ADJUSTED GROWTH STRATEGY: SOUTH AFRICA

SOUTH AFRICA'S ADJUSTED GROWTH STRATEGY, 2015

The purpose of this document is to highlight changes and new additions to members' ***growth*** *strategies since Brisbane :*

Changes to section A (Economic Objective)

Please discuss changes to the economic objectives, if any.

The objectives of the growth strategy remain unchanged, which are, meeting cyclical and structural constraints to strong, sustainable and balanced growth. Higher growth, lower inflation, sustained level of external sector balance and a prudent policy stance for macroeconomic stability.

Please list the top 5 commitments from your growth strategy. These can be from either Brisbane or the current adjusted growth strategy.

1. Fast Track Implementation of the government's infrastructure development plan.
2. Streamline the regulatory regime: Reduce compliance costs and facilitate access to equity finance
3. Employment tax incentive, through which the government shares the initial cost of hiring with the employer to boost job creation
4. Improve investment environment for private sector
5. Facilitate cross-border trade and investment for South African firms.

Changes to section B (Economic Outlook and Challenges to Growth)

Please discuss changes to the economic outlook and challenges, and if desired, highlight any new and existing gaps remaining to be addressed. Add discussion of risk of persistent stagnation, if relevant.

Update table of key indicators as follows:

Real GDP growth declined to 1.5 per cent in 2014 from 2.2 per cent in 2013, in line with the South African National Treasury's estimate in the February 2015 Budget Review (BR). This year, growth has remained weak, with the economy growing by only 1.8 per cent in the first half of 2015 compared to the same period in 2014. Limited electricity supply weighed heavily on both mining and manufacturing production, and drought reduced agricultural output. Growth in the services sector (excluding government), which has supported growth by an average of 1.2 percentage points over the last five years, also slowed in the first half of the year.

South Africa's economic growth forecasts have been revised lower since the publication of South Africa's growth strategy in November 2014 as a result of electricity supply disruptions, headwinds from lower commodity prices, and the weakening global economic outlook. Electricity supply will remain a binding constraint until 2017, limiting output and dampening business and consumer confidence.

The National Treasury forecasts growth to pick up in the medium term, although it will remain below levels required to significantly reduce unemployment. Easing electricity, transport and telecommunications infrastructure constraints, alongside improved confidence and higher demand from major trading partners, are expected to boost GDP growth to 2.8 per cent in 2018 from 1.5 per cent in 2015 and 1.7 per cent in 2016 (Medium-Term Budget Policy Statement, 21 October 2015). The most recent forecasts by the SARB (September 2015) similarly indicate that the economy will grow by 1.5 per cent in 2015 and 1.6 per cent in 2016, rising to 2.1 per cent in 2017 and 2018.

External risks to the economic outlook include a further slowdown in the global economy (especially among South Africa's main trading partners), higher oil prices, lower export

commodity prices and increased financial market volatility resulting in capital outflows. Electricity supply shortages pose the largest domestic risk to growth, and continue to weigh on estimates of potential growth. Both the South African Reserve Bank (SARB, MPC statement, September 2015) and the National Treasury have revised estimates of short-term potential growth to 1.8 per cent in 2015, largely due to lower electricity supply. The National Treasury estimates potential growth will rise to 2.8 per cent in 2018 as electricity constraints ease; the South African Reserve bank estimates that it will be 2.1 per cent in 2017.

South Africa continues to target a headline **inflation** rate of between 3 – 6 per cent. Consumer inflation moderated from 6.6 per cent y/y in June 2014 to a trough of 3.9 per cent in February 2015. The slowdown in inflation was driven by declines in the oil price and food inflation. For the first nine months of 2015, inflation has averaged 4.5 per cent; lower than the 6.1 per cent average of 2014. Core inflation, which excludes food, petrol and electricity, has remained near the upper end of the inflation target range, although it has declined slightly from 5.8 per cent in January to 5.3 per cent in August and September 2015.

Inflation is forecast to remain at the upper end of the inflation targeting band of six per cent. Upward pressure on domestic food prices and higher petrol inflation are expected to push CPI inflation above the 6 per cent target ceiling in the first half of 2016. The forecast takes into account a 12.7 per cent per year increase in electricity prices. Upside risks to the inflation forecast revolve around additional exchange rate depreciation, the extent to which businesses can continue to absorb higher input costs from the weaker rand and electricity price increases. Higher oil prices also pose a further risk to inflation.

The SARB has indicated it remains on a gradual tightening cycle, although given current economic conditions, the pace and extent of rate increases is likely to be gradual. Due to declining inflation, the real policy rate is currently positive, but nominal policy rates remain below their 15 year average of 8.3 per cent. At the most recent MPC meeting (September 2015), the policy rate was left unchanged, following an increase by 25 basis points to 6.0 per cent per annum in July 2015.

The prospect of weaker economic growth and higher US interest rates has weighed on global risk appetite, and in turn the performance of the rand. By mid-October, the rand exchange rate had weakened by 13 per cent compared to the same period in 2014, reaching R13.35 to the US dollar, reflecting declining commodity prices and volatility in the Chinese equity market.

By contrast, the real exchange rate of the rand – which takes into account the relative inflation and exchange rates of South Africa's main trading partners – appreciated by 5.4 per cent annually over the seven months to July. If South Africa's inflation remains persistently higher than that of its trading partners, it will erode the export benefits of currency depreciation.

South Africa's **current account deficit narrowed** to 3.1 per cent of GDP in 2Q 2015 from 5.4 per cent in 2014, and is expected to narrow to 4.1 per cent in 2015, owing to healthy export performance and terms of trade gains in the first half of the year. Base Import growth, however, is expected to widen the current account deficit to 4.8 per cent of GDP by 2018, indicating continued reliance on foreign savings. To register lasting improvements in the current account balance, South Africa needs to lower the cost of doing business and build on the comparative advantages of local exports.

South Africa's capital markets have remained resilient despite heightened global volatility. Robust net portfolio inflows of R78.7 billion in the first six months of 2015 exceeded the 2014 figure of R50 billion, but direct investment flows both into and out of South Africa have been markedly lower in 2015. The balance on the financial account fell to R36.7 billion in the first half of 2015, from R81.6 billion in the second half of 2014. The reliance on

foreign savings represents a challenge for the growth outlook, as rates are forecast to rise globally.

