SOUTH AFRICA YEARBOOK 2017/18

Finance

National Treasury's legislative mandate is based on the Constitution of the Republic of South Africa of 1996, which calls for the establishment of a national treasury to ensure transparency, accountability and sound financial controls in the management of the country's public finances.

This role is further elaborated in the Public Finance Management Act (PFMA), 1999 (Act 1 of 1999). The department is mandated to:

- promote national Government's fiscal policy and the coordination of its macroeconomic policy;
- ensure the stability and soundness of the financial system and financial services;
- coordinate intergovernmental financial and fiscal relations;
- manage the budget preparation process; and
- enforce transparency and effective management in respect of revenue and expenditure, assets and liabilities, public entities, and constitutional institutions.

The Medium Term Budget Policy Statemnent (MTBPS) is a government policy document that communicates to Parliament and the country the economic context in which the forthcoming budget will be presented, along with fiscal policy objectives and spending priorities over the relevant three-year expenditure period.

The MTBPS is an important part of South Africa's open and accountable budget process. It empowers Parliament to discuss and shape government's approach to the budget. The Money Bills Amendment Procedure and Related Matters Act, 2009 (Act 9 of 2009) requires Government to table the MTBPS in Parliament at least three months before the National Budget is presented.

The National Development Plan (NDP) charts a growth trajectory to reduce poverty and inequality, and envisions a country in which citizens have the capabilities required to access available opportunities equitably.

These capabilities include education and skills, decent accommodation, nutrition, safe communities, social security and transport, facilitated by a capable State and a growing, resilient economy.

Government's 2014-2019 Medium Term Strategic Framework (MTSF) directs it to invest in infrastructure development, create jobs, transform South Africa to a low-carbon economy and bring about social transformation and unity. In the current tight fiscal environment, National Treasury will continue to channel resources towards the critical outcomes of the NDP and the MTSF.

The global economic crisis has caused a deceleration in economic growth, and South Africa's low gross domestic product (GDP) continues to place the fiscus under considerable pressure. This compels National Treasury to be vigilant in managing competing demands on public funds.

Following a difficult year for the economy and the fiscus, a sense of optimism has taken hold in the opening months of 2018. The economy has grown faster than projected at the time of the October 2017 MTBPS. Government is beginning to address the problems that have eroded domestic confidence, such as corruption and poor governance at several state-owned companies. The promise of improved political and policy certainty has provided a boost to investment and the rand.

The 2018 Budget outlines a series of measures to rebuild economic confidence and return the public finances to a sustainable path. The proposals build on government's renewed commitment to effective policy implementation, good governance and inclusive development.

In partnership with business and labour, government intends to set South Africa on a new path of growth, development and transformation.

The 2018 Budget further accelerates government's efforts to narrow the budget deficit and stabilise debt, laying the foundation for faster growth in the years ahead. It sets out a series of proposals to bolster the public finances by raising taxes and adjusting expenditure – decisions that involve difficult trade-offs.

Despite these positive signs, significant risks remain to economic and fiscal projections. Government is working to boost economic growth, promote more rapid investment to create employment, and stabilise the precarious finances of state-owned companies.

Entities

A total of 16 entities report to the Minister of Finance through governance arrangements that give them autonomy but also enable them to align their strategies with government policy.

Nine of these entities receive transfers from National Treasury. The remaining seven are self-funded and generate their own revenue. Each entity develops and reports on its own strategic and corporate plan.

Entities receiving transfers:

- Accounting Standards Board
- Financial Intelligence Centre (FIC)
- Government Technical Advisory Centre
- Independent Regulatory Board for Auditors
- Office of the Ombud for Financial Service Providers
- Office of the Pension Funds Adjudicator
- South African Revenue Service (SARS)
- Co-operative Banks Development Agency (CBDA)
- Financial and Fiscal Commission (FFC).

Entities not receiving transfers:

- Development Bank of Southern Africa (DBSA).
- Financial Services Board (FSB).
- Government Pensions Administration Agency.
- Land and Agricultural Development Bank of South Africa.
- Public Investment Corporation (PIC) Limited
- Sasria Limited
- South African Airways (SAA).

Funding the contribution to the New Development Bank (NDB)

In 2015, government proposed to use R2 billion from its sale of Vodacom shares for South Africa's initial capital contribution to the NDB.

The share sale was expected to yield total receipts of R25,4 billion, of which R23 billion has been provided to recapitalise Eskom.

The purpose of the NDB is to mobilise resources for infrastructure and sustainable development projects in BRICS (Brazil, Russia, India, China, South Africa) and other emerging markets and developing countries. The bank's headquarters are in Shanghai and the first regional office was established in

Johannesburg in August 2017.

The initial authorized capital of the bank is US$100 billion, and the initial subscribed capital is $50 billion – 20% paid-in shares (US$10 billion) and 80% callable shares (US$40 billion).

BRICS countries are the founding and only members of the bank, each with a shareholding of US$2 billion and equal voting power. In time the bank would be open to all members of the United Nations.

Jobs Fund

The objective of the Jobs Fund, which was launched in June 2011, is to co-finance projects by public, private and non-governmental organisations that will significantly contribute to job creation.

This involves the use of public money to catalyse innovation and investment on behalf of a range of economic stakeholders in activities that contribute directly to enhanced employment creation in South Africa.

To address the challenge of unemployment, South Africa requires high rates of sustained economic growth. The country's macro-economic policy environment, infrastructure asset base, schooling system and regulatory frameworks are all key to growth. However, improving and reforming these factors is a long-term process.

The Jobs Fund does not intend to tackle these long-term, structural causes of low growth and unemployment on its own.

Numerous government initiatives are already tasked with parts of that challenge. Nor does the Jobs Fund aim to replicate or substitute these initiatives; rather it presents an opportunity to complement them.

These funding interventions will seek to overcome some of the barriers to job creation that have been identified. Some of these relate to demand for labour, some to the supply of labour and some to the broader institutional environment.

The Jobs Fund has been designed specifically to overcome these barriers by providing public funding through four "funding windows" – Enterprise Development; Infrastructure Investment; Support for Work Seekers and Institutional Capacity Building.

Within the four identified broad windows, the Jobs Fund seeks to stimulate good ideas, risk-taking and investment to discover new ways of working, where the costs and risks may be unknown, and where the pro-poor impact, principally in the form of sustainable job creation, may be significantly larger than with conventional approaches.

At its core, the Jobs Fund seeks to operate as a catalyst for innovation and investment in activities which directly contribute to sustainable job creation initiatives, as well as long term employment creation.

By mid-2018, the Jobs Fund had a portfolio of 127 approved projects with a total allocation of R6.8 billion in grant funds. These projects will potentially leverage an additional R9.7 billion from its partners to create 229 610 permanent jobs.

Budget framework

Consolidated government expenditure, which includes the main budget, social security funds and public entities (but not state-owned companies) is set to grow at 7,6% per year, reaching R1,94 trillion in 2020/21.

National Treasury projects real GDP growth of 1,5% in 2018, 1,8% in 2019 and 2,1% in 2020. The growth forecast has improved by an average of 0,4 percentage points since the 2017 MTBPS, but remains lower than projected in the 2017 Budget.

The global economy continues to provide a supportive environment for expanded trade and investment.

Following a difficult year for the economy and the fiscus, a sense of optimism has taken hold in the opening months of 2018. The economy has grown faster than projected at the time of the October 2017 MTBPS.

Government is beginning to address the problems that have eroded domestic confidence, such as corruption and poor governance at several state-owned companies. The promise of improved political and policy certainty has provided a boost to investment and the rand. In combination with the improved growth outlook, the 2018 budget proposals will result in a considerably narrower budget deficit than was presented in October 2017, and a clear path to debt stabilisation.

Despite these positive signs, significant risks remain to economic and fiscal projections. Government is working to boost economic growth, promote more rapid investment to create employment, and stabilise the precarious finances of state-owned companies.

At the time of the 2017 MTBPS, gross national debt was projected to breach 60% of GDP in 2021/22, and continue rising thereafter. This projection reflected major revenue shortfalls, anaemic economic growth and a limited policy response. The outlook also represented a major departure from the 2017 Budget figures, which showed the debt-to-GDP ratio declining from 2018/19 onwards.

In the 2018 Budget, the combination of higher GDP growth, a narrower deficit, a stronger currency and lower borrowing rates results in an improved debt-to-GDP outlook, with debt stabilising at 56,2 % of GDP in 2022/23.

Short term confidence-boosting measures

In July 2017, Cabinet announced steps to restore the sustainability of fiscal policy, promote transformation by implementing sector reforms, manage risks associated with state-owned entities and create policy certainty. Progress to date is as follows:

- A new board and acting chief executive officer have been appointed at Eskom. The Minister of Energy has instructed Eskom to conclude all power-purchase agreements with independent power producers.
- The Budget Facility on Infrastructure received 64 large infrastructure project submissions. Of these, 38 projects that met submission requirements were assessed.
- Government is working to ensure that the public-service wage agreement does not disrupt compensation ceilings.
- A Public Procurement Bill will be presented to Cabinet in 2018.
- The Financial Sector Regulation Act, signed into law in August 2017, aligns South Africa with global best practice. It creates prudential and market conduct authorities and gives the South African Reserve Bank a financial stability mandate.
- The Financial Sector Codes have been gazetted.
- The Insurance Act, signed into law in November 2017, strengthens the insurance market through higher prudential standards, makes the industry more accessible to new entrants and aligns the sector with international standards.
- Work has been completed on a fund to benefit small and

medium enterprises, with a particular focus on start-ups.
- Government granted SAA R10 billion to settle its short-term debt obligations. A new board, chief executive officer and restructuring officer have been appointed. A turnaround strategy is being implemented.
- Cabinet has approved a private-sector participation framework for state-owned companies.
- The Council for Scientific and Industrial Research completed a study on spectrum availability and open access.
- The Competition Commission's market inquiry to investigate data prices will be complete by end of August 2018.
- Draft legislation is being prepared to allow Postbank to apply for a banking licence. National Treasury and the Department of Telecommunications and Postal Services have met the Banking Registrar to discuss a Postbank structure.

