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A country renewed with hope but not yet reformed.

The 2018 Budget in context of SA economy.

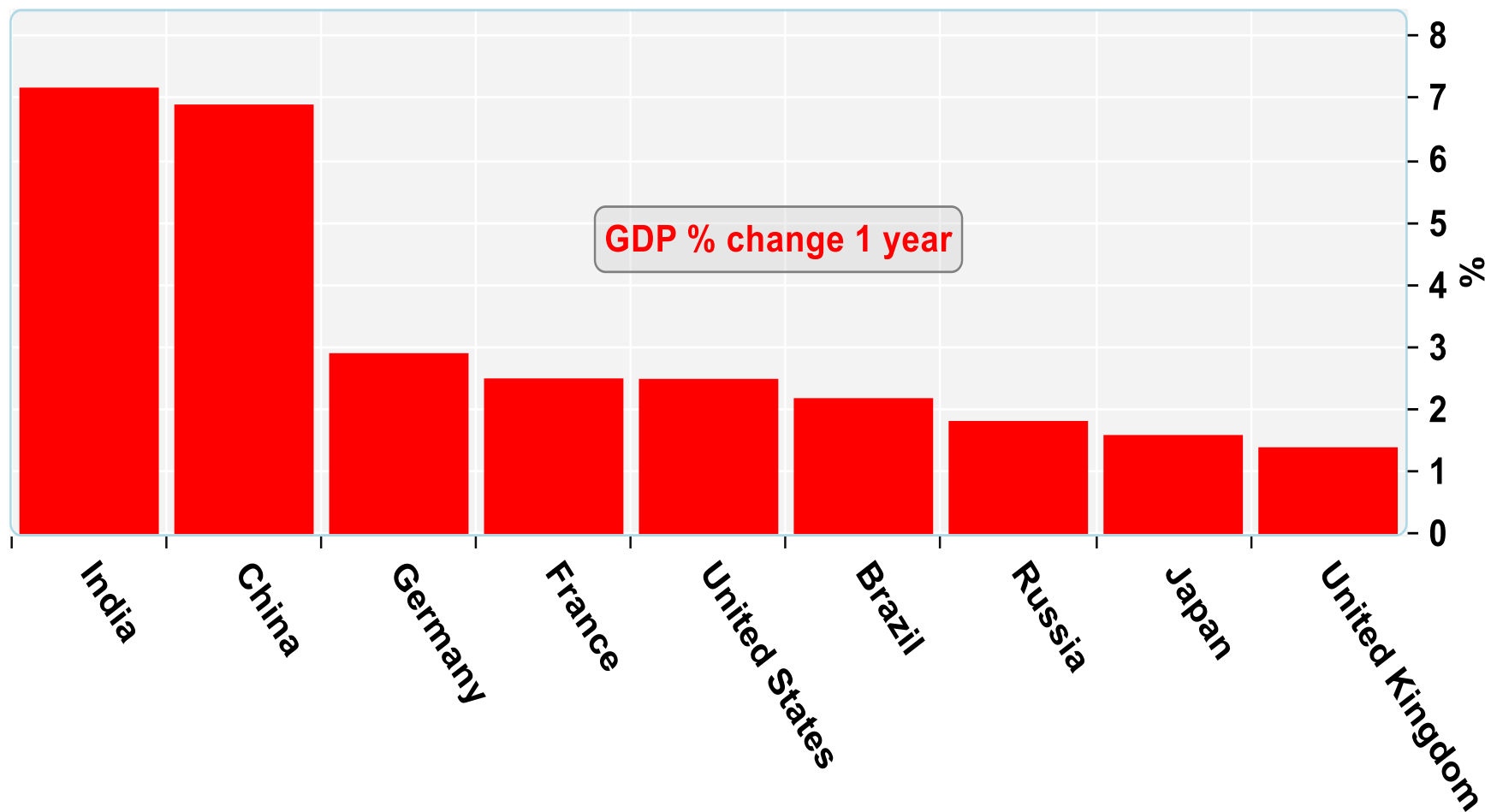
Economy and budget in context

- Context international and local economy
 - Growth improves World vs SA
- SA Business:
 - Vanity; Sanity and reality.
- SA consumer.
 - Myths about debt and savings.
- The Budget
 - The Burden and how we spend it.
 - Does government spending result in success?



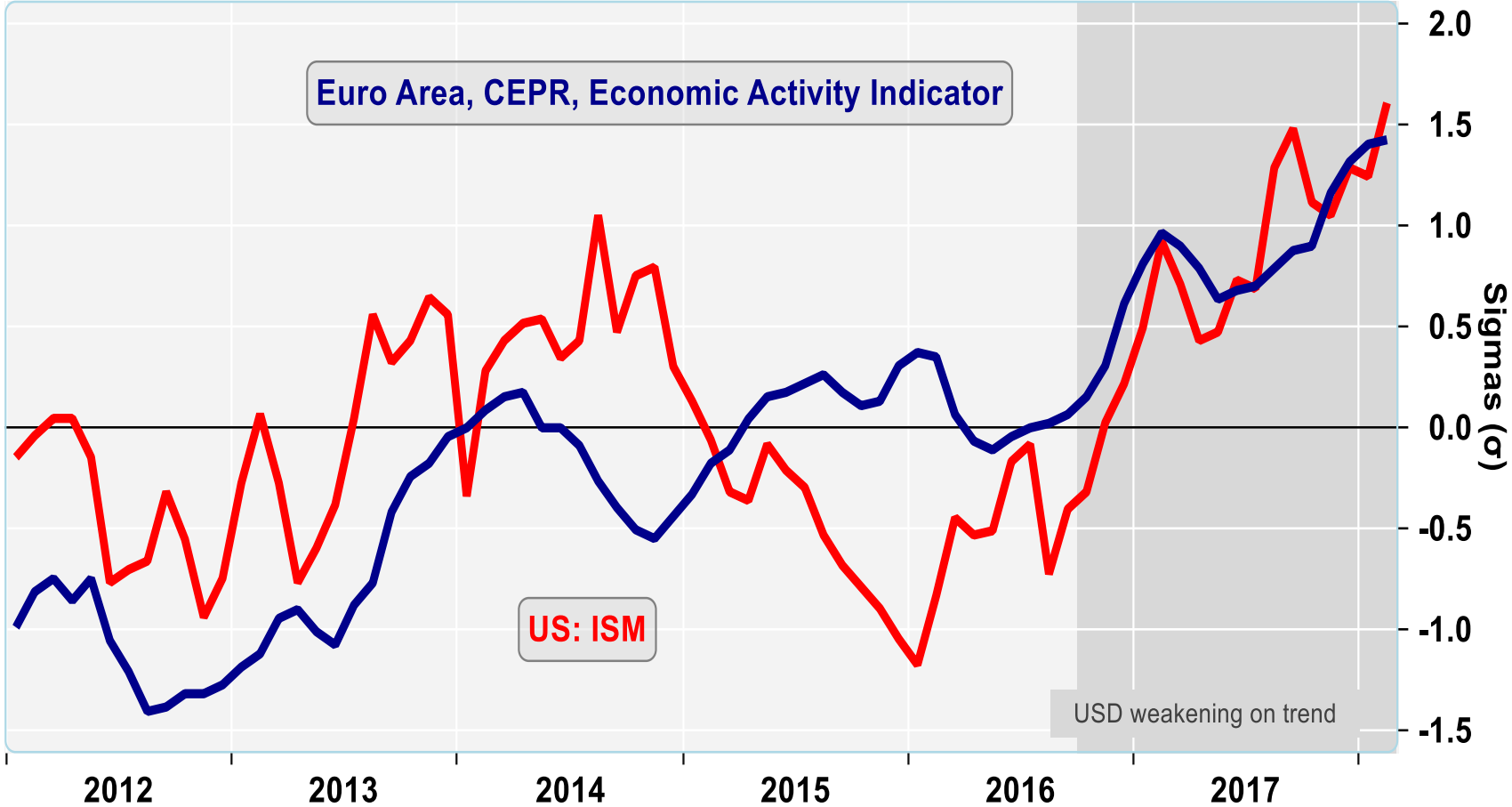
India and China race while commodity producers struggle.

large economies % change in GDP.



Business surveys strongest in over a decade

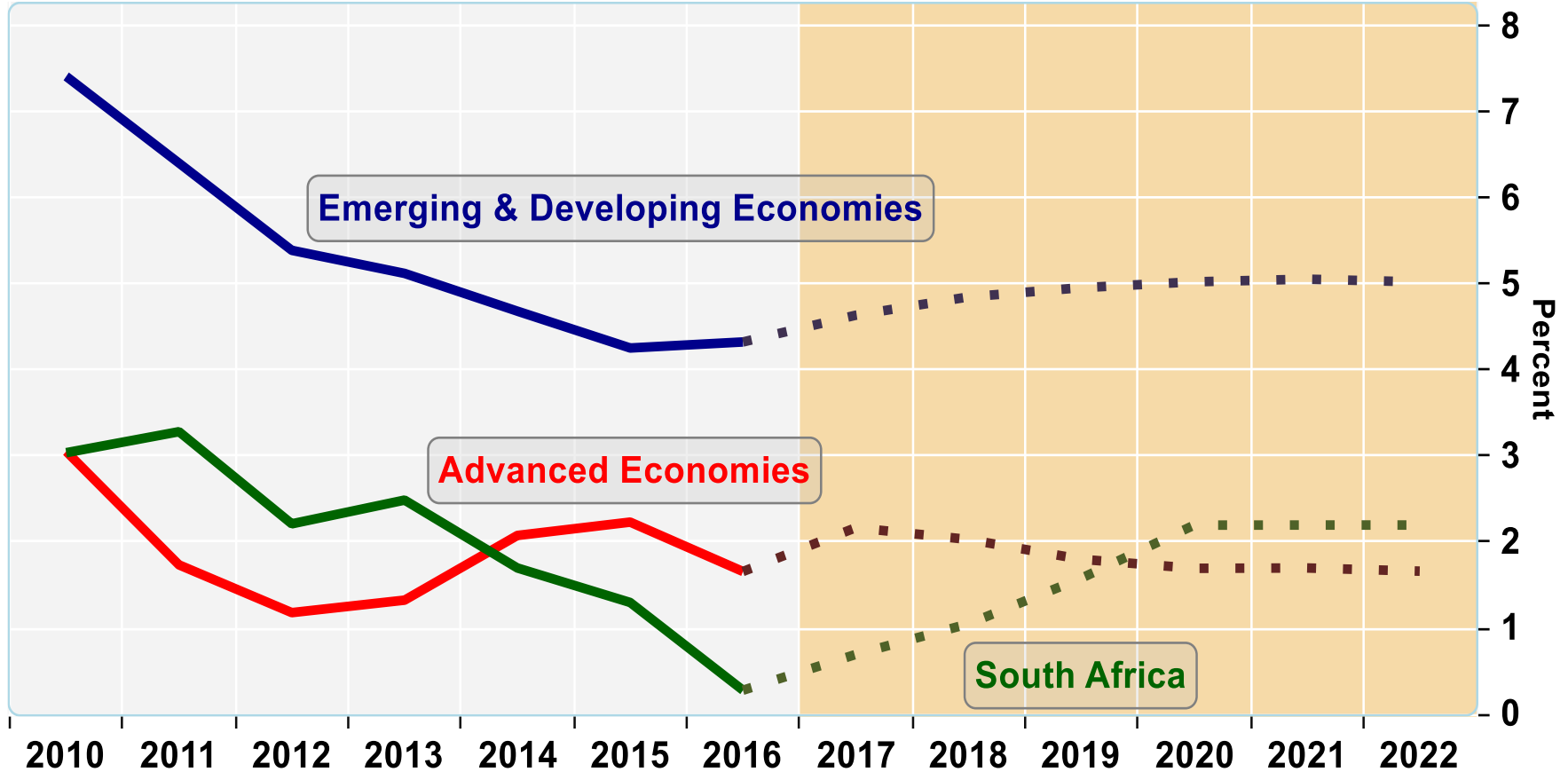
Business surveys are looking strong



Emerging Markets are still racing ahead. SA lagging.

GDP History and Forecasts.

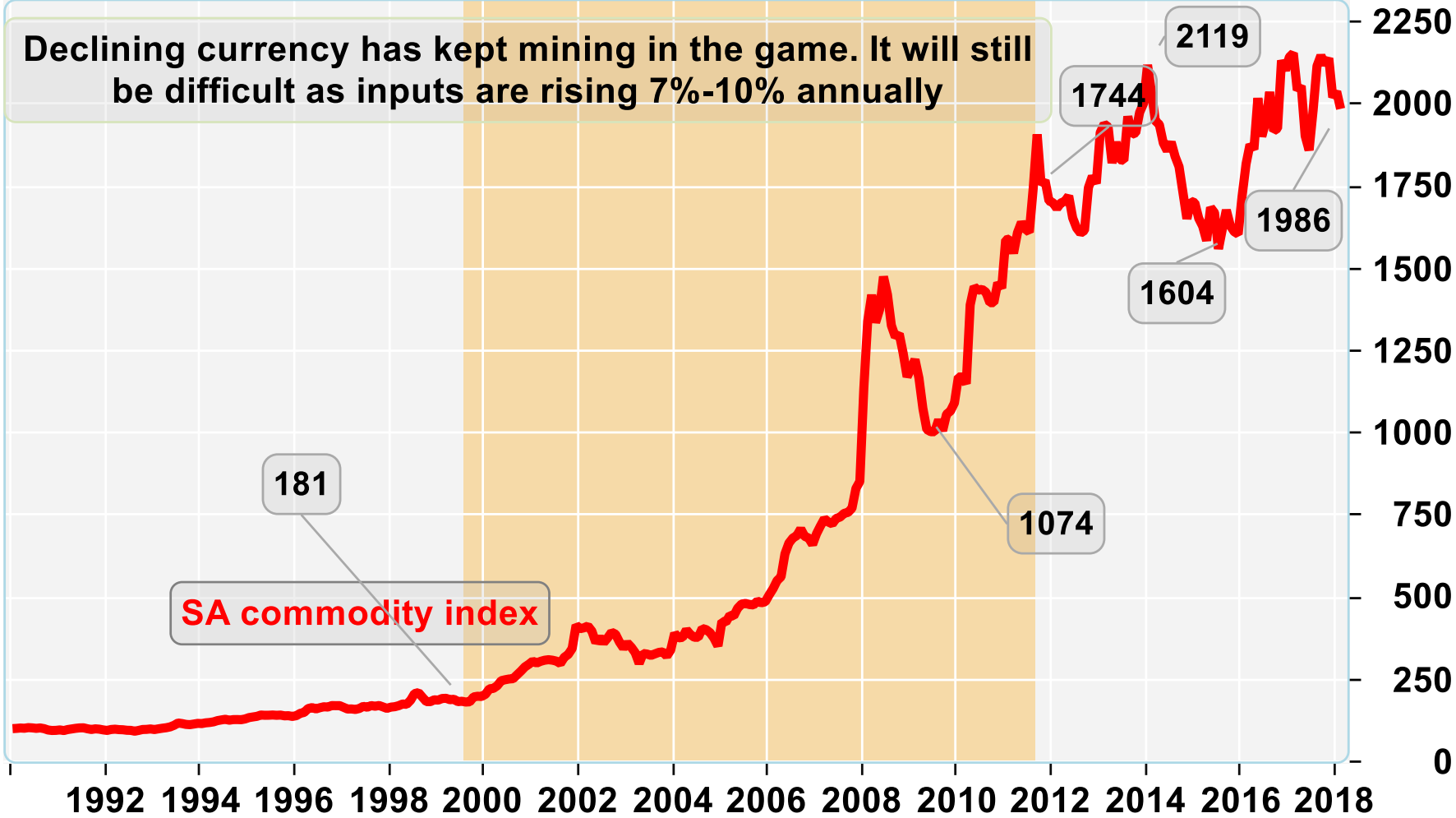
IMF World Economic Outlook.



