2016/17 SOUTH AFRICA YEARBOOK

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
- enforce transparency and effective management in respect of revenue and expenditure, assets and liabilities, public entities, and constitutional institutions.

The Medium Term Budget Policy Statement (MTBPS) is a government policy document that informs Parliament and the country about 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.

National Treasury's priorities over the medium term will be to:

- manage future spending growth and fiscal risk
- review tax policy
- support sustainable employment
- support infrastructure development and economically integrated cities and communities
- make government procurement more efficient

- strengthen government financial management
- strengthen the regulation of the financial sector
- promote regional and international cooperation
- manage Government's assets and liabilities.

These priorities support long-term financial stability and the continued direction of public funds towards inclusive economic growth.

Entities

A total of 17 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.

Seven of these entities – the South African Revenue Service (SARS), the Office of the Tax Ombud (OTO), the Financial Intelligence Centre (FIC), the Accounting Standards Board, the Co-Operative Banks Development Agency (CBDA), the Financial and Fiscal Commission (FFC) and the Independent Regulatory Board for Auditors – receive transfers from National Treasury.

The remaining 10 are self-funded and generate their own revenue – the Financial Services Board (FSB), the Financial Advisory and Intermediary Services (FAIS) Ombud, the Office of the Pension Fund Adjudicator, the Government Pensions Administration Agency, the Government Employees Pension Fund, the Development Bank of Southern Africa (DBSA), the Public Investment Corporation (PIC), the Land and Agricultural Development Bank of South Africa (Land Bank), South African Airways (SAA) and the South African Special Risks Insurance Association. Each entity develops and reports on its own strategic and corporate plan.

Domestic demand

In South Africa, real economic growth slowed further and turned negative in the fourth quarter of 2016. The contraction at an annualised pace of 0,3% in the fourth quarter of 2016 in real GDP was in step with the current downward phase of the business cycle.

For 2016 as a whole, real economic growth slowed to a mere 0,3% – the lowest annual growth rate since 2009. However, the increase in the composite leading business cycle indicator post-May 2016 suggested improved economic activity in 2017.

While real production contracted marginally, real gross domestic expenditure (GDE) contracted by a more significant 1,9% in the fourth quarter of 2016. The de-accumulation of real inventories, particularly in the mining sector, contributed the most to the contraction in real GDE.

In addition, real final consumption expenditure by general government increased at a slower pace in the final quarter of 2016, partly due to the normalisation in spending after the municipal elections in August 2016. This was partly offset by an increase in real gross fixed capital formation.

Within an environment of subdued output growth, the domestic economy struggled to create sufficient employment opportunities. In the fourth quarter of 2016, the seasonally adjusted unemployment rate increased to its highest level since the global financial crisis. Wage settlements moderated slightly in 2016, and while growth in nominal unit labour cost accelerated to 5,7% in the fourth quarter of the year, it remained within the inflation target range.

Headline consumer price inflation had breached the upper limit of the inflation target range since September 2016 and accelerated to 6,8% in December, before moderating marginally in January 2017.

The acceleration in consumer price inflation resulted largely from higher fuel prices and a pickup in price inflation of exchange rate sensitive durable and semi-durable consumer goods following delayed pass-through from currency depreciation in 2015.

In addition, consumer food price inflation remained elevated. However, given expectations of a bumper maize crop in 2017, domestic maize prices receded notably in the first half of 2017 and was expected to assist in lowering consumer food price inflation in due course.

Moreover, average inflation expectations moved lower over the entire forecast period as analysts, business people and trade union representatives all lowered their expectations.

Funding the contribution to the New Development Bank (NDB)

The purpose of the NDB is to mobilise resources for infrastructure and sustainable development projects in BRICS (Brazil, Russia, India, China, South Africa trade bloc) and other developing countries.

The bank's headquarters are in Shanghai and the first regional office was expected to be established in Johannesburg. Initially, BRICS countries would be the only members, each with a shareholding of US$10 billion and equal voting power.

Subscribed capital was made up of 20% paid-in capital and 80% callable capital. In time the bank would be open to all members of the United Nations.

In 2016/17, the Board of Directors of the NDB approved loans involving financial assistance of over US$3.4 billion for projects in the areas of green and renewable energy, transportation, water sanitation, irrigation and other areas.

