

The final countdown

How to survive this awful budget



By Dawie Roodt, Chief Economist

Budget 2017/18

EFFICIENT + GROUP

World Macro Outlook

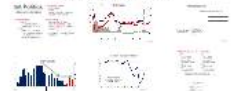
- Global Inflation
 - Wage pressure
 - Commodity Prices
- Monetary Tightening
 - Debt
 - Short Rates
 - QT
 - Yield Curve
 - Major Threat
- Roaring Markets
- Recession on horizon
- Yield Curve

SONA

The Budget Context

- Labour Force
- Unemployment
- Inflation
- Interest Rates
- Fiscal Policy
- Monetary Policy
- Exchange Rate
- Trade
- Growth
- Risk

SA's Macro Picture



The Bigger Picture - Main Budget



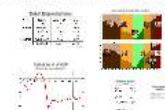
How to survive this awful budget

• Federal Reserve to adjust benchmark rate
• Fed's policy of ultra-loose monetary policy
• Fed's balance sheet expansion
• Fed's QE program

Impact On...

- Sentiment
- Rating
- Risk
- Demand
- Savings
- GDP
- Social Impact
- Inequality
- Unemployment
- Inflation

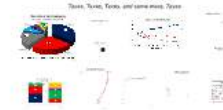
State Deficit & Debt



State Expenditure



State Revenue



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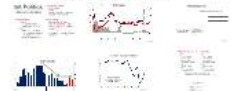
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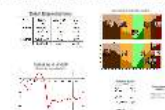
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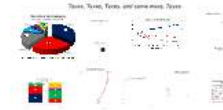
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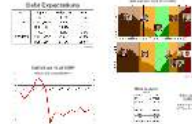
- Preferential limits to offshore investments increased
- Take your money off-shore
- Pay as little tax as possible
- Convert income from FICA to FICA



Impact On...

- Sentiment
- Ratings
- Rand
- Demand
- Savings
- GDP
- Social Impact
- Economic growth
- Employment
- Elections

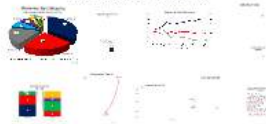
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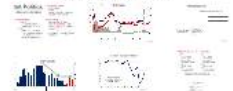
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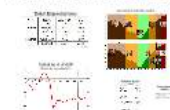
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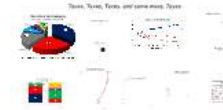
State Deficit & Debt



State Expenditure



State Revenue



SONA

Good Leader; Bad Policies

The Budget Context

- Zuma's Budget
- Zuma's Budget, Zuma's Minister
- Changes after budget
- **Economic Policy**
 - Presidential Economic Advisory Council
 - Re-industrialise
 - Incentives
 - Localise
 - Support black industrialists
 - Infrastructure drive
 - Mining charter engagements
 - Land expropriation w/o compensation

- **SOEs**

- Review funding models
- Change board appointment process
- Remove board members from procurement

- **Labour Policy**

- Jobs Summit
- "Create" millions of interships
- More BEE
 - Use competition policy to open market
- National Minimum Wage

- **Social Assistance**

- Free Higher Education
- Process NHI Bill

- **Corruption**

- Commission of inquiry into State Capture
- Address leadership issues at NPA

SA's Macro Picture

SA Politics

How to fix this Mess

Political Allies

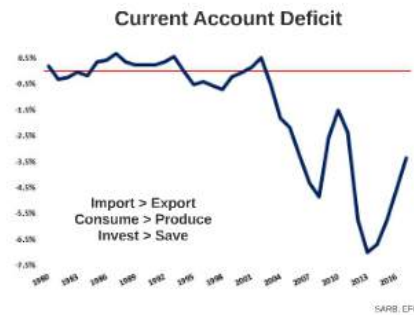
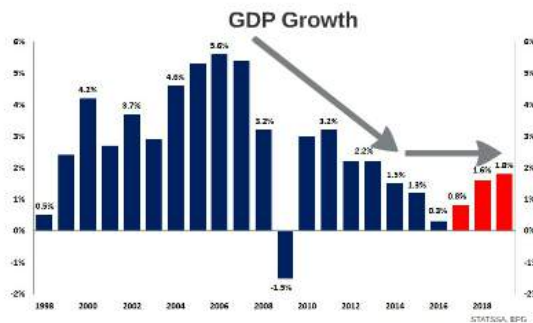
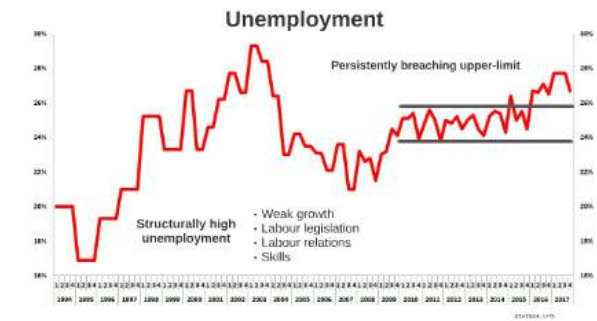
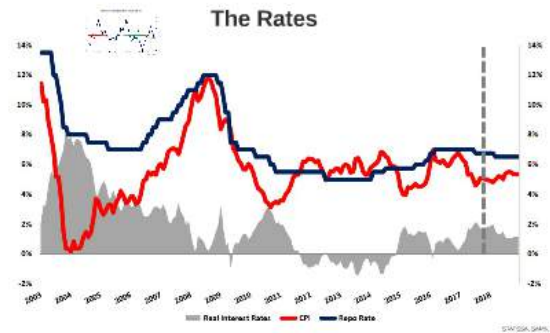
- COSATU
 - Civil Service Focus
 - Becoming Irrelevant
- SACP
 - Still far too influential
 - "From everyone what he can afford, to everyone what he needs", Marx

Consolidate Power

- New Cabinet
- SOEs
- Local Authorities, Provinces, National Departments...

Policy Clarity

- Dire need for a "New Economic Vision" (NEV)
- From re-distribution, debt & consumption to Savings, Investment & Wealth Creation...



Efficient Group VS Treasury

- | | |
|---|---|
| <ul style="list-style-type: none"> • GDP • 2017, 0.8% • 2018, 1.6% | <ul style="list-style-type: none"> • GDP • 2017, 1.0% • 2018, 1.5% |
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They're finally catching up

Special Announcements

- Fair changes to FOREX exchange regulations
- Lower state prices
- President to get working license
- Proposals for COSA CUTS
- A Frack
- Minister silent about ibuprofen

SA Politics

How to fix this Mess

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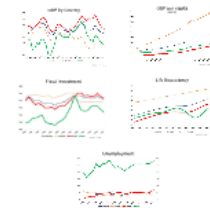
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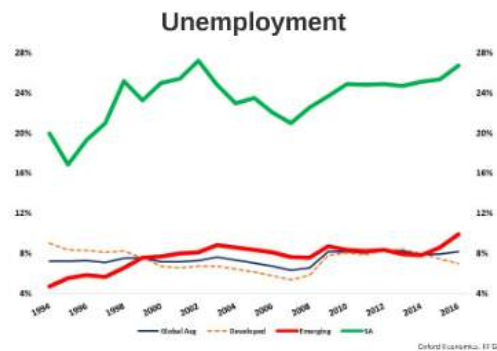
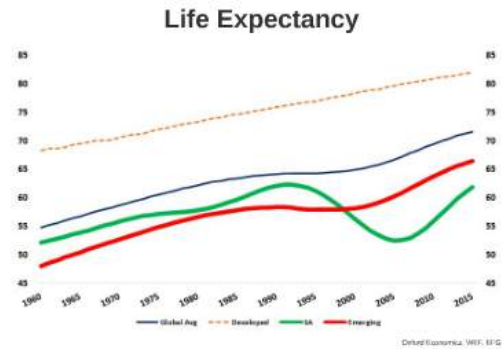
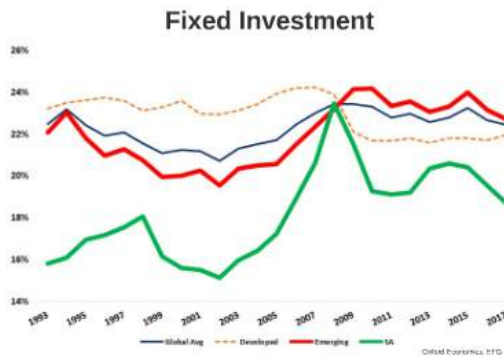
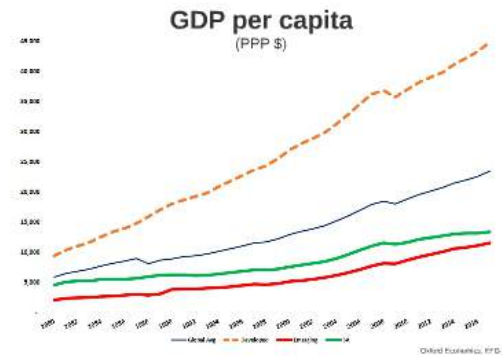
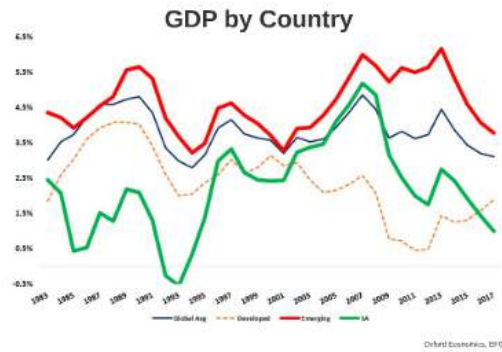
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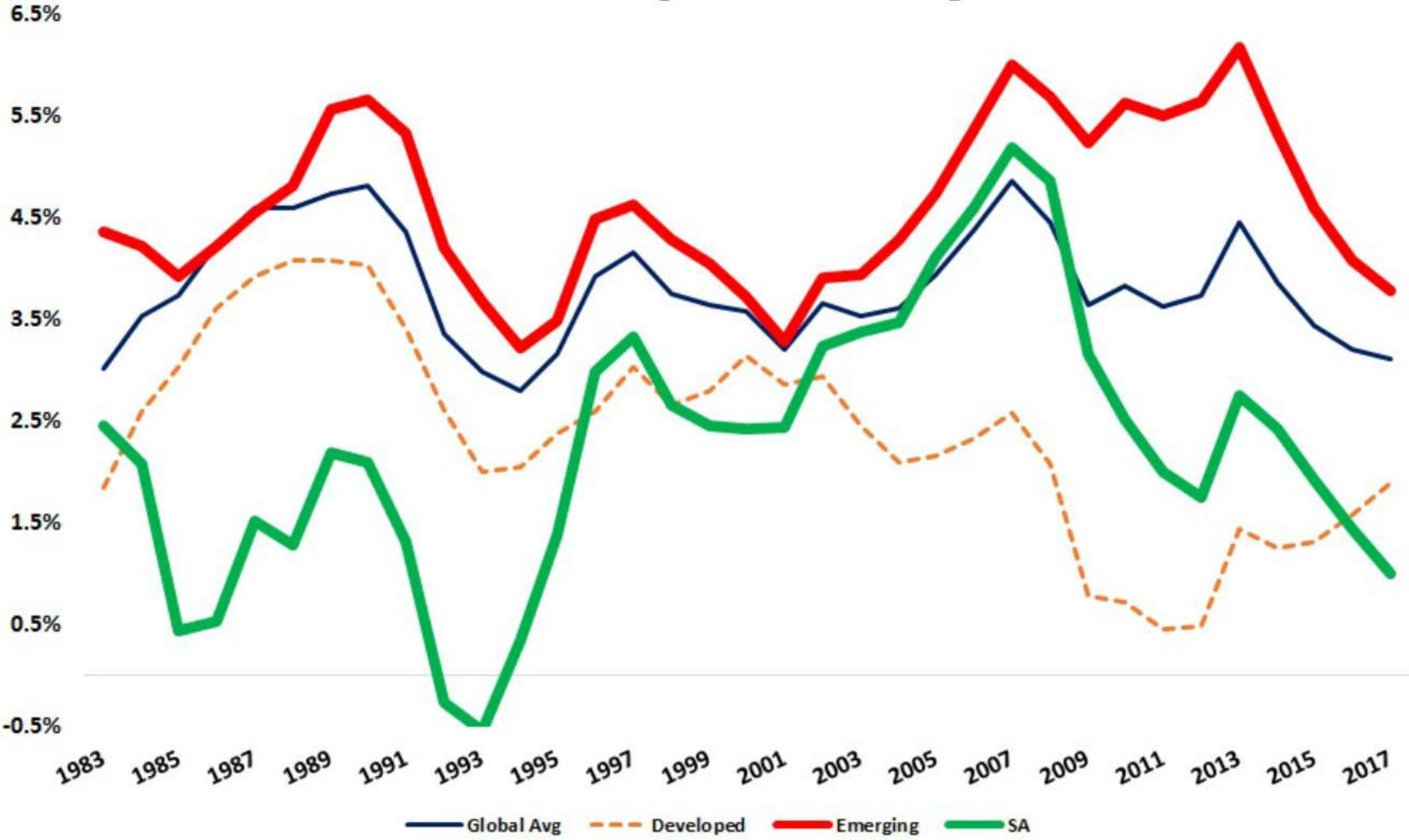
The Results