56% fall in USD equals 25% decline in local currency. Weak Rand helps but...



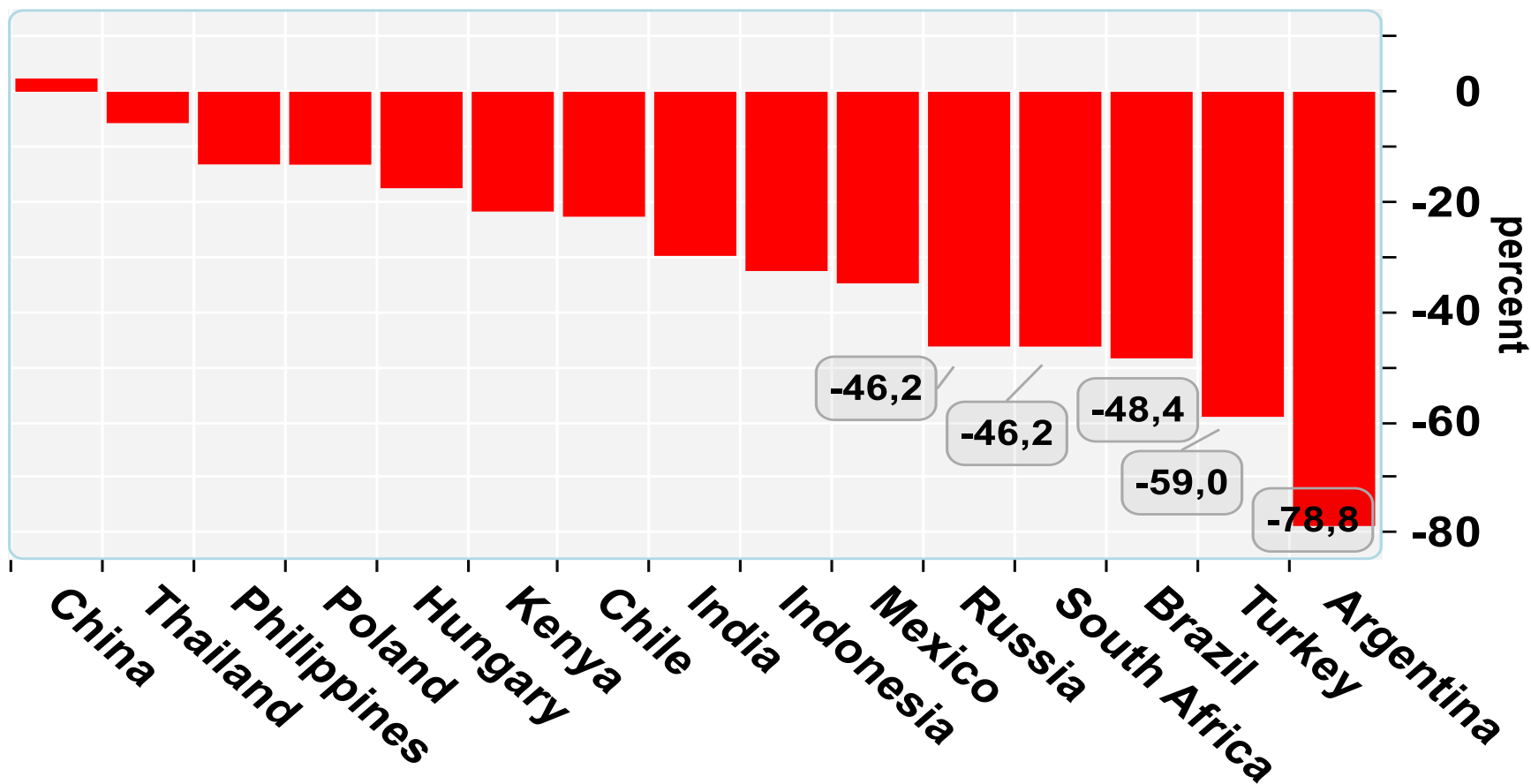
SA commodity index





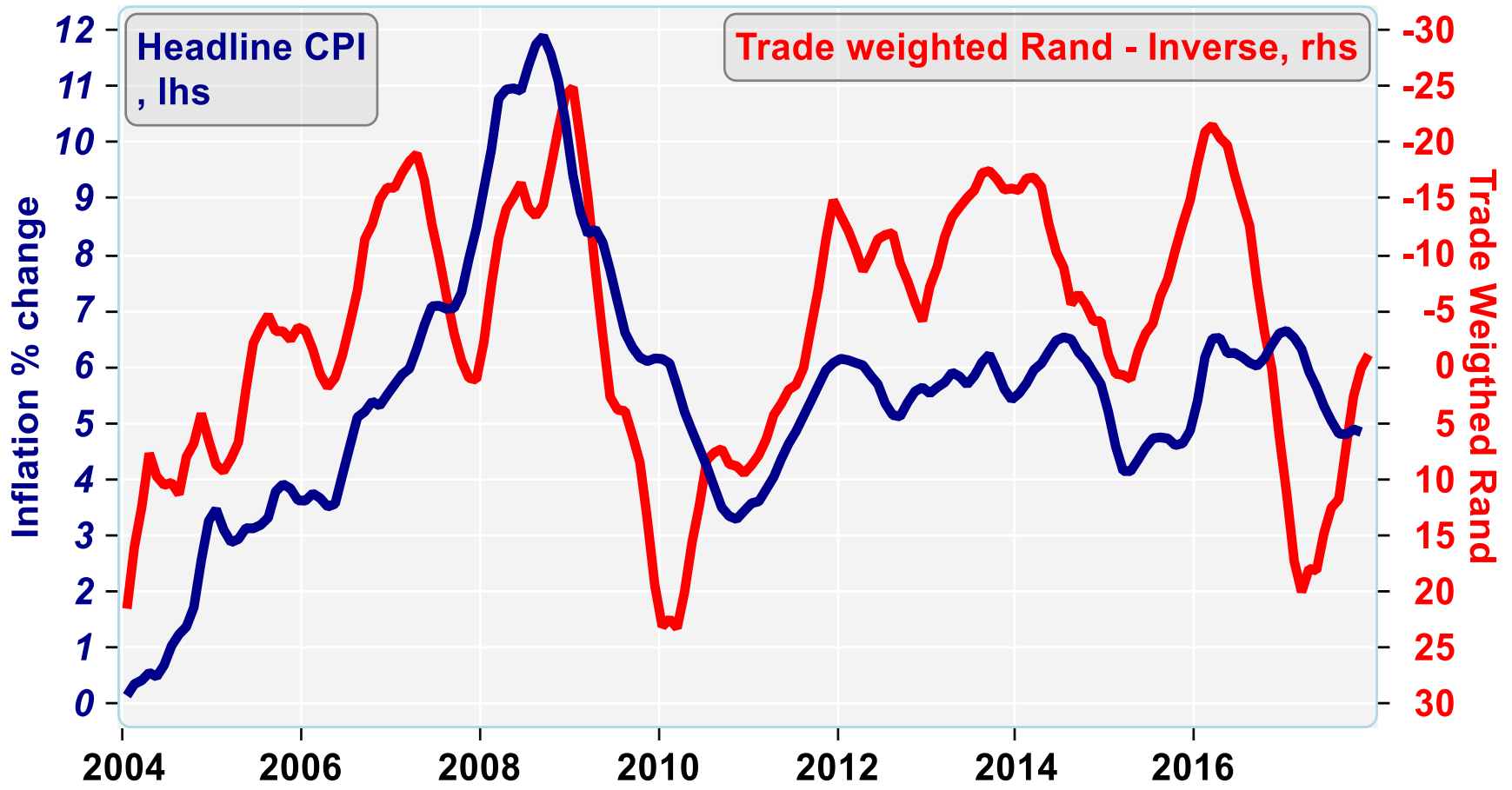
Change since 2011 (ties into commodity cycle).

EM currencies to USD since start 2011



Rand influence Inflation and that may help in 2018 now.

Inflation and the Rand



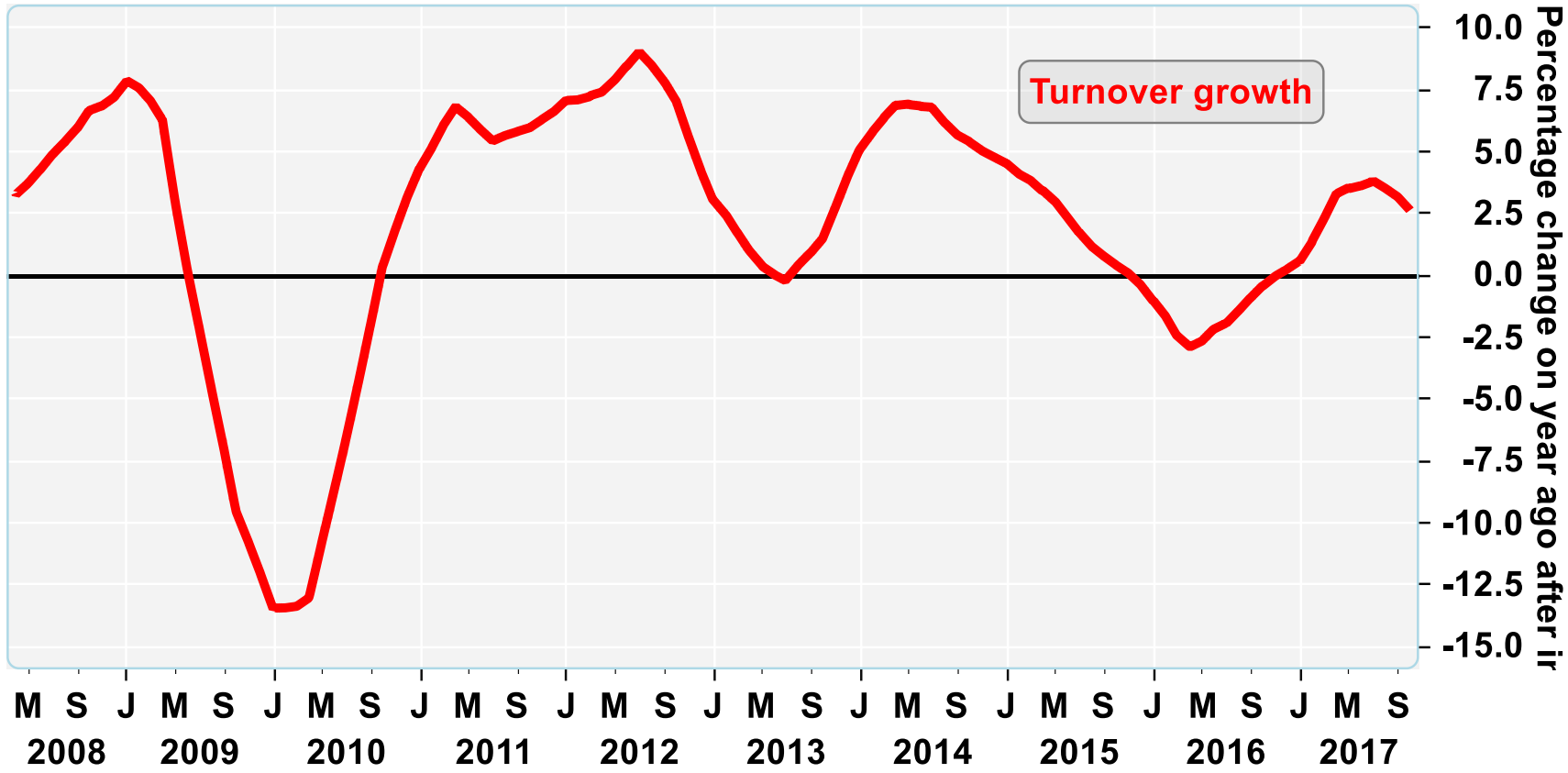


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SA Business can be measured in a few fact based ways. It is doing okay and here is why.
Turnover is Vanity; Returns are Sanity and cash flow is Reality

