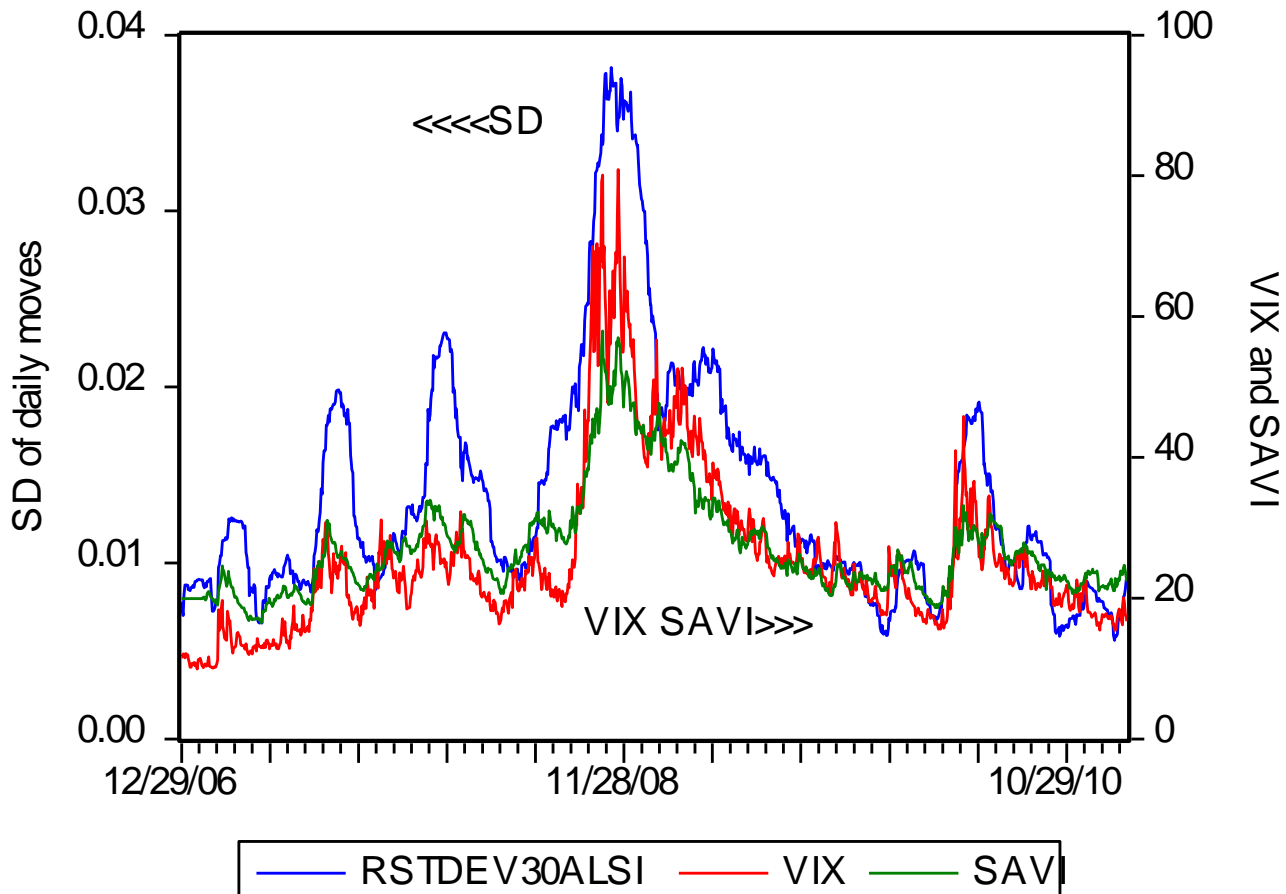


CHART 23
Globalization Of Corporate Profits

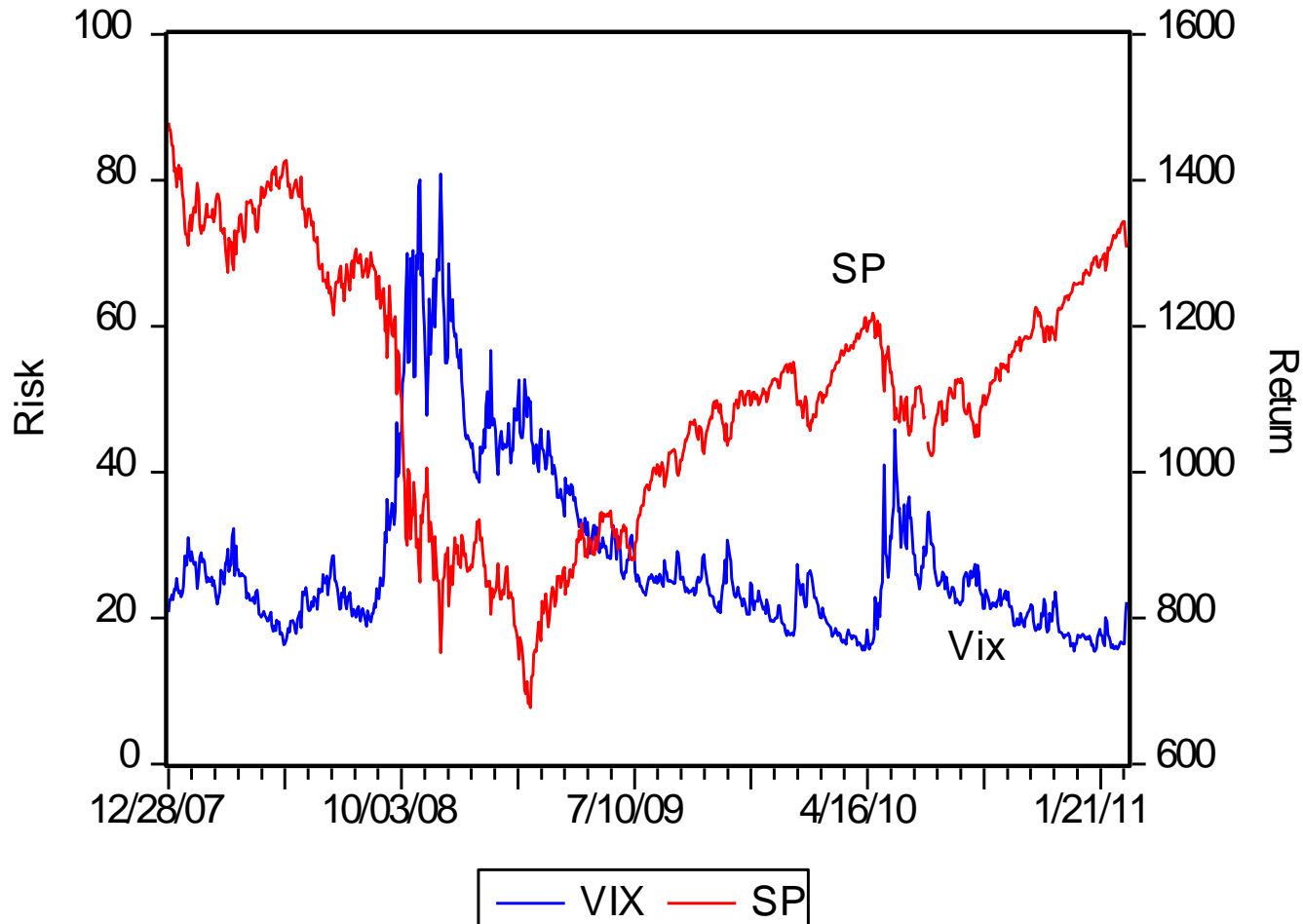


* SOURCE: BUREAU OF ECONOMIC ANALYSIS

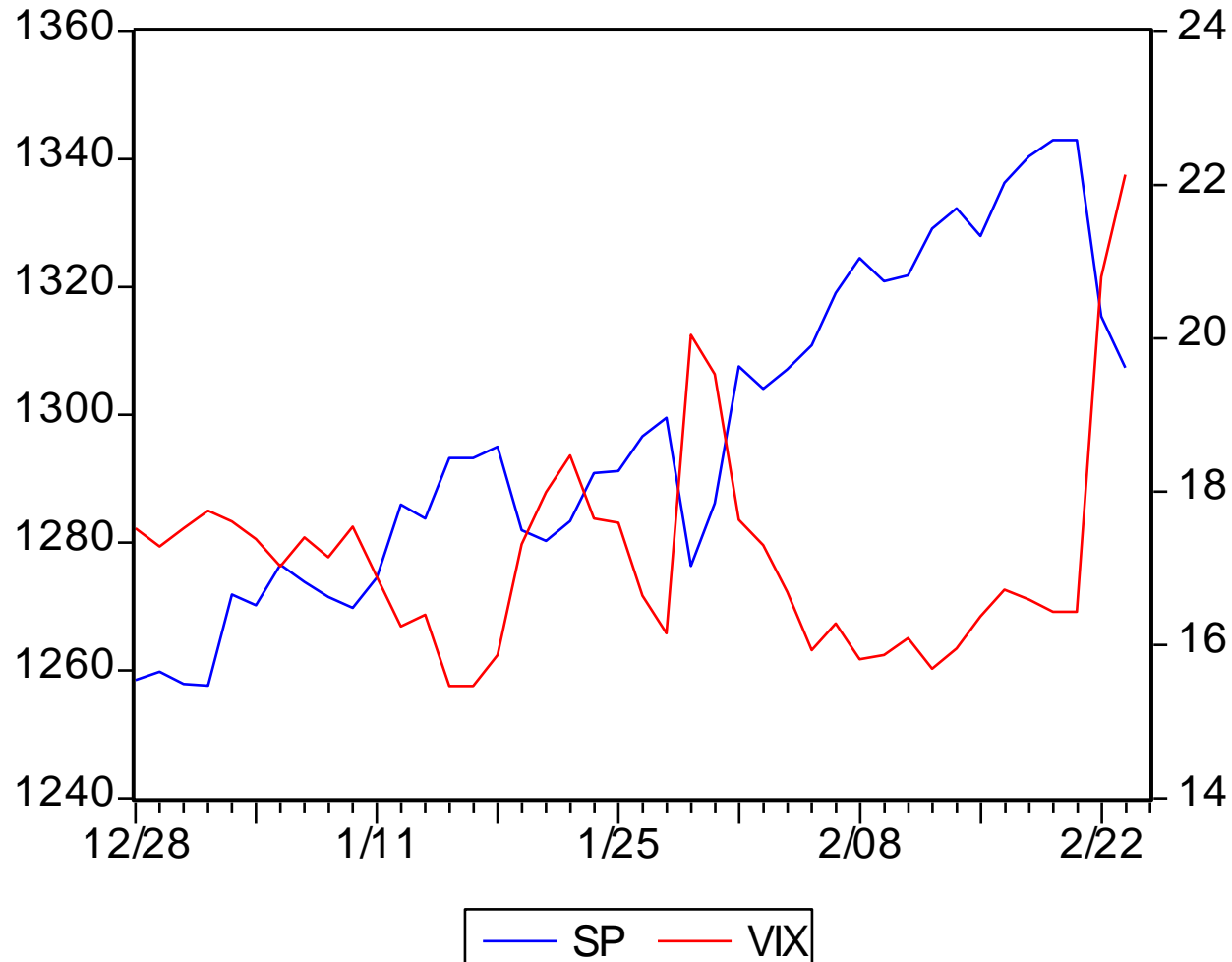