The Results

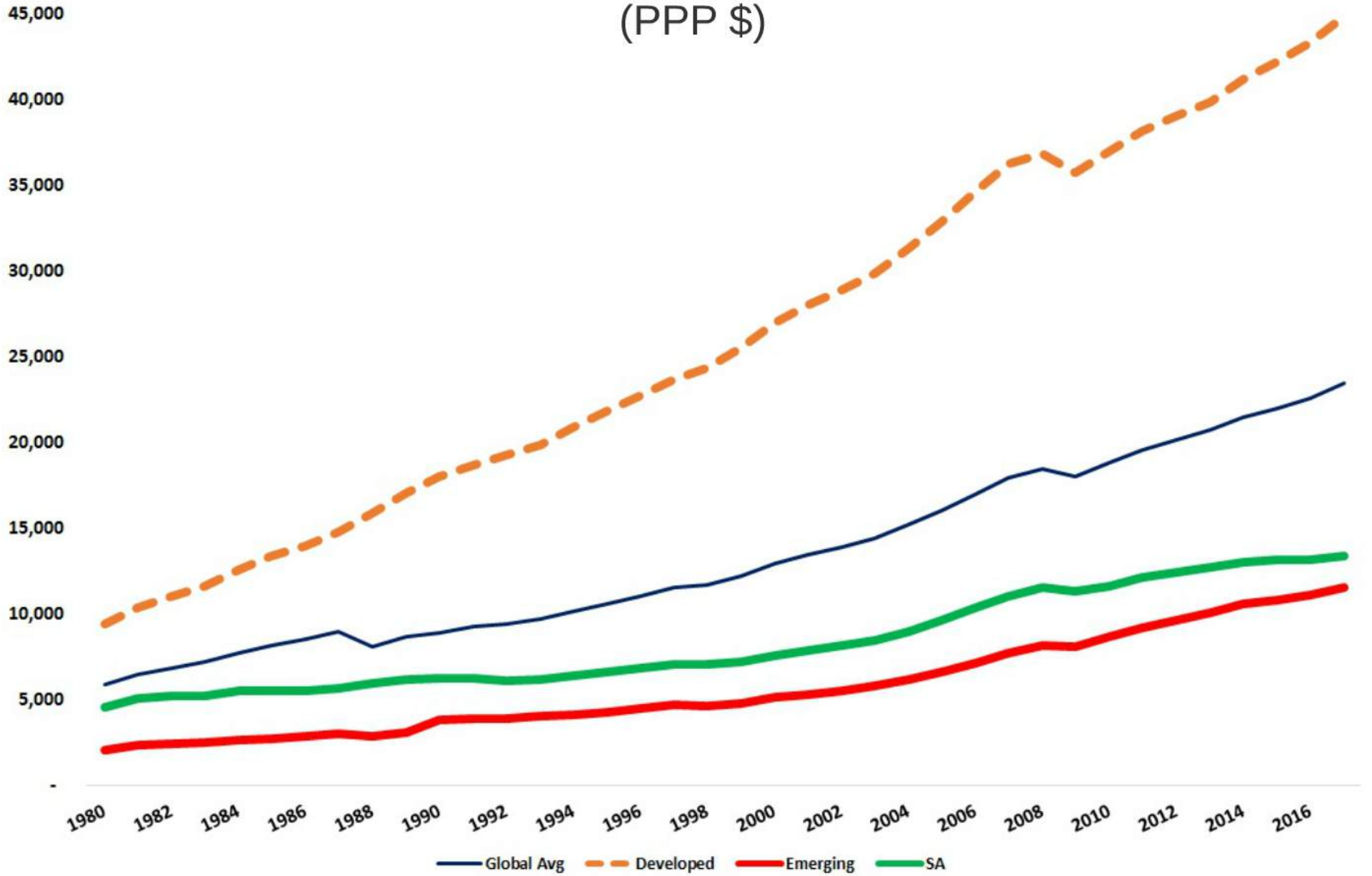


GDP by Country

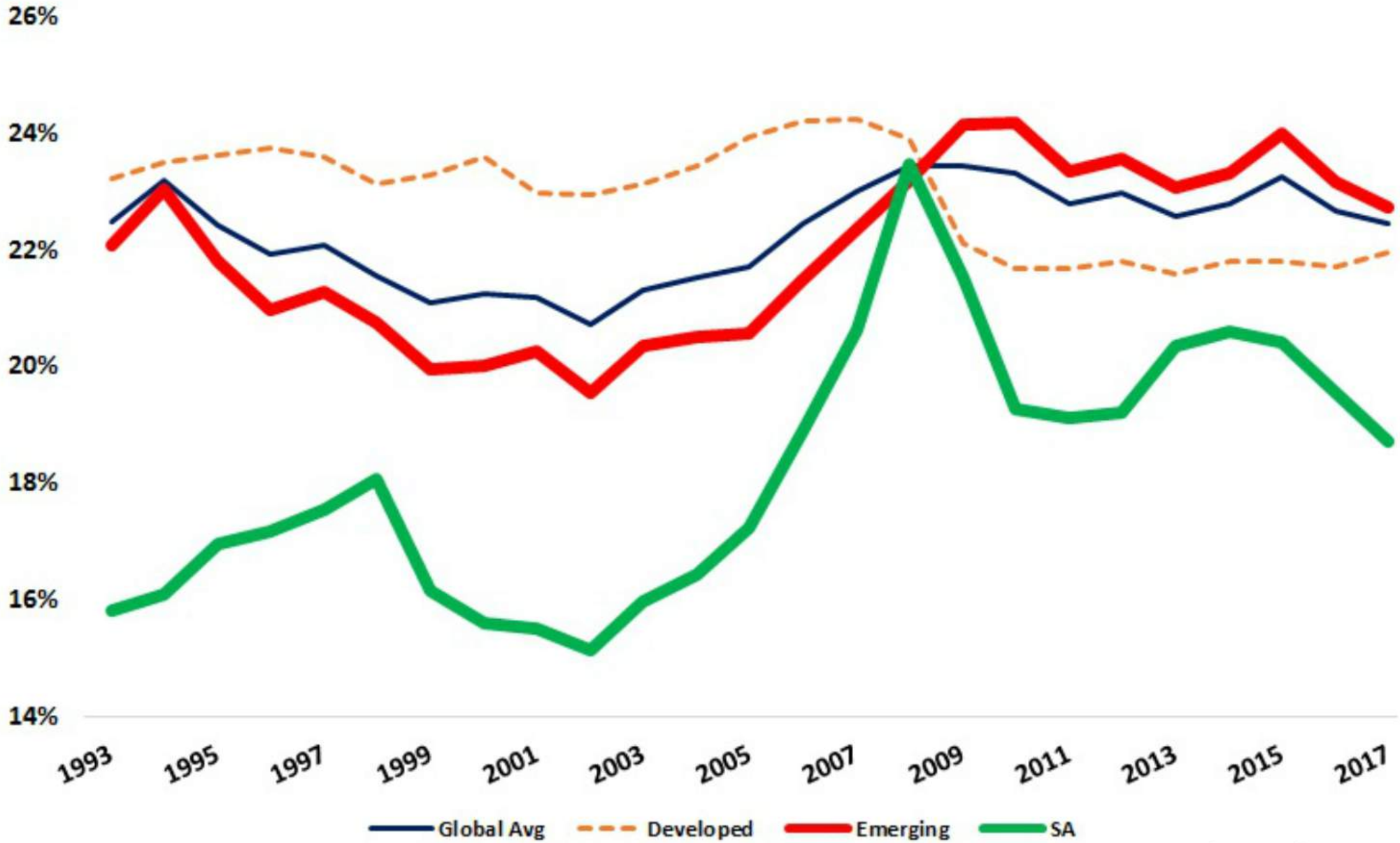


GDP per capita

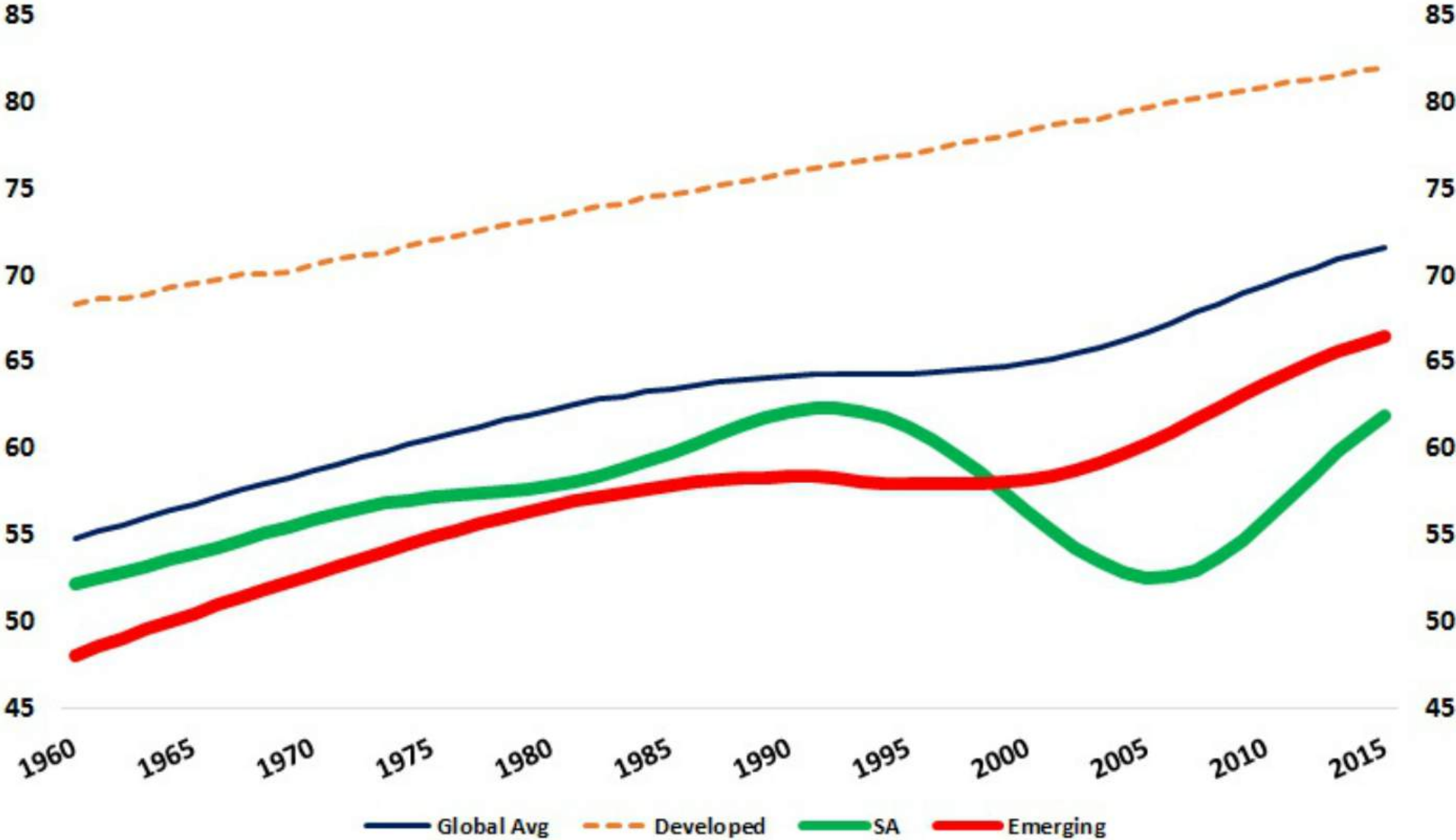
(PPP \$)



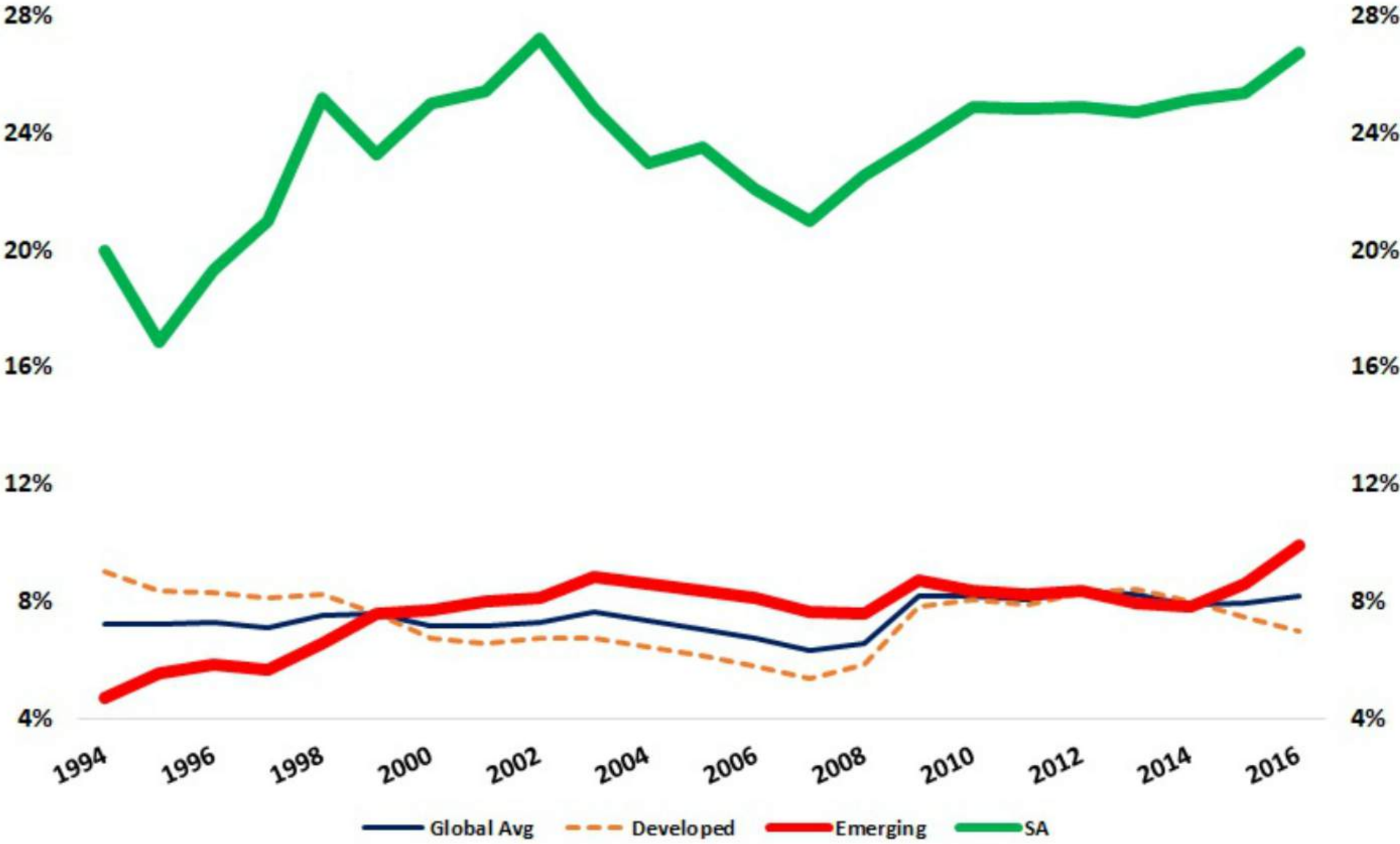
Fixed Investment



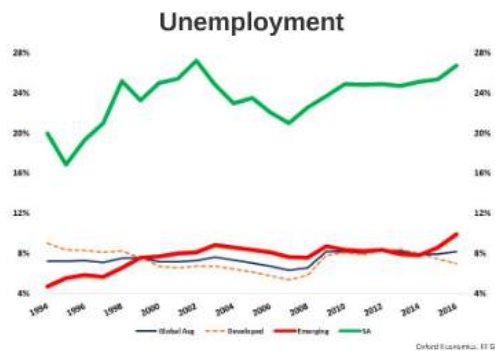
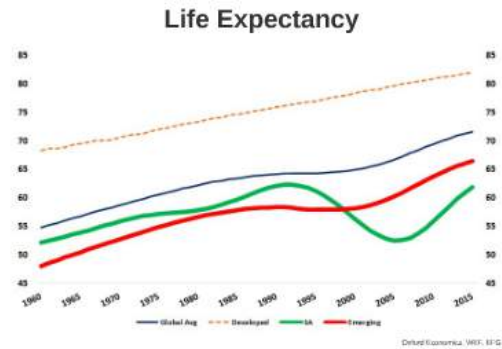
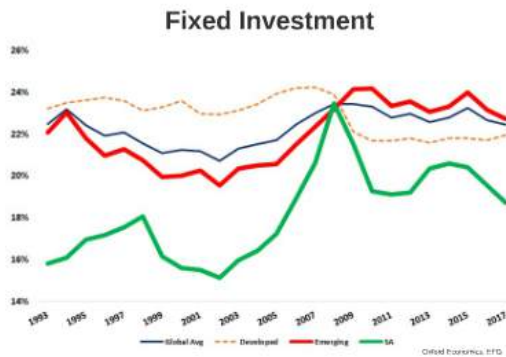
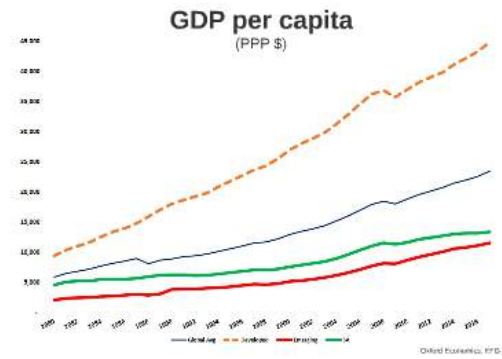
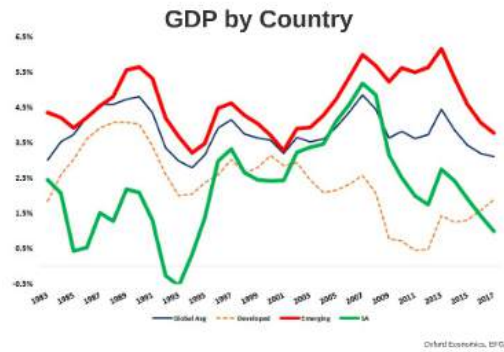
Life Expectancy