Vanity is growing above inflation

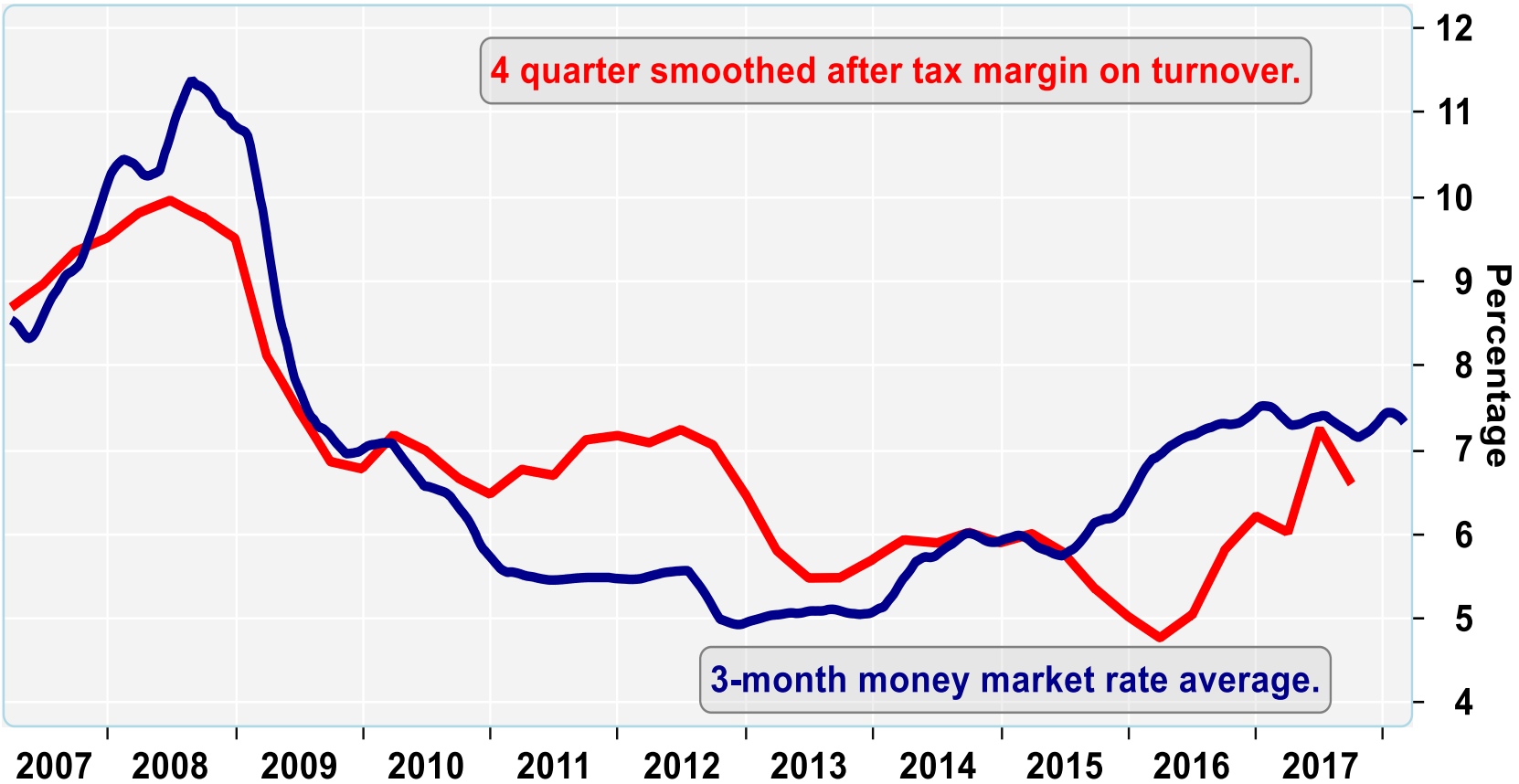
Real Vanity: Real growth in turnover



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Non-Financial Non-Agricultural Private sector

For the private sector margins are small

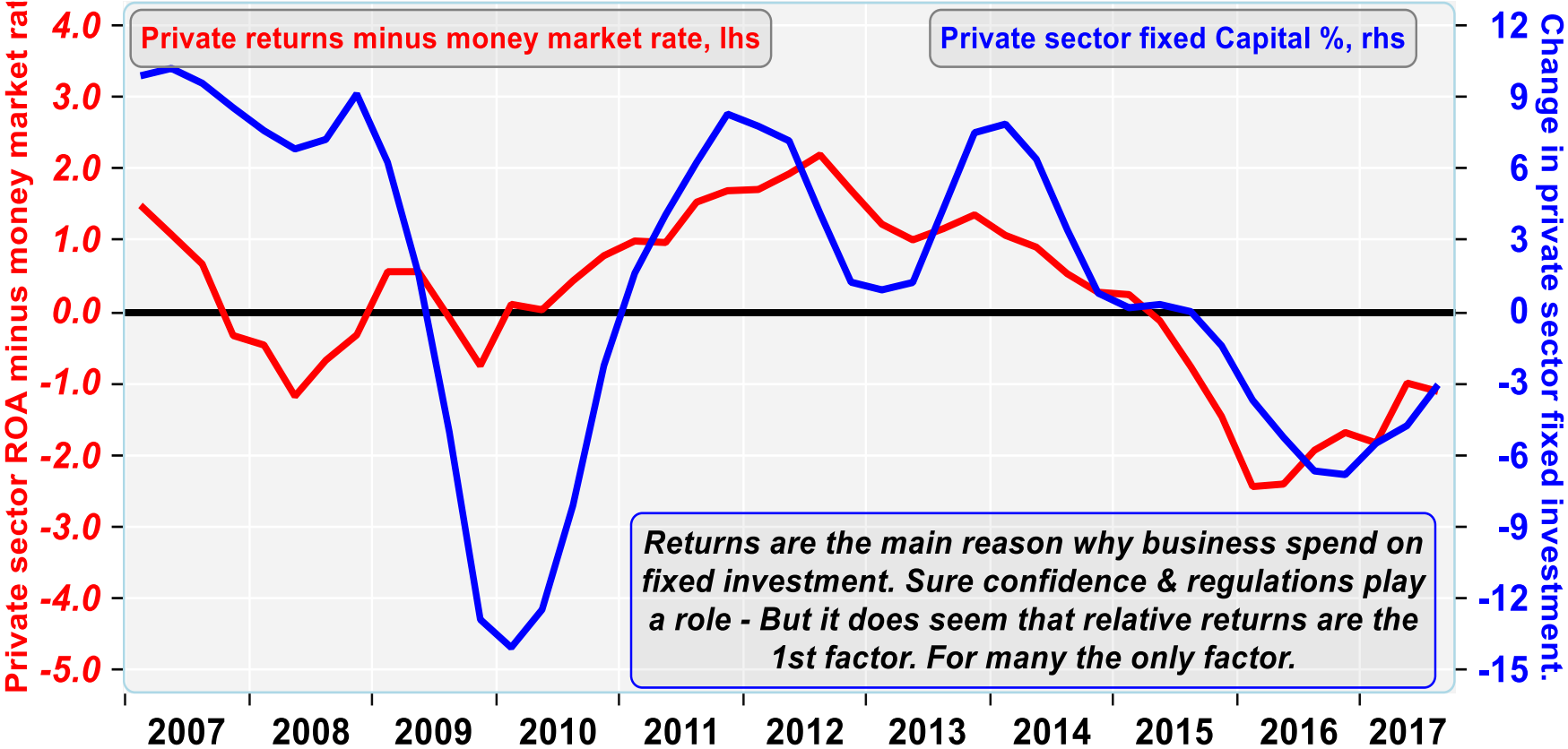
Non-Financial Non Agricultural Private sector: After Tax margin on Total Turnover.



Which is why the money stays in the bank and not into new projects.



Business returns matter for investment returns minus money market vs. private fixed investment.



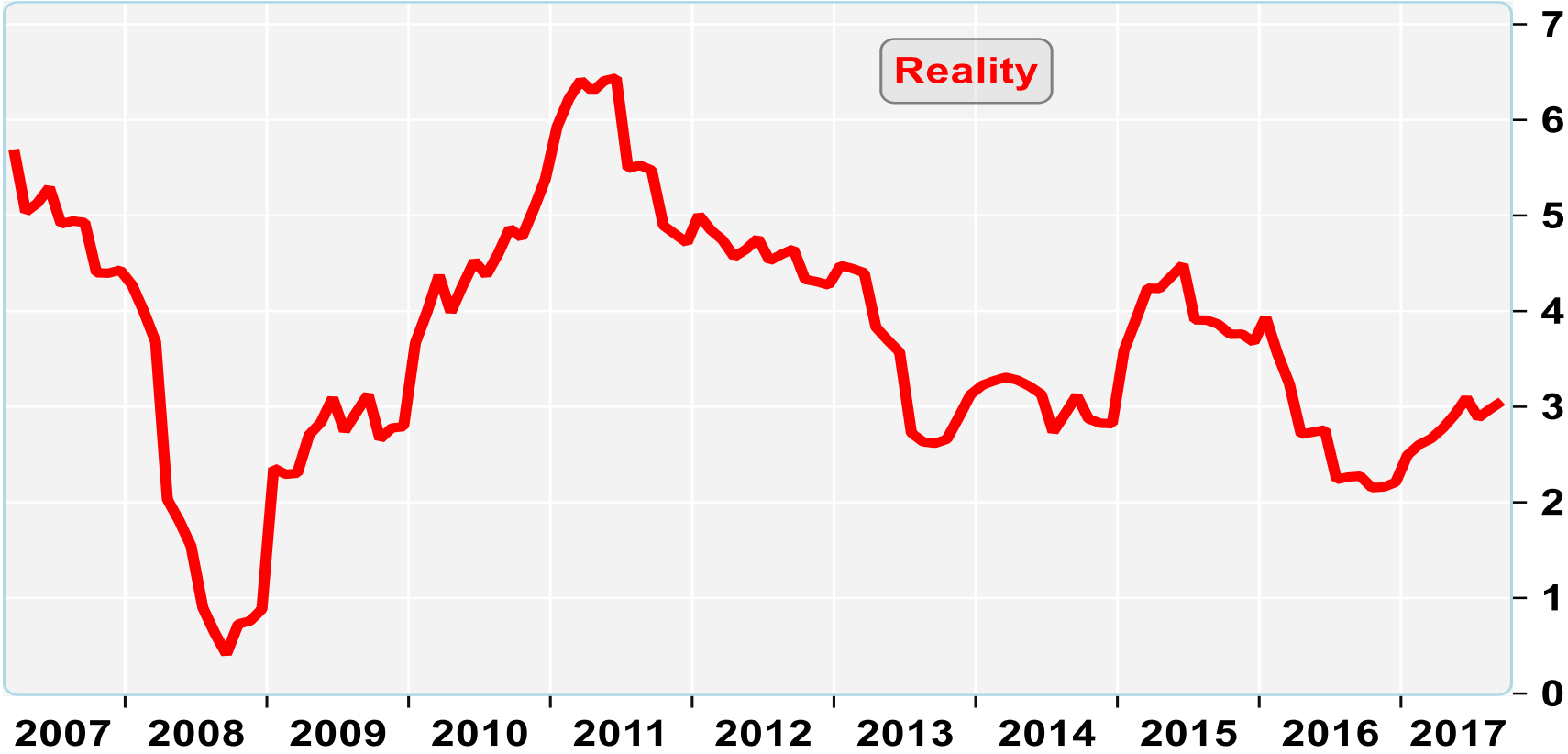
Returns are the main reason why business spend on fixed investment. Sure confidence & regulations play a role - But it does seem that relative returns are the 1st factor. For many the only factor.

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Note: Non-farm Non financial private sector before tax profits on fixed assets employed.

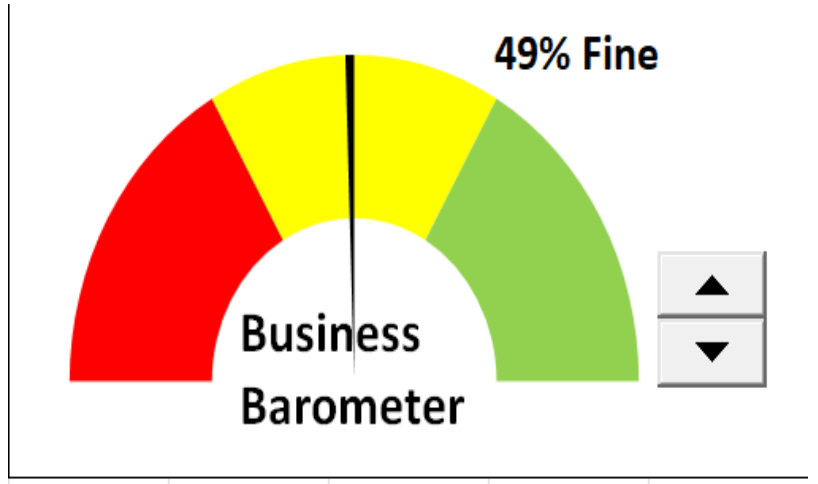
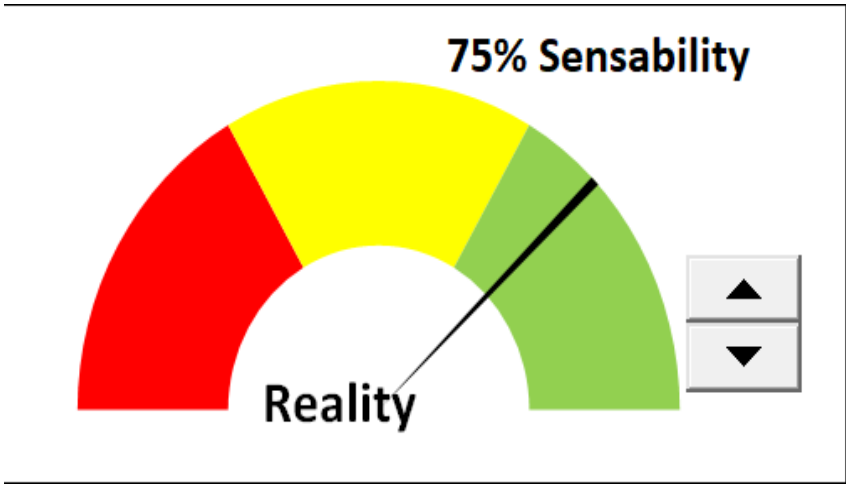
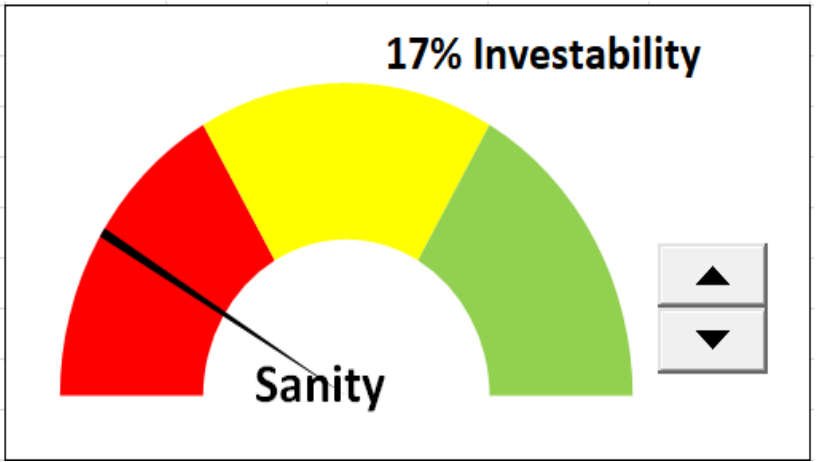
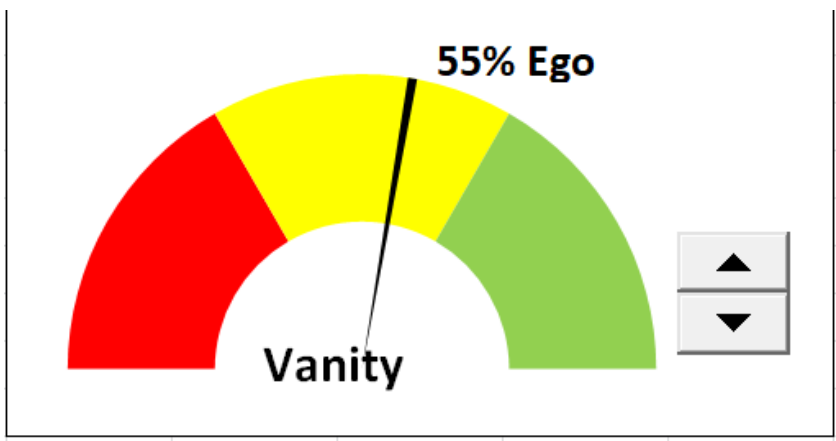
Reality is however very positive – even after inflation.

