

Overview of the Medium Term Budget Policy Statement



presented by

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Medium Term Budget overview

Pursuing sustainable growth

- **Infrastructure investment** should provide a strong **platform for accelerated growth** in future
- Government is promoting **macro-economic stability**, a favourable investment climate and increased economic opportunity
- **ASGISA** aims to lift the economy to a higher growth trajectory of at least 4.5% GDP growth p.a. in 2005 to 2009, and **substantially higher economic growth** of at least 6% p.a. from 2010.
- Despite substantial progress on the economic front, the **gaping current account deficit** is reason for concern.
- Growth in real fixed investment is expected to increase at a rapid pace over the MTEF period to 2009/10.
- **Substantial resources** are allocated to key **transport projects**, e.g. road and rail.
- Against the backdrop of higher and sustained economic growth, the economy's **labour absorption capacity** appears to be improving as well.

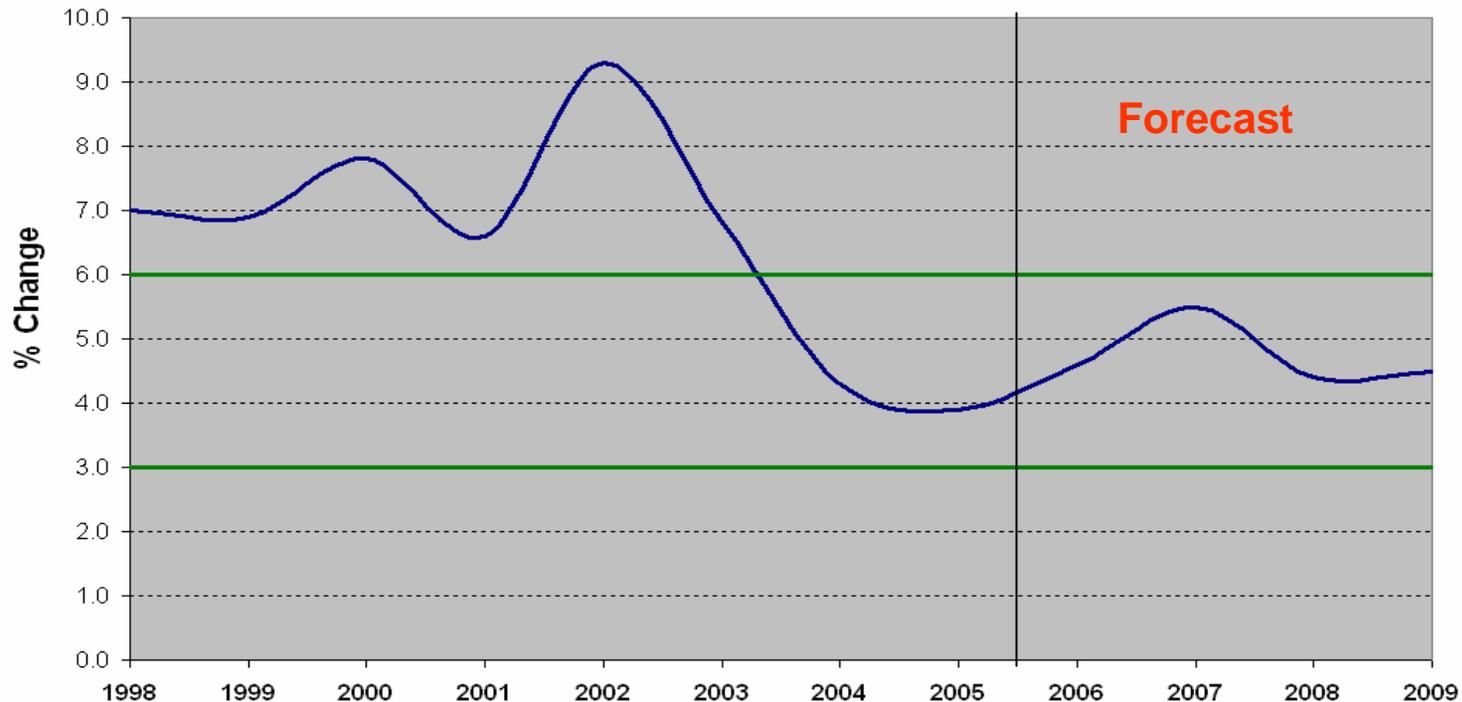
Key public priorities include:

- **Investment in stadiums** and public transport to ensure a successful **2010 FIFA World Cup**
- **Strengthening the criminal justice sector**, with particular emphasis on visible policing and improving court case flow
- Stepping up investment in the built environment in the form of **housing, roads, water, sanitation and community** facilities
- Contributing to **improved economic efficiency** through investment in roads, rail, electricity generation and supply, dam construction and skills development.
- **Accelerating the pace of growth**, and the rate of **investment in productive capacity**.
- Building **regional and international partnerships** for growth and development.

- *The medium-term outlook remains positive, with average GDP growth of roughly 5% p.a. forecast for the period 2007 to 2009, supported by strong investment activity, a recovery in exports and fairly strong growth in private consumption expenditure.*

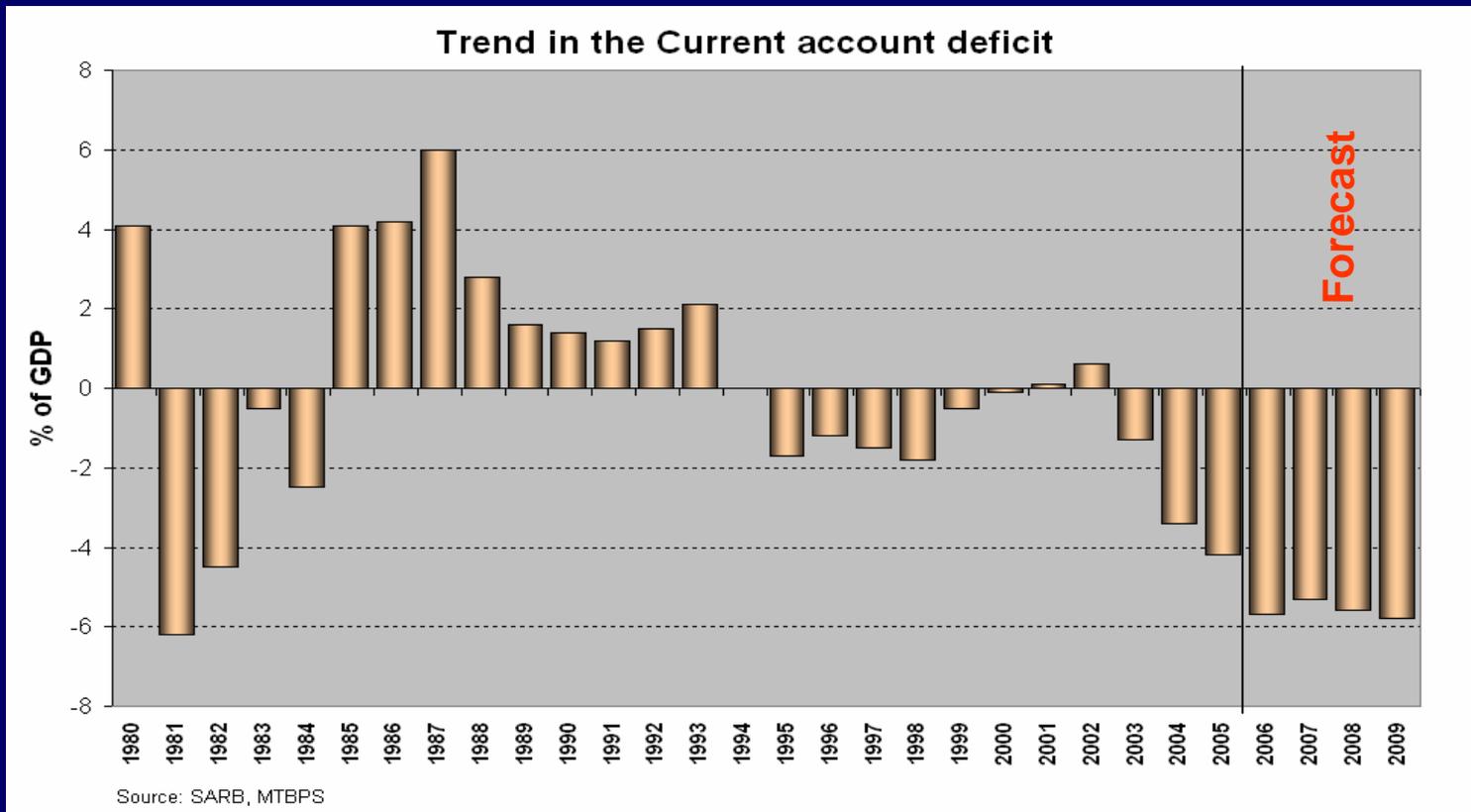
| Macro-economic projections, 2005 - 2009 | | | | | |
|--|-------------|--------------------------------|-------------|--------------------------------|-------------|
| Economic variable (% change p.a.) | 2005 | 2006 Estimate | 2007 | 2008 Forecast | 2009 |
| Final household consumption | 6.9 | 6.6 | 4.4 | 4.5 | 4.7 |
| Final government consumption | 5.6 | 5.6 | 4.5 | 4.6 | 4.6 |
| Gross fixed capital formation | 9.2 | 9.5 | 9.0 | 9.3 | 10.0 |
| Gross domestic expenditure | 5.9 | 7.2 | 4.3 | 5.2 | 5.7 |
| Exports | 6.7 | 2.7 | 6.5 | 6.3 | 6.4 |
| Imports | 10.1 | 13.0 | 5.7 | 7.4 | 7.6 |
| Real GDP growth | 4.9 | 4.4 | 4.4 | 4.8 | 5.3 |

Consumer price inflation according to CPIX



Source: SARB, MTBPS

- *CPIX inflation has been within the 3 -6% target range for three years (since September 2003).*
- *However, increasing inflationary pressures emerged since April 2006.*
- *Nevertheless, inflation is forecast to remain comfortably under control, peaking at 5.5% in 2007.*



- *Driven by robust economic growth and an increasing import propensity of the SA economy, the gap between imports and exports has widened substantially in recent years.*
- *The current account deficit measured 6.4% of GDP in Q1 of 2006, its worst level since 1981.*
- *Industrial and trade policy reforms are likely to bolster exports and moderate the trade deficit.*

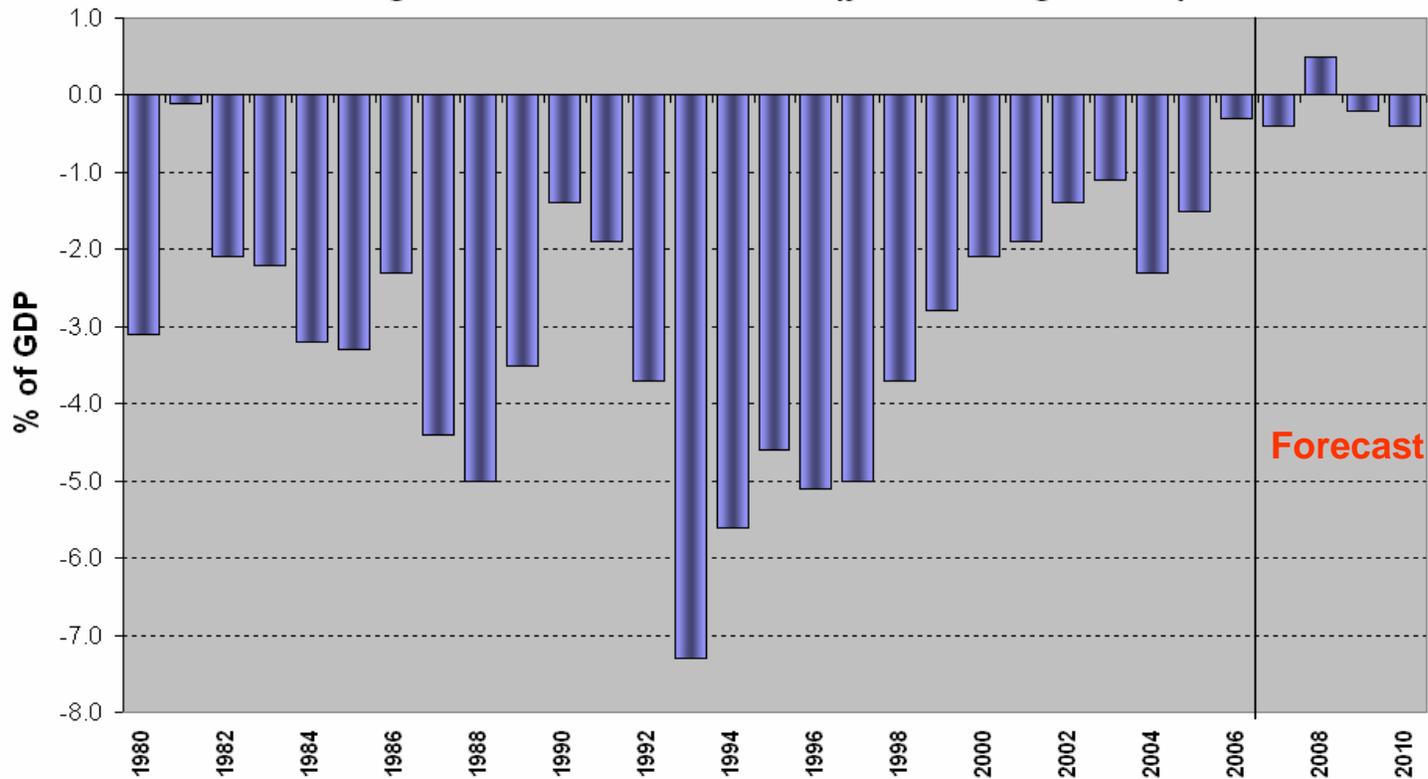
Main budget framework, 2005/06 - 2009/10

| R billion | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|---|----------------|----------------|-----------------------|----------------|----------------|
| | Outcome | Estimate | Medium-term estimates | | |
| Total revenue | 411.7 | 466.4 | 543.0 | 586.4 | 633.5 |
| <i>Percentage of GDP</i> | 26.3% | 26.7% | 28.2% | 27.7% | 27.2% |
| Total expenditure | 416.7 | 474.2 | 533.7 | 590.2 | 643.7 |
| <i>Percentage of GDP</i> | 26.7% | 27.2% | 27.7% | 27.8% | 27.6% |
| Debt service cost | 50.9 | 52.6 | 53.8 | 54.1 | 52.4 |
| <i>Percentage of GDP</i> | 3.3% | 3.0% | 2.8% | 2.6% | 2.2% |
| Non-interest expenditure | 365.8 | 421.6 | 479.9 | 536.1 | 591.3 |
| <i>Percentage of GDP</i> | 23.4% | 24.2% | 24.9% | 25.3% | 25.4% |
| real growth (non-interest expenditure) | 9.9% | 9.7% | 8.3% | 7.1% | 5.5% |
| Contingency reserve | - | - | 2.2 | 6.0 | 10.0 |
| Budget balance | -5.0 | -7.8 | 9.3 | -3.8 | -10.2 |
| <i>Percentage of GDP</i> | -0.3% | -0.4% | 0.5% | -0.2% | -0.4% |
| Gross domestic product | 1 562.8 | 1 745.8 | 1 928.3 | 2 119.9 | 2 330.5 |

Source: MTBPS, Oct '06

- *Buoyant economic conditions are likely to result in **tax revenue** to be **R29.6 bn** more than budgeted for in the 2006/07 year.*

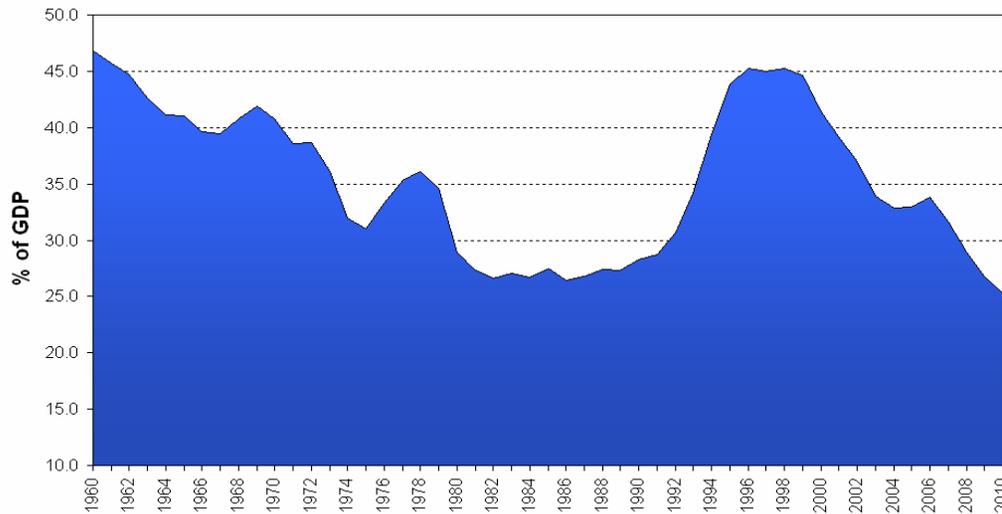
Budget balance as % of GDP (year ending March)



Source: SARB, MTBPS

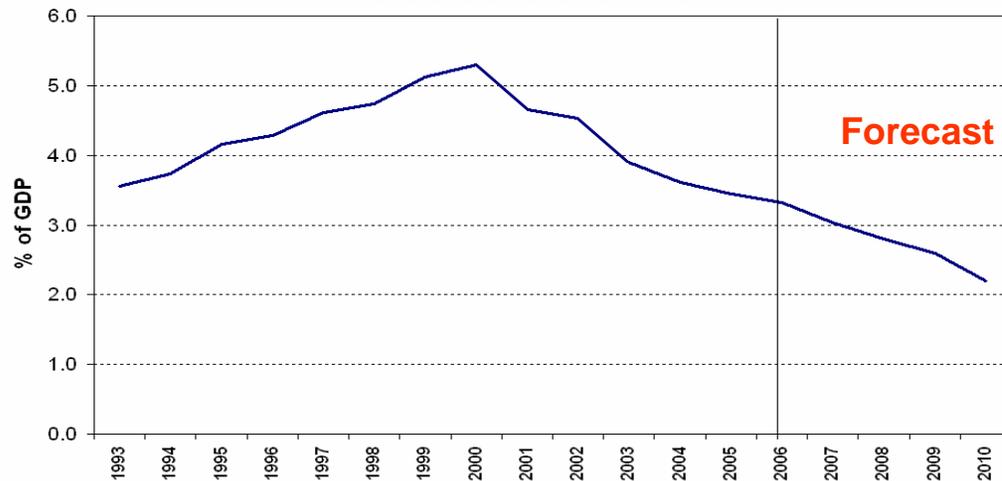
- **Robust economic growth will continue to boost tax receipts, resulting in revenue to increase as a share of GDP over the medium term.**
- **Prudent fiscal policy will contribute to a continued reduction in government debt stock and improve government savings.**

Government debt as % of GDP



Source: SARB

State debt service cost



Source: Budget Review, MTBPS

Fiscal year (April to March)

- A sharp reduction in overall government debt since 1999.
- State debt as share of GDP is forecast to decrease to about 25.3% by 2009/10, thereby contributing to lower state debt servicing costs.
- Moreover, sound fiscal management resulted in government being able to lower the debt service cost by R10.2 bn in the 2005/06 fiscal year.
- By 2009/10 this saving in debt service costs will have increased to R25.6 bn.
- Cumulatively, more than R102.6 bn will have been saved over the period 1996/97 to 2009/10.