Unemployment



The Results



SA Politics

How to fix this Mess

• Political Allies

- COSATU
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 - Becoming Irrelevant
- SACP
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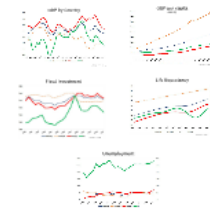
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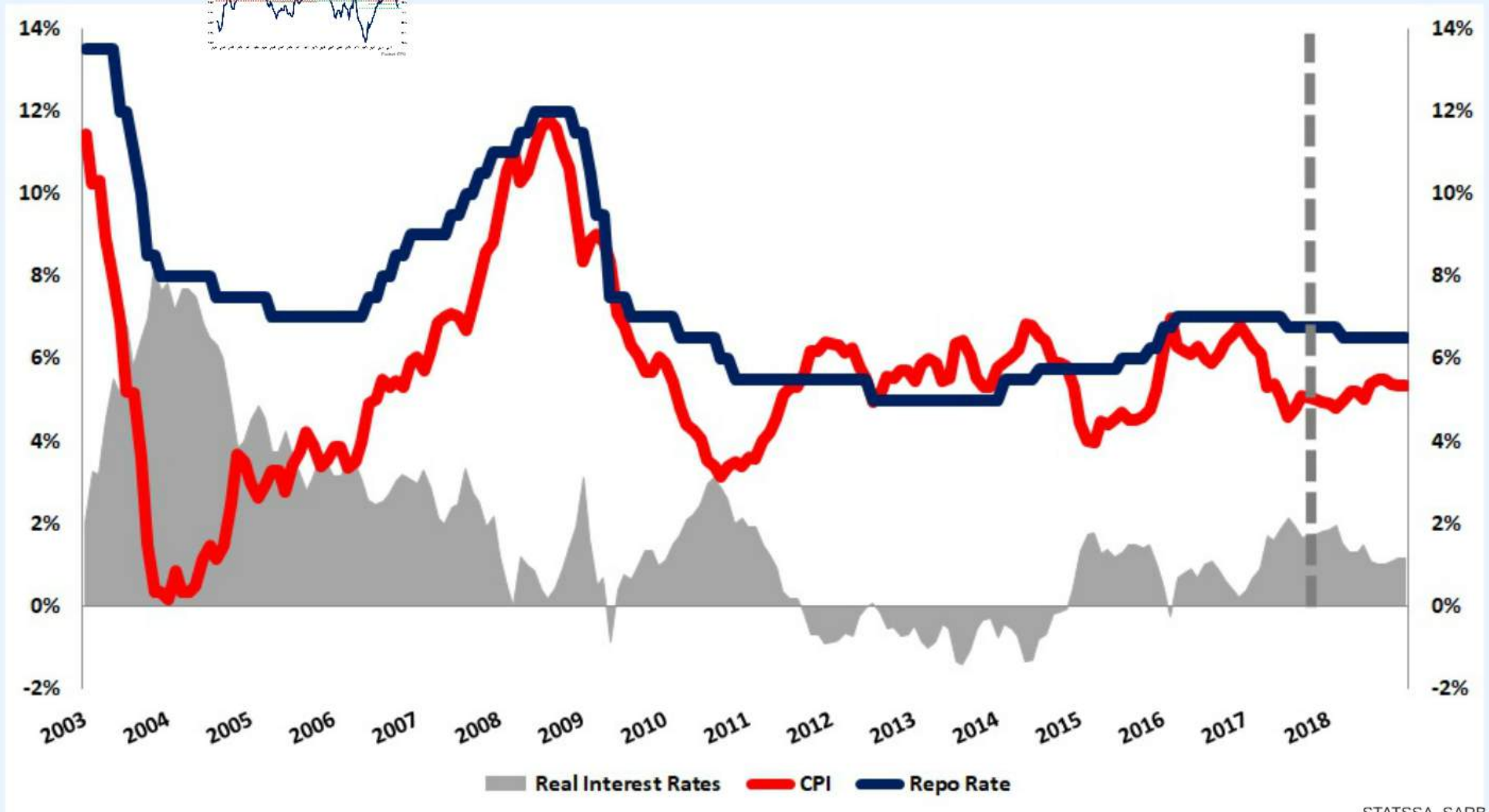
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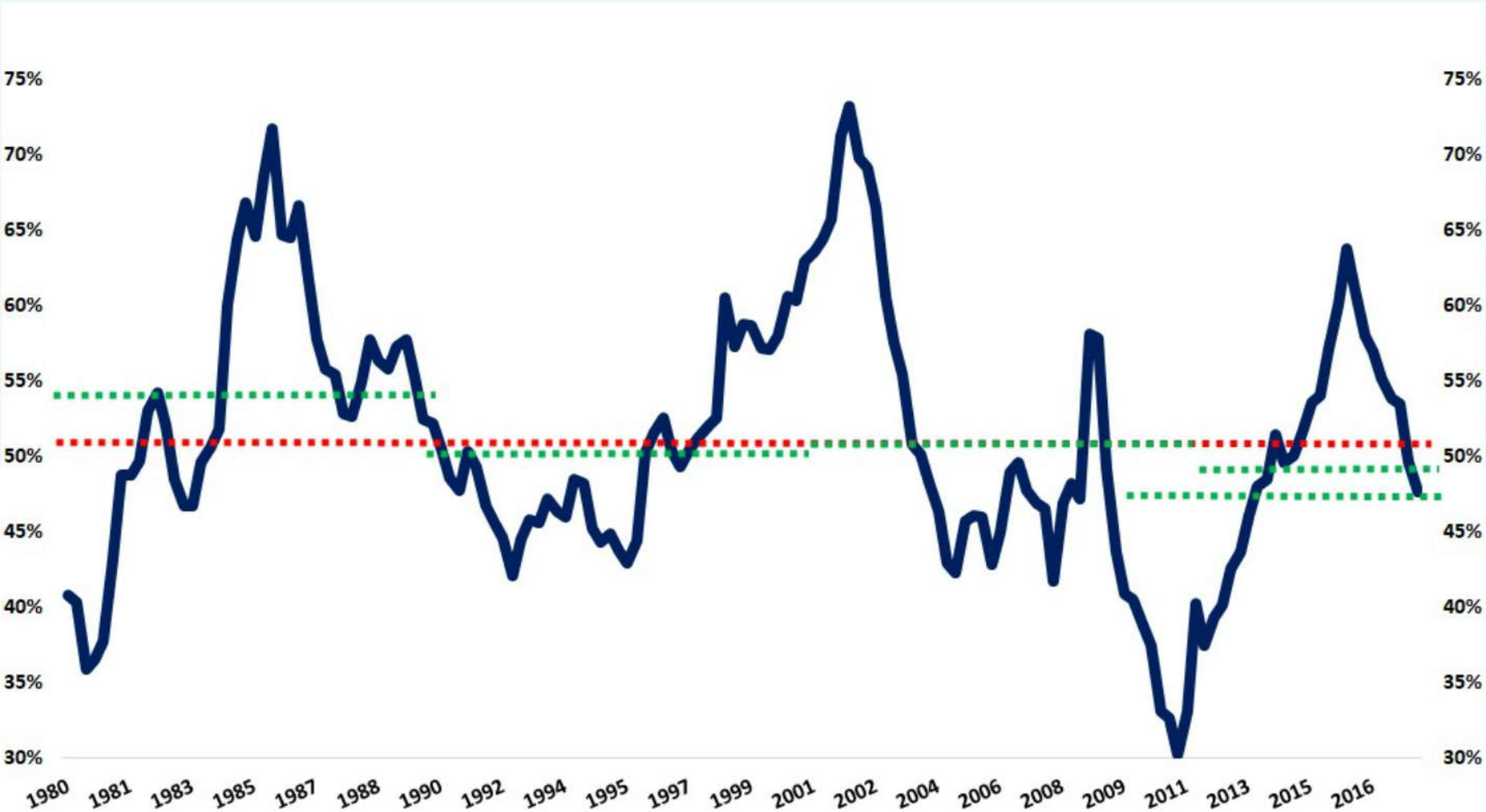
The Results



The Rates

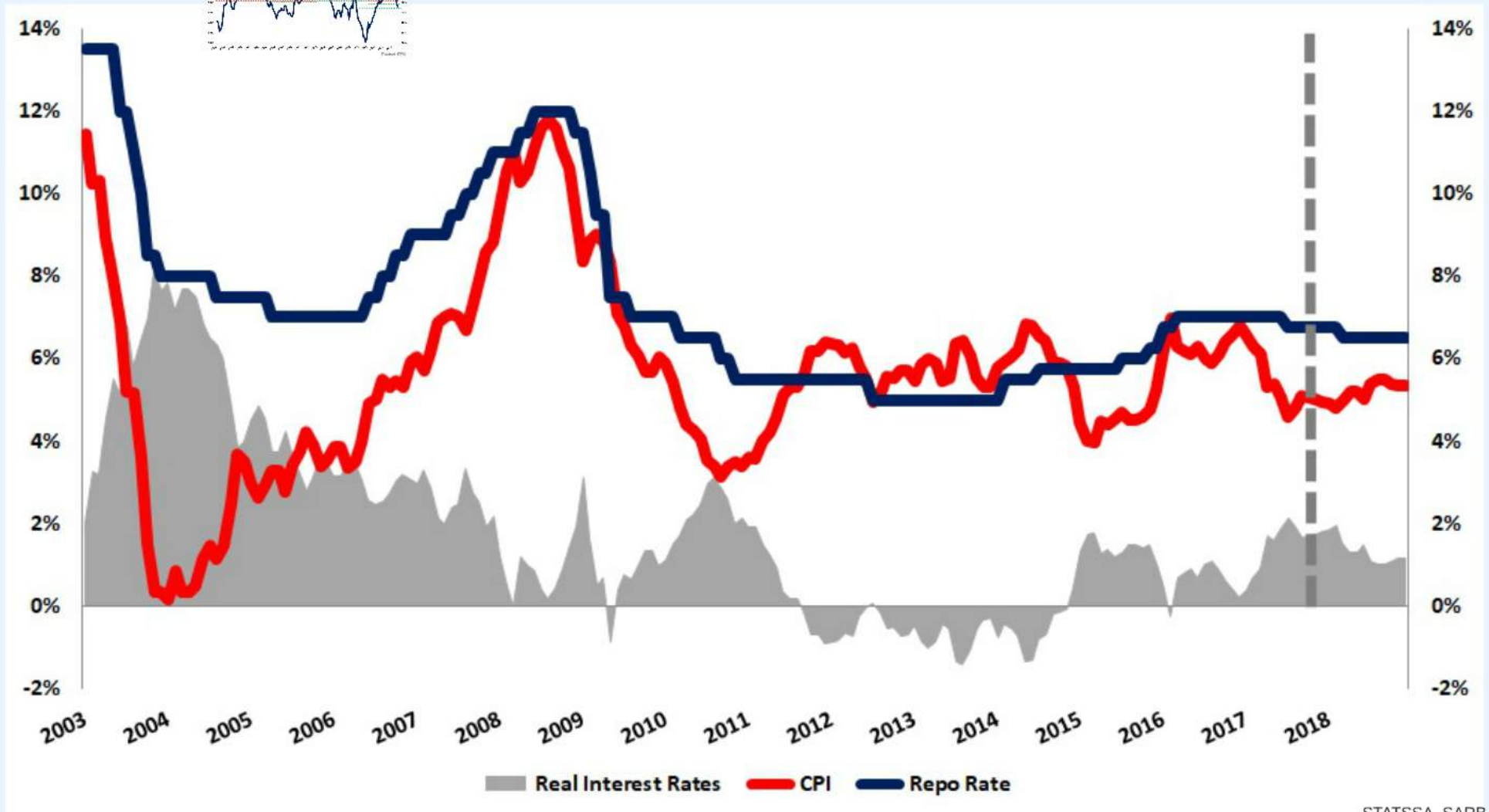


Historic R/USD Undervaluation

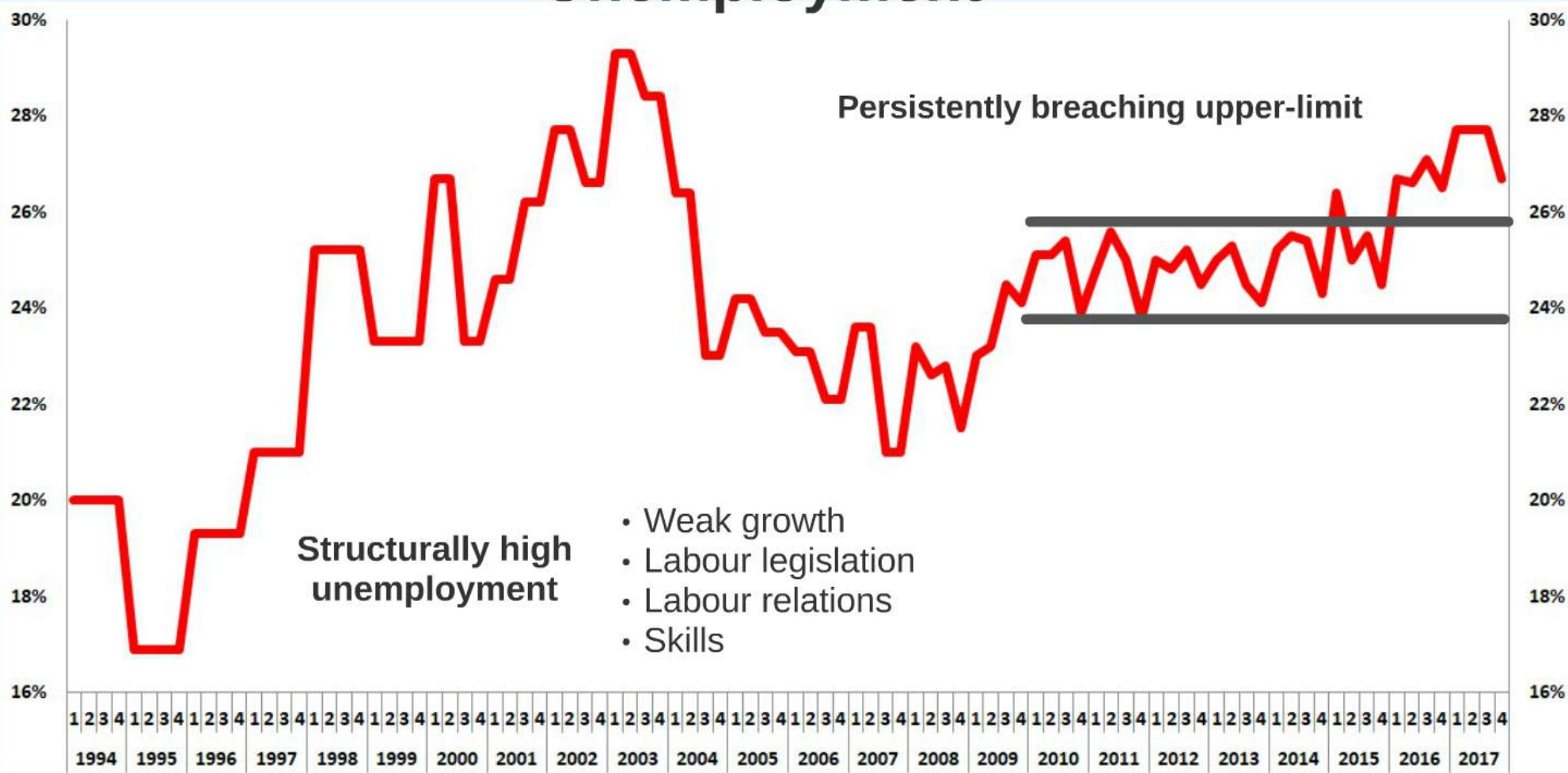


Factset, EFG

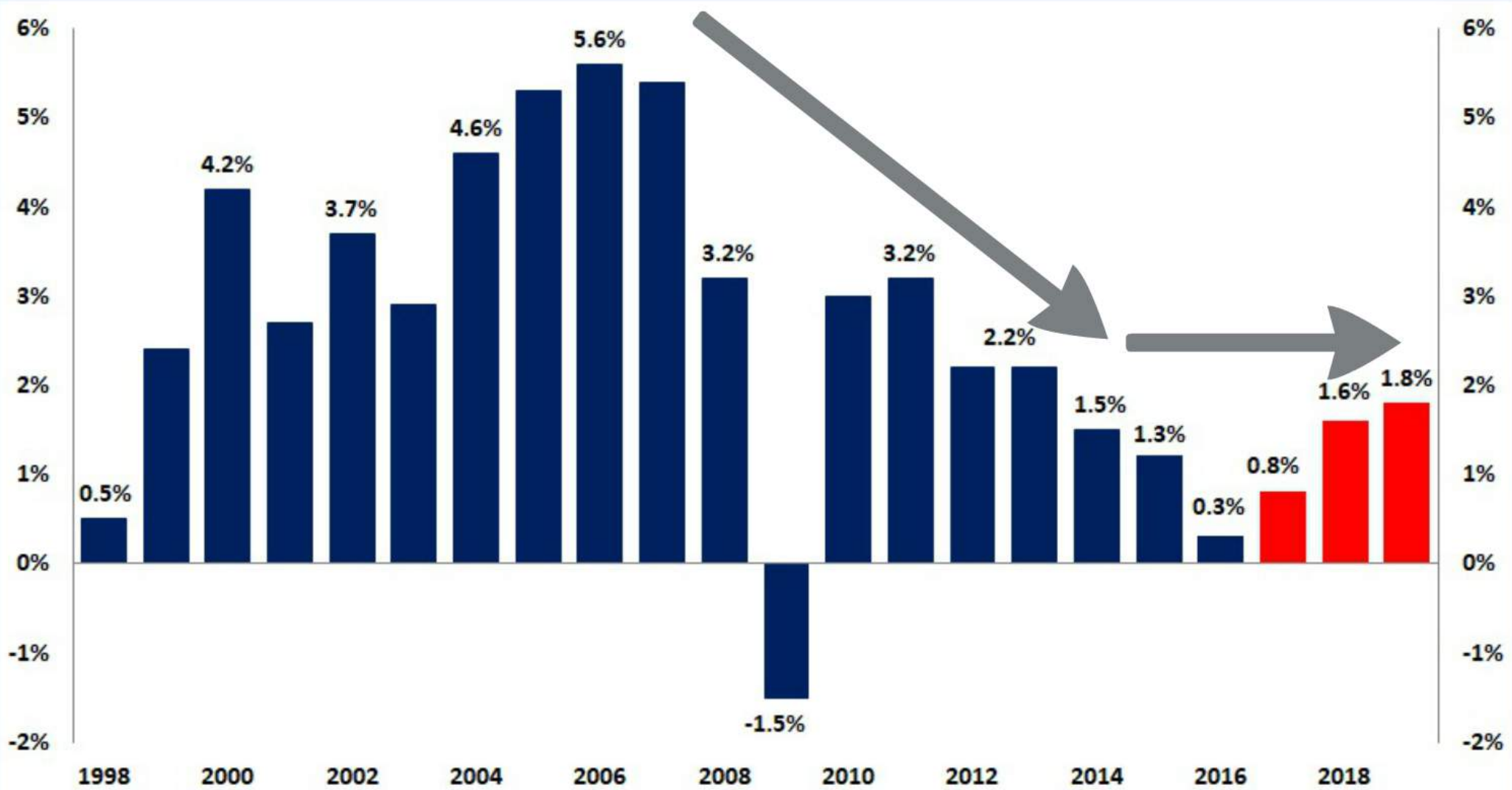
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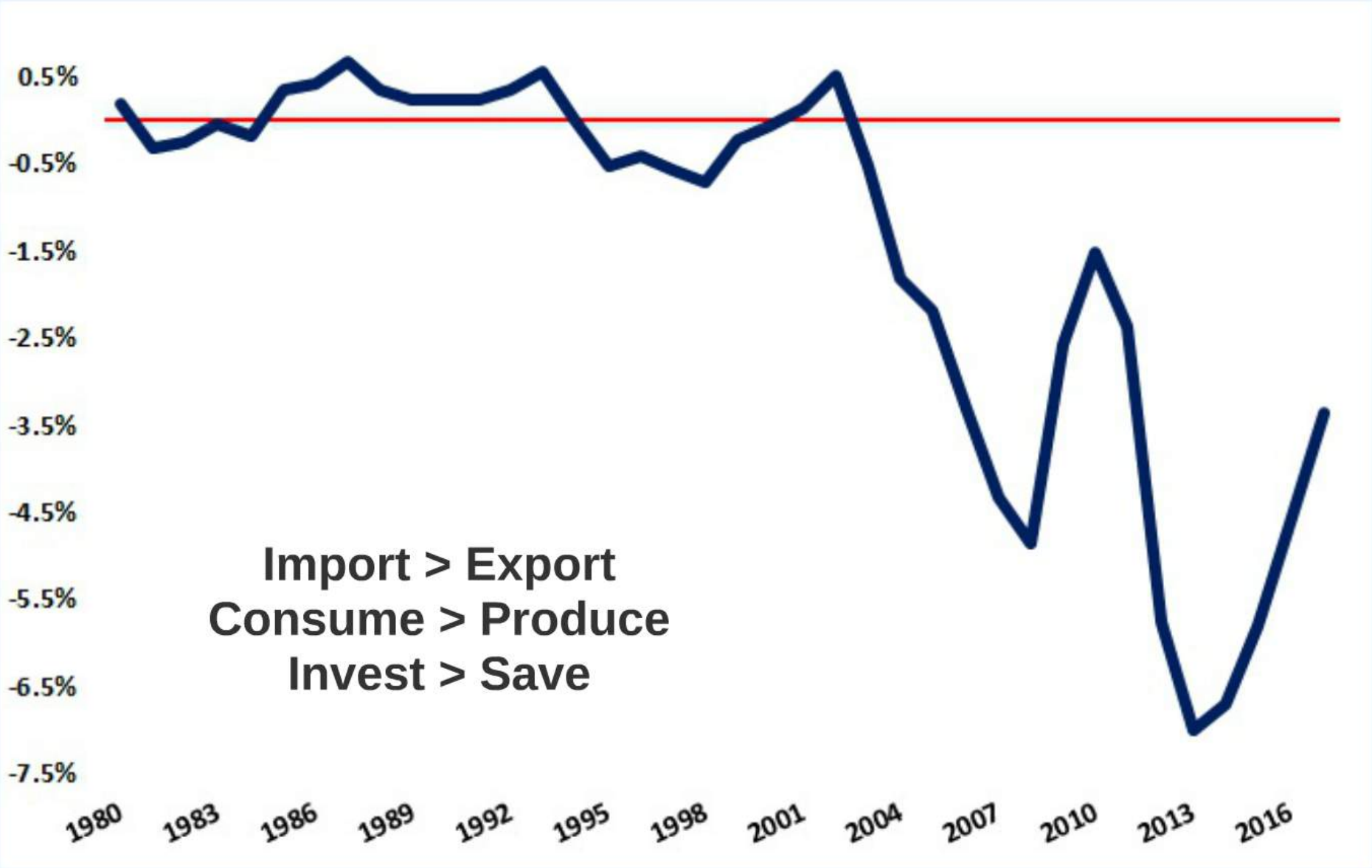
Unemployment