Real Reality: Income minus expenditure



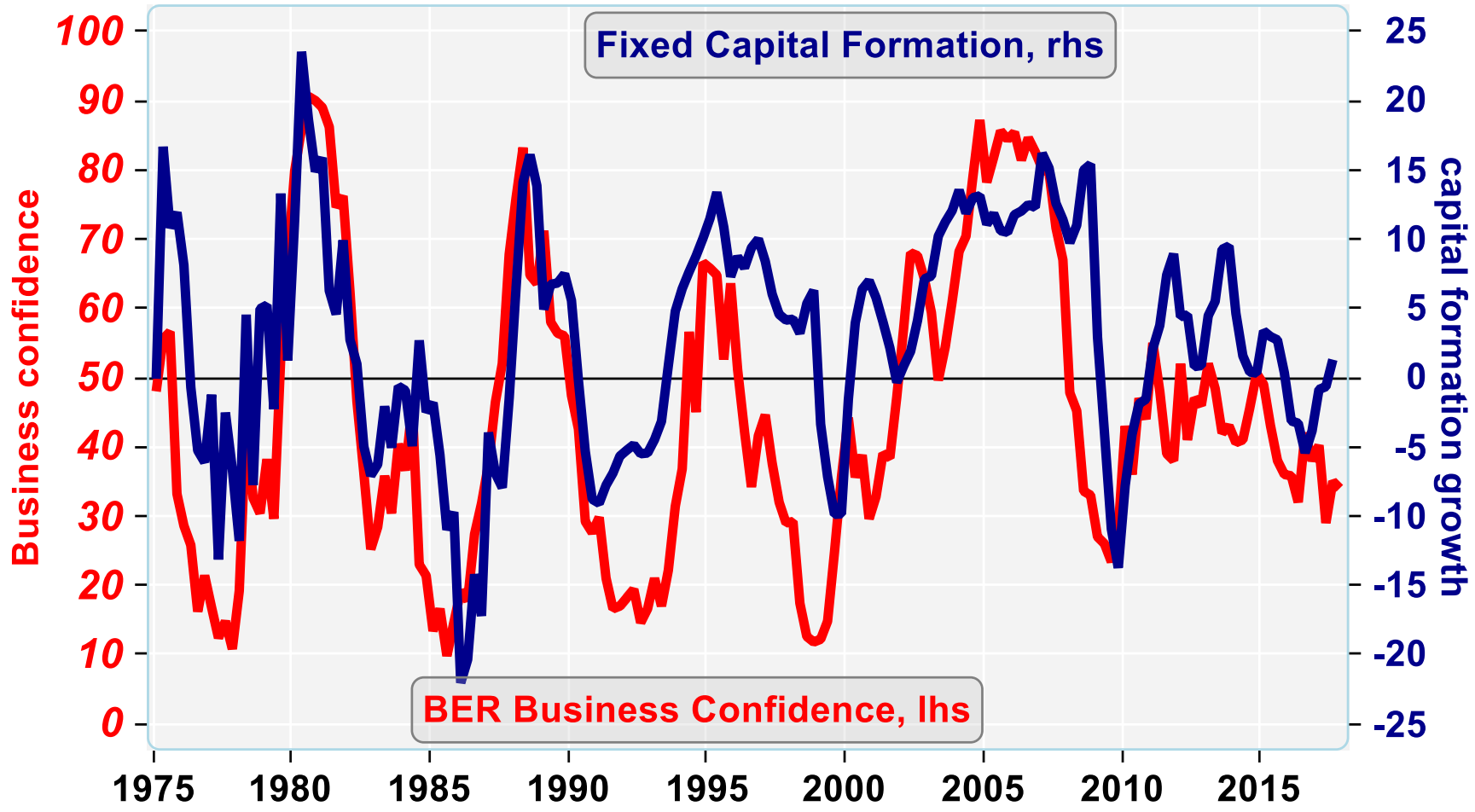
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Non-farm; Non financial private sector cash income from normal operations minus normal cash expenses.

Business the situation summed up.



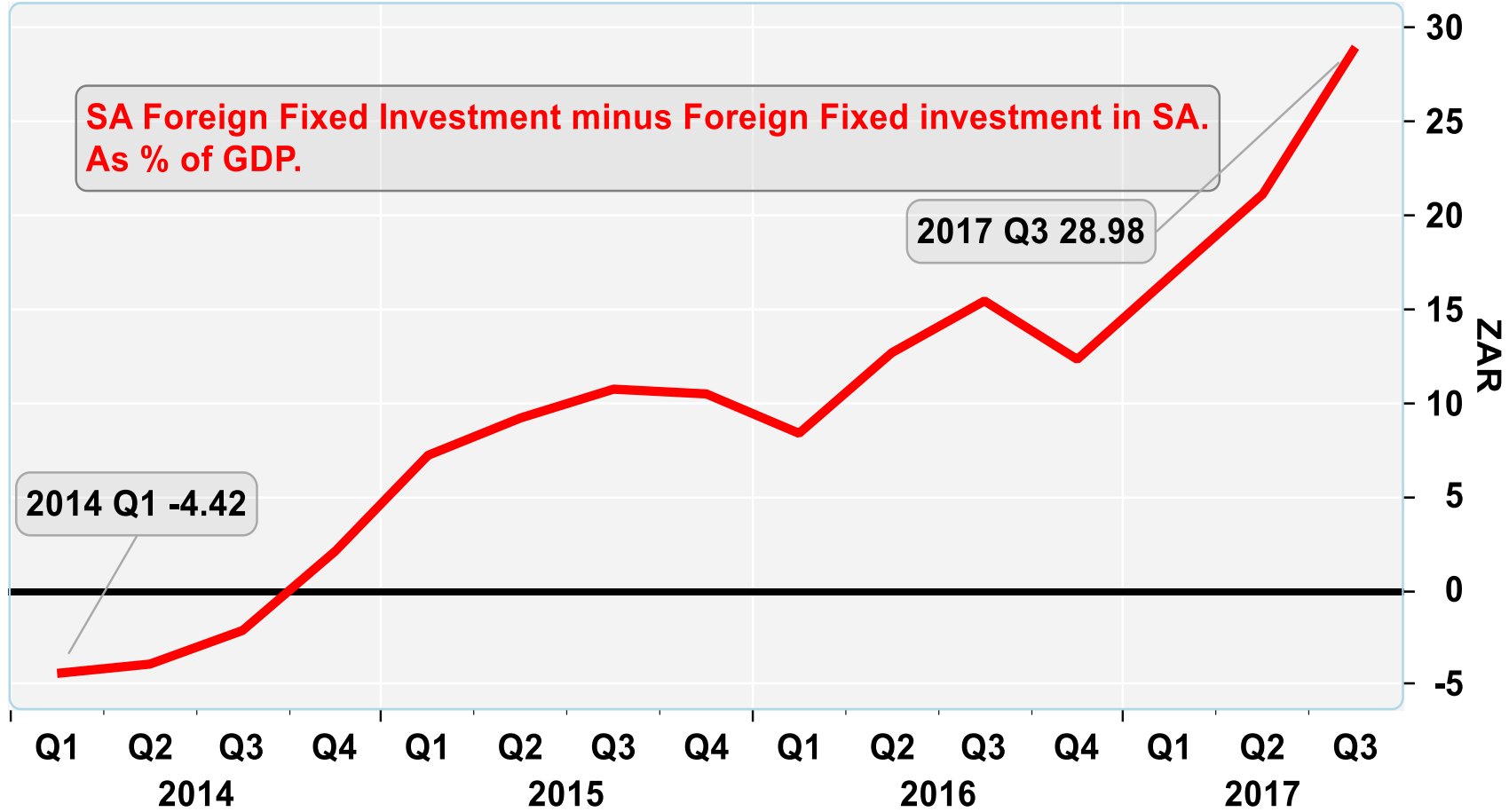
Fixed capital formation struggles without confidence.

Business confidence and capital formation.



