



Highlights from the medium-term budget policy statement (MTBPS)

Relaxation of local listing rules

All inward-listed shares – foreign companies trading on the JSE – will now be classified as domestic for exchange control purposes. This means they will also be included in JSE indices going forward.

This gives the investment managers the opportunity to own a far greater number of shares such as British American Tobacco Plc, which were previously classified as foreign and were not freely tradeable. The inclusion of these shares in benchmarks will also create additional demand as investment managers seek to control benchmark risk. These foreign shares will enhance the diversification and opportunity set for local managers without having to use their foreign exchange allowance. The move should also enhance the status of the JSE as a gateway into Africa for foreign companies looking to raise capital for African expansion.

Gross domestic product (GDP) expectations downgraded

Weaker-than-expected real economic figures in South Africa and a challenging global economic backdrop have caused downward revisions to macroeconomic growth projections. Real GDP growth is now forecasted to be 3.1%, 3.4%, 4.1% and 4.3% for 2011, 2012, 2013 and 2014, respectively. The Minister made it clear that, if the global recovery fails, treasury will need to increase taxes and decrease spending to keep the budget deficit in check.

Real GDP growth forecast	2011/2012	2012/2013	2013/2014	2014/2015
October 2010	3.5%	4.1%	4.4%	-
February 2011	3.4%	4.1%	4.4%	-
October 2011	3.1%	3.4%	4.1%	4.3%

Higher budget deficits

Weaker economic growth will result in a deterioration of revenues. Though expenditure is projected to be

largely unchanged, this means higher budget deficits. Treasury has struggled to keep wage settlements in line with consumer inflation during recent years and this remains an upside risk to future expenditure. The deficit estimate for 2011/12 has been raised to 5.5% but is projected to fall to 3.3% by 2014/15.

Budget deficit as a % of GDP	2011/2012	2012/2013	2013/2014	2014/2015
	-5.5%	-5.2%	-4.5%	-3.3%

Implications for local bond issuance

Issuance plans were largely unaffected as the larger deficits will be financed through a drawdown of cash balances and exchanging debt maturing within the next several years for longer-dated debt.

More focused spending

Treasury has proposed a support package to enhance the competitiveness of industry and will spend R25 billion during the next six years to boost industrial development, assist enterprises and accelerate job creation. The Finance Minister made it clear that infrastructure growth and job creation does not lie in spending more, but spending more efficiently. Government will implement stricter monitoring techniques for municipalities and state-owned enterprises, which have been key culprits in infrastructure under-spending and over-spending on wages.

Conclusion

The MTBPS presented to Parliament yesterday has generally been well received. It emphasises efficient use of resources and spending restraint against a worsening global and local economic backdrop.

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