SA YEARBOOK 2009/10

FINANCE

South Africa's prudent financial-sector regulations and macroeconomic policy framework have partly protected it from the knock-on effects of the global financial crisis.

The soundness of South Africa's financial system was subjected to an international assessment in 2008, which concluded that the South African banking system was diversified and supported by an appropriate financial infrastructure and a generally effective regulatory framework.

Although South African banks were not significantly exposed to sub-prime related products, they were nonetheless affected by deteriorating credit conditions. That South Africa's banks are capitalised in rands is an important strength. This is a key element of the evolving macro-prudential framework.

National Treasury's work on fiscal policy and budget reform focuses on strengthening infrastructure investment and maintenance, broadening participation in the economy and improving the quality of social services, in support of government's Accelerated and Shared Growth Initiative for South Africa (AsgiSA).

Improved budget planning, better documentation and greater transparency in public finances continue to be key priorities. National Treasury is expanding its capacity to provide technical support, particularly for infrastructure planning and project management.

The Constitution stipulates a framework for the division of responsibilities between national, provincial and local government. It prescribes an equitable division of revenue between the spheres of government, taking into account their respective functions. It also creates an independent auditor-general (AG) and an independent central bank, and sets out the principles governing financial accountability to Parliament, as well as the annual budget process.

Fiscal policy framework

Government's fiscal policy seeks to support structural reforms of the South African economy consistent with long-run growth, employment creation and an equitable distribution of income.

It aims to promote investment and export expansion while enabling government to finance public services, redistribution and development in an affordable and sustainable budget framework.

Fiscal policy seeks to:

- ensure a sound and sustainable balance between government's spending, tax and borrowing requirements
- improve domestic savings to support a higher level of investment and reduce the need to borrow abroad
- keep government consumption spending at an affordable level
- contribute to lower inflation and a sustainable balance of payments
- support an export-friendly trade and industrial strategy to improve South Africa's competitiveness.

Due to the start of the changed economic outlook in 2008/09, the fiscal stance has become significantly more expansionary. Lower revenue and higher expenditure have resulted in an increase in the budget deficit. The change enables government to continue financing its priorities and support aggregate demand during the cyclical decline in revenue.

Spending in support of sustainable economic growth and social development is thus enabled because of this countercyclical fiscal policy stance.

Growth in spending in the current context will serve two broad purposes of:

- ensuring that the implementation of long-term service-delivery priorities is not negatively affected by lower growth in revenue collection
- supporting economic activity at a time when global and domestic demand is faltering.

The combined effect of higher expenditure and declining revenue means that government will run a deficit that will need to be financed.

Economy and fiscal stance

The former Minister of Finance, Mr Trevor Manuel, presented the national Budget for 2009/10 in February 2009. Key indicators included that:

- gross domestic product (GDP) growth was expected to slow to 1,2% in 2009, before recovering gradually to 4% by 2011
- Consumer Price Index (CPI) inflation was forecast to fall to 5,8% in 2009, before declining to 4,7% by 2011
- gross fixed capital formation growth was projected to average 6,1% during the period 2010 to 2012

- government spending on infrastructure was expected to total R787 billion during the 2010 to 2012 period, R397 billion of which is capital spending by state-owned enterprises (SOEs)
- budget balance for consolidated government was estimated at -3,8% in 2009/10, recovering to -1,9% by 2011/12
- expected average real growth in consolidated government non-interest expenditure of 5,1% a year during the period 2010 to 2012 (excludes Eskom loan)
- R60 billion to support Eskom's capital financing requirements between 2008/09 and 2010/11.

Tax proposals

Highlights of the 2009/10 Budget included:

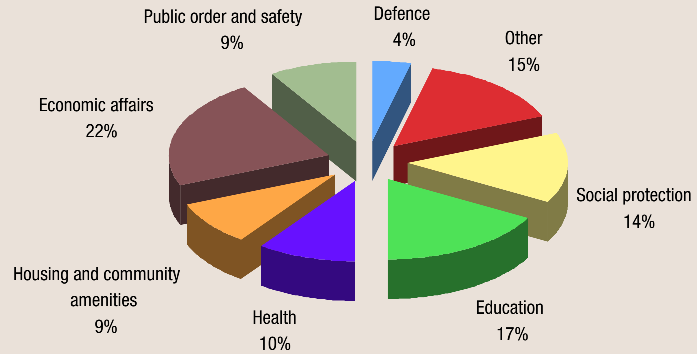
- personal income tax relief for individuals amounting to R13,6 billion
- increased exemptions for interest, dividend income for individuals and increased capital gains tax exclusion for primary residences
- review of the tax treatment of motor-vehicle allowances to improve equity and transparency of the tax system
- amendments to the treatment of contributions to medical schemes
- incentives for investments in energy-efficient technologies
- motor-vehicle excise reform to tax carbon emissions and a new tax on energy-intensive light bulbs
- delaying the implementation of mineral and petroleum royalties until 1 March 2010
- taxes on petrol and diesel to increase by 40,5 and 41,5 cents per litre respectively
- a packet of 20 cigarettes to cost 88 cents more
- a 750-ml bottle of natural wine to cost 10,5 cents more
- a 340-ml can of beer to cost seven cents more
- a 750-ml bottle of liquor (spirits) to cost R3,21 more.

Spending on public services

Key expenditure increases included:

- R24,8 billion to provinces for increasing services, mainly health and education
- R12 billion more for social grants and R1,2 billion for grant-administration fees
- R4,1 billion for the second phase of the Expanded Public Works Programme
- R4 billion for the National School Nutrition Programme to feed more children more often
- R5,4 billion for the criminal justice sector overhaul, including fingerprint and DNA databases
- R4,1 billion for provincial infrastructure, especially school buildings, roads and clinics
- R4,3 billion for municipal infrastructure and R1 billion for regional bulk water infrastructure
- R600 million for municipalities to extend free basic services
- R1,6 billion as an equity injection into South African Airways
- R3,7 billion more for increased housing provision
- R1 billion for electricity demand-side management
- R932 million for the treatment and prevention of HIV and AIDS

Government expenditure 2009/10



Source: National Teasury, *Budget Highlights*

- R6,4 billion for public transport, roads and rail infrastructure
- R1,6 billion for industrial development and support to small enterprises
- R1,8 billion for rural development, mainly focused on supporting small-scale agriculture.

Debt management

The prudent management of government's financial assets and liabilities remains a priority.

Government's debt-management policies have evolved from concentrating exclusively on financing the borrowing requirement to broader support for government's macroeconomic objectives. The global economic downturn, together with South Africa's countercyclical fiscal policy stance, meant that government became a net issuer of debt in 2008/09.

Government continues to support SOEs during the economic downturn, through the issuing of guarantees on a case-by-case basis. Steps taken over the past 16 years to strengthen the capital market enables the public sector to finance the growing borrowing requirement in the domestic market.

Debt levels remain sustainable, despite an expected increase in government debt from R629 billion in 2008/09 to R919 billion in 2011/12.

Debt service cost as a percentage of GDP will average 2,2% over the medium term. Debt-service cost as a ratio of revenue will be maintained as maturing debt is refinanced in a lower interest rate environment.

Legislation

Public Finance Management Act (PFMA), 1999 (Act 1 of 1999)

Transforming public-sector financial management is one of National Treasury's key objectives.

To this end, National Treasury has been implementing the PFMA, 1999 since 1 April 2000.

The Act changed the approach to how public funds are managed by introducing 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.

Since its introduction, the PFMA, 1999 has contributed towards measurable improvements in financial management in both the national and provincial spheres of government, which include, among other things:

- an improved linkage between planning and budgeting, whereby departments are required to compile and table strategic plans that are consistent with their budget envelope
- strategic plans and budget documentation containing improved information on measurable objectives expressed in terms of quantity, quality and timeliness
- the submission by departments of monthly expenditure reports on actual expenditure incurred, and on projected expenditure for the remainder of the financial year
- risk-management processes
- establishing internal-audit functions and audit committees in all departments
- setting accounting standards in accordance with best accounting practices
- finalising and submitting financial statements to the AG within two months of the end of the financial year
- tabling annual reports in the legislature within six months of the end of the financial year.

While it is recognised that the PFMA, 1999 has contributed positively towards the enhancement of public-sector financial management, it has been acknowledged that an increased emphasis should be placed on capacity-building to further improve the quality of financial management.

The Public Administration Leadership and Management Academy has, in association with National Treasury, developed the Financial Management Training Strategy for the roll-out of training programmes to improve the skills of public-sector finance practitioners.

Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003)

The Act applies to all municipalities and municipal entities, and national and provincial organs of state, to the extent of their financial dealings with municipalities.

The objective of the Act is to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms, standards and other requirements for:

- ensuring transparency, accountability and appropriate lines of responsibility in their fiscal and financial affairs
- managing their revenues, expenditures, assets and liabilities, and handling their financial dealings
- budgetary and financial-planning processes and coordinating processes of organs of state

- borrowing
- handling financial problems and other financial matters.

A wide range of supporting publications, guides, regulations and circulars are available on *www.treasury.gov.za* under the MFMA icon.

Cooperative Banks Act, 2007 (Act 40 of 2007)

The Cooperative Banks Act, 2007 came into effect on 1 August 2008.

The Act aims to:

- promote and advance the social and economic welfare of all South Africans by improving access to banking services
- promote the development of sustainable and responsible cooperative banks
- establish an appropriate regulatory framework for cooperative banks that protects members of cooperative banks.

The Act provides for the establishment of the Cooperative Banks Development Agency as a public entity under the Executive Authority of the Minister of Finance.

The agency is responsible for, among other things:

- the registration of deposit-taking financial services cooperatives as cooperative banks
- facilitating the supervision of cooperative banks
- the development and enhancement of the sustainability of cooperative banks.

National Treasury

Financial expenditure

National Treasury plays a pivotal role in managing government expenditure.

It determines financial-management norms and standards, and sets reporting policy that guides the AG's performance. It also assists Parliament, through the Standing Committee on Public Accounts, with its recommendations and the formulation of corrective actions. National Treasury closely monitors the performance of state departments and is obliged to report any deviations to the AG.

The department maintains transparent and fair bidding processes, as well as accounting, logistic and personnel systems. It sets and maintains standards and norms for treasury and logistics, acts as a banker for national departments and oversees logistical control of stocks and assets.