Jobs Fund

The Jobs Fund, launched in June 2011, aims 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.

As of December 2016, the Jobs Fund had supported a total of 64 enterprise development projects, across all sectors, and the SMME beneficiaries of these projects have created 77 289 permanent jobs and 13 306 short term jobs.

By April 2017, the Jobs Fund had a portfolio of 125 approved projects with a total allocation of R6.5 billion in grant funds. These projects will potentially leverage an additional R9.1 billion from the fund's partners to create 146 008 permanentjobs.

A total of 106 implementing projects have already created 91 626 new permanent jobs and placed an additional 51 353 people in vacant permanent positions. These projects created 22 923 short-term jobs and provided work-readiness and technical training to 182 489 participants.

In 2013, the Jobs Fund partnered with the Hand in Hand Southern Africa (HiH SA), a company which alleviates poverty through job creation among the underprivileged, with a focus on capacity building and empowerment.

Established in 2008, HiH SA is headquartered in Johannesburg and has a presence in Swaziland, Lesotho and Zimbabwe.The company successfully applied for the partnership through the fund's enterprise development window.

Focusing on the high numbers of unemployed women and youth, HiH SA has developed a self-help group enterprise development programme - a model adapted from sister organisation HiH India, which has created 1,2 million jobs in southern India over the past decade.

This initiative introduces an innovative approach to entrepreneurship in the informal sector combining three aspects key to enterprise development: micro credit, enterprise development facilitation, and capacity building.

It helps enterprises to grow and form market linkages, and it facilitates the mentorship and coaching between the formal and informal sectors that will generate jobs and economic growth.

Partnering with the Jobs Fund programme has enabled HiH SA to create close jobs to lift South Africa's poor from poverty in a sustainable way.

Budget framework

The year-on-year rate of increase in national government expenditure exceeded original 2016 Budget projections in the first nine months of fiscal 2016/17, while that of revenue fell short as most revenue sources performed below budgeted projections.

Nevertheless, in the first nine months of fiscal 2016/17 the non-financial public sector borrowing requirement narrowed as the non-financial public enterprises and corporations experienced a smaller cash shortfall and local governments experienced higher cash surpluses compared with the same period a year earlier.

Government's fiscal space continued to be constrained by, among other factors, persistent weak economic growth, higher debt levels and debt-service costs, and mounting spending pressures.

Against this backdrop, the budget for fiscal 2017/18 was delivered in February 2017, reaffirming government's continued commitment to a measured and prudent consolidation path.

This would be achieved through a combination of tax increases, notably personal income tax, and a reduction in government's expenditure ceiling.

As a percentage of GDP, the budget deficit is expected to narrow over the medium term. In addition, government expected to record a primary surplus in fiscal 2016/17 and over the medium term.

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. With 15% of the budget going to public education, there is universal access to basic education.

Enrolments in early childhood development and post-school education continue to expand. Life expectancy at birth for 2017 was estimated at 61,2 years for males and 66,7 years for females, as public health interventions limit the consequences of the HIV and AIDS pandemic.

The rate at which the population in South Africa is being infected is estimated to be declining from 1,9% in 2002 to 0,9% in 2017.

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.

Domestic economic developments

By mid-2017, the South African economy is now technically in a recession, having recorded a second consecutive quarter of contraction in the first quarter of 2017 – the first such occurrence since the first quarter of 2009.

Real GDP declined at an annualised rate of 0.7% in the first quarter of 2017, following a contraction of 0.3% in the fourth quarter of 2016.

The decrease reflected a further contraction in the real output of the secondary sector while the real value added by the tertiary sector contracted for the first time since the second quarter of 2009.

By contrast, the real output of the primary sector increased at a brisk pace over the period.

International Development and Cooperation

The International Development Cooperation (IDC) 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.

Improving government services

Central Supplier Database (CSD)

The CSD maintains a database of organisations, institutions and individuals who can provide goods and services to government.

The CSD will serve as the single source of key supplier information for organs of state from 1 April 2016 providing consolidated, accurate, up-to-date, complete and verified supplier information to procuring organs of state.

eTender portal

The eTender Publication Portal provides a single point of access to information on all tenders made by all public sector organisations at all spheres of government.