Expenditure framework

Medium-term expenditure framework and division of revenue, 2006/07 - 2009/10

| R billion | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|------------------------------|--------------|-----------------------|--------------|--------------|
| | Revised | Medium-term estimates | | |
| National | 215.6 | 242.3 | 263.1 | 286.4 |
| Provincial | 178.3 | 201.5 | 224.9 | 248.0 |
| Local | 27.7 | 33.9 | 42.0 | 46.8 |
| Total | 421.6 | 477.6 | 530.1 | 581.3 |
| Changes from baseline | 3.5 | 16.8 | 22.5 | 40.7 |
| National | 0.7 | 8.3 | 8.6 | 16.0 |
| Provincial | 1.6 | 5.2 | 7.4 | 15.6 |
| Local | 1.2 | 3.4 | 6.5 | 9.1 |

Source: MTBPS, Oct '06

- **Additional government spending of R80 bn over the next three years.**
- **Provincial government's receive an additional R28.2 bn over the period 2007/08 to 2009/10.**

Expenditure framework

Consolidated expenditure, 2007/08 - 2009/10

| R billion | 2007/08 | 2008/09 | 2009/10 |
|--------------------------------------|-----------------------|--------------|--------------|
| | Medium-term estimates | | |
| Education | 17.6% | 17.5% | 17.6% |
| Health | 10.4% | 10.3% | 10.4% |
| Welfare and social security | 15.1% | 15.1% | 15.1% |
| Housing and community development | 7.4% | 8.1% | 8.0% |
| Police, prisons and courts | 9.8% | 9.6% | 9.5% |
| Defence and intelligence | 5.1% | 4.9% | 4.9% |
| Economic services | 17.7% | 17.7% | 18.4% |
| General administration | 6.7% | 6.8% | 6.7% |
| Non-interest expenditure | 89.8% | 90.1% | 90.5% |
| Interest | 9.8% | 9.0% | 8.0% |
| Unallocated | 0.4% | 0.9% | 1.4% |
| Total expenditure | 100.0% | 100.0% | 100.0% |
| Total expenditure (R billion) | 585.4 | 644.6 | 704.3 |

Source: MTBPS, Oct '06

- **Education to receive the largest contribution, with R103.3 bn assigned for the 2007/08 fiscal year (or 17.6% of total expenditure), increasing to R123.7 bn by 2009/10.**
- **A substantial reduction in interest spending is projected as its share of total spending declines from 9.8% in 2007/08 to 8% by 2009/10.**

Infrastructure spending

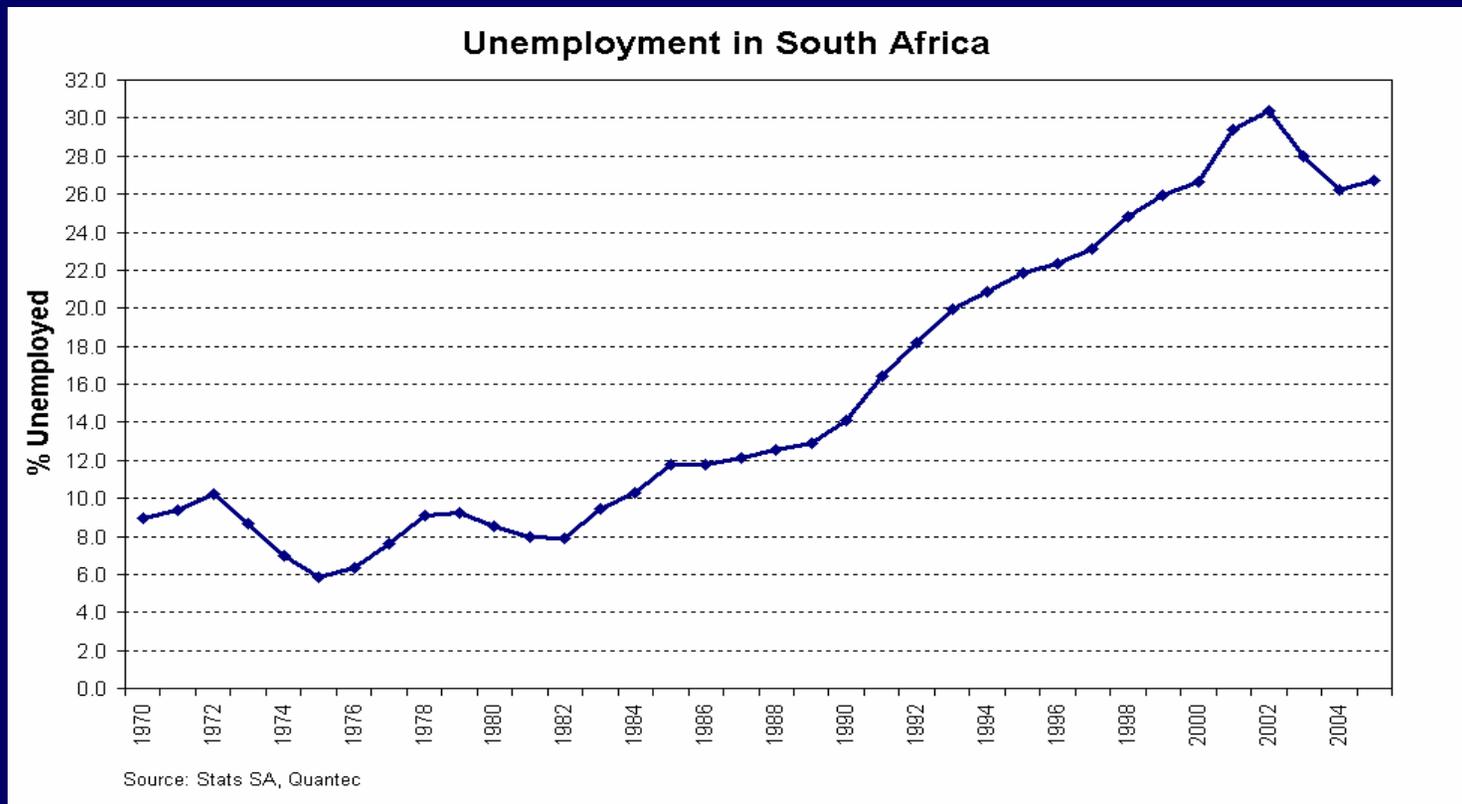
- Public sector **infrastructure spending** will amount to a sizeable **R409.7 bn** over the next three years, compared to the previous amount of approximately **R372 bn**.
- In the period 2005/06 infrastructure spending amounted to around **R80 bn**, which is now estimated to increase to just over **R150.9 bn by 2009/10**.
- Infrastructure spending by public enterprises accounts for **37.1%** of the total, whilst **Eskom** and **Transnet** are expected to spend almost **R108 bn** combined.
- The **2010 FIFA World Cup** has been assigned **R14.9 bn**.
- **Transport and water infrastructure investments include:**
 - **Gautrain**
 - **King Shaka Airport and Dube Tradeport**
 - **De Hoop Dam**
 - **Vaal River Eastern Sub-System Augmentation Project**

Provincial equitable share allocations, 2006/07 - 2009/10

| R billion | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|---------------|----------------|-----------------------|----------------|----------------|
| | Revised | Medium-term estimates | | |
| Eastern Cape | 24,643 | 27,074 | 30,269 | 33,481 |
| Free State | 9,595 | 10,745 | 12,012 | 13,286 |
| Gauteng | 23,362 | 28,217 | 31,548 | 34,896 |
| KwaZulu-Natal | 32,052 | 37,067 | 41,438 | 45,833 |
| Limpopo | 20,616 | 22,340 | 24,976 | 27,626 |
| Mpumalanga | 11,227 | 14,140 | 15,807 | 17,484 |
| Northern Cape | 3,452 | 4,598 | 5,140 | 5,686 |
| North West | 12,347 | 11,973 | 13,385 | 14,804 |
| Western Cape | 13,459 | 15,118 | 16,898 | 18,689 |
| Total | 150,753 | 171,271 | 191,474 | 211,784 |

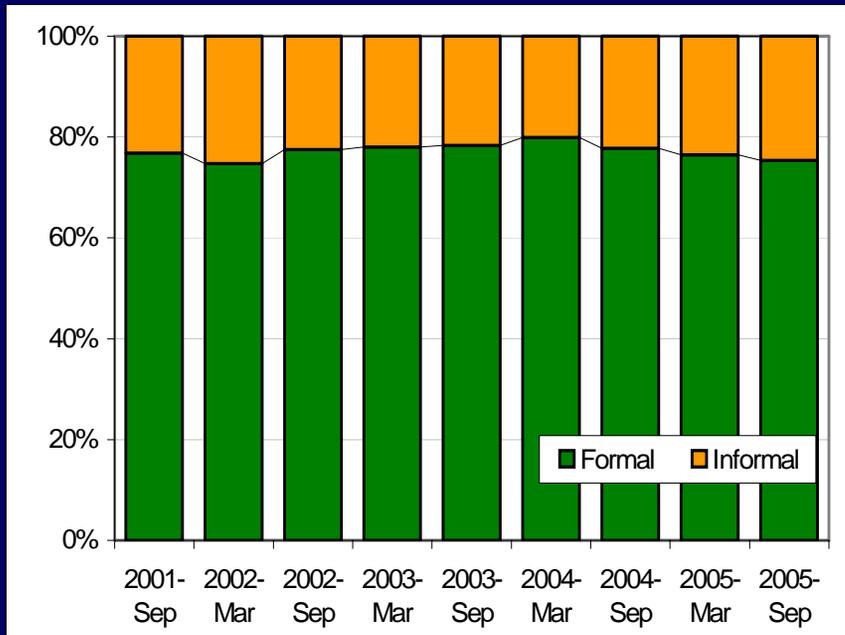
Source: MTBPS, Oct '06

- v One of the **greatest challenges** facing the SA economy is its ability to **create new jobs** to reduce the **extremely high levels of unemployment** and to accommodate an **increasing labour force**
- v Furthermore, every attempt has to be made to achieve **substantially higher levels of economic growth of a broad-based nature** in order to have a meaningful impact on **poverty alleviation** as well as **create and distribute wealth** amongst all citizens

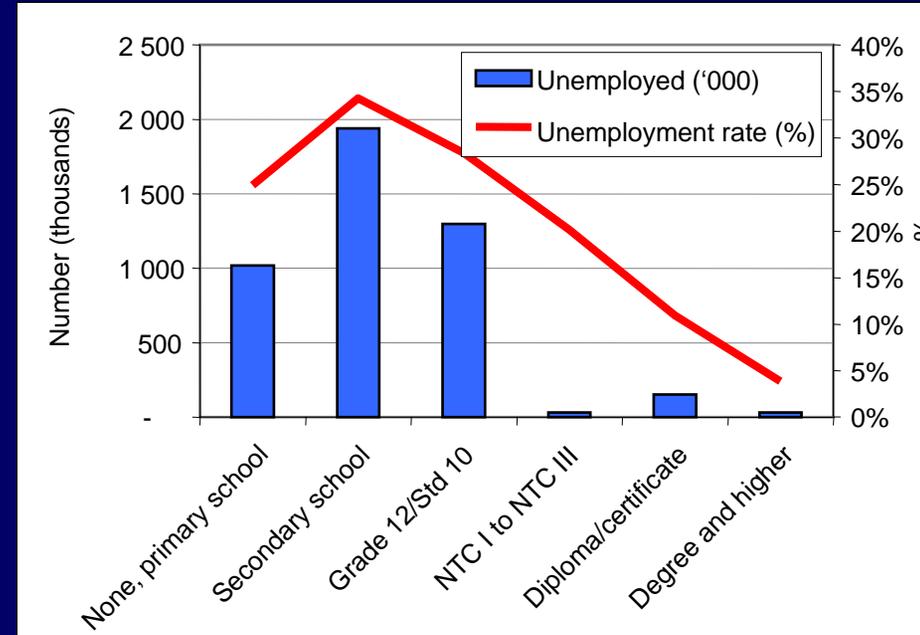


Structure of employment and unemployment ...

Number of jobs – Formal vs. Informal

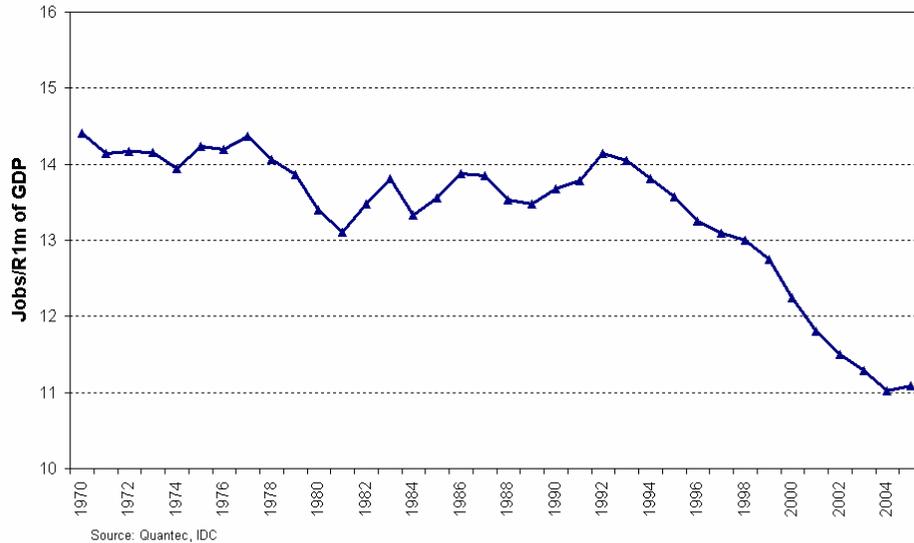


Unemployment and qualifications



- v Since 2004, the **proportion of informal jobs has increased from 20% to 25%** (impact of 2nd economy on job creation)
- v The largest need for jobs is from **people with no or little education** (3 million jobs are needed for people with Grade 11 and lower)

Trend in the Employment-GDP ratio

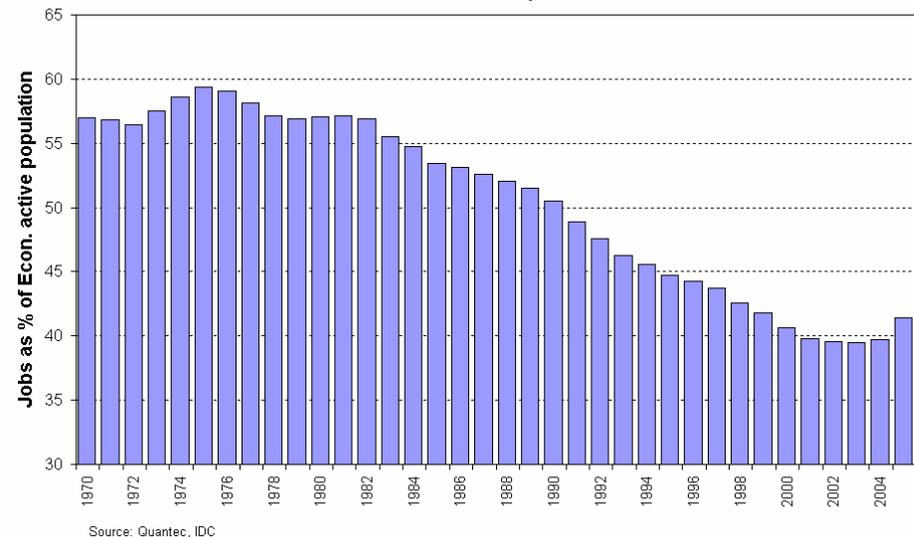


- The SA economy *has not succeeded in creating sufficient additional job opportunities* in the formal sector, despite the relatively strong growth performance since 1994

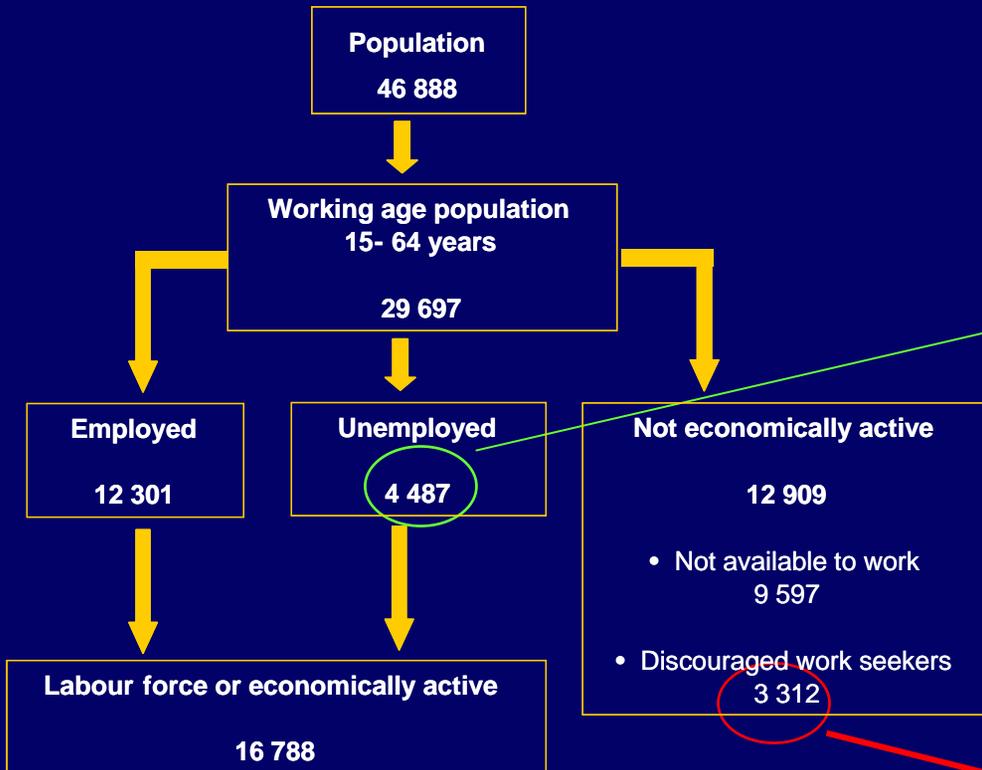
- **Contributing factors have included :**

- ∅ *Insufficient economic growth*
- ∅ *Unsatisfactory growth in new fixed investment,*
- ∅ *Relatively high increases in labour costs*
- ∅ *A structural change in the substitution of capital for labour through a substantial increase in capital deepening,*
- ∅ *The challenges business enterprises had to face in light of the country's re-admittance into the global economy, trade liberalisation and globalisation*

The Labour absorption rate



Key labour market indicators in 2005 (number '000)



Key objective of ASGI-SA is:

- To **halve unemployment and poverty** by 2014
(unemployment rate = 26.7% in 2005)

What is the main challenge?