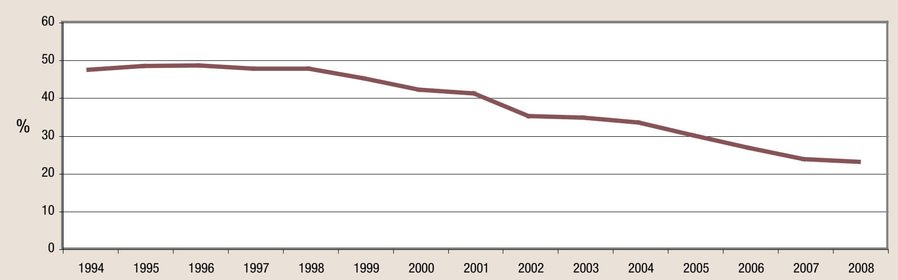
The National Treasury draws its mandate from Chapter Two of the PFMA, 1999, based on Chapter 13 of the Constitution. It is mandated to:

- coordinate macroeconomic policy
- promote government's fiscal policy framework
- manage the budget preparation process
- coordinate intergovernmental financial relations
- facilitate the Division of Revenue Act, 2009 (Act 12 of 2009), which provides for an equitable distribution of nationally raised revenue between national, provincial and local government
- monitor the implementation of provincial budgets
- create an enabling regulatory environment for the financial sector
- defend the integrity of the financial system
- ensure efficient and effective revenue collection
- see to the programmes of development finance institutions (DFIs).

Exchange-control reforms

Major steps were taken in 2008/09 to shift from a system of exchange controls to prudential regulation.

Government debt as percentage of gross domestic product



Source: *Development Indicators, 2009*

To support prudent foreign diversification by institutional investors, the foreign prudential limits for pension funds and underwritten long-term insurance policies were increased from 15% to 20%, while the limit for collective investment schemes (CIS) and investment-linked business of long-term insurers was increased from 25% to 30%.

Institutional investors were also allowed to undertake foreign investments without prior approval, but subject to quarterly reporting. The 40% macro-prudential foreign exposure limit for banks was reformed.

Red tape was also reduced in South African companies and individuals. Corporates were allowed to freely invest in inward-listed instruments and currency futures on the Bond Exchange of South Africa (Besa) and JSE Limited (Ltd).

In October 2009, the Minister of Finance, Mr Pravin Gordhan, announced in the Medium Term Budget Policy Statement the further relaxation of exchange controls in a bid to reduce the cost of doing business in the country and attract more foreign investment.

Foreign capital allowance for residents, which was last adjusted in 2006, would be increased from R2 million to R4 million, while the single discretionary allowance would be increased from R500 000 to R750 000.

To improve access to domestic credit in the financing of local foreign direct investment (FDI), restrictions on the granting of local financial assistance to affected persons have been further liberalised with the doing away of the 3:1 ratio.

Retirement fund reform

The Social Security and Retirement Reform Paper was released in 2007. Progress continues in developing reform proposals for the social-security system. An interdepartmental task team was established and has undertaken a number of projects to assess the detailed operational approach and policy implications.

Further analysis of a shared government view on basic social-security design is still needed, particularly in relation to the industry and the preservation of retirement benefits. The institutional governance options regarding the co-ordination of administrative arrangements continue to be explored. This encompasses the South African Revenue Service (Sars), the Unemployment Insurance Fund (UIF), Compensation Fund (CF) and the Government Employee Pension Fund (GEPF).

Options for post-retirement medical-contribution protection are also being explored in terms of their linkages with wider social-security reform.

More work needs to be conducted on private pension and social-security law reform, particularly with regard to the overall design and opt-out issues, sequencing of the reform and balance of risk between the State, employees and contributors.

Treasury norms and standards

In terms of Section 216(1)(c) of the Constitution, National Treasury must prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing uniform treasury norms and standards. These aim at deregulating financial controls, by granting accounting officers of spending agencies more autonomy in financial decision-making within the ambits of impending financial legislation.

Budget evaluation

National Treasury plays an important role in supporting the economic policy to which government has committed itself. It determines the macrolimit on expenditure, which is then matched with requests from departments, in line with the affordability and sustainability of services.

Based on this limit, all national departments are requested to submit budget proposals annually to National Treasury for the following financial year.

Early Warning System

The Early Warning System was first established in 1997. Any likely under- or overexpenditure is brought to the attention of the Cabinet, so that the relevant minister can ensure that appropriate action is taken.

The system assists in monitoring provincial departments' expenditure trends monthly, by having provincial treasuries report to National Treasury in a prescribed format. The information derived from early warning reports is used for advising the Minister of Finance, Budget Council and Cabinet.

Financial systems

National Treasury is responsible for the development, maintenance and support of financial management systems (Bas, Persal, Logis and Vulindlela) that support:

- payment for government employees' salaries and service-providers
- financial reporting and management for government departments.

In 2005, Cabinet directed National Treasury, in conjunction with the Department of Public Service and Administration and State Information Technology Agency, to consolidate all related financial-management system solutions across government into a centralised Integrated Financial Management System (IFMS). By mid-2009, certain key IFMS modules were being rolled out in the lead implementation sites.

Supply Chain Management (SCM)

SCM forms an integral part of financial management. The SCM Framework, issued in terms of Section 76 of the PFMA, 1999, replaced outdated procurement and provisioning systems in government.

The integrated SCM system caters for an international best-practice process for appointing consultants. It also incorporates the preferential procurement policies of government, as espoused in the Preferential Procurement Policy Framework Act, 2000 (PPPFA) (Act 5 of 2000), and the regulations issued in terms of this Act.

The implementation of the regulations enhances the involvement of historically disadvantaged individuals in the public bidding system and contributes to achieving reconstruction and development programme goals, including the promotion of small, medium and micro-enterprises.

The PPPFA, 2000 and its related regulations currently do not support all the aims and strategies of the Broad-Based Black Economic Empowerment (BBBEE) Act, 2003 (Act 53 of 2003). Cabinet directed that these two legislative processes should be aligned.

This alignment is captured in a new framework for SCM. To promulgate the revised regulations, it will be necessary to repeal the PPPFA, 2000 and to incorporate the procurement-related BBBEE policies of government into the PFMA, 1999 and its related regulations.

As an interim measure, the current preferential procurement regulations will be revised to incorporate the balanced scorecard methodology as outlined in the BBBEE Act, 2003 for awarding preferential points to bidders.

Financial Intelligence Centre (FIC)

Government has adopted a strong stance on eradicating money laundering and financing terrorism, in keeping with United Nations (UN) conventions and international standards.

South Africa's system of combating money laundering and the financing of terrorism is based on the interaction of three separate laws.

In 1998, the Prevention of Organised Crime Act, 1998 (Act 121 of 1998), was passed, which criminalised money laundering. This was followed by the FIC Act (FICA), 2001 (Act 38 of 2001), which provides for the establishment of the centre, and imposed reporting and administrative obligations on financial and other institutions.

The Protection of Constitutional Democracy against Terrorist and Related Activities Act, 2004 (Act 33 of 2004), provides for the reporting of terrorism-financing activities.

The FIC is a government agency, which reports to the Minister of Finance.

The centre is mandated to:

- identify the proceeds of crime and the financing of terrorism
- formulate and lead the implementation of policy regarding money laundering and the financing of terrorism
- advise the Minister of Finance about issues aimed at anti-money laundering and combating the financing of terrorism (AML/CFT)
- monitor the compliance of accountable institutions and supervisory bodies regarding their AML/CFT obligations
- prevent and reduce money laundering and CFT activities
- uphold the international obligations and commitments required of the centre and South Africa as a country.

The FICA, 2001 identifies 19 different business sectors, which it defines as being accountable institutions and most vulnerable to abuse by criminals. These include banks, *bureaux de change,* life-insurance companies, stockbrokers, money remitters, casinos, lawyers, accountants, investment advisers, estate agents and motor dealers. These accountable institutions have certain reporting and administrative obligations, including record-keeping, appointing compliance officers and the training of staff.

The centre analyses and stores reports made by the accountable institutions. After further analysis and due consideration, it makes disclosures to law-enforcement agencies for investigation.

The FIC Amendment Act, 2008 (Act 11 of 2008), provides for detailed procedures for the administrative adjudication and sanctioning of non-compliance with the Act, as well as extended powers for supervisors to address compliance failures appropriately. The Amendment Act also provides for issues relating to customer due diligence and the updating of the schedules to the Act.

In 2002, South Africa joined the 14-member Eastern and Southern Africa Anti-Money Laundering Group. South Africa is also a member of the Financial Action Task Force (FATF), which is the international standards-setting body for combating money laundering and financing terrorism.

During 2008, the centre facilitated South Africa's assessment process by the FATF. The assessment looked at the country's ability to combat financial crimes. In February 2009, the country received a favourable report from the FATF, commending its effective policies and processes to combat money laundering and terrorism financing.

The centre is a member of the Egmont Group of financial intelligence units, which facilitates the exchange of information, skills and technical assistance between financial intelligence units worldwide.

Financial and Fiscal Commission (FFC)

The FFC is a constitutional body established to give advice to Parliament, legislatures and organs of state on matters of intergovernmental finance.

The commission, which came into operation in April 1994, is a statutory institution and permanent expert commission dealing with intergovernmental fiscal relations.

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.

Government is required by the Constitution and other legislation to consult with the FFC on issues such as provincial and local government revenue sources, and provincial and municipal loans.

Consultation is also required on the fiscal implications of assigning functions from one sphere of government to another.

Budget Council

The Budget Council consists of the Minister of Finance and the nine provincial members of the executive committees responsible for finance.

The Budget Forum extends the Budget Council to include representatives of organised local government. The mission of the two forums is to ensure cohesion between national policy priorities, the division of nationally raised revenues, and planning and budgeting in provincial and local spheres of government.

The forums also allow the leadership of the three spheres of government to evaluate the performance of government on key national programmes and, where deemed necessary, to agree on support initiatives that will ensure the attainment of national goals.

Public Investment Corporation (PIC)

The PIC is a corporate body governed in terms of the PIC Act, 2004 (Act 23 of 2004).

