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Out of the Ordinary™



Specialist Bank and Asset Manager

Stephen Koseff, CEO of Investec group

IMF 2010

# Overview of Investec























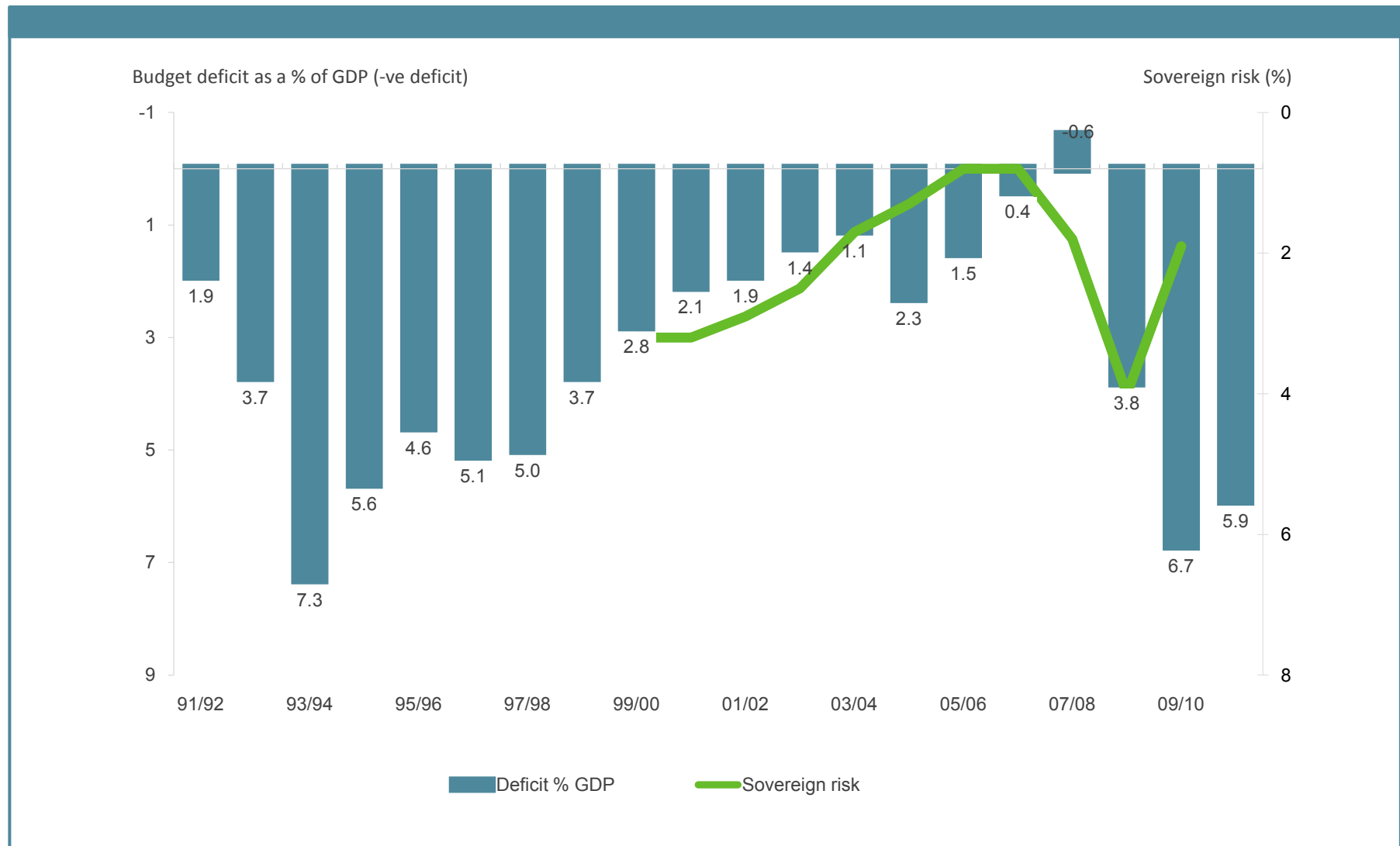








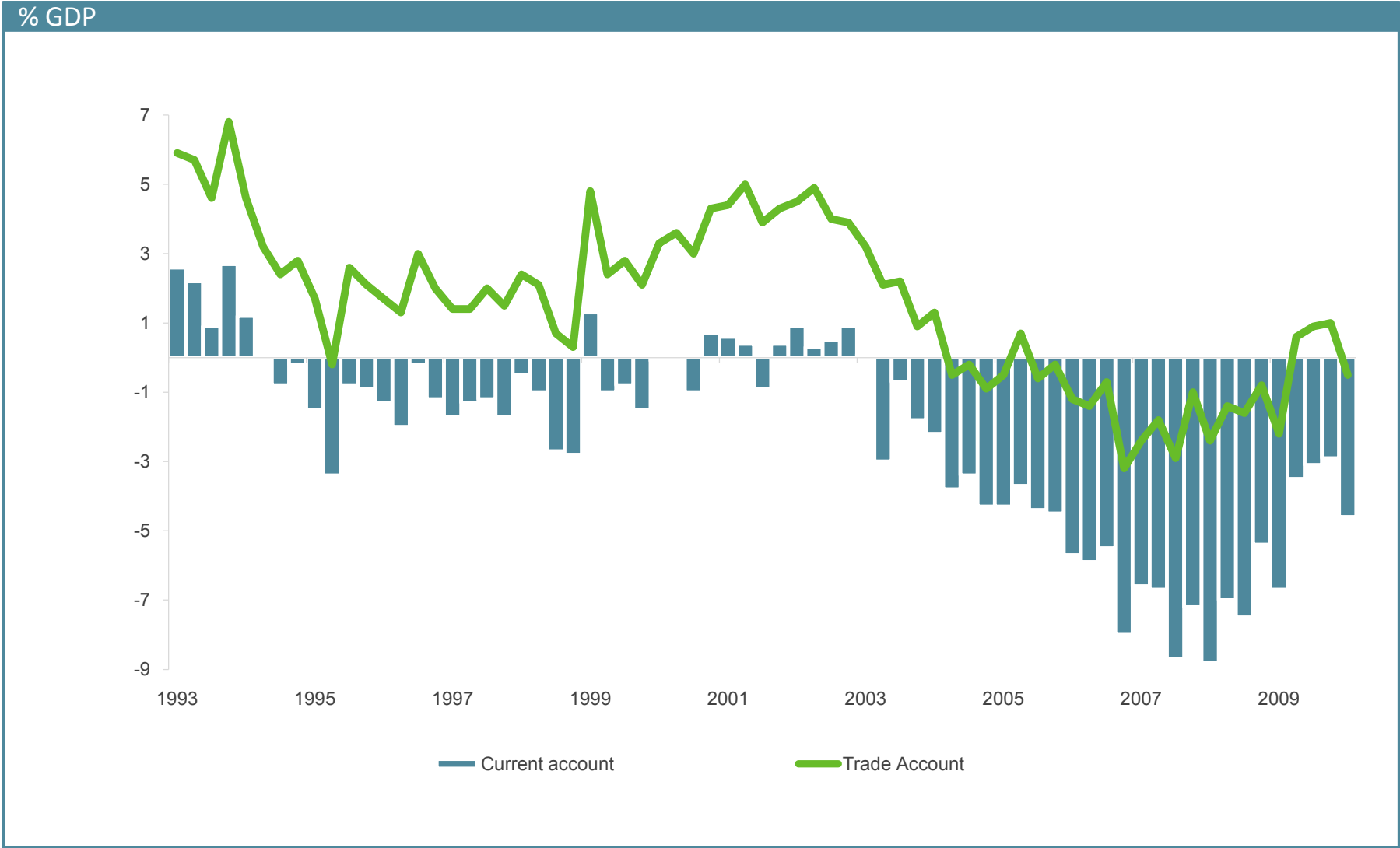
# SA's government forecasts a deficit of 6.2% of GDP, but indications are it will be below this.



Source: SARB, I-net Bridge



Capital inflows, attracted by SA's comparatively high interest rates, are amply financing the modest trade and current account deficits.