- In 2005 **4.5 million** people were unemployed
- Assume no additional increase in the labour force, then **249 000 jobs** would need to be created annually just to reduce unemployment by 50% by 2014

Potential entrants into the labour market, which could exacerbate the unemployment problem substantially (previously part of the expanded unemployment definition).

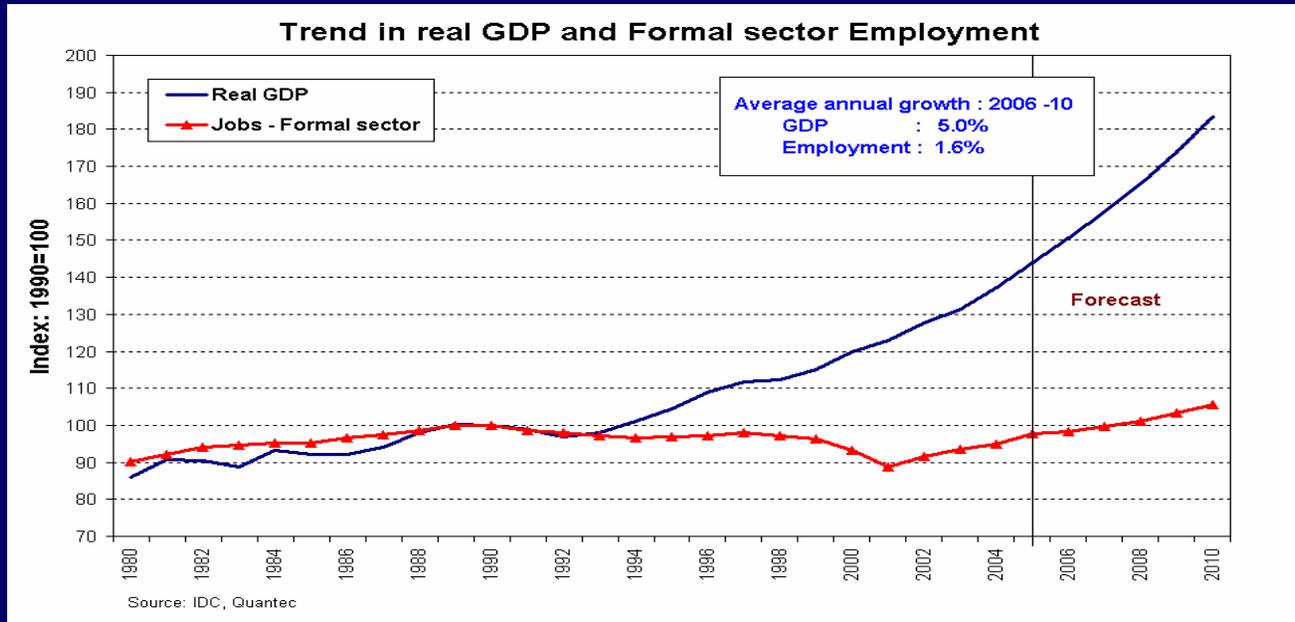
The Base case scenario: 2006 to 2010

Main assumptions for the average annual growth rates under the base case:

- **Population = 0.5%**
- **Economically active population (i.e. 15 –64 years of age) = 0.6%**
- **Labour force = 0.5%**
- **Employment = 1.6%**
- **Not-economically active = 0.75%**

Macro-economic performance indicators:

- **Real GDP growth of 5% per annum**
- **Real GFCF (fixed investment) growth of 10% p.a.**
- **GFCF/GDP ratio increases to 21.4% by 2010**



Annual change in employment per sector (' 000)

| Sector | 2002 | 2003 | 2004 | 2005 |
|--------------------|------------|------------|------------|------------|
| Agriculture | 242 | -207 | 150 | -138 |
| Mining | 5 | -7 | 148 | 6 |
| Manufacturing | 13 | -83 | 164 | -8 |
| Utilities | -11 | 7 | 8 | 0 |
| Construction | -30 | 60 | 159 | 111 |
| Trade | -260 | 235 | 113 | 482 |
| Transport | 28 | -37 | 26 | 53 |
| Finance | 49 | 14 | 49 | 148 |
| Community services | 54 | 138 | 5 | 7 |
| Private households | -4 | 46 | 0 | -8 |
| Unspecified | 30 | -38 | -8 | 3 |
| Total | 116 | 127 | 219 | 658 |

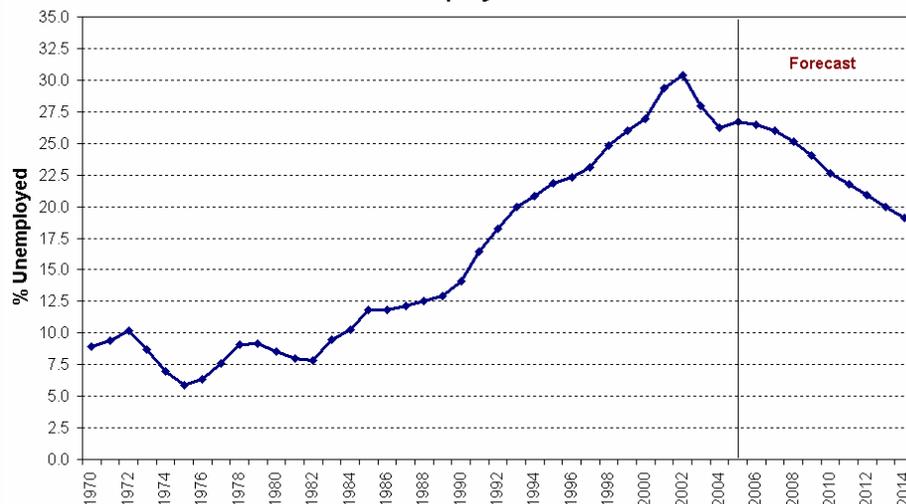
Source: Stats SA, LFS - September 2005

- Over the period 2001-05, the SA economy created, on average, 201 000 new jobs p.a., of which 125 000 were in the informal sector
- This picture is, however, being distorted by a massive 658 000 new jobs created in 2005, the majority (410 000) of which in the informal sector

Outcome of base case scenario on unemployment:

- On average, roughly 205 000 new jobs are likely to be created annually over the period 2006 to 2010
- The labour absorption rate will increase to 43.5% by 2010 (39.8% in 2001)
- By 2010, the unemployment rate is then likely to be approximately 22.6%
- By 2014, the unemployment rate would have been reduced to just over 19%

The Unemployment trend

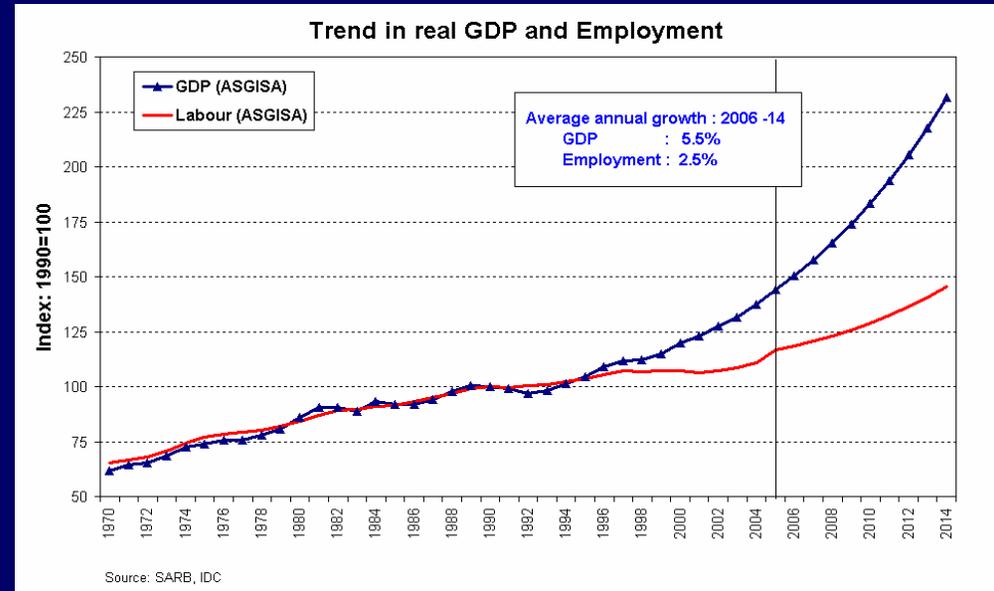
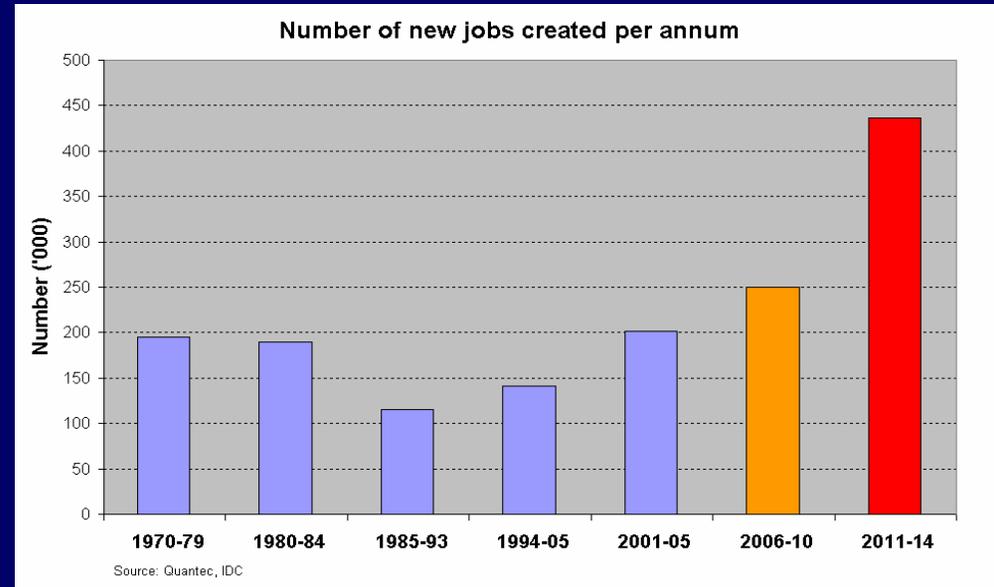


Source: Stats SA, Quantec

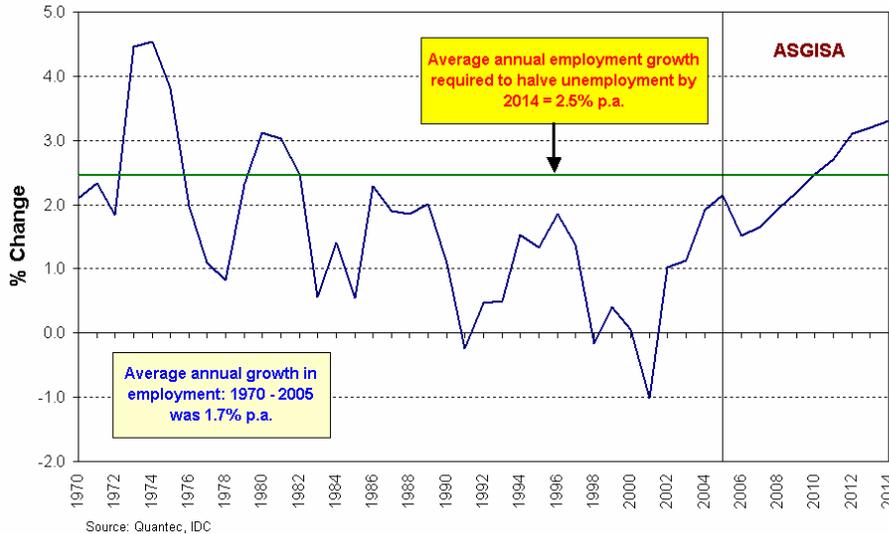
The ASGI-SA scenario : 2011 to 2014

Additional jobs required to halve unemployment by 2014 ...

- By 2010, unemployment measures around 3.9 million people or an unemployment rate of 22.6%, according to the base-case scenario
- Thus, to achieve higher levels of job creation, employment growth already has to increase from an average rate of 1.6% p.a. to 2% p.a. over the period 2006-10
- This should translate into an average annual number of about **250 000 new jobs p.a.** over the 5-year period to 2010, compared to 205 000 jobs under the base case scenario



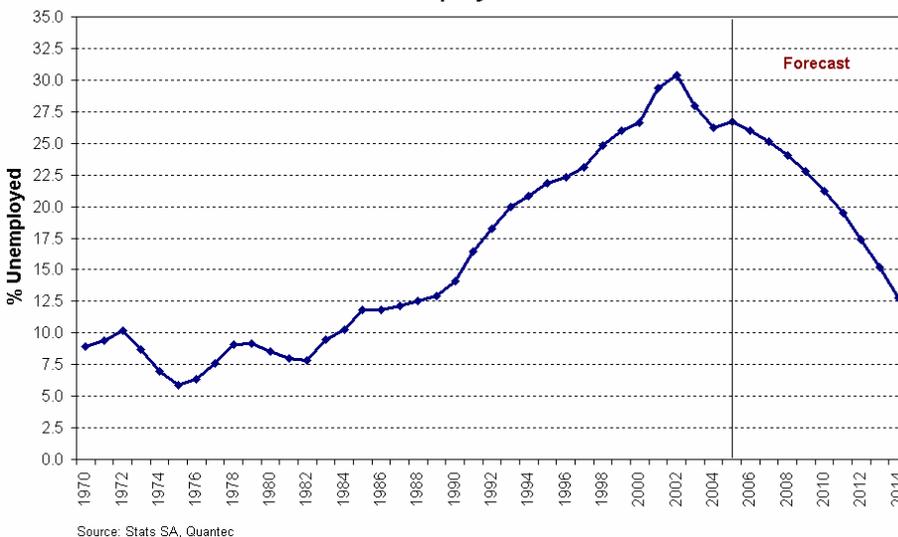
Growth trend in Employment



A substantial increase in job creation is required from 2011-14 ...

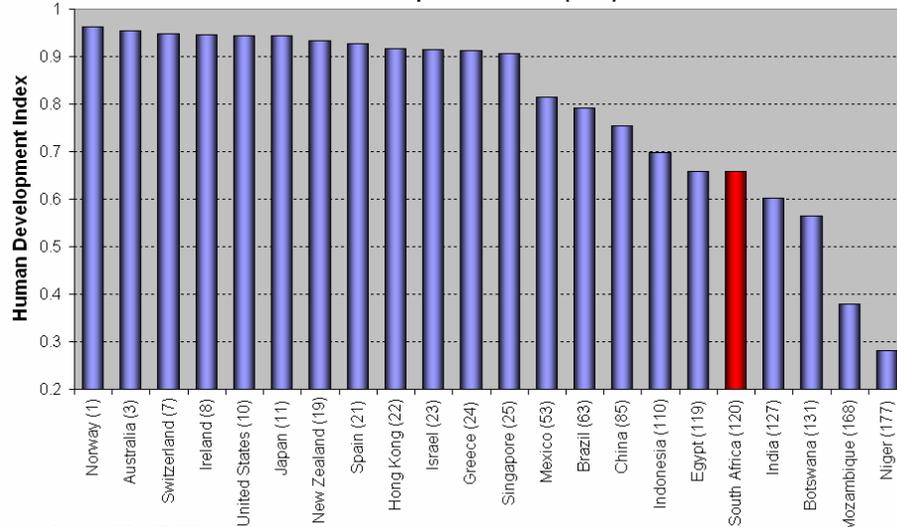
- Annual **growth in employment** has to increase substantially to **3.3% p.a. by 2014**
- An average of **436 000 new jobs p.a.** have to be created over the period **2011 to 2014** to achieve the desired goal of **halving unemployment**
- Achieving this daunting task, the **unemployment rate** should be reduced to **12.8% by 2014**
- **By 2014, 2.2 million people** are likely to be still unemployed

The Unemployment trend



Human Development Index

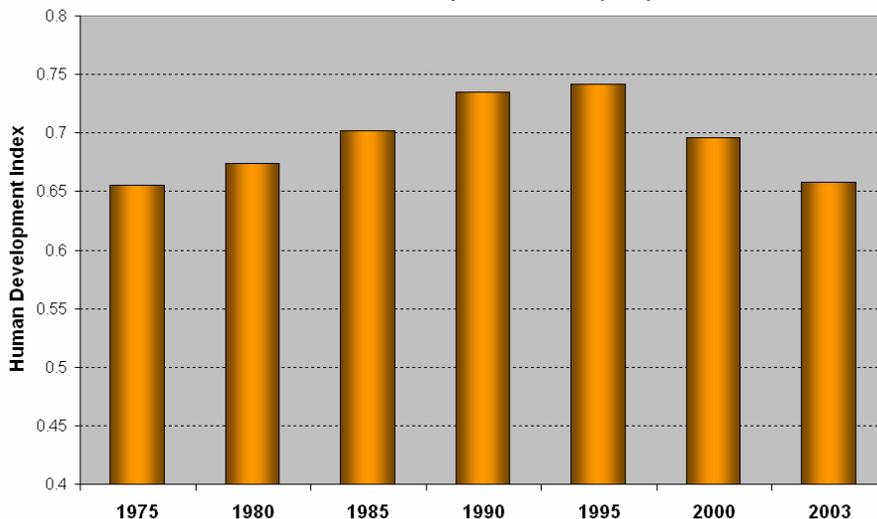
Human Development Index (HDI) in 2003



Source: UNDP, HDR 2003

(Figures in brackets indicate the country ranking out of 177 countries)