This includes tenders of all national and provincial departments, metros, district municipalities, local municipalities, municipal entities, all public entities, state-owned enterprises and constitutional bodies.

The portal facilitates all government institutions to publish their tenders, corrigendum and award notices on a single platform. This portal gives free access to public sector tender opportunities in South Africa.

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 State 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 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 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 (FATF), the international body which 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 one of the largest investment managers in Africa, managing assets worth more than R1,8 trillion. The corporation is mandated to invest funds on behalf of its clients, based on the investment mandates as agreed on with each client and approved by the FSB.

The corporation's clients are public sector entities, most of which are pension, provident, social security, development and guardian funds. The PIC's role is to invest funds on behalf of these clients, based on investment mandates set by each client and approved by the FSB, with which it is registered as a financial services provider (FSP).

The PIC is wholly owned by the South African Government, with the Minister of Finance as the shareholder representative.

The PIC was established as a corporation in accordance with the PIC Act of 2004. The PIC's total budget for 2016/17 was R1,1 billion.

South African Revenue Service

SARS is an organ of state outside the public service, established in accordance with the SARS Act of 1997.

It aims to provide a world-class, efficient, transparent and taxpayer-centred service, ensuring optimum and equitable revenue collection. Its main functions are:

- collecting and administering all national taxes, duties and levies imposed under national legislation
- collecting revenue that may be imposed under any other legislation, as agreed upon between SARS and an organ of State or institution entitled to the revenue
- advising the Minister of Finance on revenue
- facilitating trade

- providing protection against the illegal import and export of goods
- advising the Minister of Trade and Industry on matters concerning control over the import, export, manufacture, movement, storage or use of certain goods.

In 2016/17, SARS achieved a compliance of 92% regarding the personal income tax filling

per year (number of personal income tax returns submitted in tax year versus the total number of personal income tax returns required in tax year) – R4,89 million out of R5,32 million.

This all but equalled the previous years' performance, where more than 92% of taxpayers filed their returns before the end of the filing season deadline, more than 95% of filed returns were assessed within three seconds and 99% were assessed within 24 hours.

SARS branches serviced more than 7,2 million taxpayers and the SARS Contact Centres continued to offer high quality service and handled over 5,2 million taxpayer conversations.

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. 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, 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.

In 2014, government employed a structural increase in revenues over the medium term. Policy and administrative reforms was expected to raise at least R12 billion in 2015/16, R15 billion in 2016/17 and R17 billion in 2017/18.

The proposals were expected to enhance the progressive character of the fiscal system, improve tax efficiency and realise a structural improvement in revenue.

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 OTO 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 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.

Company income tax

Companies are subject to a flat tax rate, which is 28% of taxable income. Exceptions to the rule are the lower, progressive tax rates that apply to small and macro-enterprises, as well as the reduced rate that applies to companies operating in designated special economic zones.

Value-added tax

VAT is levied at 14% on the supply of all goods and services by VAT vendors (certain supplies are zero-rated) and contributes about 26% of total tax revenue.

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.

Personal income tax

PIT mainly focuses on the taxation of individuals' 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 40%. 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.

Excise duty

Excise duty is levied on certain locally manufactured goods and their imported equivalents, such as tobacco and liquor products, and as an ad valorem duty on cosmetics, audio-visual equipment and motor cars.

Environmental levy

There are four main areas of levies in this category namely the plastic bags levy, electricity generation levy, electric filament levy and motor vehicle carbon dioxide emission levy.

Fuel levy

Fuel levy is a consumption-based levy that is levied on petroleum products that are imported or manufactured in South Africa.

Transfer duty

Transfer duty is payable on the acquisition of property. Property costing less than R750 000 attracts no duty.

A 3% rate applies to properties costing between R750 001 and R1,25 million. In respect of property with a value between R1,25 million and R1,75 million, the duty is R15 000 plus 6% of the value above R1,25 million.

In respect of property above R1,75 million, the duty is R45 000 plus a rate of 8% of the value exceeding R1,75 million. For property above R2,25 million, the duty is R85 000 plus a rate of 11% of the value exceeding R2,25 million.

For a property above R10 million, the duty is R937 500 plus 13% of the value exceeding R10 million.

Estate duty

Estate duty is levied at a flat rate of 20% on residents' property and non-residents' South African property.