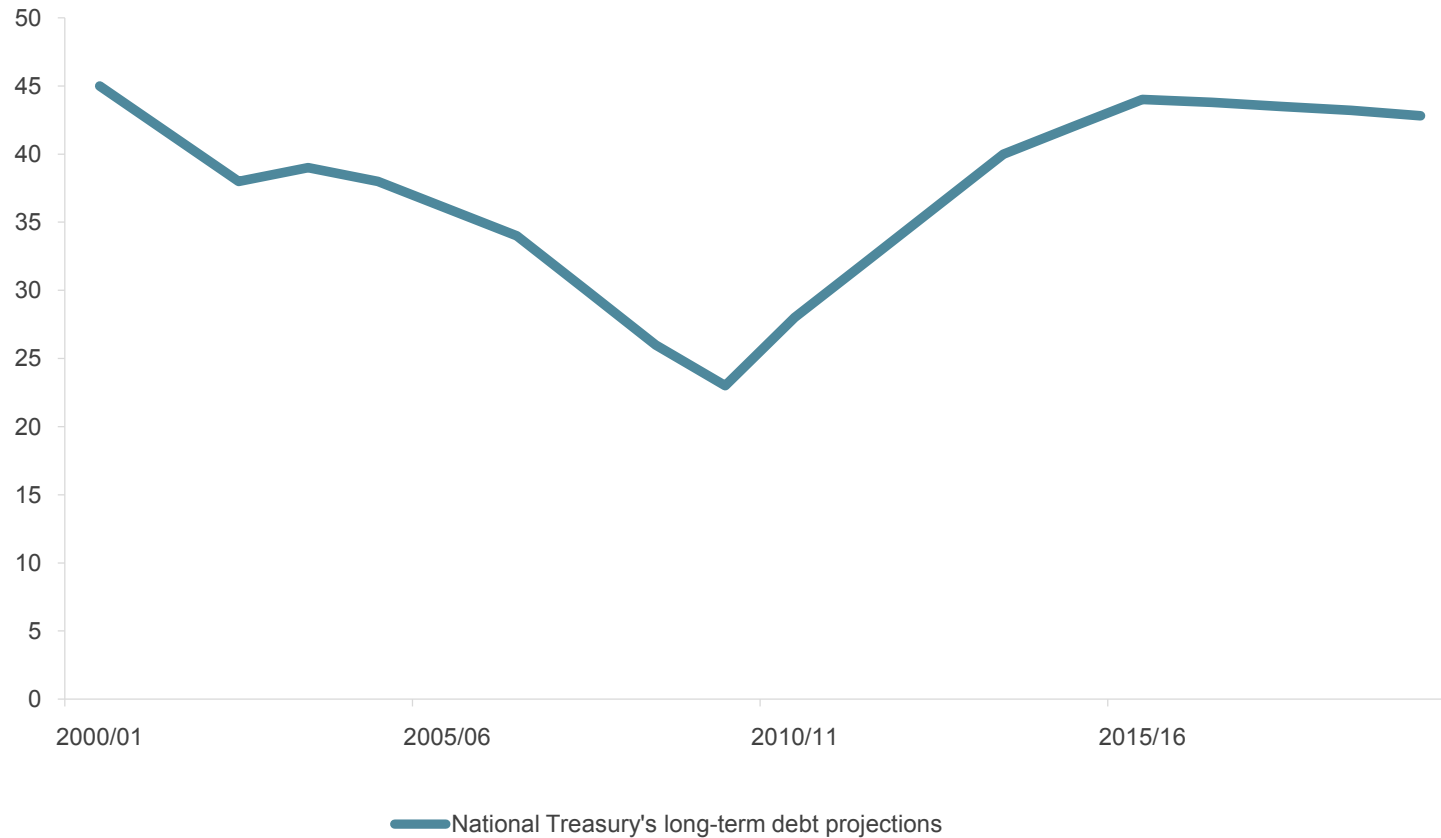
Source: SARB



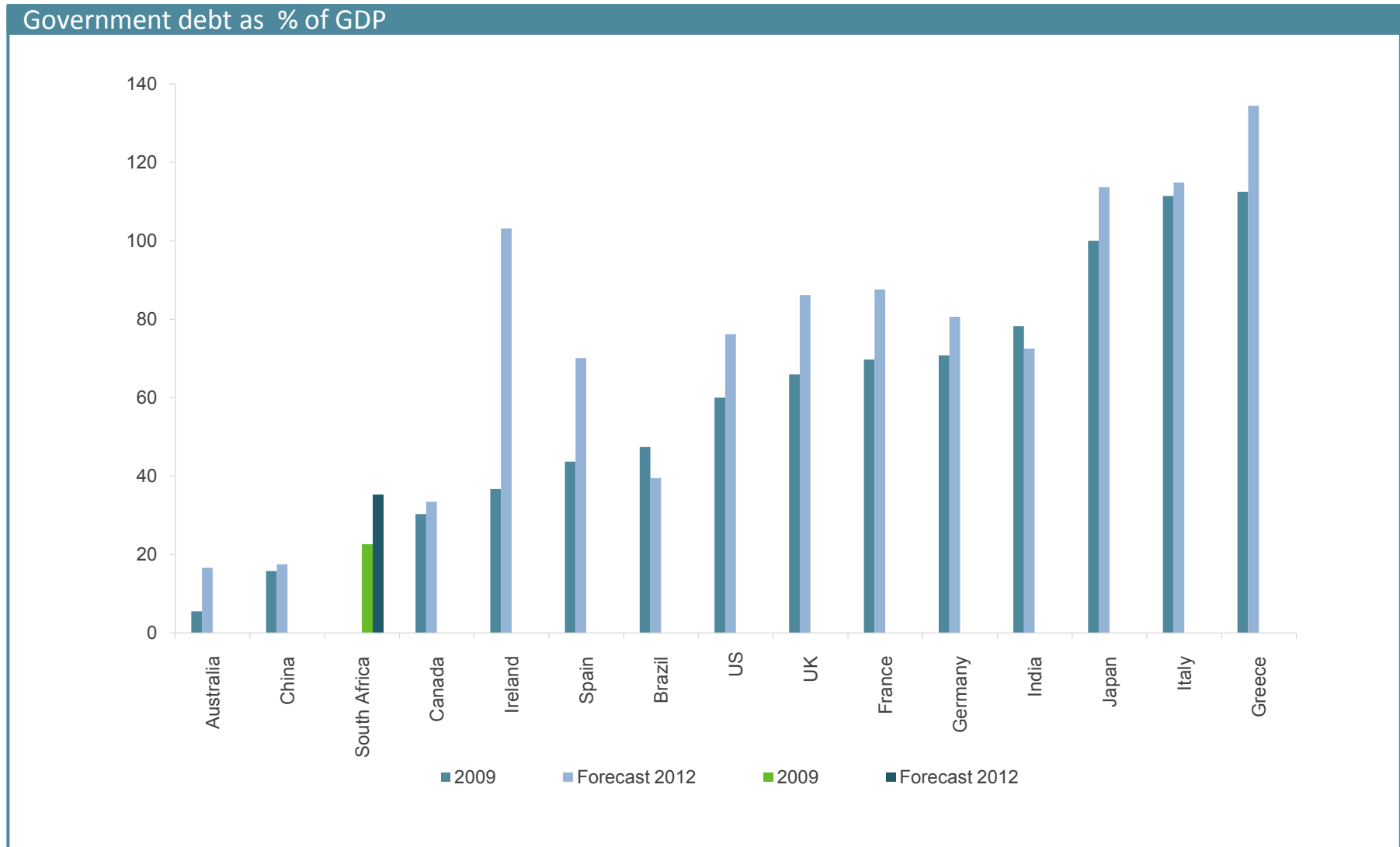
# Government borrowing is set to rise substantially over the medium-term, which is sustainable ...

## Net debt % GDP

Net debt is total (gross) debt less government's financial assets (cash, deposits, loans, holdings of traded equities etc)



... due to very low current debt levels ...