Measuring risk in equity markets



Risk and return



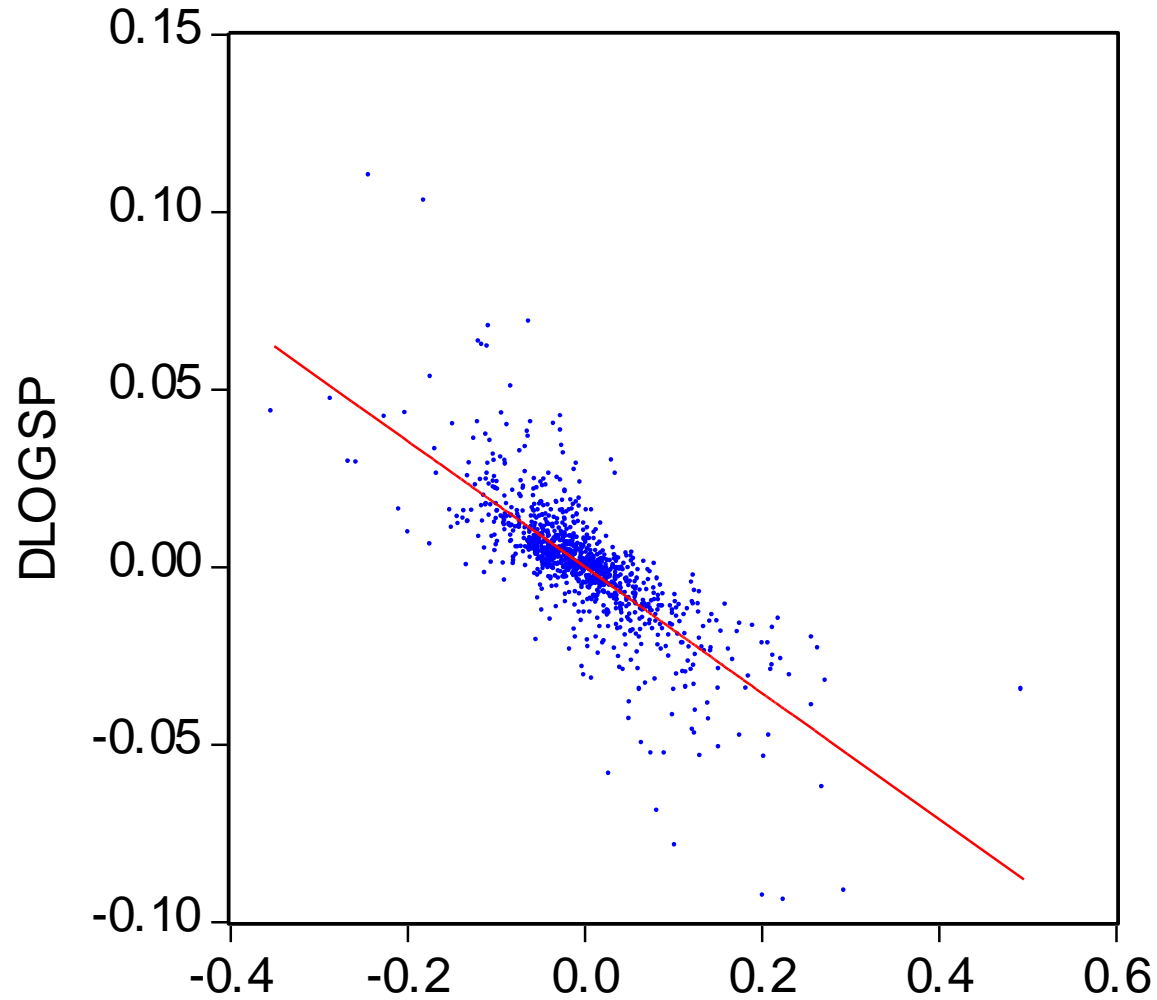
The Libyan/oil problem



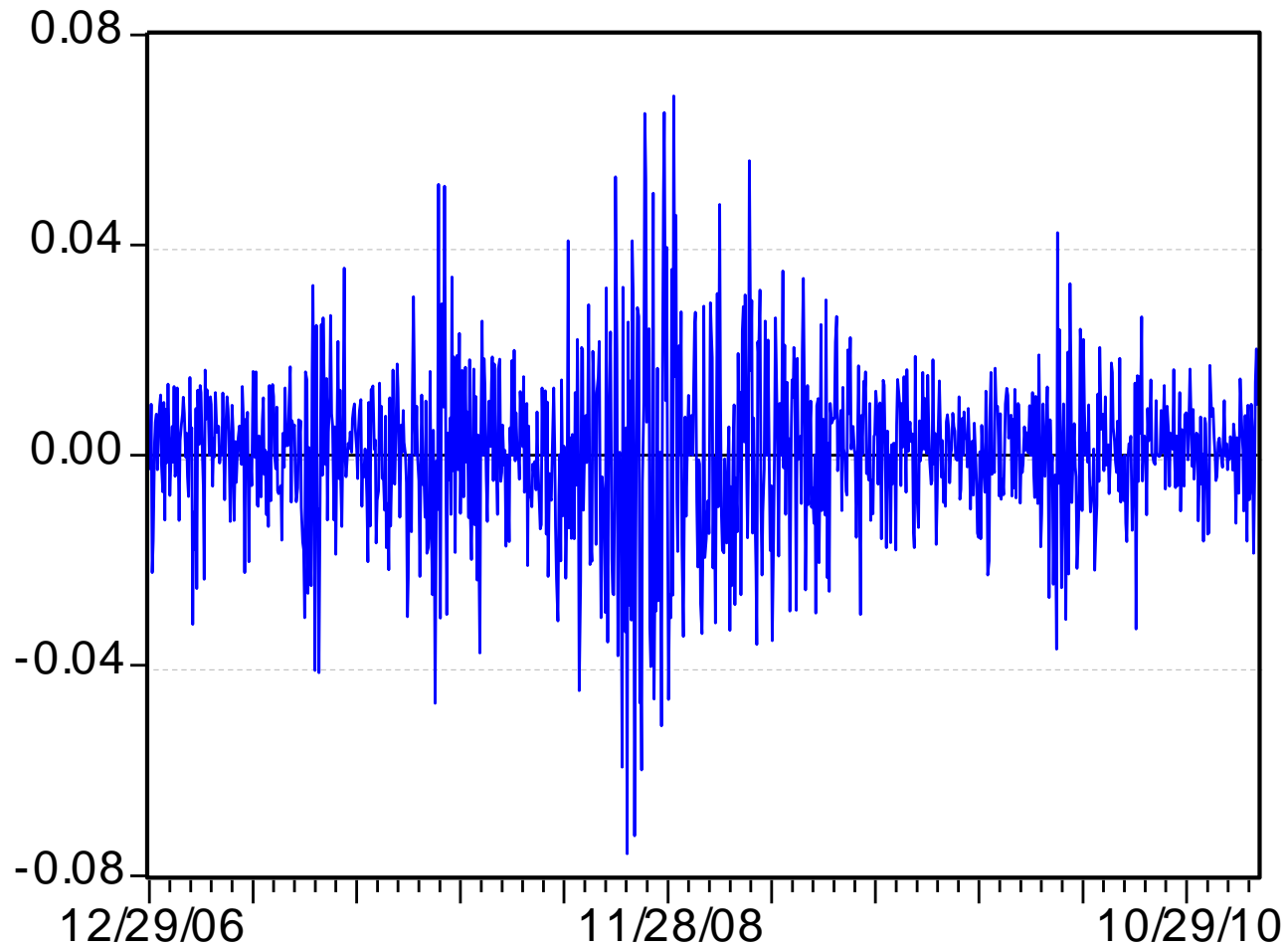
Daily moves in risk and return



DLOGSP vs. DLOGVIX