South Africa's Human Development Index (HDI): 1975 to 2003

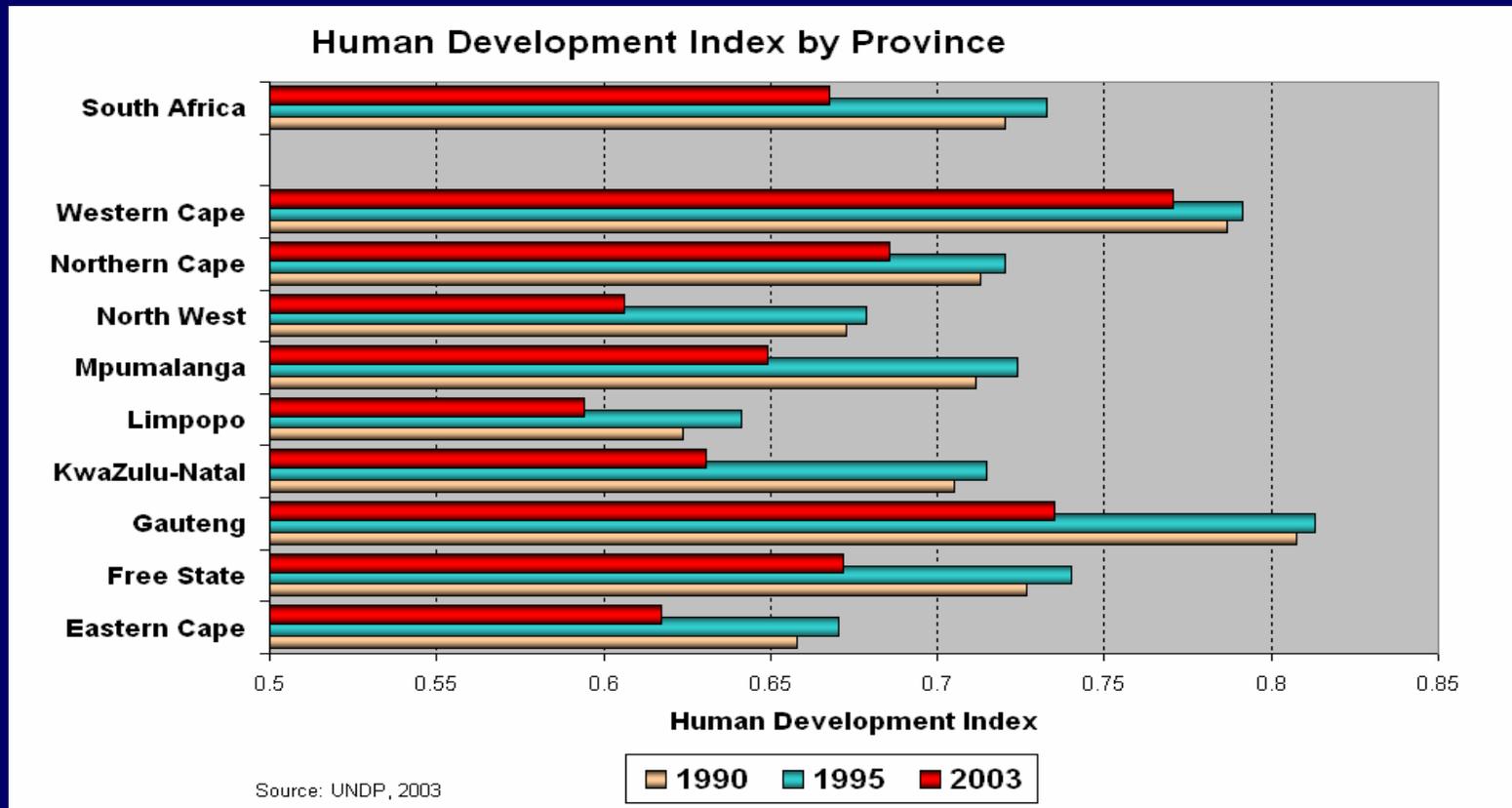


Source: UNDP, HDR 2003

- The human development index (HDI) is a measure of a country's economic and social wellbeing
- The HDI is a composite index, comprising 3 equally weighted indices: the life expectancy index; the educational attainment index and the gross domestic product (GDP) index
- The HDI ranges from 0 (the lowest level of development) to 1 (the highest level of development)
- South Africa ranked 120th out of 177 countries in the HDI for 2003
- In terms of the components of the HDI, SA ranked as follows in 2003:
 - Ø Life expectancy index (150th)
 - Ø Educational index (60th)
 - Ø GDP per Capita (52nd)

Human Development Index

- At the provincial level, **all 9 provinces reported to a lesser or greater extent a deterioration in the HDI over the period 1995 to 2003**
- Relative to other provinces, **KwaZulu-Natal, the North West and Limpopo reported the largest declines in the HDI reading since 1995**
- The **Western Cape experienced the smallest HDI decline, at 2.6% over the period 1995-2003**



- SA currently has a population of around **47 million**
- The **African population** represents **79.5%** of the total, followed by the **White population** with a **9.2%** share. Both population groups are **female dominated**
- In terms of age distribution, the **largest segment** of the population is found in the **0-4 and 10-14 age cohorts**, which are marginally male dominated, and declines with higher age groups, which are **female dominated**
- The current size of the **working age segment** (15-65 years old) is estimated at **29,7 million people**

| MID-YEAR ESTIMATES BY POPULATION GROUP AND SEX, 2006 | | | | | | |
|--|------------|----------------------------|------------|------------------------------|------------|-----------------------|
| Population group | Male | | Female | | Total | |
| | Number | % of Total male population | Number | % of total female population | Number | % of total population |
| African | 18 558 500 | 79,6 | 19 104 400 | 79,4 | 37 662 900 | 79,5 |
| Coloured | 2 060 000 | 8,8 | 2 138 800 | 8,9 | 4 198 800 | 8,9 |
| Indian/Asian | 570 200 | 2,4 | 593 700 | 2,5 | 1 163 900 | 2,5 |
| White | 2 138 900 | 9,2 | 2 226 400 | 9,3 | 4 365 300 | 9,2 |
| Total | 23 327 600 | 100 | 24 063 300 | 100 | 47 390 900 | 100 |

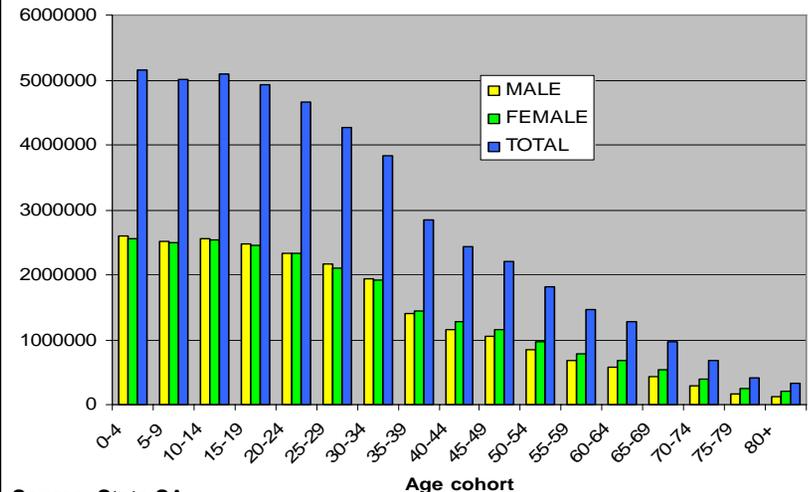
Source: Stats SA

Age distribution of South African Population (%)

| Year | 0-14 | 15-64 | 65+ |
|------|------|-------|-----|
| 1996 | 33.9 | 60.1 | 6 |
| 2001 | 32.1 | 63.3 | 4.6 |
| 2006 | 32.2 | 62.7 | 5 |

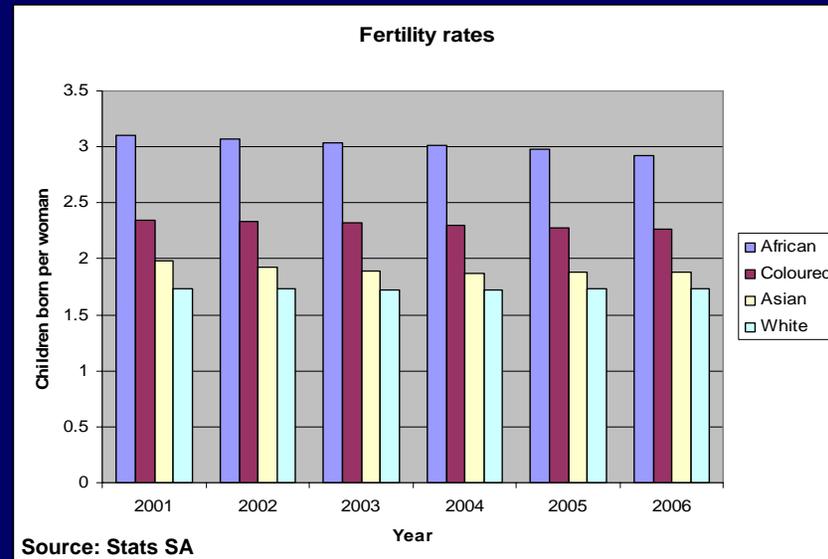
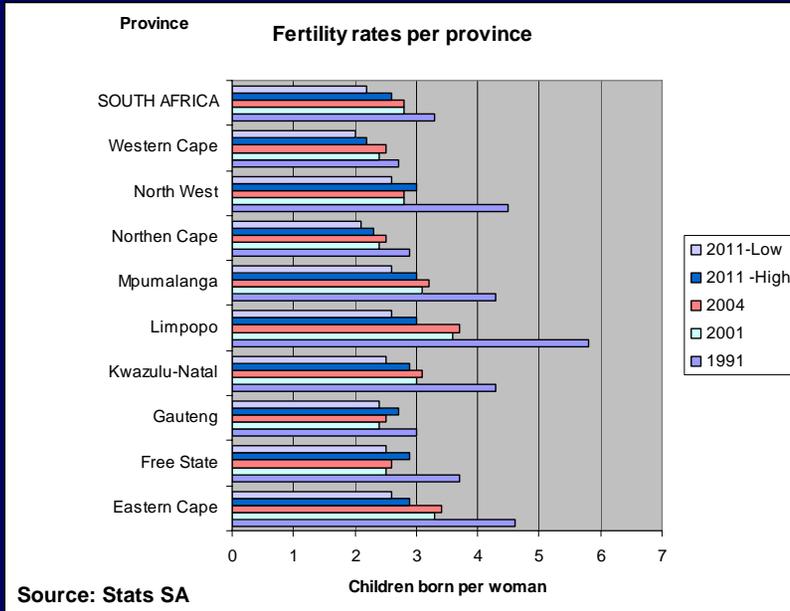
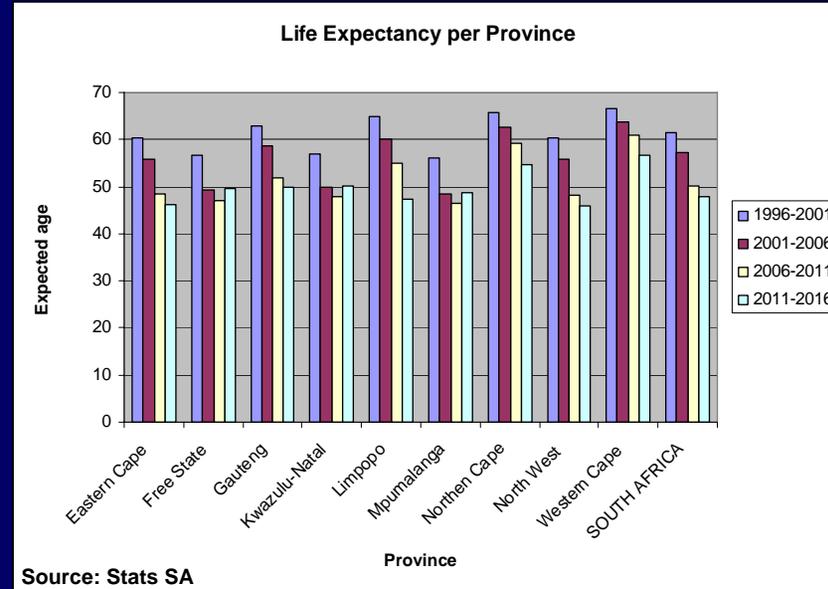
Source: Stats SA

Mid-Year Population estimates by sex and age, 2006

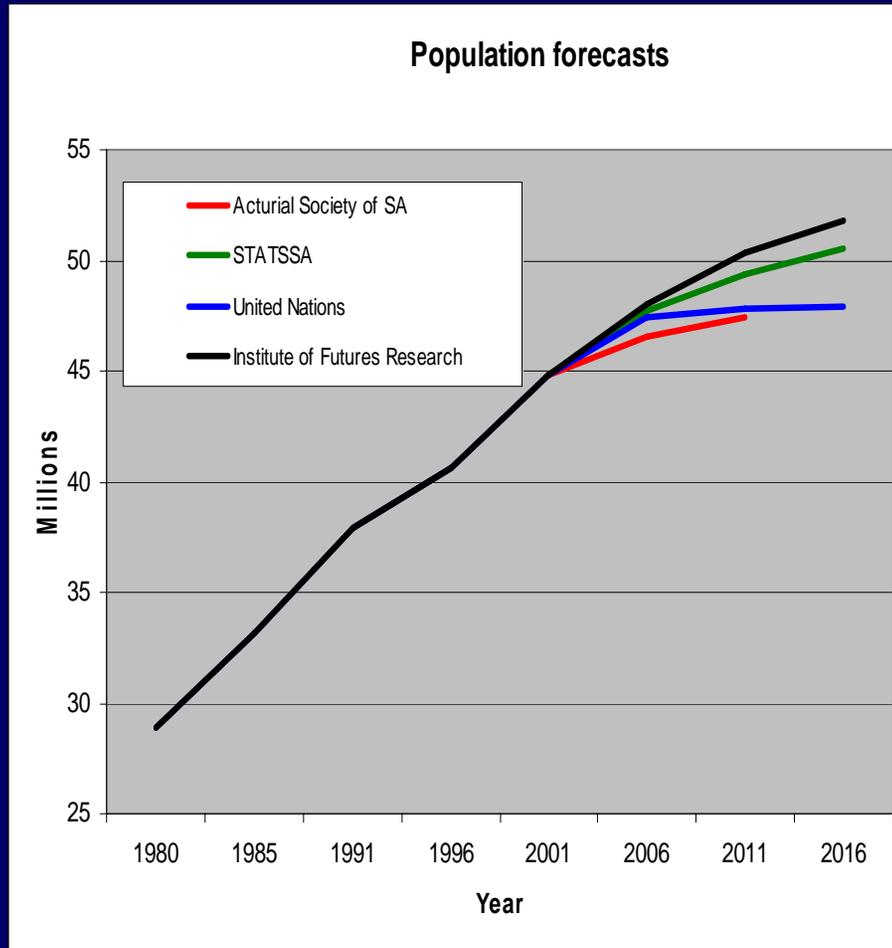


Source: Stats SA

- **Life expectancy at birth** is estimated at approximately **49 years for males and 53 years for females**, having dropped since 1996 in all provinces (Mpumalanga recorded the highest decline and the Western Cape the least decline)
- The **fertility rate declined** from 2.86 children born per woman in 2001 to **2.73 in 2006**. The drop occurred across all race groups, with the exception of the White population which maintained its fertility rate at 1.73 over the period
- The **fertility rate is expected to decline to about 2.6 children born per woman by 2011**, with the worst case scenario projecting 2.2 children

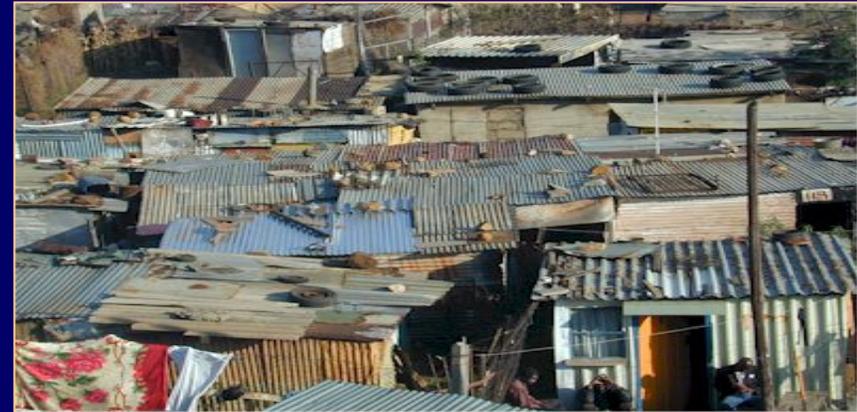


- v **By 2011, South Africa's population is expected to be in the order of 47.8 million to 50.3 million people, depending on the scenario adopted.**
- v **The scenarios depicted in the graph hold different assumptions with respect to:**
 - ∅ *Life expectancy*
 - ∅ *Infant mortality*
 - ∅ *Reproduction rates*
 - ∅ *HIV/AIDS impact on all of the above*
 - ∅ *etc.*



URBAN POPULATION

- **56.3% of SA's total population** currently live in urban areas, and this figure is expected to increase to **70% by 2030**
- **30% of the population** is concentrated in 3 major cities: **Johannesburg, Durban and Cape Town**
- **Between 1991 and 2001**, the population of these cities increased between **21% to 40%**



URBAN POVERTY & UNEMPLOYMENT

- **40% of urban people** are living in poverty
- **54% of the unemployed** are located in urban areas
- **38% of people in the 9 largest cities** are unemployed
- **25% of people in the 9 largest cities** live in informal settlements

Adjusted 2001 Urbanisation Levels

| Population Group | Total population | Urban population | Rural population | Proportion Urban (%) |
|------------------|-------------------|-------------------|-------------------|----------------------|
| Black African | 35 433 492 | 16 820 234 | 18 613 258 | 47.5 |
| Coloured | 3 987 419 | 3 460 376 | 527 043 | 86.8 |
| Indian/Asian | 1 113 183 | 1 085 279 | 27 904 | 97.5 |
| White | 4 285 683 | 3 851 681 | 434 002 | 89.9 |
| Total | 44 819 777 | 25 217 571 | 19 602 206 | 56.3 |

URBAN ECONOMIC PROGRESS

- Concentration of **skills and knowledge**
- Estimated that eThekweni, Johannesburg and Cape Town alone account for **50% of SA's GDP**
- **12% of SA jobs** concentrated in **JHB**, and the average income per household is **R31 048** - **57% higher** than the average income per household for SA as a whole