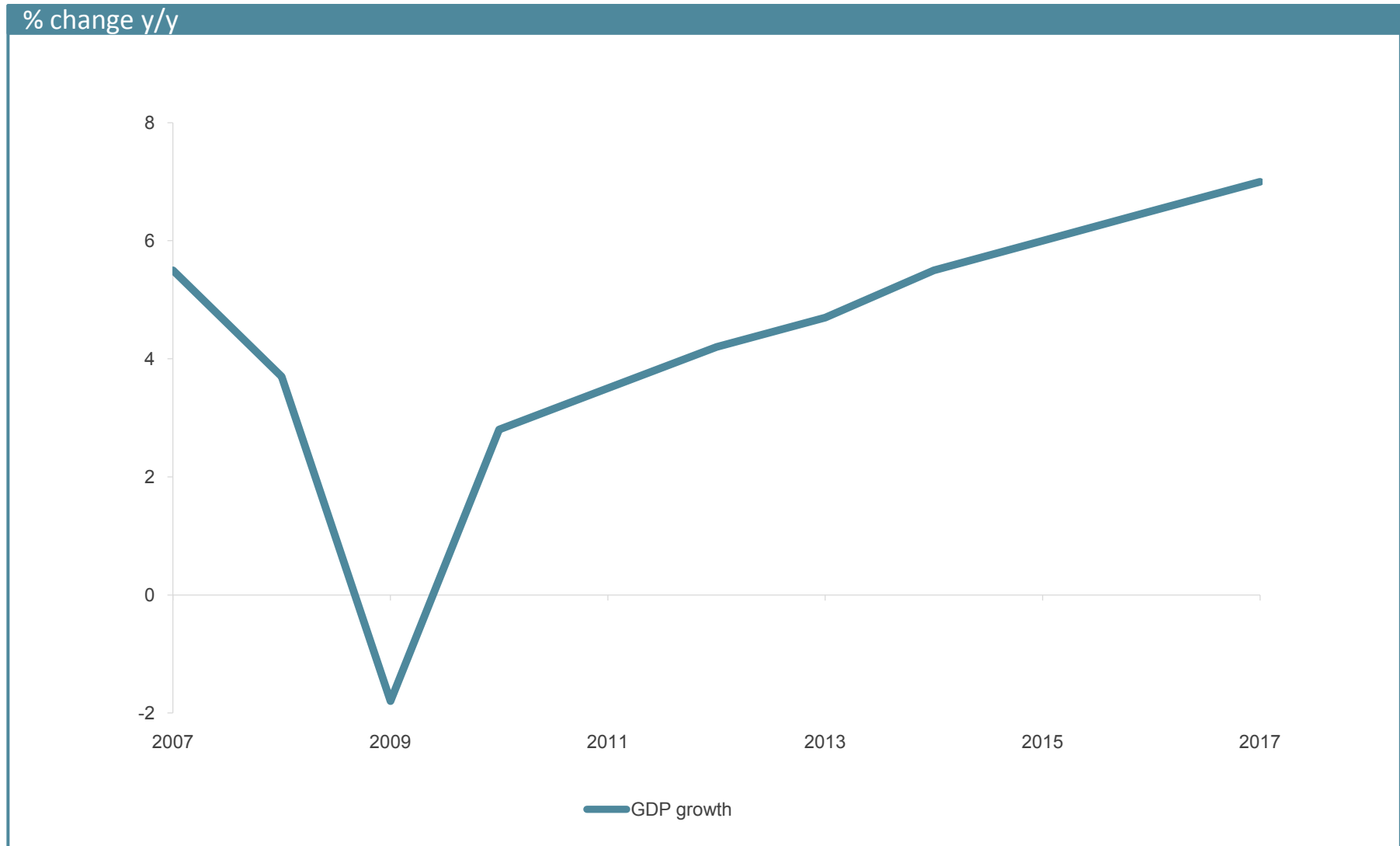
Source: Standard and Poors

... enabling SA to fund investment in infrastructure and human capital that could result in growth of 6-7%.



