COMPREHENSIVE GROWTH STRATEGY:

SOUTH AFRICA

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

South Africa's economic objectives over the short- and medium-term are anchored around the National Development Plan (NDP). The integration of the NDP into government's strategic and operational plans will strengthen alignment between NDP priorities and budgets and improve coordination across complementary areas of policy and expenditure.

The NDP, released on 11 November 2011, outlines South Africa's objectives for development up to 2030. It also provides a diagnostic overview of critical blockages to development, and suggests a number of policies to address these blockages. The NDP's objective is to lift South Africa's average GDP growth to 5 per cent annually as the minimum requirement to create employment, overcome poverty and reduce inequality.

The objectives of the NDP are addressed in the Medium-Term Strategic Framework (MTSF) for the period 2014-19, which was released on 7 August 2014. The MTSF, which is the first five-year policy framework designed in sync with the 2030 vision of the NDP, provides indications of key interventions that will be undertaken in the next five years, prioritises key policy actions and identifies departments responsible for each policy action. South Africa's growth strategy, which is aligned with the NDP and MTSF, aims to improve the environment for, and growth in, employment, investment in infrastructure, trade and competition. Addressing these constraints will deliver on the G20's objective of strong, sustainable and balanced growth.

Key Commitments

1. ***Reduce infrastructure constraints:*** South Africa's aggressive infrastructure build is being championed at the highest levels through the National Infrastructure Plan (NIP) and the Presidential Infrastructure Coordinating Commission (PICC), and targets 18 strategic integrated projects (SIPs) that are intended to facilitate economic growth. The 2014 National Budget set aside R847 billion for infrastructure development for the next three years, 24.4 per cent of 2013's GDP. State Owned Enterprises (SOEs) are expected to spend R381 billion of this budgeted amount.

2. ***Expand and improve basic education and post-school training:*** Skill shortages are a major constraint to South Africa's growth as well as a major source of inequality. Basic and post-school education accounts for about a fifth of total consolidated government spending, the highest proportion among all major expenditure categories. However, this robust investment has not translated to desired outcomes. Both basic and higher education are working together to address this challenge. Higher education has invested in Further Education and Training (FET) colleges which targets skilling of individuals who cannot attend universities. The department has also allocated R78 billion for university subsidies and R19 billion for the National Student Financial Aid Scheme for the next 3 years. Other institutions supported by the 2014 budget are the Sector Education and Training Authorities (SETAs), which are responsible for sector specific skills development, and also the National Skills Fund.

3. ***Expand and improve employment, particularly among the youth:*** New measures such as the Employment Tax Incentive (ETI), launched in January 2014, will assist first time job seekers with obtaining work experience. The Jobs Fund (www.jobsfund.org.za), established by the government in 2011, also assists with job creation through co-financing innovative projects by the public, private and non-governmental organisations. This fund will spend about R3.9 billion over the next three years and its projects are expected to create more than 167 000 jobs (Medium-Term Budget Policy Statement, October 2014).

4. ***Improve the effectiveness of competition policy and reduce mark-ups, particularly in network industries:*** South Africa is characterised by low levels of competition in a number of sectors, which creates an environment for very high mark-ups, therefore posing constraints to growth. To address these challenges, South Africa will continue the development and support towards the building of a world class Competition Authority. Top priorities have been in improving the effectiveness of competition policy and the investigative and prosecutorial powers of the authority as well as on anti-competitive conduct in priority sectors (such as food and agro-processing, intermediate industrial products and construction and infrastructure).

5. ***Deepen regional integration and grow exports:*** South Africa is a relatively open economy, with a transparent and simple tariff regime. The NDP outlines necessary steps that South Africa will take to further facilitate trade such as the ongoing work to streamline its customs administration. South Africa has recently completed an overhaul of its customs management system, which saw the new fully electronic system process over R1.7 trillion worth of goods within 6 months. Additionally, South Africa will continue to champion broader regional integration through the Southern African Customs Union (SACU), Southern African Development Community (SADC) and the envisaged Tripartite Free Trade Area (T-FTA) that spans Eastern and Southern Africa.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

	Key Indicators					
	2013	2014*	2015*	2016*	2017	2018
Real GDP (% yoy)	1.9	1.4	2.5	2.8	3.0	n/a
Nominal GDP (% yoy)	7.8	7.6	8.5	8.7	8.8	n/a
Output Gap (% of GDP)**	n/a	n/a	n/a	n/a	n/a	n/a
Inflation (CPI, %, yoy)	5.8	6.3	5.9	5.6	5.4	n/a
Fiscal Balance (% of GDP)***	-3.9	-4.1	-3.6	-2.6	-2.5	n/a
Unemployment (%)	24.7	n/a	n/a	n/a	n/a	n/a
Gross Savings (% of GDP)	13.5	n/a	n/a	n/a	n/a	n/a
Investment (GFCF) (% of GDP)	19.3	n/a	n/a	n/a	n/a	n/a
Current Account Balance (% of GDP)***	-5.8	-5.6	-5.4	-5.2	-5.0	n/a

***Latest published forecasts (National Treasury's Medium Term Budget Policy Statement (MTBPS), 22 October 2014). Revisions from the previous published projections (National Treasury's Budget Review, 26 February 2014)**

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

***** A positive (negative) balance indicates a surplus (deficit). South Africa's fiscal balance data is for the fiscal year starting 1 April and for consolidated government. These estimates and projections are from the National Treasury's Medium Term Budget Policy Statement (MTBPS), 22 October 2014. Revisions from the previous published projections (National Treasury's Budget Review, 26 February 2014)**

Key Drivers

Like other emerging market economies (EMEs), the South African economy has performed poorly in the first half of 2014 due to domestic vulnerabilities in key sectors and less than ideal global economic conditions and trends, particularly subdued growth in key trading and investment partners (particularly the Eurozone). The Rand has also been depreciating due to the gradual normalization of unconventional monetary policies as well as other domestic challenges.

The economy was dominated by negative economic news which included a contraction in first-quarter **real gross domestic product (GDP)** of 0.6 per cent (quarter-on-quarter, seasonally adjusted and annualised[1]), a six-month labour strike in the platinum belt and strike activity subsequently in the metals industry, and a downgrading of its sovereign debt rating by S&P. Tertiary sector activity helped the economy to escape recession, with positive real GDP growth of 0.6 per cent recorded in the second quarter of 2014, however, the mining and manufacturing sectors continued to record negative growth. More recently, South Africa's seasonally adjusted Kagiso Purchasing Managers Index (PMI) has increased to 50.1 in October 2014, moving above the 50 threshold for the first time since March, indicating that domestic manufacturing demand is recovering. However, any improvement is likely to be held back by the weak economic conditions in the Eurozone and weak domestic demand.

Domestic economic demand (real **gross domestic expenditure (GDE)**) has been generally robust, but has trended lower in recent quarters, in line with lower growth in consumption, personal income and credit. GDE growth declined to 2.2 per cent in 2013 from 4.0 per cent in 2012. Quarter on quarter, real GDE returned to positive growth rates in the first half of 2014, although growth declined from 2.7 per cent in 1Q 2014 to 1.8 per cent in 2Q 2014, largely on account of a sharp decline in investment growth in the second quarter.

- Real growth in **household consumption expenditure (HCE)** continued to soften, constrained by elevated inflation and moderating growth in disposable income and household credit.

- **Investment (gross fixed capital formation, GFCF)** growth remained robust in 2013, rising to 4.7 per cent (from 4.4 per cent in 2012), supported by the continued public infrastructure programme. However investment growth averaged just 3 per cent per year since 2010, and slowed for a third consecutive quarter and declined very sharply to 0.5 per cent in 2Q 2014, reflecting low levels of business confidence and constrained electricity supply. The 2014 GFCF growth forecast was revised downward to 2.7 per cent from February's Budget Review forecast of 4.2 per cent. **Private investment** contracted by 1.1 per cent in 2Q 2014, but is expected to reach growth of 3.9 per cent in 2015 and 5.8 per cent in 2016 as confidence returns to the market. The more competitive rand exchange rate, if sustained in real terms and not eroded by wage settlements that outpace productivity gains, will help to boost exports and support further investment in tradable sectors, including manufacturing. **Public corporations' investment growth** is expected to average 4.3 per cent over the medium term. **General government investment growth** accelerated in 2Q 2014, as all three levels of government spent money on water, schooling, healthcare and electrical substation

[1] Quarterly growth rates are q-o-q, s.a.a.r., unless otherwise specified.

facilities, with road and transport facilities also featuring notably, but is expected to average 5.0 per cent over the medium term, lower than initially projected, as government departments reign in on spending to maintain the expenditure ceiling. **The National Development Plan (NDP) aims to increase South Africa's GFCF to 30 per cent of GDP by 2030.**[2]

- In 2013, HCE accounted for 60.8 per cent of GDP, while **government consumption expenditure (GCE)** made up 22.2 per cent and gross fixed investment stood at 19.3 per cent of GDP. Over the past 5 years, the ratios of HCE and GFCF to GDP have fallen from 61.7 per cent and 23.1 per cent respectively. In contrast, GCE's contribution to GDP has increased from 18.6 per cent over the same period.

The composition of growth is not expected to change materially, with moderate but improving growth most likely to be a feature of the South African economy over the next few years. The growth forecasts have been revised downwards to 1.4 per cent in 2014 and 2.5 per cent in 2015, as electricity and other infrastructure constraints, low levels of business and consumer confidence, and moderate employment and personal disposable income growth weigh on growth. However, over the medium-term, real GDP growth is expected to pick up, increasing to 3 per cent by 2017, as energy generation and transport infrastructure projects are completed, and as export markets recover.

- Expectations of stronger employment growth (projected to increase to 2.3 per cent in 2017 from 1.6 per cent in 2014) and reduced household debt levels should boost HCE and overall confidence in the domestic economy.

- GCE's contribution to GDP is likely to fall as government's finances consolidate.

- Higher investment over the medium term should be supported by continued strong demand from African export markets and expanding partnerships with the private sector.

Assessment of Obstacles and Challenges to Growth

1. Investment

The low levels of investment in the South African economy was identified as a binding constraint on growth as far back as 2006, in the work done by the International Panel on the Accelerated and Shared Growth Initiative for South Africa (ASGISA).