Firms and Businesses are investing abroad

SA FDI: Outward minus inward Net position - % of GDP



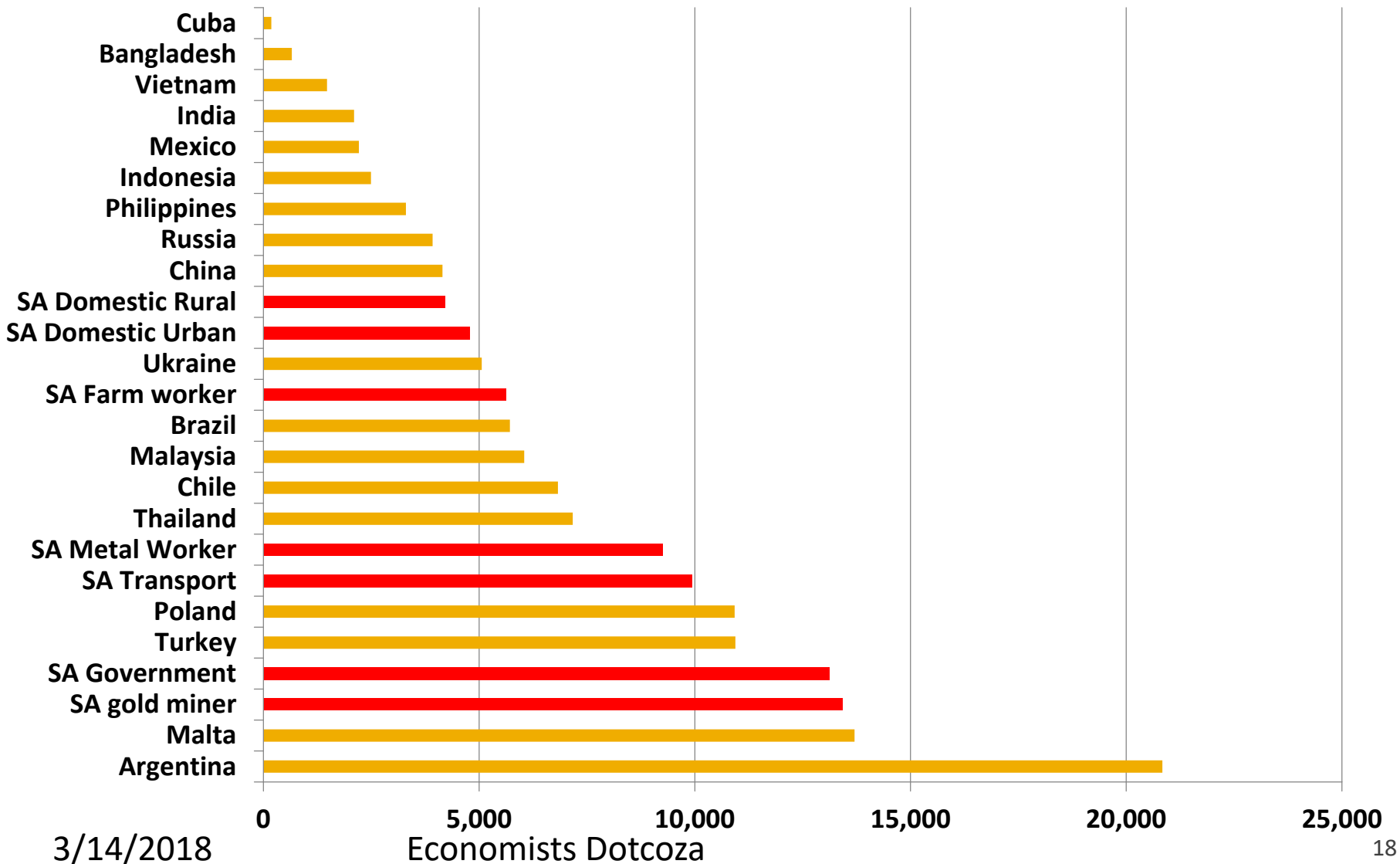


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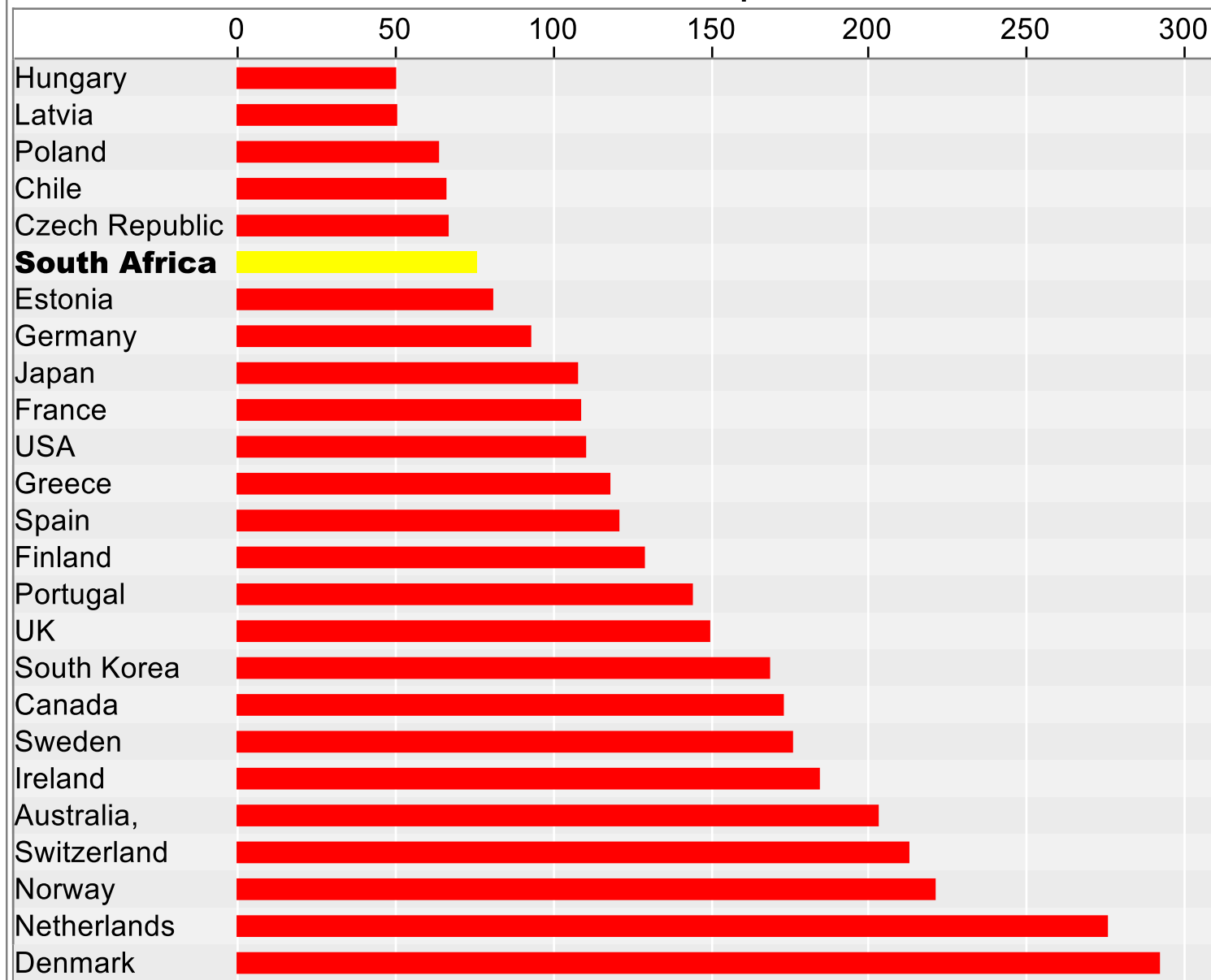
The SA Consumer and Worker. Doing better than they think!

The Consumer is lowering the debt burden and increasing their asset base.

SA sectors vs. Emerging Markets. Level of minimum wages by PPP rates.



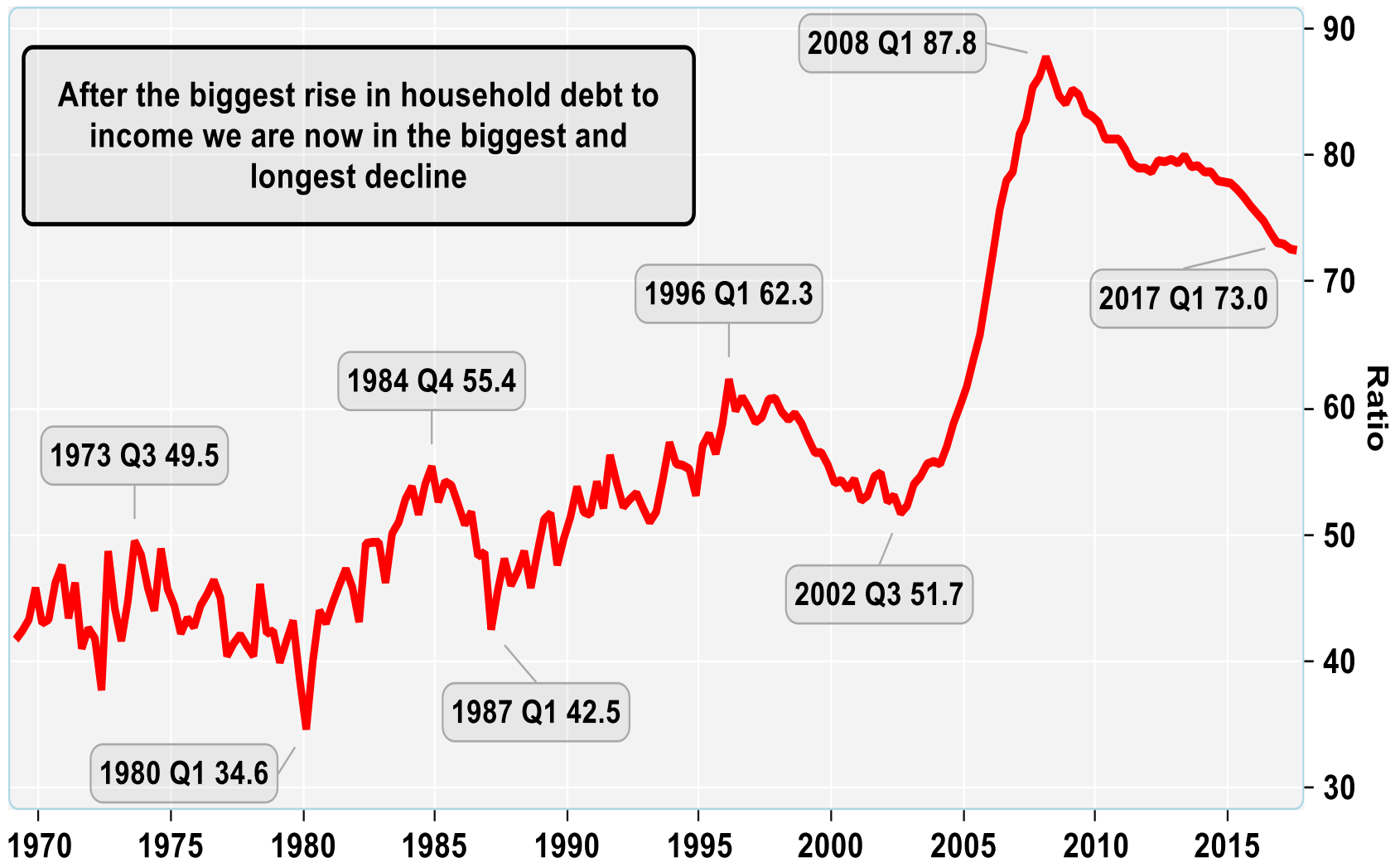
Household Debt to Household disposable income



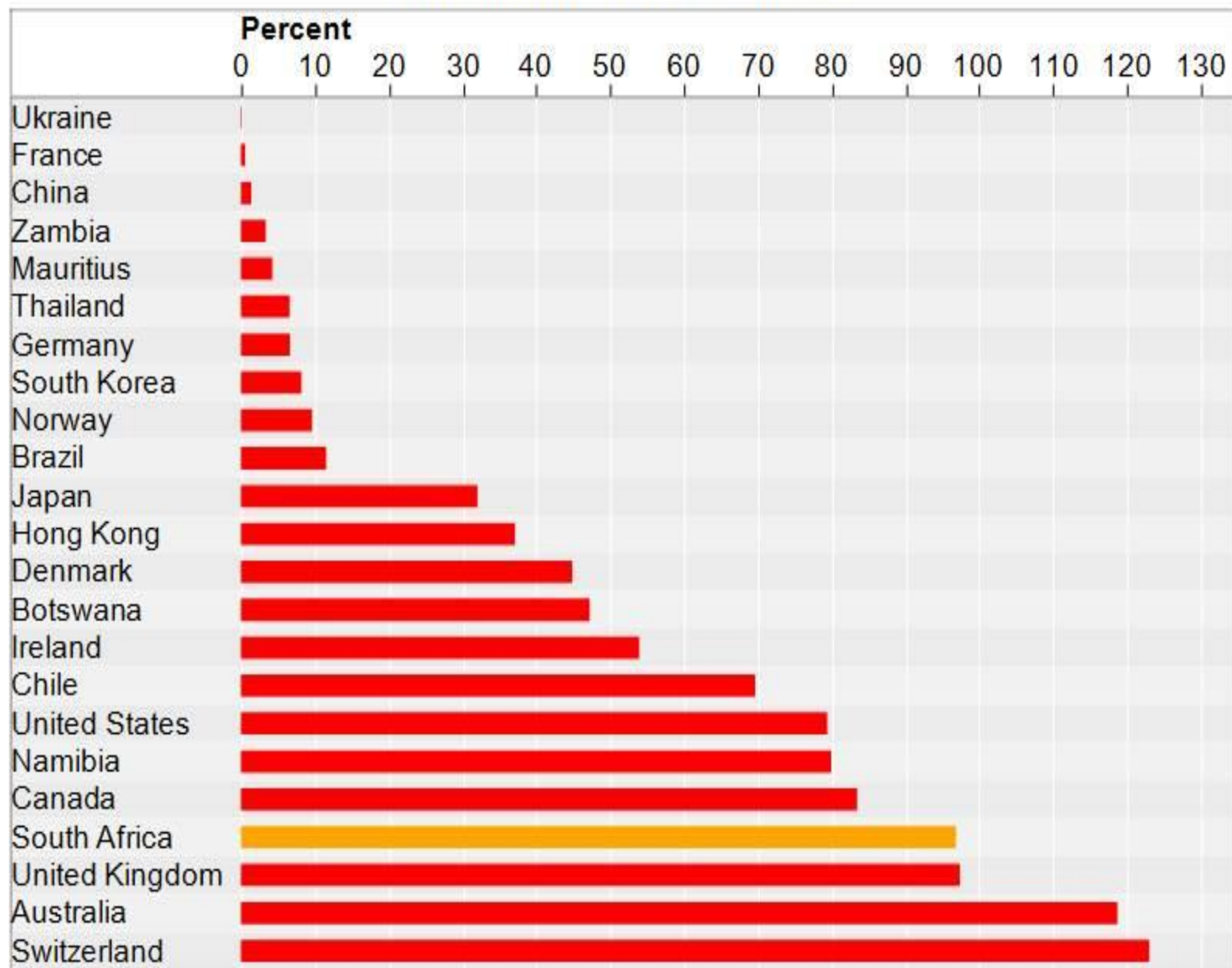
■ Latest debt to disposable income ratio [Close 2013 - 2015, sort asc.]

Soucre: OECD and economistscoza

Longest decline will also now be biggest decline in household debt to household income.



Pensionfund assets as % of GDP



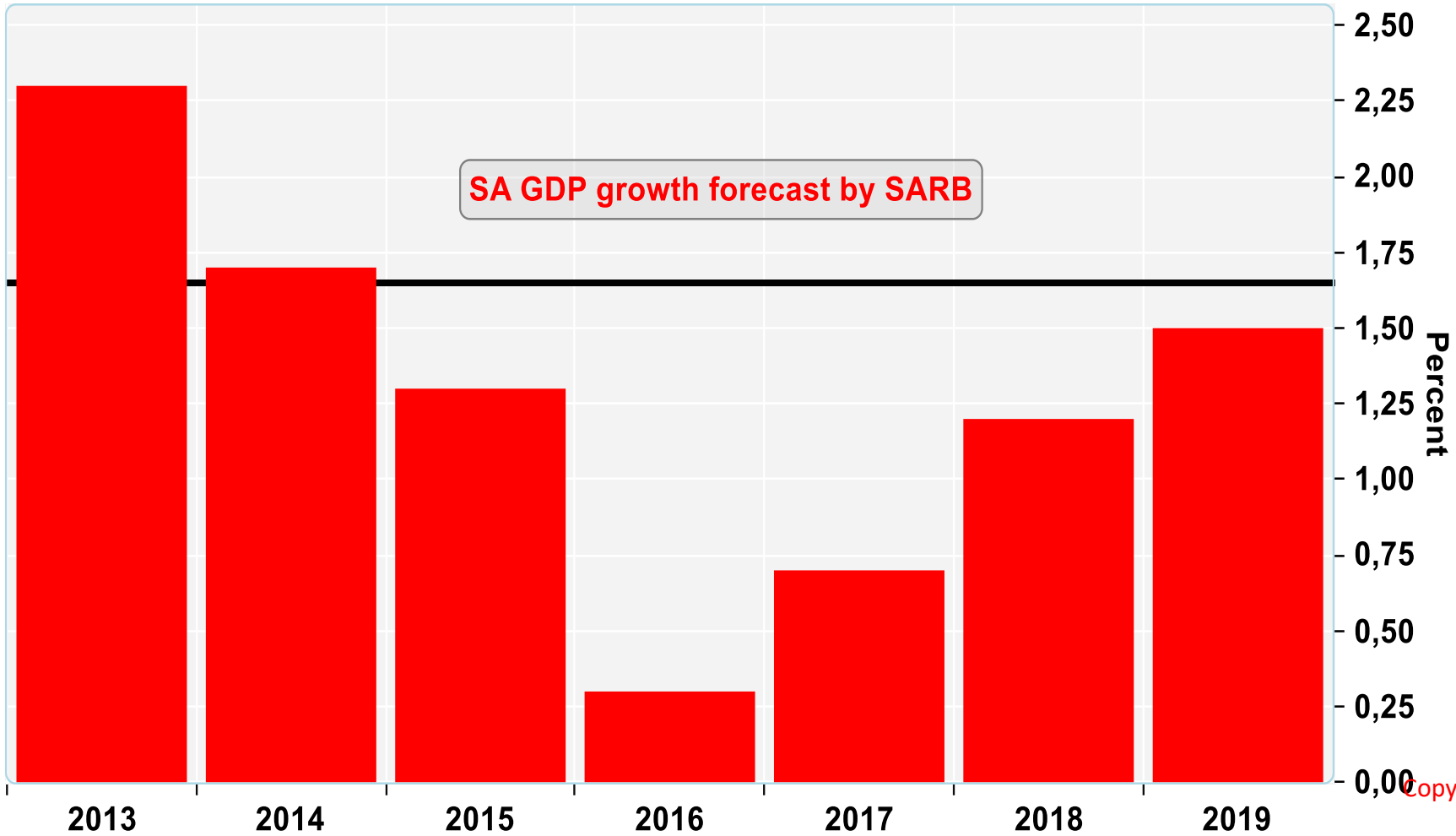
OECD and Economistscoza

Houses Owned by Race in 2016. Someone may just get a surprise.