The corporation was officially launched in April 2005. The PIC invests funds on behalf of the South African public sector.

There are 40 entities or clients whose funds are managed by the PIC. Major clients include the GEPF, the UIF, the Associated Institutions Pension Fund, the Compensation Commissioner: Pension Fund, the CF and the Guardian's Fund. The strategic focus of the PIC in recent years has been on restructuring to build capacity that is comparable to private-sector asset managers.

Key activities and achievements include:

- revising the PIC's governance structure and regulatory oversight
- achieving investment returns that meet or exceed agreed client benchmarks, which are unique and stipulated in each client's mandate
- establishing the subsidiaries, Advent and the Pan-African Infrastructure Development Fund, to focus on property investments in townships or rural areas and infrastructure development in Africa
- adopting the role of corporate-governance champion and activist in relation to investments managed on behalf of the PIC's clients
- establishing an enterprise-risk-management capacity comprising the risk, compliance and internal audit divisions
- revising human-resource policies and recruiting skilled professionals across the three business divisions: investments, risk and operations
- revising client fee scales to a level that can sustain PIC operations in the long term.

Despite challenging conditions in the investment environment, the PIC has succeeded in growing the value of clients' assets under management and in delivering returns in line with the benchmarks set in client-investment mandates.

Strategic priorities over the Medium Term Expenditure Framework period are to ensure the financial sustainability of the PIC and its subsidiaries, develop and maintain sound client relationships, improve enterprise-wide risk management, and grow and improve the PIC's human capacity.

Macroeconomic strategy

The harsh global economic environment, caused by the financial crisis, resulted in South African growth slowing to 3,1% in 2008. The economy performed relatively well compared to many developed economies that contracted in 2008.

By mid-2009, having recorded two consecutive quaters of negative economic growth, the South African economy was technically in a recession – the first of its kind in 18 years. The country's real GDP contracted at an annualised rate of 6,5% in the fourth quarter of 2008. The sharp decline in domestic economic activity followed a severe contraction in global output and was particularly evident in the performance of the export-orientated sectors of the South African economy.

Growth is expected to average 2,7% between 2010 and 2012, with a significant recovery in the outer two years. Lower interest rates and current robust government infrastructure are expected to support growth in the current economic environment.

In 2004, government set out the objectives of halving poverty and unemployment by 2014. A growth rate exceeding 5% a year on average between 2004 and 2014 is necessary to achieve these targets. However, current developments in the global economy pose a challenge to achieving these objectives.

In February 2006, government introduced AsgiSA, aimed at growing the economy and improving its labour-absorbing capacity, leading to shared growth.

AsgiSA has identified the following "binding constraints" to achieving growth objectives:

- the relative volatility and level of the currency
- the cost, efficiency and capacity of the national logistics system
- the shortage of suitably skilled labour, amplified by the cost effects on labour of apartheid spatial patterns
- barriers to entry, limits to competition and limited new investment opportunities
- the regulatory environment and the burden on small and medium enterprises
- deficiencies in state organisation, capacity and leadership.

A number of decisive interventions aimed at addressing these constraints and allowing government to achieve its objectives more effectively include:

- macroeconomic issues, such as reducing the volatility of the Rand, improving the estimation of revenue collections in the budgeting process, and improving expenditure management
- the rapid increase in infrastructure spending to improve infrastructure availability and reliability, reducing the cost of doing business
- sector-investment strategies (or industrial strategies) to promote private-sector investment, with a focus on rapidly growing labour-intensive sectors and sectors with BEE opportunities such as business-process outsourcing, tourism and biofuels
- skills and education initiatives to alleviate the pressing shortage of skills, including initiatives to improve skills in areas such as Science, Mathematics, engineering, management and information technology (IT)
- second-economy interventions to bridge the gap between the first and second economies, including increased participation and broader access to opportunities and education
- public-administration issues, including the reduction of costly institutional interventions.

Government is committed to achieving the objectives set out in AsgiSA. Higher and shared economic growth will allow South Africa to achieve its social objectives of reducing inequality and virtually eliminating poverty.

South African Revenue Service

In accordance with the Sars Act, 1997 (Act 34 of 1997), the revenue service is an administratively autonomous organ of state. It aims to provide a world-class, transparent and client-orientated service, ensuring optimum and equitable revenue collection. Its main functions are:

- collecting and administering all national taxes, duties and levies
- 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
- facilitating trade
- providing protection against the illegal importation and exportation of goods

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

Tax system

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

In 2001, South Africa's source-based income tax system was replaced with a residence-based system. Residents are now taxed (subject to certain exclusions) on their worldwide income, irrespective of where their income was earned.

Foreign taxes are credited against South African tax payable on foreign income. Foreign income and taxes are translated into the South African monetary unit, the Rand.

International tax agreements for the avoidance of double taxation

International tax agreements are important for encouraging investment and trade flows between nations, by providing certainty about the tax framework. By reaching agreement on the allocation of taxing rights between residence and source countries of international investors, double-taxation agreements provide a solid platform for growth in international trade and investment. South Africa has tax agreements with various countries.

Sources of revenue

Income tax

Income tax is government's main source of income and is levied in terms of the Income Tax Act, 1962 (Act 58 of 1962).

In South Africa, income tax is levied on South African residents' worldwide income, with appropriate relief to avoid double taxation. Non-residents are taxed on their income from a South African source. Tax is levied on taxable income, which, in essence, consists of gross income less allowable deductions as per the Act.

The income threshold below which no tax is payable by individuals under 65 years was raised to R54 200 for the tax year beginning March 2009, and for taxpayers over the age of 65 to R84 200 a year.

The 2009 Budget proposes personal income tax relief to individual taxpayers amounting to R13,6 billion. This will compensate taxpayers for wage inflation ("bracket creep"). Taxpayers with an annual taxable income below R150 000 will receive 45% of the proposed relief; those with an annual taxable income between R150 001 and R250 000, 22%; those with an annual taxable income between R250 001 and R500 000, 21%; and those with an annual taxable income above R500 000, 12%.

Alongside corporated income tax and value-added tax (VAT), personal income tax is one of the three main tax instruments and provides the basis for the progressive structure of South Africa's tax system.

It is estimated that the 12,5% of registered individual taxpayers with an annual taxable income of between R250 001 and R500 000 will account for 29% of personal income tax revenues, and the 5,5% of registered individual taxpayers with an annual taxable income of above R500 000 will account for 38% of personal income tax revenues during 2009/10.

In line with government's goal of encouraging greater national savings, it is proposed to increase the tax-free interest-income ceiling from R19 000 to R21 000 for persons below the age of 65 and from R27 500 to R30 000 for persons aged 65 and above. It is also proposed to increase the tax-free income ceilings for foreign dividends and interest from R3 200 to R3 500, and the annual exclusion ceiling for capital gains and losses for individuals from R16 000 to R17 500.

From 1 March 2009, the monthly monetary caps for tax-deductible contributions to medical schemes increased from R570 to R625 for each of the first two beneficiaries, and from R345 to R380 for each additional beneficiary.

Tax returns must be submitted to Sars within the specified period.

People who owe Sars tax are charged interest at a rate as published in the *Government Gazette* that is linked to the rate specified in accordance with the PFMA, 1999.

Persons who derive income from sources other than remuneration, such as trade, profession or investments, and companies, are required to make two provisional tax payments during the course of the tax year and may opt for a third "topping-up" payment, six months after the end of the tax year.

Capital gains tax was introduced on 1 October 2001. It forms part of the income-tax system.

Capital gains made upon the disposal of assets are included in taxable income.

Local governments levy rates on the value of fixed property to finance the cost of municipal services.

Value-added tax

VAT is levied on the supply of all goods and services rendered by registered vendors throughout the business cycle. Effectively, VAT is levied on the value added by an enterprise.

Vendors levy and pay over the tax included in their prices, resulting in VAT being paid by the final consumer. VAT is also levied on the importation of goods and services into South Africa. It is levied at the standard rate of 14% but certain supplies are zero-rated or are exempt from VAT.

The prices of goods and services must be quoted or displayed on an inclusive basis, which means that VAT has to be included in prices on all products, price lists, advertisements and quotations.

Customs duty

South Africa is a signatory to the Southern African Customs Union (Sacu) Agreement, together with Botswana, Lesotho, Namibia and Swaziland (the BLNS countries).

The five member countries of Sacu apply the same customs and excise legislation, the same rates of customs and excise duties on imported and locally manufactured goods, and the same import duties on imported goods.

The uniform application of tariffs and the standardisation of procedures simplify trade within the Sacu common-customs area. Import duties, including anti-dumping and countervailing duties, are used as mechanisms to protect the local industry.

The renegotiated Sacu Agreement is in force and provides a new dispensation for calculating and affecting transfers based on customs, excise and a development component.

South Africa has entered into agreements on mutual administrative assistance with a wide range of customs administrations.

These agreements cover all aspects of assistance, including the exchange of information, technical assistance, surveillance, investigations and visits by officials. Efforts continue to improve the effectiveness of custom control and trade facilitation.

Following the launch of the Southern African Development Communiy (SADC) Free Trade Area, a SADC customs union will be established.

Excise duty

Excise duty is levied on certain locally manufactured goods and their imported equivalents. This duty is levied as a specific duty on tobacco, liquor, and as an ad valorem duty on cosmetics, audiovisual equipment and motor cars.

Relief from excise duty is available where excisable products are exported. In addition, relief is also available for specific farming and forestry, and certain manufacturing activities.

Excise duties are imposed both as a means to generate revenue for the fiscus and to change consumer behaviour.

Transfer duty

Transfer duty is payable on the acquisition of property by individuals at progressive marginal rates between 0% and 8%. With effect from 1 March 2006, houses costing less than R500 000 attract no duty.

A 5% rate applies at between R500 000 and R1 million, after which 8% applies. The 10% flat rate for companies and trusts was also reduced to 8%. All transactions relating to a taxable supply of goods that are subject to VAT are exempt from transfer duty.

Estate duty

An estate consists of all property, including deemed property (e.g. life-insurance policies, payments from pension funds, etc.) of the deceased. The exempt threshold was increased to R3,5 million in 2007. The duty, at a rate of 20%, is calculated on the dutiable amount of the estate. Certain admissible deductions from the total value of the estate are allowed.