South Africa needs to invest in a strong network of economic infrastructure designed to support the country's medium- and long-term economic and social objectives. This economic infrastructure is a precondition for providing basic services such as electricity, water, sanitation, telecommunications and public transport, and it needs to be robust and extensive enough to meet industrial, commercial and household needs.

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[2] The NDP targets 20 per cent of GDP for private sector investment, and 10 per cent of GDP for the public sector – to make up the 30 per cent of GDP target

The share of the public sector in overall fixed investment increased from under 30 per cent in 1994 to 37.1 per cent in the first two quarters of 2014, with state-owned companies (SOCs), especially Eskom and Transnet, accounting for more than half of public investment. The sustained expansion of public infrastructure spending has supported a positive trend of total investment rising to 20 per cent of GDP in the first two months of 2014.

1.1 Electricity supply constraints

Although Eskom's electricity distribution/transmission network is in relatively good condition, the state of local distribution and municipal infrastructure presents bottlenecks to economic growth, which government has started to address. Municipal infrastructure is most important for end users,

Electricity constraints are driven by insufficient generating capacity and "local" distribution (infrastructure at the municipal or end-user level), both of which government has sought to address. Spending pressures, capacity and poor revenue collection have all hampered efforts to improve capacity.

Eskom is building two large power plants (Medupi, of which the first unit is expected to come online in the first half of 2015, and Kusile) to reduce constraints. Furthermore, Eskom has embarked on a large maintenance programme taking up to 15 per cent of capacity off at any one time to reduce service backlogs.

Additionally, electricity prices are becoming far more cost-reflective.

1.2 Limited rail and port capacity

Bottlenecks exist on specific export routes, constraining South Africa's capacity to export commodities such as iron ore and manganese. In order to address these bottlenecks, Transnet is undertaking R300 billion in investment. It will upgrade its coal rail lines (approx. R52.7 billion) and develop a manganese line. Government is also working on improving port capacity, where tariffs and size have constrained exports. Notably, Saldanha is targeted for R33.2 billion in investment to improve port infrastructure and Durban R42.5 billion investments to expand and deepen the port. Transnet is also rationalising tariffs to be in line with the costs of port handling.

1.3 Water infrastructure constraints

On current projections, South Africa's water demand will outstrip supply between 2025 and 2030. Water licenses have been a barrier to investment in certain sectors, in particular mining, manufacturing and agriculture, which are heavily reliant on water for production.

1.4 Obstacles to private sector infrastructure investment

A **Task Team on Infrastructure in South Africa** was established in 2013 to coordinate discussions between government and the private sector on obstacles to private sector participation in infrastructure development in South Africa. The following obstacles to private investment in infrastructure were identified by the Task Team:

- Lack of certainty on policies and regulations governing infrastructure projects;
- Public sector capacity challenges;
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- Ineffective project structuring; and
- Weak credit-worthiness of certain public sector institutions

The **Infrastructure Development Act**, will fast-track the implementation of the South African government's infrastructure development plan. The Act which came into effect on 1 July 2014 formalises and establishes in law the **Presidential Infrastructure Coordinating Commission (PICC)**, which is overseeing implementation of the 18 **Strategic Infrastructure Projects (SIPs)** within the National Infrastructure Plan (NIP).

In addition, the Government and business in South Africa are working on reducing red tape. The National Treasury's Director-General together with a private sector representative, co-chair a process that has already delivered results in terms of addressing blockages to the issuance of water licences, and is also dealing with environmental regulations related to mining, as well as bottlenecks relating to business registrations.

1.5 Macroeconomic obstacles to investment

1.5.1 Low domestic savings

The NDP envisages a greater role for domestic resources in funding investment to reduce South Africa's reliance on foreign capital flows. Annual growth in output and incomes of 5.4 per cent should create favourable conditions for a higher level of savings and thus linking savings, investment and growth. The gross savings rate declined sharply in recent decades to an average 13.9 per cent in the first half of 2014 from 19.1 per cent in 1990. South Africa's low household savings rate is the result of low employment growth and the associated impact on income, as well as financial sector liberalisation, which resulted in easier access to credit. Rising household wealth and income expectations, as well as lower interest rates lowered the returns on savings and reduced the cost of borrowing. Low levels of financial literacy in South Africa may exacerbate the impact that some or all of these factors are having on lowering household savings, whilst unsuitable product and business models for lower income households may also exacerbate the problem of low levels of savings in formal savings products.

The South African government is committed to providing an enabling environment for savings with the Social Security and Retirement Reform initiative, the National Financial Education Framework, the protection of consumer rights under the new Consumer Protection Act and the substantial increase in allowable tax deductions and tax concessions particularly with a view to encouraging private savings, both short and long term. Another government measure to boost savings is the RSA Retail Savings Bonds, which have been designed to be as accessible as possible for the general public to invest their money, while earning secured and market related returns on their investments.

The South African Savings Institute (SASI) was launched over 10 years ago to encourage South Africans to increase their savings, using the four guiding principles of Research & Advocacy, Debate around key aspects of saving, Education and Information provision and promoting awareness through various campaigns to fulfil this mandate.

Because of insufficient domestic savings, foreign capital is often required to address South Africa's financing gap. Foreign Direct Investment (FDI) has been quite erratic, but in general, bar a number of large FDI transactions, has been a fairly small component of foreign capital inflows in South Africa since 1995. By contrast, portfolio investment in South African equity and debt securities has been an important source of foreign capital. South Africa registered strong net FDI inflows of R11.9 billion and net foreign portfolio inflows of R16.2 billion in the second quarter of 2014. South Africa targets gross FDI inflows of R40 billion to be facilitated by the Department of Trade and Industry (DTI) in 2014/2015 and R230 billion by 2018/19, relative to a baseline project pipeline of R50 billion in 2013/14.

2. Employment

South Africa has a high unemployment rate, particularly among the youth, which is arguably the biggest obstacle to income growth and social development in the country. In June 2014, there were about 5.2 million unemployed work seekers, accounting for 25.5 per cent of the labour force.

Amongst the unemployed, there were over 3.3 million young (aged 15-34 years) unemployed work seekers in this period, accounting for 36 per cent of the labour force, of which 53.2 per cent of them were among the youth aged 15-24 years.

The number of long-term unemployed has also increased, reflecting a labour absorption rate which remained almost unchanged at only 42.8 per cent of the working-age population in March 2014. The labour force participation rate for women has remained stagnant for most of the period from 2008 to 2014, and is significantly lower at 51.0 per cent in 1Q 2014 than that of men (63.6 per cent).

From the labour supply perspective, South Africa has a large and persistent structural skills deficit that our education system has failed to address. There is also a mismatch between the geographic areas in which labour supply exists, relative to the areas in which job opportunities exist. This mismatch is a result of inefficiencies in education and training, so that acquired skills are not relevant to the current labour market needs. The NDP discusses the complexities of transforming human settlements and recommends developing a national spatial framework (identifying lessons learnt from an earlier attempt, the National Spatial Development Perspective) to coordinate and connect the principal decisions that create and shape places to improve how they function. South Africa is also investing in connective infrastructure and services that enhance labour mobility in search of jobs.

3. Competition

The Competition Act of 1998 (“Competition Act”) and the institutions established under it in 1999 were important parts of the first democratic administration’s agenda of economic transformation. The Act and its numerous amendments has received positive reviews globally, with the World Economic Forum (WEF) ranking South Africa’s competition policy in the top 10 globally in 2013-14.

While South Africa has been praised for its competition policy, the emphasis and focus for competition policy set out in the National Development Plan, New Growth Path, and described in successive iterations of the Industrial Policy Action Plan (IPAP), remains appropriate. The point of departure for competition policy work is the recognition that the South African economy continues to experience ongoing challenges with regard to low levels of effective competition in many sectors dominated by a few entrenched firms.

The lack of competitiveness in **network industries, particularly transport and telecommunication**, has been highlighted as one of the major factors that hinder export performance. Transnet - a state-owned company (SOC) - is a monopoly provider of freight infrastructure. Its pricing of freight is highly uncompetitive, e.g. port tariffs on containers were 360 per cent higher than the global average in 2012. South Africa’s ranking on information and communications technology (ICT) infrastructure declined from 55th position in 2000 to 98th in 2012.

The uncompetitive pricing of **intermediate industrial inputs** has been identified in various government documents as one of the significant factors that constrain growth in the manufacturing sector. The Competition Commission has a continued active focus on investigation, prosecution and policy advocacy with regard to these inputs. Prioritisation enables the Competition Commission to identify and undertake focused and targeted competition interventions in sectors that have a high impact on the welfare of low income consumers or a large proportion of the population and in sectors that have linkages to other sectors.

4. Trade

South Africa’s **merchandise trade balance** deteriorated further to a deficit of 2.8 per cent of GDP in 2Q 2014 from deficits of 2.1 per cent in 1Q 2014, 2.2 per cent in 2013, and 1.3 per cent in 2012. Export values declined by 6.4 per cent in the second quarter on the back of industrial action, falling commodity prices and declining global demand. The terms of trade (including gold) declined by 3.7 per cent year-on-year in 2Q 2014 and by 4.9 per cent in 1Q 2014.

South Africa’s **goods and services trade deficit** shrank sharply to R192 million in June from R7.4 billion in May 2014 and R12.4 billion in April, although the cumulative trade deficit increased to R48.3 billion in the first six months of 2014 from 35.6 billion in the same period a year earlier.

Export growth volumes have stagnated over the past decade - with South Africa’s exports lagging behind those of its peers, particularly in non-mineral and services. Some of the factors that have contributed to below-potential export growth include: infrastructure bottlenecks; labour market instability; high local operating costs due to network industry inefficiencies such as rail and road infrastructure. Firms are also constrained by a number of non-tariff barriers such as inefficient border controls. High levels of concentration in South Africa's economy reduces competitive pressures and lowers the number of small and medium sized firms, which also reduces their participation in export markets.

Import growth has remained strong despite the moderate growth in consumer spending and weak Rand. The import bill has been dominated by oil imports (which have been rising in line with the depreciating rand) and capital goods imports (which have been driven by the ongoing infrastructure programme). However, both the volume and value of merchandise imports contracted in 2Q 2014, with both oil and non-oil import volumes moderating due to maintenance work and waning domestic demand.

While Europe remains South Africa's largest trading block, exports to China have increased significantly. Sub-Saharan Africa is also increasingly becoming a more important trade partner for South Africa.