	African	Coloured	Asian	White
Owned	56.7%	55.5%	50.1%	45.0%
Occupied rent free	16.2%	14.4%	3.7%	2.7%
Rented	25.8%	29.1%	44.8%	51.1%
Value of houses owned of total	55.6%	6.8%	5.1%	32.5%

Source: StatsSA General Household Survey. Middle values taken for value calculation by race. Owner own estimate.

Growth History and Forecast from SARB.





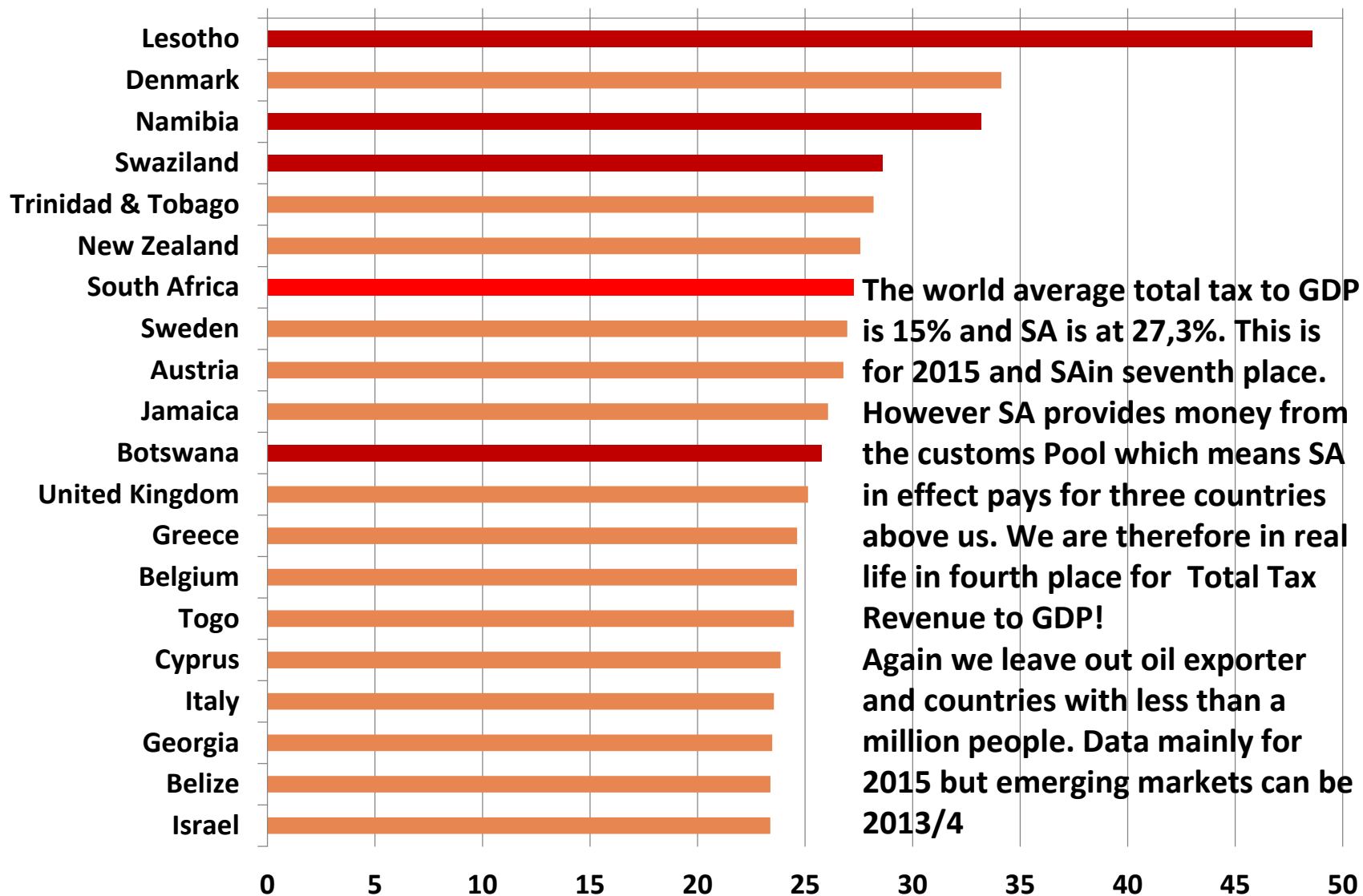
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You can give me tax rates and levels but I think one should look at what is actually paid!

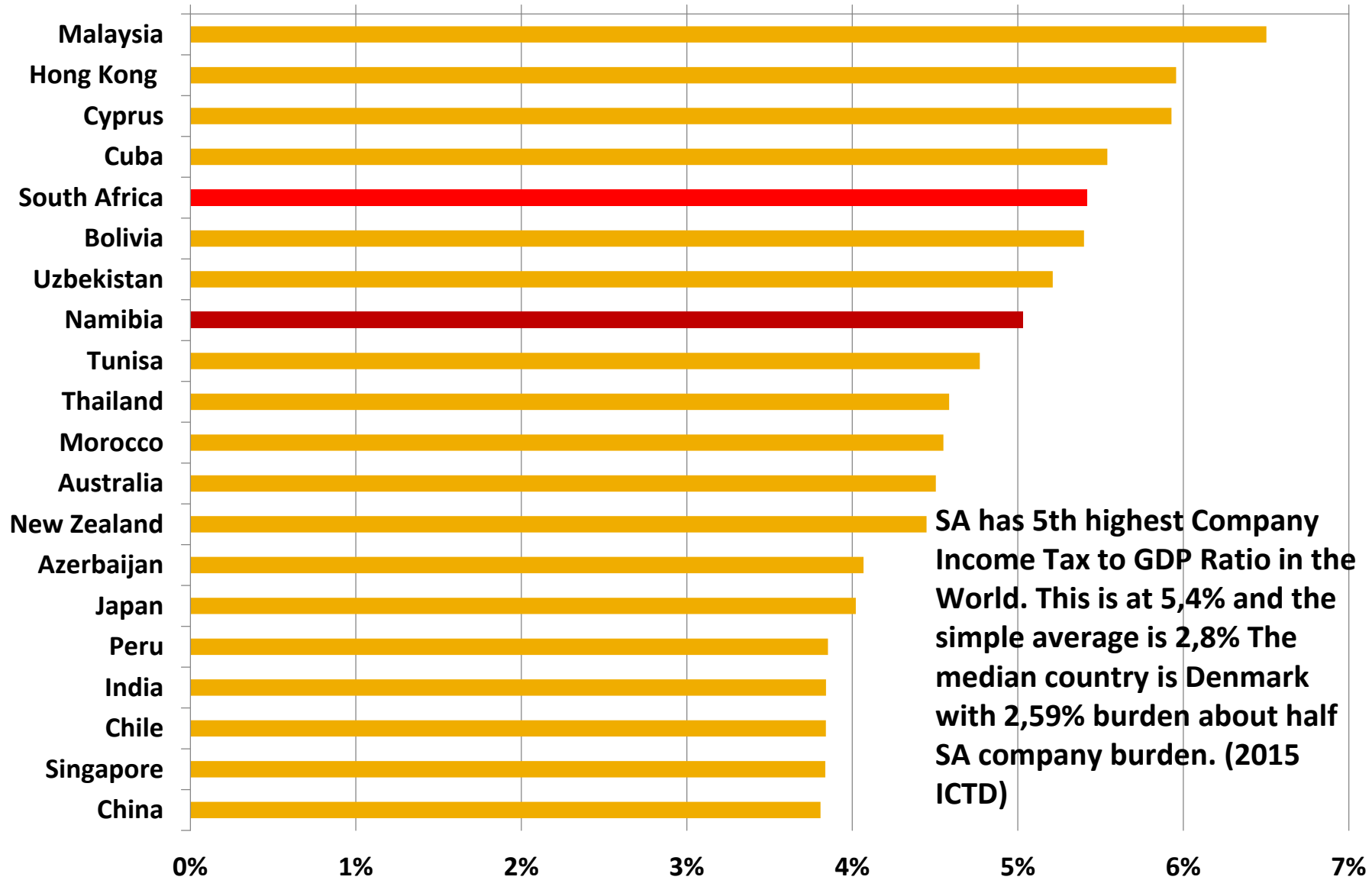
The TAX Burden



Total Tax revenue (only) to GDP



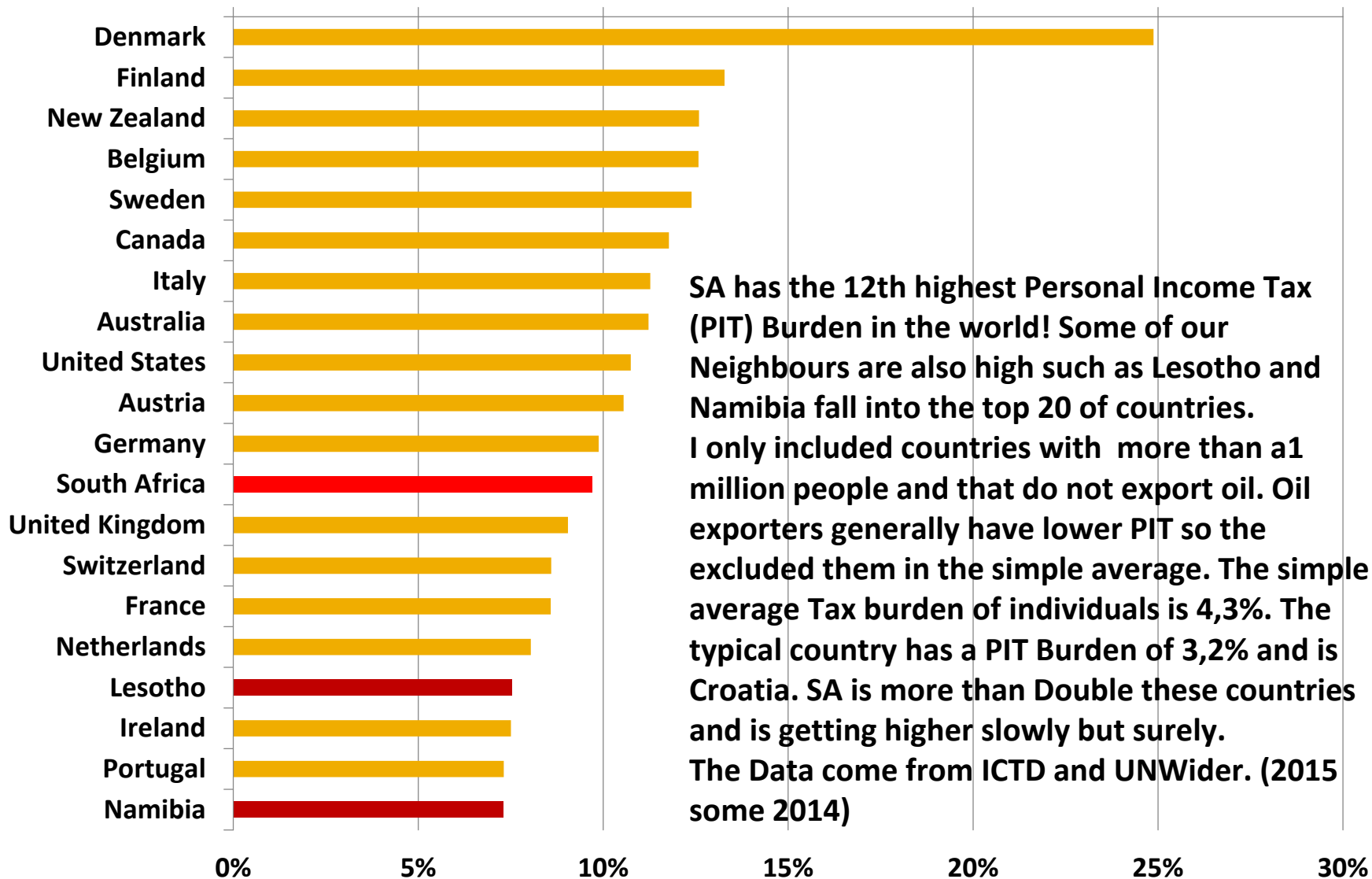
Highest Company Income Tax to GDP Burdens in the World.