Stamp duty

Stamp duty is levied on instruments such as leases of immovable property and unlisted marketable securities at different rates. It is also payable on leases for fixed property at a fixed rate of 0,5% on the quantifiable amount of the lease. It is proposed that the stamp duties on short-term leases (less than five years) should be abolished.

Uncertificated securities tax (UST)

UST at a rate of 0,25% is payable for the issue of, and change in beneficial ownership in, any securities which are listed on the JSE Ltd. In the case of unlisted securities, stamp duty is levied at the same rate of 0,25%. UST on the issue of securities was eliminated from 1 January 2006.

Skills-development levy

This is a compulsory levy scheme for the funding of education and training. Sars administers the collection of the levy. The rate, as from 1 August 2005, is 1% for employers with an annual payroll in excess of R500 000.

Air-passenger departure tax

A tax of R120 per fee-paying passenger departing on international flights, and R60 per passenger departing to BLNS countries is payable. This was increased to R150 and R80 respectively from 1 October 2009.

Organisational performance

Sars collected R625,57 billion by 31 March 2009. The preliminary result was 0,34% below the revised February 2009 Budget estimate of R627,69 billion, representing a 9,2% growth in revenue collection over 2008.

In anticipation of the economic downturn, the revenue target was adjusted downwards in February from R642,27 billion to R627,69 billion. The current conditions resulted in a collection of R625,57 billion or 99,66% of the target.

The preliminary outcome of revenue results for 2008/09 included:

- revenue collected: R625,57 billion (99,66%)
- revised revenue estimate (February 2009): R627 69 billion
- shortfall: R2,12 billion (0,34%)
- February 2008 printed estimate: R642, 27 billion
- shortfall: R16,70 billion
- revised budget deficit figure: 1,2% (previous estimate 1%)
- revised tax-to-GDP ratio: 27,2% (previous estimate 27,2%).

The main contributors to total revenue were company income tax (R165 23 billion), personal income tax (R197,7 billion) and VAT (R153,81 billion). Import VAT and customs duty contributed to the shortfall as a result of falling trade volumes, especially during the last quarter of the fiscal year. A key factor was a 10% decline in automotive goods and parts, which made up 19% of monthly imports.

This result was achieved in a climate of rapidly deteriorating global economic conditions and was testimony to the relative robustness of the South African economy.

Given the challenging economic conditions in 2009, Sars again engaged intensively with taxpayers to ensure they made payments on time.

> From November 2009, the South African Revenue Service (Sars) introduced a system of strict administrative penalties against non-compliant taxpayers.
>
> In effect, taxpayers had until 20 November 2009, the final deadline of the 2009 tax season, to submit any outstanding returns to avoid being penalised under the new penalty regime.
>
> The administrative penalty regulations legally came into effect on 1 January 2009 and provide for the imposition of penalties for a range of non-compliance, including failure to register as a taxpayer, failure to inform Sars of a change of address and other personal particulars, and failure to submit tax returns and other documents to Sars.
>
> Sars delayed the effective implementation of the new penalties to allow sufficient time for taxpayers to rectify any non-compliance and for it to develop its own systems to automatically issue penalties for non-compliance. The implementation date will be phased in over a period of time, beginning on 23 November 2009 for taxpayers with outstanding income tax returns.

This included making over 1,5 million telephone calls, and sending 153 000 e-mails and 178 000 SMSs to taxpayers to collect outstanding payments during March 2009.

In 2009, Sars collected R16,4 billion in outstanding debt.

E-filing

E-filing (*www.efiling.gov.za*) is a secure service, enabling taxpayers to submit their tax returns online. It removes the risks and inconvenience of manual tax returns. Not only can returns be submitted via the Internet, but users can also make secure tax payments online. There is also a facility to apply for tax directives, which can be obtained within 24 hours.

The e-filing service is on par with international standards, being comparable with services offered in the United States of America (USA), Australia, Singapore, Ireland, Chile and France. Sars has seen e-filing in South Africa grow signifanctly since it was initiated in 2003.

Filing of tax returns season

Filing Season is an extensive marketing and publicity venture to remind taxpayers of their responsibilities to submit their tax returns on time and with the correct details.

The Taxpayer Education Campaign focuses on helping all eligible taxpayers to complete their tax returns correctly.

The filing period for South Africa's 2009 tax season started at the beginning of July 2009, for individual taxpayers and trusts, which could then start submitting their income tax returns electronically.

These taxpayers could then also request a customised, pre-populated tax return for manual submission.

Sars announced at the end of November 2009 that it had received a reccord number of more than four million returns for the 2009 tax season, 26% more than the 2008 season.

National Gambling Board (NGB)

The NGB was established in terms of the National Gambling Act, 1996, (Act 33 of 1996), which was repealed on 1 November 2004 by the National Gambling Act, 2004, (Act 7 of 2004).

The Act provides for the oversight of matters relating to casinos, gambling, racing and wagering and promotes uniform norms and standards in relation to gambling throughout South Africa.

The vision of the board is to be a world-class organisation, providing a national regulatory framework for the gambling industry. The board is a catalyst in creating a credible South African gambling environment to ensure uniformity, harmonisation and integrity of the gambling industry.

It enforces compliance with the National Gambling Act, 2004 and ensures compliance with other relevant legislation, such as the FICA, 2001, and PFMA, 1999, as amended, and provincial gambling acts.

The role of the NGB is to:

- provide regulatory control over gambling activities
- provide control systems that will ensure the integrity of the South African gambling industry
- promote the development of a responsible gambling culture in South Africa
- provide control systems that will ensure that all gambling activities are conducted responsibly, fairly and honestly
- ensure that all players are treated fairly and that their privacy is maintained
- protect minors and vulnerable persons from the negative effects of gambling
- protect and advance the interest of historically disadvantaged persons
- protect the broader society against overstimulation of the demand for gambling
- employ control systems that will deter gambling from being a source of or associated with crime or disorder, or being used to support crime, disorder or money laundering.

The NGB hosted the Biennial Gambling Conference in April 2008 alongside the plenary midyear meetings of the International Association of Gambling Regulators and the Gaming Regulators Africa Forum, respectively.

Five national registry systems were developed, namely self-exclusions; probity; information-sharing; gambling machines; and devices and central monitoring.

The Limited Payout Machine (LPM) industry continues to gain momentum. Just over 10% LPMs were rolled out by the end of March 2009 and remain operational since the promulgation of 50 000 machines countrywide.

These machines are not rolled out in the North West, Free State and the Northern Cape. However, they have promulgated their relevant legislative policy framework and is in the process of implementation.

Through the Zonke Monitoring Systems, the NGB provides central monitoring services to the industry.

Racing and betting

The NGB spent considerable time in ensuring that uniform norms and standards are applied within the industry. The NGB participated in the review of the wagering software standard (SANS 1718, Part Four) and consulted with provincial gambling boards to develop uniform regulatory systems for compliance and revenue audit.

Compliance inspections in terms of the FICA, 2001 were conducted in the book-making industry and these inspections indicated a need for training in the industry.

Research

The Information Management Department commissioned the Bureau of Market Research to conduct follow-up research regarding the socio-economic impact of legalised gambling in South Africa.

In an effort to provide comprehensive and user-friendly information about the gambling industry, the NGB developed the National Gambling Statistics Database, which focuses on primary statistics such as gross gambling revenue (GGR), turnover and gambling tax.

This information is vital for keeping stakeholders informed of financial and operational gambling data in the country. The results for 2008/09 continued to show an increase in GGR. It increased by 1,94% (2007/08: R15,18 billion) to R15,921billion (2008/09).

Responsible gambling

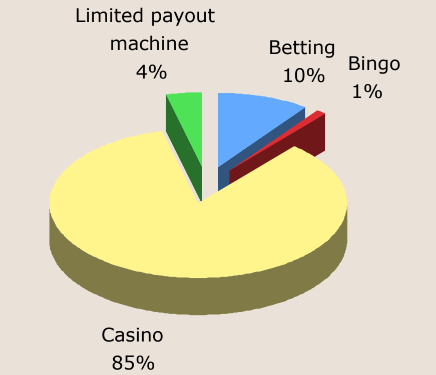
The National Responsible Gambling Programme (NRGP) is an institution that integrates research and monitoring, public education and awareness, training, treatment and counselling. It is still the only programme that is jointly managed by a public-private partnership involving government regulators and the industry.

The Schools Programme has developed into the National Schools Programme. The teaching and learning resource package, called *Taking Risks Wisely*, has been initiated within the legislated structure and prescribed requirements of the South African National Curriculum Statement and the Outcomes-Based Education Framework. In the Western Cape and Gauteng, high-school children have been treated to an entertaining industrial theatre show illustrating the pitfalls of gambling among youth.

Since 2004, more than 85 000 learners at 154 schools in Gauteng have participated in the programme, which was funded by the Gauteng Gambling Board and the Gauteng Provincial Government's Department of Economic Development.

The NRGP has implemented a community outreach project directed at social groups who are considered particularly vulnerable to problem gambling behaviour: youth and senior citizens.

Gambling revenue



Source: National Gambling Board

The National Centre for the Study of Gambling is helping to build and secure South Africa's capacity for continuously enhancing the understanding of gambling behaviour, to improve the prevention and treatment of problem gambling. Work is conducted on the relationship between poverty and gambling as part of an extensive study of gambling behaviour in a rural KwaZulu-Natal community.

This is closely integrated with prevalence and longitudinal studies of South African gambling behaviour at national level. Other studies being conducted included the investigation of the way in which the brain compares present and future rewards using functional magnetic resonance imaging.

The NRGP continues to publish and disseminate the *Responsible Gambling Digest*, a monthly electronic newsletter, which provides readers with a broad overview of international developments in the study and treatment of problem gambling.

New treatment innovations were introduced: the development of continuing care groups in those centres where such a service is not available, and clients being referred by treatment professionals for debt counselling.

Since the inception of the NRGP in 2000, more than 25 700 calls have been received by the toll-free problem gambling counselling line and about 8 790 callers were referred for free treatment by a medical/treatment professional – about 90 a month. More than 2 800 callers have been assisted telephonically.

The NRGP continues to provide training to staff at all levels in the casino industry, book-makers and tote operators attached to horse racing, the LPM sector as well as regulators and healthcare-workers.