South Africa's **current account deficit** deteriorated to 6.2 per cent in 2Q 2014 from 4.5 per cent in 1Q 2014, due to widening deficits on the trade account, as well as the service, income and transfers account. The deterioration in the latter deficit reflects the conspicuous absence of large dividend inflows that characterised the first quarter, and a moderate increase in gross dividend payments to non-resident investors.

South Africa's current account balance is expected to improve from a deficit of 5.8 per cent of GDP in 2013 to a projected deficit of 5.6 per cent in 2014 (revised downward from 5.9 per cent at the time of the February 2014 Budget Review) and 5 per cent by 2017, on account of expectations of an improvement in export growth.

South Africa will implement a number of initiatives to support broader-based industrialisation such as the development of special economic zones (SEZs). The country foresees the SEZs assisting it to reach its target of increased value-added exports of R20 billion by 2019.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Slower real growth and lower GDP inflation outcomes have led to a downward revision in the nominal GDP forecast. As nominal GDP is the basis for tax revenue forecasting and expenditure estimates, this downward revision will have negative implications for the fiscal framework and debt levels.

However, the South African government's macroeconomic framework is expected to remain resilient. Prudent and transparent fiscal management, inflation targeting and a flexible exchange rate in the context of open capital markets enable the economy to continue growing moderately after the global financial crisis. To date, South Africa's flexible exchange rate has acted as a limited shock absorber for global turbulence. Well-regulated and well-managed financial institutions are able to respond to changing global conditions.

Fiscal imbalances remain and economic growth is still below potential, but output levels have returned to pre-crisis levels. Deep and liquid domestic financial markets and a robust domestic investor base reduce the funding vulnerability of the fiscus. South Africa's debt levels are manageable and the long-term fiscal outlook supports sustainable public finances. South Africa's national government debt has increased from 27.4 per cent of GDP in fiscal year 2009/10 to 45.9 per cent in 2013/14, as government has used the fiscal space grown during the 2000s to support the economy in the aftermath of the global financial crisis. Government net debt as a share of GDP continues to grow, but is projected to level off at 45.9 per cent of GDP in 2017/18. As debt stabilises, government is committed to rebuild fiscal space by reducing the ratio of government debt to GDP.

Several factors underpin South Africa's sustainable debt position. Government's debt portfolio is well structured, and debt denominated in foreign currency is only about 10 per cent of the total, which limits the consequences of rand depreciation. A smooth maturity profile, in addition to an average term-to-maturity of above 13 years, means that the impact of short-term swings in capital markets can be absorbed over time.

In October 2014, the National Treasury proposed a series of five measures to narrow the deficit and stabilise debt over the medium term:

- Reduce growth in spending by lowering Government's 2014 Budget expenditure ceiling (announced in February 2014) by R25 billion over the next two years,
- Adjust tax policy and administration through the introduction of proposals in the 2015 Budget (to be announced in February 2015) to generate additional revenue of at least R27 billion over the next two years.
- Strengthen budget preparation through great emphasis on longer-term planning and efficient resource allocation, within a fiscal framework that links aggregate expenditure and economic growth beyond the medium term,
- Freeze government personnel headcounts and review funded vacancies, and
- Adopt a deficit-neutral approach to financing state-owned companies, by ensuring over the next two years that any capitalisation required does not widen the budget deficit.

Monetary policy remained accommodative throughout the crisis, as inflation remained mostly within the target band of 3 – 6 per cent, barring a few temporary breaches. Consequently, the repo rate was reduced from 12 per cent at the height of the crisis to 5.0 per cent in 2012. However, since May 2013, an accelerating trend in the depreciation of the exchange rate of the rand intensified. This reflected both international as well as domestic factors. Internationally, movements n the EUR/USD exchange rate, asset purchase tapering by the US Fed and related swings in capital flows were the key drivers, whereas domestic factors included strike activity which resulted in slower growth, a widening current account deficit, a downgrade in South Africa's credit rating, stubborn levels of core inflation and structural economic imbalances. These factors, combined with higher domestic maize and wheat prices and the impact of the weaker rand on the local cost of fuel, have resulted in a steadily worsening inflation trajectory. Consequently, the South African Reserve Bank (SARB) embarked on a data-dependent moderate tightening cycle, increasing its policy rate by 50 bps in January 2014 and a further 25 basis points in July 2014.

More recently, the SARB has indicated that the inflation trajectory remains uncomfortably close to the upper end of the target range, while risks to the headline inflation forecast are skewed to the upside. Although international food and oil prices have moderated, the depreciation in the exchange rate of the rand has reduced the benefit thereof. The exchange rate of the rand is one of the key risk factors going forward, vulnerable to a host of factors including sovereign rating downgrades (as witnessed by the most recent downgrade by Moody's); the deficit on the current account and an increasingly challenging environment in attracting portfolio inflows; US dollar strength; changes in expectations related to monetary policy normalisation in the US and its impact on appetite for emerging market asset classes; geopolitical factors and domestic factors. Wage settlements above inflation and the risk of a wage-price spiral are further key risks highlighted by the MPC. The SARB's most recent inflation forecast suggested that CPI inflation would remain close to the upper end of the inflation target band, but should return to within the target band during the first quarter of 2015, however, the most recent CPI print for September 2014 measured 5.9 per cent. At the same time, however, the growth outlook for the domestic economy has deteriorated and growth forecasts have been downgraded. Growth rates are well below potential output and indicative of a widening output gap. Looking ahead, the SARB's leading indicator suggests that the growth outlook will remain subdued. . Against this background, the SARB faces a difficult dilemma but is of the view that interest rates will have to normalise over time. However, any future decisions will be highly data dependent, and while inflation is the primary focus, the SARB will also be mindful of the weak state of the economy.

Financial stability has become an added mandate of the South African Reserve Bank (SARB) and a Financial Stability Committee has been established to this effect. South Africa is currently preparing to implement a Twin Peaks approach to financial sector regulation, with macro-prudential regulation to be housed in the SARB. It is expected that this will come into effect in the first half of 2015. At that stage, a Financial Stability Oversight Committee (FSOC) will be established, to coordinate systemic oversight in the new macroprudential framework. The FSOC will be chaired by the SARB and include other regulatory agencies and National Treasury (NT) as an observer. To date, no macro-prudential tools or capital controls have been used and a macroprudential toolkit is currently being put together by the SARB.

New Structural Policy Responses

Investment and Infrastructure

The **Medium-Term Strategic Framework (MTSF) 2014-19 Outcome 6 ("An efficient, competitive and responsive economic infrastructure network")** sets objectives for the next five years. During this period, movement towards an inclusive and dynamic economy requires that the country should urgently launch the virtuous cycle that allows it to move to a new growth trajectory. The emphasis on absorbing the unemployed into economic activity and higher mining exports requires urgent investments in rail, water and energy infrastructure, alongside regulatory reforms that provide policy certainty. At the same time, the private sector should be encouraged to commit more investments to supplier industries for the infrastructure programme, and in general economic capacity.

The **Infrastructure Development Act**, which is meant to fast-track implementation of the South African government's infrastructure development plan, came into effect on 1 July 2014 after being signed into law by the President on 30 May 2014. The act formalises and establishes into law the **Presidential Infrastructure Coordinating Commission (PICC)** coordinates catalytic projects that can fast-track development and growth through the 18

Strategic Infrastructure Projects (SIPs) within the National Infrastructure Plan (NIP).

The PICC brings key Ministers, Premiers and Metro Mayors into a joint forum to promote infrastructure coordination and decision making, headed by the President and assisted by the Deputy President.

Critical deliverables within the implementation of the NIP include the realization of the key infrastructure national projects, which in turn allows South Africa to work towards the realization of growth and employment targets. Monitoring of the NIP includes collection of data on jobs created on the various infrastructure builds, skilling activities aligned to the infrastructure build as well as localization efforts. Further work includes the identification and resolution of critical blockages in the system, as well as alignment of employment efforts across various implementing entities.

Over the medium-term expenditure framework period (3 years), the South African government has approved 43 infrastructure projects totalling R847 billion and identified investment in infrastructure as a source of job creation. According to the 2014 Budget Review, the medium-term expenditure by major State-Owned Companies (SOCs) is projected to reach R381.9 billion. Investments by Eskom, Transnet, and SANRAL account for 90 per cent of this amount. It is also estimated that in 2014/15, 67 per cent of the finance that is required by SOCs will come from the domestic market. Over the next two years (as of October 2014), financial support provided to these SOC, including capital injections for Eskom, will be provided in a manner that does not affect the budget balance. Funds will be raised to enhance SOC resources, where necessary, through the disposal of non-strategic assets held by the state, or from private investors.

Public-sector investment will total R847.3 billion over the next three years – equivalent to 7 per cent of GDP in each year. The NDP aims to increase South Africa's Gross Fixed Capital Formation (GFCF) to 30 per cent of GDP by 2030, which would require GFCF to grow by 10 per cent per year during this period.[3] The MTSF Outcome 6 aims to increase the GFCF-GDP ratio to 25 per cent by 2019. This would represent an increase from 19.3 per cent recorded in 2013. The MTSF aims to increase public sector investment to 10 per cent of GDP by 2019, up from 7.2 per cent of GDP in 2013.

The key policy actions mainly apply to five main areas/sectors namely energy, transport, water resources, broadband infrastructure and regional infrastructure.

Reforms to close the **energy** infrastructure gap are: ensuring security of electricity supply to support economic growth and development, (a stable electricity pricing policy and regulator), increasing share of gas and renewables in energy mix, legislation allowing exploratory drilling for coal seam and shale gas reserves and draft regulations and legislation for shale gas being formulated. The energy policy white paper sets a target of 30 per cent private-sector participation in electricity generation.

Constructions on Medupi and Kusile power stations are proceeding. The independent power producer programme is diversifying out of renewables into gas, hydroelectric, coal and cross-border projects. Recent progress in South Africa's energy infrastructure initiatives includes the following:

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[3] This includes both private and public sources of investment. The NDP targets 20 per cent of GDP for private sector investment, and 10 per cent of GDP for the public sector – to make up the 30 per cent of GDP target.