A basic deduction of R3,5 million is allowed in the determination of an estate's liability for estate duty, as well as deductions for liabilities, bequests to public-benefit organisations and property accruing to a surviving spouse.

Dividends tax

Dividends tax is a final tax at a rate of 15% on dividends paid by resident companies and by non-resident companies in respect of shares listed on the Johannesburg Stock Exchange (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.

Securities transfer tax

Securities transfer tax 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.

Skills-development levy

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

This skills development levy 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 (UIF)

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.

Tax on international travel

This tax is levied as follows: R190 per passenger departing on an international flight, excluding flights to Botswana, Lesotho, Namibia and Swaziland, in which case the tax is R100.

Rates on property

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

Customs duty

Customs duty is a tax levied on imports 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 dti**).

A new 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.

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. In the 2010/11 financial year, SARS changed its registration policy. It stipulated 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 of 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 has announced a Special VDP for non-compliant taxpayers to voluntarily disclose offshore assets and income, with a limited window period – from 1 October 2016 to 31 March 2017.

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.

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 (SARB)

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 600 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. It has branch offices in Bloemfontein, Cape Town, Durban, East London, Johannesburg and Port Elizabeth and a banknote depot in Pretoria North.

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.

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.

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:

- 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 (SAA), 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 SARB 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 bank, mints all coins on behalf of the bank. 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 six 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.

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.

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.

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% to 6%.

The Monetary Policy Committee has kept the repo rate stable at 7% since March 2016. Inflation has been above the target range through much of 2016 and the start of 2017, owing mainly to food and fuel price shocks as well as the lagged effects of currency depreciation.

However, the forecast indicates that inflation will fall back within the target range sometime around mid-2017 and stay there through 2018 and 2019.

Real growth in economic output, meanwhile, is expected to improve slightly from the extremely low rate of 0,3% recorded in 2016. The combination of falling inflation and accelerating growth is welcome.

Nonetheless, growth remains very low in both international and historical perspective, whereas inflation is relatively elevated given the weakness of demand pressures.

The banking industry

As at December 2016, 32 banking institutions were registered and supervised by the Bank Supervision Department of the SARB:

- 17 banks
- 15 local branches of international banks.

South Africa's banking sector is dominated by the five largest banks, which collectively held 90,7% of the total banking assets as at 31 December 2016, up from 89,2% in December 2015.

Local branches of international banks contributed 5,8% as at 31 December 2016, compared to 7,3% in December 2015.

The remaining banks operating in South Africa represented 3,5% at the end of both December 2015 and December 2016.

In addition, as at the end of December 2016, three mutual banks and two cooperative banks were registered and supervised by the Bank Supervision Department of the SARB.

At that date, there were also 36 authorised representative offices of international banks in South Africa.

Exchange rates

Following the depreciating trend during 2015, the South African rand recovered and strengthened by almost 13% against the US (United States) dollar during 2016, a trend which continued in 2017 as the rand appreciated by another 10% in the first quarter of 2017.

On a trade-weighted basis, the rand improved by 18,7% in 2016 and by an additional 6% by mid-2017.

The reprieve from possible rating downgrades in 2016 supported sentiment despite the country's foreign-currency debt rating hovering just above junk (one level above from Standard and Poor's and Fitch, and two levels above from Moody's), while Standard and Poor's lowered the local-currency rating (BBB) in December 2016 to align with other ratings agencies.

Low growth continues to remain a threat to South Africa's fiscal and economic performance, and crucial to future rating changes. Continued political uncertainty, and potential event-risk could weigh on investor confidence which may filter into other asset classes as seen previously.

That said, the global landscape became somewhat more supportive to emerging-market economies (EMEs) since late 2016 as political and policy uncertain seems to moderate following the US elections, despite that the US policy mix could result in less gradual normalisation in interest rates.

Pro-growth policies are supporting commodity prices and commodity-exporting EMEs.

On the domestic front, the current-account deficit for the fourth quarter of 2016 narrowed to 1,7% of GDP from 3,2% in the previous quarter, providing further impetus to the rand. Towards the end of March 2017, the rand traded around R12,50 against the US dollar, the best levels since mid-2015.