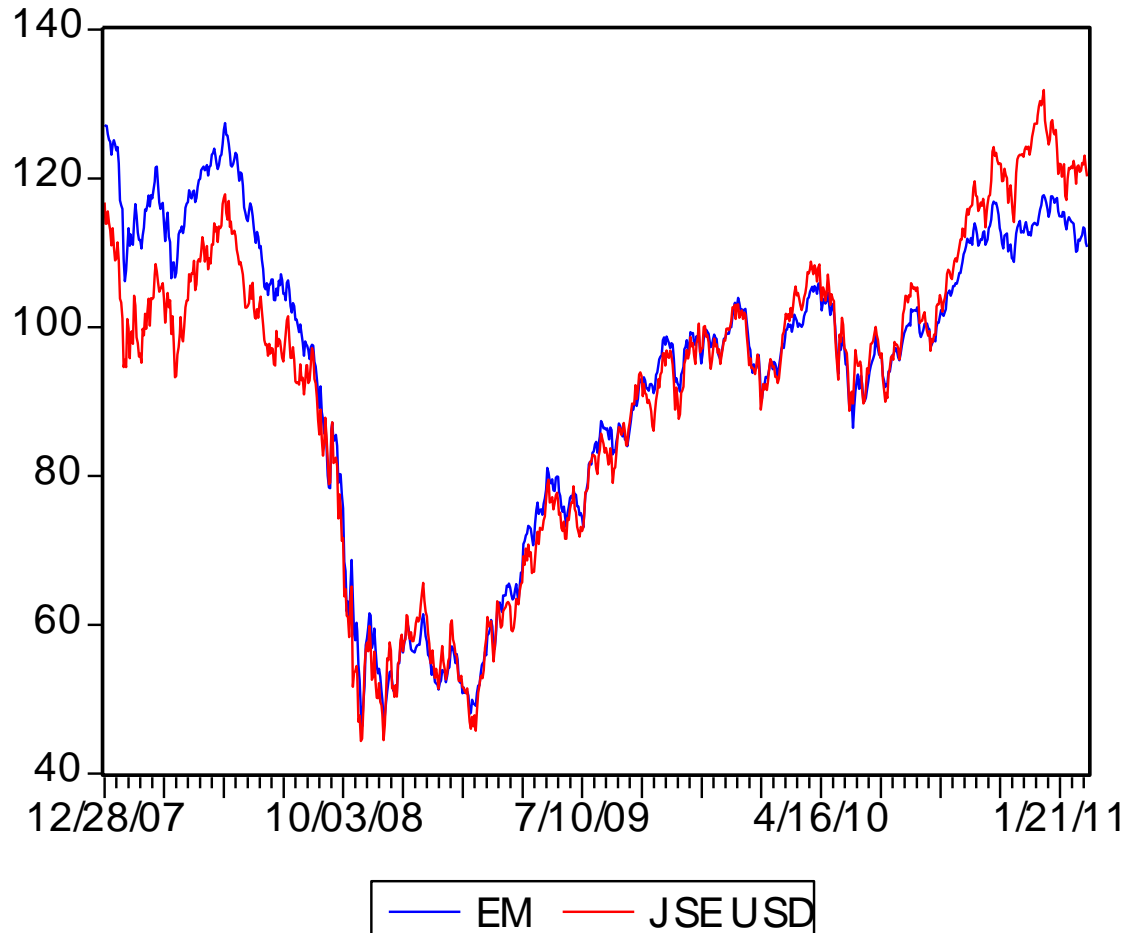


Daily moves in JSE Alsi 2007-2011

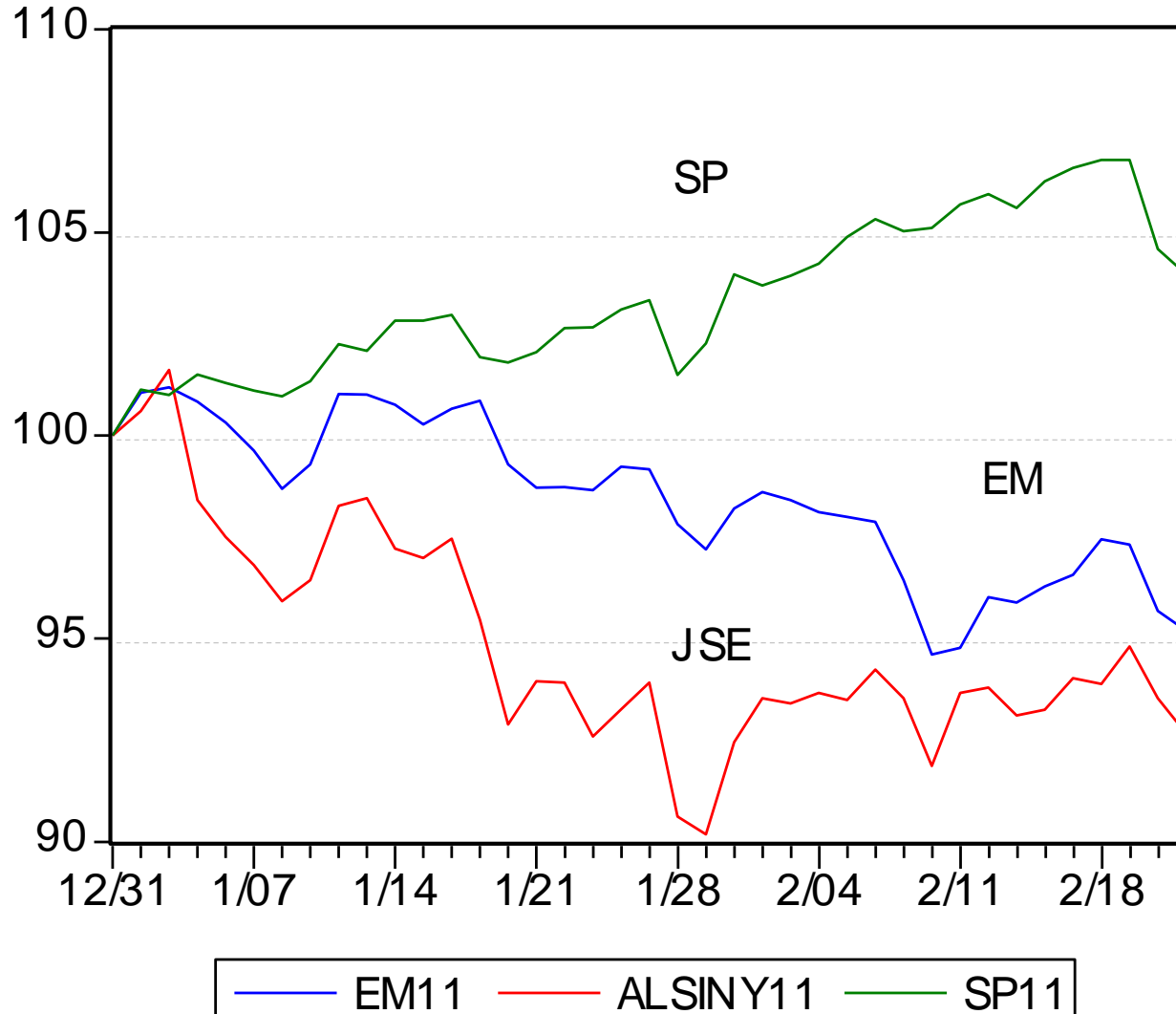


— DLOGALS

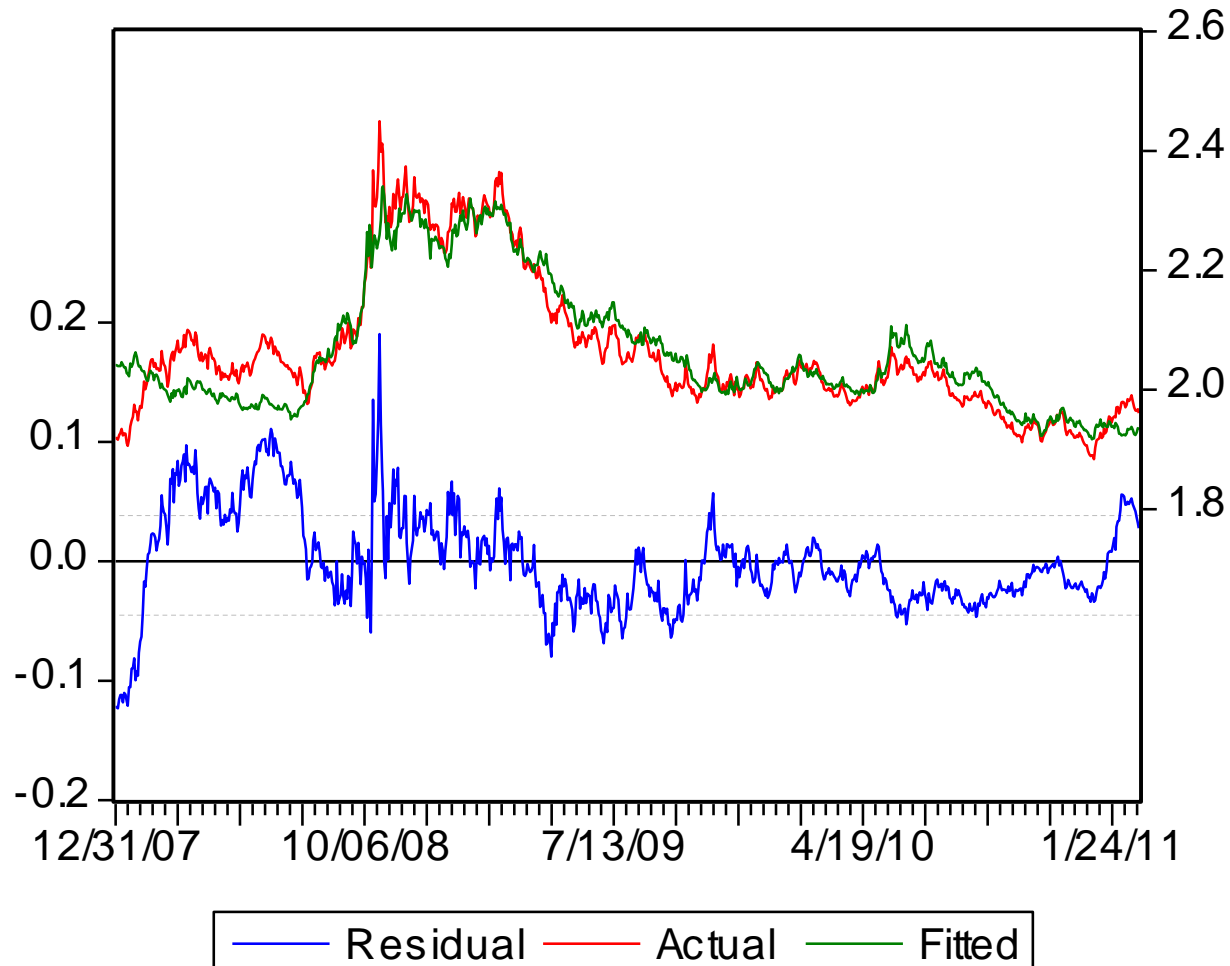
The EM Equity Index and JSE USD (Jan 1 2010=100)