- The first unit of the Medupi power station is expected to come online in the first half of 2015.
- Contracts for 47 renewable energy projects were finalised in 2013, with most already under construction. These are expected to add generation capacity of 2 459 MW between 2014 and 2016. The most recent procurement finalised a further 1 450 MW of capacity for 17 projects with higher local content and cheaper electricity costs.
- At Cookhouse, Eastern Cape, Africa's largest wind farm (135 MW) was added to the grid in May 2014.
- South Africa's first baseload gas-fired power plant was recently commissioned by Sasol. Half of the plant's 140 MW capacity will be fed onto the national grid.
- In October 2013 South Africa signed the Grand Inga Hydro Power Project Treaty with the Government of the Democratic Republic of Congo. This massive and strategic project has the potential to generate 40 000 megawatts of hydro-electricity.

Reforms to close the **transport** infrastructure gap are: upgrading the capacity of rail links and ports, the procurement of rolling stock and the construction/refurbishment of wagons/locomotives, construction of new roads and new legislation to allow collection of tariffs from users, upgraded and expanded and integrated public transport in the form of rail and buses developed (the metropolitan bus rapid transit system). Numerous projects in the region aimed at promoting intra-regional trade.

Transnet will upgrade its coal, iron ore and manganese lines. Government is also working on improving port capacity and upgrading and expanding integrated public transport.

Recent progress in South Africa's transport infrastructure initiatives includes the following:

- Plans to expand the coal, iron ore and manganese lines are at advanced stage of feasibility assessment.
- Seven new state-of-the-art cranes have been added to the container terminal at the Port of Durban, increasing efficiency by 27 per cent (crane moves per hour).
- Large metros are investing heavily in integrated public transport networks. Tshwane, Mbombela, Nelson Mandela Bay, EThekwini, Rustenburg and George have all started constructing stations, depots, buses, information technology systems and dedicated bus lanes. Msunduzi, Polokwane, Buffalo City and Mangaung are in the planning phase.
- Transnet's R50 billion locomotive contracts and the Passenger Rail Agency of South Africa (PRASA)'s passenger rail projects.

Reforms to close the **water** infrastructure gap include the construction of dams, water transfer schemes and irrigation schemes, water treatment works are to be developed and reticulation and sanitation infrastructure maintained and upgraded. The investments are aimed at ensuring there is sufficient water supply to enable economic growth and development as well as to expand access to water for both households and the mining, manufacturing and agricultural sectors, which are heavily reliant on water for production.

Resources will be made available to local government to deliver water and improve sanitation, including eliminating bucket toilets. Recent progress, and planned projects, in

South Africa’s water infrastructure initiatives includes the following:

- Rehabilitation of the country’s five large water transfer schemes is underway.
- Department of Water Affairs reviewing water pricing strategy.
- The R14 billion Mokolo Crocodile Water Augmentation project financing is being finalised for phase two.
- The construction of Mzimvubu Dam in the Eastern Cape will continue, and also the raising of the wall of Clanwilliam Dam in the Western Cape.
- During the next five years the bulk of the construction work on Phase 2 of the Lesotho Highlands Water Project will be completed at an estimated cost of R12 billion, which will be borne in total by South Africa.

Broadband infrastructure is to be rolled out and the migration to digital television (DTT) completed in the telecommunications sector. Cabinet adopted "South Africa Connect", our Broadband Policy and Strategy, in December 2013 to take this mission forward. The aim of this policy is to ensure access to low-cost, high-speed international bandwidth, with the cost associated with internet access targeted to be comparable with peers by 2020. In the next five years, South Africa will finish building more than 60 MeerKat dishes and start building the first 100 Square Kilometre Array dish antennas.

South Africa will participate in mutually beneficial **regional infrastructure projects**, including transport, to unlock long-term socio-economic benefits by partnering with fast-growing African economies with projected growth ranging between 3 per cent and 10 per cent. These projects complement the Free Trade Area (FTA) discussions to create a market of 600 million people in South, Central and East Africa. Regional infrastructure projects include the North-South corridor, agreements on electricity generation and transmission capacity in the region, for example the hydro power projects like Grand Inga and a range of smaller hydro and gas projects in Mozambique (e.g. Mphanda Nkuwa). South Africa will continue its partnership with Lesotho in respect of the Lesotho Highlands Water Transfer Scheme.

South Africa will promote local procurement and increase domestic production by having the state buy 75 per cent of goods and services from South African producers. South Africa will utilise the renewable energy sector, the manufacturing of buses, Transnet's R50 billion locomotive contracts and the Passenger Rail Agency of South Africa (PRASA)'s passenger rail projects among others, to promote local content and boost growth.

South Africa will implement the Industrial Policy Action Plan and will over the next five years promote regional economic development and industrialisation, through the creation of Special Economic Zones (SEZs) around the country.

Measures to address macroeconomic constraints to investment

Measures to increase household savings

South Africa’s tax system is an integral part of the country’s public finances. Tax-free savings accounts will be implemented in the next 3 years (National Treasury plans to introduce these accounts on 1 March 2015), creating a mechanism to increase both household and corporate savings. Tax tools to encourage savings at a household level include, but are not limited to, tax-preferred savings accounts and retirement savings reforms. Tax-preferred savings accounts will have an initial annual contribution limit of R30 000, to be increased regularly in line with inflation, and a lifetime contribution limit of R500 000. The account will allow investments in bank deposits, collective investment schemes, exchange-traded funds and retail savings bonds.

Retirement Savings reforms over the past two years have aimed to encourage more people to save for retirement and to preserve their savings throughout their working lives. Changes to the taxation of contributions to retirement funds in line with the Taxation Laws Amendment Act (2013) will provide additional relief to most retirement fund members and encourage them to save for retirement.

Measures to encourage entrepreneurship and SME development

Entrepreneurship and business development are important building blocks for a growing, sustainable economy. Government aims to streamline the regulatory regime, where proposed reforms are to reduce compliance costs and facilitate access to equity finance. The following proposals have been adopted to support business and corporate savings in South Africa and will be implemented in the next 3 years:

- Turnover tax regime for micro businesses
- Small business corporation tax relief
- Venture capital company regime
- Tax treatment of grants

National Treasury has introduced tax relief for small businesses through **section 12E of the Income Tax Act**. Section 12E was created specifically to encourage new business ventures to create jobs, and this encouragement comes in the form of reduced taxation for qualifying small businesses. Graduated tax rates and accelerated depreciation is offered to stimulate this sector.

The government promotes long-term investment by institutional investors through the Venture Capital Companies (VCC) tax incentive (Section 12J), which is similar to the Venture Capital Trusts (VCT) regime in the United Kingdom. Since its introduction in 2008, there has been limited take up of the incentive, with only 5 VCC's registered overall. During the 2014 National Budget, it was announced that more amendments to the regime will be considered in order to make it more attractive. This tax incentive is currently under review to improve its functioning in assisting start-ups and entrepreneurs.

Over the next five years, South Africa will prioritise support to small business, as well as township and informal sector businesses in particular, thus using the SMME development programme to boost broad-based black economic empowerment. South Africa will also promote more employee and community share ownership schemes and boost the participation of black entrepreneurs in the re-industrialisation of the economy.

Initiatives to improve the investment environment for the private sector

In a continued effort to improve the investment climate, the presidency has stated to convene the next meeting of the **Presidential Business Working Group**, which will take forward the

Government's partnership with business for inclusive growth and sustainable development.

Policy uncertainty has long been a constraint for increased investment in the country. However, in the energy sector there is now greater policy certainty. The renewable energy programme has a very clear and transparent process, running over multiple years. The programme has spanned over three bidding rounds so far, with substantial increases in competition in each round, resulting in both lower prices as well as increased local content. The Department of Energy (DoE) have firmed up commitment in the programme by releasing a Determination to continue with further bidding rounds in the future, thus helping to cement supplier investment in the country, and expand local value chains. The third procurement round is finalizing 1 457 MW of capacity from 17 projects with higher local content and lower costs.

To bolster government/public sector capacity to develop and review infrastructure projects, and to ensure that the lead time on these projects is significantly reduced, South Africa has established the Government Technical Advisory Centre (GTAC), which is a step in re-establishing the capacity to assist other government departments in project preparation and development.

Another measure instituted by the Minister of Finance in 2013 was the establishment of the Office of the Chief Procurement Officer (CPO). The CPO will manage and maintain the regulatory environment relevant to government procurement practices; effectively manage government transversal contracts so that cost savings and socio-economic objectives are achieved; oversee and monitor government sector procurement practices to ensure compliance with the regulatory framework; provide advisory services and to implement initiatives that will improve the capability of government procurement practitioners.

South Africa has a potential pipeline of more than R3 trillion worth of infrastructure projects, only a portion of which can be funded by the fiscus. The bulk of this will require external funding.

The National Treasury has initiated the **Task Team on Private Sector Financing of Infrastructure** to identify blockages to the private sector financing of infrastructure (e.g. regulation, such as the Basel III requirements, that reduce the appetite of banks for infrastructure financing) and make recommendations to remove these blockages. The membership of the Task Team include the Department of Public Enterprises (DPE), the PICC, the Development Bank of Southern Africa (DBSA), the Association for Savings and Investment for South Africa (ASISA), and the Banking Association of South Africa (BASA).

Government and business in South Africa are collaborating on the cutting of red tape. The National Treasury's Director General and a private sector representative co-chair a process that has already delivered results in terms of addressing blockages to the issuing of water licences, and is also dealing with environmental regulations related to mining, as well as bottlenecks relating to business registrations. Government has also been working with the financial sector to identify and clear blockages to the private sector playing a role in the financing of infrastructure.

Special Economic Zones (SEZs)

South Africa is **planning SEZs (Special Economic Zones)** in all of the nine provinces. **R3.6**

billion has been set aside for conducting pre-feasibility and feasibility studies for the planned SEZs as well as infrastructure projects in the existing industrial development zones (IDZs) and newly-designated special economic zones through the incentive scheme. The SEZ support forms part of the Department of Trade and Industry (DTI)'s wider support for productive sectors under the Industrial Policy Action Plan, hence putting the economy on a higher, more labour-intensive growth path.