Persistently high unemployment remains one of South Africa's most pressing challenges. South Africa's **unemployment rate** declined from a 12-year high of 26.4 per cent in 1Q2015 but remains at an elevated level of 25 per cent of the labour force. Low growth and a lack of skills are the major obstacles to the employment outlook. Labour relations have improved during 2015, with 176 000 workdays lost to industrial action in the first half of the year, down from 7.5 million in the first half of 2014. Strikes have been relatively short-lived, primarily affecting individual firms rather than entire subsectors.

Household debt remains high, making consumers vulnerable to interest rate increases, although credit extension growth has eased sharply as both supply and demand for credit have reduced.

Key Indicators

	2014***	2015	2016	2017	2018	2019
Real GDP (% yoy)	1.5	1.5	1.7	2.6	2.8	
Nominal GDP (% yoy)	7.4	6.2	7.9	8.7	8.8	
Output Gap (% of GDP)*						
Inflation (%, yoy)	6.1	4.8	6.2	5.9	5.8	
Fiscal Balance (% of GDP)**	-3.6	-3.8	-3.3	-3.2	-3.0	
Unemployment (%)	25.1					
Savings (% of GDP)	14.9					
Investment (% of GDP)	20.3	20.1	20.0	20.3	20.5	
Current Account Balance (% of GDP)	-5.4	-4.1	-4.4	-4.6	-4.8	

***A positive (negative) gap indicates an economy above (below) its potential.**

****A positive (negative) balance indicates a fiscal surplus (deficit).**

***** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.**

Changes to section C (Policy Responses to Lift Growth)

Please indicate any adjustments to measures taken in Brisbane Growth Strategies as well as new high impact policy measures taken since Brisbane.

Please include both macroeconomic and structural policy responses.

Persistent weakness in the global economy underlines the importance of structural reforms in South Africa. Economic performance will depend on how well interventions to boost growth are coordinated and implemented within government and with private-sector partners. Government is guided in this regard by the medium-term strategic framework – which serves as the five-year implementation framework of the NDP.

In the short term, government is acting to reduce the binding constraints to growth with a particular focus on improving **electricity supply, labour relations and policy coordination, certainty and implementation**.

Long term reforms include efforts to boost investment in infrastructure, promoting regional infrastructure and cooperation to promote growth, as well as reviewing the incentives that government is providing to support business.

In February, government announced a **medium-term fiscal policy package** to ensure a sustainable foundation for the public finances. An important tax change in the 2015 Budget include increases in all marginal personal income tax (PIT) rates by one percentage point, except for taxpayers earning less than R181 900 per year. The release of the Medium term Budget Policy Statement demonstrated Government is meeting these commitments. Main budget expenditure remained within the 2014/15 limits and is on track to stay within the spending ceiling in 2015/16. Debt is stabilising as a share of GDP. Despite some slippage in medium-term budget deficit projections, the deficit will continue to narrow. A new fiscal rule has also been proposed, linking expenditure to long run growth potential. Efforts to improve efficiency within State Owned Companies continues.

South Africa's 2014 Medium Term Budget Policy Statement (MTBPS) and 2015 Budget made a commitment that **funding of state owned companies** would be in a deficit neutral manner. In order to give expression to this commitment, government ensured that its **R23 billion appropriation to Eskom** will have no impact on the budget deficit by funding it through the sale of non-strategic assets. South Africa has set aside R23 billion of the expected total receipts of R25.4 billion from its sale of Vodacom shares to recapitalise Eskom and plans to use R2 billion of the remainder to fund its **initial capital contribution to the BRICS New Development Bank (NDB)**.

Financial sector policy continues to evolve to reduce the risk of over-indebtedness to consumers, whilst maintaining a healthy financial sector.

More detail relating to the implementation of the Brisbane commitments can be found below and in the tables in Annex 3.

DETAILS ON TOP 5 COMMITMENTS

1. Fast-track implementation of the government's infrastructure development plan

General government has made the largest contribution to investment growth over the last two years, partly offsetting the slowdown in investment by private and state owned companies.

High levels of investment by the public sector are expected to continue, with over R800 billion of infrastructure spending projected to 2017/18 in energy, transport and social infrastructure. State owned companies will be responsible for around half of this spending.

Spending of capital allocations has improved for both national and local government. In recent years, better coordination, the introduction of targeted incentives and efforts to build municipal financial capacity have improved capital project planning and execution. Local government spent 91 per cent of allocated infrastructure budgets in 2014/15, up from 86 per cent in 2013/14 and 77 per cent in 2012/13. To build on this progress, and improve value for money in infrastructure investment, government will introduce a medium-term capital budgeting framework. It will include:

- New appraisal tools for capital projects
- Strengthened procurement regulations
- Measures to lock in resources for operations and maintenance
- More transparency on the full life-cycle costs of large capital projects.

Progress in the energy sector

Low and unreliable levels of electricity supply are the most binding constraint, estimated to cost close to one percentage point of annual GDP growth. Projected capital investment by Eskom to expand electricity generating capacity totals R157 billion over the medium term.

Over the past nine months, South Africa's government has made progress in achieving the five point plan adopted by cabinet to stabilise electricity supply. Specifically:

✓ **1. Eskom emergency measures**. Maintenance practices have been improved and resulted in 1 percentage point improvement in electricity availability factor (equivalent to 440MW). Majuba returned to capacity; Sere Wind Farm (100MW) came online in February and Medupi Unit 6 (800MW) was fully commissioned in August. Once the Koeberg nuclear power station returns from planned maintenance in December, there will be an additional 900 MW available to the grid. The financial stability of Eskom was strengthened with conversion to equity of the R60 billion subordinated loan and transfer of first R10 billion tranche of the R23 billion allocation.

✓ **2. Cogeneration**. Short-term power purchase programme contracts (STPPP) of 1 350 MW of electricity approved for 2015/16. Four bid windows will be run between now and end of 2015 to secure 1 800 MW of electricity.

✓ **3. Gas imports**. A market exploratory request for information for gas was issued in May 2015, which will be followed by official requests for information, most likely in Q3 and Q4 2015. Government intends to procure 3 126 MW of electricity from gas-fired plants. A gas utilisation master plan to develop local resources and diversify supply is being drafted.