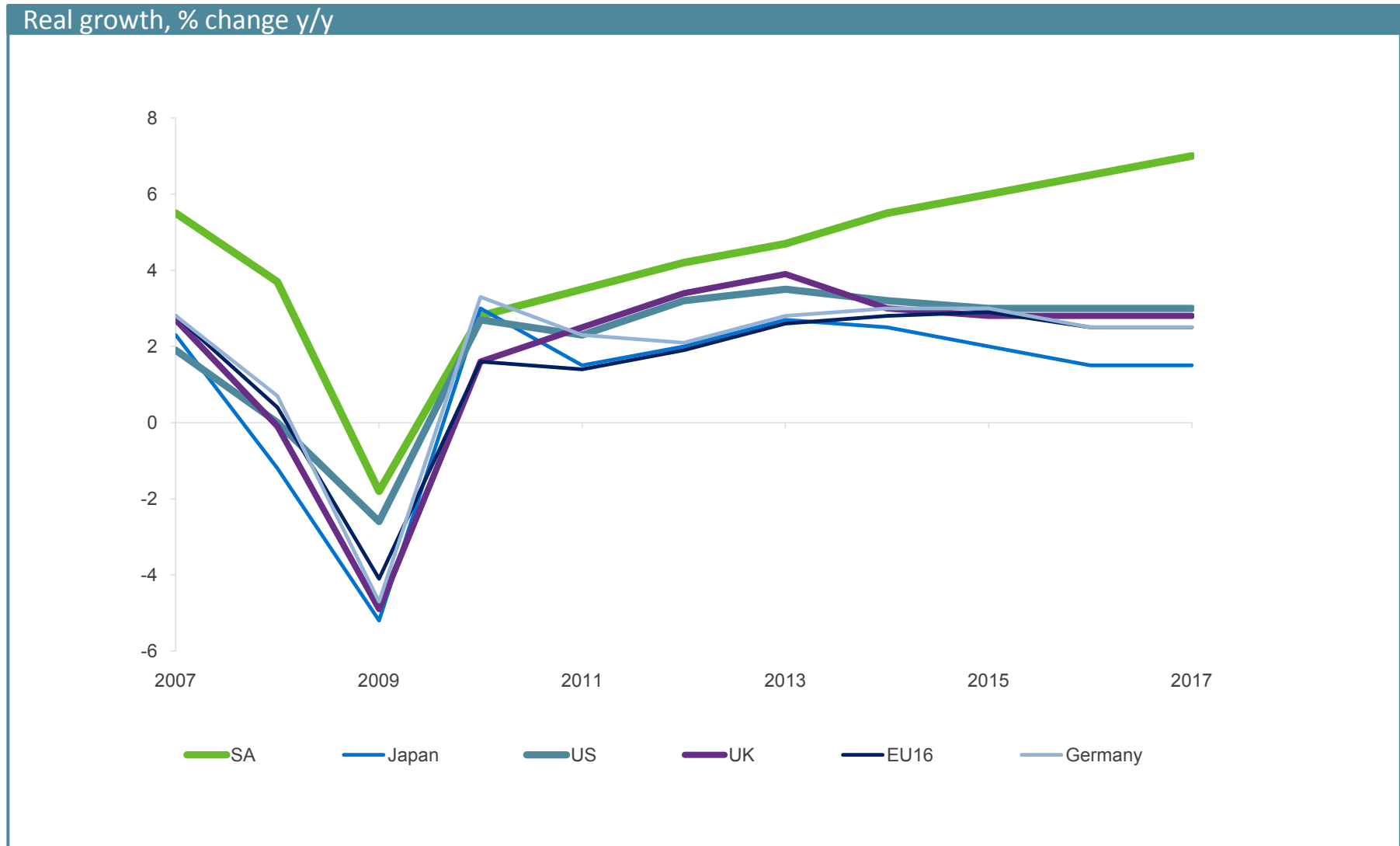
Source: SARB

# This will place SA on a much firmer long-term growth path ..



Source: SARB, Investec Group Economics

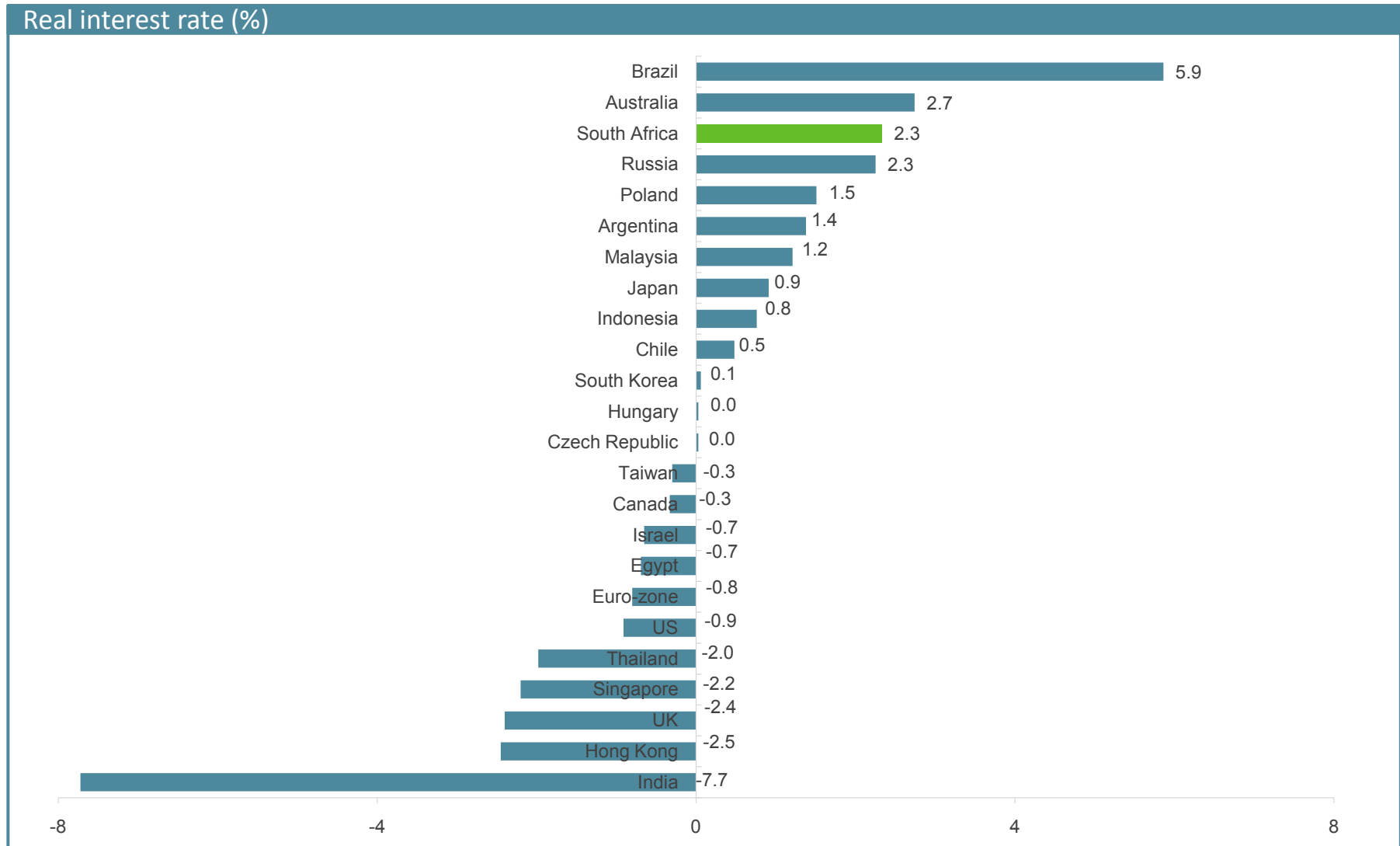
... than most advanced economies whose high debt levels means higher taxes and austerity measures.



Source: Standard and Poors

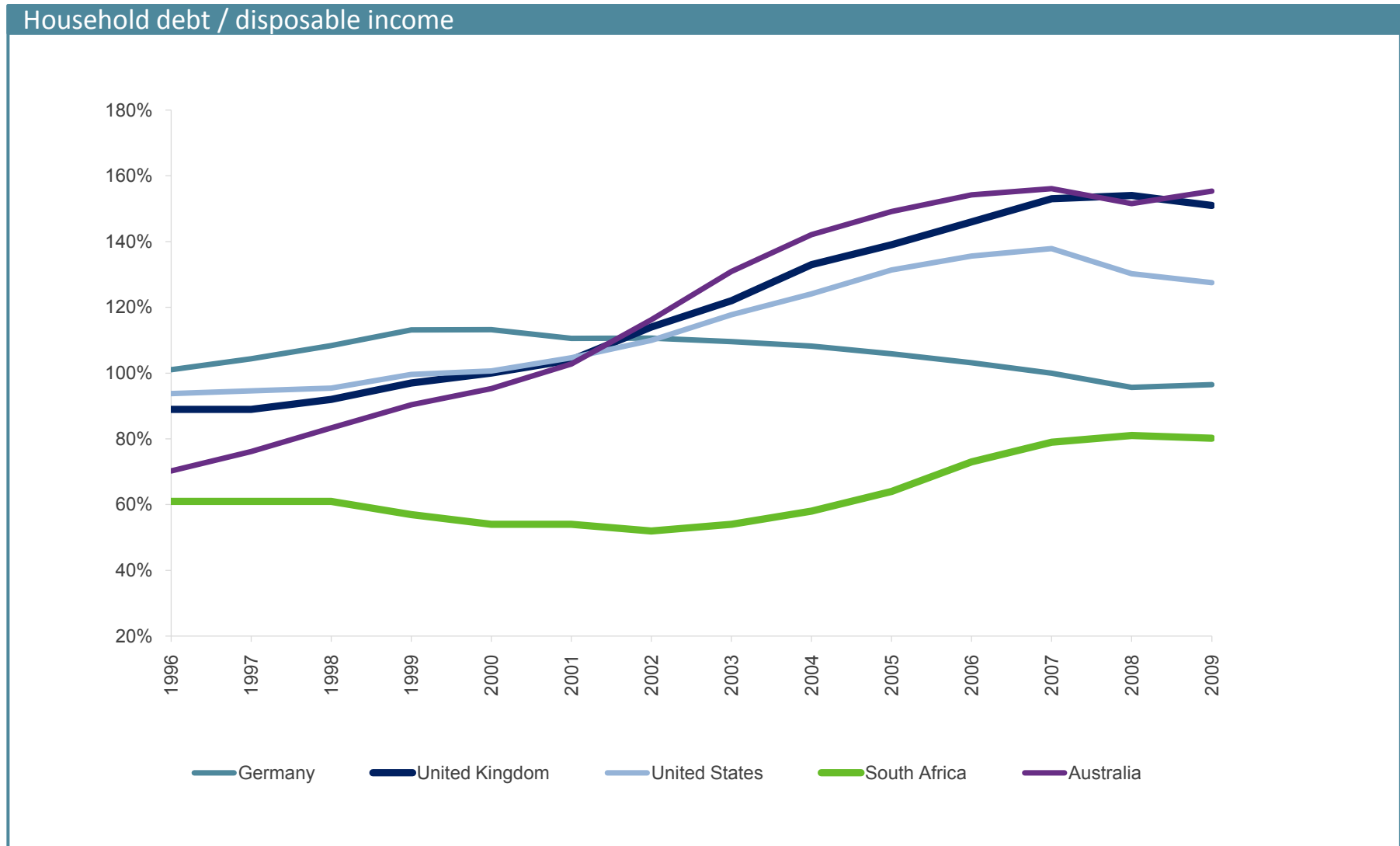


# The sovereign debt crisis prolonged SA's lower interest rates - but comparatively our real interest rates are still high.