The SEZ incentives include:

- **Manufacturing Development Incentives:** R10.3 billion has been allocated for manufacturing development incentive, through which the South African government would support new investments, skills development and energy efficiency in industrial processes (additional tax incentives will be available from 2015 to establish energy efficient industrial processes)
- **Infrastructure Development**: In addition to the confirmed R847 billion boost to the infrastructure sector in the next three years, the government will build 433 new schools, thousands of new houses within their housing scheme framework and connect one million houses to electricity over a 3 year period.
- **Agricultural Policy**: To support the National Development Plan's target of creating a million agriculture jobs by 2030, it was announced that an agricultural policy was being developed. Over R7 billion will be spent on conditional grants to provinces to fund training and support measures for 435 000 subsistence and 54 500 smallholder farmers, and to improve agricultural extension services

Indicators used to measures progress in addressing infrastructure investment constraints

Government has committed to further investment in infrastructure as well as minimising constraints to increased investment in this space. There are a number of indicators that may serve as proxies in measuring the progress of reduced infrastructure constraints, including the use of Gross Fixed Capital Formation for the public sector. Additionally, the budgeted spending for the public–sector infrastructure of R847 billion over the next three years may be cross-referenced against actual expenditure after the three year period ascertain potential constraints.

Other indicators include, the South African Reserve Bank (SARB) data on South Africa's gross savings as a percentage of GDP (i.e., the national saving ratio). The performance of household savings, government savings and corporate savings are all recorded in both annual and quarterly formats.

The SARB also collects data on South Africa's Balance of Payments (BoP). The performance of South Africa foreign investment is recorded in the financial account of the BoP on an annual and quarterly basis.

From a private sector investor perspective, there is a very strong correlation between the FNB/BER business confidence index and investment (private sector). This can therefore be used as a proxy for improvements in the Investment Climate.

Infrastructure will facilitate economic activity that is conducive to growth and job

creation. Also, it has the ability to produce more inclusive growth, providing citizens with the means to improve their livelihoods and boost incomes. The government has announced the shift in the composition of expenditure towards investment.

Dialogue will encourage confidence and improve private / public outcomes and raise overall investment levels.

Improved profitability (the SME section) would help encourage investment.

Higher savings rates will help to reduce reliance on external capital flows.

By lowering the cost of doing business – and looking for work - the completion of the infrastructure programme will boost SA's long-term growth potential. It will also go a long way to addressing inequality, by reducing imbalances in access and opportunity. Investment in bulk water infrastructure addresses both growing household demand and the needs of the mining, manufacturing and agricultural sectors, which are heavily reliant on water for production. Infrastructure programmes in the energy sector should promote economic growth and development by providing reliable and efficient energy, social equity through expanded access to energy, and environmental sustainability through efforts to reduce pollution. Transport infrastructure should promote the capacity to expand export capacity, but also contributes to social equity through improved access to public transport.

Addressing infrastructure bottlenecks should raise competitiveness and export earnings as well as lower the cost of doing business. Higher savings will reduce reliance on foreign capital. Faster and more inclusive growth will help to reduce inequality.

Employment

Government will introduce further measures to speed up the employment of young people, consistent with the **Youth Employment Accord**, which was signed by government, youth organizations, trade unions, business and community leaders. The Accord spells out the commitment for social partners to increase opportunities for youth in employment, training and skills development and to support youth enterprises and cooperatives.

Government's countercyclical fiscal policy can be used to both protect jobs and (through targeted expenditure) create jobs. This approach allows the public sector to contribute directly to employment creation through direct employment within the public sector, but also to fund social programmes and infrastructure development, both of which could potentially generate a large number of jobs for the low-skilled unemployed.

The implications of the NDP are addressed in the **Medium Term Strategic Framework (MTSF)** which provides indications of key interventions that will be undertaken in the next five years. The MTSF is further given expression in the 12 outcomes agreed by government and directly relevant to employment is outcome 4 which supports "Decent Employment through inclusive growth".

The MTSF's employment targets include a reduction of the official unemployment rate from current levels around 25 per cent to 14 per cent in 2020.

1. Private employment

Employment intensive programmes and initiatives will receive top priority, especially those that target the youth and women (MTSF, Outcome 4).

- Government launched the **Employment Tax Incentive (ETI)** in January 2014, to assist with obtaining first jobs and getting the required work experience. Through the ETI, the Government shares the initial cost of hiring with the employer to boost job creation. The work experience gained will improve long-term employment prospects of the youth, whose struggle to obtain a first job significantly affects their long term prospects for employment. The first claims for the programme were received by 7 February 2014. The private sector has so far responded positively to the ETI, with 209 000 employees who have benefitted and 23 500 employers who have participated in the incentive scheme as at October 2014.
- The Government has strengthened small business financial and advisory support, drawing on both public and private sector capacity. Ninety per cent of the jobs to be created by 2030 envisioned by the NDP will come from small and medium enterprises (SME). In May 2014, the President of South Africa created a new ministry dedicated to small business development. In addition, the **Small Enterprise Development Agency** supports small businesses by enhancing the competitiveness and capabilities of small enterprises. The **Small Enterprise Financing Agency** services small business in need of funding up to R3 million. Other support programmes include the SME Development Programme, the Export Marketing Incentive, Business Regulatory Compliance Advice Programme, Technology Transfer Guarantee Fund, and GODISA (an incubator programme). The **Industrial Policy Action Plan (IPAP)** also emphasizes employment creation as the main objective of industrial policy.
- Market activation is also channelled through the **Jobs Fund**, which was established by the government in 2011 and aims to co-finance innovative projects by public, private and non-governmental organisations that will significantly contribute to job creation. The Fund offers once-off grants in four areas which have been identified as levers to benefit both the economy and employment, namely Enterprise Development, Infrastructure Development, Support for Work Seekers, and Institutional Capacity Building. At the end of March 2014, 57 projects were in full implementation, which has resulted in the creation of 17 357 permanent new jobs, of which 50 per cent are jobs for young people. From inception to date the Jobs Fund has approved 93 projects, and total employment in these projects amounts to 167 847, of which 56 356 are new placements into vacant positions.
- In addition, the Sector Education and Training Authority (SETA) system developed a series of sector skills plans, focusing on learnerships, internships, unit based skills programmes and apprenticeships.

2. Labour relations

- In the **State of the Nation Address (SONA) on 17 June 2014**, the President announced various measures to improve South Africa's untenable labour relations environment, as demonstrated by recent prolonged and at times violent strikes in the platinum mining industry.

- The Deputy President will convene a dialogue between the social partners (Labour, Business and Government), under the ambit of the National Economic Development and Labour Council (NEDLAC), to deliberate on the strikes. The social partners will also deliberate on wage inequality, and the Government will investigate the possibility of a national minimum wage as a key mechanism to reduce income inequality.
- The landmark Framework Agreement for a Sustainable Mining Industry, entered into by social partners last year under the leadership of the Deputy President, will now be led by the President.
- Government will implement the undertaking, as part of the October 2012 agreement between the social partners, to build housing and other services to revitalise mining towns, focusing on six mining areas.
- The Government will monitor the compliance of mining companies with Mining Charter targets relating to improving the living conditions of mine workers. The Companies are expected to convert or upgrade hostels into family units, attain the occupancy rate of one person per room and also facilitate home ownership options for mine workers. They are expected to meet the 2014 deadlines for these targets.

3. Public employment programmes

Employment in public employment schemes is targeted to grow to 6 million work opportunities by 2019, with most of the growth by 2015 (this is in line with the current MTEF), in the Youth Brigades and the Community Works Programme (CWP).

Government has a range of Active Labour Market Programmes (ALMP) such as the Extended Public Works Programme (EPWP), CWP, Training Lay-Off Scheme (TLS), Learnerships / Apprenticeships and the Public Employment Services.

- The **Expanded Public Works Programme (EPWP)** has run through all spheres of government since 2004 to provide productive work opportunities and training for the unemployed. The EPWP targets 6 million work opportunities by 2019, with great use of full-time work. Phase 2 set an ambitious target of 4.5 million work opportunities from 2009/10 to 2013/14. The EPWP created 4 069 640 work opportunities during this period and reached its target for women and youth, with 60 per cent of the participants being women and 50 per cent being youth. The EPWP Phase 3 employment target for 2014/15 was projected at 1 075 189, growing progressively each year to the five year target of six million by 2019.
- The **National Rural Youth Service Corps** is an initiative which targets youth in rural areas with a comprehensive two-year skills programme.
- The **National Youth Service Programme (NYDA)** targets the unemployed, out of school and unskilled with accredited learning and exit opportunities; high school leavers and university students with community service; and youth and adults with ad-hoc voluntary opportunities.
- South Africa will expand the number of **internship positions in the public sector**, with every government department and public entity being required to take on interns for experiential training.

4. Expand and improve post-school training

The limited ability of the broader populace to join the labour market has been identified as one of the key challenges in South Africa's development, this is in part is attributed to a perceived lack of requisite skills. Post-School education is seen as a key solution in solving the country's skills deficit; government has therefore undertaken an extensive programme to enhance post-school education opportunities in order to combat the skills deficit.

The Human Resource Development Strategy of South Africa (HRDSSA) 2010-2030, recognises Human Resource Development (HRD) as critically important in South Africa's development agenda. Under Commitment 5, the strategy commits to ensuring that young people have access to education and training that enhances opportunities and increases their chances of success in further vocational training and sustainable employment. (HRDSSA, 2010).

Furthermore, in line with the NGP, **Sector Education and Training Authorities (SETAs)** have to agree to numerical targets set for completed apprenticeships with systems to track progress, specifically in construction, mining, manufacturing and new industries, such as the green economy; apprenticeship systems must be reviewed to support broader success.

The National Skills Development Strategy (NSDS) III has acknowledged the central role of **Technical Vocational Education and Training (TVET)** colleges in the delivery of skills imperatives. Colleges have been earmarked to respond to these national skills development imperatives in creative ways, asserting their role as preferred providers of skills.

The MTSF has identified the following outputs over the next five years:

1. A credible institutional mechanism for labour market and skills planning;
2. Increase access and success in programmes leading to intermediate and high level learning;
3. Increase access to and efficiency of high-level occupationally directed programmes in needed areas; and
4. Increase access to occupationally directed programmes in needed areas and thereby expand the availability of intermediate level skills with a special focus on artisan skills.