National Lotteries Board (NLB)

The NLB was established in October 1998 in terms of the Lotteries Act, 1997 (Act 57 of 1997).

The board's main activities are, among other things, to:

- advise the Minister of Trade and Industry on the issuing of the licence 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 National Lottery Distribution Trust Fund and hold it in trust

- advise the minister on percentages of money to be allocated in terms of Section 26(3) of the Lotteries Act, 1997
- 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, 1997.

The National Lottery' operator is Gidani, a 89,2% black-majority-owned private company.

In April 2009, Cabinet approved the proposal to allocate government's 20% shareholding in the National Lottery to the National Empowerment Fund and the South African Post Office. The 20% shareholding will be split equally between the two entities.

Auditor-General of South Africa (AGSA)

The AGSA has a constitutional mandate and it exists to strengthen 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 nine 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 thus respected and strengthened.

As mandated by the Constitution and the Public Audit Act, 2004 (Act 25 of 2004), the AGSA is responsible for the auditing of 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.

The AGSA is supported by more than 1 920 staff members, who are distributed throughout the nine provinces to represent the AGSA countrywide. A shortage of auditing and accounting skills in the country has obliged the AGSA to embark on a process of building capacity via a trainee auditor scheme that, by May 2009, included about 950 trainees.

Various business units provide auditing services, corporate services and specialised audit work, such as performance audit, information systems audit and audit research and development.

The AGSA also boasts an impressive international auditing complement. International institutions audited by the AGSA include the UN, the UN Industrial Development Organisation and the International Centre for Genetic Engineering and Biotechnology. These contracts have been obtained competitively and are evidence of the AGSA's good standing and professionalism.

In March 2009, South Africa ranked fourth in the world for auditing and reporting standards, according to the Independent Regulatory Board for Auditors.

According to the World Economic Forum's *Global Competitiveness Report 2008 – 2009*, South Africa received a fourth-place ranking for auditing and reporting standards.

Financial sector

South African Reserve Bank (SARB)

The SARB is the central bank of South Africa. The bank and National Treasury form the monetary authority in South Africa.

The bank was established in 1921 in terms of a special Act of Parliament, the Currency and Banking Act, 1920 (Act 10 of 1920), and was the direct result of the abnormal monetary and financial conditions, that had arisen during and in the period immediately following World War I.

Since its establishment, the bank has always been privately owned and has more than 600 shareholders. Except for the provision of the bank that no individual shareholder may hold more than 10 000 shares of the total number of two million issued shares, there is no limitation on shareholding. The bank's shares are traded on the Over-the-Counter Share-Trading Facility managed by the bank.

After allowing for certain provisions, payment of company tax on profits, transfers to reserves and dividend payments of not more than 10 cents per share per year to shareholders, the surplus of the bank's earnings is paid to government. The bank's operations are therefore not driven by a profit motive, but by serving the best interests of all South Africans.

The bank holds an annual general meeting of shareholders at its Head Office in Pretoria. This is the occasion where the Governor, as chairperson, delivers an annual address on the state of the economy and monetary policy, which is covered widely in the media.

The bank has a board of 14 directors. Among them are the Governor and three deputy governors, who are appointed by the President for a five-year term. Three other directors are appointed by the President for a period of three years.

The remaining seven directors, of whom one represents agriculture, two industry and four commerce or finance, are elected by shareholders for a period of three years.

The bank has a staff of around 2 000. Management comprises the Governor, deputy governors, the executive general managers and the heads of departments. The bank has branch offices in Bloemfontein, Cape Town, Durban, East London, Johannesburg, Port Elizabeth and Pretoria North.

The bank is governed by the SARB Act, 1989 (Act 90 of 1989). It has, furthermore, been given an important degree of autonomy in the execution of its duties, in terms of the Constitution.

The bank must submit a monthly statement of its assets and liabilities and an annual report to Parliament. The Governor of the bank holds regular discussions with the Minister of Finance and appears before the Parliamentary Portfolio and select committees on finance from time to time.

The SARB, like central banks in other countries, 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 bank have changed and expanded over time, the formulation and implementation of monetary policy have remained one of the cornerstones of its activities.

The bank has used different monetary-policy frameworks over time, such as credit ceilings and credit controls in the 1970s, money-supply growth targets in the 1980s, money-supply growth guidelines by the early 1990s and an eclectic monetary policy with an informal inflation target from the mid-1990s. In February 2000, an inflation target was specified for the first time, and the adoption of this target entrusted a single objective to the bank: price stability.

Previously, South Africa's inflation target was specified as increases in CPIX (year-on-year increase in the CPI, excluding mortgage interest costs for metropolitan and other urban areas) of between 3% and 6% to be achieved on a continuous basis.

In February 2009, Statistics South Africa launched the New Headline CPI, which replaced the previously targeted CPIX inflation. The newly reweighted and rebased CPI is based on the Classification of Individual Consumption by Purpose. The target range is still 3% to 6%.

Inflation targeting is a framework and not a rule. The numerical rate is made public and a definite time horizon is specified.

The framework was introduced because of certain perceived advantages, such as:

- making the objective of monetary policy clear, thereby improving planning in the private and public sectors
- forming part of a formalised coordinated effort to contain inflation and pursuit of the broader economic objective of sustainable high economic growth and employment creation
- helping to focus monetary policy and enhancing the accountability of the central bank to the public
- providing an anchor for expectations of future inflation, which should influence price and wage setting.

The inflation target is set in consultation between the Governor and the Minister of Finance. This approach implies that the bank does not have complete goal independence (that is, the setting of the objective to achieve), but has operational independence (such as the choice of instruments and the autonomy to adjust such instruments) in monetary-policy decisions aimed at achieving the target. The bank publishes monetary-policy reviews biannually, while regular regional monetary-policy forums are also held to provide a platform for discussions of monetary policy with broader stakeholders from the community.

> The South African Revenue Service (Sars) abolished the Stamp Duty Act, 1968 (Act 77 of 1968), with effect from midnight on 31 March 2009. The abolition formed part of ongoing efforts to reduce the administrative burden on taxpayers and to simplify the tax system.
>
> The scrapping of the Act follows the whittling down of the scope of stamp duties over the past few years until only property leases of over five years required stamp duties to be paid. The scrapping of the Act is, however, not retrospective and taxpayers remained liable for stamp duties due up to 31 March 2009. Any outstanding stamp duties must still be paid.
>
> Holders of existing stocks of revenue stamps have until 31 October 2010 to claim a refund for the stamps from their nearest Sars branch.
>
> Revenue franking machines were scrapped on 1 November 2009 and any value remaining on these machines can be refunded until 31 October 2010 at a Sars branch.

System of accommodation

The bank's refinancing system is the main mechanism used to implement its monetary policy. Through its refinancing system, the bank provides liquidity to banks, enabling them to meet their daily liquidity requirements.

"Liquidity" refers to the banks' balances at the central bank that 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. The refinancing system, based on repo transactions, was introduced in March 1998.

The repo rate is the price at which the central bank lends cash to the banking system and is the key operational variable in the monetary-policy implementation process. It represents the most important indicator for short-term interest rates.

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

Creating a liquidity requirement

In terms of its monetary-policy implementation framework, the SARB has to compel the banks to borrow a substantial amount (the liquidity requirement or the money-market shortage) from the bank.

The bank, 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 (MPC), comprising the bank's governors and other senior officials. After each meeting, the MPC issues a statement indicating its assessment of the economy and announces policy changes, if necessary.

The bank's repo rate influences the interest rates charged by banks, the general level of interest rates in the economy and therefore other economic aggregates such as money supply, bank-credit extension and ultimately the rate of inflation.

The repo rate influences market rates in two ways: it directly influences the banks' marginal cost of funding and it reflects the bank's stance on monetary policy.

The bank has to intervene regularly in the money market to create such a shortage, that is, to drain excess liquidity from the money market. In addition to the liquidity-management operations described above, the bank uses other open-market operations (OMOs) to achieve its monetary-policy objectives.

The OMOs refer to the selling of the SARB debentures, longer-term reverse repos, money-market swaps in foreign exchange and the movement of public-sector funds, for example, Corporation for Public Deposits and central government funds, as well as changes in the cash-reserve requirements for banks, which by mid-2009 amounted to 2,5% of banks' liabilities.

Functions of the bank

The bank performs a number of functions to achieve its objectives. Its current functions can be grouped into the following major areas of responsibility:

- Formulation and implementation of monetary policy (aimed at achieving the inflation target).
  - Refinancing system and interest rates:
    The essence of the bank's monetary-policy implementation framework and the transmission of monetary policy is its influence on the level of interest rates through its refinancing system.
  - OMOs:
    OMOs are conducted for two reasons: Firstly, to neutralise or smooth the influence of exogenous factors on the liquidity position in the money market. Secondly, to maintain an adequate liquidity requirement in the market, which has to be refinanced from the bank. Through this mechanism, the bank can exert influence over interest rates in the market.
- Service to government.
  - 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 nega-

Dates of change in the repurchase rate

Date	Percentage (%)
2008-04-11	11,5
2008-06-12	12
2008-12-12	11,5
2009-02-06	10,5
2009-03-25	9,5
2009-05-04	8,5
2009-05-29	7,5
2009-08-14	7

Source: South African Reserve Bank

South Africa's Absa was recognised as the "most innovative bank in Africa" at the African Banker Awards 2009, while Absa's Tanzanian subsidiary, the National Bank of Commerce, was named the "best local bank in Africa".

The awards, organised by IC Publications, publishers of *African Banker* magazine, were held during the World Bank/International Monetary Fund annual meetings in Istanbul, Turkey, in October 2009.

Absa was recognised for its string of successive innovations undertaken in 2008/09.

tive net open foreign currency position in May 2003 into a positive position, foreign reserves have been growing since. Gross and net reserves, or the international liquidity position of the SARB, amounted to US$34,1 billion and US$33,5 billion, respectively, in March 2009.

- Banker and adviser to government:
  The main services provided are administering the auctions of government bonds and National Treasury bills, participating in the joint standing committees between the bank and National Treasury and managing the flow of funds between the Exchequer Account and tax and loan accounts.
- Administration of exchange control:
  The bank is responsible for the administration of government's exchange-control policy.
- 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.