From being one of the worst performers in 2015, the South African rand improved to be one of the best performers in 2016, together with the Brazilian real and Russian ruble.

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.

The Minister of Finance has, with effect from December 2015, authorised the Financial Surveillance Department to process applications regarding the appointment of authorised dealers in foreign exchange.

The aforementioned authority is in addition to the Minister of Finance having delegated authority to the Financial Surveillance Department in 2009 to appoint authorised dealers in foreign exchange with limited authority. 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 that has been previously introduced into the country.

South African individuals (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 African individuals 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.

In terms of an announcement made by the Minister of Finance during February 2016, the Financial Surveillance Department, jointly with the SARS, is offering an opportunity to South African residents to disclose and regularise both their tax and exchange control affairs in terms of a Special Voluntary Disclosure Programme (SVDP) that commenced on 1 October 2016 and will continue until 31 August 2017.

Applications for exchange control relief under the SVDP are to be made pursuant to the provisions of Exchange Control Regulation 24 and South African residents are required to disclose their unauthorised foreign assets held in contravention of the Exchange Control Regulations as at 29 February 2016.

A currency and exchanges manual for authorised dealers and a currency and exchanges manual for authorised dealers in foreign exchange with limited authority were issued and published on the SARB's website with effect from 1 August 2016.

These documents contain the permissions and conditions applicable to transactions in foreign exchange that may be undertaken by authorised dealers, authorised dealers in foreign exchange and/or their clients in terms of the exchange control regulations, details of related administrative responsibilities as well as reporting requirements.

In addition, currency and exchanges guidelines for business entities and currency and exchanges guidelines for individuals were issued and published on the same date to assist business entities and other interested parties by providing a general understanding of the exchange control system in South Africa.

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.

To promote foreign diversification through domestic channels, the National Treasury also introduced foreign member funds, which are collective investment schemes and alternative investment funds such as private equity funds, venture capital funds and hedge funds, who can offer foreign exposure to underlying investors. Registered foreign member funds are not subject to macro-prudential limits.

In terms of an announcement by the Minister of Finance in the 2017 Budget Review speech, local collective investment scheme management companies registered with the FSB and regulated under the Collective Investment Scheme Control Act, 2002 (Act 45 of 2002) are allowed, with the prior approval of the Financial Surveillance Department, to inward list exchange traded funds referencing foreign assets on the JSE Limited. These exchange traded funds will not be restricted in terms of the amount they can invest offshore.

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 dti 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 cooperative banking, including deposit-taking and lending cooperatives.

The agency envisages a strong and vibrant cooperative 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 cooperative banks
- promote, register and regulate representative bodies
- facilitate, promote and fund education and training to enhance the work of cooperative financial institutions
- accredit and regulate support organisations
- provide liquidity support to registered cooperative 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.

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, cooperatives 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.

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 fnancial 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.

The dti released the draft credit life insurance regulations in November 2015. The suggested revisions include a reduction in the monthly credit life insurance charges paid by consumers to credit providers to no more than R4,50 per R1 000 on credit facilities and unsecured credit transactions, and no more than R2 per R1 000 on mortgage agreements.

The proposed caps include the cost of any commission fees and/or expenses incurred, and are to be calculated on the total outstanding obligations as opposed to the original loan amount.

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 Road Accident Fund 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

In September 2016, foreign holdings of South African government securities reached its highest level in two years, with inflows of R62 billion, compared with R6 billion in the corresponding period in 2015.

By contrast, domestic pension funds, historically the biggest investors in government debt, in August reduced their stock to the lowest since May 2013.

Inflows into domestic bonds continued even in uncertain markets, emphasised by the devalued rand against the US dollar earlier in the year.

South African bonds have the highest yields among investment-rated nations, and have posted the best returns in the the third quarter of 2016 in emerging markets.

This also marked a vote of confidence that inflation in the country is under control and that the nation would avoid a credit downgrade to junk amid signs the economy was starting to recover.

Domestic long-term borrowing

Longer-dated, rand-denominated debt accounts for about 78% of government debt stock. In the 10 months ending 31 January 2017, government raised R141,5 billion by issuing domestic long-term debt.

Of this amount, R110,8 billion was raised in fixed-rate bonds, R27,2 billion in inflation-linked bonds and R3,5 billion in retail savings bonds.