Source: StatsSA, Economist

# SA's household debt levels are also low in comparison to advanced economies.



Source: OECD

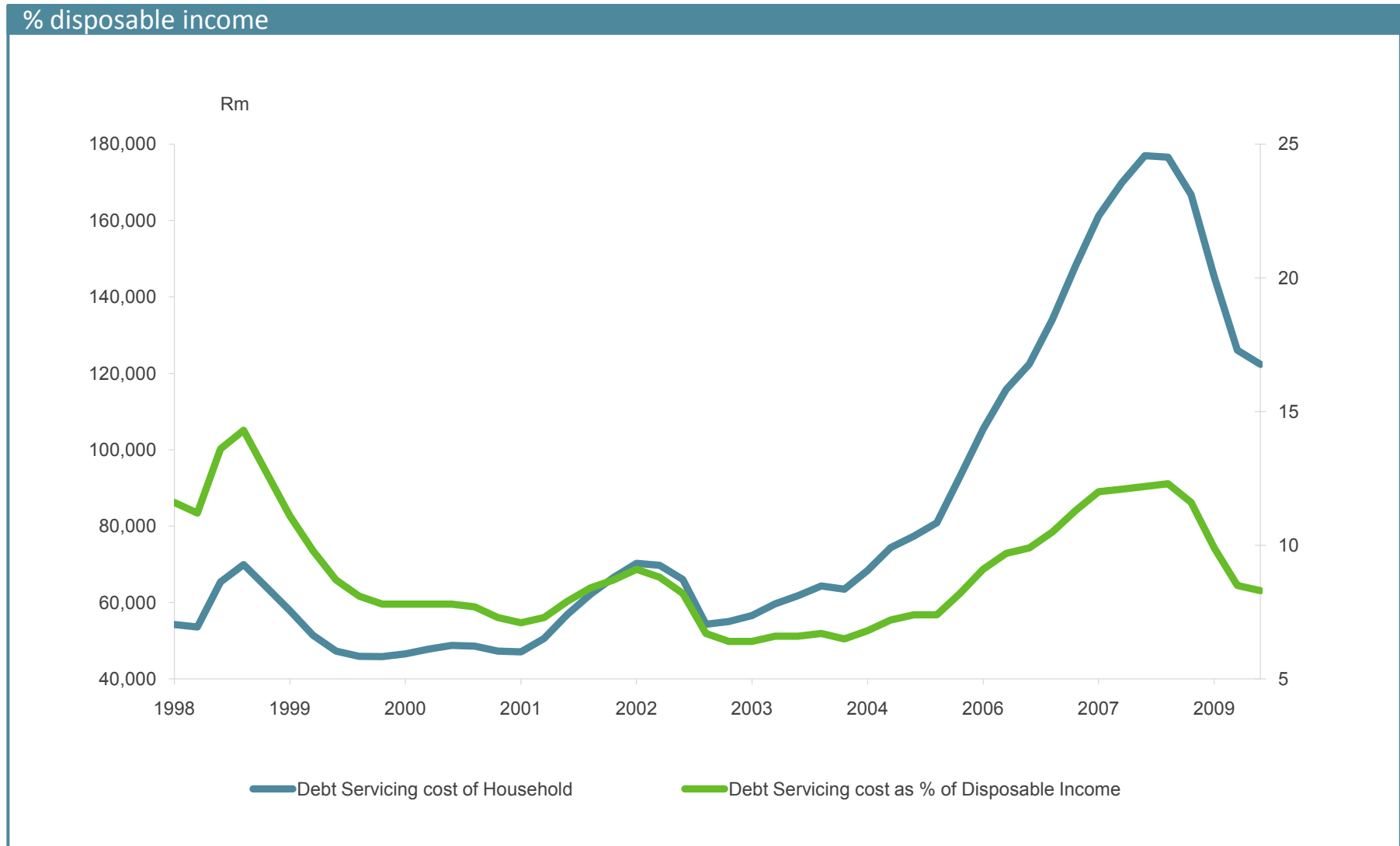


# Borrowing is negligible improving the health of private sector balance sheets.



Source: SARB

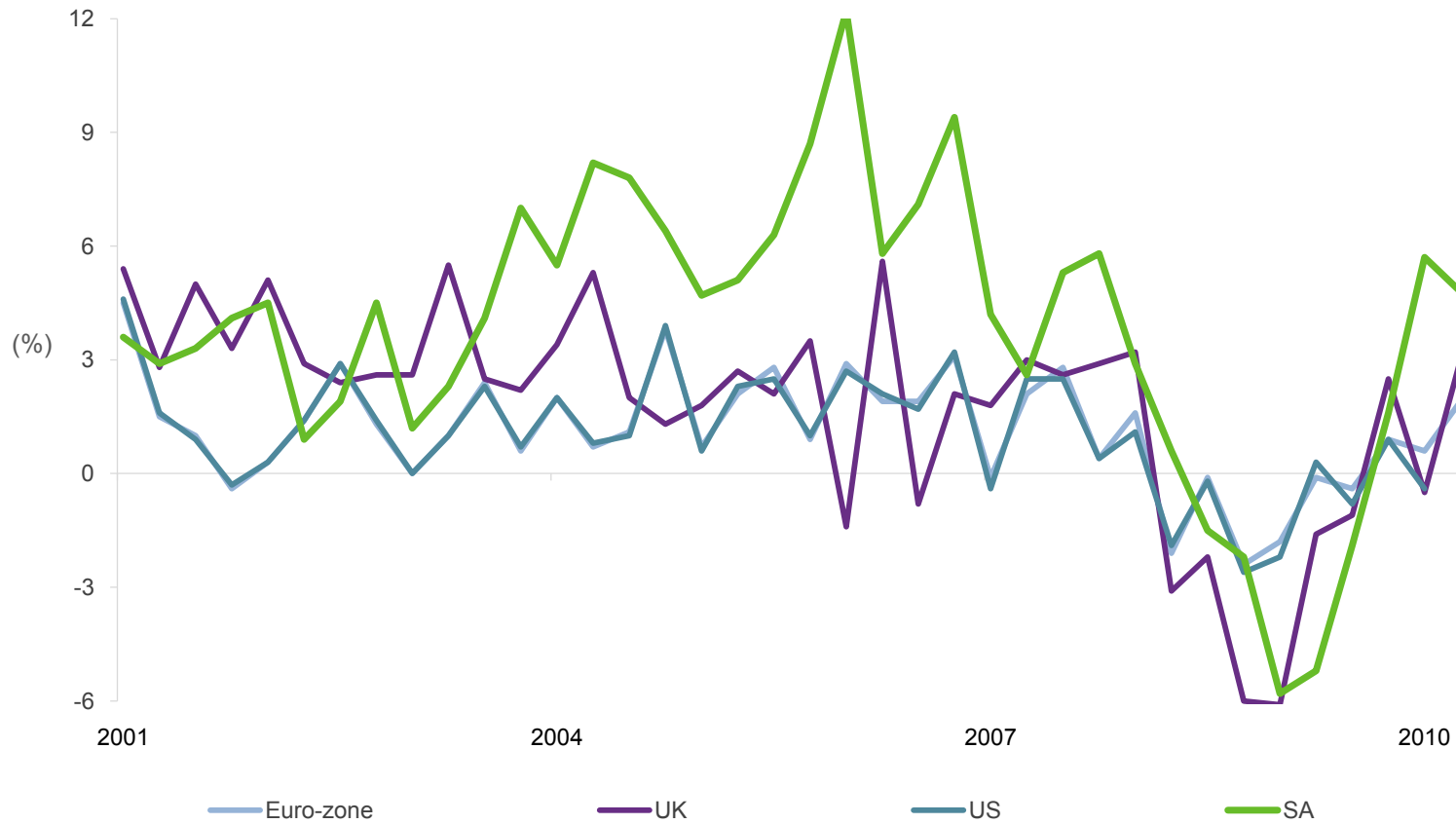
# Debt servicing costs are falling due both to a moderation in debt levels and lower interest rates.