Medium Term Strategic Framework 2014 – 2019

The MTSF is structured around 14 priority outcomes, covering the focus areas identified in the NDP, namely:
- Quality basic education.
- A long and healthy life for all South Africans.
- Safety, and sense of safety, for all people in South Africa
- Decent employment through inclusive growth.
- A skilled and capable workforce to support an inclusive growth path.
- An efficient, competitive and responsive economic infrastructure network.
- Vibrant, equitable, sustainable rural communities contributing towards food security for all.
- Sustainable human settlements and improved quality of household life.
- A comprehensive, responsive and sustainable social protection system.
- Responsive, accountable, effective and efficient local government.
- Protected and enhanced environmental assets and natural resources.
- An efficient, effective and development-oriented public service.
- A diverse, socially cohesive society with a common national identity.
- A better South Africa contributing to a better Africa and a better world.

Sustaining social progress

Creating work and improving education to eliminate poverty and build a more equitable society are at the heart of the long-term reforms set out in the NDP.

Yet despite continuing economic and social hardship, the lives of millions of South Africans have improved markedly over the past decade.

Access to social infrastructure – formal housing, potable water, sanitation and electricity – has increased substantially. Social grants continue to make a meaningful contribution to reducing extreme poverty.

Enrolments in early childhood development and post-school education continue to expand.

Government is working to increase life expectancy to at least 70 years by 2030 through interventions such as the continued expansion of antiretroviral therapy and implementing national health insurance.

Child mortality has been halved over the past decade, and there has been a substantial reduction in cases of severe malnutrition among children.

These achievements were made possible by Government's sustainable approach to allocating public funds. Good fiscal planning supports Government's ability to act on its constitutional mandate to realise fundamental social and economic rights in a progressive and affordable manner.

Over the past decade, public spending has doubled in real terms, funding a large expansion of social and capital budgets.

The proposed medium-term fiscal framework was expected to enable Government to continue supporting social and economic development in a weak economic environment.

Economic development

Government support through the budget for economic development is wide-ranging, as it seeks to diversify growth and broaden participation.Innovation and technology changes are at the heart of this development strategy. South African science and technology also continues to benefit from the country's leading role in the Square Kilometre Array astronomy partnership, which will spend approximately R2,1 billion over the next three years.

Some R2,7 billion has been allocated over the medium term under the Mineral Policy and Promotion programme to promote investment in mining and petroleum beneficiation projects.

A total of R108 million was allocated for research and regulatory requirements for licensing shale gas exploration and hydraulic fracturing.

Government continues to strengthen support for agricultural development and trade. The projected conditional allocation to provinces over the medium term is R7 billion. Access to finance by emerging farmers would be expanded, in collaboration with the Land Bank.

Since the inception of the recapitalisation and development programme in 2008, some 1 459 farms have been supported and 4,3 million hectares acquired for redistribution.

A further 1,2 million hectares would be acquired over the next three years, and R4,7 billion is allocated for recapitalisation and development of farms.

In April 2018, President Cyril Ramaphosa appointed special snvoys on Investment to spearhead an investment drive with a target of US$100 billion over the next five years.

The appointment of the investment envoy was in line with the commitment made the President during his maiden State of the Nation Adress (SoNA) in February 2018 to increase investment and boost the country's economy.

By mid-2018, in a bid to cut the red tape and attract investors, work was underway to rationalise and streamline investment regulations, and reduce the cost of establishing and running businesses.

The government aims to increase investment in manufacturing and related sectors through the more effective use of industrial incentives, Special Economic Zones and local procurement requirements.

The inaugural South Africa Investment Conference was held at the Sandton Convention Centre from 25 to 27 October 2018 under the theme: "Accelerating Growth by Building

Partnerships".

The conference, which was first announced by President Ramaphosa in his 2018 SoNA, aims to mobilise R1.2 trillion in new investments over the next five years.

International Development and Cooperation

The International Development Cooperation (IDC) unit is responsible for coordinating, mobilising and managing official development assistance (ODA). The IDC enhanced ODA coordination through continuous engagements with development partners on various platforms, including annual consultations, high-level bilateral meetings and official visits.

Within government departments, the IDC has enhanced coordination by organising national and provincial ODA coordinators' forums, and has facilitated greater accountability and transparency by reporting on ODA programmes to the budget-allocation decision-making process.

Through a series of community practice sessions and manuals, the unit has also developed capacity within line departments to report on and manage ODA programmes.

Combating corruption

Prevention of fraud and corruption remains high on the agenda of National Treasury. The establishment of an anti-corruption database which will improve fraud profiling and proactively reduce the risk of fraud has further enhanced the unit's functionality.

National Treasury uses a two-step approach to vet its employees, which forms part of prevention of fraud and corruption. All candidates who attend interviews are pre-screened, followed by a full vetting process.

The recent revelations about various instances of collusion between auditors and auditees as well as general lapses have tarnished the image of auditors in general and cast a bad light on the whole profession. To address this challenge, the Independent Regulatory Board for Auditors is working with the office of the Accountant General, housed within National Treasury, to amend the Audit Professions Act, 2005 (Act 26 of 2005) to restore the credibility of and public trust in the audit profession.

The amendments include strengthening sanctions in line with international best practice, strengthening the regulatory board's powers in its investigations process, and reducing the complexity of disciplinary hearings ensure a swift, fair and due process.

Improving government services

Public procurement reforms

In 2018, government budgeted about R938 billion for goo Development of Bank of Southern Africa ds, services and infrastructure across national, provincial and local spheres of government, including public entities and State-owned Enterprises. Initiatives led by the Office of the Chief Procurement Officer aim to deliver lower-cost goods and services more efficiently and transparently through streamlined processes, strategic sourcing, transversal tenders and improved use of technology. The goal is to reduce bureaucratic inertia and red tape, and stamp out corrupt procurement practices.

Central Supplier Database (CSD)

The CSD has been in operation since September 2015. At the end of February 2018, more than 648 000 users had already registered on the site, with 461 000 suppliers successfully registered.

This is expected to reduce the administrative and cost burden of procurement, as the requisite documents will only need to be submitted once for a predetermined period.

eTender portal

The portal provides a single point of entry to identify business opportunities with government. Between April 2015 and February 2018, more than 35 000 tenders worth about R50 billion per annum were posted onto the portal.

Vulekamali portal

In an effort to ensure that its services are accessible to the broader South African society, National Treasury launched an online portal that will make information on the country's budget more accessible to ordinary South Africans. The portal called Vulekamali presents information in a simplified format and shows citizens how public resources are generated and used.

The portal will enable the public to make their inputs, not only in influencing government policy directive as articulated through the budget but also having access to the budget process and the information contained in the budget.

The portal, which was launched in February 2018, is a private-public partnership between Imaliyethu and National Treasury. It will be a good platform for young South Africans, especially the academia, to access budgeting information to help them gain critical insights.

Reviewing the incentives programme

Government provides a range of direct support to business. For example, the Clothing and Textiles Competitiveness Programme has helped to stabilise the sector.

The Manufacturing Competitiveness Enhancement Programme has approved projects worth about R28 billion, supporting an estimated 200 000 jobs. The Automotive Production and Development Programme has contributed to increased exports.

Given increased pressures on the fiscus, these incentives, including direct transfers, tax and tariff rebates and concessional financing are being reviewed. The review is intended to assess performance, determine value for money, and analyse how the system as a whole supports the economy and job creation. The review was expected to be completed by October 2017.

Building a platform for collective action

To promote a faster-growing, more inclusive economy, government has strengthened its active collaboration with business, trade unions and civil society to restore confidence and reduce constraints to growth. The Presidential Business Working Group and the CEO Initiative are generating targeted support for the economy.

Initiatives include a R1,5 billion fund to support small firms with the ability to scale up and create jobs, and a private-sector programme to create one million internships over a three-year period, focused on improving the job-readiness of young work seekers. To complement these efforts, government will strengthen its agencies that support small business.

Government continues talks with business and labour to reduce workplace conflict and protracted strikes. An independent panel has been established to support work on a national minimum wage.

Government has proposed to extend the employment tax incentive and the learnership allowance, and will continue to monitor the impact of these incentives.