✓ **4. Independent coal power producers**. A request for proposals for 2 500 MW of coal-fired power has been issued.

✓ **5. Demand-side management**. Government has issued requests for information for interventions to reduce demand, shift load and improve energy efficiency. Eskom estimates that 975MW can be saved through industrial and residential energy efficiency programmes by 2018.

In addition, the state has also built partnerships with the private sector to address the electricity supply gap. As of October 2015, South Africa has selected 92 projects as part of the Renewable Energy Independent Power Producer Programme. These projects represent an aggregate R193 billion in private-sector investment and will add 6 327 MW of capacity to the national electricity grid. To date, 37 of these facilities have been connected to the grid, supplying up to 1 800 MW of electricity. The Minister of Energy recently issued a determination to procure another 6 300 MW through the renewables programme. This programme is expected to boost electricity capacity by 17 000 MW by 2022.

South Africa is expanding the independent power producer programme to include other generation technologies. The electricity regulator has approved 1 350 MW of short-term power-purchase contracts in 2015/16. An additional 2 500 MW of coal, 3 126 MW of gas, 1 800 MW of cogeneration and 2 609 MW of imported hydro power generating capacity is expected to be connected to the grid between 2020 and 2025.

The National Treasury is working with the Department of Energy to consider the costs, benefits and risks of building additional nuclear power stations, and R200 million will be allocated over the medium term to support preparatory work for nuclear procurement.

Progress in the telecommunication sector

Government has approved the Broadcasting Digital Migration Amendment Policy.

Progress in the transport sector

Transnet's seven-year, R310 billion capital investment programme is modernising the freight logistics network and upgrading railways, ports and pipelines. Transnet National Ports Authority (TNPA) announced a R9.7 billion investment in critical port infrastructure projects at Saldanha Bay to enhance its ability to service the offshore oil and gas industry.

The Ports Regulator of South Africa has begun a 10-year programme to ensure tariffs better reflect the cost of using port assets such as berths and quay walls. Cargo dues on export containers are 38 per cent lower than three years ago. The port of Durban has implemented an integrated ports management system, dramatically reducing turnaround times by replacing manual processes and improving train loading and cargo shipment.

Accelerating urban investment

Large cities are building modern rapid transit systems and upgrading commuter rail services. The metropolitan municipalities are promoting integrated development projects, helping to reshape the urban landscape. Government is working with cities to promote inclusive economic growth through considerable transformative investment activity. Conditional grant reforms are being undertaken to improve the efficiency of investment spending by municipalities. A long term plan is underway to improve cities' access to long term borrowing in collaboration with the DBSA which has the potential to increase infrastructure spending. Nine cities have embarked on an effort to lower the cost of doing business through a peer-learning process to remove administrative blockages to growth.

2. Streamline regulatory regime: reduce compliance costs and facilitate access to equity finance

Efforts are focused on improving the business environment for small business.

The **Department of Small Business Development** in October launched the **Gazelles programme**, which selects 200 businesses with high-growth potential to receive financial support, as well as coaching from the private sector.

The **South African Revenue Service (SARS)** will continue in its efforts to reduce the compliance burden for small businesses operating in South Africa through its continued rollout of **"small business desks"** at its branch offices throughout the country. SARS has officially opened 138 small business desks nationally. The desks are capable to handle up to 15 000 small business taxpayers per week. Regional management and staff workshops were successfully conducted during 1st quarter in order to assess internal impact. This was followed by an independent external survey for the SMME service channel as a method of observing taxpayers' experience. The outcomes of both interventions support the introduction of the small business desks. The organisation has made a commitment that every new branch will have a desk element in its design going forward. For example, the new -New Castle branch that will be officially opened early in November 2015 (operationally as of 19 October 2015) has three (3) dedicated small business desks in its floor plan. This subsequently results to 141 approved desks in branches since its inception. Assessment of the existing desks allocation is in a continuous progress.

Other support includes:

- A simplified turnover tax regime
- Grants received by SMEs are tax exempt, to support entrepreneurship
- To encourage equity investment in SMEs and alleviate the funding and skills constraints many of them face, funders investing through a venture capital company are able to claim a tax deduction on their investment. Certain entities providing support and assistance to SMEs classified as poor and needy may also qualify for public-benefit organisation status
- Government entities such as the Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency (SEFA) also continue to provide support and finance to SMMEs.

3. Employment tax incentive, through which the government shares the initial cost of hiring with the employer to boost job creation

The National Treasury launched the Employment Tax Incentive on the 1st January 2014. Total claims for the employment tax incentive amounted to R3.9 billion since the start of the programme on 1 January 2014 up until the end of July 2015, claimed by 36 616 unique employers.

The available data do not yet allow for a breakdown of the exact number of employees for whom the incentive was claimed during 2015. In December 2014 the incentive is estimated to have been claimed for at least 254 000 workers, against the 2014 Budget review projection of at least 240 000 workers to be supported by the incentive over the medium term.

Evidence-based evaluation of the employment tax incentive to be concluded during 2016, as sufficient data becomes available.

4. Improve investment environment for private sector

Government is directly investing through local government and provinces and state owned companies, which is expected to lower the cost of doing business and create the infrastructure to crowd-in future private investment, and it is also promoting investment by actively promoting the use of public private partnerships, particularly in electricity and transport (as above).

Policy certainty and coordination are key to boosting confidence and investment. From 1 September 2015 all future legislation and regulations will be subject to a socioeconomic impact assessment before being passed. This process will promote greater policy coordination, highlight potential implementation risks or unintended consequences, and allow for the development of mitigation strategies or alternative solutions before the legislative process begins. The Department of Planning Monitoring and Evaluation is also taking steps to strengthen monitoring and evaluation across government.

Operation Phakisa has been extended to improve coordinated planning by government, industry and other interested parties.

