The Budget 2015/16
World Macro Outlook

• Strong US, UK
  • Not by Productive Means
  • The Great Correction?
• Weak EU, Japan, China?
• The Great Decoupling
  • Monetary Policy
  • Debt
• Currency Wars Continue
South Africa's Macro Picture

**Consumer Price Inflation (Ave)**
- Actual
- Expected
- 2014, 6.1%
- 2015, 4.5%

**The Rates**

**Unemployment**
- Averaging 25%

**GDP**

**Current Account and Trade Balance: GDP**
- Import > Exports Consumer > Produce
- Interest > Savers

**Who saves?**

**Efficient Group** vs **Treasury**
- GDP
  - 2014, 1.5%
  - 2015, 2.65%
  - 2016, 4.5%
  - Budget Deficit 2015/16, 4.1%
  - CIP 2015, 4.4%
  - Debt 2015/16
  - 2015/16, 45.7%
Consumer Price Inflation (Ave)

- Actual
- Expected

2014, 6.1%
2015, 4.5%

Source: STATSSA, EF Group
The Rates

Source: STATSSA, SARB, EF Group
Unemployment

Averaging 25%

Source: STATSSA, EF Group
Who saves?

Gross National Savings: GDP

Source: SARB, EF Group

Corporate savings % of GDP
Government savings % of GDP
Households savings % of GDP

Efficient Group vs Treasury

- GDP
  - 2014, 1.3%
  - 2015, 0.65%
- Budget Deficit
  - 2015/16, 4.5%
- CAD
  - 2015, -4.2%
- Debt
  - 2015/16, 50.5%

1.5%

- GDP
  - 2014, 2.8%
  - 2015, 2.0%
- Budget Deficit
  - 2015/16, 4.1%
- CAD
  - 2015, -4.5%
- Debt
  - 2015/16, 47.7%

Source: National Treasury Budget 2015/16, EF Group
South Africa's Macro Picture

Consumer Price Inflation (Ave)
- Actual
- Expected
2014, 6.1%
2015, 4.5%

The Rates

Unemployment
Averaging 25%

GDP

Current Account and Trade Balance: GDP

Who saves?

Efficient Group vs Treasury
- GDP
  - 2014, 1.3%
  - 2015, 2.4%
  - 2016, 4.6%
  - Budget Deficit
    - 2014, 4.5%
  - CAD
    - 2015, 4.0%
  - Debt
    - 2016, 50.3%

Source: Personal Finance Institute, Ministry of Finance
The Bigger Picture, Fiscal Finance/GDP

Source: National Treasury, EF Group
The Budget 2015/16, Revenue

- Revenue by Category
  - National Revenue
  - R6 bn
  - R80 bn
  - R300 bn
  - R2 bn
  - R1 bn
  - Total Revenue R1.049 bn

- Share of Revenue
- Individual Taxes, 2014

- Company Income Tax, which companies pay?

- Corporate Taxes, 2014

- Personal Income Tax

- VAT, 2014

- Special Announcements: Revenue
  - No real PIT increase (R5 for everyone)
  - Major increase in fuel levy/RAF (8c)
  - Increase in transfer duties, R3 mil
  - Sin taxes
  - No VAT hike, maybe later
  - CIT small change
  - Carbon Tax 2016 (Australia)
Relevant text from the image:

2015/16 Total Revenue R 1 049 bn
Share of Revenue
% of total Revenue...

Source: National Treasury, EF Group
Individual Taxes, 2014

Effective Tax Rate
$100k

Source: KPMG, EF Group
Personal Income Tax

Source: National Treasury, STATSSA, EF Group
Corporate Taxes, 2014

Source: KPMG, EF Group
Company Income Tax, which companies pay?

Source: SAIRR, National Treasury, EFG
Special Announcements: Revenue

- No real PIT increase (1% for everyone)
- Major increase in fuel levy/RAF (81c)
- Increase in transfer duties, R3 mil +
- Sin taxes
- No VAT hike, maybe later
- CIT small change
- Carbon Tax 2016 (Australia)
The Budget 2015/16, Revenue

Revenue by Category:
- National Income...
- $6 bn
- $8 bn
- $20 bn
- $94 bn
- $100 bn
- $1049 bn

Share of Revenue:

Individual Taxes, 2014:

Corporate Taxes, 2014:

Personal Income Tax:

Company Income Tax, which companies pay?