SA has 5th highest Company Income Tax to GDP Ratio in the World. This is at 5,4% and the simple average is 2,8% The median country is Denmark with 2,59% burden about half SA company burden. (2015 ICTD)



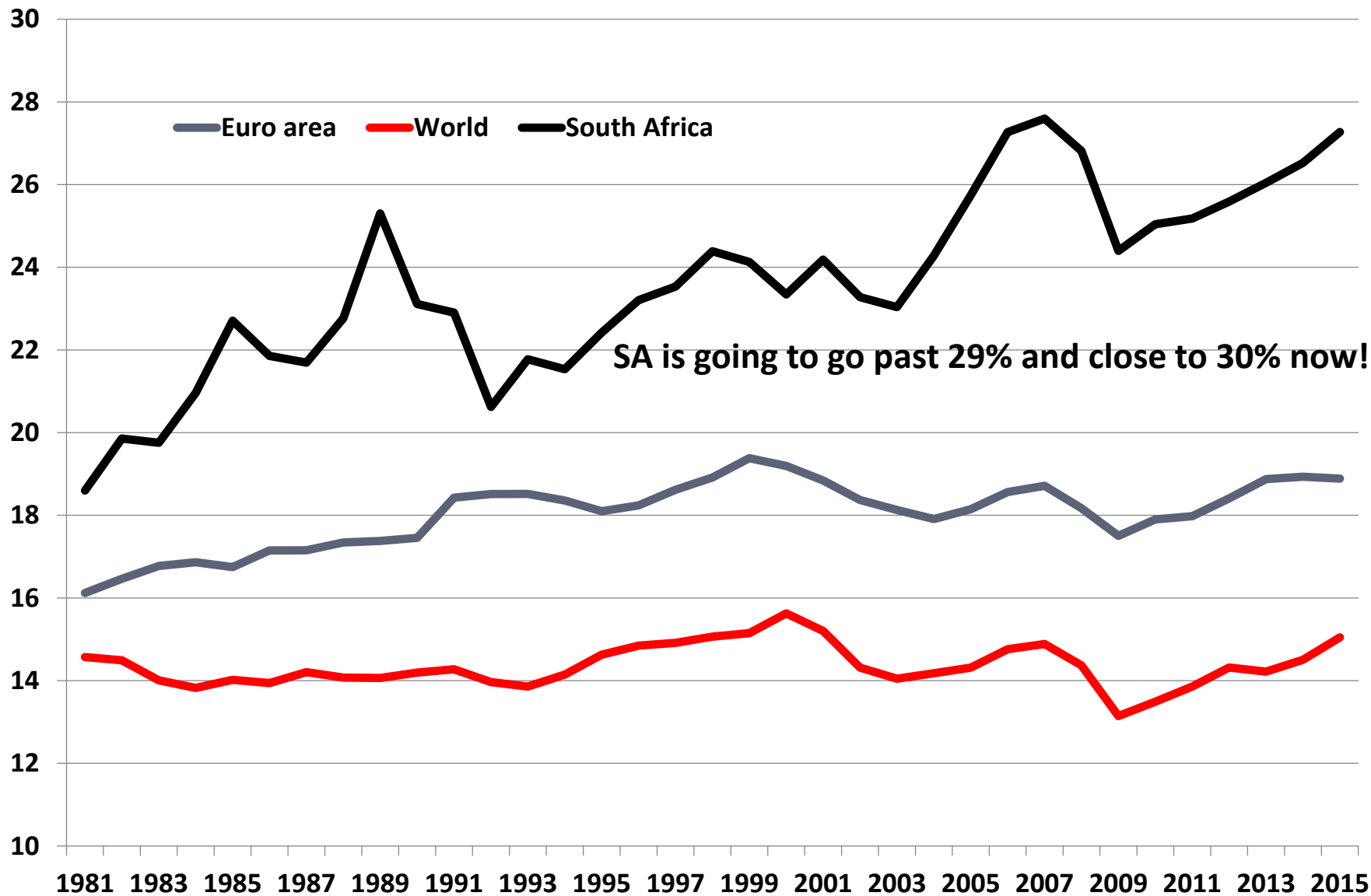
Personal Income Tax burden of countries compared



SA has the 12th highest Personal Income Tax (PIT) Burden in the world! Some of our Neighbours are also high such as Lesotho and Namibia fall into the top 20 of countries. I only included countries with more than a 1 million people and that do not export oil. Oil exporters generally have lower PIT so the excluded them in the simple average. The simple average Tax burden of individuals is 4,3%. The typical country has a PIT Burden of 3,2% and is Croatia. SA is more than Double these countries and is getting higher slowly but surely. The Data come from ICTD and UNWider. (2015 some 2014)



Tax to GDP compared over time.





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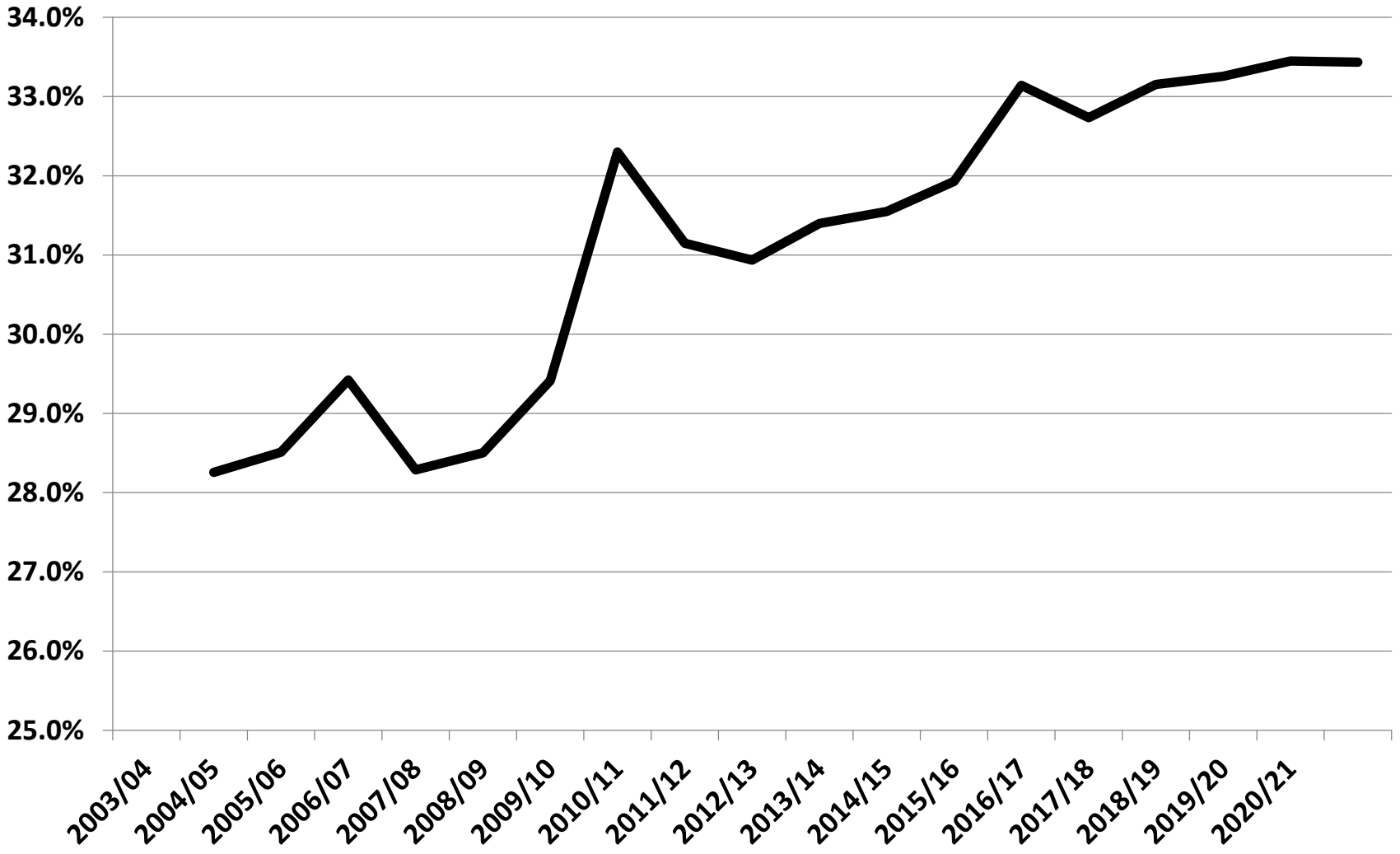
How big is government spending and what are the trends!

Expenditure

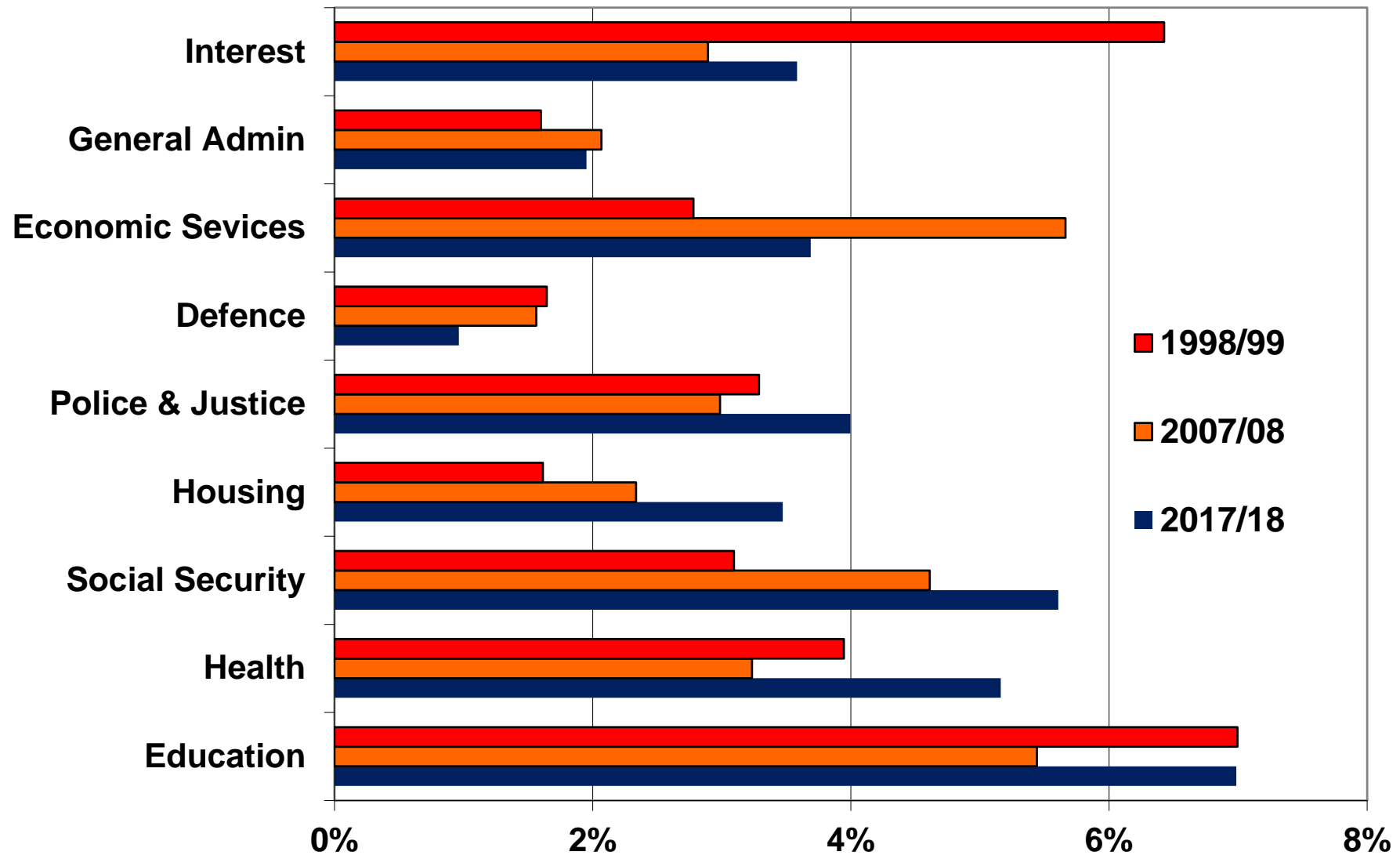
Consolidated Government expenditure.



Expenditure as % of GDP

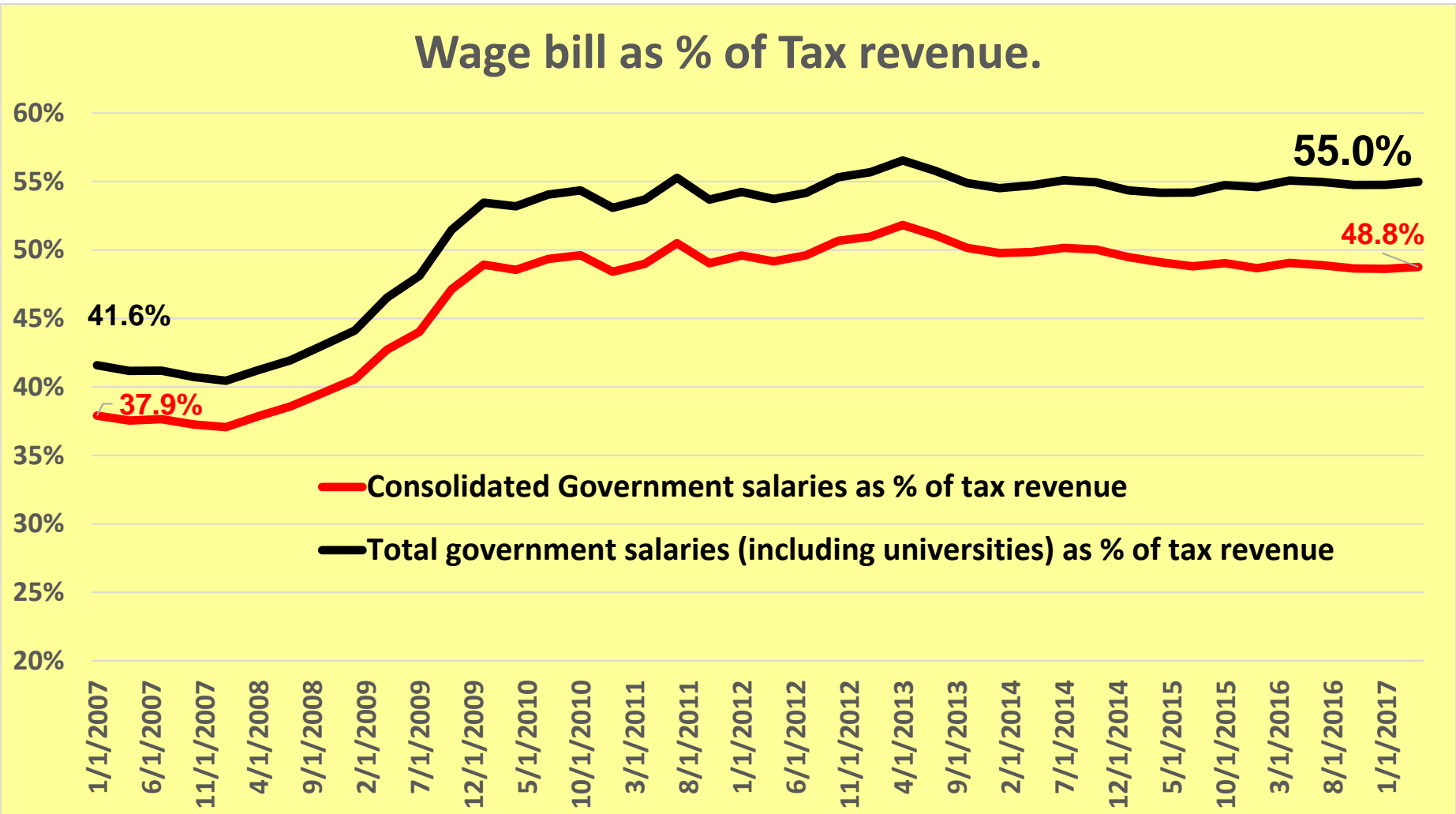


Main categories of spending.



