

OUR FEBRUARY WEBINAR

YOUR QUESTIONS ANSWERED



Thank you to everyone who attended our Budget 2021 webinar in February, with Nicky Weimar, Jason Binneman and Hein Klee.

A number of interesting questions were raised by attendees which we unfortunately did not have the opportunity to answer at the time. Nicky and Jason have therefore given their responses to your questions below. If you would like any further information, please contact your relationship manager.

1	What is the impact of the budget allocation towards the development of a digital economy, 5g spectrum allocation and SA connect?	The National Budget does not directly address spectrum, but it endorses South Africa's reconstruction and recovery plan, which does deal with the release of spectrum and the development of ICT. However, the process has stalled, facing legal challenges, which probably means South Africa will not pick the low hanging fruit quickly.
2	The budget forecasted 1.6%, 3.2%, 2.2% gross debt increases over the next three years, along with -9%, -7.4% and -6.5% budget deficits. real GDP growth was forecasted at 3.3% for 2021, moderating to an average of 1.9% in 2022 and 1.6% in 2023. this strikes me as somewhat optimistic given the budget deficits? is this realistic?	It does add up. National Treasury will be using cash raised last fiscal year to reduce the debt burden. There are also two big redemptions due over the next two years.
3	What are the chances that the government will begin to print money to get them out of the fix that they are currently in?	This is only likely to happen when the government can no longer raise funding in the local bond market. At this stage, it seems unlikely. Bid-cover ratios remain healthy.
4	GDP growth recovery is weak, and 3-year GDP 1.9% trajectory means no effective employment or economic growth. how does business get government to unlock regulatory/growth constraints?	This is a very difficult question to answer. Business has tried through various channels, both formal and informal, with limited success in the past.
5	Is this the first 'planned' smaller budget in terms of expenditure since 1994? I say planned because it's always possible to overspend. For many years we have had plans for shrinking budget deficits in future based on assumptions but rarely/never delivered. so, is this an important change, albeit a small one?	No, it is not the first time. Disciplined fiscal policy, aimed at reducing the budget deficit, was the standard during Trevor Manuel's tenure as finance minister. It is however the first effort since 2009.
6	Corruption from government, yes, it's true, but it's in partnership with the private and corporate sector. Why is only government corruption mentioned?	I think it is fair to say that the partnership has been limited to a few bad apples in the private sector. Government is accountable to the citizens of South Africa for their conduct and performance. It is incumbent on it to obey the law and not abuse their powers and serve the public interest in an efficient, effective and fair manner. In the tender relationship, government holds all the power.
7	<ol style="list-style-type: none"> 1 Can the economy actually grow above 1% given the energy constraints in South Africa? 2 How much foreign (non-Rand) debt do we have? 3 If we have low foreign debt can we enjoy an 'MMT' style printing? with no impact on inflation? 	<ol style="list-style-type: none"> 1 We believe it is possible for it to grow at about 1.5% q-o-q without hitting power constraints. However, bear in mind that the higher growth rates reflected in National Treasury's estimates come off a very low base, so even though South Africa is growing at 3.3% in 2021, we shrunk by 7.2% in 2020, so capacity utilisation is still miles below 2019 levels. 2 Foreign currency denominated debt is very small, only 8.5% of GDP. 3 No, we do not believe that South Africa can print money without immediately destroying the value of the currency.
8	Is there a plan to reduce the number of persons employed in the public sector including SOE and municipalities or only control paying rates and benefits?	Government is not planning any retrenchments, only wage constraints.