GDP Growth



Current Account Deficit



Efficient Group

vs

Treasury

- GDP
 - 2017, **0.8%**
 - 2018, **1.6%**
- Budget Deficit
 - 2018/19, - **4.2%**
- CAD
 - 2018, - **3.0%**
- Debt
 - 2018/19, **55.1%**

- GDP
 - 2017, **1.0%**
 - 2018, **1.5%**
- Budget Deficit
 - 2018/19, - **3.8%**
- CAD
 - 2018, - **2.2%**
- Debt
 - 2018/19, **55.8%**

They're finally catching up

Special Announcements

General

- No changes to FOREX exchange regulations
- Lower data prices
- Postbank to get banking license
- Regulation for Crypto Currencies & Fintech
- Minister worried about downgrade

SA's Macro Picture

SA Politics

How to fix this Mess

Political Allies

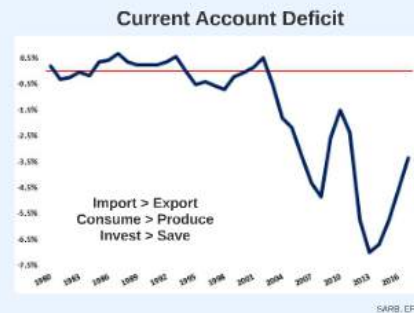
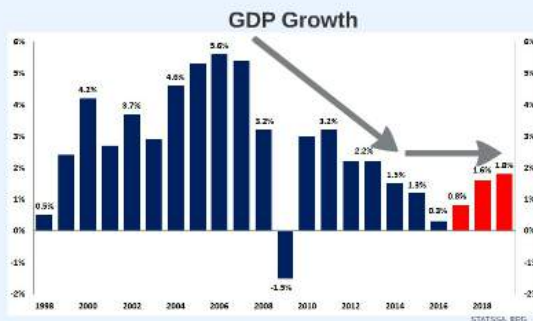
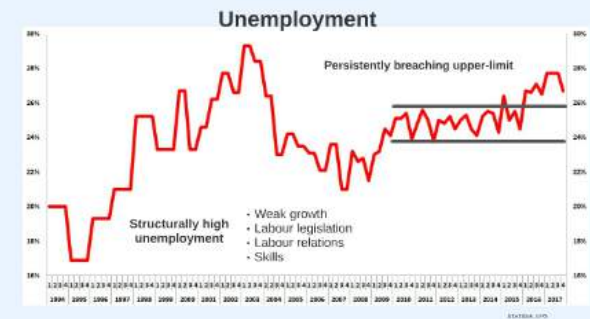
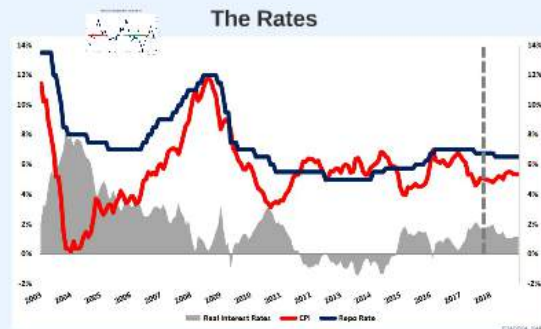
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| • 2018/19, 55.1% | | • 2018/19, 55.8% |

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Special Announcements

- No changes to FDIEX, encourage reg. activity
- Lower state prices
- President to get working session
- Proposals for OPA, CAC, A-Ftrack
- Minister warned about downgrade

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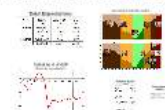
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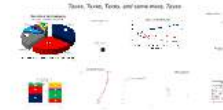
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State Expenditure

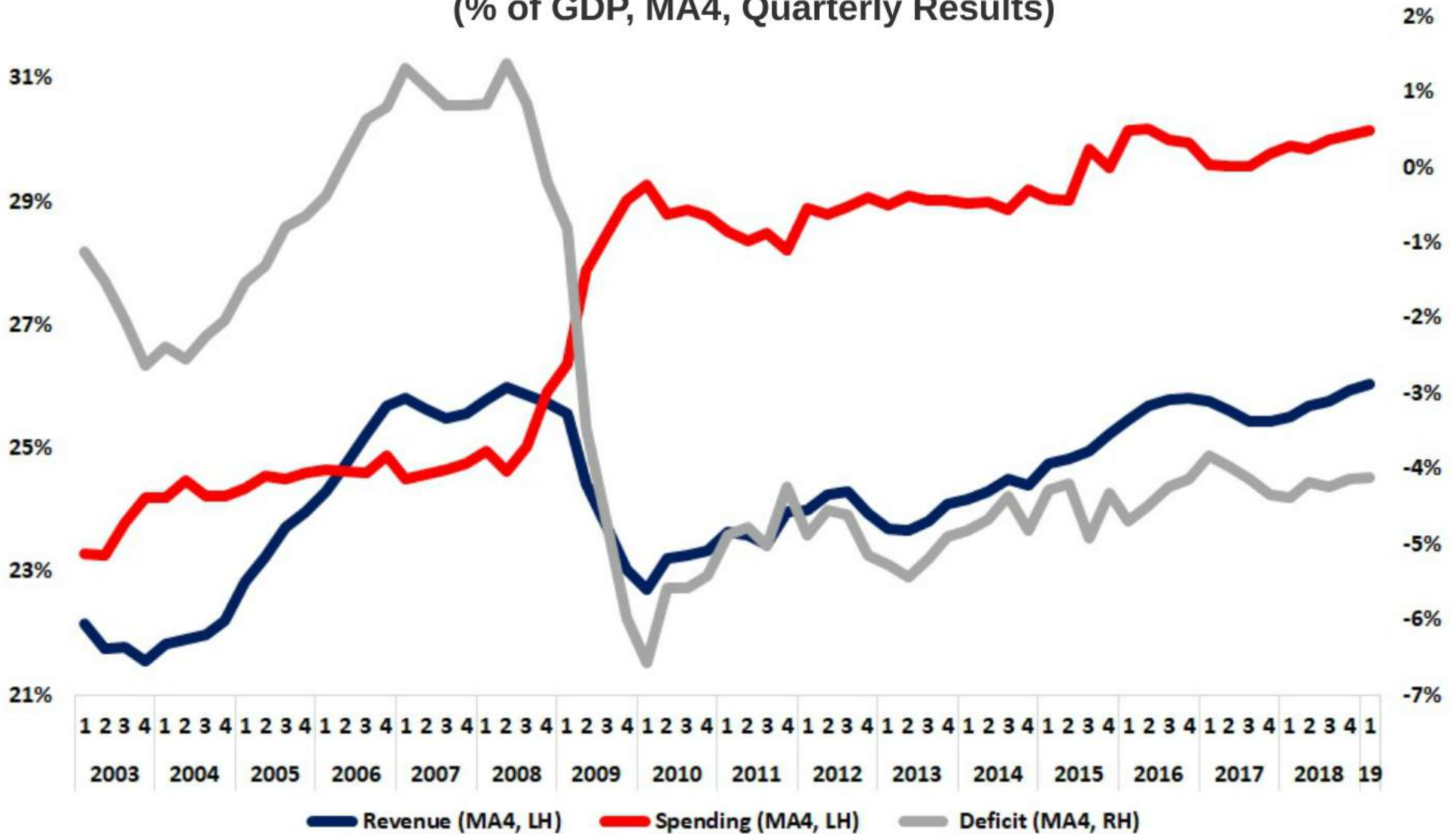


State Revenue



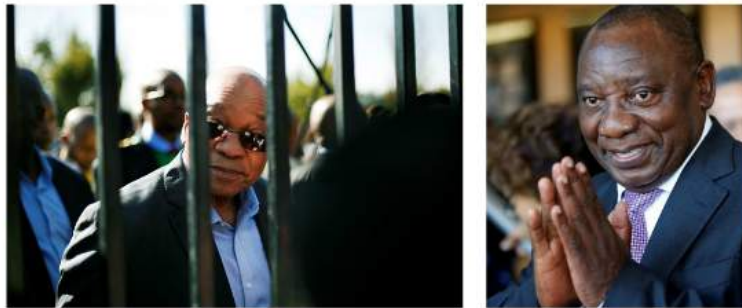
The Bigger Picture - Main Budget

(% of GDP, MA4, Quarterly Results)



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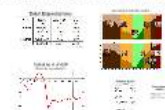
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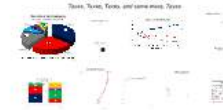
State Deficit & Debt



State Expenditure



State Revenue



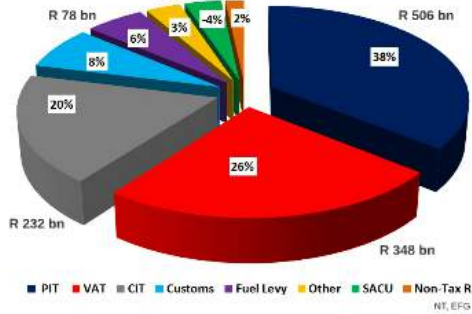
State Revenue

Taxes, Taxes, Taxes, and some more, Taxes

Revenue by Category

Main Budget (2018/19), Total R 1 321 146

- R48 bn



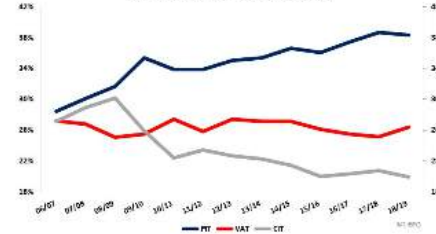
Main Budget Revenue

Category	2017/18	2018/19	% Change
PIT	492 000	506 000	2%
VAT	338 000	348 000	3%
CIT	228 000	232 000	2%
Customs	78 000	78 000	0%
Fuel Levy	48 000	48 000	0%
Other	36 000	36 000	0%
SACU	24 000	24 000	0%
Non-Tax R	19 000	19 000	0%
Total	1 321 146	1 321 146	0%

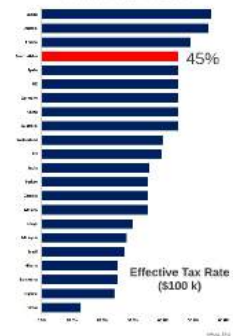
The "VAT" increase

Year	VAT Revenue (bn)	% of Total Revenue
2010/11	180	20%
2011/12	200	22%
2012/13	220	24%
2013/14	240	26%
2014/15	260	28%
2015/16	280	30%
2016/17	300	32%
2017/18	338	34%
2018/19	348	35%

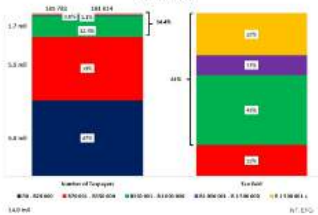
Share of Total Revenue



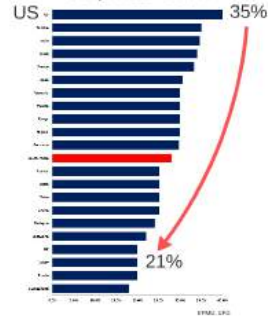
Individual Taxes



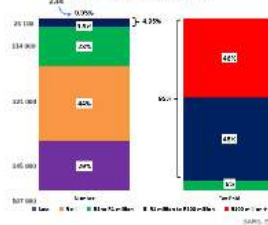
Personal Income Tax (2017/18)



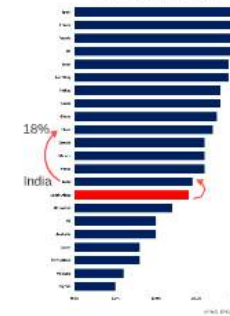
Corporate Taxes



Company Income Tax



VAT (2018/19)

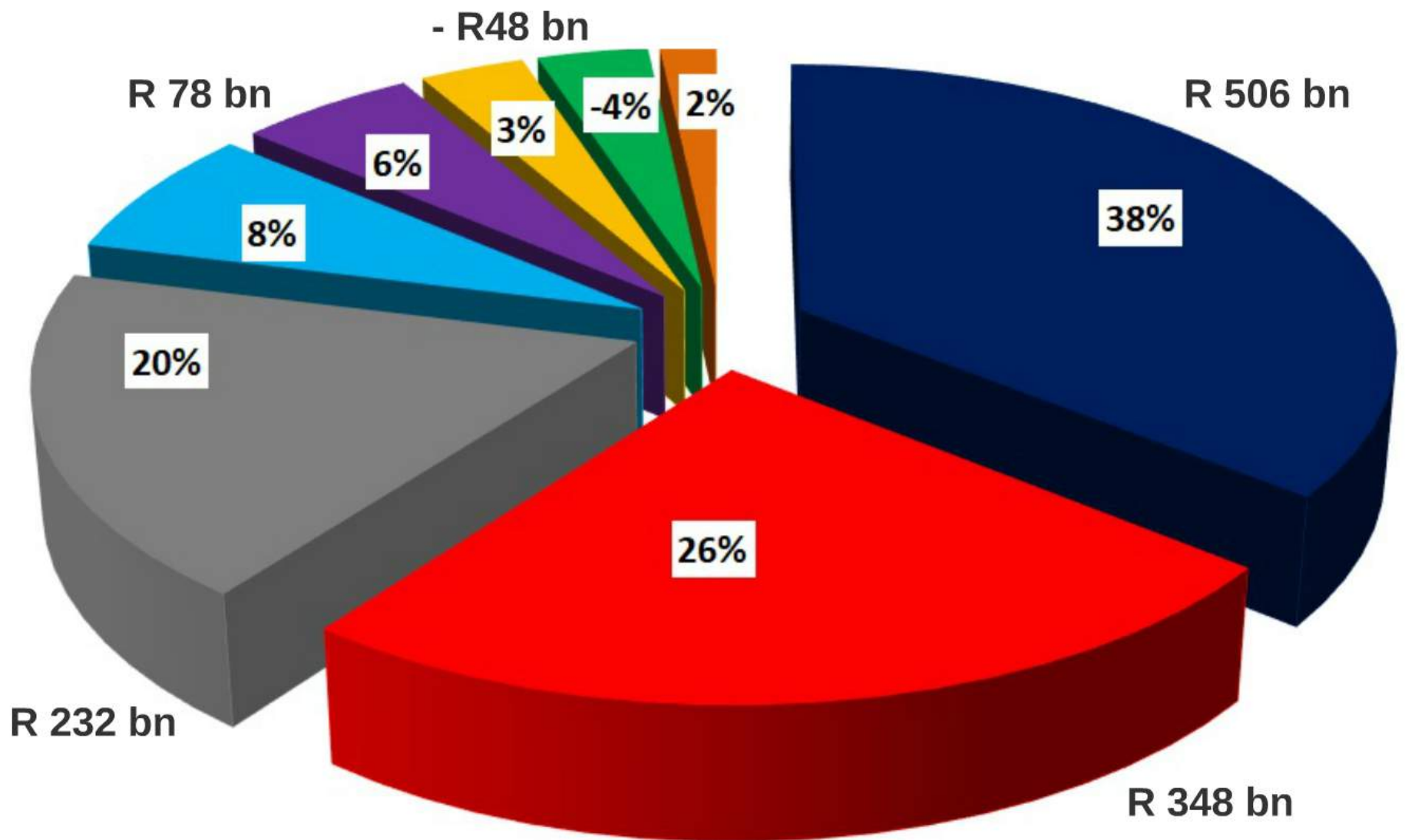


Special Announcements

- RAF to be replaced
 - Additional guarantees of R 35 bn
 - HUGE "increase" in PIT by stealth
 - SANRAL committed to road tolling
 - Increase in VAT +1%
 - Increase in estate duty
 - Fuel levy up 0.52c
 - Sin taxes up
 - New SEZ's - reduced CIT tax
 - Carbon tax from 1 Jan 2019
- The coming tax revolt !?**