The Presidential Business Working Group (PBWG) is addressing regulatory challenges, licencing issues and to reduce the trust deficit that currently exists between them. Initiatives in place to address regulatory challenges include:

- A streamlined service for companies to open a corporate bank account, register a company online and reserve a name for the business simultaneously, through a collaboration between the Companies and Intellectual Property Commission (CIPC), First National Bank (FNB) and Standard Bank.
- The launch of self-service terminals at the Department of Home Affairs to allow for instant identity verification, thus reducing the need to submit supporting documentation and reduce the time for submitting annual returns.

South Africa is working on the **Promotion and Protection of Investment Bill**, which will enable a comprehensive and uniform legal framework for investment protection in the country. The Constitution provides significant and robust protection for both domestic and foreign investors' property rights.

5. Facilitate cross-border trade and investment for South African firms

During 2015, exports benefited from the weak rand and reduced labour-market tensions. However, the competitiveness gains of the last four years from a weaker currency cannot be taken for granted given similar trends in other developing economies. To sustain this improvement in the face of a weak global outlook requires South Africa to maximise the

benefits of real exchange-rate depreciation and build on its comparative advantages. This include boosting tourism receipts and services exports into the rest of Africa.

Trade facilitation will be enhanced by the implementation of the new **Customs Control and Customs Duty Acts** during the 2015/16 year. This will have many benefits for traders, importers and exporters.

Regional infrastructure projects seek to upgrade infrastructure and remove impediments to two-way trade flows. The vast majority of Southern African Development Community (SADC) trade takes place outside the region. In May, the SADC approved a US$3.5 million feasibility study for a regional project to expand and transmit Mozambique's hydro power and diversify South Africa's electricity supply. The free-trade area agreed by the SADC, East African Community and Common Market for Eastern and Southern Africa aims to bring together a market of 600 million consumers. Participants have agreed on tariff liberalisation and related rules, and the next phase will focus on trade in services. Efforts to boost services exports to the rest of Africa and increase tourism will be important over the medium term. The World Travel and Tourism Council estimates that the direct and indirect contribution of travel and tourism to both GDP and employment was over 9 per cent in 2014. The sharp decline in tourism, which became pronounced in the second quarter of 2015, is of great concern.

South Africa has made a number of reforms on capital flow management (inward and outward) recently to position itself as a hub for investments into the rest of Africa. These include Holding Company Regime, International Headquarter Company regime, reforms on foreign currency restrictions for African listings and increasing the percentage of bank liabilities that can be invested offshore. All these reforms are intended to reduce the cost of doing business in country and promoting intra-Africa investment.

Other Measures

Fiscal policy

Government is maintaining the fiscal course announced in February 2015. To ensure sustainable public finances that are not overwhelmed by debt and interest payments, spending limits will remain in place, although lower growth has resulted in slight upward revisions to debt levels compared to the February 2015 Budget.

There is little room for new spending priorities over the next three years. To accommodate the three-year public-sector wage agreement reached in 2015, which resulted in a 10.1 per cent increase in the wages and benefits of government employees this year, spending will reallocated to ensure additional resources go to core areas of need, including projects that address urgent social priorities. There is a need to radically change the manner in which future wage negotiations are conducted, and South Africa is considering proposals to reform remuneration in the public sector.

The MTBPS (21 October 2015) proposes a new long-term fiscal guideline to align the spending ceiling explicitly with the long-term path of economic growth. The guideline builds on the South African government's countercyclical approach to sustain development over the long term.

Given the weak economic outlook, proposals for additional taxes – which are essential to fund government's ambitious policy agenda – will be approached with caution. Over the medium term, government will continue to explore reforms that promote an efficient and progressive tax system, taking into account the recommendations of the Davis Tax Committee. Initiatives already under way include measures to combat base erosion, profit shifting and the misuse of transfer pricing.

In 2015 South Africa ranked third out of 102 countries in the Open Budget Index of the International Budget Partnership, which measures the quality of budget transparency,

public participation in the budget process and oversight by the legislature and audit institutions. South Africa is taking additional steps to strengthen budget transparency. Key assumptions underlying the macroeconomic and revenue forecasts presented in the fiscal framework were published for the first time in the MTBPS on 21 October 2015. The National Treasury is also working with civil society organisations to make budget data more accessbile and understandable to citizens through an internet portal.

Financial policy

Several draft laws on financial regulation were released over the past year for public comment. These include the **Financial Sector Regulation Bill (2014)** to give effect to the Twin Peaks regulatory model; the **Insurance Bill (2015)** to support the financial soundness of our insurance companies and enable low-income access to insurance; and the **Financial Intelligence Centre Act Amendment Bill (2015)** to strengthen the Financial Intelligence Centre's ability to assist in combatting financial crime.

A major focus of South Africa's **Financial Services Board (FSB)** in 2015 will be the continued preparatory work for its transition to a Market Conduct Authority in terms of the "Twin Peaks" regulatory proposals and National Treasury's Market Conduct Policy. This transformation encompasses the creation of a new structure aimed at better financial services delivery with a consumer dedicated regulatory focus. The **Financial Intelligence Centre (FIC)** will also proceed over the next three years with its Retail Distribution Review, which aims to improve the financial product distribution model. A regulatory framework for hedge funds will be implemented, and the FIC will work with the National Treasury to finalise the Financial Sector Regulation Bill.

On 1 March 2015, **Tax Free Savings Accounts** were introduced.

Improved performance of government, public-sector institutions and state-owned companies

Government is working with public sector institutions to develop sustainable financial frameworks supported by turnaround plans. Many of the interventions that have been launched will, in the short-term, focus on stabilising the finances of these institutions – in particular bolstering liquidity. Government expressed its intention to cost the developmental mandates undertaken by companies separately from their commercial activities, with the financial implications being more clearly set out in shareholder compacts. This process is being piloted at a number of entities. Work has also begun to develop a uniform legislative framework to regulate state-owned companies.

In June 2015, approved government guarantees to state-owned companies (SOCs) amounted to R470 billion, with most of the money allocated to Eskom, South African Airways (SAA) and the South African National Roads Agency Limited (Sanral). Of this total, R245 billion has been utilised. Government's focus has been on stabilising these entities with the aim of ensuring that potential risks do not materialise, which would lead to calls on government guarantees and requests for additional funding. Government remains committed to deficit-neutral capital financing of state-owned companies in the years ahead.