Legislation and policies

- The PFMA of 1999 ensures that public funds are managed by a less rigid environment for financial management, with a stronger emphasis on the prudent use of tate resources, improved reporting requirements and the use of management information to enhance accountability.
- The Municipal Finance Management Act, 2003 (Act 56 of 2003) applies to all municipalities and municipal entities, and national and provincial organs of State, to the extent of their financial dealings with municipalities.
- The Co-Operative Banks Act, 2007 (Act 40 of 2007) provides for the establishment of the CBDA as a public entity under the executive authority of the Minister of Finance.
- The South African Reserve Bank (SARB) Act, 1989 (Act 90 of 1989)
- The Division of Revenue Act, 2012 (Act 5 of 2012).
- The Appropriation Act, 2012 (Act 7 of 2012).
- The Rates and Monetary Amounts and Amendment of Revenue Laws Act, 2012 (Act 13 of 2012).
- The Adjustments Appropriation Act, 2012 (Act 17 of 2012).
- The Division of Revenue Amendment Act, 2012 (Act 18 of 2012).
- The Financial Markets Act, 2012 (Act 19 of 2012).
- Tax Administration Laws Amendment Act, 2012 (Act 21 of 2012).
- Taxation Laws Amendment Act, 2012 (Act 22 of 2012).
- The Credit Rating Services Act, 2012 (Act 24 of 2012).
- The DBSA Act, 1997 (Act 13 of 1997).
- The Land and Agricultural Development Bank Act, 2002 (Act 15 of 2002).
- The FSB Act, 1990 (Act 97 of 1990).
- The Financial Advisory and Intermediaries (FAIS) Act, 2002 (Act 37 of 2002).
- The FIC Act, 2001 (Act 38 of 2001).
- The PIC Act, 2004 (Act 23 of 2004).
- The SARS Act, 1997 (Act 34 of 1997).
- The Tax Administration Act, 2011 (Act 28 of 2011)
- The Lotteries Act, 1997 (Act 57 of 1997).
- The National Gambling Act, 2004 (Act 7 of 2004).
- The Lotteries Amendment Act, 2013 (Act 32 of 2013).
- The National Credit Act (NCA), 2005 (Act 34 of 2005).

Financial institutions

Financial Intelligence Centre

The FIC is South Africa's national centre for the receipt of financial data, analysis and dissemination of financial intelligence to the competent authorities. The FIC was established by the FIC Act (FICA), 2001(Act 38 of 2001) and has the mandate to identify the proceeds of crime, combat money laundering and terror financing. It does this by seeking to:

- supervise and enforce compliance with the FIC Act of 2001
- facilitate effective supervision and enforcement by supervisory bodies
- receive financial data from accountable and reporting institutions
- share information with law enforcement authorities, intelligence services, the SARS, international counterparts and supervisory bodies
- formulate policy regarding money laundering and the financing of terrorism
- provide policy advice to the Minister of Finance
- uphold the international obligations and commitments required by the country in respect of anti-money laundering and combating financing of terrorism (AML/CFT).

The FIC Act of 2001 introduces a regulatory framework of measures requiring certain categories of business to take steps regarding client identification, record-keeping, reporting of information and internal compliance structures. The Act obliges all businesses to report to the FIC various suspicious and certain other transactions.

The FIC uses this financial data and available data to develop financial intelligence, which it is able to make available to the competent authorities and supervisory bodies for follow-up investigations or administrative action.

All accountable and reporting institutions are required to register with the FIC. The FIC and supervisory bodies have the authority to inspect and impose administrative penalties on non-compliant businesses. The Act also introduced an appeal process and an appeal board.

South Africa is a member of the Financial Action Task Force, an international body that sets standards and policy on AML/CFT. In addition, it is also a member of the Eastern and Southern Africa Anti-Money Laundering Group, a regional body of the FATF which aims to support countries in the region to implement the global AML/CFT standards.

The FIC is a member of the Egmont Group, which is made up of financial intelligence units from 153 countries. The primary aim of the organisation is to facilitate cooperation and sharing of financial intelligence information among its members.

Financial and Fiscal Commission

The FFC is an independent, objective, impartial and unbiased constitutional institution.

It is a permanent expert commission with a constitutionally defined structure, a set of generic responsibilities and institutional processes.

The FFC submits recommendations and advice to all spheres of Government, based on research and consultations on a range of intergovernmental fiscal issues.

The research includes:

- developing principles for intergovernmental fiscal relations, based on analysis of international best practice
- analysing local, provincial and national government budgets to understand revenue and expenditure trends
- identifying and measuring factors influencing provincial and local revenues and expenditures
- assessing fiscal policy instruments, such as conditional grants, equitable share transfers and taxes.

The Constitution and other legislation requires government to consult with the FFC on issues such as provincial and local government revenue sources, and provincial and municipal loans. Consultation about the fiscal implications of assigning functions from one sphere of government to another is also required.

Public Investment Corporation

The PIC is a state-owned asset management firm that invests across various sectors of the economy. PIC's clients are mostly public sector entities. It has exposure to such asset classes as listed equities, bonds, real estate, private equity and developmental investments. Majority of its investments are in South Africa but now has the mandate to invest in the rest of the African continent and globally.

Established in 1911 as Public Debt Commissioners, the PIC became corporatised on 1 April 2005, following the promulgation of the PIC Act of 2004.

As a financial services provider, registered with the FSB, the PIC's investment activities are governed FAIS Act of 2002.

In terms of financial management and accountability, the PIC is regulated by the PIC Act of 2004, PFMA of 1999, the Companies Act, 2008 (Act 71 of 2008), the Prevention of Organised Crime Act, 1998 (Act 121 of 1998) and also adheres to the provisions of FICA of 2001.

PIC clients include the Government Employees Pension Fund, Unemployment Insurance Fund (UIF), Associated Institutions Pension Fund, Compensation Commissioner: Pension Fund and Compensation Commissioner Fund.

The PIC's objective focus is to invest for inclusive growth, for the benefit of all its stakeholders.

It is one of the largest investment managers in Africa, managing assets worth more than R1,9 trillion.

South African Revenue Service

SARS is the nation's tax collecting authority established in terms of the South African Revenue Service Act 34 of 1997 as an autonomous agency. It is responsible for administering the South African tax system and customs service.

SARS's outcomes are:

- Increased Customs and Excise compliance
- Increased tax compliance
- Increased ease and fairness of doing business with SARS
- Increased Cost effectiveness and Internal Efficiencies
- Increased public trust and credibility.

SARS's mandate is to:

- collect all revenues due
- ensure optimal compliance with Tax, Customs and Excise legislation
- provide a customs and excise service that will facilitate legitimate trade as well as protect our economy and society

SARS is driven by the aspiration to contribute directly to the economic and social development of the country by collecting the revenue due to enable government to deliver on its constitutional obligations, policy and delivery priorities in pursuance of better life for all in South Africa.

By encouraging tax and customs compliance, SARS also aspires to contribute to the building of fiscal citizenship reflected by a law abiding society.

Tax administration

National Treasury is responsible for advising the Minister of Finance on tax policy issues that arise in local, provincial and national government. As part of this role, National Treasury must design tax instruments that can optimally fulfil their revenue-raising function and policy objectives. These tax instruments must be aligned to the goals of Government's economic and social policy.

A single, modern framework for the common administrative provisions of various tax acts administered by SARS, excluding customs and excise, was established by the Tax Administration Act of 2011. The Act simplifies and provides greater coherence in South African tax administration law. It eliminates duplication, removes redundant requirements and aligns disparate requirements that previously existed in different tax acts administered by SARS.

The Act provides for common procedures across the various tax acts, and strives for an appropriate balance between the rights and obligations of SARS and the rights and obligations of taxpayers in a transparent relationship.

Office of the Tax Ombud

In terms of the Tax Administration Act of 2011, the Minister of Finance appointed South Africa's first Tax Ombud on 1 October 2013. The Office of the Tax Ombud is intended to provide taxpayers with an impartial and low-cost mechanism to address service, procedural or administrative difficulties that taxpayers have not been able to resolve through SARS's complaints management channels.

South African tax system

South Africa has a residence-based income tax system. Residents are, subject to certain exclusions, taxed on their worldwide income, irrespective of where their income was earned. Non-residents are taxed on their income from a South African source.

The liability of taxpayers is determined subject to the provisions of International Agreements for the Avoidance of Double Taxation. Tax is levied on taxable income, which is calculated as gross income, less exemptions and permissible deductions, plus the applicable percentage of the net capital gain, for the year.

The main tax revenue sources are Income tax (individuals, trusts and companies), Value-Added Tax (VAT), as well as customs and excise duties. Relief is often available from any consumption-based tax when the goods are exported under certain terms and conditions.

Taxes on income and profits

This is the largest category of tax revenue and accounted for 58.1% of total tax revenue in 2016/17. This category comprises taxes on persons and Individuals; taxes on companies ((both inclusive of Capital Gains tax (CGT) and withholding tax on royalties)); interest on overdue income tax; Dividends tax (DT); small business tax amnesty proceeds and withholding tax on interest which was introduced in March 2015.

Personal income tax (PIT)

PIT is South Africa's largest source of tax revenue and contributed 37.2% of total tax revenue collections in 2016/17. PIT is a tax levied on the taxable income of individuals and trusts.

It is determined for a specific year of assessment. Taxable capital gains form part of taxable income. The main contributor to PIT is employment income from salary earners and income generated from sole-proprietor activities.

The tax rate applicable to PIT-related taxable income is progressive, ranging from marginal rates of 18% to 45% for 2017/18 onward.

As a means of collecting PIT from salary and wage income, a mechanism known as Pay-As-You-Earn (PAYE) is in operation that enables employers to withhold tax due to SARS from employees and pay this over to SARS monthly and reconciled biannually.