• Financial stability.
- Bank supervision:
  The purpose is to achieve a sound and effective banking system in the interest of depositors of banks and the economy as a whole.
- 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 custodian of the cash reserves that banks are legally required to hold or prefer to hold voluntarily with the bank.
- Banknotes and coin:
  The South African Mint Company, a subsidiary of the bank, mints all coin on behalf of the bank. The South African Bank Note Company, another subsidiary of the bank, prints all banknotes on behalf of the SARB.
- Lender of last resort:
  In terms of its "lender-of-last-resort activities", the bank may, in certain circumstances, provide liquidity assistance to banks experiencing liquidity problems.
- Monitoring financial stability:
  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.

• Provision of internal corporate support services and systems.

To ensure its own smooth operations and administration, the bank provides its own internal services, supported by IT and Human Resources (HR).

It is the responsibility of the branches to ensure that there is an adequate supply of new notes available to meet the demand, and to replace unfit notes. The branches are responsible for the quality of banknotes in circulation in their respective regions.

Monetary policy

Growth in the broad money supply (M3) slowed noticeably from an annual high 12-month growth rate of 24,5% in January 2008 to 13,2% in February 2009. Growth over 12 months in banks' total loans and advances similarly moderated from 23,8% in January 2009 to 10,2% in February 2009 – the lowest growth rate since July 2004.

Asset-backed credit (mortgage advances, leasing finance and instalment sale credit) constituted the bulk of the increase in banks' total loans and advances throughout 2008. However, in early 2009, other loans and advances, which are mainly used by the corporate sector, dominated.

The moderation in the growth in banks' total loans and advances was consistent with the gradual tightening of monetary policy since June 2006, accompanied by tighter lending standards set by the National Credit Act (NCA), 2005 (Act 35 of 2005), from June 2007.

Since the inception of an easing phase of the monetary policy cycle in December 2008, the

MPC reduced the repo rate by a cumulative total of 250 basis points to 9,50% in March 2009.

The banking industry

The South African banking system remained stable and, in general, banks were sound during 2008. The capital-adequacy ratio for the banking sector remained above the minimum requirement of 9,5%, reaching 13% at the end of December 2008.

As at the end of December 2008, there were 33 banking institutions reporting data to the Office of the Registrar of Banks (excluding two mutual banks). At the end of December 2008, 43 foreign banks had authorised representative offices.

At the end of 2008, banking-sector assets amounted to R3 170 billion, representing an annual growth rate of 24,5% year-on-year (January 2008: 27%). Total assets of the four large banks amounted to R2 676 billion and accounted for 84,4% of banking-sector assets at the end of December 2008. At the end of December 2008, gross loans and advances amounted to R2 316 billion (January 2008: R2 103 billion). The growth in gross loans and advances (measured year-on-year) eased to 9% at the end of December 2008, compared to 19,2% at the end of January 2008.

The implementation of Basel II on 1 January 2008, encompassed, among other things, a change in reporting methodology, revised regulatory returns and greater alignment of regulatory reporting requirements with International Financial Reporting Standards. As a result of these changes, all profitability ratios are calculated on an unsmoothed basis since comparison with previous years is not possible.

The banks reported favourable profitability ratios throughout 2008.

At the end of 2008, the cost-to-income ratio amounted to 42,2%, compared to 47% at the end of January 2008. The return on equity and return on assets amounted to 28,7% and 2,1%, respectively at the end of December 2008 (January 2008: 24,1% and 1,7%, respectively).

Liquid assets held exceeded the statutory liquid assets requirement throughout 2008. The liquid assets held, measured against the minimum liquid asset requirement, amounted to 115,5% at the end of December 2008 (January 2008: 111,1%).

Credit-risk ratios deteriorated during 2008. Impaired advances continued to rise, reaching R87,3 billion at the end of December 2008 (January 2008: R47,6 billion). Expressed as a percentage of gross loans and advances, the ratio deteriorated from 2,3% at the end of January 2008 to 3,8% at the end of December 2008.

The microlending industry

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

The NCA, 2005 replaced the Usury Act, 1968 (Act 73 of 1968), and the Credit Agreements Act, 1980 (Act 75 of 1980). The NCA, 2005, which became effective on 1 June 2007, aims to regulate the granting of consumer credit by all credit-providers, including microlenders, banks and retailers.

It created the National Credit Regulator (NCR) and the National Consumer Tribunal, which play a vital role in ensuring enforcement, promoting access to redress and adjudicating contraventions of the Act.

The NCR is responsible for regulating the South African credit industry. It carries out education, research and policy development; registers industry participants; investigates complaints; and ensures 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 overindebted consumers.

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Research by World Wide Worx found that more South African banking customers now turn to their mobile phones rather than their personal computers for services ranging from balance enquiries to account payments.

According to the consumer phase of World Wide Worx's *Mobility 2009 Report*, a quarter of South Africa's bank customers turn to their cellphones for informational and financial transactions.

The report is being conducted in four phases, with the first three looking at the use of mobile technologies by small and medium enterprises, consumers and corporations, and the final phase exploring the mobile Internet.

According to a statement by World Wide Worx in November 2009, the second phase revealed that while 16% of banking customers in South Africa used the Internet for banking, 28% used their cellphones and a total of 34% of banking customers used one or both of these channels.

Debt counsellors are required to undergo training approved by the NCR through approved training service-providers appointed by the regulator.

Other financial institutions

Development Bank of Southern Africa (DBSA)

The DBSA Act, 1997 (Act 13 of 1997), stipulates that the main role of this DFI is to promote economic development and growth, HR development and institutional capacity-building. The bank achieves this by mobilising financial and other resources from the private and public sectors, both nationally and internationally, for sustainable development projects and programmes.

Development planning and implementation

The Development Planning and Implementation Division plays a pivotal role in the generation of knowledge that supports the DBSA in enhancing its development impact, and that contributes to the public policy discourse in a range of development areas.

Since 2008/09, the focus of the division has been on engagement with planning and implementation processes. The division is thus geared towards problem-solving in relation to development challenges, thereby offering critical contribution in supporting the public sector in planning for and achieving development in the long term.

The division comprises five key functions, namely Research, Policy, Advisory Services, Information Services and Intellectual Capital.

Strategic projects

Over the next three years, the DBSA strategy envisages the investment of R8 billion in South Africa and the deployment of 150 experts to develop and implement infrastructure projects. The growth will be on the sectors and projects identified in AsgiSA, the SADC Regional Indicative Strategic Development Plan and the New Partnership for Africa's Development Short-Term Action Plan for infrastructure.

Over the 10-year period leading to 2014, the bank plans to invest a total of R45 bilion, of which R30 billion will be in South Africa and R15 billion in the rest of southern Africa.

2010 World Cup

In fulfilling its roles as adviser and partner to the FIFA Organising Committee (OC), the DBSA has offered technical support with the assessment of infrastructure requirements and the review of the capacity of the candidate host cities.

A report entitled *2010 FIFA World Cup™, Candidate Host Cities Comparative Review and Preliminary Cost Estimates* was drafted and presented to the Board of Directors of the OC, and representatives of FIFA.

To assist clients with the preparation and planning of the stadiums' upgrading and construction, National Treasury has made available the Project Preparation Facility for the start of urgent capital works. National Treasury requested the DBSA to manage the fund on an agency basis.

Vulindlela Academy

The DBSA's Vulindelela Academy has directed a large number of interventions towards regional DFIs, and is also involved in developing a project-management programme to support the AsgiSA initiative. The bank also expects to play a major role in funding certain infrastructure elements proposed under AsgiSA.

Land and Agricultural Development Bank (Land Bank)

The Land Bank operates as a DFI within the agricultural and agribusiness sectors, and is regulated by the Land and Agricultural Development Bank Act, 2002 (Act 15 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.

(See Chapter 3: *Agriculture, forestry and fisheries*.)

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 (FSB)

The FSB is a regulatory institution established in terms of the FSB Act, (Act 97 of 1990), to oversee the non-banking financial services industry in the public interest.

The FSB's vision is to promote and maintain a sound financial investment environment in South Africa. The mission of the board is to:

- continuously develop an effective regulatory framework
- ensure effective supervision of its regulated entities
- facilitate consumer education regarding financial products and services
- collaborate with other government agencies, locally and internationally
- comply with international standards
- promote effective competition in the industry.

Collective investment schemes

CIS are investment structures whereby individual investor funds are pooled with those of other investors. Qualified asset managers regulated under the Financial Advisory and Intermediaries (FAIS) Act, 2002 (Act 37 of 2002), invest these funds on behalf of the investor. Each investor owns units (participatory interest) in the total fund.

Fund or asset managers invest the funds in a variety of assets such as equities (shares), property, participation bonds and other financial instruments. The price of each unit depends on the market value of the investment in which the units have been invested. The value of the units rise and fall in line with changes in the value of their underlying investments.

CIS in shares are generally considered as medium- to long-term investment and past performance is not necessarily a guide to the future.

Financial intermediaries and advisers

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

The FSB, through the FAIS department, is responsible for the regulation of the rendering of financial advisory and intermediary services to clients by financial services providers (FSP) in respect of a wide range of financial products.

The provisions of the FAIS Act, 2002 became effective on 30 September 2004. In terms of this Act, consumers should ensure that the FSP they are dealing with has obtained a licence from the FSB before conducting any transaction. Information on the authorised FSP can be obtained from the FSB website or call the toll-free numbers, 0800 110 443 or 0800 202 087.

Recognised representative bodies

Section 6(3)(iii) of the Act provides for the Registrar of FSPs to delegate any of their 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 11 recognised representative bodies.

Advisory Committee on Financial Services Providers

The Advisory Committee on FSPs was appointed by the Minister of Finance to investigate and report or advise on any matter relating to FSPs. With the exception of the registrar, who is an ex-officio member, committee members hold office for a period determined by the minister.

Licensing of financial services providers

In terms of the FAIS Act, 2002, the FSB approves and renders ongoing supervision over three categories.

Category One consists of financial advisers and those intermediaries without discretionary mandates. Category Two consists of individuals or entities that are involved in discretionary management of securities, loan stock and derivatives on behalf of both individual and institutional clients.

Category Three represents investment managers specialising mainly in the bulking of collective investments on behalf of clients (linked investment services providers).