VAT, 2014:

Special Announcements: Revenue
- No real PIT increase (5% for everyone)
- Major increase in fuel levy/RAF (8c)
- Increase in transfer duties, R3 mil +
- Sin taxes
- No VAT hike, maybe later
- CIT small change
- Carbon Tax 2016 (Australia)
The Budget 2015/16, Expenditure

- **Main Expenditure Groups**
  - % of total Expenditure
  - R583 bn
  - R507 bn
  - R303 bn
  - R265 bn
  - R192 bn
  - R146 bn
  - R138 bn
  - R116 bn
  - R95 bn

- **Spending by Main Categories**
  - R123 bn
  - R118 bn
  - R106 bn
  - R76 bn
  - R59 bn
  - R51 bn
  - R38 bn
  - R33 bn
  - R24 bn

- **Spending by Extended Category**
  - R123 bn
  - R118 bn
  - R106 bn
  - R76 bn
  - R59 bn
  - R51 bn
  - R38 bn
  - R33 bn
  - R24 bn

- **Government Spending as a % of GDP**
  - 2015/16: R1 222 bn

- **Special Announcements Expenditure**
  - Cut R50 bn over 3 years...
  - Wage bill concerns
  - Cut wasteful spending
  - NHF, white paper heading for cabinet

- **Productivity and Wages**

- **Social Dependency in South Africa**

- **Expenditure by Group over Three % of Total Expenditure**
Main Expenditure Groups

% of total Expenditure

- R383 bn (35%)
- R159 bn (14%)
- R680 bn (56%)

2015/16 Total Expenditure R 1 222 bn
Spending by Extended Category

% of total Expenditure

R43 bn
R86 bn
R159 bn
R122 bn
R332 bn
R138 bn
R122 bn

Education
Other
Health
Social Develop.
Gov. and Affairs
Interest
Police
Defence
House & Water
NT
Transport

2015/16 Total Expenditure R1 222 bn
Government Spending as a % of GDP

2015/16, R1 222 bn

Source: SARB, EFG
Social Dependency in South Africa

Source: SARB, EFG
Productivity and Wages

Source: SARB, EFG
Special Announcements  Expenditure

• Cut R25 bn over 3 years...
• Wage bill concern
• Cut wasteful spending
• NHI, white paper heading for cabinet
The Budget 2015/16, Expenditure

Main Expenditure Groups % of total Expenditure

Spending by Main Categories % of total Expenditure

Spending by Extended Category % of total Expenditure

Government Spending as a % of GDP 2015/16, R1 222 bn

Repayment by Group over three % of total Expenditure

Social Dependency in South Africa

Productivity and Wages

Special Announcements Expenditure
- Cut R1bn over 3 years...
- Wage bill concern
- Cut wasteful spending
- NHE, white paper heading for cabinet
The Budget, Deficit and Debt

<table>
<thead>
<tr>
<th>Deficit and Debt</th>
<th>Deficit as % of GDP</th>
<th>Government Debt: GDP and Moody's</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2022-23</td>
<td>FY 2023-24</td>
<td>FY 2024-25</td>
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<tr>
<td>Budget</td>
<td>2.3%</td>
<td>2.5%</td>
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<tr>
<td>Spending</td>
<td>9.5%</td>
<td>9.0%</td>
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<tr>
<td>Revenue</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Deficit</td>
<td>4.5%</td>
<td>4.4%</td>
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<tr>
<td>Surplus/Deficit</td>
<td>4.0%</td>
<td>4.0%</td>
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</table>

Yield-Debt Proxy (US=100)
# Deficit and Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>Figure</th>
<th>Budget</th>
<th>EFG</th>
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</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>GDP</td>
<td>2.8%</td>
<td>1.5%</td>
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<tr>
<td></td>
<td>Deficit/GDP</td>
<td>-4.70%</td>
<td>-4.90%</td>
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<td></td>
<td>Debt/GDP</td>
<td>47%</td>
<td>48%</td>
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<tr>
<td>2015/16</td>
<td>GDP</td>
<td>2.00%</td>
<td>0.65%</td>
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<tr>
<td></td>
<td>Deficit/GDP</td>
<td>-4.10%</td>
<td>-4.90%</td>
</tr>
<tr>
<td></td>
<td>Debt/GDP</td>
<td>49%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Source: National Treasury, EFG
Deficit as % of GDP