Company Income Tax (CIT)

CIT is a tax levied on the taxable income of companies and close corporations. After PIT and VAT, CIT has been the largest contributor to total tax revenue for the past decade.

Although the current headline CIT rate is 28%, some sectors of the economy have different effective tax rates due to sector-specific tax dispensations and deductions.

Exceptions to the rule are the lower, progressive tax rates that apply to small and micro-enterprises, as well as the reduced rate that applies to companies operating in designated special economic zones.

Dividends tax

Dividends tax is a final tax at a rate of 20% from 22 February 2017 on dividends paid by resident companies and by non-resident companies in respect of shares listed on the JSE. Dividends are tax exempt if the beneficial owner of the dividend is a South African company, retirement fund or other exempt person.

Non-resident beneficial owners of dividends may benefit from reduced tax rates in limited circumstances. The tax is to be withheld by companies paying the taxable dividends or by regulated intermediaries in the case of dividends on listed shares.

The tax on dividends in kind (other than in cash) is payable and is borne by the company that declares and pays the dividend

Taxes on payroll and workforce

Taxes on payroll and workforce comprise the Skills Development Levy (SDL) and the UIF.

Skills-development levy

Affected employers contribute to a Skills Development Fund that is used for employee training and skills development.

This SDL is payable by employers at a rate of 1% of the total remuneration paid to employees.

Employers paying annual remuneration of less than R500 000 are exempt from the payment of this levy.

Unemployment Insurance Fund

The UIF insures employees against the loss of earnings due to termination of employment, illness or maternity leave.

The contribution to the UIF is shared equally by affected employers and employees at a rate of 1% of remuneration each. The employee share of 1% is withheld by the employer and paid to SARS, together with the employer share of 1%, monthly.

Taxes on property

Taxes on property comprise Donations tax, Estate Duty, Securities Transfer Tax (STT) and transfer duties.

Donations tax

Donations tax is levied at a rate of 25% on the value of the donation. An annual exemption of R100 000 is available to natural persons.

Estate duty

Estate duty is levied at a flat rate of 25% on the dutiable amount of the deceased estate. Specific deductions and abatements are allowed from the total value of the estate.

Securities Transfer Tax

STT is levied at a rate of 0,25% on the transfer of listed or unlisted securities. Securities consist of shares in companies or members' interests in close corporations.

Transfer duty

Transfer duty is the largest source of revenue in this category. It is levied on the acquisition of property at a progressive rate for all persons including companies, close corporations and trusts.

From 1 March 2016, a marginal rate of 13% applies to the portion of the value of property exceeding R10.0 million.

Domestic taxes on goods and services

Domestic taxes on goods and services comprise VAT, specific excise duties, ad valorem excise duties, fuel levy, Road Accident Fund (RAF) levy, environmental levies and health promotion levy. VAT is the largest source of revenue in this category with a share of 71,8% in 2017/18.

Value-added Tax

VAT is levied at a rate of 15% on goods and services with some exemptions and zero-ratings, and is also levied on the importation of goods and services into South Africa. The quoted or displayed price of goods and services must be VAT-inclusive.

A person who supplies goods or services is liable to register for VAT, if the income earned is more than R1 million in a 12-month period, or when there is a reasonable expectation that the income will exceed this amount.

A person can also register voluntarily for VAT, if the income earned from supplying goods or services for 12 months exceeded R50 000.

Excise duties

Excise duties are levied on certain locally manufactured goods and their imported equivalents. Specific excise duties are levied on tobacco and liquor products. Ad valorem excise duties are levied on products such as motor vehicles, cellular telephones, electronics and cosmetics.

Fuel taxes

The fuel levy is imposed on petrol and diesel (including biodiesel) manufactured in or imported into South Africa. The fuel levy is not earmarked, but it implicitly increases the cost of road transport to encourage more efficient and sustainable road use. The fuel levy was increased to R337/litre for petrol and R3.22/litre for diesel from April 2017.

The RAF levy is imposed on petrol and diesel manufactured in or imported into South Africa. The RAF levy funds the RAF's motor vehicle accident insurance scheme. It was increased to

R1.93/litre for both petrol and diesel from April 2017.

Environmental levies

Environmental levies are imposed on plastic bags, electricity generated, electric filament lamps, carbon dioxide (CO2) emissions of motor vehicles and tyres.

Plastic bag levy

The plastic bag levy was introduced to reduce litter and encourage plastic bag reuse. It was increased to 8 cents per bag as from April 2016.

Electricity generation levy

The electricity generation levy was Introduced to encourage sustainable electricity generation and use. The levy is applied to electricity generated from non-renewable sources and was increased in 2012 to 3,5 cents per kWh.

Additional revenue generated by this levy is now used to fund energy-efficiency initiatives such as the solar-water heater programme.

Electric filament lamp levy

The electric filament lamp levy was introduced to promote energy efficiency by discouraging the use of incandescent light bulbs. The levy increased on 1 April 2018.

CO2 motor vehicle emissions levy

The CO2 motor vehicle emissions levy on passenger and double-cab vehicles was introduced to encourage the manufacture and purchase of more energy efficient motor vehicles. The rate was increased on 1 April 2018.

Tyre levy

The tyre levy on new pneumatic tyres was introduced to encourage efficient tyre use. Although the tyre levy is not earmarked, it indirectly supports the responsible recycling of obsolete tyres. The levy was implemented in 2017 at a rate of R2,30/kg.

Health promotion levy

The sugary beverages levy took effect on 1 April 2018 at a rate of 2,1 cent/gram of the sugar content that exceeds 4g/100 ml.

The levy applies to specific sugary drinks and concentrates used in the manufacture of sugary drinks to combat obesity and promote healthier consumer beverage choices.

Taxes on international trade and transactions

Taxes on international trade and transactions comprise import related taxes and export duties. Import duties are levies imposed on goods imported into South Africa and are intended to protect local producers.

This category also includes miscellaneous customs and excise receipts that have not yet been allocated to the appropriate import tax types as revenue income from smaller categories under this section. Also allocated in this category is the Diamond Export Levy which was imposed to stimulate the local diamond polishing Industry.

Customs duty

Customs duties are imposed by the Customs and Excise Act. Customs duty is a tax levied on goods imported and collected by the customs unit within SARS. Customs duty rates and trade remedies relating to the importation of goods into South Africa are set by the International Trade Administration Commission under the authority of the Department of Trade and Industry.

The Customs Control Act, 2014 (Act 31 of 2014) and Customs Duty Act, 2014 ((Act 30 of 2014) were promulgated in July 2014 to provide a platform for the modernisation of customs administration that achieves a balance between effective customs control, the secure movement of goods and people into and from the Republic and the facilitation of trade and tourism. The new Acts will come into operation on a date to be determined by the President.

In addition, VAT is also collected on goods imported and cleared for home consumption.

Other taxes

Rates on property

Property-related taxes include municipal rates and charges for refuse and sewerage which are collected by municipalities.

Southern African Customs Union (SACU)

Botswana, Lesotho, Namibia, South Africa, and Swaziland are signatories to the SACU Agreement. They apply similar customs and excise legislation and the same rates of customs and excise duties on imported and locally manufactured goods.

Applying uniform tariffs and harmonising procedures simplifies trade within the SACU area by enabling the free movement of goods for customs purposes.

However, all other national restrictive measures such as import and export control, sanitary and phytosanitary requirements and domestic taxes apply to goods moved between member states.

The 2002 SACU Agreement is in force and provides a dispensation for calculating and effecting transfers based on customs, excise and a development component of the Revenue-Sharing Formula.

The SACU heads of state and government endorsed an ambitious SACU regional trade facilitation programme that is focused on creating common information technology platforms to allow:

- interconnectivity
- enforcement strategies to be harmonised to curb illicit trade
- improved border efficiencies to facilitate seamless trade.

Compliance levels

Registration compliance

SARS continues to broaden the tax base and expand its taxpayer and trader register. Contributing positively to the ease of registration are bulk registrations at places of employment and an online facility to register staff when submitting their monthly PAYE returns.

In 2016/17 automatic merging of almost 1,5 million tax and customs products was done for more than 650 000 unique taxpayers. This single taxpayer profile view greatly improved the quality of information SARS holds about each taxpayer and will facilitate an improved and tailored service offering. Registration compliance improved with 6% in the 2016/17 financial year.

SARS continues to broaden the tax base and expand its taxpayer and trader register. It stipulates that all individuals who are formally employed must register with SARS and not, as in the past, only those individuals above the tax threshold.

Measures implemented by SARS to increase registration compliance include the introduction of bulk registration at places of employment and the launch of an online facility that enables employers to register staff when submitting their monthly PAYE returns. A compliance level of more than 99% has been achieved among individuals required to register for PIT.

PIT filing compliance

PIT filing compliance is calculated by comparing the total number of returns received on time for a particular filing season (From 1 July to end November when taxpayers must submit income tax returns) with the expected total number of returns for the same filing season.

Voluntary Disclosure Programme

A permanent VDP was introduced in terms of the Tax Administration Act of 2011, in October 2012. The permanent VDP is part of a package of compliance measures aimed at encouraging non-compliant taxpayers to regularise their tax affairs.