Eskom constitutes the largest share of government's guarantee portfolio. The utility benefits from a R350 billion guarantee facility, of which R162 billion has been utilised. During 2015/16, R23 billion of equity will be injected into the company. The Minister of Finance has attached stringent conditions to the R23 billion recapitalisation to drive delivery of planned maintenance, capital expenditure and cost savings. In addition, government's R60 billion subordinated loan has been fully converted to equity, adding to Eskom's equity and reducing the company's debt burden.

The National Treasury, Department of Public Enterprises, Department of Cooperative Governance and Traditional Affairs, and South African Local Government Association have

provided support to Eskom by ensuring that 59 defaulting municipalities enter into agreements to repay the utility R4.9 billion in outstanding debt over time. These efforts are beginning to yield results, with an immediate reduction in the debt observed. Eskom recorded a profit of R3.5 billion in 2014/15.

Competitiveness and investment incentives

Government provides a range of business support incentives, including direct transfers and tax incentives.

Aggregate medium-term funding of R16.2 billion supports industrialisation through incentives, promotion of various industries, and assistance to small enterprises and cooperatives. Government also forgoes revenue of about R24 billion each year to provide tax incentives to businesses.

The Manufacturing Competitiveness Enhancement Programme will support enhanced production capacity, while the Automotive Production and Development Programme will continue to subsidise capital investments in the car industry. Special economic zones will receive continued funding to support the sustainability of current and proposed designated zones. New zones will begin operating in the Free State and Gauteng.

This year, more than R7 billion will be transferred directly from the fiscus to support the operations of South African companies, which also receive about R24 billion in tax incentives annually. A number of additional proposals that would increase incentives to the private sector have also been raised for consideration.

The first phase of the Economic Competitiveness Support Programme, which was introduced in 2011/12, concludes in 2017/18. Over the six-year period, total allocations to this programme amount to R22.7 billion. The programme supports training, equipment and technological upgrades to improve competitiveness, and research and development. Government intends to renew the programme following a review of all business incentives.

The review, which will be conducted during 2016, will assess the impact of incentives on economic growth, productivity, competitiveness, the balance of trade and employment. Particular focus will be given to job creation and the need to incentivise labour-intensive economic activities. The outcomes of the review will inform the allocation of resources for business incentives in 2018/19 and beyond.

Labour Relations and Employment

South Africa has prioritised stability in labour relations. The Commission for Conciliation, Mediation and Arbitration is taking an active role in settling disputes, and has cut the duration of arbitration proceedings by more than 75 per cent since 2003. A National Economic Development and Labour Council (Nedlac) task team is working to address the disruption of the economy caused by large, protracted strikes, and discussing a minimum wage. In September 2015, parties to the mining framework agreement declared their intention to limit job losses.

Programmes to directly boost employment growth include the National Rural Youth Services Corps (NRYSC) which has added 5,000 participants in its skills programme in 2014/15, and intends to create a further 9,000 opportunities over the MTEF, for which it will receive funding of R1.3 billion; the Employment Public Works Programme (EPWP) (including the Community Works Programme) which is designed to provide poverty and income relief, has created over 1 million jobs in 2014/15. and will receive R6.8 bn over the MTEF to EPWP.

The Jobs Fund has launched its fifth Call for Proposals, focused on partnering with businesses and non-governmental organisations involved in agricultural development and support for emerging farmers. The Fund is currently implementing 6,759 projects, which

have so far created 30,701 permanent jobs, placed 17,428 people into full-time employment and provided training to 75,163 work seekers. It has paid grants worth R1.48 billion to these projects and has leveraged funding of R3.24 billion from its project partners.

To boost training, in 2013/14, more than 176 000 people (both workers and unemployed persons) registered for SETA supported learning programmes, and more than 150 000 people were certified. More than 794 000 students enrolled in public and private FET Colleges in 2013. Flowing from the "White Paper on Post-school Education and Training, the DHET are currently reviewing nationwide structure of skills planning and provision.

The Department of Labour is also developing its Employment Services South Africa system, which placed 15 570 work-seekers in registered vacancies in 2013/14.

Spillovers from South Africa's growth strategy

South Africa's growth strategy and economic policies are expected to result in a higher growth performance arising from South Africa's structural reforms and are expected to have positive spillovers to the rest of the Sub-Saharan African (SSA) region.

Inclusive growth and South Africa's growth strategy

Poverty and inequality targets

South Africa's National Development Plan (NDP), announced in 2011, targets:

- A reduction in the proportion of South African **households living below R418 a month** from 39 per cent ca. 2011 to zero by 2030, and
- A reduction in South Africa's **Gini coefficient** from 0.7 in 2009 to 0.6 in 2030.

Slow progress in achieving faster growth may put these targets at risk.

Fiscal Policy and inclusive growth

Social spending has more than doubled in real terms over the past decade to around 60 per cent of non-interest expenditure, and social grants provide a safety net for more than 16 million most vulnerable people.[1] A recent World Bank publication[2] confirmed that South Africa's fiscal policy contributes to inclusive growth, as **taxes and social grants** have lifted 3.6 million South Africans out of poverty and reduced income inequality by one-quarter in fiscal year 2010/11. South Africa has had more success in using fiscal policy tools to reduce inequality and poverty than 11 peer countries. If South Africa's redistributive fiscal policies are taken into account:

- The proportion of South Africans living in poverty (measured by a daily income of US$1.25 or less) declines almost by half from 34.4 per cent to 16.5 per cent, and
- South Africa's Gini coefficient falls substantially from 0.7 to about 0.59.

The 2015 Budget proposals build on the **progressive character of the tax system** by raising all marginal personal income tax (PIT) rates by one percentage point, except for taxpayers earning less than R181 900 per year.

Employment policy and inclusive growth

The link between employment policy and inclusive growth in South Africa's growth strategy is established through **Outcomes 4 and 5 of the Medium-Term Strategic Framework (MTSF)**, South Africa's five-year strategy for 2014-19. Outcome 4 targets

[1] Remarks by Deputy Minister of Finance Mr. Mcebisi Jonas at National Treasury-World Bank Workshop on Fiscal Policy and Inequality, Pretoria, 5 November 2014.