Source: SAR, NT, EFG
Government Debt: GDP and Moody's

1 "rating" away from "junk"

3 "ratings" away from "junk"
Yield-Debt Proxy (US=100)
The Budget, Deficit and Debt

Deficit and Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>Initial</th>
<th>Budget</th>
<th>Final</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>3.5%</td>
<td>3.0%</td>
<td>3.2%</td>
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<tr>
<td>2001</td>
<td>3.0%</td>
<td>2.8%</td>
<td>2.9%</td>
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<tr>
<td>2002</td>
<td>2.5%</td>
<td>2.4%</td>
<td>2.5%</td>
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<tr>
<td>2003</td>
<td>2.0%</td>
<td>1.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2004</td>
<td>1.5%</td>
<td>1.4%</td>
<td>1.5%</td>
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</tbody>
</table>

Deficit as % of GDP

Government Debt: GDP and Moody's

Yield-Debt Proxy (US=100)
Special Announcements

- SARS advisory committee
- Eskom funding?
- Electricity prices up
- Privatisation?
- Savings incentives
The Six Households in South Africa: Poor to Rich
Redistributional Effect of the Fiscus

- Four members per family (household)
- Two school going kids
- One working adult
- State effective and efficient
Household Spending as % of HH Income

Source: Census (2011), BMR, EFG
Household Spending as % of HH Income

Source: Census (2011), BMR, EFG
## Average Household Taxes

<table>
<thead>
<tr>
<th>Category</th>
<th>Revenue (R bn)</th>
<th>New Revenue (Expenditure, R bn)</th>
<th>Per Household (R)</th>
<th>Six HH Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIT</td>
<td>R 336</td>
<td>R 398</td>
<td>R 29 494</td>
<td>R 176 965</td>
</tr>
<tr>
<td>CIT</td>
<td>R 199</td>
<td>R 236</td>
<td>R 17 468</td>
<td>R 104 809</td>
</tr>
<tr>
<td>Other Income</td>
<td>R 46</td>
<td>R 55</td>
<td>R 4 038</td>
<td>R 24 227</td>
</tr>
<tr>
<td>VAT</td>
<td>R 267</td>
<td>R 316</td>
<td>R 23 437</td>
<td>R 140 624</td>
</tr>
<tr>
<td>Fuel</td>
<td>R 48</td>
<td>R 57</td>
<td>R 4 213</td>
<td>R 25 281</td>
</tr>
<tr>
<td>Excise</td>
<td>R 34</td>
<td>R 40</td>
<td>R 2 985</td>
<td>R 17 907</td>
</tr>
<tr>
<td>Excise Wealth</td>
<td>R 13</td>
<td>R 15</td>
<td>R 1 141</td>
<td>R 6 847</td>
</tr>
<tr>
<td>Import</td>
<td>R 50</td>
<td>R 59</td>
<td>R 4 389</td>
<td>R 26 334</td>
</tr>
<tr>
<td>SACU</td>
<td>-R 52</td>
<td>-R 62</td>
<td>-R 4 565</td>
<td>-R 27 387</td>
</tr>
<tr>
<td>Non-Tax</td>
<td>R 21</td>
<td>R 25</td>
<td>R 1 843</td>
<td>R 11 060</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>R 962</strong></td>
<td><strong>R 1 140</strong></td>
<td><strong>R 84 444</strong></td>
<td><strong>R 506 667</strong></td>
</tr>
</tbody>
</table>
## Average Household "Tax", per Household