URBAN CHALLENGES

- Increasing concentration of **poverty and unemployment**
- Shortage of housing led to **increase in informal settlement**
- Challenge for local municipalities to provide even **basic services** to the urban population
- **Inability to pay for basic services** (water, electricity, sanitation) has increased
- **Increasing rate of HIV/AIDS** in big cities is one of the greatest developmental challenges



FUTURE URBANISATION TRENDS

- Over the period **2000-05**, South Africa's **urban population increased by 1.43% p.a.**
- SA's urban population growth is expected to **slowdown significantly, to an average growth rate of 0.33% p.a. over the period 2025-30**
- Current fast-growing cities will drop back to **stable growth** due to lower urban population growth and the impact of HIV/AIDS

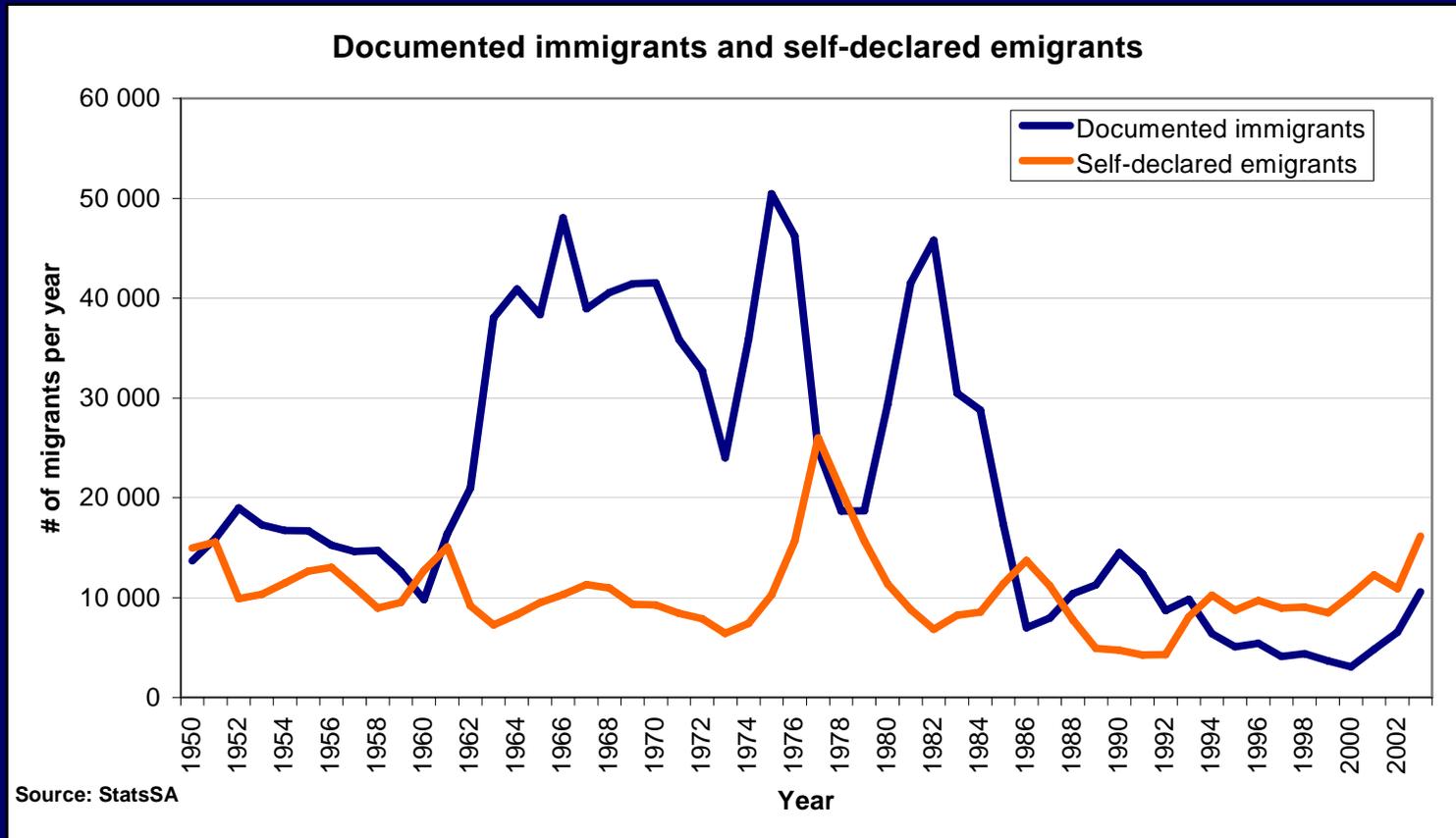


Trends in urbanisation and forecasts

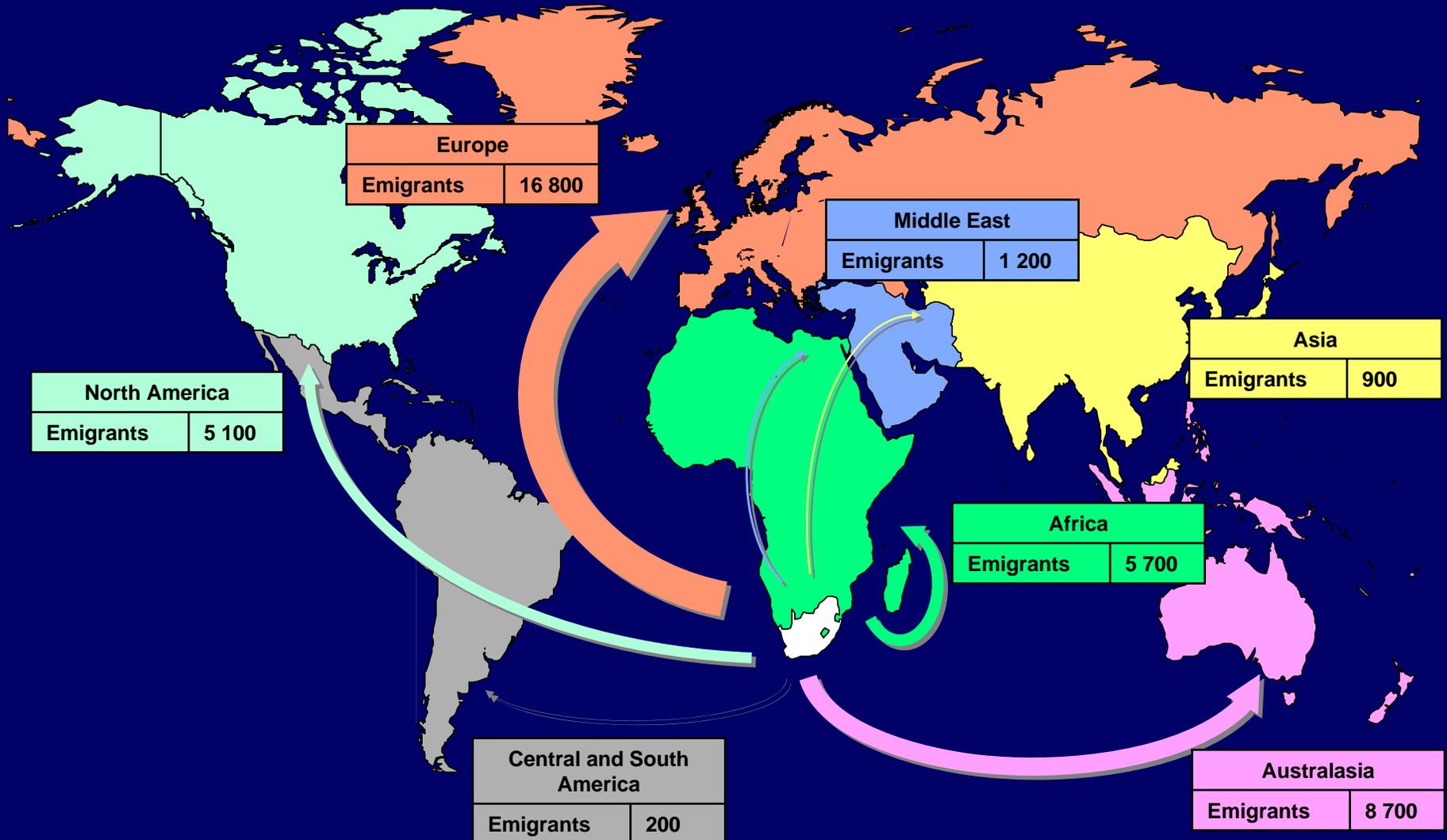
| Year | Urbanisation Level (%) | Period | Annual urban growth (%) | Annual rural growth (%) |
|------|------------------------|-------------|-------------------------|-------------------------|
| 1950 | 43.1 | 1950 - 1955 | 3.14 | 1.72 |
| 1975 | 48.0 | 1970 - 1975 | 2.67 | 2.54 |
| 2005 | 57.9 | 2000 - 2005 | 1.43 | -0.51 |
| 2015 | 62.7 | 2010 - 2015 | 0.49 | -1.57 |
| 2030 | 70.1 | 2025 - 2030 | 0.33 | -1.93 |

Source: Business Futures 2005

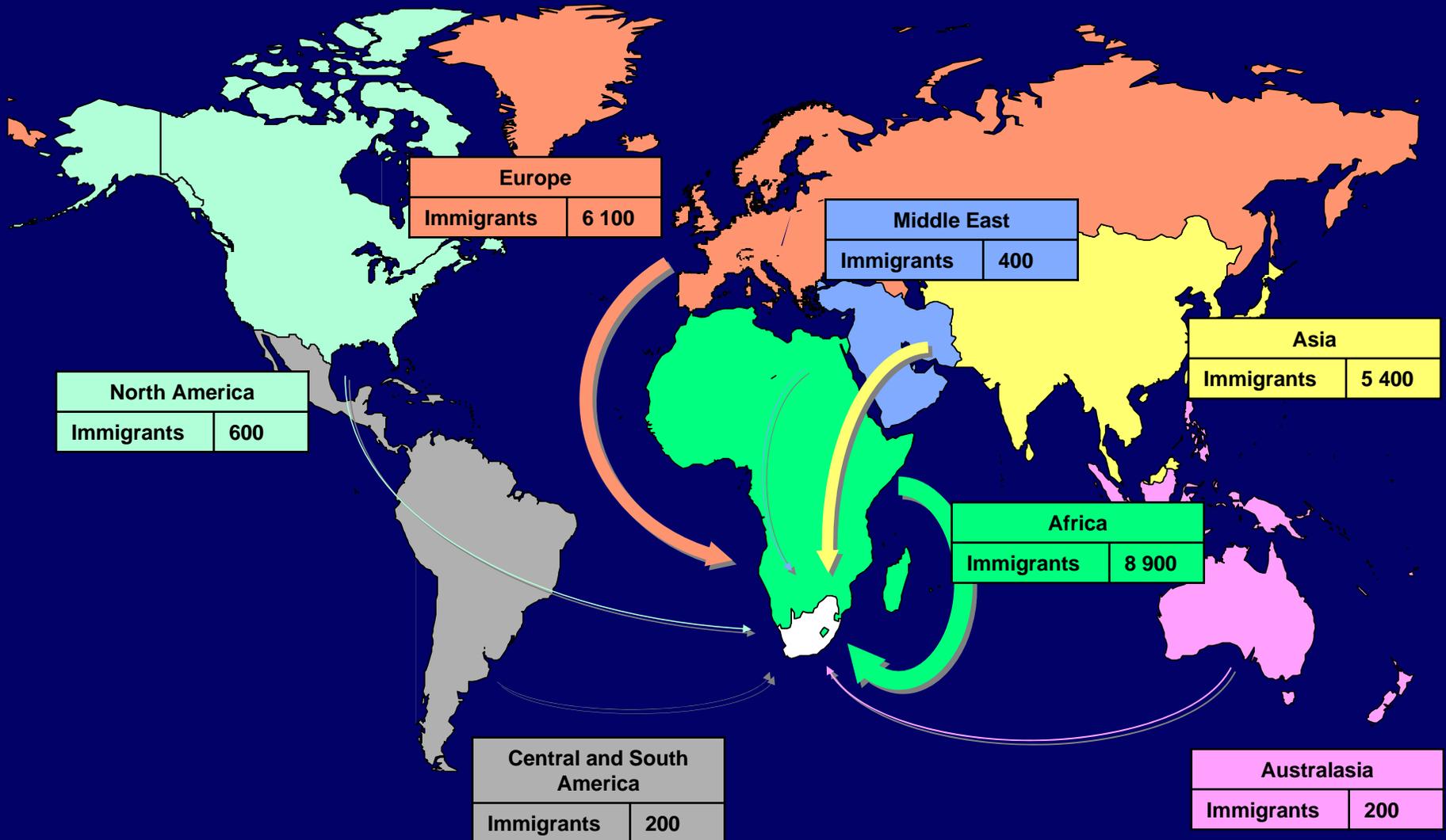
- Official emigration has exceeded immigration since 1994, although the gap appears to be narrowing due to higher immigrant flows



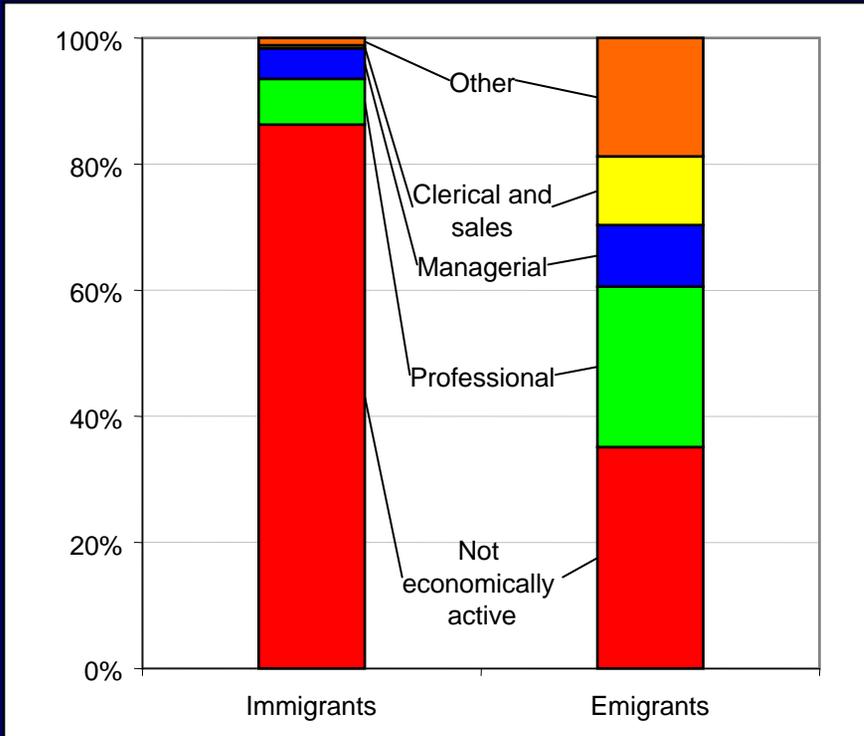
Emigration from South Africa: 2001 – 2003



Immigration into South Africa: 2001 – 2003

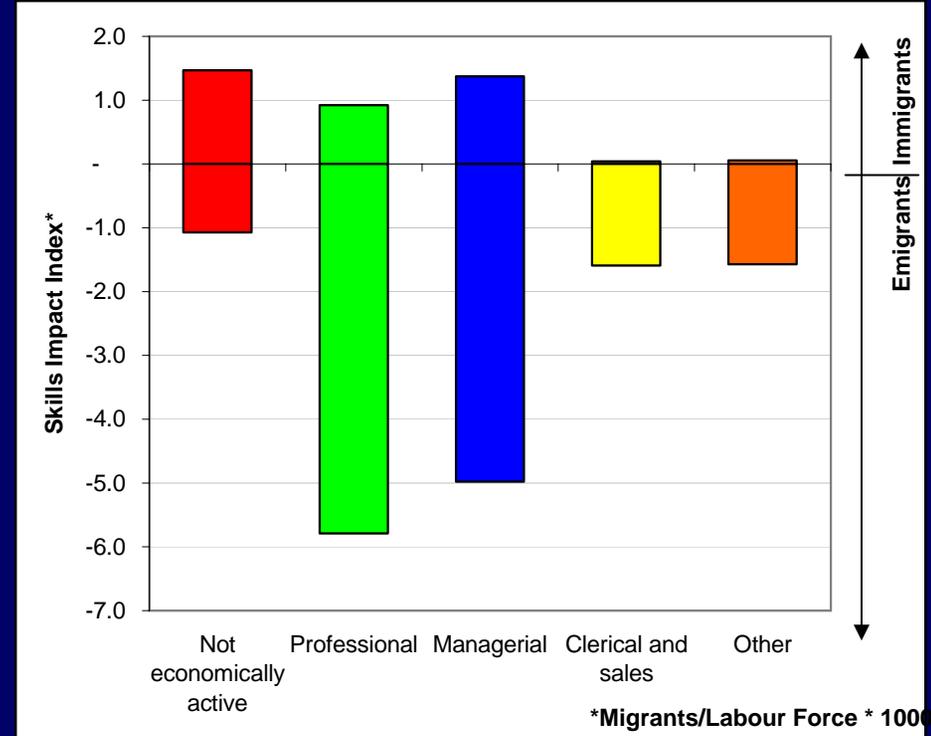


Occupation of immigrants/emigrants



Source: StatsSA

Impact on South Africa's skills base



Source: StatsSA; IDC calculations

- § 84% of immigrants were not economically active
- § Formal migration statistics illustrate the impact of migration on South Africa's skills base
- § Skills base graph illustrates the relative impact of emigration & immigration on SA's skill base (emigration depicted in negative axis, reflecting significant loss of professional & managerial skills)

PROBLEMS AND INITIATIVES

EMIGRATION

- *“Brain Drain” – experienced / highly trained skilled people leaving the country*
- *Homecoming revolution – “Brain Gain” initiative*