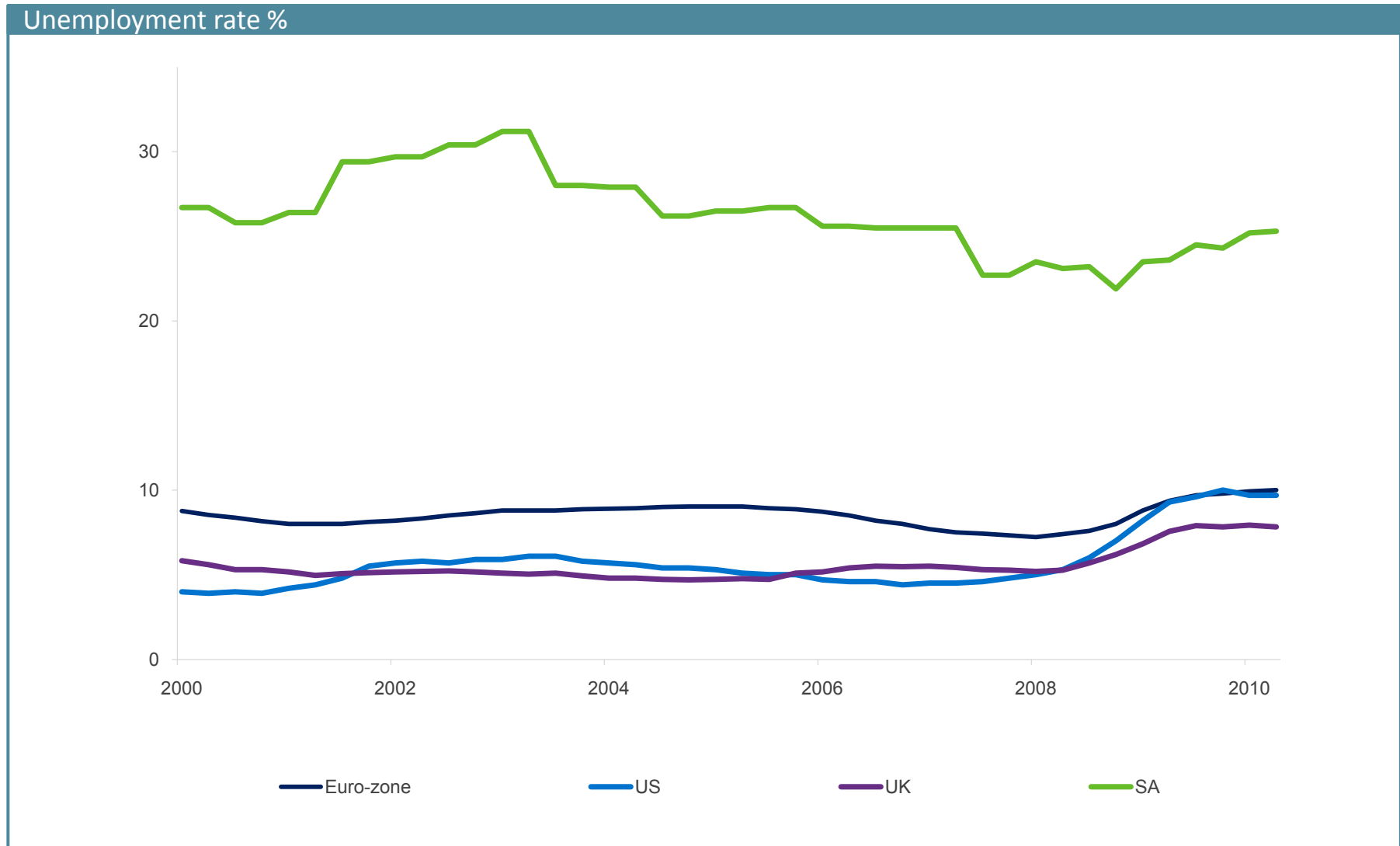
Source: SARB

# Private sector spending is noticeably stronger ...

Household consumption expenditure , q/q seasonally adjusted

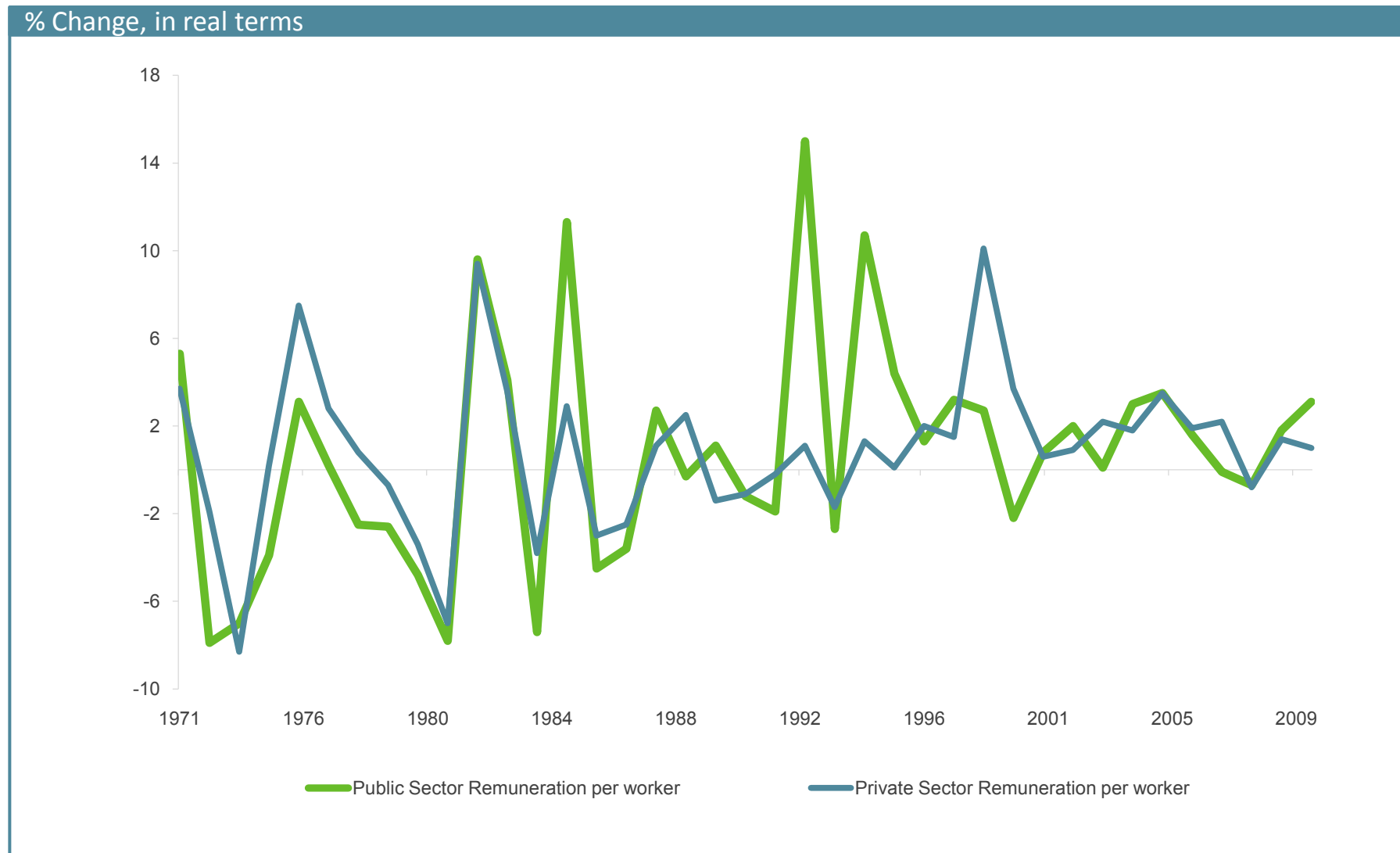


... despite the rise in the already high unemployment rate ...