[2] World Bank, "South Africa Economic Update: Fiscal Policy and Redistribution in an Unequal Society", November 2014, http://www.worldbank.org/en/country/southafrica/publication/south-africa-economic-update-fiscal-policy-redistribution-unequal-society

“decent employment through inclusive economic growth” and Outcome 5 targets a “skilled and capable workforce to support an inclusive growth path”.

In particular, South Africa’s employment policy seek to increase labour market participation and employment of **women and youth**. The **Employment Tax Incentive (ETI)** announced by South Africa in January 2014 is intended to support more than 200 000 jobs for young workers until 2017.

South Africa’s efforts to promote inclusive growth through employment growth also target the expansion of **small and medium-size enterprises (SMEs)**. South Africa has a very low level of entrepreneurship and raising small business growth will be key to overcoming low employment levels.

ANNEX 1: NEW AND ADJUSTED POLICY COMMITMENTS FOR 2015

This annex is for describing new measures introduced since Brisbane or Brisbane commitments that have been adjusted or modified.

Please complete a table for each new or adjusted commitment put forward in 2015. We would expect each policy commitment table to be no longer than 1 page.

South Africa has not made any new commitments since Brisbane.

However, there has been much progress with the implementation, and adjustment, of the Brisbane key and other commitments, which is reported above and in the tables in Annex 3 below.

ANNEX 2: PAST COMMITMENTS – ST. PETERSBURG FISCAL TEMPLATE – UPDATE

Please update as necessary. In particular, please update tables as follows:

Medium-term projections, and change since last submission *(required for all members)*:

The 2015 Medium Term Budget Policy Statement (MTBPS, 21 October 2015) supports the long-term health of the public finances with a series of revenue and expenditure measures to narrow the budget deficit to 3.0 per cent of GDP by 2018/19, stabilise debt at 49.4 per cent of GDP in 2018/19, and begin to rebuild fiscal space.

	Estimate Projections						
	2013-14*	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Gross Debt		46.8	49.0	48.6	49.0	49.4	n/a
ppt change		0.6	1.7	1.1	1.4	n/a	n/a
Net Debt		41.2	43.5	43.9	44.7	45.4	n/a
ppt change		-2.0	-2.1	-2.3	-2.2	n/a	n/a
Deficit	-3.8	-3.6	-3.8	-3.3	-3.2	-3.0	n/a
ppt change	0.0	-0.1	0.1	-0.7	-0.7	n/a	n/a
Primary Balance	-1.6	-1.4	-1.2	-0.5	-0.4	-0.2	n/a
ppt change	-0.8	-0.6	-0.5	-1.2	-1.1	n/a	n/a
CAPB						n/a	n/a
ppt change						n/a	n/a

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

South Africa's fiscal estimates and projections are for the fiscal year starting 1 April. The deficit is for consolidated government. These are the latest published estimates and projections from National Treasury's Medium Term Budget Policy Statement (MTBPS), 21 October 2015.

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

	Estimate	**Projections**					
	2013-14*	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Real GDP growth	2.2	1.6	1.2	2.1	2.7	2.8	n/a
ppt change	0.0	0.2	-0.8	-0.5	-0.3	n/a	n/a
Nominal GDP growth	8.5	6.5	6.7	8.1	8.8	8.8	n/a
ppt change	0.0	-1.0	-1.3	-0.2	0.3	n/a	n/a
ST interest rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ppt change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LT interest rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ppt change	n/a	n/a	n/a	n/a	n/a	n/a	n/a

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

The above real and nominal GDP growth estimates and projections are for the fiscal year starting 1 April, and are the latest published estimates and projections from National Treasury's Medium Term Budget Policy Statement (MTBPS), 21 October 2015.

ANNEX 3: PAST COMMITMENTS – BRISBANE COMMITMENTS

The purpose of these tables is to monitor the implementation of commitments from members' Brisbane growth strategies.

Key Commitments for Monitoring Purposes

The detailed table below is for the monitoring of key commitments, as identified by members. Please complete a table for each key commitment.

Key policy action 1:	**Fast-track implementation of government's infrastructure development plan**		
Detailed implementation path and status	**Interim Steps for Implementation**	**Deadline**	**Status**
	Ongoing	Ongoing	The public sector has high levels of investment, with over R800 billion of infrastructure spending projected over the medium term in energy, transport and social infrastructure. General government has made a large contribution to investment growth over the last two years. Government continues to invest in public infrastructure and housing, and has proposed medium-term budget allocations of R542 billion (Medium Term Budget Policy Statement, 21 October 2015).
Impact of Measure	Government's expanded investment in the urban built environment over the next three years is aimed at renewing South Africa's urban infrastructure, transforming human settlements, and drawing in private investment to support more dynamic and inclusive economic growth. Infrastructure spending should also help alleviate binding constraints to growth and ensure that SA is ready to take advantage of the recovery in global and domestic economic activity.		
Key policy action 2:	**Streamline the regulatory regime: Reduce compliance costs and facilitate access to equity finance**		
Detailed implementation path and status	**Interim Steps for Implementation**	**Deadline**	**Status**
	The South African Revenue Service (SARS) will continue in its efforts to reduce the compliance burden for small businesses operating in South Africa through its continued rollout of "small business desks" at its branch offices	Ongoing	SARS has officially opened 138 small business desks nationally and it is most likely that the number will increase in mid-June once the provincial workshops are completed.

	throughout the country. Regulatory reforms that reduce barriers to entry and promote shared access to broadband infrastructure will soon be proposed. Rationalising state agencies working in information and communication technology will complement this approach.		
Impact of Measure			
Key policy action 3:	**Employment Tax Incentive, through which the government shares the initial cost of hiring with the employer to boost job creation.**		
Detailed implementation path and status	**Interim Steps for Implementation**	**Deadline**	**Status**
	Government announced Employment Tax Incentive in January 2014. Employment Tax Incentive is intended to support more than 200 000 jobs for young workers over the next 3 years, of which 43 000 jobs represent new opportunities.	Ongoing	An evidence-based evaluation of the ETI is to be concluded during 2016 as sufficient data becomes available.
Impact of Measure	Since January 2014 employers have claimed a total of about R2.8 billion for at least 274,000 employees through the Employment Tax Incentive (ETI).		
Key policy action 4:	**Improve investment environment for private sector**		
Detailed implementation path and status	**Interim Steps for Implementation**	**Deadline**	**Status**
	Tax measures to support industrial investment amount to some R19 billion a year. Economic competitiveness is also advanced through various spending programmes, including the manufacturing competitiveness enhancement programme of the Department of Trade and Industry (DTI). South Africa is working on the Promotion and	Ongoing	Recent press reports have drawn attention to the growth in applications for this support. The Treasury will work with DTI to expedite implementation of the incentive programme and determine its cash-flow requirements, while ensuring value for money in these targeted appropriations. ☐ Government is