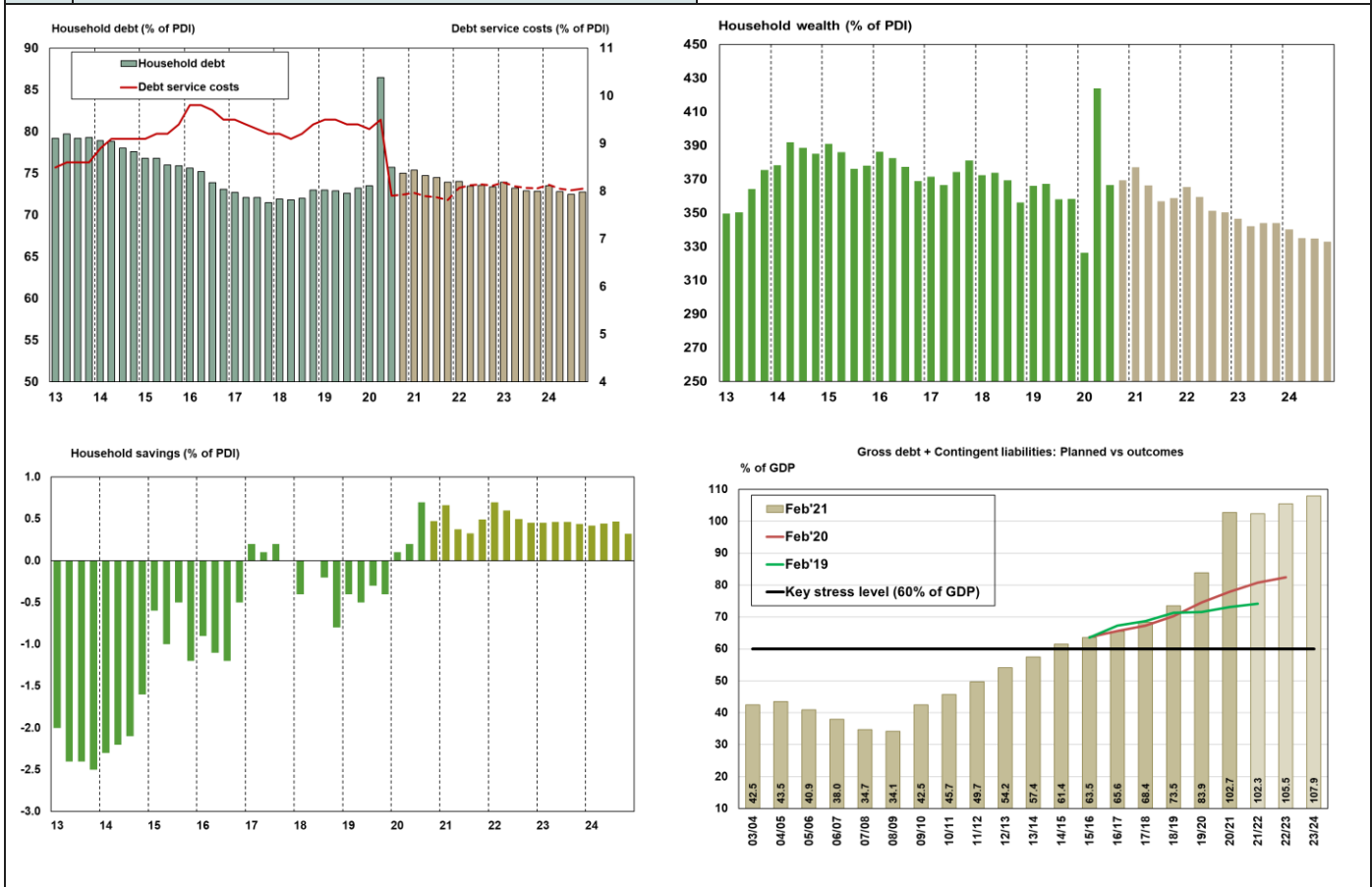
9	How do you curtail public sector wages whilst trying to improve the current shocking service delivery?	At Nedbank, we have zero-tolerance for corrupt activities, and we expect our: stakeholders, our clients, service providers, and staff members, to conduct their everyday professional duties and activities ethically and with integrity. Corruption is at the heart of the public sector wage dispute. The service delivery issues are systemic and need to be addressed at their root cause which includes poor governance and accountability.
10	At what point (Gross Debt to GDP) do we fall off the fiscal cliff and start risking debt default?	We are already in the territory where a fiscal cliff is imminent. We are just lucky that the bulk of our debt is rand-denominated, and the rest of the world is occupied with other issues such as Covid-19, vaccines, Fed policy & the threat of inflation.
11	Your graphs show where the solution lies to reduce expenditure and enhance investment and job creation by concentrating on Renewables - a truly just transition. Eskom is a black hole with what are destined to become stranded assets! Why are you not amplifying this solution to a new economic model focused on energy transition?	Nedbank is very active in this area. We, at the Economic Unit, have only recently started to develop models to capture both the cost of climate change and the opportunity presented by the transition to sustainable energy. We are a long way from the finish line, so it is a work in progress.
12	What is the view of Nedbank on corruption - seeing that Nedbank's name keeps coming up at the Zondo Commission?	Nedbank has zero-tolerance to corruption, and we expect stakeholders, including our clients, service providers and staff, to conduct activities ethically and with integrity. Nedbank has assisted the Zondo Commission through the provision of the requested information. Nedbank has been supporting, and will continue to support and co-operate with, the relevant authorities and commissions looking at matters of corruption.
13	Do you see the property impact hurting quick-service restaurants (QSRs), or do you feel that they (QSRs) are making up for some of it with the likes of Uber Eats, Mr Delivery which have probably picked up activity over time?	Curfews affected trading hours which reduced the time available to make sales, both physically and via delivery. The ban on alcohol sales also negatively affected sales. Less seating due to Covid-19 restrictions reduces trading densities, negatively impacting sales. Spur Group sales were down c.30% (across all their brands) for the six months ending 31 December 2020. Famous Brands (Steers, Wimpy, Debonairs, et al) saw sales decline 48% for the six months to the end of August 2020. Franchisees were supported by both corporates during this time, so, to the extent that these continue to operate, landlords are likely to receive rentals as the economy gradually recovers. Delivery via third parties (Mr Delivery, etc.) eats into restaurant margins.
14	What is your call on the USD/Rand exchange rate as well as South Africa's interest rates for the period?	We expect the rand to hold value this year. There is probably limited upside for the currency given that it is fairly valued based on inflation differentials. However, the rand tends to overshoot on the way down and the way up. Global forces will be supportive of risk appetites in 2021, which help the rand hold relatively steady. We expect interest rates to remain unchanged this year since inflation is likely to come in below the 4.5% midpoint of the SARB's inflation target range. Please see the table on the following page for the Rand forecast.