IMMIGRATION

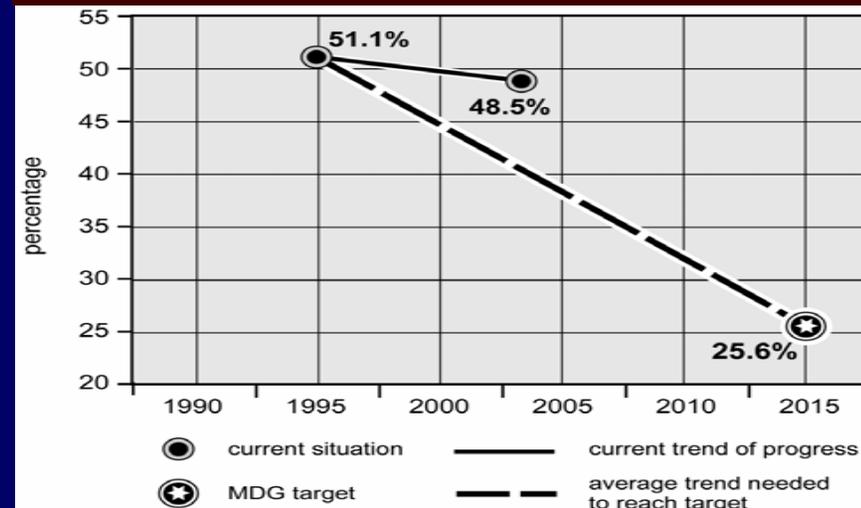
- § *Illegal immigrants make up between 5% and 8% of SA’s overall population*
- § *Immigrants perceived as coming from developing countries – being blamed for unemployment, crime, disease, etc.*
- § *NEPAD and other programmes for the development of Africa addressing some of reasons for immigration (poverty, conflicts etc)*
- § *JIPSA and the Dept. of Home Affairs are trying to address issues of bureaucracy around skilled immigrants*

Implications

- ✓ *SA is facing huge skills shortages, putting constraints on the country’s growth potential*
- ✓ *Current immigration flows exacerbating high unemployment situation – undocumented immigration will continue until economic conditions in the rest of Africa improve*
- ✓ *Constitution provides illegal immigrants the same rights to social grants as South Africans – drain on fiscus*

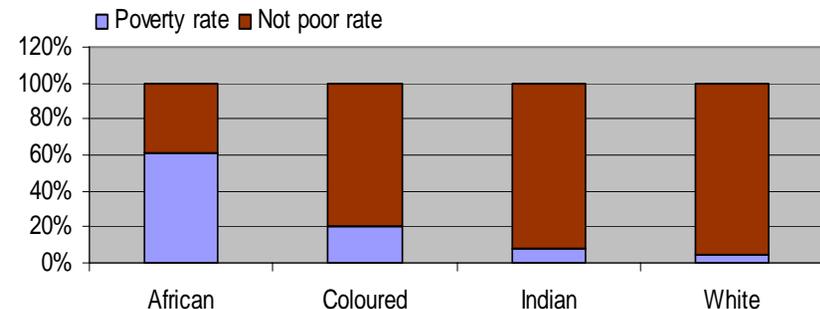
- ❖ The inability to attain a minimal standard of living, measured in terms of basic consumption needs or the income required to satisfy those needs is referred to as “poverty”
- ❖ The monetary value of consumption is reflected by a ‘poverty line’ that separates the ‘poor’ from the ‘non-poor’ - this is currently R355 per adult per month
- ❖ Life expectancy, infant mortality and adult literacy are regarded as measures of poverty
- ❖ Measures of poverty vary widely in terms of race, gender and geographic location
- ❖ Poverty essentially reflects the country’s apartheid past
- ❖ Poverty is concentrated amongst Blacks
- ❖ The poorest of the poor predominate in the marginalised rural areas and squatter camps
- ❖ Rural areas are home to 72% of South Africa’s poor

Proportion of population living in poverty – national poverty line.



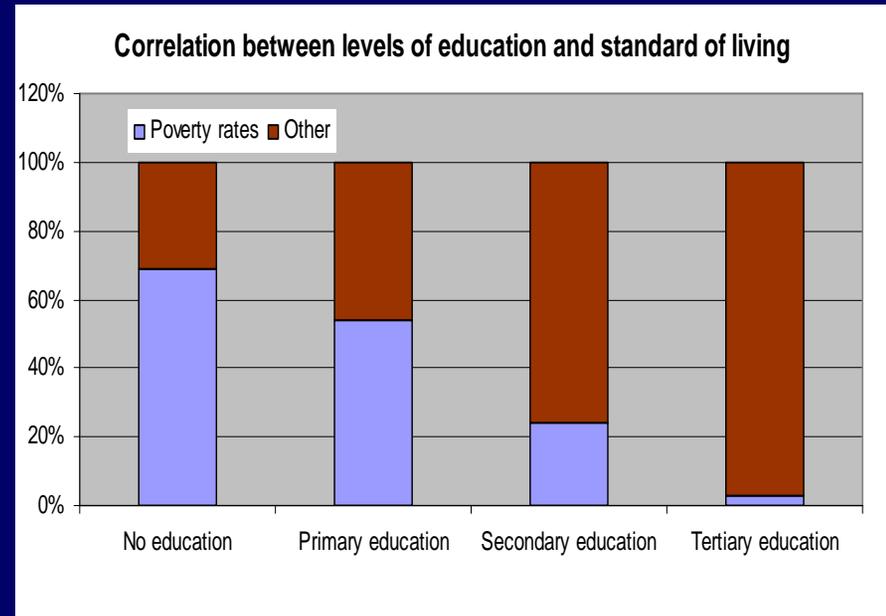
Source: UNDP 2003

Poverty levels: people living in poverty by race, 2004 (proportions)



Source: South African Institute of Race Relations

- ❖ *There is a **strong correlation** between the **level of education and standard of living***
- ❖ *There is also a correlation between **poverty and ill-health***
- ❖ *Access to health care is specific to particular social and environmental situations*
- ❖ *Poor children tend to suffer a much higher than average rate of stunting*
- ❖ ***Poverty and unemployment** are also correlated*
- ❖ ***55%** of people from **poor households** are **unemployed***
- ❖ ***14%** of people from **non-poor households** are **unemployed***

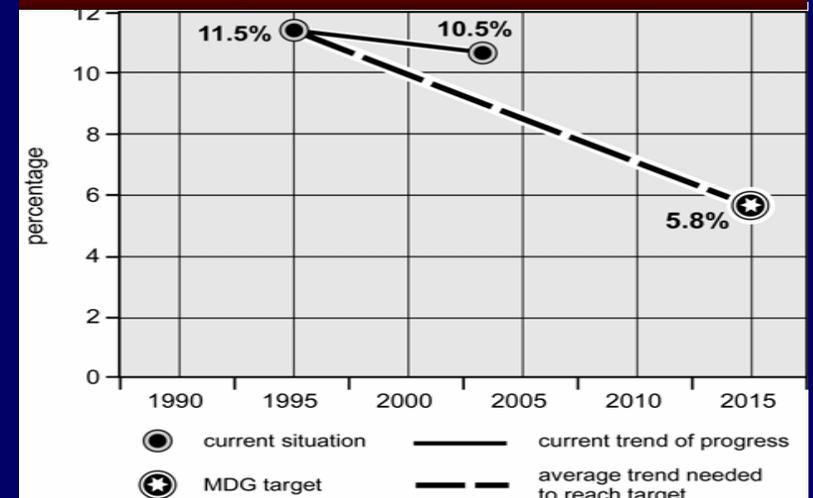


Source: South African Institute of Race Relations

- ✓ **3 children in 5** live in poor households
- ✓ Many children are exposed to public and domestic violence, malnutrition, and inconsistent parenting and schooling
- ✓ The **child risk of poverty** varies widely by province – 78% of children in the Eastern Cape live in poor households, compared to 20% in Gauteng
- ✓ **Poverty rate among female headed households is 60%**, compared to **31% for male – headed households**. This underlines the significance of targeting women, especially rural women, in public works and training programmes, as well as programmes to develop SMMES
- ✓ The UN's MDG target is to **halve the proportion of people living in extreme poverty by 2015**



Population living in extreme poverty (below SD1 per day)



Poverty has also meant increasing inequality amongst the SA population ...

Gini indexes of most unequal countries (A measure of inequality)

| Country | Index |
|----------------------------|-------|
| 1 Namibia | 70.7 |
| 2 Lesotho | 63.2 |
| 3 Botswana | 63 |
| 4 Sierra Leone | 62.9 |
| 5 Central African Republic | 61.3 |
| 6 Swaziland | 60.9 |
| 7 Guatemala | 59.9 |
| 8 Brazil | 59.3 |
| 9 South Africa | 57.8 |
| 9 Paraguay | 57.8 |
| 10 Colombia | 57.6 |
| 11 Chile | 57.1 |
| 12 Zimbabwe | 56.8 |

Comparisons of inequality

| Population | Gini co-efficient | |
|--------------|-------------------|------|
| | 1996 | 2001 |
| African | 0.62 | 0.66 |
| Coloured | 0.53 | 0.60 |
| Indian/Asian | 0.48 | 0.56 |
| White | 0.44 | 0.51 |
| National | 0.68 | 0.73 |



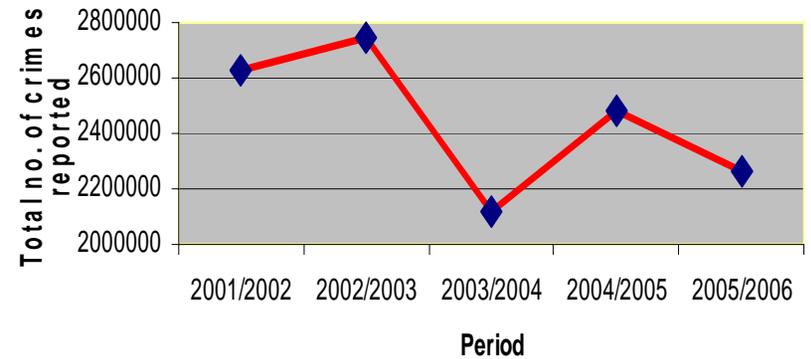
Source: Southern Africa Labour & Development Research Unit (Saldru)

Source: World Bank 2006

- The **Gini Coefficient** measures the level of inequality of income distribution in a country, with 0 representing total equality and 1 indicating absolute inequality
- The **Gini index** is the Gini coefficient multiplied by 100 (i.e. 0 represents total equality and 100 total inequality). The World Bank's calculation is undertaken on a different basis and hence differs substantially from SA-derived coefficients
- **South Africa**, with a Gini coefficient of 0.73, has one of the world's most unequal societies

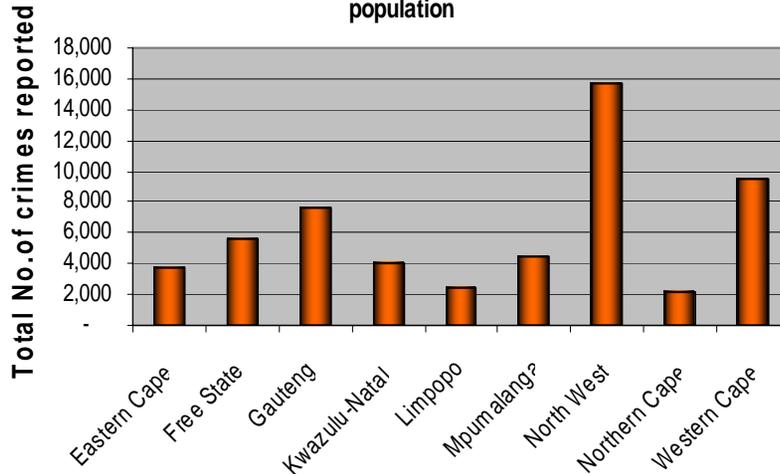
- The overall crime trend in SA, based on reported incidents, is showing a **downward movement**. While some crime categories such as bank robbery have exhibited an overall decline, violent crime such as **cash in transit robberies** has **increased by 74%** in the year to 31 March 2006
- While the **North West** accounts for 7% of total reported crimes, it has the highest no of crimes committed per 100 000 of the population
- **Gauteng** has the highest number of reported crimes due to the high level of economic activity and population density, but features third in provincial terms when measured relative to population size
- The **Western Cape** comes second on both accounts, dominated by increased alcohol and drug related incidents

Total no. of crimes reported in SA: April to March
2001/2002 to 2005/2006

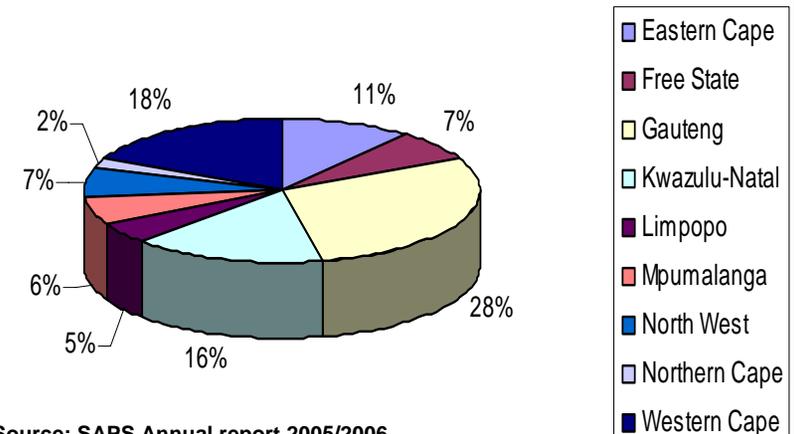


Source: SAPS Annual report 2005/2006

Average no. of crimes reported per province per 100 000 of the population



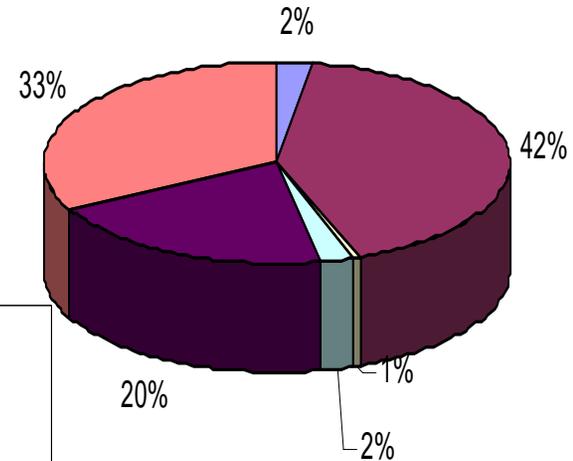
Total % of reported crime per province for the period April to March 2005/2006



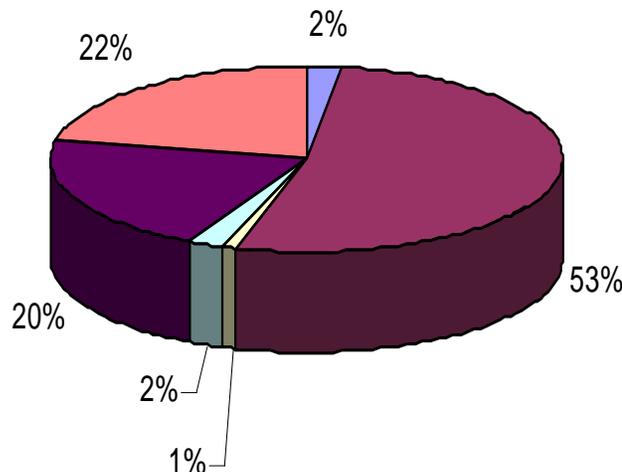
Source: SAPS Annual report 2005/2006

- **Contact crimes** declined in the year to end-March 2006
- **Theft** retains the **largest**, although reduced **share** of crimes reported

Profile of SA crime 2005/2006



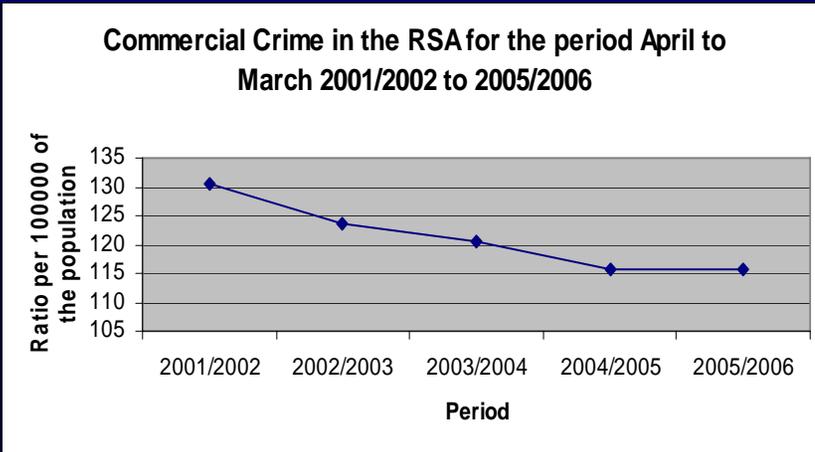
Profile of SA crime 2001/2002



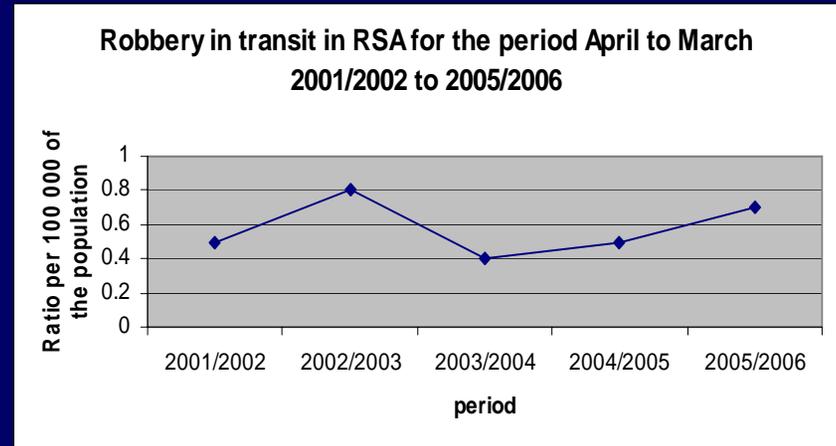
■ CC - Commercial crime
 ■ Theft
 ■ Hijacking
 ■ Murder
 ■ Assault
 ■ Other

- **Theft** includes burglary, shoplifting, bank robbery, cash in transit robbery
- **Murder** includes capable homicide
- **Other** includes: kidnapping, abduction, neglect, public violence, arson, malicious damage to property, crimen injuria, illegal possession of firearms, drug related crimes, driving under the influence of alcohol