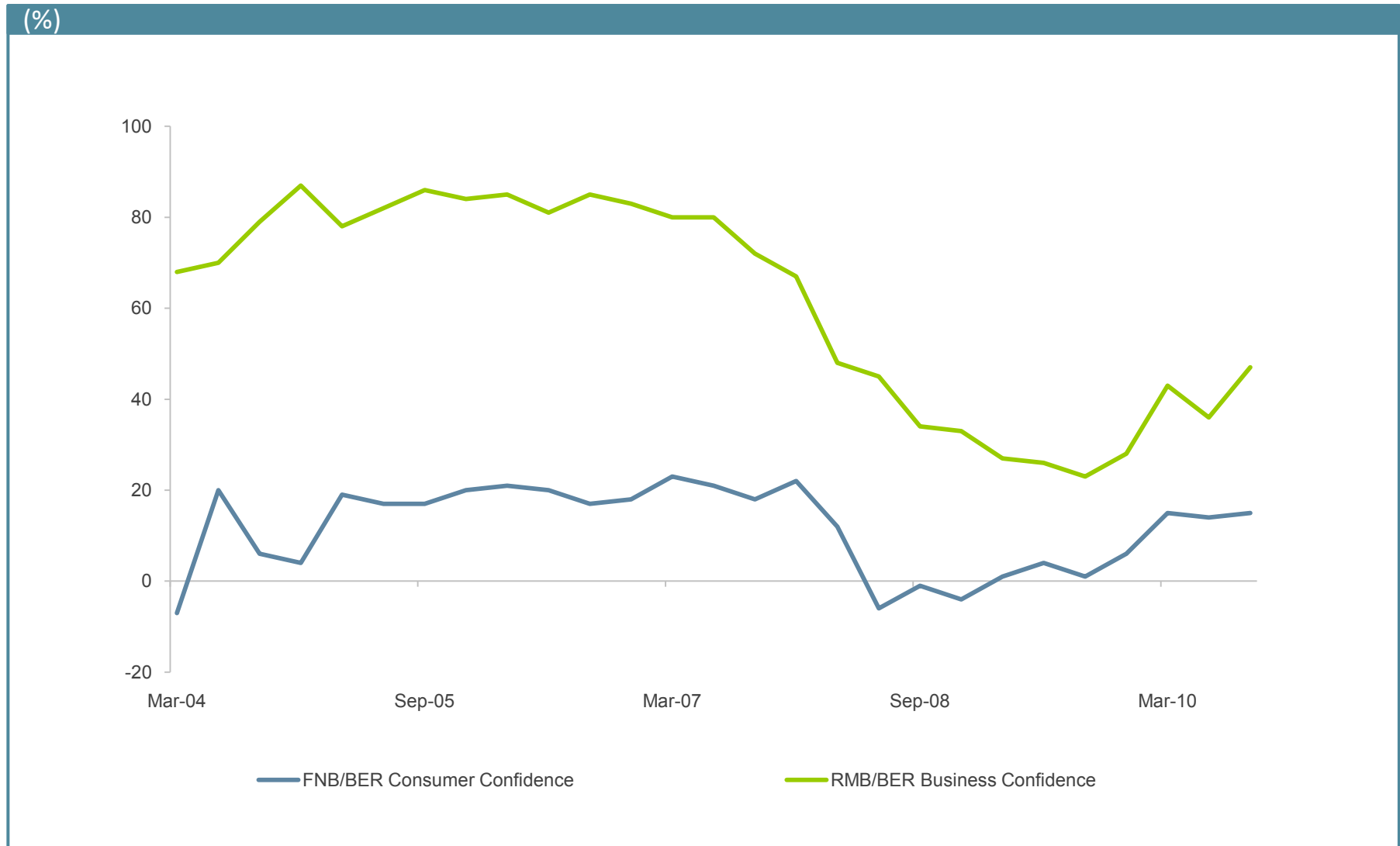
Source: StatsSA, Bloombergs

... as salary and wage increases are running well above inflation.



Source: SARB

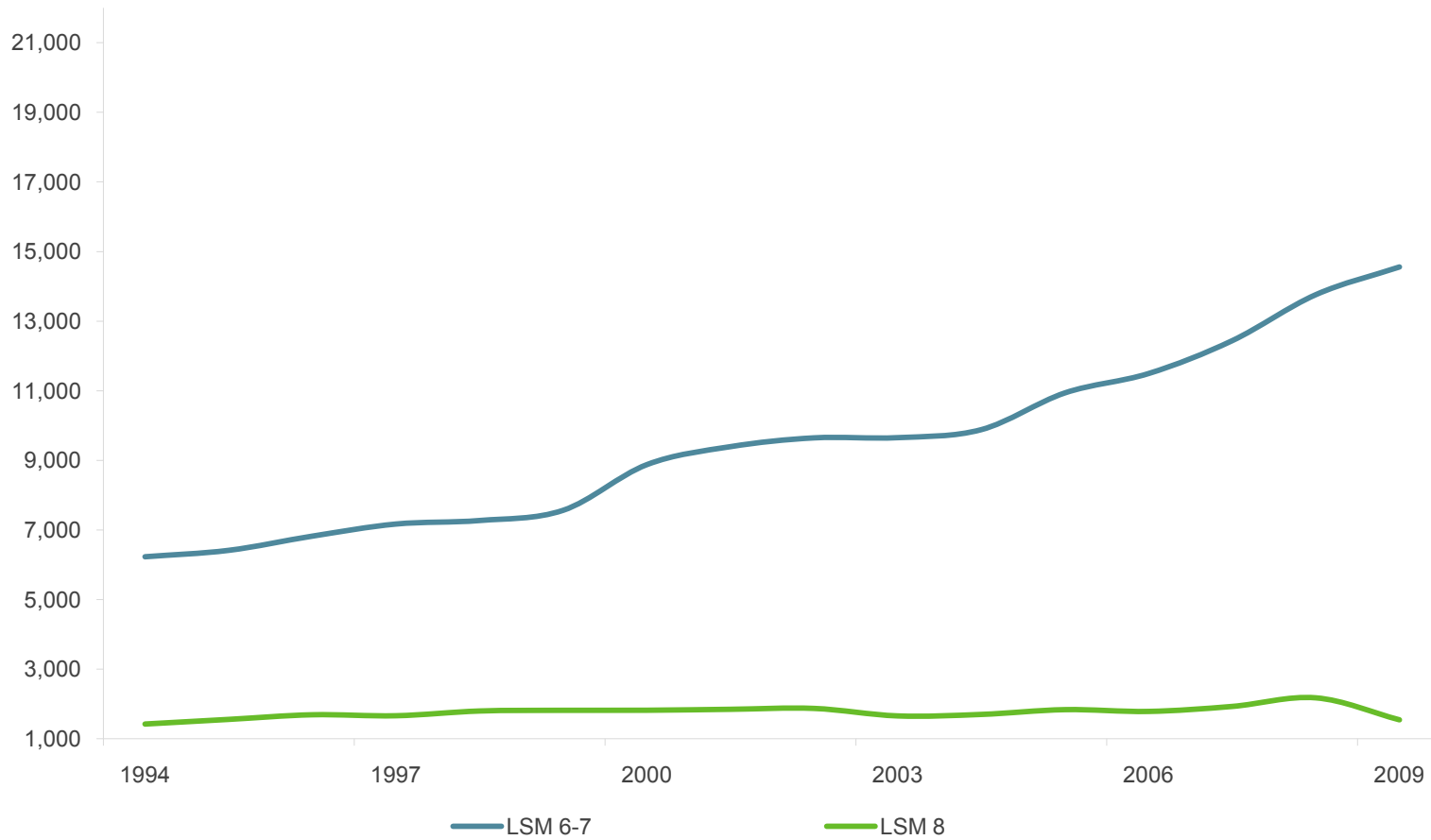
# Confidence is improving.