Monthly forecasts of exchange rates

		Euro-\$	\$-CHF	\$-yen	GBP-\$	\$-R	GBP-R	Euro-R	
2020	January	0,818	0,017	-0,2	0,728	0,37	0,05	0,05	
	February	0,818	0,017	-0,2	0,732	0,37	0,05	0,05	
	March	0,818	0,017	-0,2	0,737	0,36	0,05	0,05	
	April	0,813	-1,400	0,0	0,735	-0,70	0,05	0,05	
	May	0,807	-1,420	0,0	0,734	-0,70	0,05	0,05	
	June	0,801	-1,440	0,0	0,732	-0,71	0,05	0,05	
	July	0,803	0,133	0,9	0,735	0,57	0,05	0,05	
	August	0,805	0,133	0,9	0,738	0,56	0,05	0,05	
	September	0,808	0,133	0,9	0,741	0,56	0,05	0,05	
	October	0,809	0,117	0,4	0,742	0,90	0,05	0,05	
	November	0,811	0,117	0,4	0,743	0,89	0,05	0,05	
	December	0,813	0,116	0,4	0,745	0,88	0,05	0,05	
	Year Average	0,810	-0,288	0,3	0,737	0,28	0,05	0,05	
2021	January	0,810	-0,733	-0,2	0,743	-0,63	0,05	0,05	
	February	0,807	-0,739	-0,2	0,741	-0,64	0,05	0,05	
Forecast	March	0,804	-0,744	-0,2	0,739	-0,64	0,05	0,05	
	April	0,803	-0,333	0,0	0,738	-0,13	0,05	0,05	
	May	0,802	-0,334	0,0	0,737	-0,13	0,05	0,05	
	June	0,800	-0,336	0,0	0,736	-0,13	0,05	0,05	
	July	0,806	0,350	0,9	0,742	1,37	0,05	0,05	
	August	0,811	0,349	0,9	0,748	1,35	0,05	0,05	
	September	0,817	0,348	0,9	0,753	1,33	0,05	0,05	
	October	0,822	0,283	0,4	0,758	1,80	0,05	0,05	
	November	0,826	0,283	0,4	0,762	1,77	0,05	0,05	
	December	0,831	0,282	0,4	0,767	1,74	0,05	0,05	
		Year Average	0,812	-0,110	0,3	0,747	0,59	0,05	0,05