Revenue by Category

Main Budget (2018/19), Total R 1 321 146



■ PIT ■ VAT ■ CIT ■ Customs ■ Fuel Levy ■ Other ■ SACU ■ Non-Tax R

NT, EFG

Main Budget Revenue

(R'bn)

2018/19	Budget ('18)	EFG	Difference
PIT	R 506	R 505	R 1
CIT	R 232	R 231	R 1
VAT	R 348	R 345	R 3
Fuel Levy	R 78	R 78	R 0
Customs	R 58	R 58	R 0
Other	R 99	R 95	R 4
Total	R 1,321	R 1,312	R 9

NT, EFG

The "VAT" increase

Higher Petrol Prices

		Pre-Tax		Post-Tax		
Petrol Price	R	13.90	R	14.42		
Basic Fuel	R	6.07	R	6.07		
Service Cost	R	0.35	R	0.35		
Storage	R	0.19	R	0.19		
Distribution	R	0.16	R	0.16		
Dealer	R	1.87	R	1.87		
Zoning	R	0.45	R	0.45		
Market Price	R	9.08	R	9.08	63%	
Fuel Levy	R	3.15	R	3.37		
Customs	R	0.04	R	0.04		
RAF	R	1.63	R	1.93		
Taxes	R	4.82	R	5.34	37%	

Tax Increases

Petrol Levies	New Increases	Adj Increase
Fuel Levy	R 0.22	
Customs	R 0.04	
RAF	R 0.30	
Taxes	R 0.56	4.0%

The "VAT" Increase

Fuel Levy	R'bn
2017/18	R 71 340
2018/19	R 77 509
Increase	R 6 169

Tax Increases

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The "VAT" Increase

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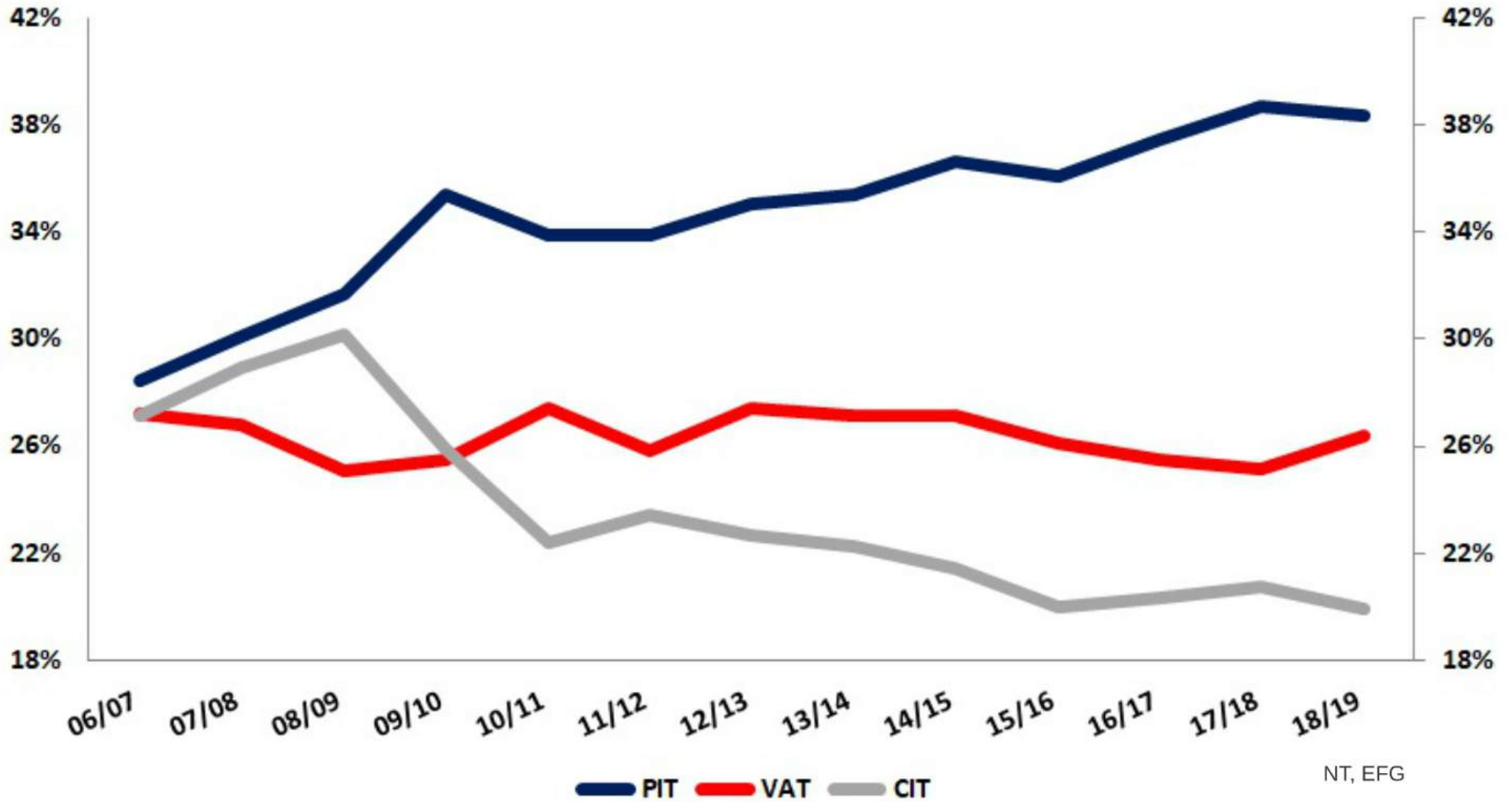
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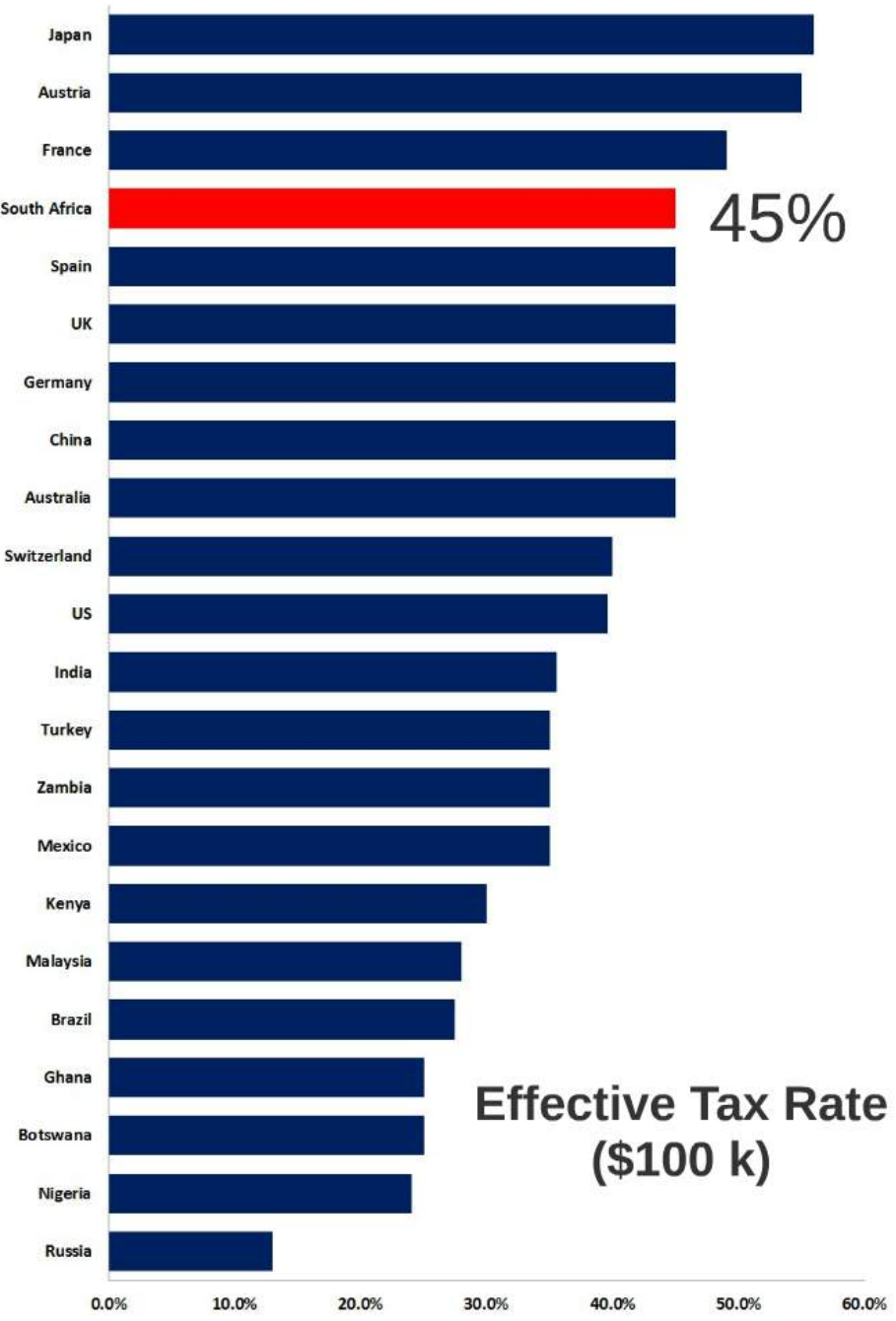
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Share of Total Revenue

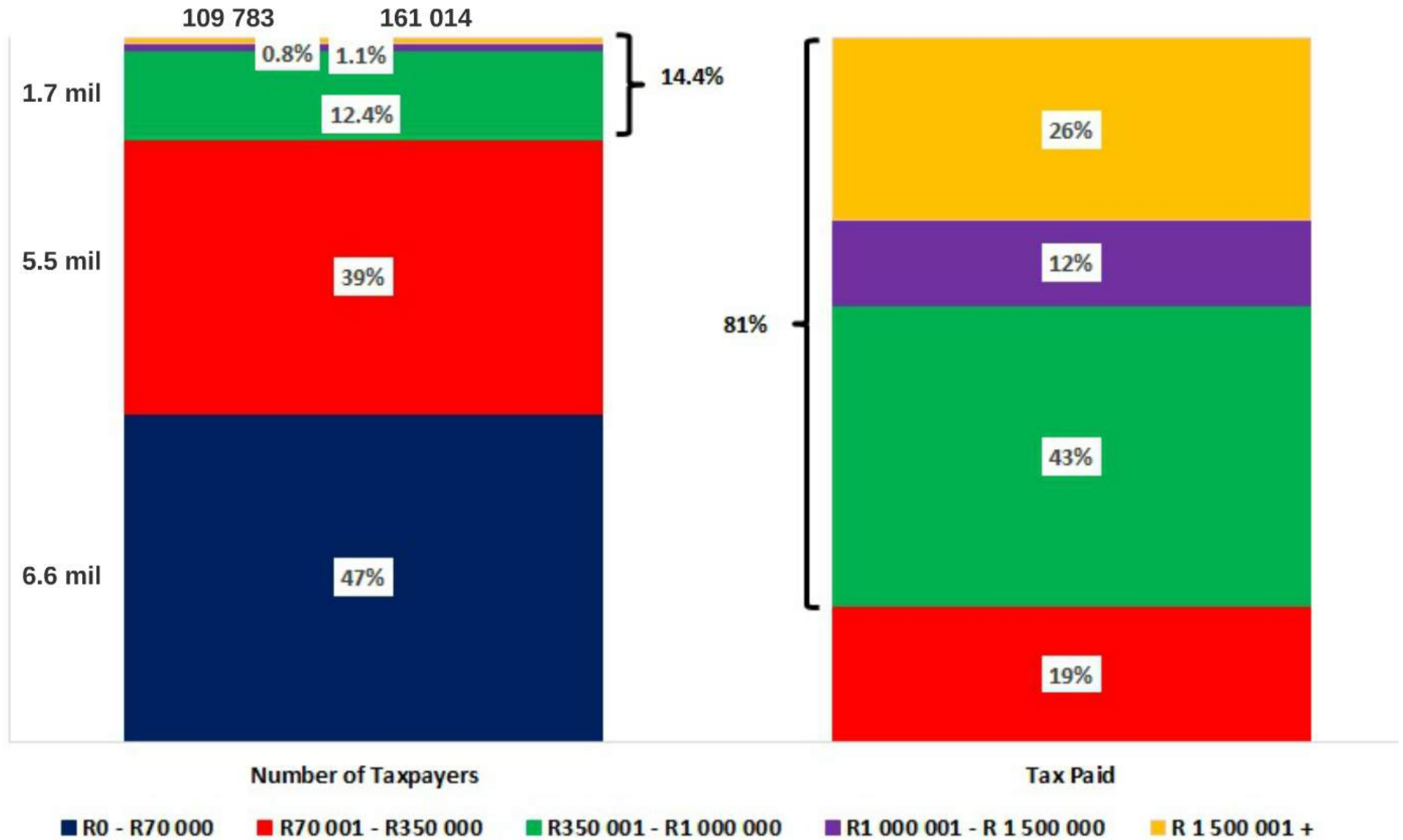


NT, EFG

Individual Taxes



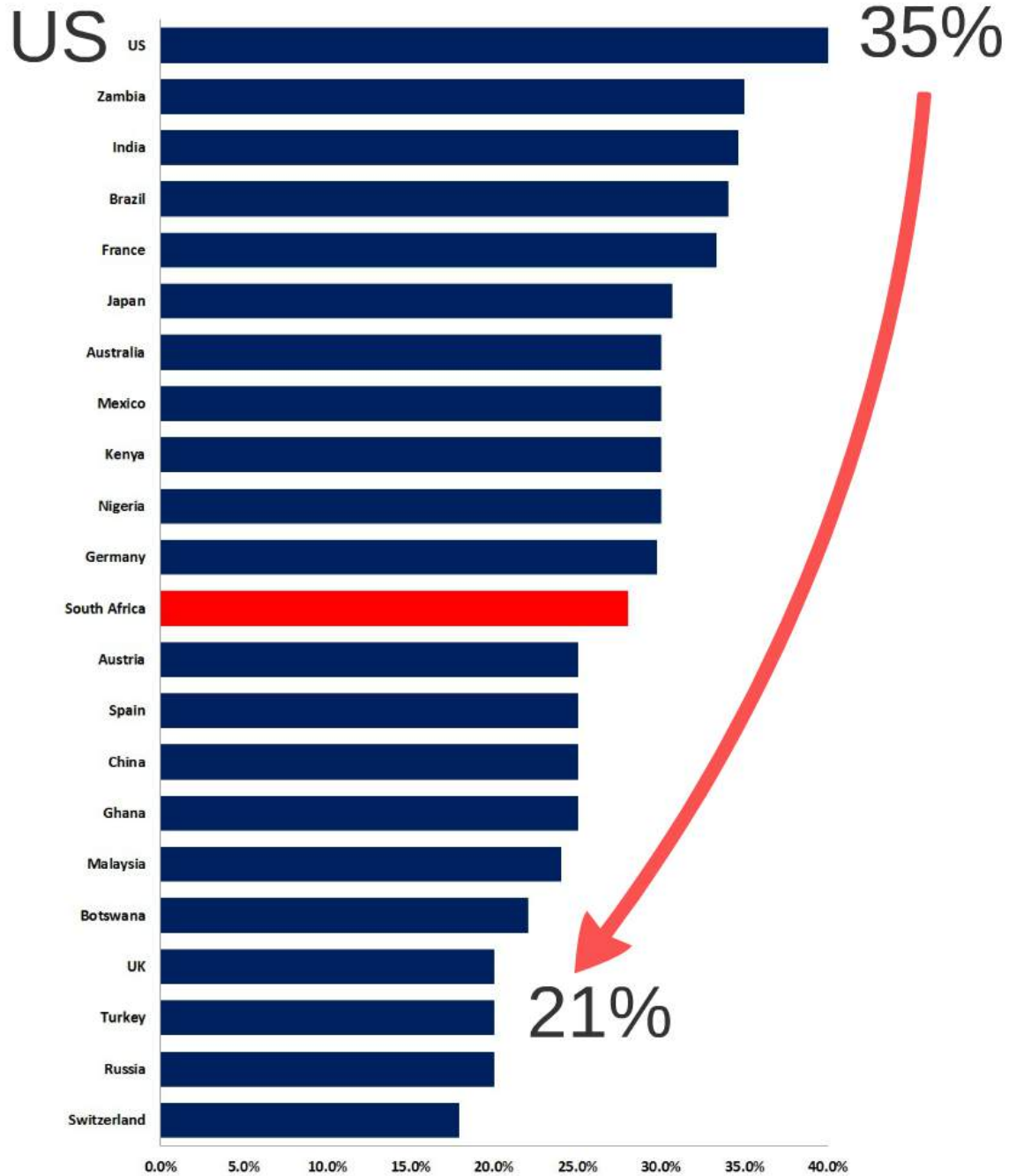
Personal Income Tax (2017/18)