In addition, the Minister of Finance announced a Special VDP for non-compliant taxpayers to voluntarily disclose offshore assets and income. The SVDP was introduced ahead of the first annual automatic exchange of third party information between more than 90 jurisdictions in September 2017. The SVDP was available for a limited window period – from 1 October 2016 to 31 August 2017.

International tax treaties

In 2014, the Organisation for Economic Cooperation and Development (OECD), working with G20 countries, developed the Standard for Automatic Exchange of Financial Account Information in Tax Matters (the Standard) also known as the OECD's Common Reporting Standard (CRS).

The Standard requires the reporting to tax authorities by financial institutions of information in relation to financial accounts they hold for non-resident taxpayers. This information is then automatically exchanged between tax authorities each year in order to tackle cross-border tax evasion.

South Africa is an early adopter of the Automatic Exchange of Information which includes both the initiative stemming from South Africa signing an Inter-Governmental Agreement with the US Internal Revenue Service (on their Foreign Account Tax Compliance Act as well as the CRS.

National Gambling Board (NGB)

The NGB is governed by the National Gambling Act of 2004. The Act makes provision for the coordination of concurrent national and provincial legislative competence over matters relating to casinos, racing, gambling and wagering; and provides for the regulation and development of uniform norms and standards.

The NGB maintains a national gambling database that contains information on national gambling statistics such as turnover, gross gambling revenue, gambling taxes and levies, as well as returns to players and punters.

Provincial licensing authorities are required to submit statistics to the NGB quarterly for consolidation and reporting on the national status.

Responsible gambling

The NGB has a legislated responsibility to educate the public about gambling and the negative socio-economic impact of the gambling industry on society.

The National Responsible Gambling Programme (NRGP) integrates research and monitoring, public education and awareness, training, treatment and counselling.

The NRGP is managed by the South African Responsible Gambling Foundation. The main thrust of the NRGP's prevention programme is to educate gamblers, potential gamblers and society as a whole about responsible gambling.

The NRGP has various operational components, such as public awareness and prevention, the toll-free counselling line, a countrywide treatment network for outpatient counselling and therapy, research and monitoring initiatives, training for regulators and industry employees, a crisis line service available to gambling industry employees and management, as well as the Taking Risks Wisely life-skills programme – a teaching resource for grades 7 to 12.

National Lotteries Commission (NLC)

The NLC was launched in June 2015 with the mandate to regulate the National Lottery as well as other lotteries, including society lotteries to raise funds and promotional competitions.

The NLC evolved out of the National Lotteries Board. NLC members are also trustees of the National Lottery Distribution Trust Fund (NLDTF), into which National Lottery proceeds that are intended for allocation to good causes are deposited.

The NLC does not adjudicate applications for funding or make allocations to organisations. This is done by committees known as distributing agencies which are also appointed by the Minister of Trade and Industry, in conjunction with other relevant ministers, after a process of public nomination. The NLC provides administrative support to the distributing agencies.

The NLC is mandated to:

- advise the Minister of Finance on the issuing of the license to conduct the National Lottery.
- ensure that the National Lottery and Sports Pools are conducted with all due propriety.
- ensure that the interests of every participant in the National Lottery are adequately protected.
- ensure that the net proceeds of the National Lottery are as large as possible.
- administer the NLDTF and hold it in trust.
- monitor, regulate and police lotteries incidental to exempt entertainment, private lotteries, society lotteries and any competition contemplated in Section 54 of the the Lotteries Act of 1997.
- advise the Minister on percentages of money to be allocated in terms of Section 26(3) of the the Lotteries Act of 1997.
- advise the Minister on the efficacy of legislation pertaining to lotteries and ancillary matters.
- advise the Minister on establishing and implementing a social responsibility programme in respect of lotteries.
- administer and invest the money paid to the board in accordance with the Lotteries Act of 1997.
- perform such additional duties in respect of lotteries as the Minister may assign to the board.
- make such arrangements as may be specified in the licence for the protection of prize monies and sums for distribution

- advise the Minister on any matter relating to the National Lottery and other lotteries or any other matter on which the Minister requires the advice of the Board.

Ithuba Holdings was announced as the third national lottery operator and began operations in June 2015.

Auditor-General of South Africa

The AGSA strengthens South Africa's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

The AGSA is one of the Chapter 9 institutions mandated by the Constitution to fulfil certain functions. These institutions are not part of Government and do not have a duty to be part of the mechanisms of cooperative government. The independence of the AGSA is, therefore, respected and strengthened.

As mandated by the Constitution and the Public Audit Act, 2004 (Act 25 of 2004), the AGSA is responsible for auditing national and provincial State departments and administrations, all municipalities and any other institution or accounting entity required by national and provincial legislation to be audited by the AGSA.

Various business units provide auditing services, corporate services and specialised audit work, such as performance audits, information system audits and audit research and development. The AGSA also has an international auditing complement.

Financial sector

South African Reserve Bank

The primary purpose of the SARB is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa. Together with other institutions, it also plays a pivotal role in ensuring financial stability.

The SARB is the central bank of South Africa. It was established in 1921, in terms of a special Act of Parliament and the Currency and Banking Act, 1920 (Act 10 of 1920), which was the direct result of abnormal monetary and financial conditions that had arisen during and immediately after World War I.

The SARB is governed by the SARB Act of 1989, as amended. In terms of the Constitution, it has been given an important degree of autonomy in the execution of its duties.

Since its establishment, the SARB has always had private shareholders who have limited rights. It has more than 700 shareholders. Its shares are traded on the over-the-counter (OTC) share-trading facility managed by the SARB. Its operations are not motivated by a drive to return profits, but to serve the best interests of all South Africans.

The SARB's head office is in Pretoria and it has branch offices in Cape Town, Durban and Johannesburg. The bank must submit a monthly statement of its assets and liabilities to National Treasury and an annual report to Parliament. The Governor of the SARB holds regular discussions with the Minister of Finance and appears before the Parliamentary Portfolio and other select committees on finance, from time to time.

The SARB has a unique position in the economy, as it performs various functions and duties not normally carried out by commercial banks. Although the functions of the SARB have changed and expanded over time, the formulation and implementation of monetary policy has remained one of the cornerstones of its activities.

The SARB publishes monetary-policy reviews, and regular regional monetary-policy forums are held to provide a platform for discussions on monetary policy with broader stakeholders from the community.

Functions

The primary function of the SARB is to protect the value of South Africa's currency. In discharging this role, it takes responsibility for:

- ensuring that the South African money, banking and financial system as a whole is sound, meets the requirements of the community and keeps abreast of international developments
- assisting the South African Government, as well as other members of the economic community of Southern Africa, with data relevant to the formulation and implementation of macroeconomic policy
- informing the South African community and all stakeholders abroad about monetary policy and the South African economic situation.

System of accommodation

The SARB's refinancing system is the main mechanism used to implement its monetary policy.

Through its refinancing system, the SARB provides liquidity to banks, enabling them to meet their daily liquidity requirements. "Liquidity" refers to the banks' balances at the central bank, which are available to settle their transactions with one another, over and above the minimum statutory level of reserves that they have to hold.

The main instrument for managing liquidity in the money market is repurchase (repo) transactions conducted at the prevailing repo rate. The repo rate is the price at which the SARB lends cash to the banking system and is the key operational variable in the monetary-policy implementation process.

The objective of the monetary policy implementation framework is to ensure that the money market interest rates are aligned to changes in the repo rate.

The refinancing system also provides for supplementary and automated standing facilities in the end-of-day square-off to bridge the banking sector's overnight liquidity needs, as well as a concession to banks to use their cash-reserve balances with the SARB to square off their daily positions.

Creating a liquidity requirement

The underlying philosophy of the refinancing system is that the SARB has to compel banks to borrow a substantial amount (the liquidity requirement or the money-market shortage) from the SARB.

The SARB, therefore, creates a liquidity requirement (or shortage) in the money market, which it then refinances at the repo rate – a fixed interest rate determined by the Monetary Policy Committee, comprising the SARB governors and other senior officials.

After each meeting, the Monetary Policy Committee issues a statement indicating its assessment of the economy and announces policy rate changes.

To manage the day-to-day, liquidity requirement, the SARB uses other open-market operations in its liquidity management strategy.

The open-market operations refer to the selling of SARB debentures, longer-term reverse repos, money-market swaps in foreign exchange and the movement of public-sector funds, for example, the Corporation for Public Deposits and central government funds, as well as changes in the cash-reserve requirements for banks.

These operations are conducted to neutralise or smooth the influence of exogenous factors on the liquidity position in the money market and to maintain an adequate liquidity requirement in the market, which has to be refinanced from the SARB.

Through this mechanism, the bank can exert influence over interest rates in the market.

Promoting the efficient functioning of domestic financial markets

To promote price discovery in the domestic money market, the SARB calculates the South African benchmark overnight rate on deposits (Sabor) and the average rate on funding in the forward foreign exchange market, the Overnight Foreign Exchange (FX) rate, on a daily basis, in addition to conducting surveillance on the calculation of the Johannesburg Interbank Average Rate (Jibar).

To keep the refinancing system effective, the SARB stays abreast of market and other structural developments.

In this regard, the refinancing system is currently under review, with the aim of enhancing the price transparency in the money market, and for the SARB to better monitor the interest-rate transmission.

Following the review of the rate setting of the Jibar and the subsequent Code of Conduct, additional initiatives involve the improvement and broadening of existing money-market benchmark and reference rates according to global guidelines.