	Protection of Investment Bill, which will enable a comprehensive and uniform legal framework to govern investments in the country. The Constitution provides significant and robust protection for investors and for property both domestic and foreign. The Bill therefore sets out a transparent and open investment environment for South Africa's investors, while modernizing the investment regime.		working more closely with business through the Presidential Business Working Group (PBWG), to address regulatory challenges, licencing issues and to reduce the trust deficit that currently exists between them. Please see further details above
Impact of Measure			
Key policy action 5:	**Facilitate cross-border trade and investment for South African firms**		
Detailed implementation path and status	**Interim Steps for Implementation**	**Deadline**	**Status**
	Ongoing	Ongoing	Trade facilitation will be enhanced by the implementation of the new Customs Control and Customs Duty Acts during the 2015/16 year. This will have many benefits for traders, importers and exporters. Regional infrastructure projects seek to upgrade infrastructure and remove impediments to two-way trade flows. The vast majority of Southern African Development Community (SADC) trade takes place outside the region. In May, the SADC approved a US$3.5 million feasibility study for a regional project to expand and transmit Mozambique's hydro power and diversify South Africa's electricity supply. The free-trade area agreed by the SADC, East African Community and

			Common Market for Eastern and Southern Africa aims to bring together a market of 600 million consumers. Participants have agreed on tariff liberalisation and related rules, and the next phase will focus on trade in services.
Impact of Measure	Customs Control and Customs Duty Acts will have many benefits for traders, importers and exporters.		

Other Brisbane Commitments

This table is for the monitoring of other Brisbane commitments (non key commitments). Please complete a table for each commitment.

• **The policy action:**	**Fiscal Policy**
Implementation path and expected date of implementation	The fiscal strategy for achieving a sustainable debt outlook remains unchanged.
Status of Implementation and Impact	**Status of implementation:** The 2015 Medium Term Budget Policy Statement supports the long-term health of the public finances with a series of revenue and expenditure measures to narrow the budget deficit to 3.0 per cent of GDP by 2018/19, stabilise debt at 49.4 per cent of GDP in 2018/19, and begin to rebuild fiscal space.
• **The policy action:**	**Financial Policy: Twin Peaks model of financial regulation**
Implementation path and expected date of implementation	The Financial Sector Regulation Bill (FSRB) is currently under consideration through parliamentary processes and is expected to be promulgated in the first quarter of 2016.
Status of Implementation and Impact	**Status of implementation:** In December 2014, the National Treasury (NT) released for public comment the second draft of the Financial Sector Regulation Bill (FSRB). Key changes have been made to the second draft of the FSRB in order to: • improve its legal enforceability; • provide both the Prudential Authority and the Financial Sector Conduct Authority (FSCA) with powers in addition to the existing institution-specific laws; • empower both authorities to issue standards for financial institutions to follow; • clarify the role of other financial-sector regulators under the

	Twin Peaks model; • better align the governance arrangements for the new regulatory agencies; • introduce a legal framework for regulating and supervising financial groups from both a prudential and a conduct perspective; and • strengthen the ombuds system by creating a stronger central coordinating role for the Financial Services Ombuds Council. South Africa has made good progress in recent months with the implementation of the twin peaks model of financial regulation, through the introduction of an overarching legislative framework for consideration and approval by Parliament. **Impact:** Once approved the FSRB will give effect to the establishment of two of the key financial regulators, namely the Prudential Authority and the Financial Sector Conduct Authority, and their respective powers and responsibilities. In addition, the Bill provides for the South African Reserve Bank with the function of maintaining, promoting and enhancing financial stability in South Africa, as well as functioning as a resolution authority.

ANNEX 4: PRE-BRISBANE COMMITMENTS

Please include a maximum of 5 important structural reform commitments from Action Plans prior to Brisbane. Please also include all relevant monetary and exchange rate commitments. Fiscal commitments will be accounted for in the St. Petersburg Fiscal Template in Annex 2.

Commitment **Inflation Target of 3-6 per cent and financial stability**	
Monetary & financial policies	**St. Petersburg Action Plan**
Rationale for carrying forward	
Update on Progress	The inflation targeting framework remains unchanged, and price stability remains the primary responsibility of the central bank. Once the FSRB is promulgated, the maintenance and promotion of financial stability will become an explicit responsibility of the SARB. In preparation of this added mandate, a Financial Stability Committee was established a few years ago to deliberate on issues pertaining to financial stability. The Financial Stability Division which was previously in the Bank Supervision Department at the SARB, has been converted into a new Department. South Africa is currently preparing to implement a Twin Peaks approach to financial sector regulation, with macro-prudential regulation to be housed in the SARB, as well as the resolution authority. A Prudential Authority Implementation Working Group (PAIWG) was established to facilitate a smooth transition to the twin peaks model of financial regulation. The National Treasury has released the second version of the Financial Sector Regulation Bill for consultation, which was tabled in Parliament during the first half of 2015. Once approved it will give effect to the