The Department of Higher Education and Training (DHET) has positioned an expanded Further Education and Training College (FET) sector, which offers quality programmes that are responsive to industry and community needs, as a cornerstone for developing a sustainable pipeline of critical intermediate skills. In tandem with this government has made a number of interventions to boost the FET sector, this includes the following considerable investments in the sector:

- FET funding increased from R3.9 billion in 2010 to R5.6 billion in 2013.
- To assist talented students who are in financial need, the government runs the FET Colleges Bursary Scheme, which funds between 80 per cent and 100 per cent of the total cost to the students. National Student Financial Aid Scheme (NSFAS) student bursary funding for TVET Colleges increased from R318 million in 2010, benefiting 61 703 students to R1.988 billion in 2013, targeting 222 817 students.
- 12 TVET campuses have been prioritised for either refurbishment or building of new

structures, including student residences. Construction is currently underway and will continue during 2014.

Kha Ri Gude is a literacy campaign that is delivered by 40 000 volunteers, who are paid a stipend. Youth accounts for 63 per cent of their employees

Publicly funded study loans and bursaries were allocated R8.5 billion in 2013, to fund university studies of students with limited means.

Construction of **two new universities** (in the provinces of Mpumalanga and Northern Cape) has commenced.

Medium-term government spending on post-school education and training will amount to nearly R200 billion, of which 55 per cent will consist of subsidies to universities and contributions to the NSFAS, allowing for an additional 116 000 university enrolments by 2016/17.

5. Expand and improve basic education

The NDP's vision for 2030 is that South Africans should have access to training and education of the highest quality, characterised by significantly improved learning outcomes. Education then becomes an important instrument in equalising individuals' life chances, ensuring economic mobility and success and advancing our key goals of economic growth, employment creation, poverty eradication and the reduction of inequality. Basic education, comprising Early Childhood Development (ECD) (for children age 0 to 4) and school education (starting with Grade R at age 5 up to Grade 12), forms the bedrock of the education system.

Building on recent sector plans, the NDP sets enrolment (improved learner retention) and quality (improved outcomes) targets for 2030 and the framework for actions and strategies to realise these. The MTSF sets targets for the next five years: All children between ages 7 and 15 should be in school, increasingly learners should be in class groups appropriate to their age (65 per cent in 2019, 80 per cent in 2030) and, also by 2019, 80 per cent of each age cohort should receive either a National Senior Certificate or an alternative vocational or further education and training qualification.

The government proposed to allocate R833 billion to basic education and skills development over the next three years. Over the 2015 MTEF period, proposed allocations to basic education exceed R640 billion, equivalent to nearly 15 per cent of all spending (MTBPS, October 2014).

Public and private employment initiatives

Implementing the targets and achieving many of the outcomes in the NDP will continue to require a coordinated effort by the Economic Development Department (EDD), National Treasury (NT) and Department of Trade and Industry (DTI), as the co-ordinating departments for Outcome 4, supported by a number of other Departments such as the Department of Rural Development and Land Affairs (DRDLA), Department of Science and Technology (DST), Department of Mineral Resources (DMR), Department of Agriculture, Food and Fisheries (DAFF), and the Department of Public Works.

The Co-ordinating Departments will monitor outcomes for the Jobs Drivers as well as crosscutting interventions and develop an early-warning system to ensure a faster response to threats and opportunities. They will report on the findings in a narrative form in the **MTSF Outcome 4 ("Decent employment through inclusive economic growth")** reports. These reports will include a dashboard indicating where decisions and actions are required to achieve the overall outcome.

Basic education

The Department Basic of Education (DBE) is responsible for managing all actions outlined in this MTSF, except for planning for an additional year of ECD prior to Grade R, which is the responsibility of the Department of Social Development. The interventions are outlined further and will be refined over time in the planning and monitoring documents of the Department of Basic Education and Provincial Education Departments (PEDs). Basic Education is a concurrent national and provincial function and implemented by provinces funded through provincial budgets. The DBE will facilitate that plans are rolled down to provincial, district and school levels through the appropriate application of actions and targets.

1. *Expand and improve post-school training:* The structural skills problem cannot only be addressed by reforms in the basic education system, since many workers and work seekers that have exited from the basic education system also face backlogs. A review of the system of post-school training system is taking place (a white paper on the topic was released for public comment in January 2014), with the aim of improving the fit between curricula of vocational training and market demands, as well as improved throughput of learners.
2. *Public employment programmes:* While private employment remains under pressure, public employment programmes should be pursued to stem unemployment and to provide skills and provide work experience.
3. *Private employment:* Labour demand remains subdued, therefore stimulation of demand is necessary to ameliorate high levels of unemployment, especially youth unemployment.

The impact will be most evident in the medium- to long-term, when workers and work seekers with improved skills enter the labour force. This will lead to better employment prospects and improved productivity, which improves economic growth. The NDP sets a target of 2 million work opportunities for the EPWP, with greater use of full-time work. The Employment Tax Incentive is intended to support more than 200 000 jobs for young workers over the next 3 years, of which 43 000 jobs represent new opportunities. Formal targets are being developed for the other interventions.

Competition

Concerning the Competition Commission, the lack of effective competition means continued active focus on investigation, prosecution and policy advocacy with regard to sectors such as intermediate industrial and energy-intensive products such as steel and chemicals; infrastructure and construction; and food and agro-processing. These sectors are priority sectors for the Competition Commission. Prioritisation enables the Competition Commission to identify and undertake focused and targeted competition interventions in sectors that have a high impact on the welfare of low income consumers or a large proportion of the population and in sectors that have linkages to other sectors.

The Competition Commission has also begun a process of dialogue with Government particularly in relation to the role of the state in markets. The Competition Commission's advocacy work is not limited to engagements with Government, but also extends to private firms. The aim of the Competition Commission's advocacy activities is to ensure that competition principles and values are promoted.

With the promulgation of the market inquiries provisions on 1 April 2013, the Competition Commission initiated its first formal market inquiry on 29 November 2013 into the private health care sector. The purpose of the market inquires is to assess whether there are competition distortions in markets.

The Competition Commission will continue with its emphasis on maintaining and promoting increased competition within the South African economy through increased support for new entrants into the market. The Commission will also continue with its emphasis on reflecting on public interest issues in mergers, including the impact of proposed mergers on employment and small businesses. The objective of this emphasis is to ensure that minimal jobs are lost and that small businesses are not adversely affected as a result of merger and acquisition activities. Through this action, the Competition Commission will contribute to job retention and entry of small businesses which are necessary for employment creation and inclusive growth in the economy.

Investigative and prosecutorial powers of competition authorities have been widened and clarified. These include powers to conduct market enquiries, criminalization of cartel conduct and provisions governing the application of the Act in an industry that is subject to the jurisdiction of another regulator. This includes a provision which allows for criminal prosecution of directors who played a significant role in a cartel. It is believed that criminal prosecution of directors will help towards deterring cartels. The Competition Commission has been granted formal powers to examine the general state of competition in a sector without necessarily referring to a specific conduct or firm (i.e. market inquiry). This enables the Commission to understand a sector better before embarking on a specific investigation. In addition the Commission can make policy recommendations in respect of competition matters to government authorities or regulators from outcomes of a market enquiry.

For example, there have been various interventions aimed at addressing competition problems in **telecommunications**. The telecommunications regulator has reduced mobile termination rates by 123 per cent between 2010 and February 2014. Lower mobile termination rates took effect from 1 March 2014.

Reforms to be undertaken in the next five years

- The Department of Transport is drafting a bill to establish the single transport economic regulator.
- The government is in the process of introducing competition in electricity generation by promoting the entry of independent players in electricity generation. To ensure that Eskom does not use its control of the grid to undermine competition in the generation segment of the market, the government will transfer control to an independent entity.

- A number of investigations into the pricing of intermediate inputs are underway, most significant of these are alleged excessive pricing of Steel by ArcelorMittal South Africa and polymers by Sasol Chemicals.
- Over the next five years, South Africa will prioritise support to small business, as well as township and informal sector businesses in particular, thus using the SMME development programme to boost broad-based black economic empowerment. The government will also promote more employee and community share ownership schemes and boost the participation of black entrepreneurs in the re-industrialisation of the economy.

These policy actions will help to lower the cost of doing business and the cost of living. The interventions will also encourage a competitive environment in different sectors.

Trade

From the South African Government's perspective, it is imperative to locate the role and understanding of trade policy within each G20 Member State's domestic policy context and circumstances. South Africa's broad development strategy aims to accelerate growth along a sustainable path that addresses the triple challenges of unemployment, poverty and extreme inequalities.

South Africa recognises that trade can support growth. However, this relationship is not automatic and more attention is need on the 'quality and content' of trade. For South Africa, the key challenge is to move off a growth path based on exports of raw materials and minerals and imports of higher-value manufactured goods.

Exports are expected to be a key driver of faster growth, with the National Development Plan (NDP) targeting export volume of 6 per cent. Stronger export growth also drives job creation. Increasing exports, particularly in manufacturing, may be crucial for the low-skilled job creation needed to substantially reduce high overall and youth unemployment. Exports are especially critical amid the wide current account deficit and the associated external vulnerability in the presence of volatile capital flows.

Identify the key policy actions

1. Strengthen trade and investment relations with growing markets around the world, including more targeted export promotion and exporter development.
2. Advance "development integration" in Africa.
3. Identify and address non-tariff measures (NTMs) in key export markets.
4. Implement trade facilitation measures and modernise customs procedures.
5. Encouraging competition.
6. Investment in infrastructure and freight capacity to help alleviate supply bottlenecks.
7. Implement competitiveness enhancing programmes for South African industry, especially for more value-added domestic production and exports.
8. Improving the efficiency, pricing and capacity of local ports to reduce transport costs and enhance competitiveness.

9. Promote further development of Small, Medium and Micro Enterprises (SMMEs) and encourage export villages.

1. Strengthen trade and investment relations with growing markets around the world, including more targeted export promotion and exporter development

Given the underperformance of exports to traditional markets in the past, South Africa must diversify and strengthen economic links with the dynamic and growing economies in Africa and among emerging economies of the South. Consolidating markets in Africa could increase South Africa's exports to the region. The Department of Trade and Industry (DTI) is currently elaborating an Integrated National Export Strategy (INES) and the proposed export targets are aligned to targets in South Africa's National Development Plan (NDP). The proposed targets for the INES are:

- Total exports to grow by 6 per cent by volume per annum to 2030;
- Non-traditional exports to grow by 10 per cent per annum;
- South Africa diversifies its export basket into more value-added goods and services (product diversification);
- South Africa develops new markets (market diversification); and
- South Africa develops and increases its exporter base in terms of Small, Medium and Micro Enterprises (SMME), Broad-Based Black Economic Empowerment (B-BBEE) enterprises and Co-operatives (supplier diversification).