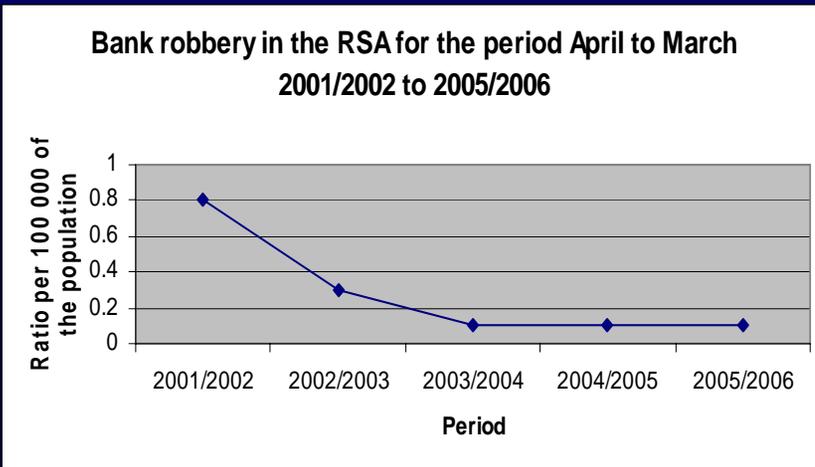
Commercial crime on the decline



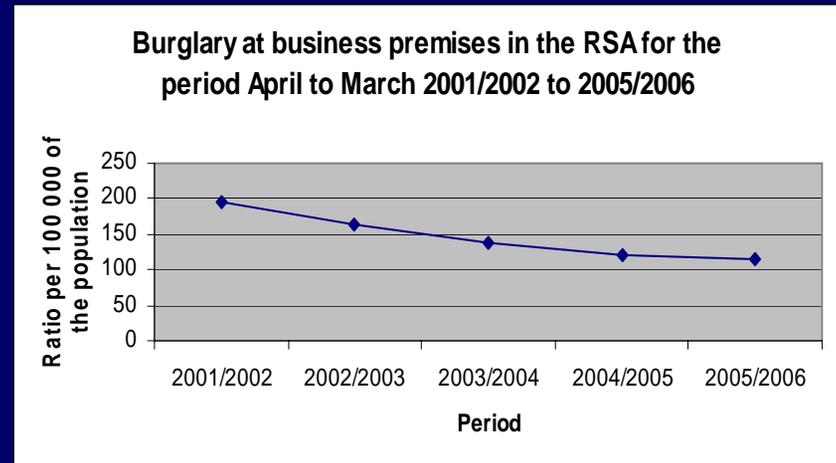
Cash in transit robberies increased by 74% in the past year



Bank robbery has decreased

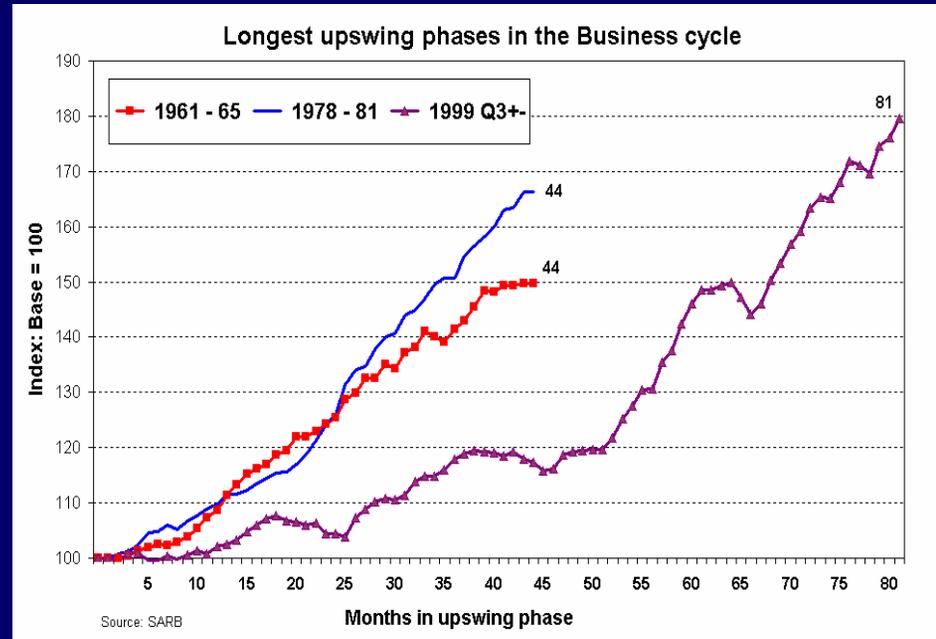


Reduced number of burglaries at business premises



SA economic performance: A summary

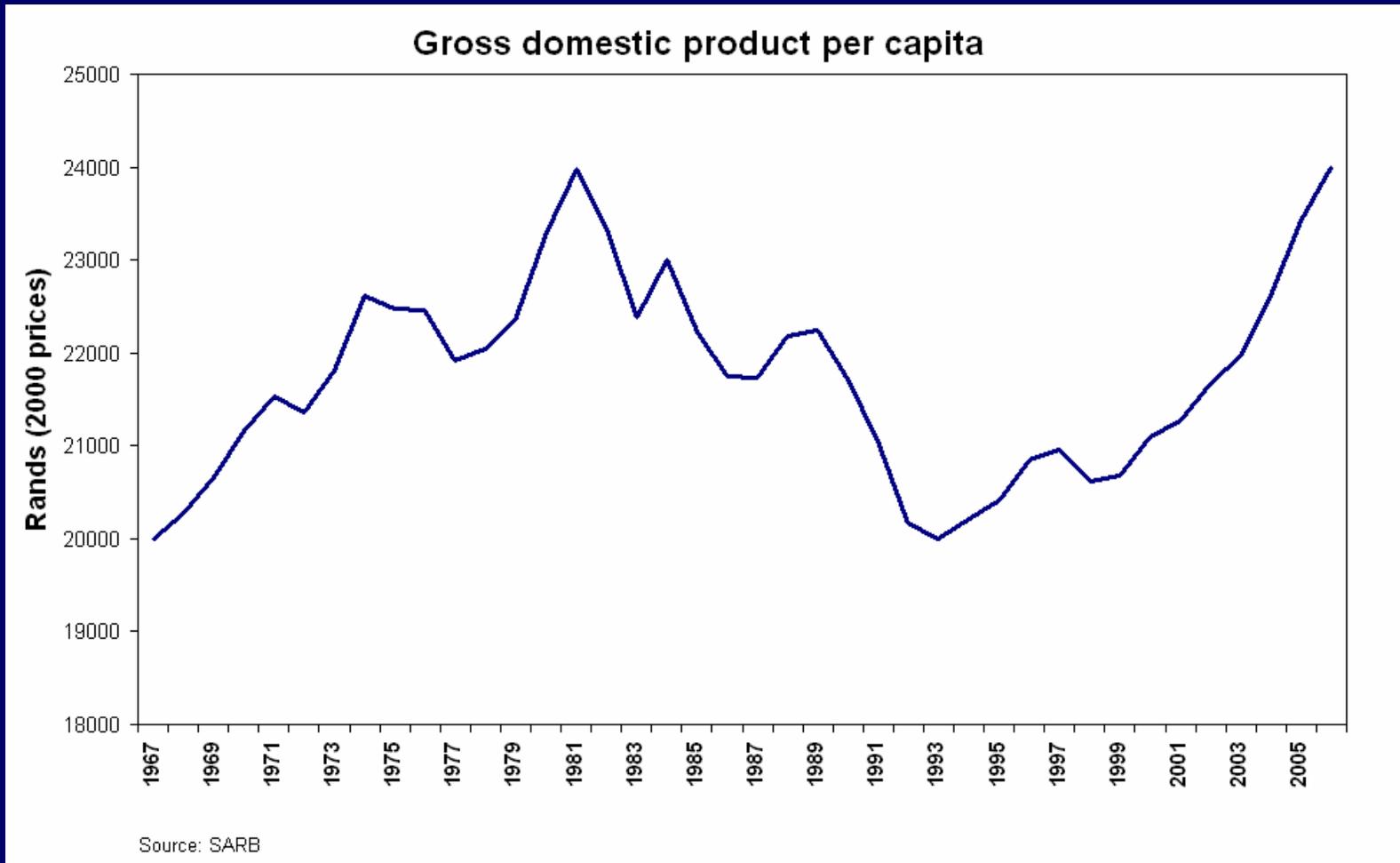
- South Africa is currently enjoying the **longest sustained period of economic growth** since World War II, with the current upswing in the business cycle already in its 7th year. The SA economy recorded **GDP growth of 4.9% in 2005**, its best performance since 1984.
- **Robust consumer demand and a rapid increase in fixed investment** to expand the country's productive capacity have been key drivers behind strong economic growth in recent years.



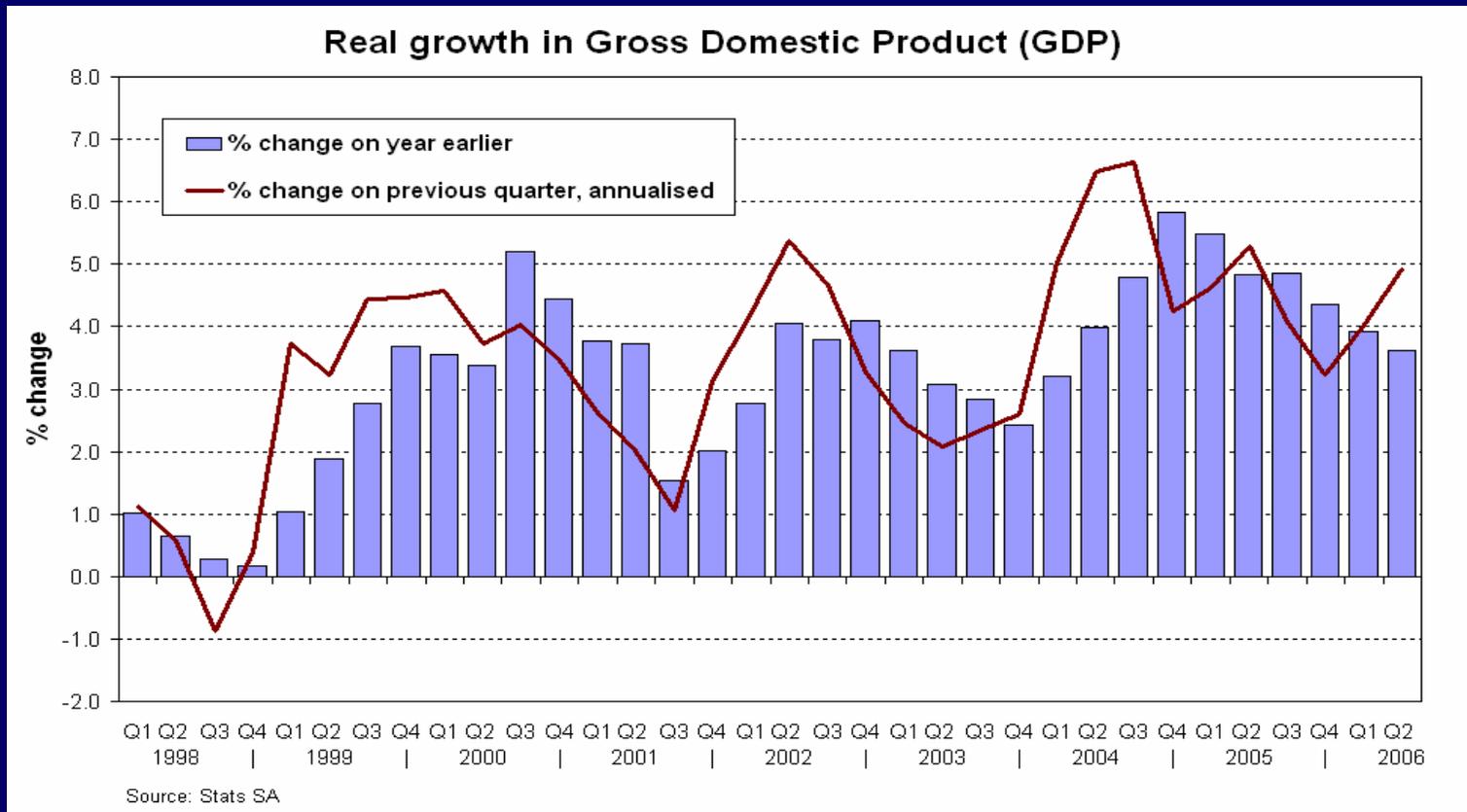
- South Africa's general **economic stability and sound macro-economic management and fundamentals** are widely acknowledged.
- **Inflation is well under control** and at levels last seen in the 1960s (headline inflation at 3.4% in 2005). However, inflationary pressures have been mounting in recent months on the back of rising fuel and food prices.
- **Interest rates are at fairly low levels** (prime rate at 12%).
- **Prudent fiscal policy** and continued improvements in tax collections resulted in a substantial decrease in the budget deficit in recent years (at 0.3% of GDP in fiscal year 2005/06 - the lowest ratio since 1981).

SA economic performance: A summary

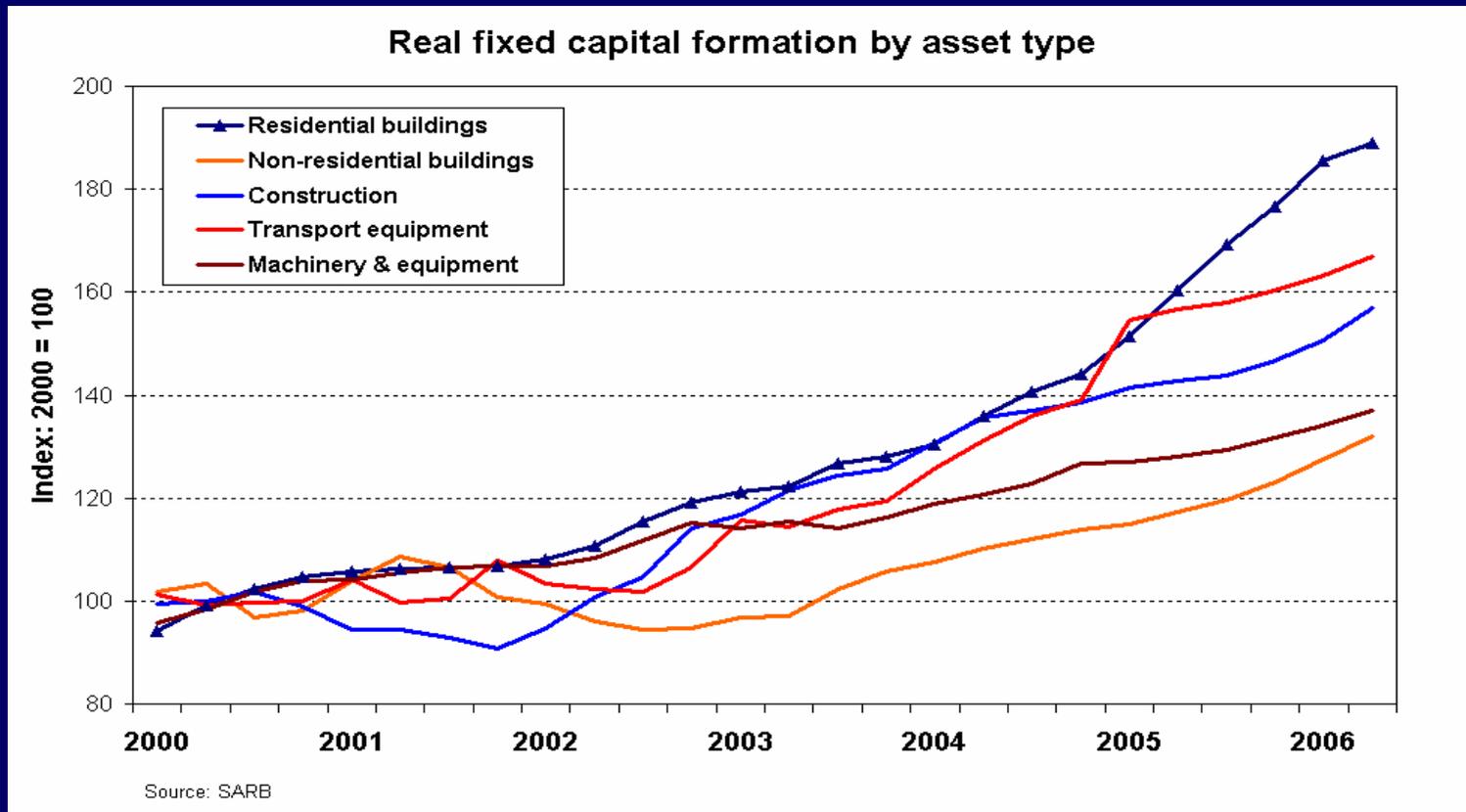
- *Business and consumer confidence* levels are at **all-time highs**, underpinning the strong growth performance of the South African economy.
- *Strong inflow of foreign capital* into South Africa - reflecting increased investor confidence. In 2005, net capital inflows totaled ZAR98.4 billion (USD15.5 billion), the largest inflow ever in one year, with **foreign direct investment (FDI) claiming the majority share**.
- The **extraordinary performance of the JSE** (All Share index increased by 43% in 2005) reflects the strong growth performance of the domestic economy and the underlying growth momentum. New **record highs** have been achieved on a continuous basis **in 2006**.
- According to the World Federation of Exchanges, the JSE reported the **seventh highest local-currency price performance in the world in 2005**.
- The **labour absorption** capacity of the economy has improved remarkably in recent years, with more than 1.1 million new **employment opportunities** being created since 2001.
- **Unemployment is gradually being reduced**, having declined from 30.4% in 2002 to 25.6% by March 2006.