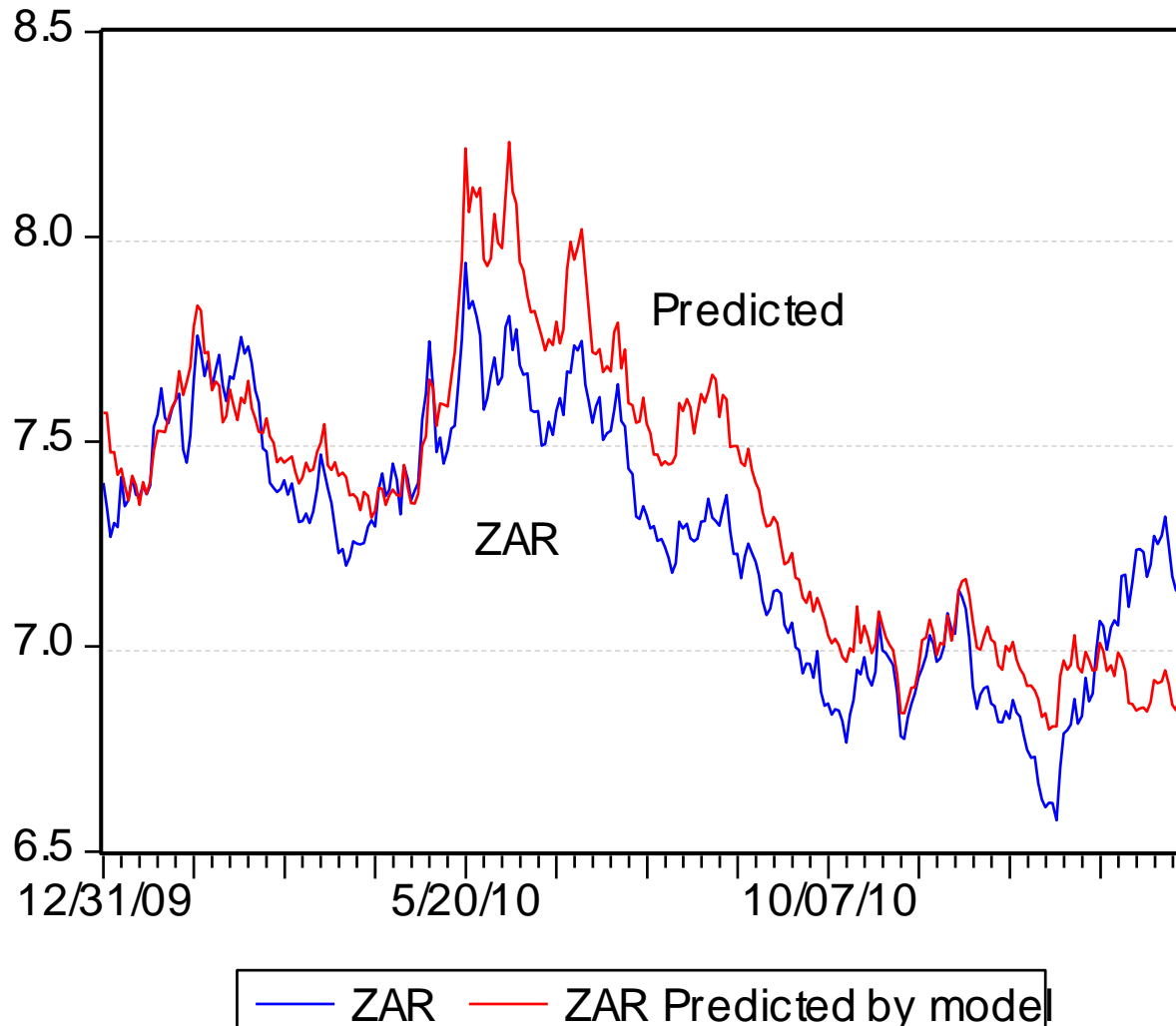
The markets this year



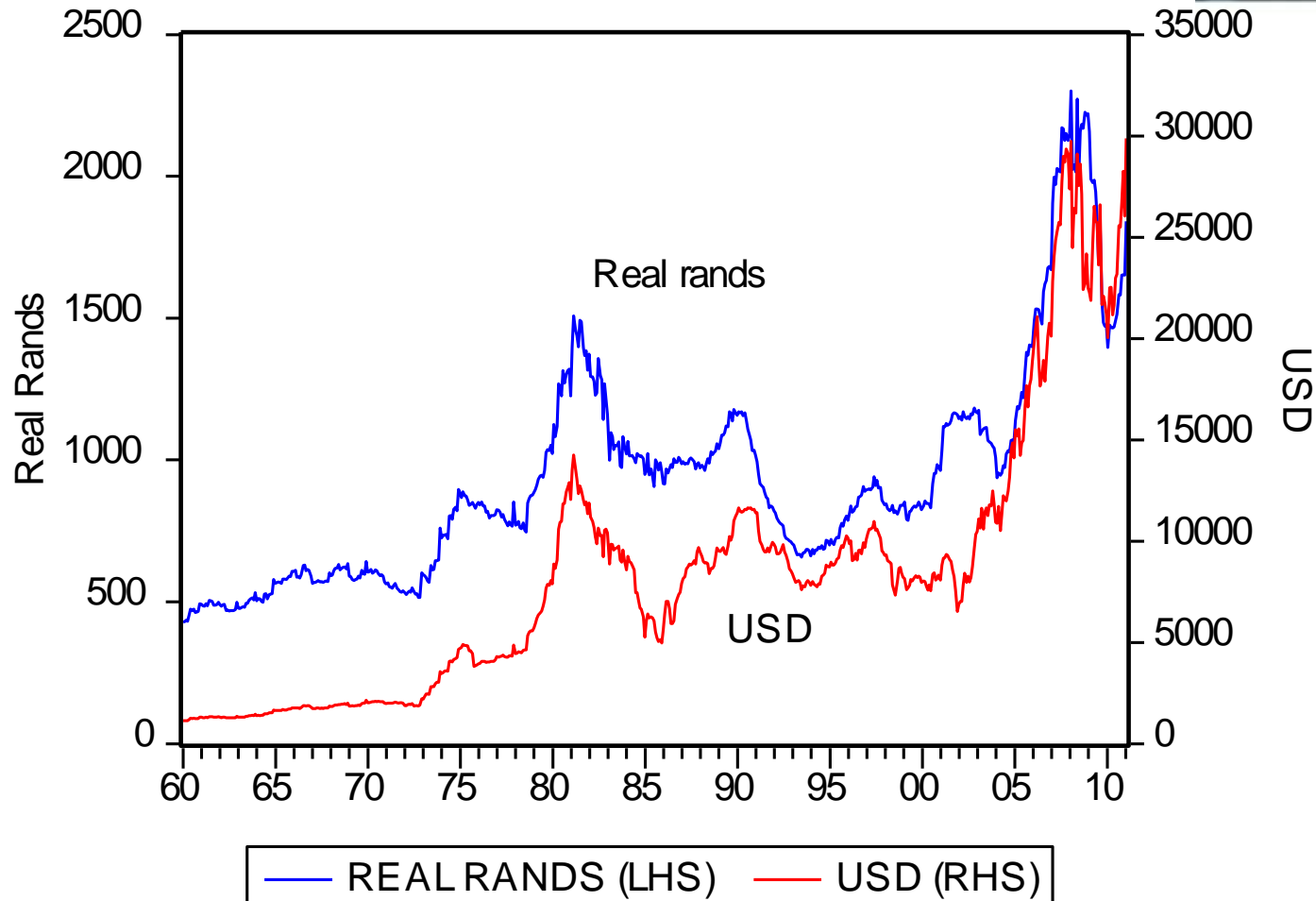
The ZAR explained by the Aussie dollar