The INES has identified the following key pillars in order to achieve export-led growth and improve export performance:

(a) Improving South Africa's export environment and international competitiveness

A comprehensive approach is adopted to create an export enabling environment by utilising the International Trade Centre's (ITC) Four Gear Concept which are border-in issues (capacity development, capacity diversification and competency development); border-out issues (opportunity identification, national promotion and in-market support); border issues (procedures, documentation, infrastructure and transaction support); and development issues (poverty reduction, employment generation, regional development). Improving competitiveness also looks into issues of leadership and removal of unnecessary barriers faced by exporters.

(b) Strengthening the National Export Institutional Framework through concerted Stakeholder Alignment

The current exporter landscape in South Africa is extensive but often too fragmented. The Department of Trade and Industry will need to take the lead in terms of directing, co-ordinating and monitoring the overall INES implementation; the various elements of the strategy are devolved across the network of private and public national, provincial and local organisations that have experience and expertise. For this partnership and collaborative approach to implementing the INES to be successful requires that there is a clear understanding of roles and responsibilities of the different stakeholders involved as well as the on-going strengthening of their capacity.

(c) Increasing demand for South African goods and services through market prioritisation, diversification and access

Market selection, prioritisation and access for South Africa’s exports are generally enhanced through the conclusion of trade agreements. The strategy will seek to promote South Africa’s interests in the rules-based multilateral trade system and to influence tariff regime in favour of South Africa’s industrialisation programme, with a strong emphasis on the African market.

(d) Increasing export capacity and strengthen exporter performance through the National Exporter Development Programme (NEDP)

The NEDP envisions a well-resourced, efficient and effective exporter development programme that delivers appropriately skilled exporters and that contributes to the number of active exporters and the real value of exports growing consistently over time. The NEDP also looks at strengthening the export culture in South Africa; information sharing; and marketing services to exporters. The programme also considers measures to develop export consortia and export villages (discussed later in the document).

(e) Strengthening the Export Promotion mechanisms through enhancing South Africa’s value proposition and improved sector branding.

The review of international best practice identified that several countries are focusing on the issue of country branding and imaging to support their export agenda. A concerted effort by Government and the private sector to improve South Africa’s brand internationally is a key component of an export strategy. The conventional export promotion mechanisms will be complemented by non-conventional measures.

(f) Enhancing Export Incentives and Financing

Financial incentives and trade finance form an integral part of the strategy. These instruments represent an intervention by government to improve the export competitiveness of exporters and to facilitate efficient export processes. The strategy posits to increase the number of black, women and emerging exporters participating in these schemes. The strategy will support targeted export incentives and financing instruments offered by Department of Trade and Industry, the Industrial Development Corporation (IDC), and the Export Credit Insurance Corporation (ECIC).

(g) A robust monitoring and evaluation system

The monitoring and evaluation of the INES is linked to the Government-wide Monitoring and Evaluation (GWME) system. The impact to be measured would be performance against the targets. Over and above the proposed targets the INES would monitor the progress and impact of the NEDP, specifically the growth of the number of new exporters entering the market and transformation of the composition of exporters; as well as the retention of existing exporters.

Additionally, the NEDP, which provides a range of support measures such as innovative institutional marketing structures, new tools and value-added services to increase the exporter base in SA. It also provides assistance to existing exporting firms to improve their returns as well as positioning them to enter new markets. The Export Marketing and Investment Assistance (EMIA) Programme is an incentive programme that also aims to develop export markets for South African products.

Trade finance must also be restored to assist in restoring international trade. If commercial banks are unable or unwilling (for risk-related reasons) to finance trade, national governments may need to step in, along with multilateral and regional development banks.

1. **Advance "development integration" in Africa**

South Africa will continue to champion broader regional integration through the Southern African Customs Union (SACU), the Southern African Development Community (SADC) and the envisaged Tripartite Free Trade Area (T-FTA) that spans Eastern and Southern Africa. The priority is to advance "developmental integration", which is an approach that combines market integration, cross-border infrastructure development and policy coordination to diversify production and boost intra-African trade. South Africa is seeking to consolidate the SADC FTA to achieve better business – and developmental – outcomes in the region.

The SADC FTA has been fully implemented since 2012, with 92 per cent of product lines traded at zero per cent. Beyond goods trade, there is some progress in liberalizing SADC trade in services. The work programme to consolidate the SADC FTA seeks to: facilitate the accession of Member States that are not yet participating in the SADC FTA (Seychelles has submitted its tariff offer); fully implement the FTA; focus on trade facilitation; address non-tariff barriers (NTBs); simplify Rules of Origin; harmonise regional standards and technical regulations; and implement harmonised regional customs documentation and procedures.

A promising development for advancing regional integration is the T-FTA that connects the SADC, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) markets (i.e. 26 countries and 600 million people, with a combined GDP of US$1 trillion). The first phase of the negotiations is underway, covering trade in goods and the movement of business persons. The conclusion of the T-FTA is critical for Africa's integration and development as well as providing the basis for the envisaged Continental FTA (C-FTA).

2. **Identify and address non-tariff measures (NTMs) in key export markets**

One of the priority areas for policy harmonisation and coordination under the Tripartite Initiative is to eliminate non-tariff and other barriers to trade that contribute to the high cost of doing business across the Eastern and Southern African regions. To this end, COMESA, EAC and SADC are implementing a non-tariff barriers (NTBs) reporting, monitoring and eliminating mechanism, which incorporates concrete timelines for the removal of NTBs. All three RECs have established NTB monitoring mechanisms to address NTBs. This web-based NTBs mechanism will enhance transparency and easy follow-up of reported and identified NTBs and NTMs.

3. **Implement trade facilitation measures and modernise customs procedures**

The South African Revenue Service (SARS) overhauled its customs management system in August 2013. The new system is fully electronic and significantly reduces the administrative burden on importers and exporters, while improving South Africa's ability to detect high-risk transactions and goods. Since its introduction, the system has processed goods valued at more than R1.7 trillion. Border management cooperation that started during the 2010 FIFA World Cup has deepened. For example one of the South African ports of entry is being prepared as a pilot for seamless border management, which will lead to enhanced border control and trade facilitation. The one-stop border post at Lebombo will become operational shortly, once the remaining formalities have been concluded.

4. **Encouraging competition**

The Competition Commission has made progress in addressing uncompetitive behaviour in the product market. The uncovering of price fixing in the construction and pre-cast concrete market has led to lower prices. The major telecommunications network operator (Telkom) was also ordered to reduce communications network prices.

5. **Investment in infrastructure and freight capacity to help alleviate supply bottlenecks**

Addressing infrastructure bottlenecks should help improve export capacity flow. Over the last five years, the South African Government has spent around R1 trillion on infrastructure upgrading and development to enhance the overall economic competitiveness and to serve as a platform to promote domestic industry and exports. The Government plans to invest a further R2 trillion in infrastructure over the next 5 years.

Transnet approved a R2.3 billion project to upgrade the rail network to the port of Coega, which will raise annual manganese export capacity from 5 million to 21 million tons. Coal export capacity will increase by 30 per cent following the addition of a new 200 wagon train between the Mpumalanga coal fields and the Richards Bay Coal Terminal. Transnet will also add 2.4 million tons of annual coal export capacity to the Waterberg rail line by the end of 2013.

The National Treasury, together with the PICC, will work together to unblock procurement processes in infrastructure projects. Public works, human settlements, transport, health and education have been prioritised.

6. **Implement competitiveness enhancing programmes for South African industry, especially for more value-added domestic production and exports**

Successful exporters need competitive goods to compete successful in the global economy. South Africa has introduced a suite of incentives aimed to support the competitiveness of the labour-intensive and value-adding productive sectors of the economy. The incentives include, amongst others, the Manufacturing Competitiveness Enhancement Programme. A key area in improving productivity is providing the correct policy incentives for firms. This includes minimising red tape, rewards for firms that innovate and broad assistance to firms that want to embark on process improvements.

7. **Improving the efficiency, pricing and capacity of local ports to reduce transport**

costs and enhance competitiveness

The ports regulator maintained 2013/14 port tariffs at their 2012/13 levels and decreased container export tariffs by 43.2 per cent, container import tariffs by 14.3 per cent and vehicle export tariffs by 21.1 per cent. A new tariff structure will be phased from 2014 to 2018. Handling capacity at the Durban container terminal is being expanded.

8. **Promote further development of Small, Medium and Micro Enterprises (SMMEs) and encourage export villages**

Recognising the importance of SMMEs and cooperatives, the current Administration that took office in 2014 has established a new Ministry of Small Business Development. The National Development Plan envisages a treble sized economy by 2030 with a target of 11 million job opportunities. SMMEs and cooperatives can make a meaningful contribution to this objective. SMMEs and cooperatives are a critical means to draw new entrants into the economy, strengthen inclusive growth, build the social economy and create large numbers of jobs.

To that end, the concept of an 'Export Village' has been identified as one of the key pillars of the National Exporter Development Programme (NEDP). Export village is described as an institution of voluntary alliance of companies or cooperatives with the objective of promoting their goods and services abroad through joint actions. The benefits associated with such a facility are network information platforms, export logistical support which include customs clearance, tax rebates, sharing of market intelligence, sharing of marketing and export costs and support for capacity building and export training.

Most South African SMMEs manufacture products with potential for export, however struggle to penetrate the international market due to lack of export knowledge, inadequate resources to finance the export costs in respect of export activities and in some instances inadequate production capacity to service the orders. Consortiums and export village will facilitate collaboration between companies and will advance their export agenda and unlock blockages faced by these small companies in exporting.

Export village will prioritise SMME as their key beneficiaries. Export consortia or village have the potential to spur export led growth, generate employment at macro level, whilst at micro level they expand the exporter base and enhance the efficiency of exporters entering international markets

The productive sectors account for a growing share of production and employment to support inclusive and employment-creating growth. South Africa's Industrial Policy Action Plan (IPAP), which informs and guides South Africa's trade policy, provides well-defined, sector-based plans for manufacturing and other sectors. Addressing specific constraints of key sectors, increasing and diversifying exports to Africa and improving the overall regulatory environment will be important. These policy actions are expected to boost net trade's contribution to South Africa's GDP and growth. Improved export growth could also reduce the trade deficit of the current account deficit. This may help reduce South Africa's external vulnerability, given the reliance of capital flows to fund the shortfall.