15	There have been erratic weather patterns lately? what effect will these have on planning and forecasting?	Yes, there have been. Our ability to model weather patterns is limited, but we consult the work of AgriSA and others, including those into our growth estimates.
16	Impact land without compensation includes all properties including residential?	No, not residential land – only vacant land used for speculative purposes. It will be hard to prove a vacant plot is indeed a speculative deal. Nedbank is of the view that land held for speculative purposes is legitimate and should therefore not be subject to expropriation without compensation
17	Is the tax burden/incidence on the private taxpayer going up or down and where are we relative to world and similar economies?	It is going up. This is reflected in the contribution to GDP of government revenue, which is essentially tax revenue. We are high compared to our peer emerging markets and around the middle of the range when compared to advanced countries.
18	Will Covid-19 relief funds for businesses continue to be made?	No, we believe the relief funds will be withdrawn unless you are operating in industries severely affected by lockdown regulations – travel, tourism, entertainment.
19	Why are we so focused on the deficit when Covid-19 has woken the whole up to the more fundamental issue of wellbeing for all and our biosphere? The question even the most conservative economists have focused on is the quality of investments to secure wellbeing for all and sound ecosystem management and the return on them that makes deficit financing more than sensible but essential! acceptable! Wellbeing for a few is wellbeing for none!	The deficit matters. If you raise the economic growth through fixed investment in sustainable infrastructure and energy, you will indeed be able to finance your deficit. South Africa's problem is our spending is not on infrastructure. We run a deficit to finance consumption expenditure. This is completely unsustainable. Our second problem is that government does not have the skills and administrative and logistical capacity to implement capital expenditure projects – this both the President and the National Treasury acknowledge. So, the private sector should start this transition. We believe the process has started, but yes, it is a slow process.

20	Will there be a timetable for promises made?	In theory the budget framework sets the timetable, but of course it has not mattered much in the past. On the promises made in the Reconstruction and Recovery Plan we could not find many specific deadlines. So, we guess the answer is no.
21	Do we have a recovery plan of our economy after Covid-19?	In theory the Reconstruction and Recovery Plan extends well beyond Covid-19. It contains the basics needed to get the economy going again, but the key now is that government needs to implement the plans.
22	What is the REAL debt position in South Africa for the state and the consumers? How does the debt compare to the country's savings in pensions and other investments instruments? The question really is "Is the country a going concern?"	<p>Household debt stood at 75.7% of personal disposable income in Q3 2020. Household savings stood at 0.7% of personal disposable income in the same quarter.</p> <p>So, South African households have, on average, become more conservative, opting to refrain from using debt and to bolster savings. On average, households are a going concern. Companies are net savers, the main contributors to capital in South Africa. Their position has been weakened by Covid-19, but the process of repairing balance sheets is happening very quickly. Government is not a going concern at the moment and the biggest dissaver in the South African economy. Refer to the graphs below.</p>