<table>
<thead>
<tr>
<th>Total Income</th>
<th>R 70 000</th>
<th>R 200 000</th>
<th>R 425 000</th>
<th>R 875 000</th>
<th>R 1.25 M</th>
<th>R 3 M</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PIT</strong></td>
<td>0</td>
<td>37 448</td>
<td>104 583</td>
<td>279 804</td>
<td>433 554</td>
<td>1 151 054</td>
</tr>
<tr>
<td><strong>CIT</strong></td>
<td>2 875</td>
<td>8 214</td>
<td>17 456</td>
<td>35 938</td>
<td>51 340</td>
<td>123 216</td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td>40</td>
<td>566</td>
<td>1 505</td>
<td>3 877</td>
<td>5 947</td>
<td>15 608</td>
</tr>
<tr>
<td><strong>VAT</strong></td>
<td>3 035</td>
<td>8 672</td>
<td>18 429</td>
<td>37 942</td>
<td>54 203</td>
<td>130 087</td>
</tr>
<tr>
<td><strong>Fuel</strong></td>
<td>348</td>
<td>993</td>
<td>2 110</td>
<td>4 344</td>
<td>6 205</td>
<td>14 893</td>
</tr>
<tr>
<td><strong>Excise</strong></td>
<td>237</td>
<td>678</td>
<td>1 440</td>
<td>2 965</td>
<td>4 235</td>
<td>10 165</td>
</tr>
<tr>
<td><strong>Excise Wealth</strong></td>
<td>3</td>
<td>137</td>
<td>376</td>
<td>995</td>
<td>1 536</td>
<td>4 064</td>
</tr>
<tr>
<td><strong>Import</strong></td>
<td>364</td>
<td>1 040</td>
<td>2 209</td>
<td>4 548</td>
<td>6 498</td>
<td>15 594</td>
</tr>
<tr>
<td><strong>SACU</strong></td>
<td>380</td>
<td>1 087</td>
<td>2 309</td>
<td>4 755</td>
<td>6 793</td>
<td>16 302</td>
</tr>
<tr>
<td><strong>Non-Tax</strong></td>
<td>141</td>
<td>404</td>
<td>858</td>
<td>1 767</td>
<td>2 524</td>
<td>6 058</td>
</tr>
<tr>
<td><strong>Total Tax</strong></td>
<td>7 424</td>
<td>59 239</td>
<td>151 275</td>
<td>376 934</td>
<td>572 836</td>
<td>1 487 041</td>
</tr>
</tbody>
</table>

% of Income
Spent on Taxes: 11% 30% 36% 43% 46% 50%
# Average Household Receipts

<table>
<thead>
<tr>
<th>Category</th>
<th>Expenditure (Rbn)</th>
<th>Per Household (R)</th>
<th>Six HH Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>R 592</td>
<td>R 43 852</td>
<td>R 263 111</td>
</tr>
<tr>
<td>Education</td>
<td>R 233</td>
<td>R 17 259</td>
<td>R 103 556</td>
</tr>
<tr>
<td>Health</td>
<td>R 133</td>
<td>R 9 852</td>
<td>R 59 111</td>
</tr>
<tr>
<td>Social Develop.</td>
<td>R 137</td>
<td>R 10 148</td>
<td>R 60 889</td>
</tr>
<tr>
<td>House &amp; Water</td>
<td>R 45</td>
<td>R 3 333</td>
<td>R 20 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>R 1 140</strong></td>
<td><strong>R 84 444</strong></td>
<td><strong>R 506 667</strong></td>
</tr>
</tbody>
</table>
## Average Household "Receipts", per Household

<table>
<thead>
<tr>
<th></th>
<th>R 70 000</th>
<th>R 200 000</th>
<th>R 425 000</th>
<th>R 875 000</th>
<th>R 1.25 mil</th>
<th>R 3 mil</th>
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</thead>
<tbody>
<tr>
<td><strong>Total Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>R 43 852</td>
<td>R 43 852</td>
<td>R 43 852</td>
<td>R 43 852</td>
<td>R 43 852</td>
<td>R 43 852</td>
</tr>
<tr>
<td>Education</td>
<td>R 27 902</td>
<td>R 27 902</td>
<td>R 27 902</td>
<td>R 11 219</td>
<td>R 8 630</td>
<td>R 0</td>
</tr>
<tr>
<td>Health</td>
<td>R 26 477</td>
<td>R 26 477</td>
<td>R 3 694</td>
<td>R 1 231</td>
<td>R 1 231</td>
<td>R 0</td>
</tr>
<tr>
<td>Social Develop.</td>
<td>R 40 796</td>
<td>R 20 093</td>
<td>R 0</td>
<td>R 0</td>
<td>R 0</td>
<td>R 0</td>
</tr>
<tr>
<td>House &amp; Water</td>
<td>R 13 400</td>
<td>R 6 600</td>
<td>R 0</td>
<td>R 0</td>
<td>R 0</td>
<td>R 0</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td>R 152 427</td>
<td>R 124 925</td>
<td>R 75 449</td>
<td>R 56 302</td>
<td>R 53 713</td>
<td>R 43 852</td>
</tr>
</tbody>
</table>
### Household Tax and Expenditure Receipts