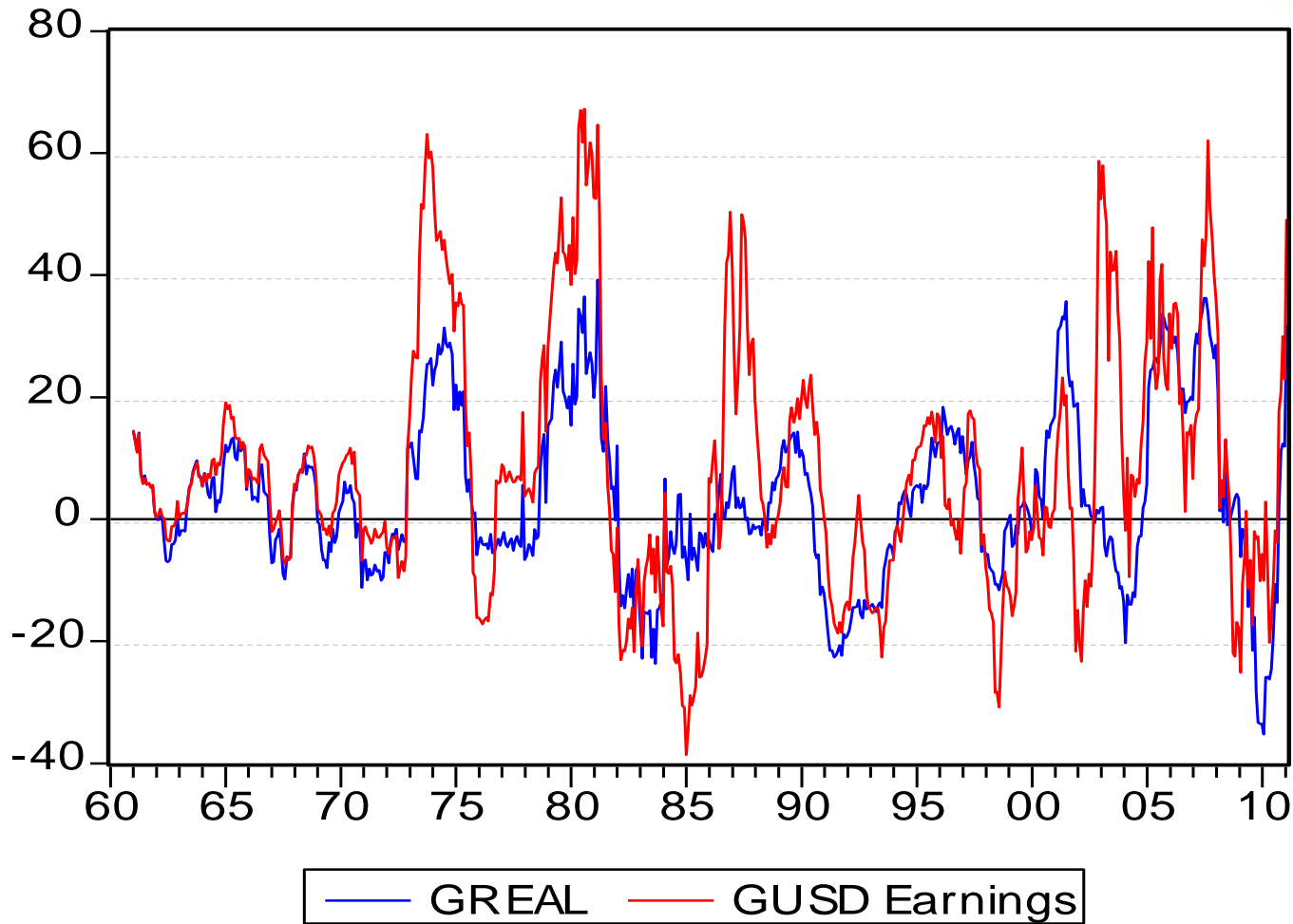
ZAR from overvalued to undervalued



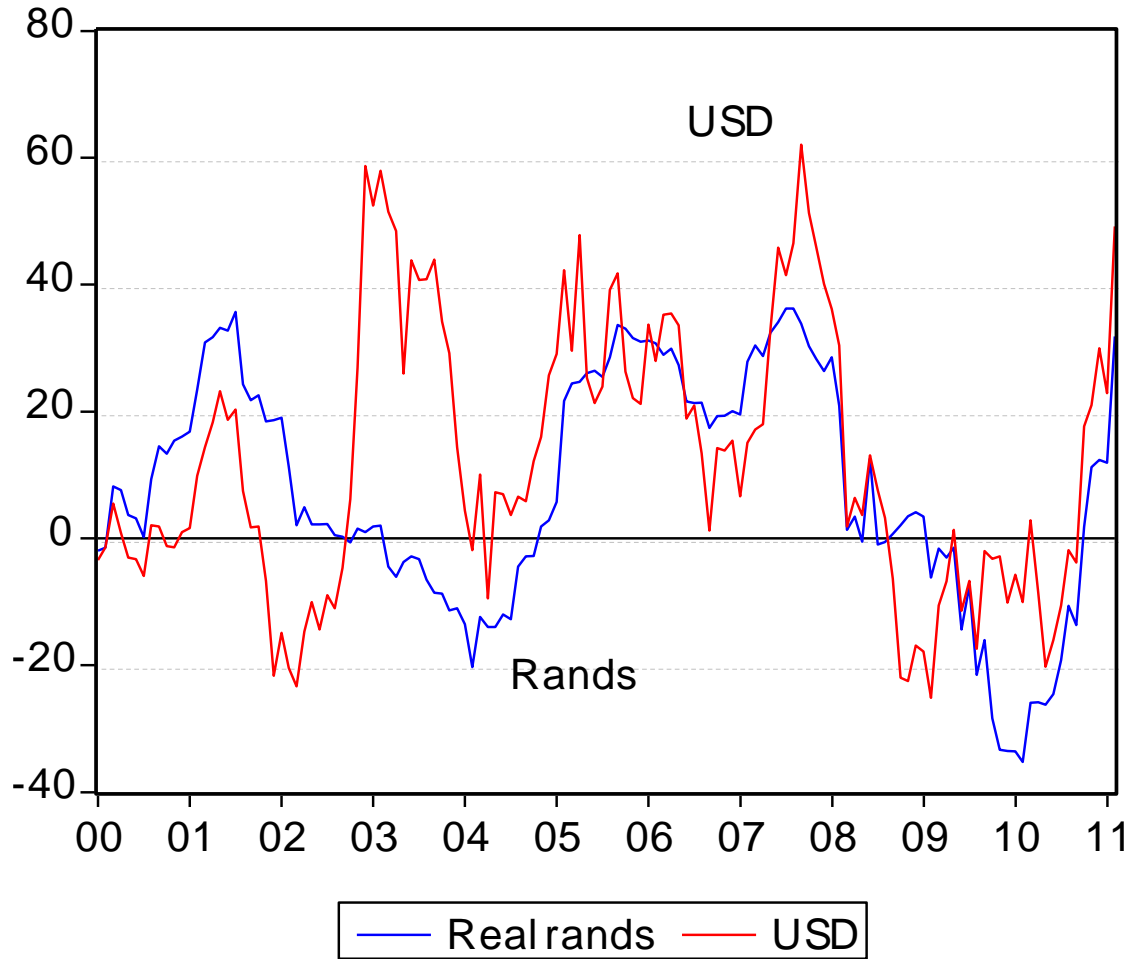
JSE earnings per share (Real Rands and USD)