The SARB also engages with other stakeholders to promote the efficient functioning of markets.

In terms of its "lender-of-last-resort", the SARB may in certain circumstances provide liquidity assistance to banks experiencing liquidity problems, for example to provide liquidity against a broader range of collateral as was the case in 2007.

The type and conditions of emergency assistance will vary according to specific conditions. Also, as part of the broader mandate of the SARB and the upcoming Financial Sector Regulations Bill, resolution planning, crisis preparedness and monitoring systemic risks in the financial sector are priority, all aimed at protecting and enhancing financial stability, as well as to deepen South Africa's resilience to external shocks.

In view of the interrelationship between price and financial system stability, the bank monitors the macro-prudential aspects of the domestic financial system. The objective of financial stability is to prevent costly disruptions in the country's financial system.

Service to government:

The SARB manages the country's official gold and foreign exchange reserves. In addition, the SARB provides portfolio management, debt issuance, and custody and settlement services to the government and other clients/counterparties, while also managing the inherent market and operational risks associated with these services.

Gold and foreign-exchange reserves:

The Bank is the custodian of the country's official gold and foreign-exchange reserves. Subsequent to the conversion of the negative net open foreign currency position in May 2003 into a positive position, foreign reserves grew until 2011 and have remained stable since then.

The accumulation and management of reserves is guided by the risk tolerance of the Bank through the Strategic Asset Allocation, which seeks to ensure capital preservation, liquidity, and return.

Banker and adviser to government as well as funding agent:

As funding agent for government, the main services provided are administering the auctions of government bonds and Treasury bills, participating in the joint standing committees between the SARB and National Treasury, and managing the flow of funds between the exchequer account and tax and loan accounts. The SARB also acts as banker to government and as such, manages the Exchequer and Paymaster General Accounts in the books of the SARB.

Administration of exchange control:

The SARB is responsible, on behalf of the Minister of Finance, for the day-to-day administration of exchange controls in South Africa.

Provision of economic and statistical services:

The bank collects, processes, interprets and publishes public information, economic statistics and other information, and uses this information in policy formulation.

Bank supervision:

The mission of the department is to promote the soundness of the banking system and contribute to financial stability.

The national payment system:

The bank is responsible for overseeing the safety and soundness of the national payment system. The main aim is to reduce interbank settlement risk, with the objective of reducing the potential of a systemic risk crisis emanating from settlement default by one or more of the settlement banks.

Banker to other banks:

The bank acts as the custodian of the cash reserves that banks are legally required to hold or prefer to hold voluntarily, with the bank.

Banknotes and coins:

The South African Mint Company, a subsidiary of the SARB, mints all coins on behalf of the SARB. The South African Bank Note Company, another subsidiary of the SARB, prints all banknotes on behalf of the SARB.

Banknotes are distributed to the commercial banks through the bank's three branches. Coins, however, are distributed by SBV. It is the responsibility of the SARB to ensure that there is an adequate supply of new banknotes available to meet peak demand, and also to replace unfit banknotes. The SARB is responsible for the quality of banknotes in circulation.

Monetary policy

The SARB is responsible for monetary policy in South Africa.

Its constitutional mandate in this regard is "to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic".

To give effect to this mandate, the SARB uses a flexible inflation targeting framework with a continuous target for consumer price inflation of 3-6%.

Inflation has decelerated quite steadily since the start of 2017. It fell back within the inflation target in April 2017 and as of early 2018 was close to the 4.5% midpoint of the target. This slowdown in inflation has mainly been due to a strong exchange rate recovery, supported by moderating food prices.

Inflation for services has been more stable at around 5.5%. Economic growth picked up slightly in 2017, with the economy expanding by nearly 1.0% (estimated) versus 0.3% in 2016.

This pace of growth is nonetheless well below longer term trends. The combination of slowing inflation and continued growth weakness prompted a reduction of the repo rate to 6.75% in July 2017.

However, the Monetary Policy Committee has had to proceed cautiously given both the persistence of inflation – which is expected to accelerate back towards the upper end of the target range over the medium term – and an elevated risk profile.

The banking industry

As at the end of December 2017, 34 banking institutions were registered and supervised by the Bank Supervision Department of the SARB: 19 banks and 15 local branches of international banks.

South Africa's banking sector is dominated by the five largest banks, which collectively held 90,5% (December 2016: 90,7 %) of the total banking assets as at 31 December 2017.

Local branches of international banks contributed 5,9% (December 2016: 5,8%) as at 31 December 2017. The remaining banks operating in South Africa represented 3,7% (December 2016: 3,5%) at the end of December 2017. In addition, as at the end of December 2017, three mutual banks and three cooperative banks were registered and supervised by the Bank Supervision Department of the SARB. At that date, there were also 31 authorised representative offices of international banks in South Africa:

2016	
Banks[1]	19
Mutual banks	15
Cooperative banks	3
Cooperative banks	3
Representative offices	31

Exchange rates

Following the depreciating trend during 2015, the South African rand recovered and strengthened by 14,3% against the US$ during 2016, a trend which continued in 2017 as the rand appreciated by another 10,9%.

On a trade-weighted basis, the rand improved by 18,7% in 2016 and 2,5% in 2017. During 2017, the exchange rate of the rand displayed some volatility as domestic geopolitical development created investor uncertainty.

The credit rating agencies Standard and Poor's and Fitch also downgraded South Africa's sovereign long-term foreign currency credit rating to sub-investment grade. The year was marked by continued deterioration in both consumer and business confidence. Nevertheless, the exchange value of the rand continued to receive support from the global search for yield by international investors.

The exchange rate of the rand ended the year on a positive note following the election of President Cyril Ramaphosa as the ANC president, which investors viewed in a positive light.

Exchange controls

Exchange control regulations are administered by the SARB, on behalf of the Minister of Finance. The Minister has delegated to the Financial Surveillance Department of the SARB the responsibility of appointing certain banks to act as authorised dealers in foreign exchange, as well as certain entities to act as authorised dealers in foreign exchange with limited authority, which gives them the right to buy and sell foreign exchange, subject to conditions and within limits prescribed by the the department. Authorised dealers are not agents for the Financial Surveillance Department, but act on behalf of their customers.

As at the end of February 2018, a total of 27 banks were authorised to act, for the purposes of the regulations, as authorised dealers; one bank as a restricted authorised dealer in respect of permissible credit card transactions and 17 entities as authorised dealers in foreign exchange with limited authority.

In terms of exchange control policy, there are no limitations as to how much money may be brought into South Africa, but there are certain limitations on the amount of money that may be transferred out of South Africa.

For all non-South Africans, there is no limitation on transferring money out of South Africa that has been previously introduced into the country.

Up to R25 000 in cash, per resident (natural person), may be taken when proceeding on visits outside the common monetary area, to meet travellers' immediate needs on return to South Africa. Foreign visitors to South Africa may introduce foreign currency in any amount and in any form (e.g. foreign bank notes, travellers cheques) and may export any funds originating from instruments of foreign currency (including foreign bank notes) imported into South Africa on their arrival. No more than R25 000 may be exported in SARB notes.

South Africans (including emigrants and South African residents who are temporarily abroad), for example, are currently able to transfer up to R10 million, per calendar year, out of the country for investment purposes, subject to a tax clearance certificate being provided. In addition, South Africans can transfer up to R1 million abroad for any legal purpose, including investments, without the requirement to obtain a tax clearance certificate.

Companies may transfer up to R1 billion per calendar year for outward foreign direct investments.

Requests by individuals and companies to transfer additional funds are considered by the Financial Surveillance Department.

The Special VDP that commenced in October 2016 for South African residents to disclose and regularise their unauthorised foreign assets, ended in August 2017.

Since 2014, companies listed on the JSE Limited have been permitted to secondary list and/or list depository receipt programmes on foreign exchanges to facilitate local and offshore foreign direct investment expansions.

Non-resident entities, local Authorised Dealers and the JSE Limited are allowed to issue inward listed instruments referencing foreign assets on the JSE Limited. Local collective investment scheme management companies registered with the FSB and regulated under the Collective Investment Scheme Control Act, are allowed, with the prior approval of the Financial Surveillance Department, to inward list exchange traded funds referencing foreign assets on the JSE Limited.

In the 2017 Budget Speech, the Minister of Finance announced South Africa's undertaking to review and benchmark its capital flows management framework against best practices in other developing economies and other fast-growing markets.

Pursuant to the announcement, the Financial Surveillance Department and National Treasury are collaborating on a project to bring about the benchmarking of South Africa's capital flows management framework against international standards.

The Financial Surveillance Department, in close cooperation with National Treasury, the FIC and SARS is taking several steps to detect, disrupt and deter illicit financial flows (IFFs).

These steps include a collaborative approach to sharing information and working with other authorities/agencies, with a view to mitigating IFFs, as well as an awareness campaign involving authorised dealers to promote early detection and the reporting of suspicious cross-border transactions or activities involving their clients.

Regulating cross-border transactions, preventing the abuse of the financial system and supporting the prudential regulation of financial institutions remain priorities in the modernising of capital flow management.

The microlending industry

The Department of Trade and Industry introduced the NCA of 2005 to allow the credit market to function in a robust and effective manner.

The NCA of 2005 replaced the Usury Act, 1968 (Act 73 of 1968), and the Credit Agreements Act, 1980 (Act 75 of 1980).