	establishment of two of the key financial regulators, namely the Prudential Authority and the Financial Sector Conduct Authority, and their respective powers and responsibilities. In addition, the Bill provides for the SARB with the function of maintaining, promoting and enhancing financial stability in South Africa. The proposed FSRB should streamline the prudential oversight of the financial system and also improve consumer protection from a market conduct perspective. It is expected that the Twin Peaks approach to financial sector regulation will come into effect in early 2016, at which time a Financial Stability Oversight Committee (FSOC) will be established as required by legislation, to coordinate systemic oversight in the new macroprudential framework. It is envisaged that the FSOC will be chaired by the SARB and include other regulatory agencies and National Treasury. The development of a macroprudential toolkit is currently under consideration and a discussion paper on a resolution framework for systemically significant financial entities and market infrastructure will be published in the coming months.
Commitment **Implement Basel III within committed timelines.**	
Monetary & financial policies	**St. Petersburg Action Plan**
Rationale for carrying forward	
Update on Progress	**Risk-based capital:** Basel III requirements on risk-based capital have been legally fully enforced since 1 January 2013. The exemption previously granted to banks during 2013-2015 to hold zero per cent of the capital charge for credit valuation adjustment (CVA) risk on banks' exposures to ZAR-denominated OTC derivatives and local OTC derivatives was withdrawn with effect from 1 April 2015. South Africa has undergone a Regulatory Consistency Assessment Process (RCAP), dealing with South Africa's compliance with the Basel III capital framework and the liquidity coverage ratio standard and disclosure framework. South Africa was the first country to be found "compliant" with all 14 components of the domestic implementation of the risk-based capital framework as well as "compliant" with the Basel LCR standards, including LCR regulation and the LCR disclosure standards. **G-SIB/D-SIB requirements:** The requirements related to G-SIB/ D-SIB have already been incorporated into the banking regulatory framework (Basel III) that were implemented with effect from 1 January 2013. Subsequently a directive was issued to banks regarding the application of the amended capital framework, which includes the requirements related to G-SIBs / D-SIBs that follow the BCBS prescribed phase-in periods. Banks were requested to develop recovery plans, which have now all been through a review process by the regulator. A discussion paper on a resolution framework in line with the Key Attributes is due to be published for public comment, whilst amendments to the Bank Act were approved early in 2015 to enhance the resolution powers of the SARB. **Liquidity coverage ratio**: The requirements related to the

	calculation of and reporting to the Bank Supervision Department (BSD) of LCR have already been incorporated into the Basel III regulations that were implemented with effect from 1 January 2013. In 2012, the Bank approved the provision of a committed liquidity facility (CLF) to commercial banks to assist them in meeting their LCR as there is limited availability of high quality liquidity assets (HQLA) in South Africa. The SARB also approved that statutory cash reserves could be included in the banks' HQLA for purposes of calculating the LCR, and approved different asset classes as eligible collateral for CLF. Most of the collateral will be in the form of notes issued against securitised residential and commercial mortgages as well as vehicle finance. The SARB has finalised the management of all these collateral classes and the Legal Agreement between the SARB and the commercial banks for CLF. The Agreement formalises the processes for both the application for CLF as well a drawdown on the facility. Banks will, however, be allowed to recognise CLF in their LCR calculations only when the collateral has been pledged with the SARB. This is now effective. **Other developments**: Following the FSAP conducted during 2014, the IMF released its assessment on the stability of South Africa's financial system. A number of recommendations were made which relate to the strengthening of powers and operational independence of regulators in specific areas, the winding down of financial entities and resolution powers of authorities, and improving on macroprudential supervision and the identification of systemic risks. A number of other high-priority recommendations in the report were made, including clear definitions of the institutional, governance and accountability arrangements for prudential and market conduct regulation for relevant institutions such as the NCR in the Twin Peaks; a strengthening of group wide microprudential supervision; building a top-down stress testing framework for the banking sector; introduction of a resolution regime for all banks and systemically important financial institutions (SIFIs) that is compliant with the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes); reform the over-the-counter (OTC) derivatives market through improved data collection and enhanced surveillance. A number of these recommendations are either already covered or have been incorporated into the latest draft of the aforementioned FSRB, which is currently before Parliament for consideration.

Commitment **.Expand scope of regulation to include credit ratings agencies, OTC derivatives, and private pools of capital.**	
Monetary & financial policies	**St. Petersburg Action Plan**
Rationale for carrying forward	
Update on Progress	The **Credit Rating Services Act (CRA) 2012** provides the enabling legislative framework for the registration and regulation of credit rating agencies in SA. The Financial Services Board is responsible for the regulation and supervision of rating agencies. To date, 4 rating agencies have been registered and initial on-site inspections have been completed. Risk-based supervision of CRAs is ongoing and further on-site and off-site inspections are in

	progress. In addition, the banking prudential regulator have additional requirements for recognition of rating agencies where banks rely on the ratings as provided by these agencies in the determination of capital requirements in line with international agreed standards. The supervision and regulation of CRAs will ensure that these agencies comply with best practice and bolster investor confidence in the rating given by these agencies. The **Financial Markets Act (FMA), 2012** provides an enabling legislative framework to implement the objectives of the OTC derivatives regulatory reform. Regulations issued under the Basel III capital framework captures the capital requirements for non-centrally cleared derivatives. The second draft of the Ministerial regulations under the FMA was published in June 2015, and supports the objectives of the FMA and South Africa's G20 commitments as they pertain to the regulatory reforms of the OTC derivatives markets. National Treasury and the respective regulators are in the process of interacting with the industry on the comments received. **The Banks Amendment Act 2014 -** The Banks Amendment Bill was tabled in Parliament during the last quarter of 2014 and came into effect in the first half of 2015. The Amended Banks Act improves South Africa's resolution framework by taking steps to implement certain provisions of the Key Attributes, responding to recommendations from the IMF's FSAP and clarifying the powers of the curator of a bank.
Commitment **Upscale youth and public employment schemes**	
Structural policies: Employment	**St. Petersburg Action Plan**
Rationale for carrying forward	
Update on Progress	The Jobs Fund has launched its fifth Call for Proposals, focused on partnering with businesses and non-governmental organisations involved in agricultural development and support for emerging farmers. The Fund is currently implementing 6,759 projects, which have so far created 30,701 permanent jobs, placed 17,428 people into full-time employment and provided training to 75,163 work seekers. It has paid grants worth R1.48 billion to these projects and has leveraged funding of R3.24 billion from its project partners. To boost training, in 2013/14, more than 176 000 people (both workers and unemployed persons) registered for SETA supported learning programmes, and more than 150 000 people were certified. More than 794 000 students enrolled in public and private FET Colleges in 2013. Flowing from the "White Paper on Post-school Education and Training, the DHET are currently reviewing nationwide structure of skills planning and provision. The Department of Labour is also developing its Employment Services South Africa system, which placed 15 570 work-seekers in registered vacancies in 2013/14.