Insurance companies

Insurance is divided into long-term and short-term insurance. Insurance is an agreement between a policy-holder and the insurance company. Under a short-term insurance policy, the insured is entitled to be compensated by the insurer for the loss of or damage to assets caused by the event against which they are insured.

The aim of short-term insurance is to put the insured in the same position they occupied immediately before the loss, depending on the terms and conditions of the policy contract. Examples of short-term insurance include motor-vehicle, household, theft and fire insurance.

Long-term insurance includes life and assistance policies that pay a benefit to dependants on the death of the insured person/s, endowment (savings) policies payable at a predetermined date, disability policies, pensions and retirement policies, or even a combination of these policies.

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.

It is important that policy-holders establish the name of the insurer (which is a different entity from a broker) who will underwrite the risk and issue the policy and that the insurer is registered to do so before entering into an agreement.

Due to the private nature of the agreement between the policy-holder and the insurer, the FSB has limited authority to intervene in disputes between the two parties unless there are clear indications that provisions of an Act administered by the FSB have been contravened.

The insurance industry has appointed an ombudsman for short-term insurance as well as for long-term insurance to play a mediatory role in dispute-resolution between insurers and policy-holders.

Market abuse

The Directorate: Market Abuse is a committee of the FSB and is responsible for combating market abuse in the financial markets in South Africa.

Retirement funds

Retirement funds can be classified as either pension funds or provident funds.

The main differences are:

- Under a pension fund, at least two thirds of the benefit must be paid as a pension for the rest of the pensioner's life. A maximum of one third of the retirement fund benefit may be taken as a lump sum.
- Under a provident fund, the full amount of the benefit may be taken as a lump sum.

Both pension and provident funds can be either defined contribution funds or defined benefit funds. With a defined benefit fund, the rules will specify the contributions of the employer and the member, but not the amount or guarantee of the benefit. With a defined contribution fund, the rules will specify the contribution of the member as well as a retirement benefit defined according to a formula.

In this case, the employer usually pays the balance of costs. In terms of the Pensions Funds Act, 1956 (Act 24 of 1956), (as amended), all retirement funds to which the State does not contribute to must be registered with the FSB and must comply with the provisions of the Act.

If a complainant is not satisfied with a reply by the fund or the employer or the fund fails to reply within 30 days of receipt thereof, the complainant may lodge a complaint with the Pension Fund Adjudicator, who acts as a mediator between funds and members.

Financial markets

Primary capital-market activity

Government bond

Retail bonds can be purchased from government outlets and selected private retailers. Since the introduction of RSA fixed-rate retail savings bonds in May 2004, a cumulative amount of some R3,3 billion were raised up to March 2009.

In 2008, government relaunched the retail savings bond and introduced an inflation-linked instrument. Interest rates on the South African Government fixed-rate and inflation-linked retail bonds are priced off the Government bond yield curves.

From a high of 10,82% in July 2008, the daily average yield on the R157 government bond (maturing in 2015) declined significantly to 7,04% in December 2008 alongside an improvement in inflation expectations, the lower international price of oil and the downward adjustment in the repo rate.

Subsequently, the notable increase in the supply of government bonds as well as the release of higher-than-expected inflation figures counteracted the positive effect of the prevailing interest-rate easing cycle since December 2008, the lower international oil prices, as well as the appreciation in the exchange value of the Rand. From the low of 7,04% in December, the bond yield fluctuated higher to 8,18% in May 2009.

From July 2008, the level of the yield curve kept a steady downward trend across almost all maturities, reflecting a moderation in inflation expectations. Subsequently, from December 2007 the zero-to-two year maturity range of the yield curve declined significantly in response to decreases in the repo rate as well as expectations of further declines, while the medium-to-long end recorded a notable increase. Consequently, the yield gap, measured as the difference between the yields at the extreme long and short ends of the curve, narrowed distinctly from a negative 520 basis points on 18 December 2008 to a negative 26 basis points on 26 May 2009.

After declining from July 2008, an upward trajectory in the break-even inflation rate became evident from the beginning of February 2009, following the release of higher-than-expected inflation figures as well as movements in the exchange value of the Rand.

The break-even inflation rate in the four-year maturity range fluctuated higher from 3,88% on 10 February 2009 to 5,87% on 26 May, as nominal yields on conventional government bonds increased while real yields on inflation-linked government bonds recorded significant declines.

National Treasury announced that the inflation-linked bond calculations would be based on the new Headline CPI for all urban areas.

The currency risk premium on South African government bonds moved into negative territory in October 2008 after yields on dollar-denominated bonds increased by 258 basis points from September. Thereafter, the premium reached 14 basis points in February 2009 and widened to 103 basis points in April 2009. This was on account of an overall increase in the yield on domestic rand-denominated bonds, while the corresponding yield on dollar-denominated bonds declined.

The bond point spread for South Africa (rate at which South Africa has to pay its creditors compared to the USA) has been steadily falling since 2001. This shows that the risk of investing in South Africa has fallen compared to other emerging markets. This is largely due to macroeconomic stability, industrial policies that add to domestic value and increase the country's competitiveness and positive global assessment of the country's socio-political prospects. The rising premium since 2007 is largely a result of the global reaction to the financial crisis in the USA.

Investor participation in emerging markets' financial assets, however, improved as inferred from the JP Morgan Emerging Markets Bond Index Plus (EMBI+) spread, which narrowed from a high of 718 basis points in November 2008 to 529 basis points in April 2009. Similarly, the sovereign risk premium on South African government dollar-denominated bonds in the five-year maturity range trading in international markets narrowed significantly from an average 720 basis points in November 2008 to 384 basis points in April 2009.

Private-sector bond issuance

The elevated risk premiums in the wake of the global financial crisis, higher inflation, together with less optimistic economic growth, probably contributed to a more cautious approach towards bond issuance by private-sector companies in 2008 and early 2009.

With securitised assets leading the decline in funding activity, the net issuance of private-sector bonds on the Besa of R52 billion in 2007 changed to net redemptions of R2,3 billion in 2008 and R1,5 billion in the first four months of 2009.

In contrast to the reduced funding activity through bonds in 2008, the net issuance of commercial paper by non-bank corporations escalated – probably due to investors' preference for shorter-term exposure to risk.

Thus, after recording net redemptions of R2,1 billion in 2007, the nominal value of commercial paper issued by non-bank corporations increased by R24,4 billion in 2008, before declining slightly by R2,7 billion in April 2009.

Eurorand bonds

Interest in rand-denominated bonds in the European bond markets was subdued from late 2008 into early 2009. Foreign borrowers steered clear of rand-denominated bonds as no issuances were recorded in the past six months to February 2009, probably due to unfavourable international market conditions.

Net issuance by both residents and non-residents amounted to R8,1 billion in 2008, compared to R13,2 billion in 2007, reflecting lower gross issuance and higher redemptions in 2008. Although R240 million was issued in March 2009, net redemptions for the first four months of 2009 amounted to R2,9 billion, compared with net issues of R6,3 billion recorded in the corresponding period of 2008.

Uridashi bonds

Issuance of rand-denominated bonds in the Japanese Uridashi bond market by non-residents remained strong in 2008, as indicated by the net issuance of R20,5 billion, which was 56% more than the R13,1 billion net issues in 2007. In the first four months of 2009, net issuance amounted to R6,8 billion, some 44% less than the net issues of R12,2 billion recorded in the same period of 2008.

Secondary capital-market activity

Domestic bonds

The steady growth in market turnover recorded by Besa since the 1990s attests to the continued development of the domestic bond market, with the development of the repo market helping to improve market liquidity.

Monetary and fiscal policy decisions, as well as global financial market developments influenced trading on the secondary bond market in 2008 as the value of turnover (consideration) recorded on

Besa reflected a rising trend from January 2008 to September.

Although turnover recorded in the closing months of 2008 moderated substantially, Besa still recorded record turnover of R21,3 trillion in 2008, up from the previous record of R16,2 trillion in 2007.

The market recorded a liquidity ratio of 23 times higher in 2008, up from 18 in 2007, while the total number of trades was 15% more in 2008 compared to 2007. Besa remained the fourth-largest exchange in terms of the turnover recorded for bond trades in 2008, among those exchanges monitored by the World Federation of Exchanges.

Alongside lower trading volumes and bond prices, the value of turnover on Besa reached a monthly low of R1,0 trillion in April 2009, contributing towards turnover of R5,3 trillion in the first four months of 2009, which was 18% lower than the value traded in the corresponding period of 2008.

Non-residents' participation in the South African secondary bond market, measured by their purchases and sales as a percentage of total purchases and sales, declined to an average of 11% in the first four months of 2009, compared with 13% in 2008.

Domestic currency market

On balance, the nominal effective exchange rate of the Rand increased marginally by 8% in the first quarter of 2009, compared with a decline of 7,8% in the fourth quarter of 2008. Having decreased by 4,2% in January 2009, the weighted average exchange rate of the Rand regained some vigour and rose by a similar magnitude in February and further by 1,1% in March 2009. The relatively stable performance of the exchange value of the Rand during the first quarter of 2009 was buoyed by an increase in commodity prices and more positive investor sentiment towards emerging-market economies.

The international financial markets were dominated by volatility in international currency markets as reflected partly by the divergence in the performance of the Rand against the major currencies.

The exchange rate of the Rand strengthened strongly during April 2009, lifting the nominal effective exchange rate of the Rand by 12,8%.

The strengthening in the exchange value of the domestic currency over this period partly reflected the impact of a more accommodative monetary policy stance, non-resident investors' net purchases of South African equity securities, as well as an improvement in the trade balance for February and March 2009.

Exchange control

Exchange control is administered by the SARB on behalf of the Minister of Finance. The bank is assisted in this task by a number of banking institutions that have been appointed by the Minister of Finance as authorised dealers in foreign exchange.

These institutions undertake foreign-exchange transactions for their own account with their clients, within limits, and subject to conditions laid down by the SARB.

The Government is committed to an open capital market and the gradual relaxation of exchange controls.

The following dispensations regarding exchange control are allowed:

Institutional investors

Exchange-control limits on foreign investment by institutional investors – insurers, pension funds, CIS and investment managers – have been gradually liberalised since 1996.