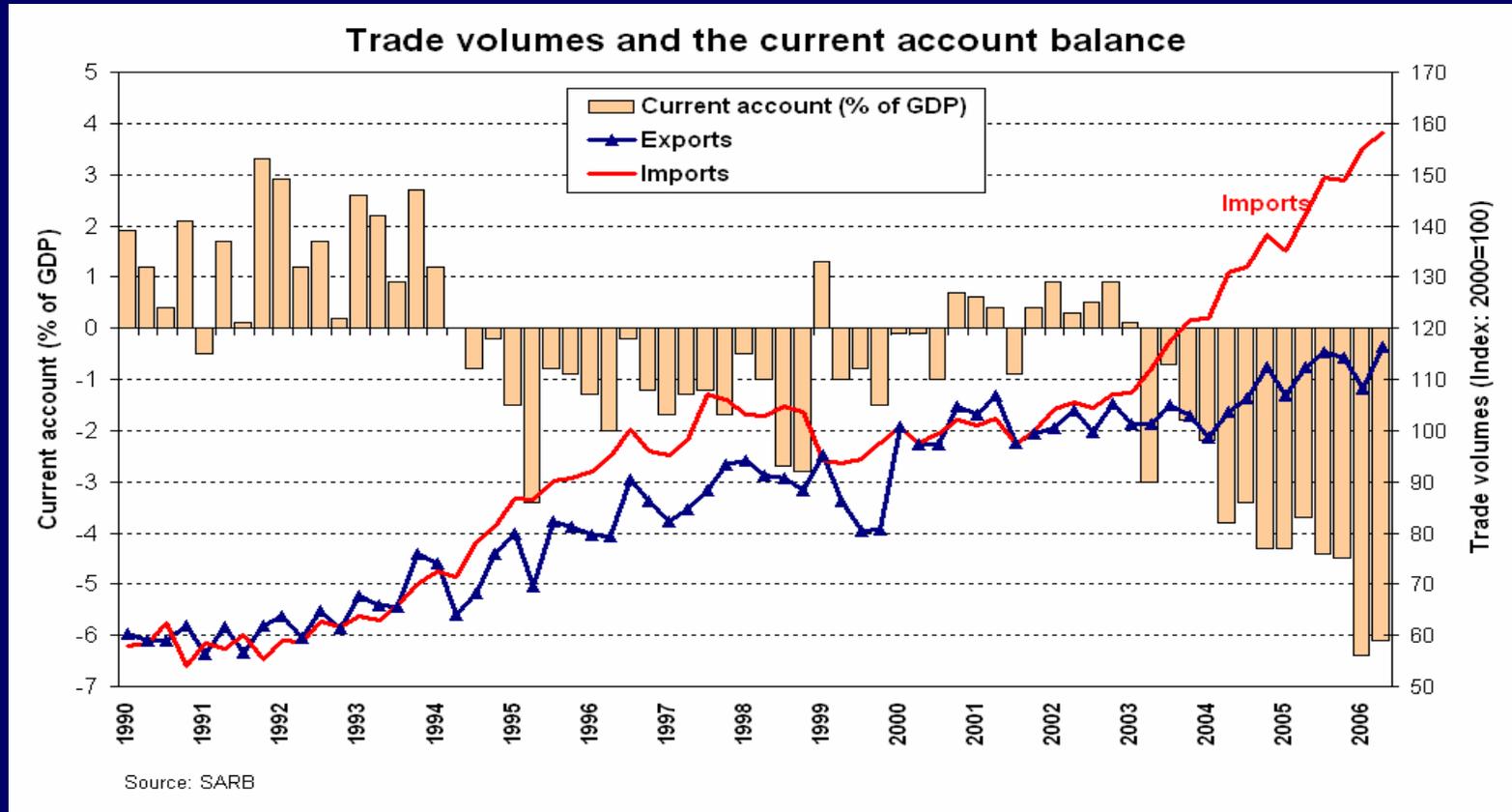
- The pace of economic growth has more than doubled since 1994 (compared to the decade prior to 1994), resulting in a substantial improvement in overall wealth creation in South Africa as measured by the GDP per capita.



- The SA economy expanded at a brisk pace in Q2 of 2006, with GDP growth measuring 4.9% on a quarterly basis.
- The manufacturing sector (the second largest sub-sector in the domestic economy) continued its strong performance, contributing 1 percentage point to overall GDP growth in Q2 of 2006.

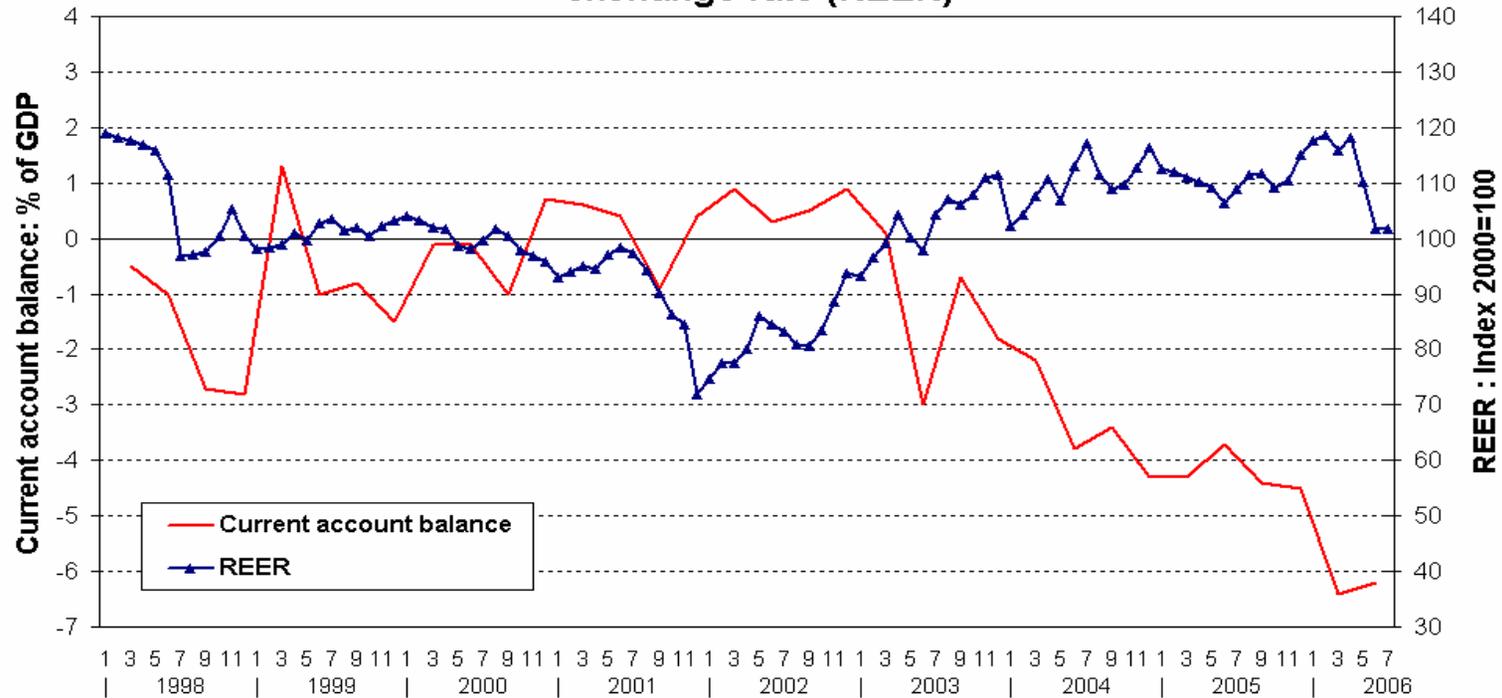


- Record high levels of investment in the residential building sector, with real growth of just over 23% in H2 of 2005 and 18.5% in H1 of 2006.
- Increased investment in machinery and equipment in response to robust domestic demand and production capacity constraints.
- A strong Rand also made imported capital goods more affordable.
- Higher levels of economic activity in recent years resulted in more goods being transported throughout the country, thereby increasing investment in new trucks, whilst car rental companies also invested in the upgrade of their fleet.



- The high import intensity of fixed investment activity in SA and a substantial rise in imported consumer goods (a 60% increase over the period 2003-05) culminated in a further deterioration on the trade balance for the year to June 2006.
- Moreover, the trade deficit widened to a record monthly level of R7.8 bn in July 2006, with the cumulative deficit measuring R41.5 bn for the year to August 2006.
- Import demand for capital goods (machinery and equipment) increased by just over R15 bn over the period January to August 2006.

The current account balance and the real effective exchange rate (REER)

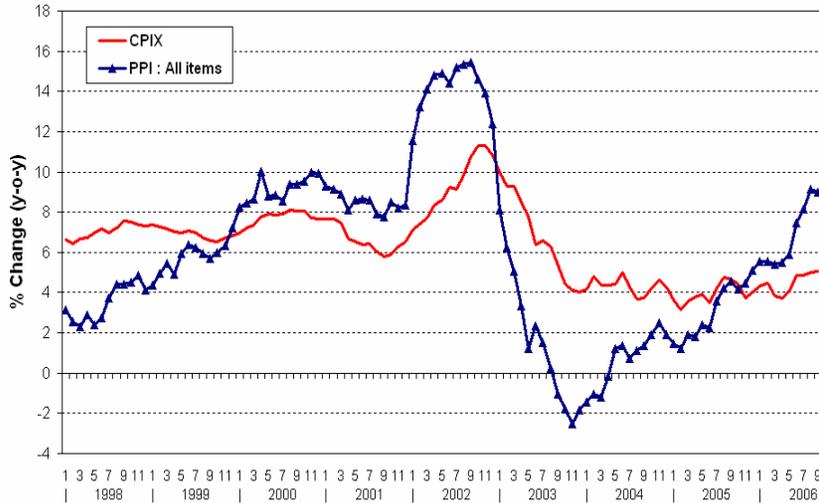


Source: SARB

- A close correlation exists between the exchange rate and the balance of payments.
- The strong Rand in recent years has placed manufacturing exports under increased pressure, whilst permitting cheaper imported goods.
- A widening trade deficit was accompanied by a further expansion of the deficit on the services account (increased dividend and interest payments, etc.).
- The combined deficits resulted in a current account deficit of 6.1% of GDP over the first half of 2006.

Inflation and money supply

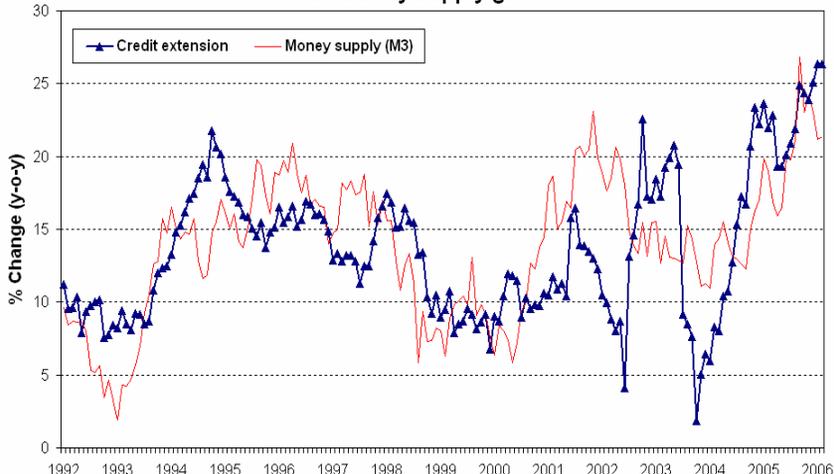
Inflation according to CPIX and PPI



Source: Stats SA

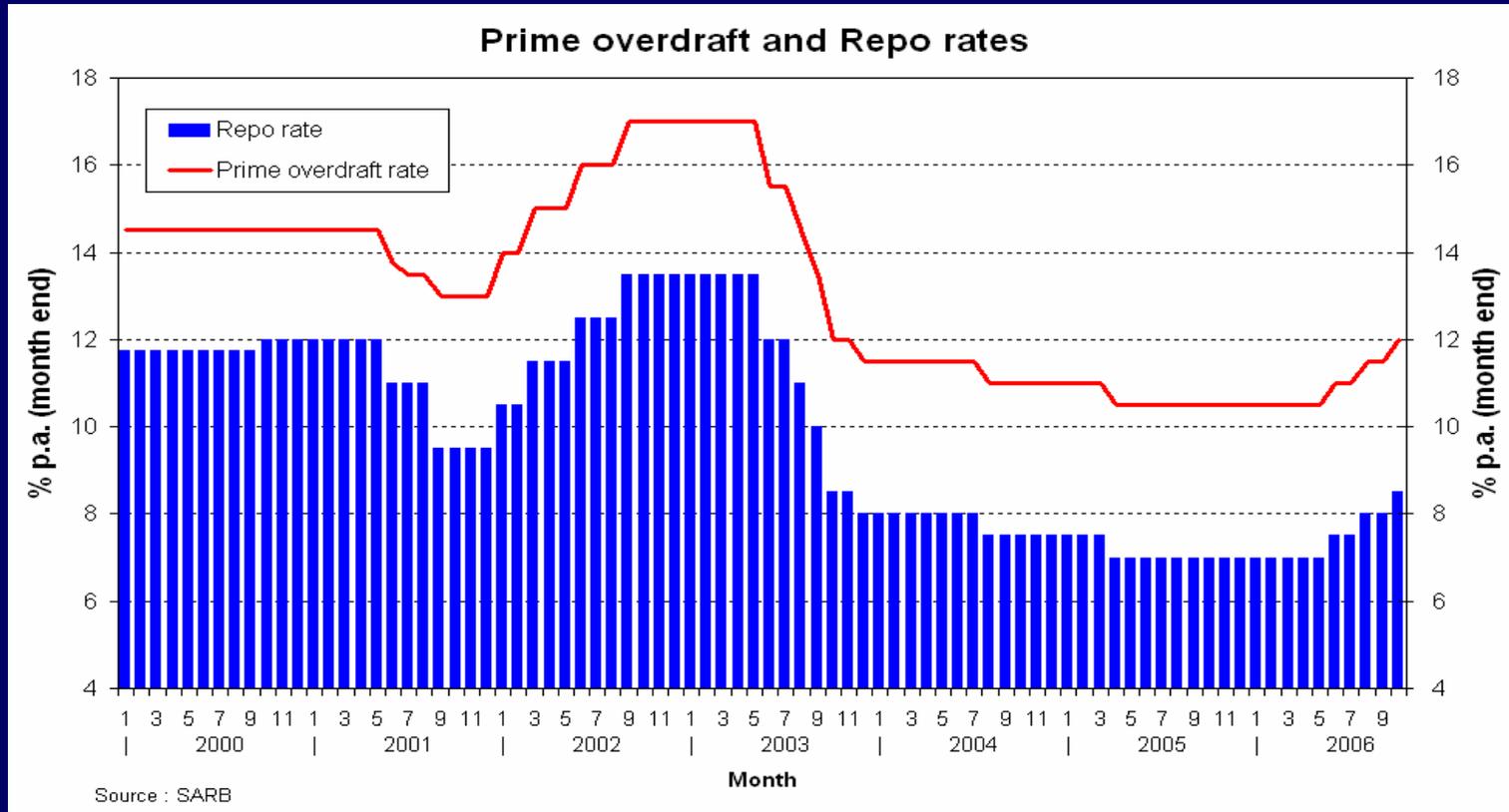
- In August 2006, CPIX inflation (which measured 5.4%) reached its highest level in two years, mainly due to higher fuel and food prices, whilst administered prices also increased at a rate well above the 6% target range.
- Imported prices have risen substantially on the back of higher oil prices and price increases in SA's trading partners.
- PPI reached a 3^{1/2} year high in August 2006, measuring 9.2%.
- The inflationary outlook is exacerbated by continued sharp increases in money supply and private sector credit extension.

Credit extension to the private sector and M3 money supply growth



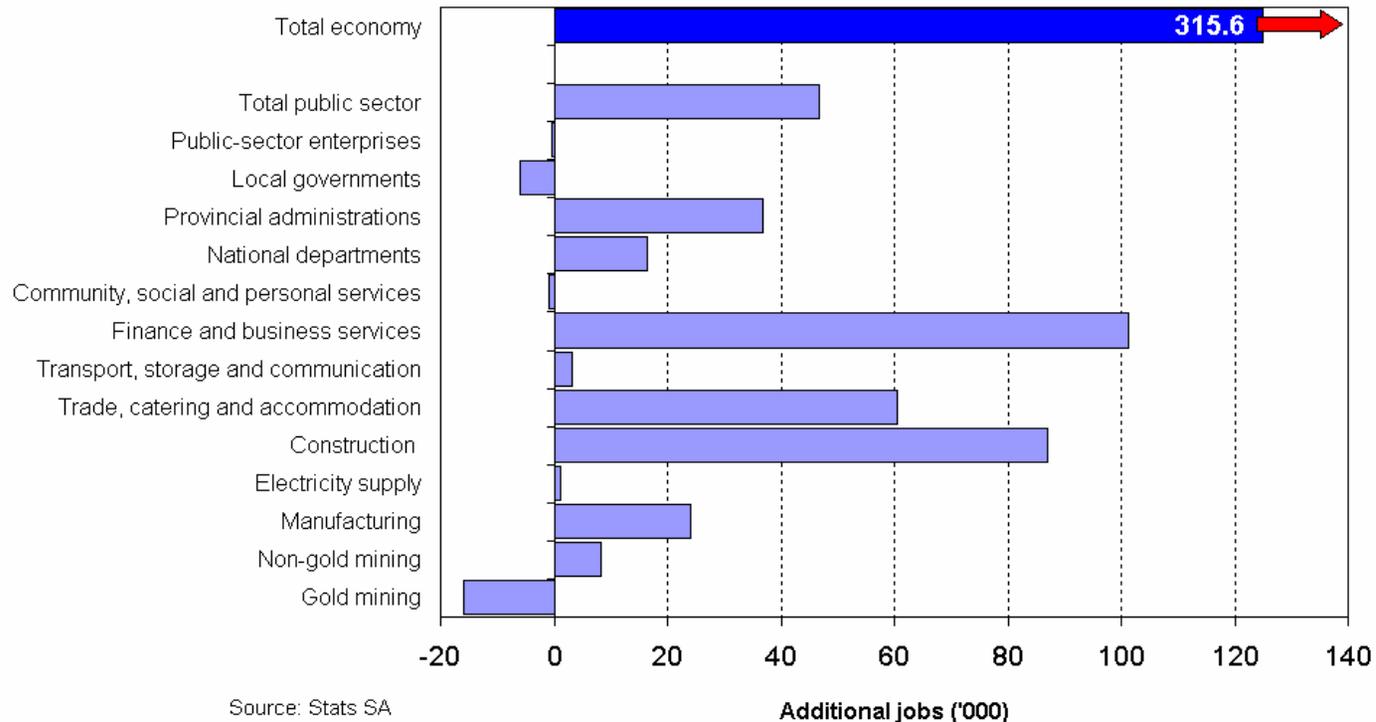
Source: SARB

- Growth in credit extension to the private sector remains stubbornly high.
- Sharp increase in credit extension is partially due to the previously disadvantaged entering the credit market for the first time.
- Households will feel the squeeze of increasing debt installments, whilst rising fuel and food prices compound the problem.
- This could place increasing financial strain on over-indebted households in coming months in light of more interest rate hikes.



- As a result of developments on the inflationary front, the MPC increased the repo rate by 50 basis points at each of the meetings held in June, August and October 2006.
- The **repo rate** now stands at **8.5%** and the **prime overdraft rate** at **12%**.
- In a lower inflation environment, associated **interest rate cycles should be shallower** than those previously seen during high inflation periods.
- Interest rates are likely to be raised by another 50 basis points at the MPC's December meeting, which could be the end of this tightening cycle.
- However, if the inflation outlook deteriorates, more rate hikes may follow.

Employment creation in the formal non-agricultural sector for the year to March 2006



- Higher and sustained economic growth, especially since 2003, resulted in a welcomed **improvement in the economy's labour absorption** capacity.
- In the year to March 2006, **315 600 new jobs** have been created.
- Services-related sectors accounted for the majority share of all new job opportunities for the year to March 2006.
- The labour-intensive construction sector reported a 22% increase in its workforce, with 87 000 new job opportunities.



***Thank
You***