Fixed-rate bond auctions performed as expected. During the year, bond yields decreased, making it cheaper for government to borrow.

In contrast, take-up of inflation-linked bonds declined. During the second half of 2016/17 there were six under-subscribed and three under-allotted inflation-linked bond auctions.

Global interest in South African bonds remains strong. International investors held 36% of rand-denominated bonds as at end-December 2016, up from 32,4% in 2015. These holdings amounted to R558 billion, an increase of R107 billion from the previous year.

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.

Government's foreign-currency financing levels were revised upwards in 2016/17, partly to cater for large redemptions, which reach US$3,1 billion in 2019/20. Government issued bonds of US$1,25 billion in April 2016 and US$3 billion in September 2016.

The latter transaction consisted of US$2,3 billion of new issuance and US$710 million in bond exchanges.

About US$1,2 billion of the new issuance will be used as pre-funding to manage medium-term loan redemptions.

US and United Kingdom investors were the largest participants in South Africa's recent international issuance, taking up 37% and 33% respectively of the US$3 billion of bonds on offer.

Participation by Asian investors reached 10%, the highest level since South Africa re-entered global capital markets in 1994.

Exchange rates

The external value of the rand strengthened further in the fourth quarter of 2016, appreciating on balance by 7,4% on a trade-weighted basis.

The exchange value of the rand was supported by reduced uncertainty in both global and domestic financial markets. In October and November 2016, the trade-weighted exchange rate of the rand appreciated by 3,5% and 0,2%, respectively, amid a prudent medium-term budget policy statement.

Sentiment towards the South African rand improved in December 2016 as two prominent international credit rating agencies decided to keep South Africa's sovereign credit ratings unchanged. However, further gains in the local currency were limited by a stronger US dollar following a widely anticipated increase in the US federal funds rate in December.

In January and February 2017, the domestic currency appreciated by 4,7% against the US dollar, mainly due to broad-based US dollar weakness and some indications of improved economic conditions in both developed and emerging market economies.

The domestic currency was also supported by positive global risk sentiment and higher international commodity prices.

The nominal effective exchange rate of the rand increased on balance by 18,7% in 2016 compared to a decrease of 19,7% in 2015.

While the rand appreciated against the currencies of most advanced economies in 2016 such as the US dollar, the euro and the British pound, it depreciated against those of some emerging market peers such as the Brazilian real and the Russian ruble.

The real effective exchange rate of the rand increased by 23,6% from January 2016 to December. Part of the strength in the real effective exchange rate of the rand resulted from an increase in the nominal effective exchange rate of the rand.

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 outstanding foreign debt increased further from US$132,4 billion at the end of the second quarter of 2016 to US$143 billion at the end of the third quarter, buoyed by a substantial rise in rand-denominated debt, while foreign currency-denominated debt increased somewhat.

In rand terms, however, South Africa's gross external debt rose marginally from R1 955 billion to R1 998 billion over the same period as a result of the strengthening of the rand against the US dollar.

Foreign currency-denominated external debt increased from US$66,9 billion at the end of the second quarter of 2016 to US$70,4 billion at the end of the third quarter, after having declined for two consecutive quarters.

The increase in foreign currency-denominated external debt was mainly driven by short-term loan obligations of the domestic banking sector.

South Africa's short-term foreign currency-denominated debt (i.e. debt with an original maturity of less than one year and other longer-term foreign currency-denominated debt maturing within the next 12 months) increased markedly from 42,8% of total foreign currency-denominated debt at the end of June 2016 to 47% at the end of September.

South Africa's rand-denominated external debt, expressed in US dollars, increased substantially to US$72,6 billion at the end of the third quarter of 2016, nearing levels last recorded at the end of June 2015. Net purchases by non-residents of domestic government bonds were mainly responsible for the increase in rand-denominated debt over the period.

The ratio of rand-denominated debt to total external debt increased from 49,5% at the end of June 2016 to 50,8% at the end of September, breaching the 50% mark for the first time since the end of September 2015.

South Africa's external debt as a ratio of annualised GDP increased from 45.8% in June 2016 to 49,6% in September, averaging 42,8% for the past eight quarters.

Concomitantly, the ratio of the county's external debt to export earnings rose from 141,1% to 154,2% over the same period.

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 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.