

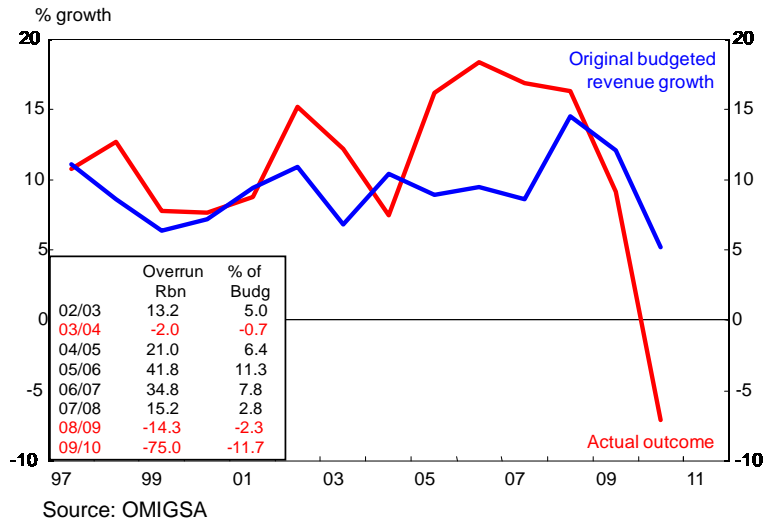


OMIGSA Comment – Johann Els, senior economist: Economic Research

Taxpayers can still expect some budget relief

Despite this year's unexpectedly large budget deficit, lower income earners can likely still look forward to some tax relief in the government's 2010-11 Budget, to be unveiled by Finance Minister Pravin Gordhan on 17 February.

Likely increases in excise duties, the fuel levy, and possibly electricity tax and capital gains tax, plus positive revisions to original estimates for GDP growth, consumer spending and inflation, should give Gordhan room to make moderate upward adjustments to tax brackets for lower income earners to compensate for inflationary "bracket creep". High income earners, however, may not be so lucky.



Because of the large 2009-10 budget deficit (we expect around 7.8% of GDP), there's very little chance of unexpectedly big tax relief on the scale we saw last year (R13.6bn), but there's still a strong possibility of some help for those in the lower income brackets. By contrast, there's an outside chance Gordhan could unveil a temporary rise in the top marginal tax rate for individuals.

In addition, I do not expect changes to company taxes or VAT. Such announcements, along with big individual tax cuts or big exchange control relaxation, would be big surprises. The reality is that, despite a terrible 2009-10 in which actual revenues are going to fall short of the original February 2009 estimate by a huge amount (we estimate around R75bn), thanks to previous years of budget surpluses and a relatively conservative fiscal policy, South Africa isn't in bad shape relative to many developed economies coming out of the global recession.

05 - 11 Feb 2010 in a nutshell

Global: Trading was choppy this week in most global bourses, on mixed economic data from both the US and Europe. The S&P 500 in the US rose 1.41%, while the European market stocks shed 1.00% and emerging market shares gave up 0.43%.

South Africa: After a major sell-off in the past few weeks, appetite for equities returned to the local market this week, leading to the FTSE/JSE All Share Index gaining a slight 0.13%. The winners were resources, collecting 1.04% on firmer metals prices.

Markets and Economics - Highlights

Global

- The US Federal Reserve could begin pulling back its unprecedented stimulus for the US economy by first removing some cash from the financial system and then raising interest rates, Fed chairman Ben Bernanke said.
- The Bank of England cut its forecast for economic growth and said inflation would undershoot its target, suggesting policy makers may need to keep up their 200 billion pounds emergency stimulus.
- China's exports and imports continued to recover in January 2010 from the slump at the start of last year, according to new government figures which underlined the growing importance of other developing economies in China's trade.

South Africa

- SA's economy stopped haemorrhaging jobs in the final quarter of last year, but the unemployment rate is virtually unchanged and job creation has not picked up much. The official jobless rate dipped to 24.3% from 24.5% in the third quarter, bringing the total number of jobs shed last year to 870 000 – not quite as bad as anticipated losses of 1 million, said Stats SA.
- Factory output surged unexpectedly in December, adding to evidence that the economy's second-biggest sector pumped up overall growth late last year. Manufacturing production was 3.2% higher than the previous December's – the first annual rise in 14 months – after falling 4.6% in November, Stats SA said.

Key Indicators:				
Market	Index	Movement for the period		Year to Date
		%	Index Value @ 11.02.2010	% Performance Return
United States	S & P 500 (US\$)	1.41%	1,078	-3.33%
Europe	Euro Stoxx 50 (Euro)	-1.00%	2,680	-9.56%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-0.43%	922	-6.82%
South Africa	FTSE/JSE All Share (ZAR)	0.13%	26,351	-4.75%
Global	MSCI (US\$)	0.18%	1,108	-5.14%
ZAR/Dollar	Rand/US \$ (ZAR)	-0.26%	7.63	3.25%
ZAR/Pound	Rand/£ (ZAR)	-0.83%	11.97	0.93%
ZAR/Euro	Rand/Euro (ZAR)	-0.95%	10.44	-0.48%
JSE	Industrials	0.04%	24,718	-2.09%
JSE	Financials	-0.99%	19,270	-1.28%
JSE	Resources 20	1.04%	46,988	-8.02%
JSE	Small Companies	0.86%	27,653	-0.84%
JSE	Listed Property	0.00%	323	0.00%
JSE	RAFI@ ALSI	-0.47%	5,476	-4.80%
JSE	RAFI@ 40	-0.13%	5,324	-4.79%
JSE	SWIX	-0.02%	5,526	-3.64%

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