South Africa is, and will remain, open to FDI and will continue to provide strong protection to investors, both foreign and domestic, that is in line with high international standards. South

Africa is actively encouraging greater levels of domestic and foreign investment and has introduced a range of incentives and addressed a series of industry specific constraint to promote industrial development in South Africa. Exporting firms usually bring in more technology to remain competitive, thus aiding growth. Increased exports result in higher demand and higher employment.

Rebalancing will occur through a smaller current account deficit for South Africa and also support improved competitiveness of South African exports, which would support more manufactured exports to developed and developing economies. The spillovers will be immense, as South Africa is widely regarded to be a “springboard” for accessing the Southern African market. Growth in South Africa, Africa and other emerging economies would change the investors’ “emerging market perceptions”.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Update on Fiscal Strategy:

The fiscal strategy for achieving a sustainable debt outlook remains unchanged. The debt-to-GDP projections have been revised marginally upwards. The weaker rand exchange rate has pushed up the value of foreign denominated debt, and inflation has had the same effect on inflation-linked debt. Deterioration in the economic growth outlook has increased the debt-to-GDP ratio. Rising bond yields, which are adjusting to anticipated changes in US monetary policy, also contribute to a less benign debt-to-GDP trajectory.

2. Medium-term fiscal strategies

a. Overall strategy for debt sustainability

Pursue countercyclical policy by providing some support to the economic recovery, while reducing the budget deficit over the medium term. The reduction in the deficit is taking place primarily on the expenditure side, through the maintenance of a nominal expenditure ceiling introduced in 2012.

In October 2014 (Medium-Term Budget Policy Statement), the National Treasury proposed to reduce growth in spending by lowering Government's 2014 Budget expenditure ceiling (announced in the Budget in February 2014) by R25 billion over the next two years. At the same time, the Treasury proposed a deficit-neutral approach to financing state-owned companies (SOCs), by ensuring over the next two years that any capitalisation required does not widen the budget deficit.

b. Debt-to-GDP ratio objective

South Africa does not target a specific level of debt. Instead, the goal of fiscal policy is to ensure that debt stabilises over the medium term, and begins to decline as a share of GDP. Over the longer term, fiscal policy will aim to reduce the debt-to-GDP ratio in order to build the fiscal space required to withstand future economic downturns.

c. Intermediate objectives

Maintain the medium term expenditure ceiling, thereby keeping real expenditure growth below long-run potential GDP growth. In so doing, fiscal policy will reduce the structural deficit over time.

d. Expenditure and revenue reforms

Government is in the process of issuing costs containment guidelines. These instructions will apply to the public sector at national and provincial level, and will include restrictions on certain types of operational expenditure.

The independent Tax Review Committee established in early 2013 is mandated to inquire into the role of the tax system in promoting inclusive economic growth, employment creation, development and fiscal sustainability. Its recommendations will inform any changes to tax policy.

e. Reforms to strengthen the fiscal framework

South Africa has introduced a new format for the consolidated fiscal framework. This more transparent format presents core budget information in line with the International Monetary Fund's Government Finance Statistics Manual 2001. The format distinguishes clearly between operating activities and capital investment plans. In addition, extraordinary receipts and payments are brought into the budget framework in line with global standards.

3. Medium-term projections, and change since last submission: These are the latest published estimates and projections (National Treasury's Medium Term Budget Policy Statement (MTBPS), 22 October 2014). Revisions from the previous published set of projections (National Treasury's Budget Review, 26 February 2014) are indicated as track changes.

		Estimate	Projections				
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Gross Debt	42.7	45.9	48.2	49.5	49.7	49.8	n/a
ppt change	0.2	0.1	1.3	1.5	1.4	n/a	n/a
Net Debt	36.8	40.0	42.8	44.6	45.4	45.9	n/a
ppt change	-0.1	0.3	0.9	1.1	1.1	n/a	n/a
Deficit	-4.3	-3.9	-4.1	-3.6	-2.6	-2.5	n/a
ppt change	0.0	0.1	-0.1	0.0	0.2	n/a	n/a
Primary Balance	-1.3	-0.8	-0.9	-0.3	0.7	0.8	n/a
ppt change	0.0	0.1	-0.1	0.1	0.3	n/a	n/a
CAPB							
ppt change							

* South Africa's fiscal estimates and projections are for the fiscal year starting 1 April. The deficit is for consolidated government. The percentage point change is from the Budget Review, 26 February 2014 to the Medium Term Budget Policy Statement (MTBPS), 22 October 2014.

4. Economic Assumptions, and change since last submission:

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

		Estimate	Projections

	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP growth	2.2	1.9	1.6	2.6	2.9	3.1	n/a
ppt change		-0.1	-1.3	-0.7	-0.6	n/a	n/a
Nominal GDP growth	7.3	7.8	7.6	8.7	8.7	8.9	n/a
ppt change	0.2	-0.5	-1.8	-0.8	-1.0	n/a	n/a
ST interest rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ppt change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LT interest rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ppt change	n/a	n/a	n/a	n/a	n/a	n/a	n/a

*** South Africa's growth, inflation and interest rate estimates and projections are for the fiscal year starting 1 April. These are the latest published estimates and projections (National Treasury's Medium Term Budget Policy Statement (MTBPS), 22 October 2014). Revisions from the previous published set of projections (National Treasury's Budget Review, 26 February 2014) are indicated as track changes.** The percentage point change is from the Budget Review, 26 February 2014 to the Medium Term Budget Policy Statement (MTBPS), 22 October 2014.

ANNEX 2: NEW POLICY COMMITMENTS

1. Macroeconomic Policy Responses (including Reforms to Frameworks)

Maintain macroeconomic stability through countercyclical fiscal policy	Government has committed to closing down the fiscal balance, which should support low borrowing cost in the short to medium run and allow economic growth to recover to 3.6 per cent.
Implementation path and expected date of implementation	South Africa's debt levels are manageable and the long-term fiscal outlook supports sustainable public finances. South Africa's national government net debt as a share of GDP continues to grow, but is projected to level off at 44.3 per cent of GDP in 2016/17. As debt stabilises, government is committed to rebuild fiscal space by reducing the ratio of government debt to GDP. Several factors underpin South Africa's sustainable debt position. Although global interest rates are expected to rise, domestic rates on new debt issuances remain low by historical standards. Government's debt portfolio is well structured, and debt denominated in foreign currency is only about 10 per cent of the total, which limits the consequences of rand devaluation. A smooth maturity profile, in addition to an average term-to-maturity of above 13 years, means that the impact of short-term swings in capital markets can be absorbed over time.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	The fiscal strategy for achieving a sustainable debt outlook remains unchanged.

Monetary and Financial Policy	
Implementation path and expected date of implementation	The South African Reserve Bank (SARB) faces a difficult dilemma of a worsening inflation trajectory and weakening economic growth. However, any future decisions will be highly data dependent, and while inflation is the primary focus, the SARB will also be mindful of the weak state of the economy, but is of the view that interest rates will have to normalise over time. It is expected that the Twin Peaks approach to financial sector regulation will come into effect in the first half of 2015. A macroprudential toolkit is currently being put together by the SARB.
What indicator(s) will be used to measure progress?	Remaining within the 3-6 per cent inflation target Well anchored inflation expectations Implementation of the Twin peaks model
Explanation of additionality (where relevant)	No new monetary policy action. Developments on financial policy (see above).

2. **Investment and Infrastructure**

New policy action	Infrastructure Development Act, which is meant to fast-track implementation of the government's infrastructure development plan. The act formalises and establishes in law the Presidential Infrastructure Coordinating Commission (PICC), spelling out the powers of the PICC and allowing the President, which chairs the PICC, to nominate members of all three spheres of government to the PICC.
Implementation path and expected date of implementation	The act came into effect on 1 July 2014 after being signed into law by the President on 30 May. The PICC will meet regularly to drive the implementation of infrastructure.
What indicator(s) will be used to measure progress?	The act sets clear time-frames for government to implement strategic integrated projects (SIPs).

New policy action	Special Economic Zones (SEZ) investment incentives schemes encourage increased investment in South Africa through provision of infrastructure.
Implementation path and expected date of implementation	**Special Economic Zones (SEZ) Bill** was adopted by Parliament in March 2014 and approved by President Zuma. Within the next three months, Government plans to pass all the regulations necessary to establish a SEZ board in order to establish SEZs.
What indicator(s) will be used to measure progress?	

New policy action	Tax-free savings accounts will create a mechanism to increase both household and corporate savings. Tax tools to encourage savings at a household include: • Tax-preferred savings accounts - • Retirement savings reforms • Medical tax credits
Implementation path and expected date of implementation	To be implemented in the next three years.

New policy action	To streamline the regulatory regime, the following reforms/measures would reduce compliance costs and facilitate access to equity finance: • Turnover tax regime for micro businesses • Small business corporation tax relief • Venture capital company regime • Tax treatment of grants

Implementation path and expected date of implementation	To be implemented in the next three years.
What indicator(s) will be used to measure progress?	The South African Reserve Bank (SARB) collects data on South Africa's gross savings as a percentage of GDP

New policy action	Measures to improve investment environment for private sector
Implementation path and expected date of implementation	1. Commitment for further bidding rounds for the renewable energy programme (to cement supplier investment in the country, and expand local value chains, while also helping to reduce the electricity supply shortfall, and lowering carbon emissions) and commitment for the establishment of similar competitive bidding process for the production of electricity from other sources (coal and gas). 2. The establishment of a Government Technical Advisory Centre (GTAC), to assist government departments in project preparation and development. 3. SA has also formed an infrastructure financing task team, to identify constraints to private sector participation in funding infrastructure projects.
What indicator(s) will be used to measure progress?	From a private sector investor perspective, there is a very strong correlation between the FNB/BER business confidence index and investment (private sector). This can therefore be used as a proxy for improvements in the Investment Climate.

3. Employment

New policy action	**Employment Tax Incentive, through which the government shares the initial cost of hiring with the employer to boost job creation.**
Implementation path and expected date of implementation	Government announced Employment Tax Incentive in January 2014.
What indicator(s) will be used to measure progress?	Employment Tax Incentive is intended to support more than 200 000 jobs for young workers over the next 3 years, of which 43 000 jobs represent new opportunities.