14.0 mil

NT, EFG

Corporate Taxes



25 100

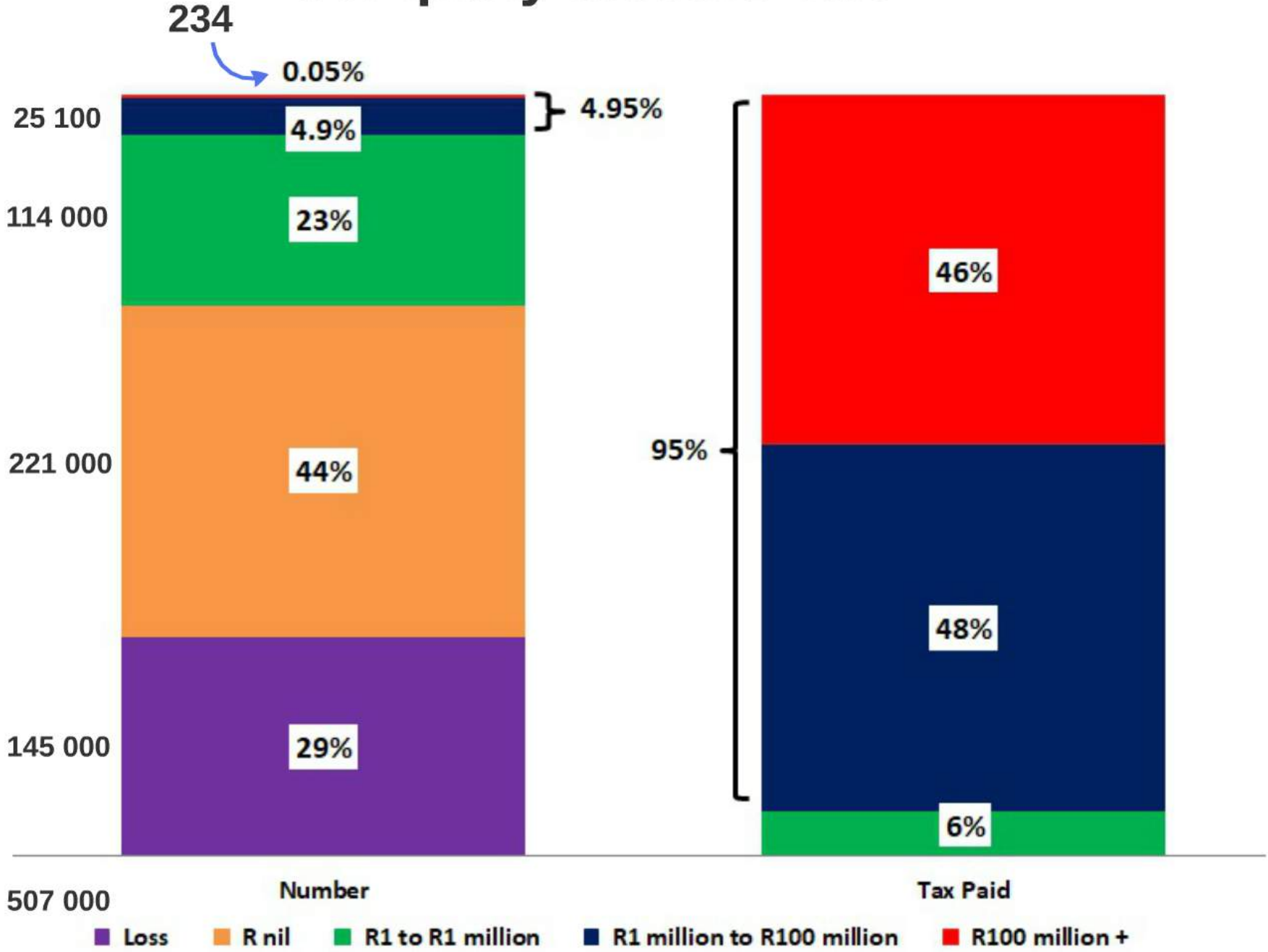
114 000

221 000

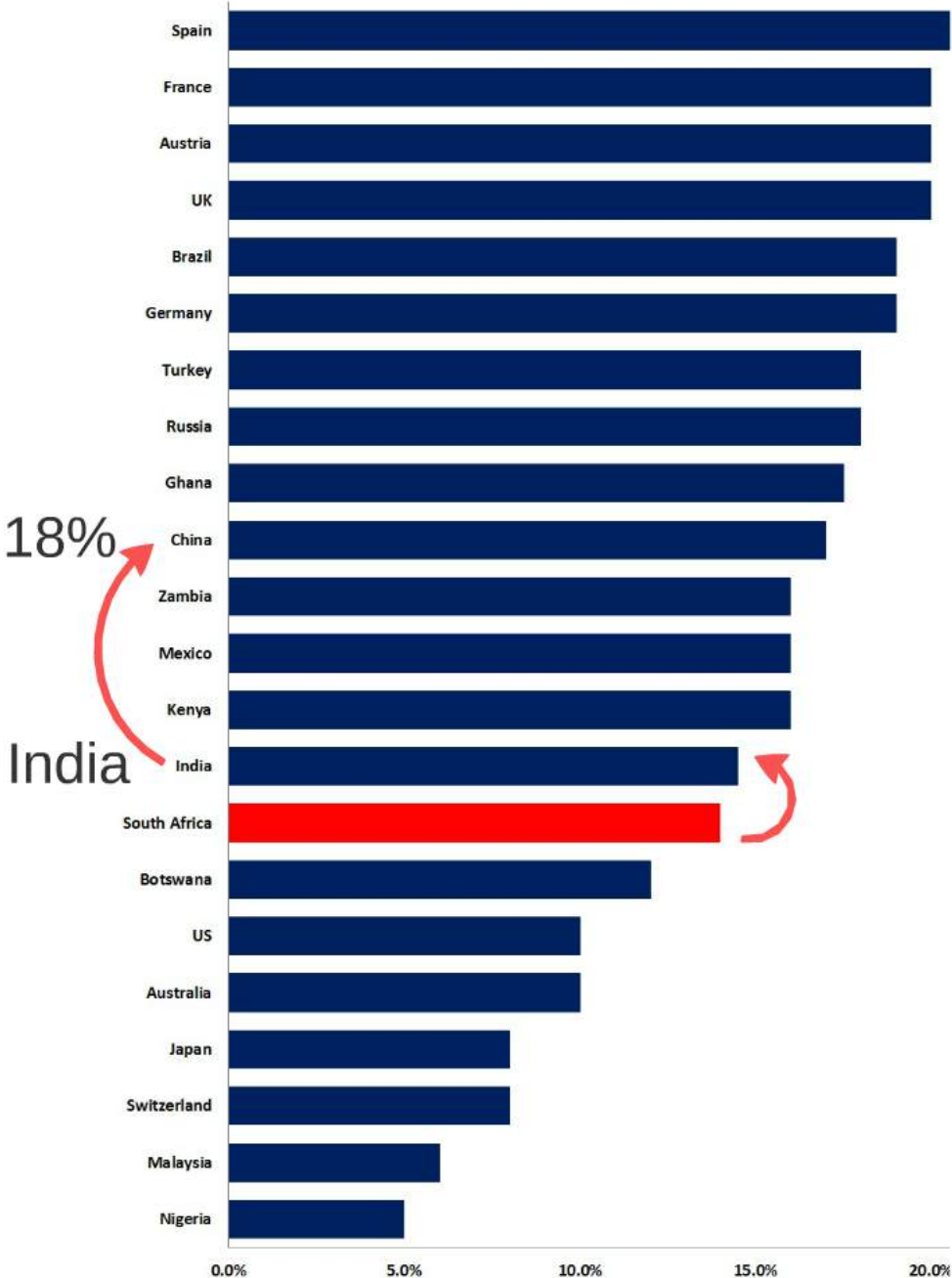
145 000

507 000

Company Income Tax



VAT (2018/19)



on +
S, EFG

Special Announcements

Revenue

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The coming tax revolt !?

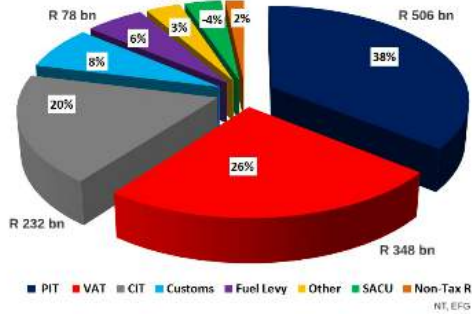
State Revenue

Taxes, Taxes, Taxes, and some more, Taxes

Revenue by Category

Main Budget (2018/19), Total R 1 321 146

- R48 bn



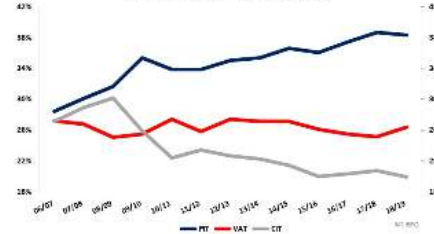
Main Budget Revenue

Category	2017/18	2018/19	% Change
PIT	490	506	3%
VAT	330	348	6%
CIT	220	232	6%
Customs	75	78	4%
Fuel Levy	45	48	7%
Other	32	35	9%
SACU	25	26	4%
Non-Tax R	20	22	10%
Total	1287	1321	3%

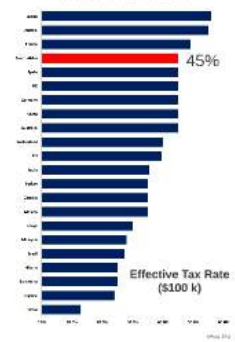
The "VAT" increase

Year	VAT Revenue (bn R)	% of Total Revenue
2017/18	330	26%
2018/19	348	26%

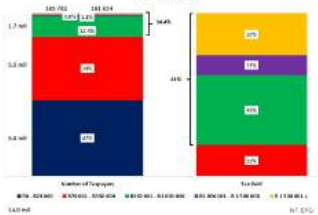
Share of Total Revenue



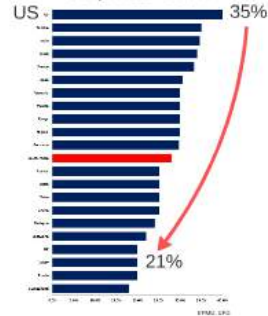
Individual Taxes



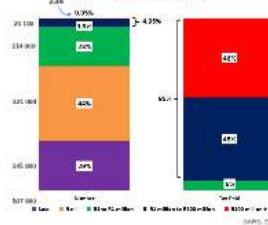
Personal Income Tax (2017/18)



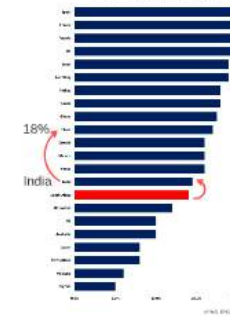
Corporate Taxes



Company Income Tax



VAT (2018/19)



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The coming tax revolt !?

The final countdown

How to survive this awful budget



Budget 2017/18

By Dawie Roodt, Chief Economist

EFFICIENT + GROUP

World Macro Outlook

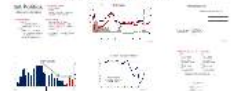
- Global Inflation
 - Wage pressure
 - Commodity Prices
- Monetary Tightening
 - Debt
 - Short Rates
 - QT
 - Yield Curve
 - Major Threat
- Roaring Markets
- Recession on horizon
- Yield Curve

SONA

The Budget Context

- Labouring
- Inflation
- Debt
- Short Rates
- QT
- Yield Curve
- Major Threat
- Roaring Markets
- Recession on horizon
- Yield Curve

SA's Macro Picture



The Bigger Picture - Main Budget



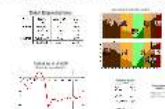
How to survive this awful budget



Impact On...



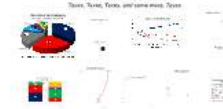
State Deficit & Debt



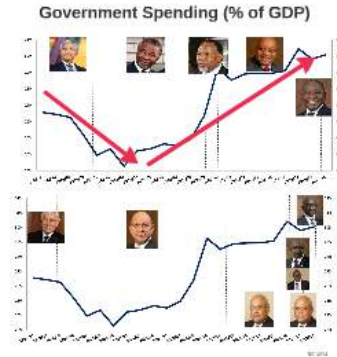
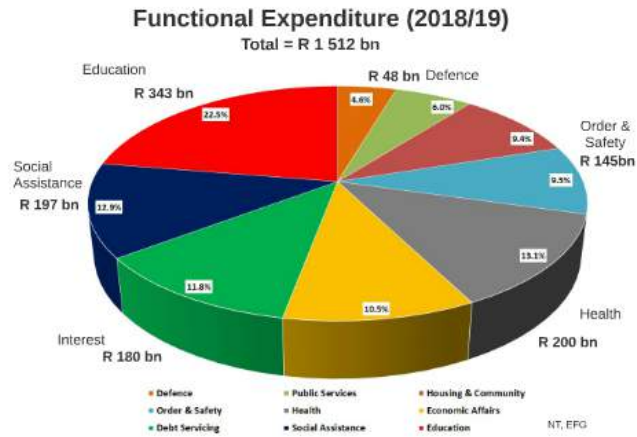
State Expenditure



State Revenue



State Expenditure



"Radical Economic Transformation"

Nothing but, Social Engineering

Social Upliftment vs Economic Upliftment

- Grants
- Cadre Deployment
- Zombie SOEs
- More Intervention
- Shady nuclear deals
- World class skills development program
- GDP Growth = Jobs
- Privatisation
- Better implementation
- Infrastructure Drive

Not about spending more, but spending what you have more effectively

PIRLS - Reading

Points Achieved	2011	2016
South Africa	323	322
All Country Avg	333	333
Emerging Avg	314	314

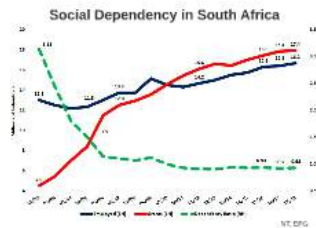
TIMS - Science

Score	LAST	LAST
South Africa	50%	51%
Emerging Avg	40%	37%

Our National Disaster

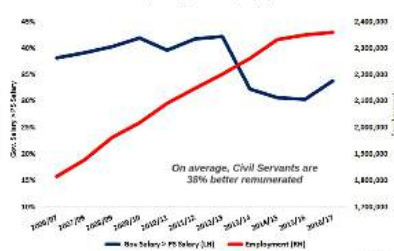
TIMS - Maths

Points Achieved	2011	2016
South Africa	322	373
All Country Avg	438	476
Emerging Avg	442	443