<table>
<thead>
<tr>
<th>Total Income</th>
<th>R 70 000</th>
<th>R 200 000</th>
<th>R 425 000</th>
<th>R 875 000</th>
<th>R 1.25 mil</th>
<th>R 3 mil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Tax</td>
<td>R 7 424</td>
<td>R 59 239</td>
<td>R 151 275</td>
<td>R 376 934</td>
<td>R 572 836</td>
<td>R 1 487 041</td>
</tr>
<tr>
<td>Total Receipts</td>
<td>R 152 427</td>
<td>R 124 925</td>
<td>R 75 449</td>
<td>R 56 302</td>
<td>R 53 713</td>
<td>R 43 852</td>
</tr>
</tbody>
</table>

For every R1 "taxed", Household receives...

R21  R2.11  R0.50  R0.15  R0.09  R0.03

One rich family pays for 10 poor families...
Household's Contribution to Gov. Income and Receipts of Gov. Spending

- Tax Paid:
  - R 70 000: 6.3%
  - R 200 000: 22.40%
  - R 425 000: 26.7%
  - R 875 000: 26.50%
  - R1.25 mil: 11.7%
  - R3 mil: 0.2%

- Spending Received:
  - R 70 000: 1.66%
  - R 200 000: 6.6%
  - R 425 000: 27.65%
  - R 875 000: 63.6%
  - R1.25 mil: 0.3%
  - R3 mil: 0.2%
The Six Households in South Africa: Poor to Rich

- Four members per family (household)
- Two working adults
- State effective and efficient

Redistribution Effect of the Places

Household Spending as % of FPI Income

Household Spending as % of Total Income

Average Household Receipts

<table>
<thead>
<tr>
<th>Category</th>
<th>Expenditure ($)</th>
<th>Per Household ($)</th>
<th>Six Mth Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>6,694</td>
<td>669</td>
<td>669</td>
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<tr>
<td>Education</td>
<td>3,393</td>
<td>339</td>
<td>339</td>
</tr>
<tr>
<td>Health</td>
<td>1,777</td>
<td>178</td>
<td>178</td>
</tr>
<tr>
<td>Social Security</td>
<td>2,237</td>
<td>224</td>
<td>224</td>
</tr>
<tr>
<td>House &amp; Water</td>
<td>1,055</td>
<td>106</td>
<td>106</td>
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<tr>
<td>Total</td>
<td>11,128</td>
<td>1,113</td>
<td>1,113</td>
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</table>

Average Household "Receipts", per Household

<table>
<thead>
<tr>
<th>Source</th>
<th>Receipt ($)</th>
<th>Per Household ($)</th>
<th>Six Mth Avg</th>
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<tbody>
<tr>
<td>Other</td>
<td>6,746</td>
<td>675</td>
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<td>Education</td>
<td>3,461</td>
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<td>Health</td>
<td>1,928</td>
<td>193</td>
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<tr>
<td>Social Security</td>
<td>2,449</td>
<td>245</td>
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<tr>
<td>House &amp; Water</td>
<td>1,180</td>
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<tr>
<td>Total</td>
<td>11,565</td>
<td>1,156</td>
<td>1,156</td>
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</table>

Average Household "Tax", per Household

<table>
<thead>
<tr>
<th>Category</th>
<th>Tax ($)</th>
<th>Per Household ($)</th>
<th>Six Mth Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>0.26</td>
<td>26</td>
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<tr>
<td>Total</td>
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Household Contributions to Give, Income, and Receipts of Core Spending
Summary

- Lack transparency
- Self confident minister
- Unrealistic assumptions
- This is a wish list not a budget
Think Efficient. Realise potential.