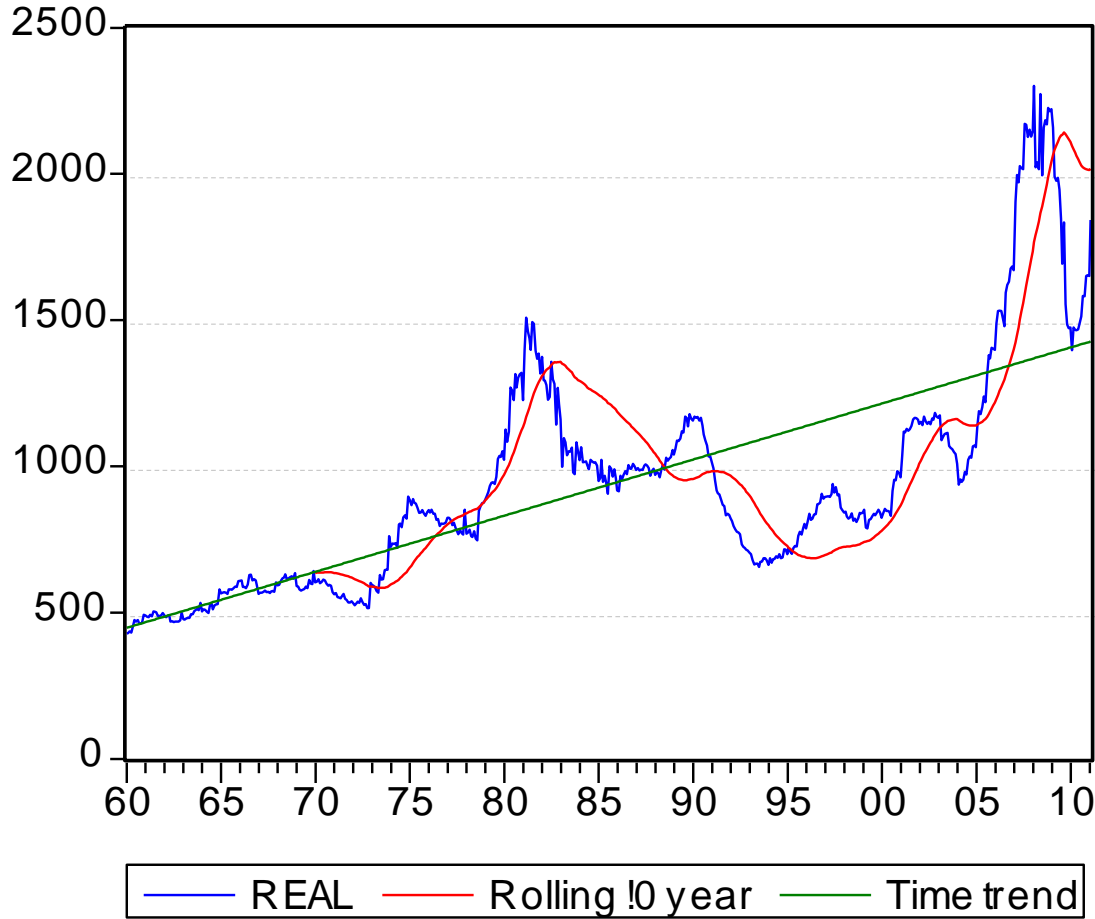
Growth in real and USD earnings



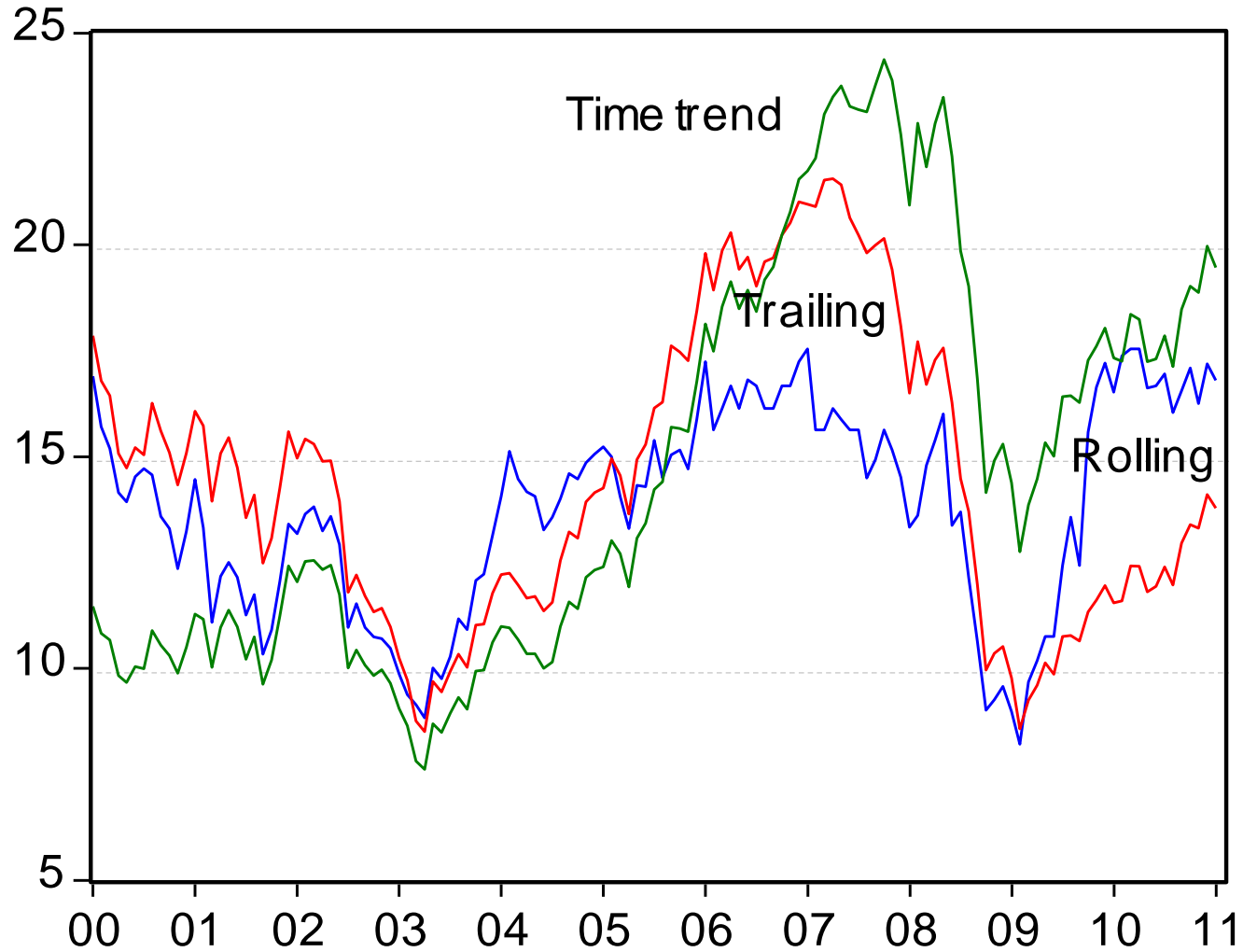
Earnings growth to date (up 50% in USD)