# SA's middle class continues to grow rapidly, despite the recession.

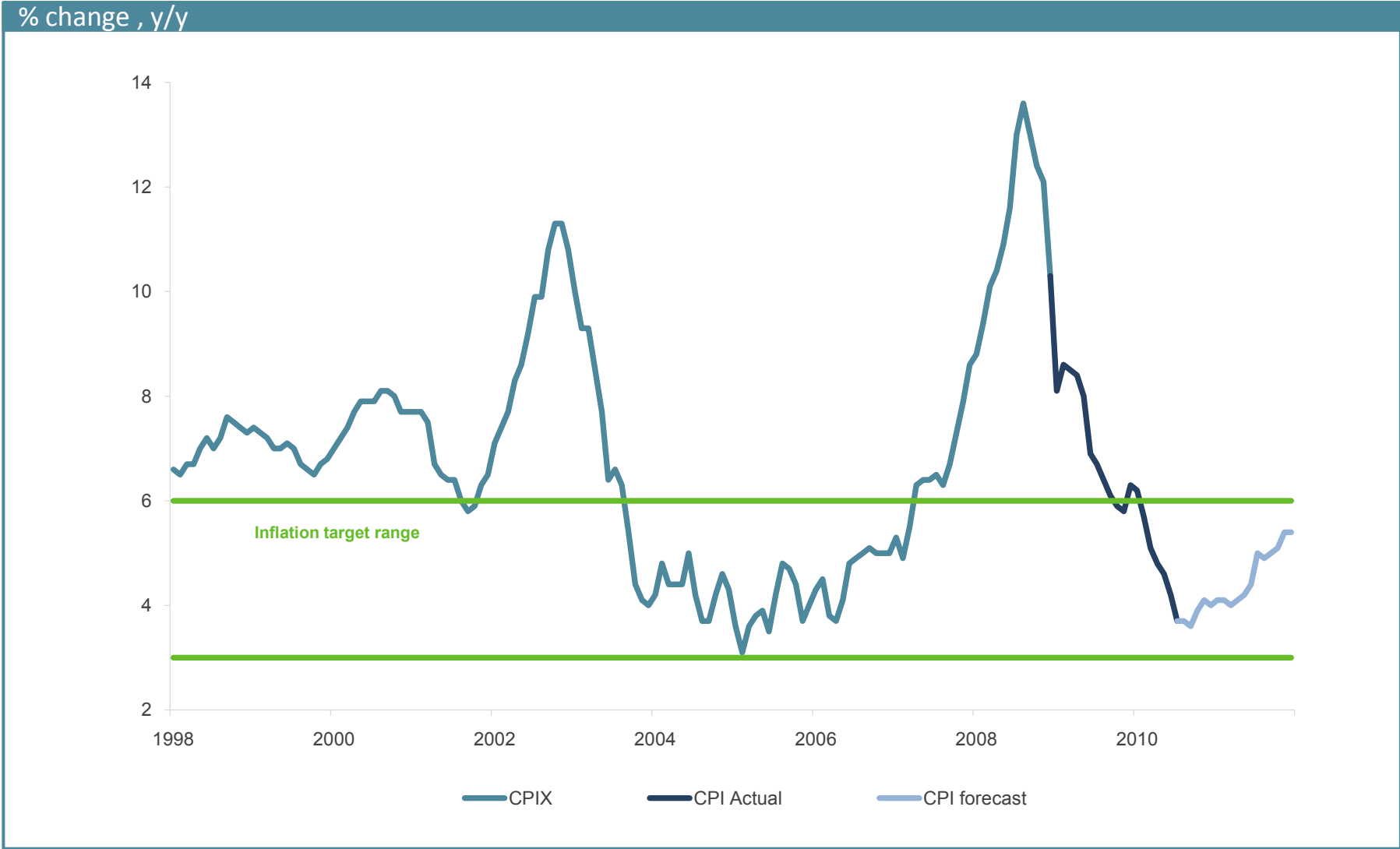


Thousands of individuals – survey results



Definition of LSM: Living standard measure - focuses on household utilities rather than income or demographics

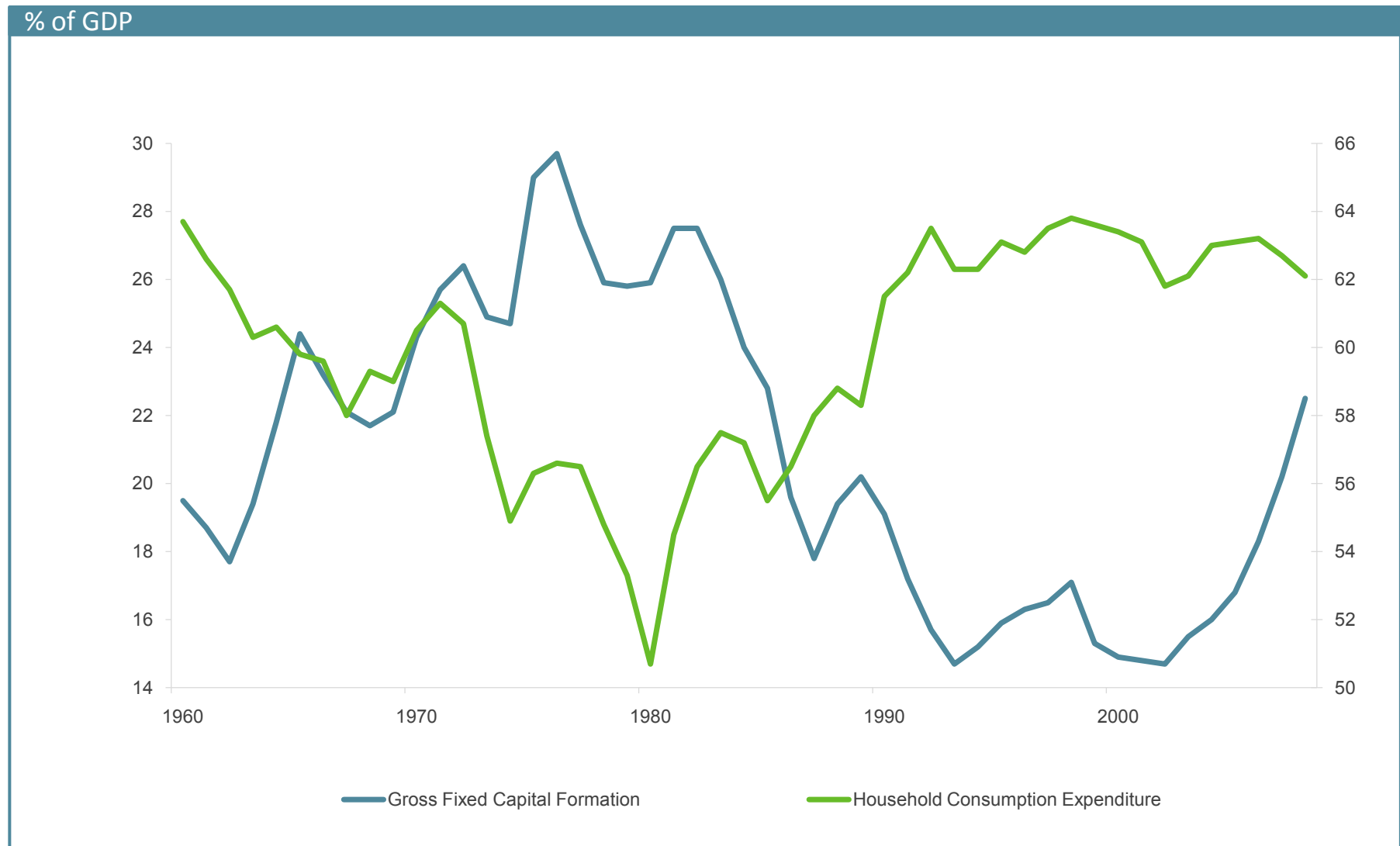
# Inflation is currently subdued.



Source: StatsSA, Investec Group Economics



# Fixed investment as a % of GDP continues to pick-up significantly ...



Source: SARB

... and international demand for SA's goods is rising.



Source: SARS



# Conclusion

- The stimulus led recovery in the US, along with Asia's rapid rebound in growth, has caused SA's recovery to proceed better than initially expected.
- Revenue collections are up on last year and expenditure lower than expected. The budget deficit may be somewhat lower than previously estimated.
- Government and parastatal fixed investment continues to improve, although infrastructure challenges will likely constrain growth at 6-7%.
- The private sector is becoming financially healthier, spending on the back of rising real incomes, not credit, and the middle class is growing strongly.
- SA ranks\* very high in the quality of its financial markets, the soundness of its banking system as well as the efficacy of corporate boards and its auditing and reporting standards.
- The current weak activity is a temporary blip in the country's long-term path to stronger growth and improved job creation. We expect economic growth of 2.8% y/y this year and 3.6% y/y in 2011, rising to 4.2% in 2012 as the domestic economy returns to trend.