23	What impact does BEE have on the economy? And when will the turnover limit for small business (R10 million for many years) be increased?	There have been some academic studies on the impact of BEE on the economy – most conclude that it has a positive impact, except for in the government procurement practices where BEE is often used as excuse for corruption and there is very little oversight. Based on our interaction with foreign companies and investors, we know that it is considered a disincentive to investment in South Africa. Most of our domestic corporate clients are also concerned about moving goalposts, which means that BEE remains a commitment regardless of previous positive interventions. We have not heard anything about the turnover limit for small businesses so we can't really answer this part of your question.
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24	<p>Q1. With Governments inability and lack of real desire to stop corruption, how do they deliver future budgets that are actually realised at a spending level?</p> <p>Q2. Has anyone projected a real Covid-19 impact on the economy and Government revenue and if so, how large are the deficits, and will we slide down the slippery debt slope to a point where we cannot meet the interest payments?</p>	<p>Q1. Fair point.</p> <p>Q2. The impact Covid-19 has had on the economy has been calculated. It is not a perfect science because in order to estimate the impact you would need to estimate what GDP would have been in 2020 were it not for Covid-19. So, it is quite a theoretical exercise. Most forecasts for GDP before Covid-19 struck were for GDP growth of around 0.1% to 0.5%. So Covid-19 destroyed about R229 billion of production and sales in real or inflation-adjusted terms, which is enormous. The impact of tax revenue can be calculated quite precisely – it is the tax undershoot.</p>
25	How long will it take South African government to pay off its debt in order for the next three generations to live better?	If government can stick to its deficit targets, it will probably take about a decade to reduce the debt burden to below 60% of GDP, a level which is quite sustainable and relatively easy to service.
26	<p>The government continues to take no action against those who steal from the Fiscus. How are they going to persuade foreign investors that South Africa is an attractive investment destination?</p> <p>How is the government going to persuade foreign investors that expropriation without compensation is a good idea?</p> <p>With company tax rates of 28% (42.4% as dividends) how can we compete with countries like the Netherlands which has a tax rate of 19%?</p>	Your questions are very valid. The short answer is that we will not be able to compete and that we will not attract material foreign direct investment unless we offer a framework like the Motor Industry Development Plan that helps to offset some of the country's inherent flaws. As we said in the presentation, fixed investment will probably decline further this year before rising at a very modest pace from 2022 onwards. The bulk of investment activity will probably go toward mechanisation, automation and digitisation.
27	Where is the Rand heading over the next three years?	No rand forecast ever comes close to the actual outcome. Bearing this in mind, we expect the rand to end the year around R15.12/USD, end 2022 at R15.79/USD and end 2023 at R16.73/USD.
28	If you were the Finance Minister, how would you motivate for a meaningful reduction in the size of the public sector wage bill?	Public sector wages have grown at a rate above inflation for over a decade. It is among the highest in the world, which is completely unsustainable for a country with one of the narrowest tax bases in the world. Added to this, the country (taxpayers) is borrowing money to fund wages. So, either the government cuts jobs or the government cuts wages. The latter is the better option.
29	How does a Government attract foreign investment when they seem to be stuck in their own ideology which to me borders on socialism?	With difficulty is the answer. Ideology is real problem. It often prevents the implementation of practical solutions. Sadly, we think foreign direct investment will remain minimal for the foreseeable future.
30	Is South Africa still a good country to reside in, for High Net Worth individuals, or is there a better life elsewhere?	South Africa is a developing country with high unemployment and high inequality. So, as such our living standards are much lower than those of developed countries. There is no denying that the quality of life measured in wealth and income and access to services is higher in advanced countries.
31	What is the future of prescribed assets for retirement funds?	<p>We don't know. We know government wants to go that route. At this stage, it looks like they will rewrite the laws to enable them to lift the current restriction on the amount that can theoretically be invested in infrastructure. However, pension funds will not be forced to utilise the higher allocation.</p> <p>This has not been proposed by National Treasury in the recently released draft amendments to Regulation 28.</p>
32	Do you think that the ANC may nationalise the Reserve Bank in order to print money to cover their deficits?	They might nationalise the Reserve Bank, but not to print money – not under this administration. To print money, they will also have to change the constitution. We don't think they will get the votes needed to do this in the foreseeable future.