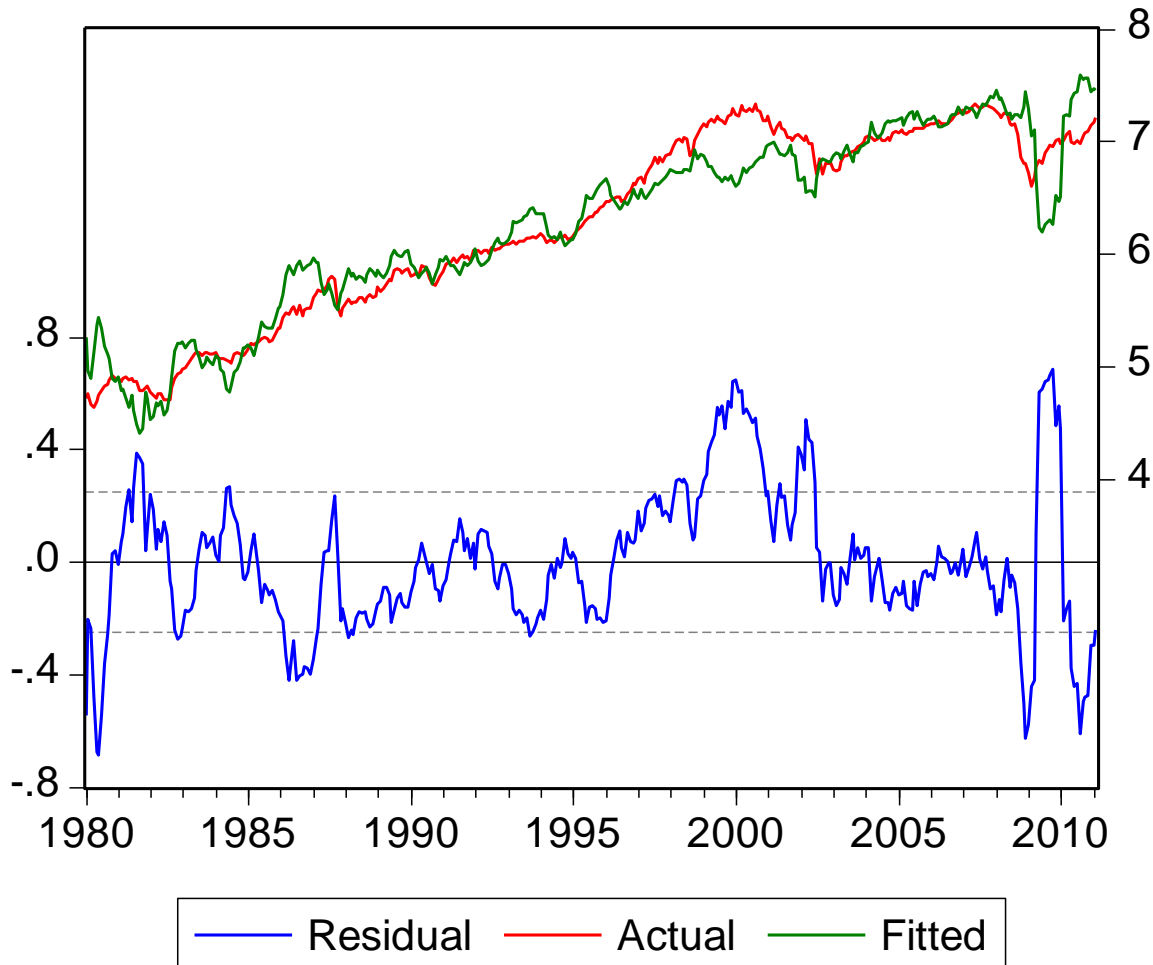
Are earnings above or below trend?



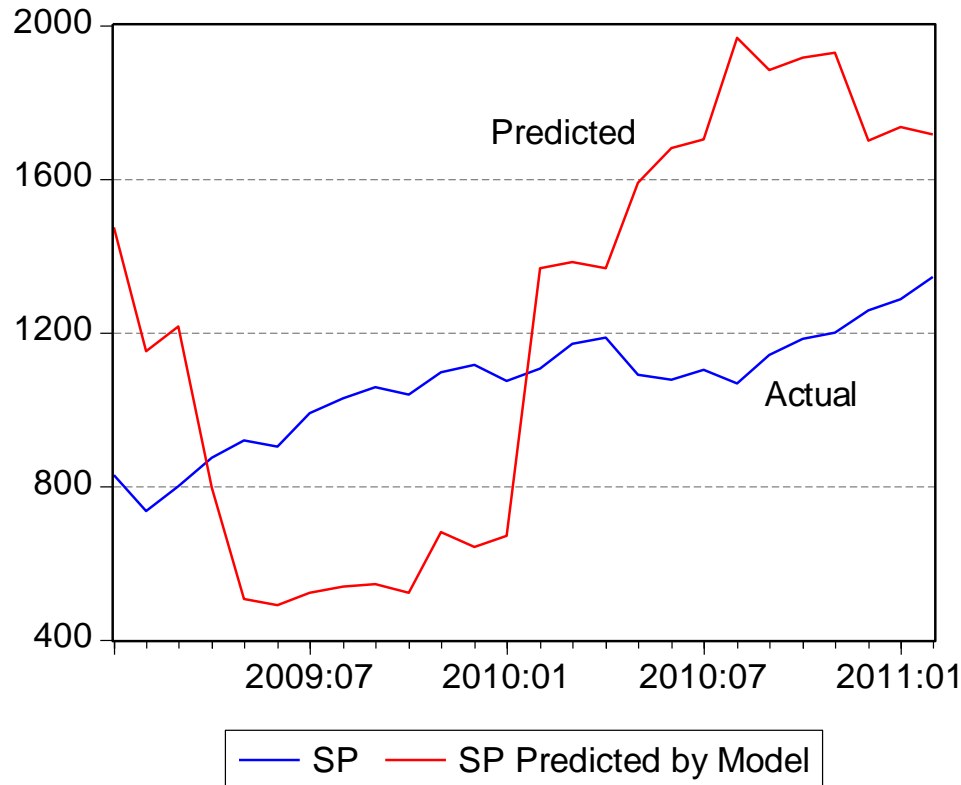
Price/earnings multiples



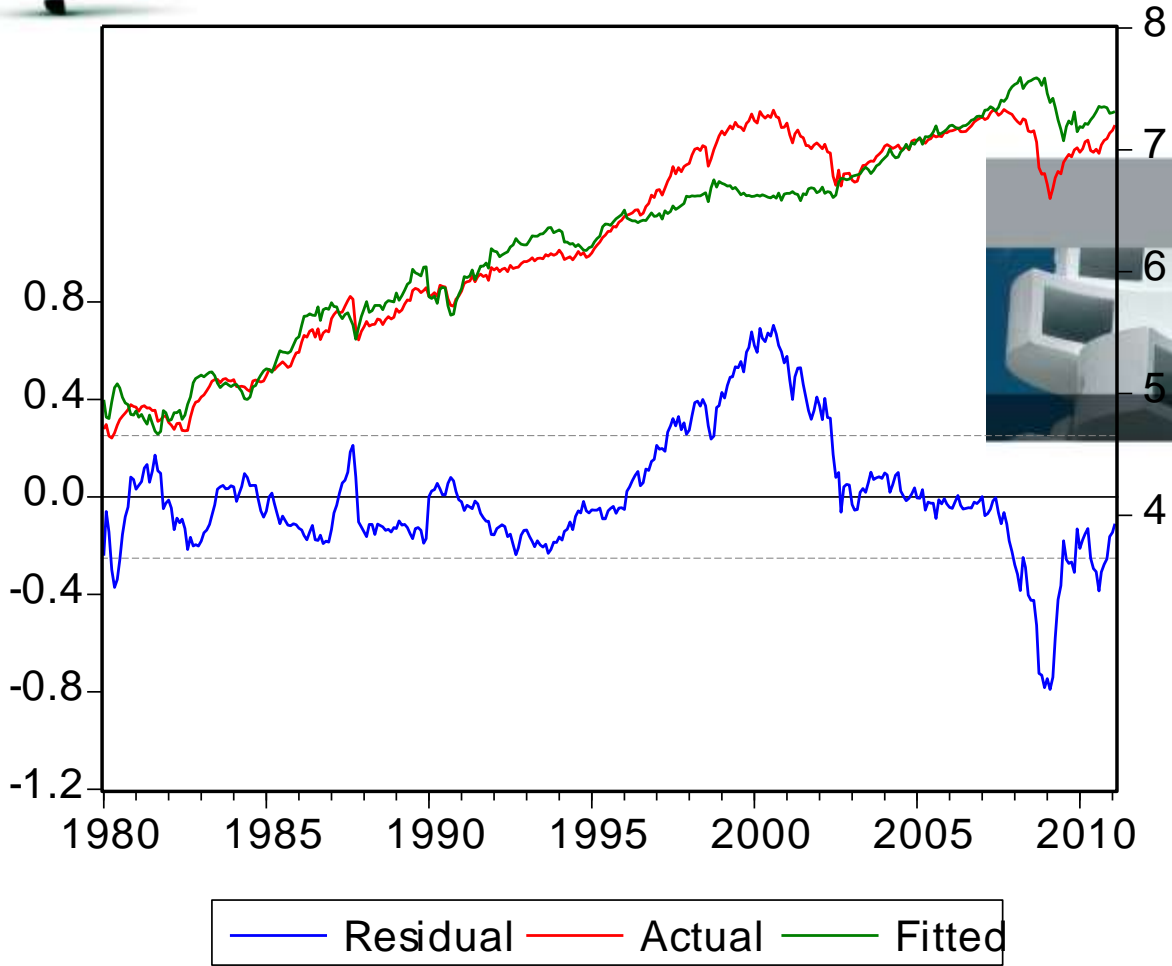
The 'fed' model of the S&P 500 to Feb 18th 2011- daily undevalued