Foreign diversification of investment portfolios, consistent with prudential limits, has largely been achieved. This allowed the authorities to replace exchange controls on institutional investors with a system of prudential regulation.

This shift entails the removal of the pre-application process for foreign investment and its replacement with a system of quarterly reporting on and monitoring of foreign exposures.

Retirement funds, long-term insurers, CIS management companies and investment managers are allowed to transfer funds from South Africa for investment abroad:

- Retirement funds and the underwritten policy business of long-term insurers may invest up to 20% of total retail assets. Investment managers registered as institutional investors for exchange-control purposes, CIS management companies and investment-linked businesses of long-term insurers are restricted to 30% of total retail assets under management.
- Institutional investors will be allowed to invest an additional 5% of their total retail assets by acquiring foreign-currency denominated portfolio assets in Africa through foreign-currency transfers from South Africa or by acquiring approved inward-listed instruments based on

foreign reference assets or issued by foreign entities listed on the JSE Ltd.

- Foreign companies, governments and institutions may list instruments, including derivative instruments, based on foreign reference assets, on South Africa's bond and securities exchanges.
- Institutional investors are required to report on a quarterly basis on the allocation of assets according to the major asset classes and provide information from institutions in excess of the foreign-asset limit on proposed portfolio adjustments to bring foreign asset levels back in line.

South African corporates

With effect from 20 February 2008, the pre-approval process for FDI was removed for transactions totalling less than R50 million per company per year. Authorised dealers will administer the directives and guidelines on these types of investments. The exchange-control requirement that a shareholding of at least 25% is obtained was replaced with the requirement that at least 10% of the foreign target entity's voting rights must be acquired.

By September 2009, where the total cost of FDI exceeded R50 million per company per calendar year, an application had to be submitted to Exchange Control prior to the investment being made.

As a further alternative mechanism of financing offshore investments or to repay existing offshore debt, applications by corporates to engage in corporate asset or share-swap transactions and requests for share placements offshore by locally listed companies will be considered.

The corporates that have existing approved subsidiaries abroad are allowed to expand such activities without prior approval, subject to certain conditions. Dividends declared by the offshore subsidiaries of South African corporates may be retained offshore and used for any purpose, without recourse to South Africa.

Authorised dealers may also extend foreign currency-denominated facilities to South African corporates for financing approved FDI.

To further enable South African companies, trusts, partnerships and banks to manage their foreign exposure, they are, with effect from 20 February 2008, permitted to participate without restriction in the Rand futures market on the JSE Ltd. This dispensation is also extended to investment in inward listed (foreign) instruments on the JSE Ltd.

Emigrants' blocked assets

A system of exchange-control allowances for the export of blocked assets when persons emigrate, has been in place in South Africa for a number of decades.

Emigrants' blocked assets in excess of the emigration allowance were placed in emigrants' blocked accounts to preserve foreign reserves. Reflecting the improved strength and resilience of the South African economy, these blocked assets are now being unwound.

By September 2009, the following applied:

- Emigrants qualified for a foreign capital allowance of R2 million per individual or R4 million in respect of family units emigrating.
- Since 2003, emigrant-blocked assets are being unwound. Amounts of up to R2 million, inclusive of amounts already exited, were eligible for exit without the 10% exit levy. Holders of blocked assets wishing to exit more than R2 million, inclusive of amounts already exited, had to apply to the Exchange-Control Department of the SARB to do so. Approval was subject to an exiting schedule and an exit levy of 10% of the amount requested.
- New emigrants wishing to exit more than R2 million, inclusive of amounts already exited, could similarly apply to the Exchange-Control Department to do so, with approval subject to an exiting schedule and an exit levy of 10% of such additional amount.

Private individuals residing in South Africa

Private individuals residing in South Africa qualify for a foreign-capital allowance of R2 million per private individual who is a taxpayer in good standing and over the age of 18 years, for investment purposes outside the common monetary area (such as Swaziland, Lesotho, Namibia and South Africa).

A single discretionary allowance of R500 000 per year, which may be apportioned for the purpose of travel, gifts, donations to missionaries and maintenance, may be availed of without the requirement to obtain a tax clearance certificate.

Local financial assistance to affected persons and non-residents

To improve access to domestic credit in financing FDI in South Africa or for domestic working-capital requirements, foreign companies or foreign-owned South African companies are permitted to make greater use of local finance.

Foreign companies or foreign wholly owned subsidiaries can borrow locally up to 300% of the total shareholders' investment.

This ratio does not apply to emigrants, the acquisition of residential properties by non-residents or affected persons, and certain other financial transactions, such as portfolio investments by non-residents, securities lending, hedging, repurchase agreements, etc. In these cases, the 100% ratio still applies.

JSE Limited

As South Africa's only full-service securities exchange, the JSE Ltd connects buyers and sellers in the following different markets: equities, which include a primary and secondary board; equity derivatives; agricultural derivatives; and interest rate instruments. The JSE Ltd is one of the top 20 exchanges in the world in terms of market capitalisation.

The JSE Ltd is the market of choice for local and international investors looking to gain exposure to the leading capital markets in South Africa and the broader African continent. The JSE Ltd also provides companies with the opportunity to raise capital in a highly regulated environment through its markets: the Main Board and AltX, the Alternative Exchange. A respected brand associated with high market integrity, the JSE Ltd is regarded as a mature, efficient, secure market with world-class regulation, trading, clearing, settlement assurance and risk management.

The exchange has been part of that process, playing an instrumental role in creating the internationally prominent King II Code on Corporate Governance. The JSE's listing requirements require all companies to adhere to key concepts of King II and all companies are required to report on their level of compliance with the code in their annual financial statements. Furthermore, the JSE Ltd has harmonised its listing requirements, disclosure and continuing obligations with those of the London Stock Exchange and offers superb investor protection.

The JSE Ltd renders a diversified range of products and services. It provides investors with the opportunity to trade a multitude of financial instruments and at the heart of its diversified product offerings are single stock futures (SSFs). This area has grown substantially to become one of the five largest in the world.

SSFs are ideal for conservative investors seeking to hedge their share portfolios, or for sophisticated speculators seeking geared exposure to anticipated share price movements. This market also offers investors derivatives on indices, Kruger rands, dividend futures as well as can-do options, which give investors the advantage of listed derivatives with the flexibility of over-the-counter contracts.

The JSE's Agricultural Products Market reflects the commitment to providing versatility in the product offering. It is a transparent electronic market used vigorously in the price-risk management of commodities through futures. This market continues to grow due to a greater understanding of its function and the development of a broader base of marketing strategies based on the derivative products. It is the first market in the world for trading both the cash spot bond (secondary trading) as well as the interest-rate derivative products, on one trading platform.

The JSE Ltd provides total price transparency through its world-class information systems. The trading activity on the markets generates a wide range of data that assist market participants with make-or-break investment decisions.

The JSE Ltd has both domestic and global reach in terms of the provision of all its information, through data-providers, investment banks, other financial industry stakeholders and directly through the exchange.

Bond Exchange of South Africa

Besa's roots reach back to the 1980s when two government-appointed commissions investigated the market for public-sector securities and financial futures. As a result of their recommendations, the Financial Markets Control Act, 1989 (Act 55 of 1989), was passed, which led to the formation of the Bond Market Association in the same year.

It was this association that was formally licensed as the Besa in 1996. Besa operated as an independent, licenced exchange until 22 June 2009, when it became a wholly-owned subsidiary of the JSE Ltd – a consequence of Besa's shareholders agreeing to sell the business to the JSE Ltd.

In the 13 years that Besa operated as an exchange, it effectively delivered on its philosophy of building better markets by providing a range of platforms and services to address the needs of capital-market participants, be it issuers, market-makers, traders or investors.

The exchange operated as a mutual association (owned by its members) until December 2007, when it entered a new era, successfully converting to a public company. This was followed by a well-supported rights issue, which was concluded in October 2008, successfully injecting fresh capital into the business and introducing new strategic partners to the exchange.

In the same month, the JSE Ltd's offer to purchase the entire issued share capital of Besa was announced, paving the way for a new era in South Africa's financial markets.

The South African bond market is a leader among emerging-market economies. Prior to the transaction with the JSE Ltd being concluded in June 2009, bond-market turnover reported on Besa reached an annual record of R19,2 trillion in 2008.

Given listed debt securities of R825 billion, nominal, overall market velocity (the number of times an exchange "turns over" its market capitalisation) in the local market was 23%, up from 17,7% reported in 2007. However, when offshore online trading system trades are included, turnover velocity for 2008 was 29%, up from 24% in 2007. As at December 2008, Besa listed some 1 102 debt securities, issued by 100 sovereign and corporate borrowers, with a total market cap of R935 billion.

Interest rate market

Yield-X, the interest-rate exchange, is dedicated to trading a wide range of interest rate products that enable participants to manage interest rate exposure and risk. The product range includes bonds, bond futures, swaps and more.

Strate Limited

Strate is the authorised Central Securities Depository for the electronic settlement of all financial instruments in South Africa.

Its core purpose is to mitigate risk, bring efficiencies to the market and improve South Africa's profile as an investment destination.

Strate handles the settlement of equities, warrants and bonds for the JSE Ltd. In future, Strate will also settle money-market instruments. In addition, Strate is the provider of a growing number of products, data and services in line with market demands and trends.

Strate is aligned to international best practices and continually strives to bring further efficiencies and enhancements for the good of southern Africa's financial community.

Strate is a public unlisted company.

Financial-sector continuity planning

The South African financial sector collaborates extensively in contingency planning for systemic risks that may disrupt settlement, financial intermediation and possibly economic activity in general. The primary objective of this cooperative arrangement is to identify crisis events that may threaten the stability of the South African financial sector and to propose appropriate plans, mechanisms and structures to mitigate such threats.

This arrangement also facilitates cooperation between key financial-sector institutions and regulators in times of a significant catastrophic event, to have the best chance of protecting staff, facilitating recovery and sustaining both a stable financial market and consumer confidence.

Although individual firms are responsible for managing and mitigating risks for their respective operations, the broader collaborative effort is focused on risks that threaten the financial sector as a whole. Such risks range from the impact of global economic threats to potential causes of major operational disruption.

These risks are regularly analysed and appropriate response strategies devised.

Acknowledgements

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