33	It seems Nigeria (Twiga Foods) and Kenya (Mpega) are attracting certain foreign interest, just as two examples. Are we still stuck in our history and old stories that hold us back? There also appear to be disruptors in the financial markets, be they a shadow economy, black market (wow did closing liquor and cigarette sales help that case!), alternative currencies like Bitcoin that perhaps challenge 'business as usual'. I've always thought banks were irreplaceable and solid but are they moving with the times?	We believe that banks are moving with the times. This does not mean that there will not be other forms of competition, there will be, and it is a good thing for financial services. We will of course not do business with the black market and our systems are set up to pick up money laundering and other financial crimes. Bitcoin has enjoyed an advantage over banks and hard currency in that it is not regulated. This will not last – the US Fed are writing regulations for bitcoin as we speak.
34	The IMF says we need stimulus now, followed by austerity - how do we cross that bridge without defaulting and without turning the screws into the economy?	The IMF recommends fixed investment in infrastructure. It is quite acceptable to borrow for capital expenditure as it raises the country's growth rates by lifting constraints and lowering the cost of production. However, the government has a very poor track record on Capex, SOEs have an even worse track record. So, South Africa will have to get creative.
35	When and how can we get to improve our rating? Please provide practical actions not theory.	The practical actions are: Cut the budget deficit consistently, stabilise the debt burden, implement structural reform (energy, transport, spectrum, labour, etc.), get rid of destructive legislation which discourages investment and act on evidence of corruption.
36	How will government deal with the increase in food costs?	Government will not deal with it. Food provision is largely done through the private sector. We think it will only be a public concern if the rise in food prices is astronomical, as was the case in Tunisia before the uprising. This is unlikely to happen in South Africa as we are heading for another bumper crop.
37	We are faced with plummeting revenue collection, soaring expenditure and even higher interest costs. If there is a growth path from here? Please explain how.	The fiscal plan is to reduce the deficit – it requires expenditure cuts. This is the only way to make progress when your economy is struggling. The question is whether government can implement the expenditure cuts – especially the wage constraint. As we said in the presentation, we do not know what the outcome of the Constitutional Court case and the wage negotiations will be. Over the next few years, South Africa will have to rely on a lift from the global economy. This is likely to be forthcoming given record low interest rates & aggressive fiscal stimulus in advanced countries. Our exports will probably do the heavy lifting.
38	How long will it take for the construction sector to recover to mid-2019 levels?	We will have construction back to 2019 levels by 2024.
39	What is the outlook on the average inflation rate for 2021?	We expect inflation to average 4%. Upward pressure will come from higher fuel, food and electricity tariffs, but these will be offset by a stronger rand and subdued domestic demand.
40	When in the year are corporate listed entities expected to pay dividends again?	This is very dependent on which corporate, but broadly from the second half of the year. Certain corporates have continued to pay dividends throughout, e.g. Mining companies.
41	Do you think donations tax will be increased?	We honestly don't know.
42	1. Tax hikes in 2021? 2. Debt to GDP - any hope? 3. Has the ANC the capability of addressing the economy successfully, given their track record.	We covered the tax proposals for 2021 in the presentation. We think there will be tax hikes in 2022, but it will not be personal income tax or company tax – these National Treasury has indicated will be reduced at some point over the next two years. So, it will probably be indirect taxes. On debt to GDP, there is hope, but it does require that government makes a start at reducing the deficit – it is only way they will regain some fiscal credibility. We cannot speculate about the ANC as it is a political party. As for government, you are correct. The track record is not good. Government needs to prove to the country and investors that the state can implement some of the promises and plans presented every



		year in SONA and the National Budget. We suppose only time will tell.
43	Does it not make sense to engage home affairs on a system where foreign investors could gain residency easily when purchasing property or investing locally? This would solve many of the problems with excess luxury housing stock and failing property values, especially in the "touristy" areas, e.g. Swakopmund.	Agree, a good idea. Politically, it will be a hard sell though because land is a sensitive issue.