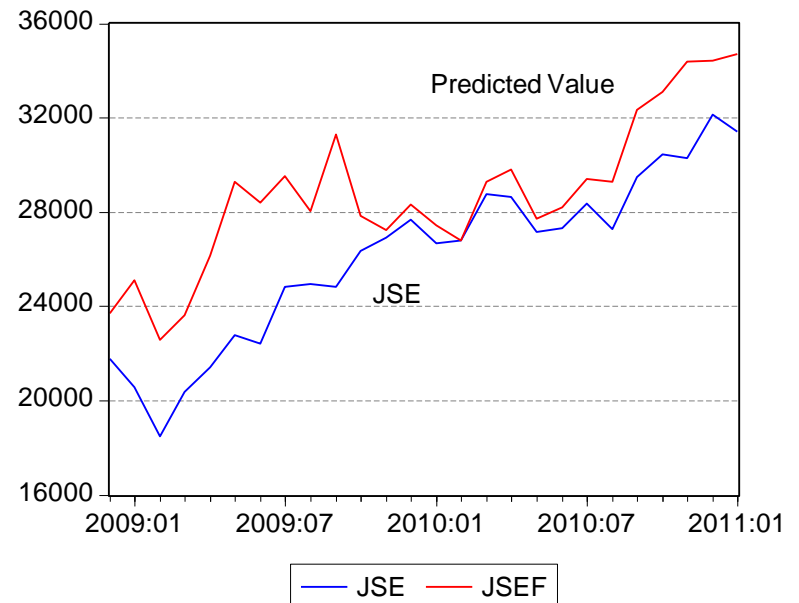
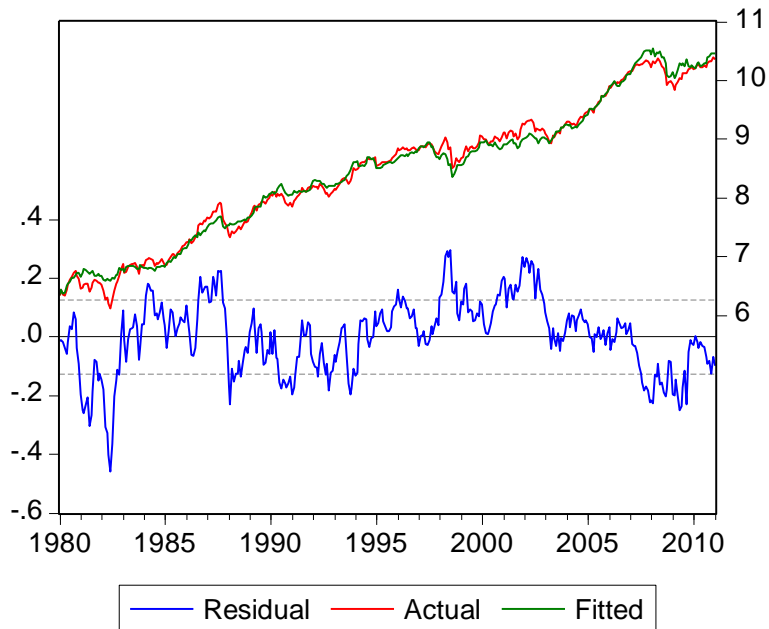
S&P actual and predicted by Fed Model



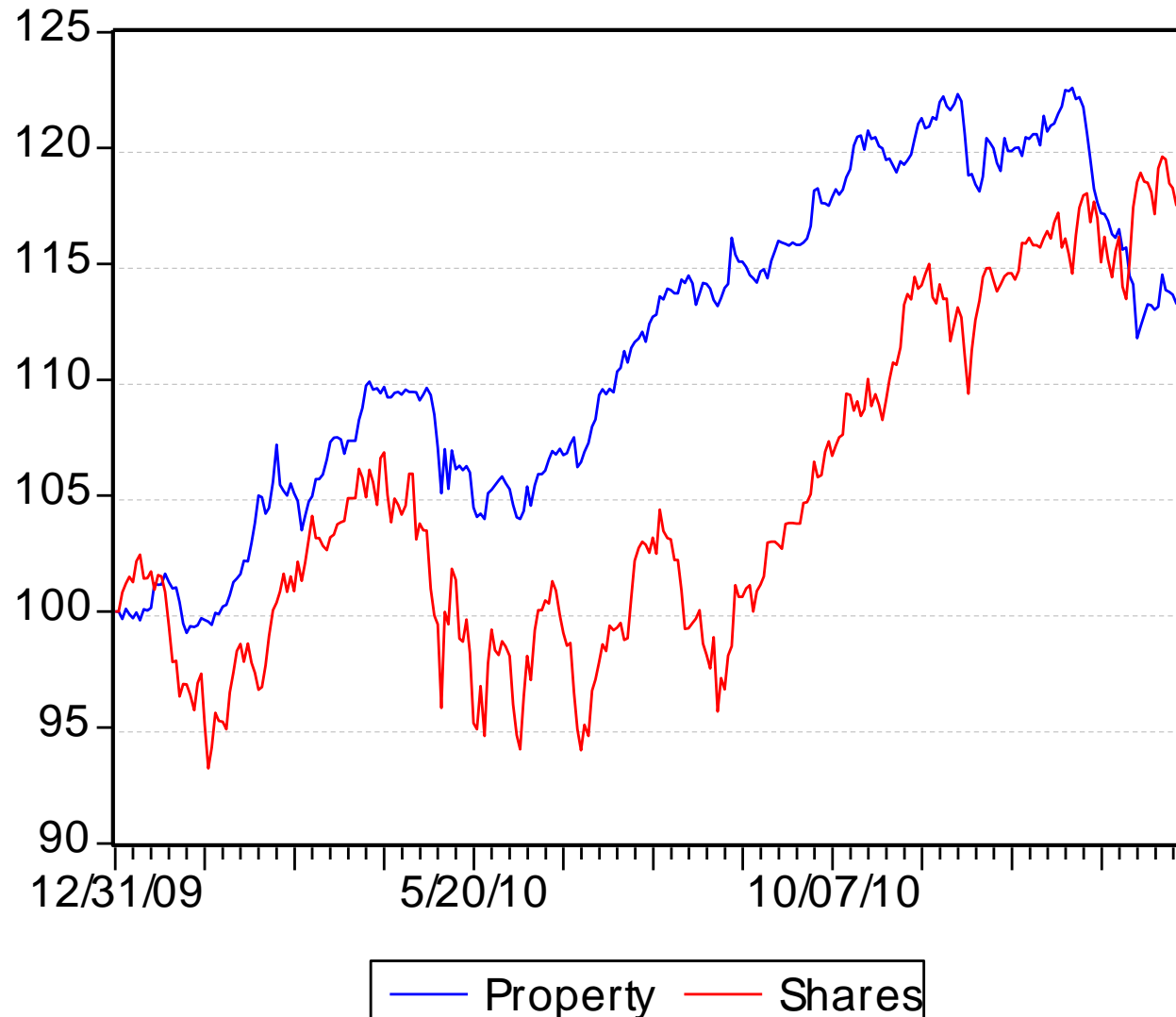
The dividend model of the S&P- less undervalued predicted value 1500. (dividends have behaved better than bottom line earnings)



A model of the JSE- explained by earnings, emerging markets and short term interest rates



Shares Vs Property (Jan 1 2010=100)





Thank You

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