Government Employment & Earnings

Formal (Non-Agricultural) Employees

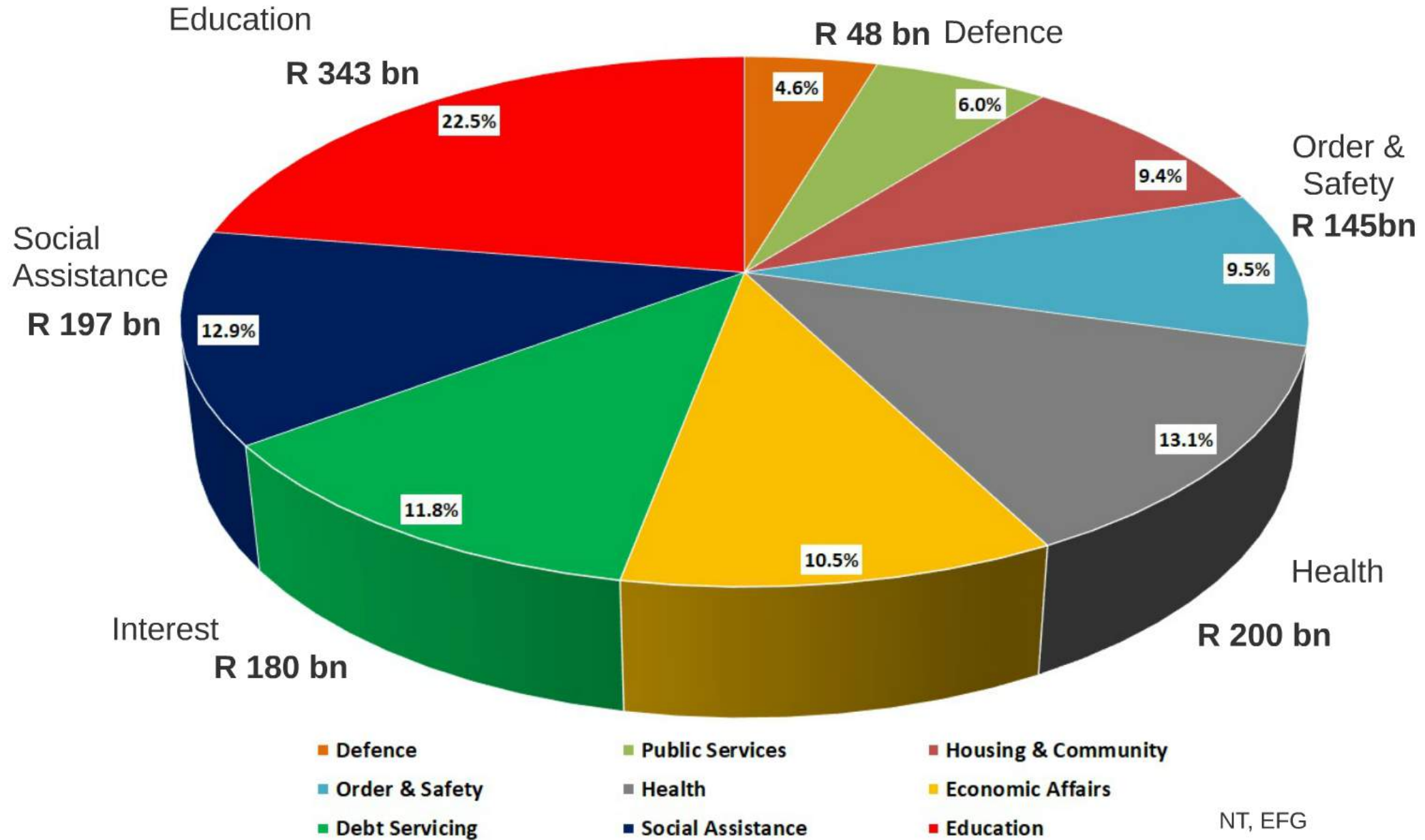


Special Announcements Expenditure

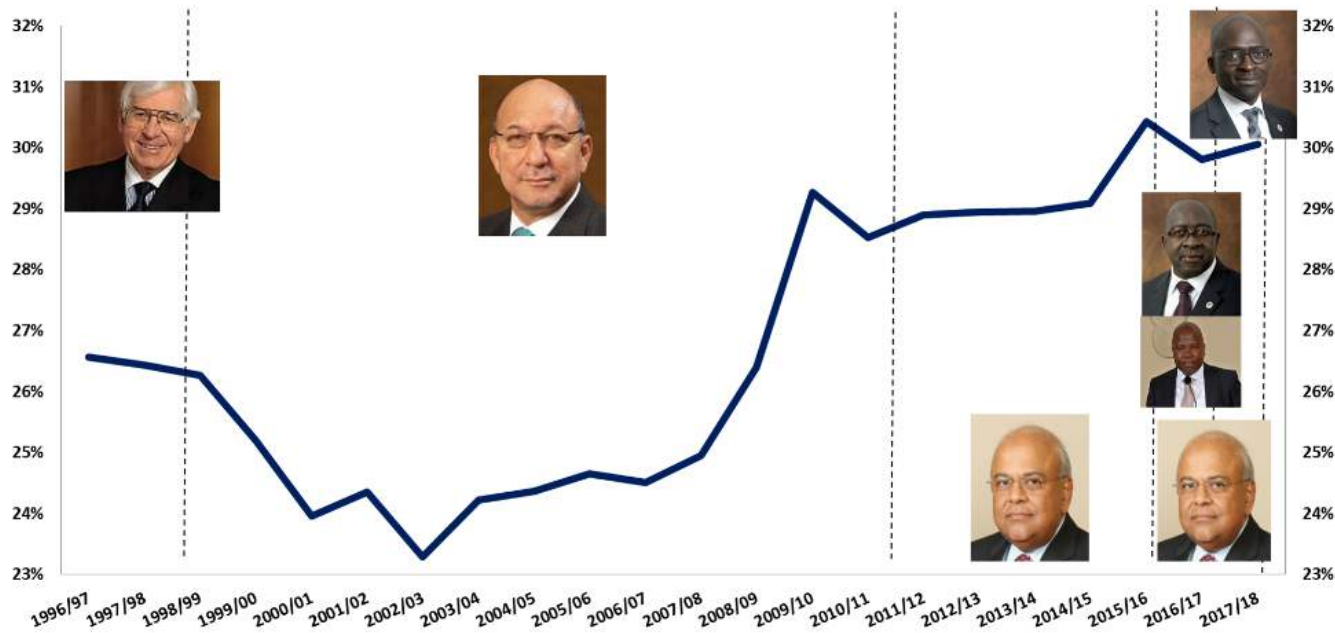
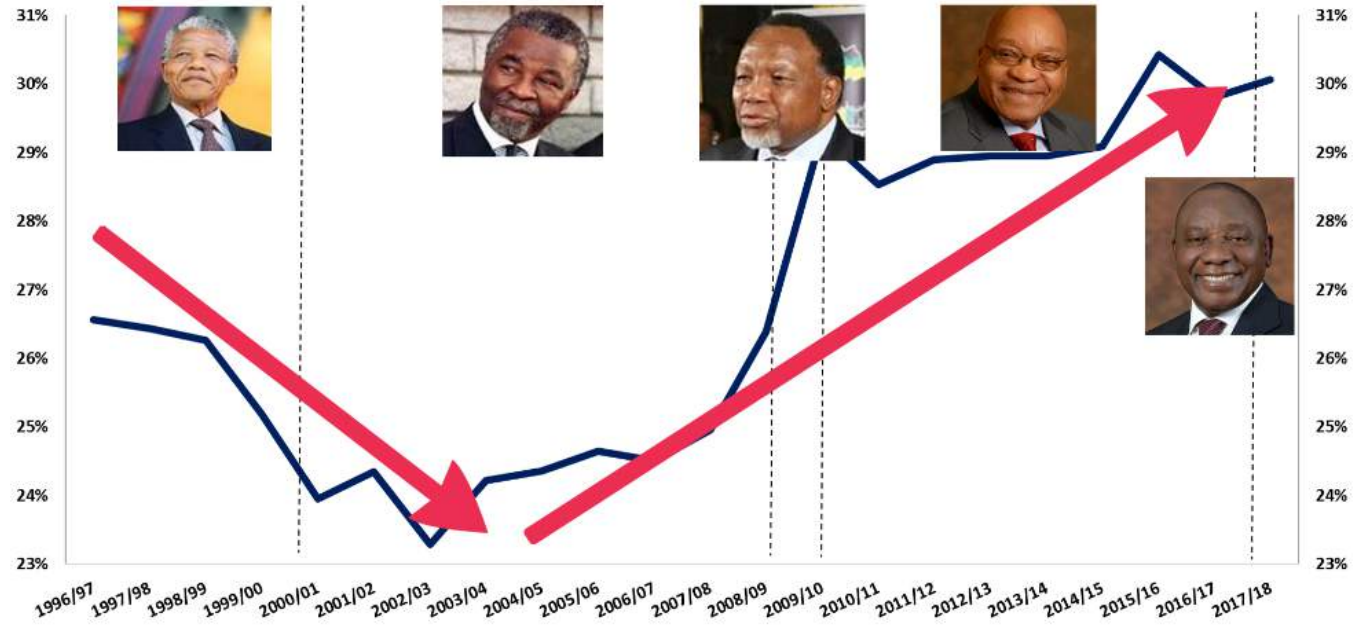
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- No to nuclear!
- Reduce in Medical tax deductions
 - NHI
- Reduce Capex

Functional Expenditure (2018/19)

Total = R 1 512 bn



Government Spending (% of GDP)



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PIRLS - Reading

Points Achieved	2011	2016
South Africa	323	320
All Country Avg	510	516
Emerging Avg	479	489

SA Rank	LAST	LAST
Below AC Avg	58%	61%
Below EC Avg	48%	53%

Our National Disaster

TIMS - Science

Points Achieved	2011	2016
South Africa	332	358
All Country Avg	488	489
Emerging Avg	459	458

SA Rank	LAST	LAST
Below AC Avg	47%	37%
Below EC Avg	38%	28%

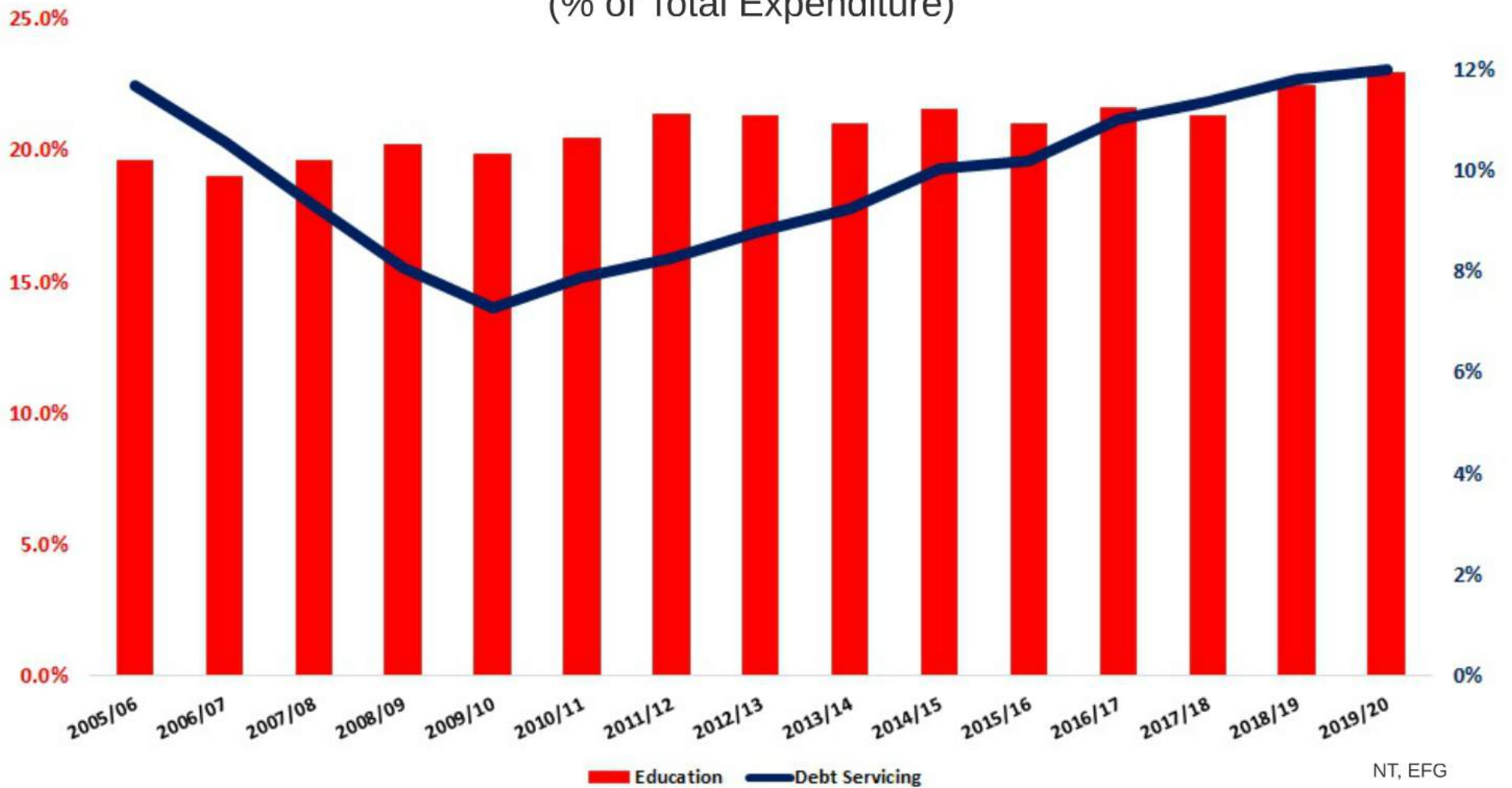
TIMS - Maths

Points Achieved	2011	2016
South Africa	352	372
All Country Avg	474	479
Emerging Avg	442	443

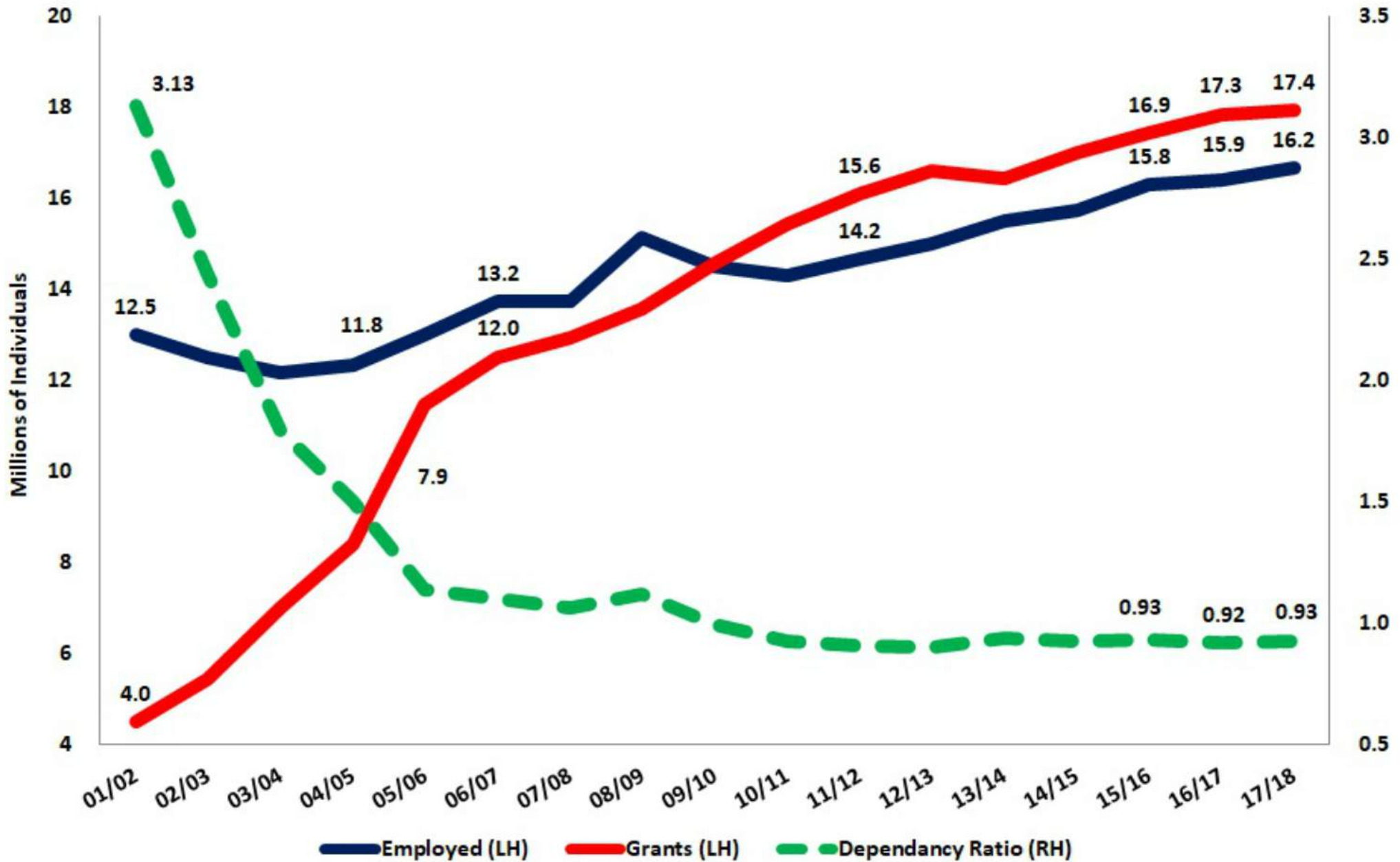
SA Rank	LAST	2nd LAST
Below AC Avg	35%	29%
Below EC Avg	26%	19%

Historic Expenditure by Group

(% of Total Expenditure)

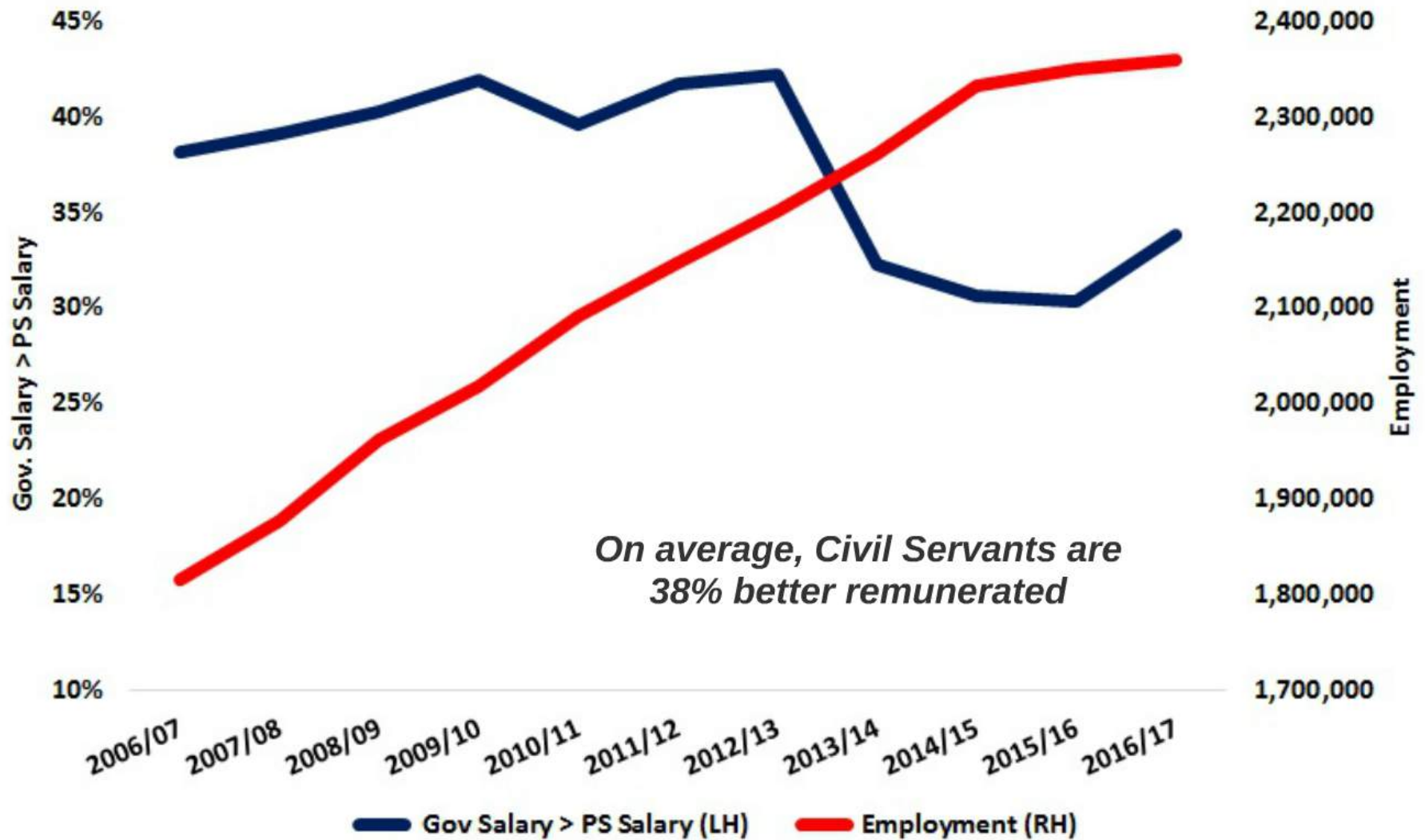


Social Dependency in South Africa



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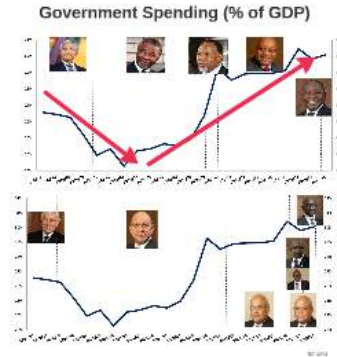
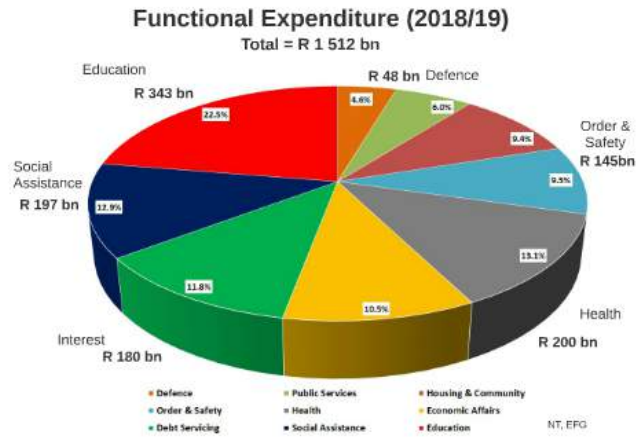