The NCA of 2005 regulates the granting of consumer credit by all credit providers, including micro-lenders, banks and retailers.

The National Credit Regulator (NCR) and the National Consumer Tribunal play a vital role in ensuring enforcement, promoting access to redress and adjudicating contraventions of the Act. Out of a population of 54 million, South Africa has just over 18 million credit-active consumers.

The NCR is responsible for regulating the South African credit industry. Its mandate includes:

- carrying out education, research and policy development
- registering industry participants
- investigating complaints
- ensuring that the Act is enforced.

In terms of the Act, the NCR has to promote the development of an accessible credit market to meet the needs of people who were previously disadvantaged, earn a low income or live in remote, isolated or low-density communities.

The National Consumer Tribunal adjudicates various applications and hears cases against those who contravene the Act. The Act provides for the registration of debt counsellors to assist over-indebted consumers. Debt counsellors are required to undergo training approved by the NCR through approved training service providers appointed by the regulator.

Other financial institutions

Co-Operative Banks Development Agency

The CBDA was established to regulate, promote and develop co-operative banking, including deposit-taking and lending co-operatives.

The agency envisages a strong and vibrant co-operative banking sector that broadens access to and participation in diversified financial services towards economic and social well-being.

The functions of the CBDA are to:

- register, regulate and supervise co-operative banks.
- promote, register and regulate representative bodies.
- facilitate, promote and fund education and training to enhance the work of co-operative financial institutions.
- accredit and regulate support organisations.
- provide liquidity support to registered co-operative banks through loans or grants.
- manage a deposit insurance fund.

Development Bank of Southern Africa

The DBSA Act of 1997 stipulates that the DBSA's main role is to promote economic development and growth, human-resource development and institutional capacity-building.

The DBSA achieves this by mobilising financial and other resources from the private and public sectors, both nationally and internationally, for sustainable development projects and programmes.

The DBSA will take the lead in developing South Africa's municipal debt market to accelerate both public and private sector investment in urban renewal.

The DBSA will continue to manage the Infrastructure and Investment Programme for South Africa, which is a partnership with the European Commission to strengthen project preparation and co-funding arrangements.

It also provides support to the Independent Power Producer Programme, which will be extended to include new generation capacity from hydro, coal and gas sources to complement Eskom's base-load energy capacity.

Co-generation and demand management initiatives are also being supported.

During the 2017/18 financial year, a total of R8,7 billion was committed to funding, of which R3,5 billion was allocated to municipalities. This will benefit approximately 77 580 households. The remaining R5,2 billion will be allocated to renewable energy and is expected to finance about 42 Megawatts of energy.

The bank also provided support to secondary and under-resourced municipalities – helping them complete 13 infrastructure master plans with an estimated project value of R26,7 billion and that will impact an estimated 776 474 households and create 8 700 temporary jobs when implemented.

It supported the implementation of 12 infrastructure projects in electricity, water, sanitation, roads and storm water to various municipalities during the 2017/18 financial year. A total of 21 780 households benefitted and 672 temporary job opportunities were created.

Land and Agricultural Development Bank (Land Bank)

The Land Bank operates as a development finance institution within the agricultural and agribusiness sectors, and is regulated by the Land Bank Act of 2002.

The Land Bank provides a range of financing products to a broad spectrum of clients within the agricultural industry. Financing products include wholesale and retail financing to commercial and developing farmers, co-operatives and other agriculture-related businesses.

The Land Bank's objectives are defined within its mandate, which requires that it should achieve:

- growth in the commercial market
- growth in the development market
- business efficiency
- service delivery
- resource management
- sustainability.

The Land Bank is the sole shareholder in the Suid-Afrikaanse Verbandversekeringsmaatskappy Beperk, which provides insurance to people indebted to the bank through mortgage loans.

New banknotes to honour Madiba's centenary

The South African Reserve Bank (Bank) has issued a set of commemorative banknotes to honour the former statesman's centenary. The notes cover all denominations – R10, R20, R50, R100 and R200.

In addition, the South African Mint, a subsidiary of the SARB, will issue a new R5 circulation coin celebrating Mandela's birth centenary. The existing Mandela series of banknotes as well as the existing R5 coin in circulation will remain legal tender. The new commemorative banknotes and coins will circulate alongside the existing banknotes and coins.

The commemorative banknotes and coins are expected to be introduced into circulation from 18 July 2018, what would have been Mandela's 100th birthday.

Financial Services Board

The FSB is a regulatory institution, established in terms of the FSB Act of 1990.

The functions of the board include:

- supervising compliance with laws regulating financial institutions and the provision of financial services
- advising the Minister on matters concerning financial institutions and financial services
- promoting programmes and initiatives by financial institutions and bodies representing the financial services industry to inform and educate users and potential users of financial products and services.

The Financial Markets Act, 2012 (Act 19 of 2012) regulates financial markets and OTC derivatives. The Act brought South Africa in line with international norms and standards.

The Act ensures that financial markets in South Africa operate fairly, efficiently and transparently to promote investor confidence. It also ensures that the legislative and regulatory framework is brought in line with the recommendations of international standard-setting bodies such as the G20, Financial Stability Board, Basel Committee on Banking Supervision and the International Organisation of Securities Commissions.

The Act primarily focuses on the licensing and regulation of exchanges, central securities depositories, clearing houses, trade repositories and market infrastructure, as well as the prohibition of insider trading and other market abuses.

The Act also improves OTC trading in derivatives and does away with misleading and conflict-of-interest trading. This is one of several commitments made by the G20 countries.

Collective investment schemes (CIS)

CISes are investment structures where individual investor funds are pooled with those of other investors. Qualified asset managers regulated by the FAIS Act of 2002 invest these funds on behalf of the investor. Each investor owns units (participatory interest) in the total fund.

Financial advisers and intermediaries

The purpose of the FAIS Act of 2002 is to regulate, in pursuance of consumer protection, the provision of advice and intermediary services in respect of a range of financial products and services.

The FSB, through the FAIS Division, is responsible for regulating the rendering of financial advisory and intermediary services by FSPs, in respect of a wide range of financial products.

In terms of the provisions of the FAIS Act of 2002, before conducting any transaction, consumers should ensure that the FSP they are dealing with has obtained a licence from the FSB. Information on authorised FSPs may be obtained from the FSB website.

Recognised representative bodies

Section 6(3)(iii) of the FAIS Act of 2002 provides for the Registrar of FSPs to delegate any of its powers, in terms of the Act, to anybody recognised by the Act.

Two such functions, the consideration of applications for licences under Section 8 and the consideration of applications for approval of compliance officers under Section 17(2) of the Act, were delegated to two recognised representative bodies. As recognised examination bodies, another four bodies are responsible for developing and delivering the regulatory examination.

Advisory Committee on Financial Service Providers

The Minister of Finance appointed the Advisory Committee on FSPs, whose function, is to investigate and report, or advise on any matter covered by the FAIS Act of 2002.

The advisory committee comprises a chairperson, a representative of the Council for Medical Schemes, established by Section 3 of the Medical Schemes Act, 1998 (Act 131 of 1998), persons representative of product suppliers, FSPs and clients involved in the application of this Act. The members of the advisory committee, except for the Registrar and Deputy Registrar, who are ex officio members, hold office for a period determined by the Minister.

Licensing of financial service providers

The Registrar of FSPs authorises and renders ongoing supervision of the following FSPs:

- financial advisers and intermediaries who provide financial

services without discretion
- those who offer discretionary intermediary services, in terms of financial product choice, but without implementing bulking
- hedge-fund managers
- investment administrators specialising mainly in the bulking of collective investments on behalf of clients (linked investment services providers)
- those who represent assistance business administrators who render intermediary services, in terms of the administration of assistance business (funeral policies), on behalf of an insurer to the extent agreed to in a written mandate between the two parties.

Insurance companies

Insurance is an agreement between a policyholder and an insurance company. It is divided into long and short-term insurance.

In terms of the Long-Term Insurance Act, 1998 (Act 52 of 1998) and the Short-Term Insurance Act, 1998 (Act 53 of 1998), all insurance companies must be registered by the FSB and must comply with the provisions of these Acts.

The insurance industry has appointed a short-term and long-term insurance Ombudsman to mediate dispute resolution between insurers and policy holders.

Market abuse

The Directorate: Market Abuse is an FSB committee responsible for combating market abuse in the financial markets in South Africa. The three forms of market abuse prohibited in South Africa are: insider trading, price manipulation and publication of false or misleading statements.

All three forms of market abuse are criminal contraventions. In addition, an offender may be referred to the FSB Enforcement Committee, which can impose unlimited penalties. In the case of insider trading contravention, such penalties are distributed to people who were prejudiced by the offending transactions.

Retirement funds

To encourage South Africans to save more, employer contributions to retirement funds will become an employee fringe benefit for tax purposes from April 2015.

Individuals will be able to receive a tax deduction on employer and employee contributions to a pension fund, provident fund or retirement annuity fund up to 27,5% of the greater of remuneration and taxable income.

An annual cap on deductible contributions of R350 000 will apply.

In addition, Government is exploring ways to increase retirement fund coverage to all workers.

Enforcement

The Enforcement Committee of the FSB adjudicates on all alleged contraventions of legislation, regulations, and codes of conduct administered by the FSB within the South African non-banking financial services industry.