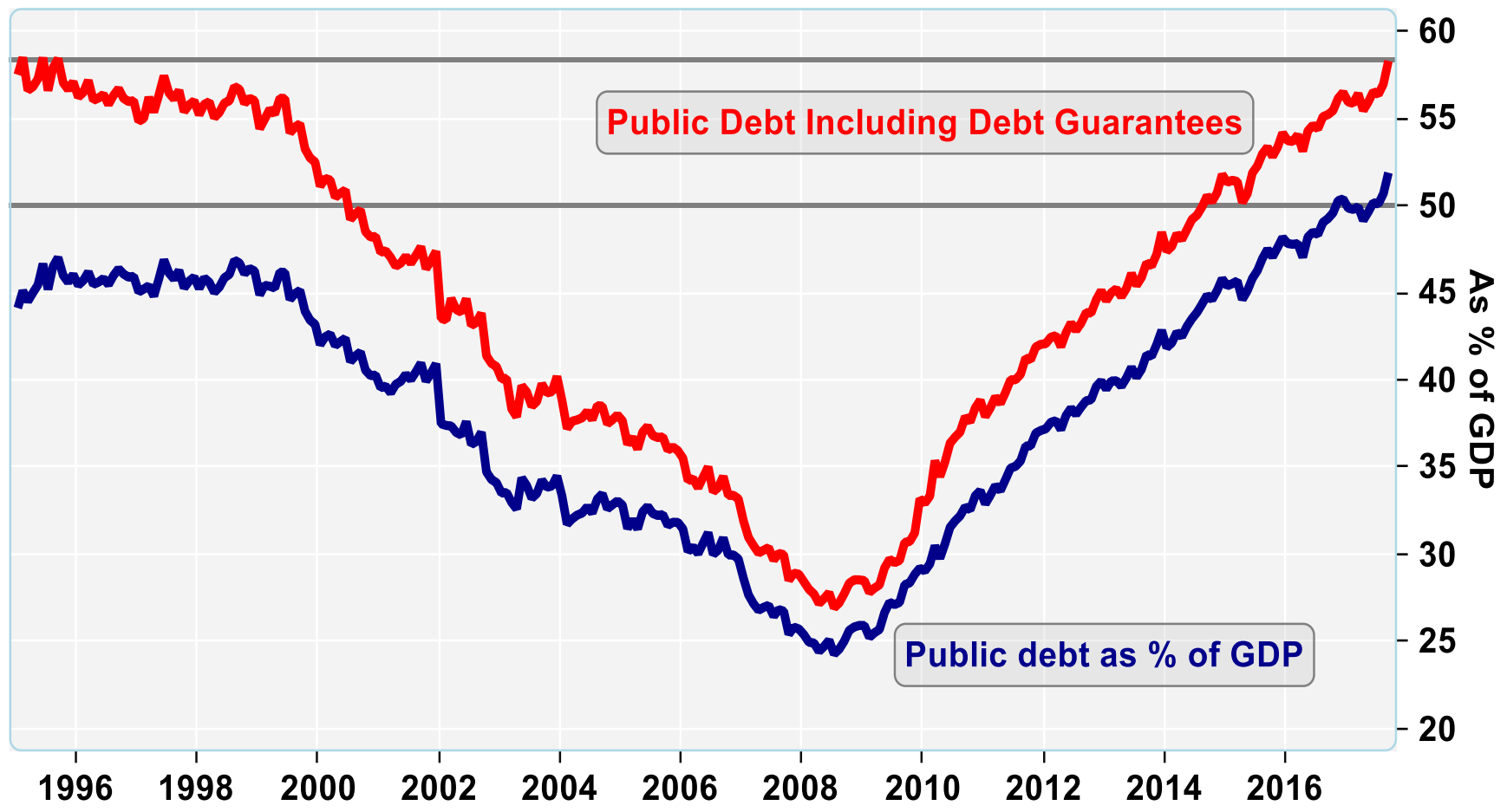
Government salary bill as % of tax revenue.

Wage bill as % of Tax revenue.



Debt does grow and so too do state guarantees

Public Debt as well Guarantees as % of GDP





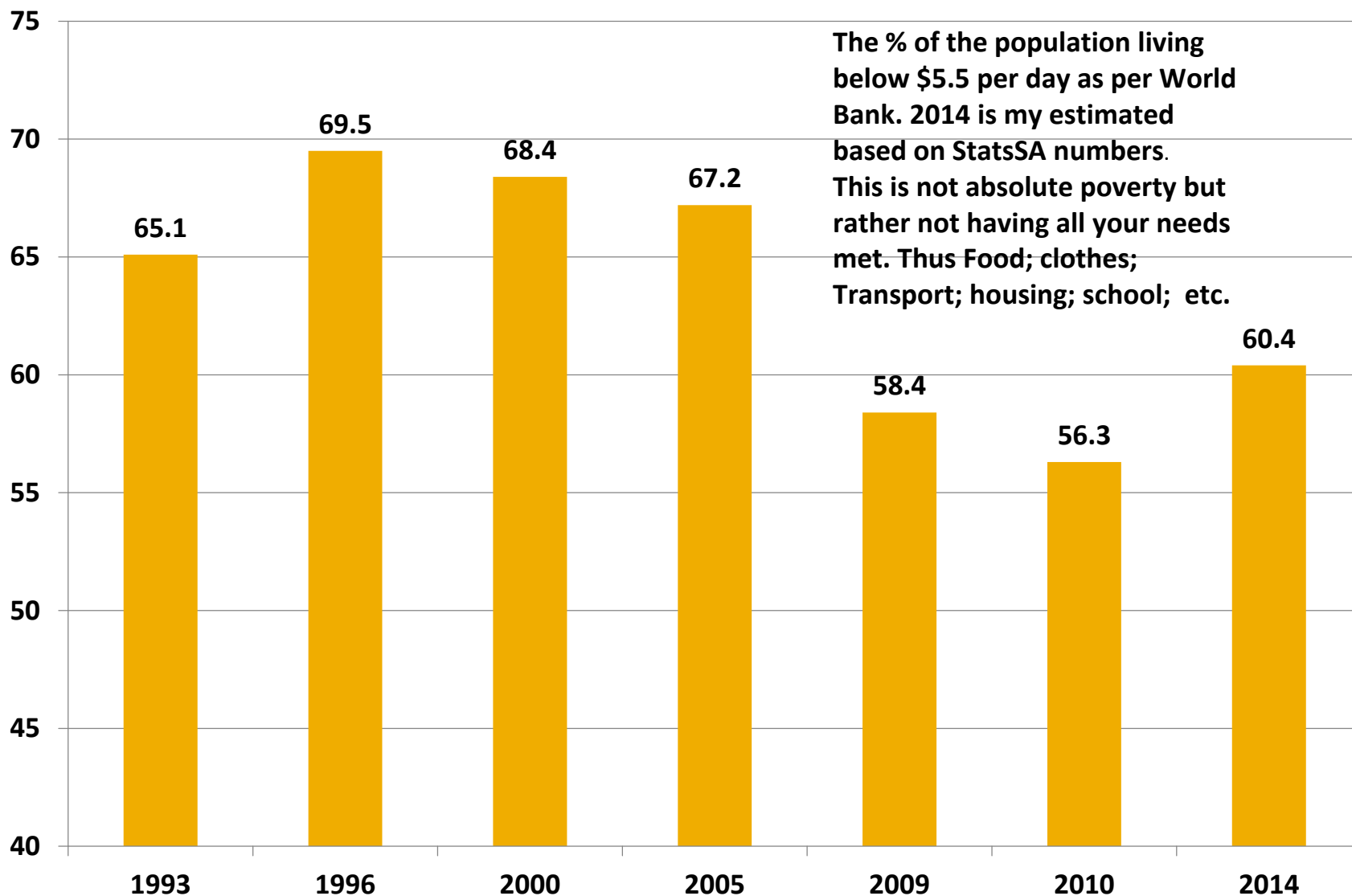
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Some data will surprise you!

**The big question is how effective is
government spending?**

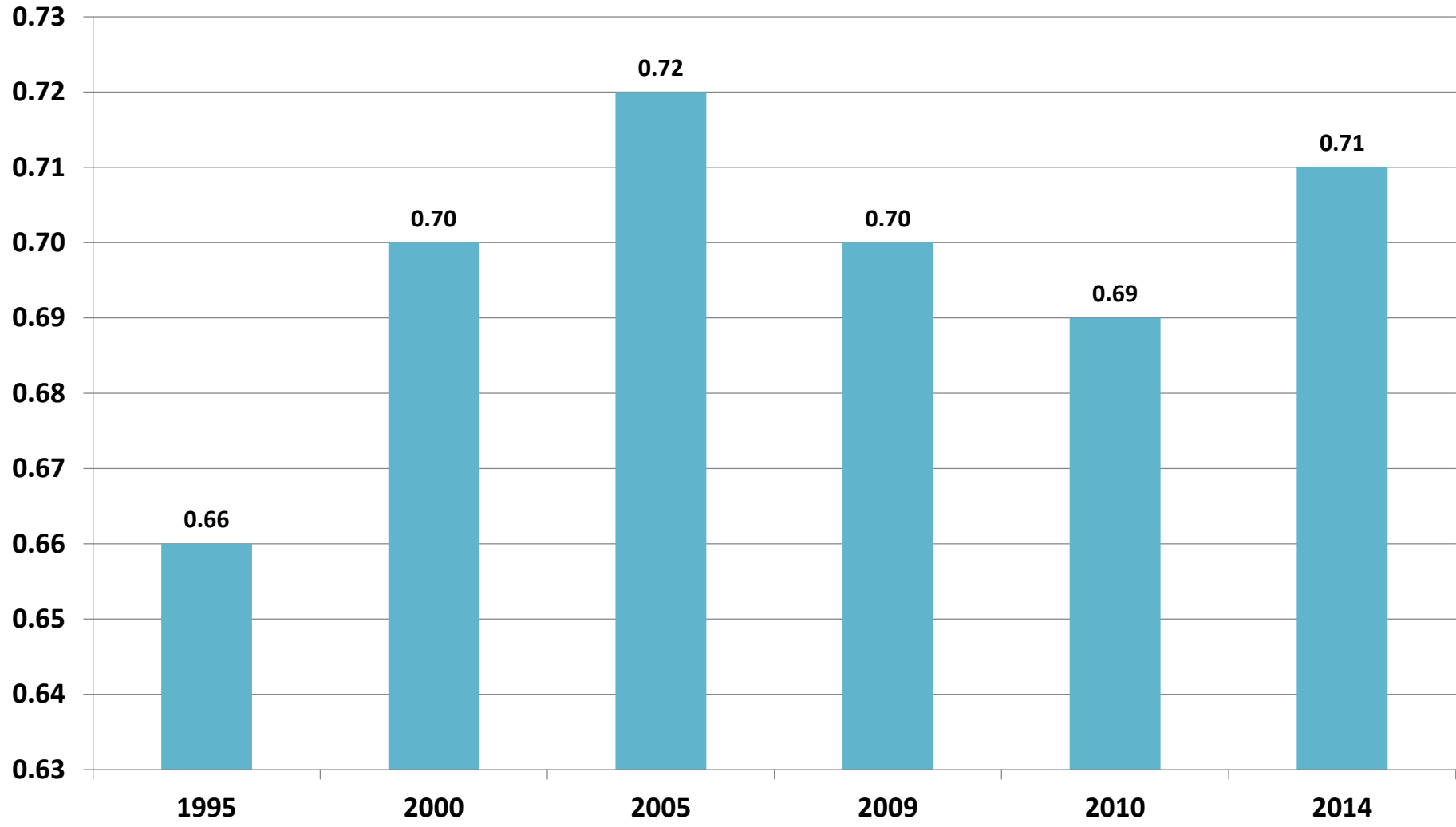


Poverty is down but not as much as the rest of the world.



Inequality has not improved!

Gini Coefficient of SA





Some comparison

- The World Average for the number of children per teacher is 24. High Tax Europe is at 14, South Africa is at 32 and without the fee paying schools this will be close to 34 children to a teacher.
- Our International test results are shocking e.g. PISA etc.
- Our success at finishing school i.e. passing Matric is at 40% odd despite very low standards
- We have 1,8 doctors per 100 000 people while the world is at over 5 doctors per 100 000 people.
 - We have just above the world average in number of nurses but I believe not all are deployed.



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We may have delayed the downgrade but I do not think we have avoided it.

SA only see Budget deficit of 3,5% in 3 years!

Worry is the golden rule seem to be 3%

- World Growth best in years.
- Coal and Gold cooking Platinum's diesel engine stopping.
- SA business is doing alright but would get more confidence and real positive action would ignite a barrage of investment.
- SA consumer is better off than many think and has been recovering from debt burden.
- Growth should be better but VAT hike and confidence are stumbling blocks.
- Despite VAT increase Inflation should average below 6%.
- Government needs to get more efficient quickly and work on it's ability to deliver fast.
- Downgrade could happen but not end of the world as our asset base is strong.
- Nationalisation will hurt average person more than some politicians think.