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State Expenditure



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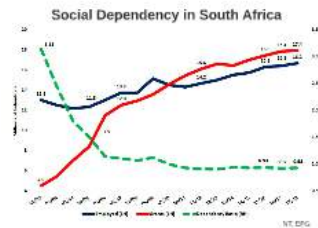
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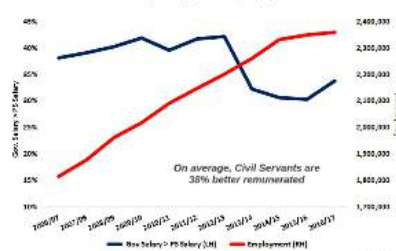
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The final countdown

How to survive this awful budget



By Dawie Roodt, Chief Economist

Budget 2017/18

EFFICIENT + GROUP

World Macro Outlook

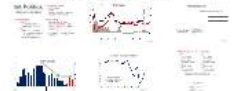
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SONA

The Budget Context

- Labour Force
- Unemployment
- Inflation
- Interest Rates
- Fiscal Policy
- Monetary Policy
- Exchange Rate
- Global Markets
- South African Economy
- Budget 2017/18

SA's Macro Picture



The Bigger Picture - Main Budget



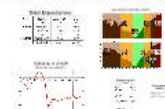
How to survive this awful budget

• Federal Reserve to adjust benchmark rate
• Fed's policy of ultra-loose monetary policy
• Fed's balance sheet expansion
• Fed's QE program

Impact On...

- Sentiment
- Rating
- Risk
- Demand
- Savings
- GDP
- Social Impact
- Inequality
- Unemployment
- Electricity

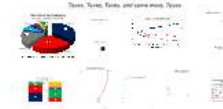
State Deficit & Debt



State Expenditure



State Revenue



State Deficit & Debt

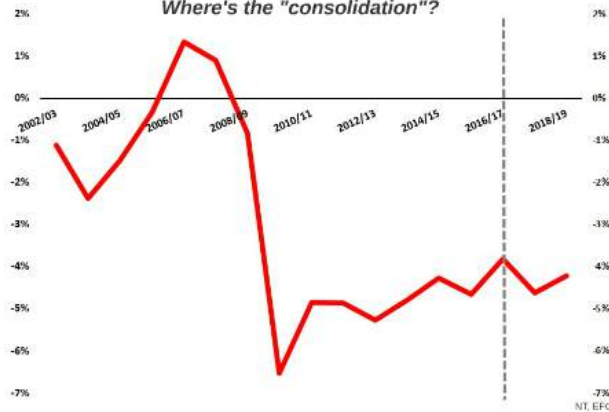
Debt Expectations

Year	Figure	Budget '18	EFG
2017/18	GDP	1.3%	1.1%
	Deficit/GDP	-4.6%	-4.6%
	Debt/GDP	53.3%	53.7%
2018/19	GDP	1.5%	1.6%
	Deficit/GDP	-3.8%	-4.2%
	Debt/GDP	55.1%	55.8%

NT, EFG

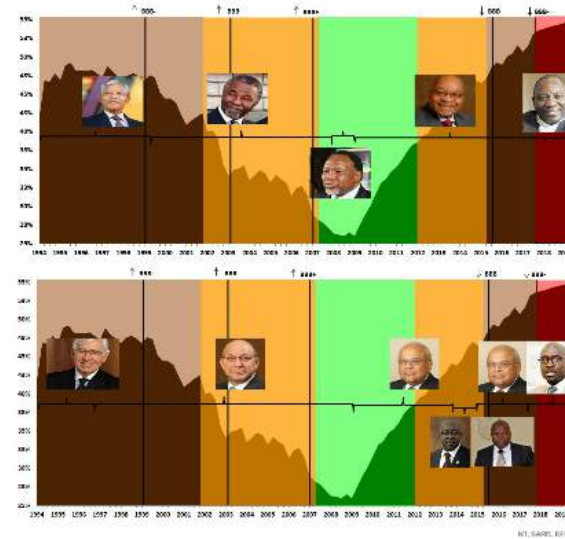
Deficit as % of GDP

Where's the "consolidation"?



NT, EFG

S&P and Gov. Debt (% of GDP)



NT, SARB, EFG, SAP

What is debt?

2015/16

Treasury Bills	R 209,467
Bonds	R 1,572,576
Other	R 37,285
Foreign Debt	R 199,607
State Debt (SARB)	R 2,018,935

- Cash Balances	R 211,271
Pravin's Debt	R 1,807,664

Parercitals Guarantees	R 467,000
- Used	R 263,445
- Unused	R 203,555
Actual Debt Exposure	R 2,274,664

Local Authorities ???

Why capture SARB?

- Stabilisation account, R70 bn
- Forex, R100 bn
- Paper-profit, R240 bn

Debt Expectations

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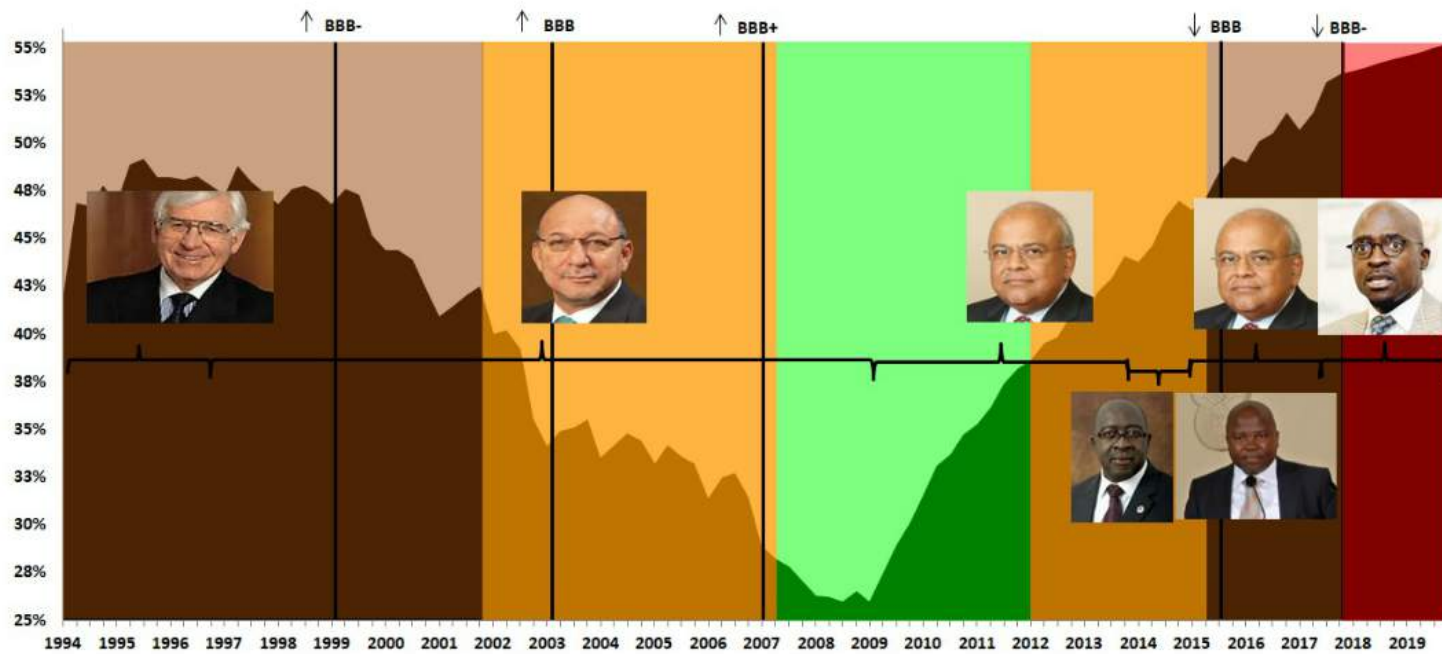
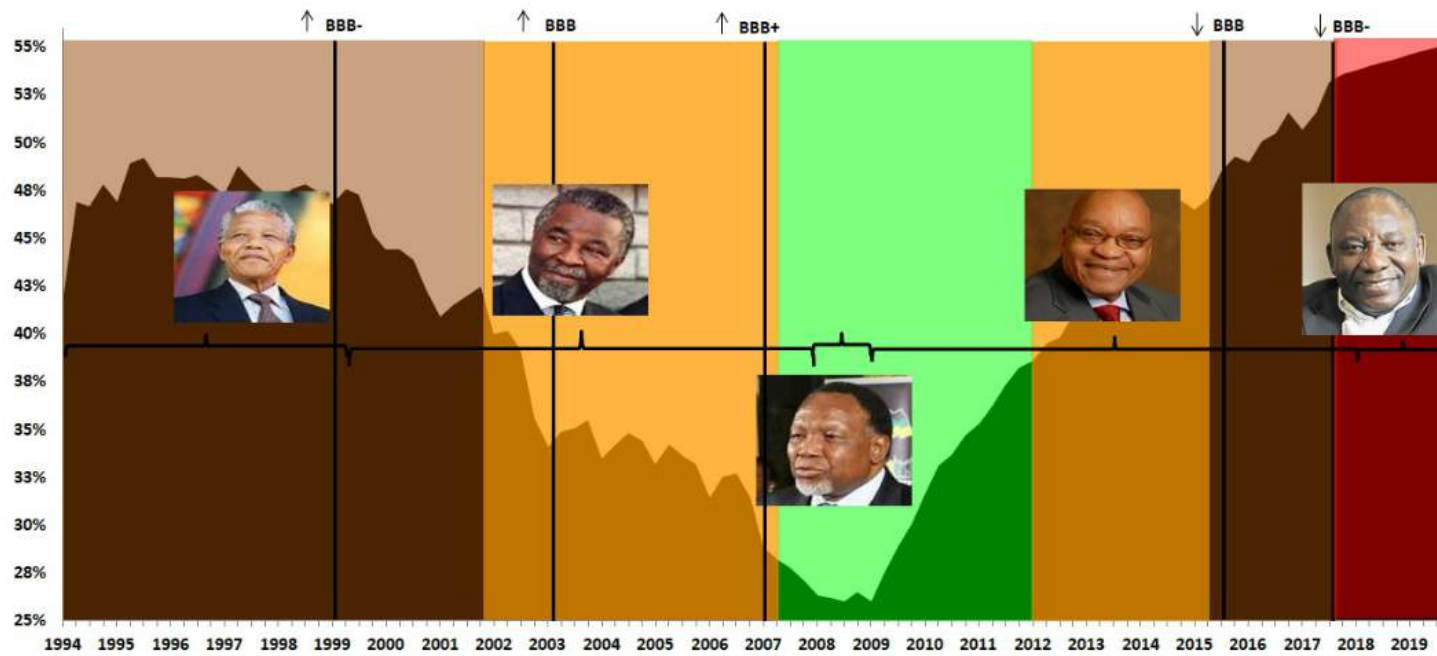
NT, EFG

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State Deficit & Debt

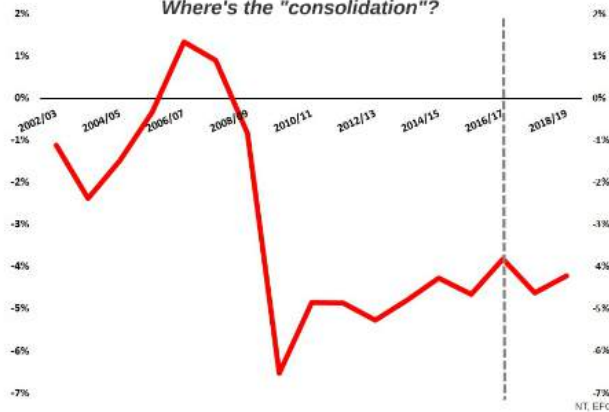
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NT, EFG

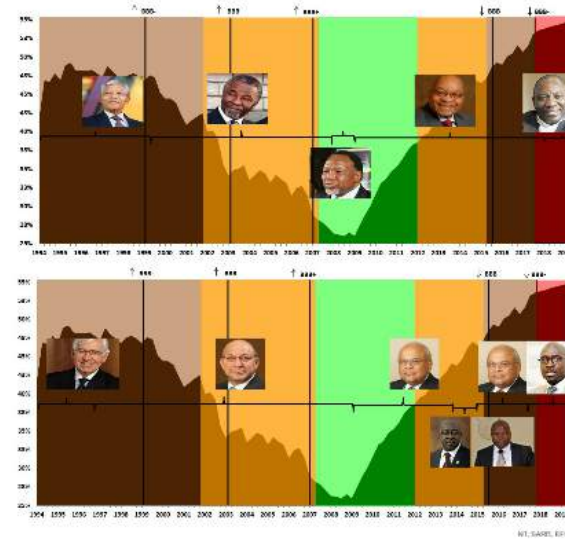
Deficit as % of GDP

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NT, EFG

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NT, SARB, EFG, S&P

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Parercitals Guarantees	R	467,000
- Used	R	263,445
- Unused	R	203,555
Actual Debt Exposure	R	2,274,664
<hr/>		
Local Authorities		???

Why capture SARB?

- Stabilisation account, R70 bn
- Forex, R100 bn
- Paper-profit, R240 bn

The final countdown

How to survive this awful budget



Budget 2017/18

By Dawie Roodt, Chief Economist

EFFICIENT + GROUP

World Macro Outlook

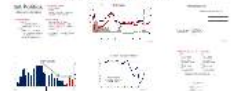
- Global Inflation
 - Wage pressure
 - Commodity Prices
- Monetary Tightening
 - Debt
 - Short Rates
 - QT
 - Yield Curve
 - Major Threat
- Roaring Markets
- Recession on horizon
 - Yield Curve

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The Budget Context

- Labour Force
- Unemployment
- Inflation
- Interest Rates
- Fiscal Policy
- Monetary Policy
- Exchange Rate
- Trade
- Global Growth
- Risk

SA's Macro Picture



The Bigger Picture - Main Budget



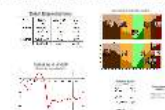
How to survive this awful budget

• Federal Reserve to adjust benchmark rate
• Fed's policy of ultra-loose monetary policy
• Fed's balance sheet expansion
• Fed's QE program

Impact On...

- Sentiment
- Rating
- Risk
- Demand
- Savings
- GDP
- Social Impact
- Inequality
- Unemployment
- Inflation

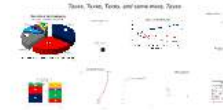
State Deficit & Debt



State Expenditure



State Revenue



How to survive this awful budget

- Prudential limits to offshore investments increased
- Take your money off-shore
- **Pay as little tax as possible**
- Convert income from PIT to CIT
- ...



The final countdown

How to survive this awful budget



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World Macro Outlook

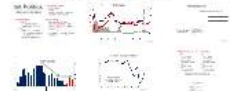
- Global Inflation
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SONA

The Budget Context

- Labour Force
- Unemployment
- Inflation
- Interest Rates
- Fiscal Policy
- Monetary Policy
- Exchange Rate
- Global Markets
- South Africa
- Growth
- Inflation
- Interest Rates
- Fiscal Policy
- Monetary Policy
- Exchange Rate

SA's Macro Picture



The Bigger Picture - Main Budget



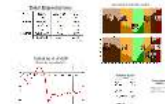
How to survive this awful budget

• Federal Reserve to adjust benchmark rate
• Fed's policy of ultra-loose monetary policy
• Fed's balance sheet expansion
• Fed's forward guidance

Impact On...

- Sentiment
- Rating
- Risk
- Demand
- Savings
- GDP
- Social Impact
- Inequality
- Unemployment
- Inflation

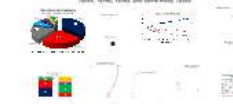
State Deficit & Debt



State Expenditure



State Revenue



Think Efficient. Realise Potential.

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