The FSB administers the following Acts:
- CIS Control Act, 2002 (Act 45 of 2002)
- FSB Act of 1990
- FAIS Act of 2002
- Financial Institutions (Protection of Funds) Act, 2001 (Act 28 of 2001)
- Financial Supervision of the RAF Act, 1993, (Act 8 of 1993)
- Friendly Societies Act, 1956 (Act 25 of 1956)
- Inspection of Financial Institutions Act, 1998 (Act 80 of 1998)
- Long-Term Insurance Act of 1998
- Pension Funds Act, 1956 (Act 25 of 1956)
- Short-Term Insurance Act of 1990
- Supervision of the Financial Institutions Rationalisation Act, 1996 (Act 32 of 1996)
- Securities Services Act, 2004 (Act 36 of 2004).

The committee considers cases of alleged contraventions of legislation administered by the FSB. The industries regulated by the FSB include: CISes, FSPs, insurance, nominee companies, retirement funds and friendly societies.

The committee may impose unlimited penalties, compensation orders and cost orders. Such orders are enforceable as if they were judgments of the Supreme Court of South Africa.

Government bonds

National Treasury has been working with the JSE, the SARB, STRATE, primary dealer banks and the World Bank to develop an electronic trading platform for government bonds. The pilot phase will be launched in 2018/19. The platform is expected to increase liquidity and transparency, and to reduce funding costs, by simplifying access to government bonds.

Foreign investor holdings of domestic government bonds reached 38,3% in March 2017 compared to 36% in 2016. In absolute terms, holdings by these investors increased to R602,4 billion in March 2017 from R557,6 billion in 2016.

By the end of 2017, global investors held 41,4% of domestic government bonds, a nominal increase of R147,8 billion from a year earlier.

The rise in non-resident holdings is partly a result of extremely low interest rates in advanced economies, which has prompted global investors to look for higher yields in developing countries. South Africa's sophisticated capital markets and strong institutions also support continued investment flows.

Domestic pension funds remain the largest holders of inflation-linked bonds which are used to match their long-term liabilities and hedge against inflation. Foreign investors hold only 2% due to the low liquidity of inflation-linked bonds and the fact that they offer lower returns than fixed-rate bonds.

Long-term insurers are the second-largest holders of domestic inflation-linked bonds. Similar to pension funds, long-term insurers use these instruments as a protection against inflation.

Domestic long-term borrowing

Long-term loans denominated in rands are government's primary debt instrument, accounting for 78,9% of the debt stock. Between April 2017 and January 2018, government issued R157,4 billion in long-term domestic bonds: R123 billion in fixed-rate bonds, R2,2 billion in retail savings bonds and R32,2 billion in inflation-linked bonds.

Weekly bond auction amounts increased in November 2017 to meet the higher borrowing requirement. The auction amounts will be reduced in 2018/19 as these requirements begin to decline.

Between February 2015 and January 2017, government's bond-switch programme exchanged a total of R130,4 billion in short-dated debt for long-dated debt, reducing pressure on the loan portfolio over the next four years.

Over the medium term, fixed-rate bonds, which account for 80% of domestic bond issuance, will anchor the portfolio, allowing government to manage interest rate risk.

Issuance of inflation-linked bonds will be limited to 20% to minimise the effect of revaluation on debt stock. New issuance in domestic capital markets will increase from R173,1 billion in 2016/17 to R191,5 billion in 2017/18, reaching R197 billion in 2019/20.

Retail savings bonds, which encourage household savings, will provide funding of about R3,5 billion.

International borrowing

Government issues debt in global capital markets to meet part of its foreign-currency commitments, set benchmarks and diversify funding sources.

The rand equivalent of these loans and interest payments changes with the exchange rate. To manage this risk, portfolio benchmarks limit foreign-currency debt to 15 % of the portfolio.

Over the medium term, borrowing in global markets will average US$2 billion per year.

In September 2017, government started to fully finance its foreign currency commitments by borrowing in global capital markets. This marked a shift from previous practice. The rand value of this international debt fluctuates with exchange rates, which is why the strategic risk portfolio benchmark limits foreign currency debt to 15% of the total portfolio. This debt currently stands at 8,8%, and is expected to remain within the limit over the medium term.

To meet foreign currency commitments fully, government has increased its foreign financing levels to US$9 billion over the next three years. Government will continue to build up cash for a large redemption of US$3,5 billion due in 2019/20. By 31 January 2018, US$1,4 billion of cash had been accumulated.

Foreign Exchange

The Foreign Exchange (FX) Operations Section within the Financial Markets Department is entrusted with the responsibility of conducting foreign exchange operations of the SARB and monitoring foreign exchange activities of authorised dealers and the broader market participants. This function also involves engaging with various market participants locally and offshore, including official institutions to gather market information and intelligence to support internal decision-making in the implementation of monetary policy, exchange rate policy and management of the SARB's foreign exchange reserves. To this end, the FX Section performs the following functions:

- conducting spot and forward foreign exchange transactions for the purpose of accumulating foreign exchange reserves;
- conducting foreign exchange swap transactions in the domestic forward market for domestic liquidity management;
- management of the foreign exchange reserves working capital portfolio by investing funds in term deposit accounts with foreign banks and official institutions;
- servicing the foreign exchange needs of the SARB and its clients, including the government;
- conducting research and analysis into movements and trends across financial markets;
- analysing the impact of the SARB's foreign exchange operations;
- promoting the effective function of the domestic financial markets by monitoring and gathering of market information and market intelligence in developments in the local and international markets;
- providing management information on the foreign exchange markets to the Senior Management of the department as well as the Executive Management of the SARB; and
- performing administrative function of the South African Foreign Exchange Committee, which has been established under the sponsorship and leadership of the SARB.

Exchange controls

Exchange Control Regulations are administered by the SARB, on behalf of the Minister of Finance. The Minister of Finance has also appointed certain banks to act as authorised dealers in foreign exchange, as well as authorised dealers in foreign exchange with limited authority, which gives them the right to buy and sell foreign exchange, subject to conditions and within limits prescribed by the Financial Surveillance Department of the SARB. Authorised dealers are not agents for the Financial Surveillance Department, but act on behalf of their customers.

Under exchange control regulations, there are no limitations as to how much money may be brought into South Africa, but there are certain limitations on the amount of money that may be transferred out of South Africa.

For all non-South Africans, there is no limitation on transferring money out of South Africa.

Foreign debt

South Africa's total external debt decreased notably from US$183.2 billion at the end of March 2018 to US$170.8 billion at the end of June due to non-residents' net sales of domestic randdenominated government bonds as well as valuation effects.

The increase in South Africa's total external debt, in rand terms – from R2 165 billion at the end of March 2018 to R2 347 billion at the end of June – reflected the valuation effect of the depreciation in the exchange value of the rand on foreign currency-denominated debt.

Foreign currency-denominated external debt increased from US$75.9 billion at the end of March 2018 to US$81.6 billion at the end of June. International bond issuances by national government and the domestic banking sector, together with long-term loans extended to the private sector contributed largely to the increase.

Johannesburg Stock Exchange Ltd

The JSE Ltd is privately owned and funded, and governed by a board of directors. Its activities are licensed and regulated by two Acts of Parliament, namely the Stock Exchanges Control Act, 1985 (Act 1 of 1985), which governs the equities markets, and the Financial Markets Control Act, 1989 (Act 55 of 1989), which governs the derivatives markets.

In keeping with international practice, the JSE Ltd regulates its members and ensures that markets operate in a transparent way, ensuring investor protection. Similarly, issuers of securities must comply with the JSE Ltd listings requirements, which ensure sufficient disclosure of all information relevant to investors.

The JSE Ltd's roles include regulating applications for listing and ensuring that listed companies continue to meet their obligations. The JSE Ltd monitors applications for alterations to existing listings, and scrutinises company disclosures to the public. It also provides the Stock Exchange News Service through which company news, including price-sensitive information, is distributed to the market.

The JSE Ltd has been bold in restructuring, in view of increasingly tough global competition, adopting new technologies and outsourcing aspects of its business.

The JSE Ltd opened to corporate membership, resulting in a stampede by foreign banks, which have bought out most of the major local broking firms, using these as platforms for other financial services, such as corporate and government advisory work.

The electronic settlement system, Share Transactions Totally Electronic (Strate), has replaced the previous manual settlement method. Strate Ltd is the licensed Central Securities Depository for the electronic settlement of financial instruments in South Africa.

The JSE Ltd's trading and information systems were replaced with the London Stock Exchange's (LSE) Sequence and the London Market Information Link or LMIL systems, branded JSE SETS and InfoWiz, respectively.

The trading engine and information dissemination feed-handler is hosted in London and connected remotely to the JSE Ltd 9 000 km away, via a transcontinental undersea cable and an innovative, integrated solutions design. More than 1 500 traders and information users access the system, using a sophisticated application service provider with subsecond response time.

The JSE Ltd has also aligned its equities trading model with that of Europe, and reclassified its instruments in line with the Financial Times of London Stock Exchange (FTSE) Global Classification System. This has led to the introduction of the FTSE/JSE Africa Index Series that makes the South African indices comparable to similar indices worldwide.

One of the most reliable trading platforms worldwide serves the investment community. The LSE can now disseminate trade information about instruments listed on the JSE Ltd to more than 104 000 trading terminals around the world, raising the profile of the JSE Ltd among the members of the international investor community.