



# Finance

National Treasury is the custodian of the nation's financial resources, accountable to the nation to discharge its responsibilities professionally, with the aim of promoting growth and prosperity for all.

In October 2014, the Minister of Finance Nhlanhla Nene tabled the 2014 Medium Term Budget Policy Statement (MTBPS) which signaled a shift in the country's fiscal policy. Government proposed a series of measures to reduce the country's budget deficit and to stabilise public debt.

Proposed reductions to planned expenditure ceilings were targeted to avoid cuts in front-line service delivery.

Budgets for non-essential goods and services were frozen, which was expected to result in substantial savings over the next two years. Across national departments, planned expenditure on travel and subsistence were cut by R555 million, while advertising and communication budgets were reduced by R240 million.

The office of the Auditor-General of South Africa (AGSA) flagged government spending on consultants. Lower spending on consultants was expected to generate savings of R370 million.

## Fiscal policy framework

In October 2014, government proposed a package of fiscal measures on the expenditure and revenue side to re-establish the sustainable foundation for public finance and to build a platform for investment-led growth in the future.

These measures were in line with the Constitution of South Africa, which requires government to act within its available resources to progressively realise fundamental social and economic rights. These steps, according to the MTBPS, were necessary to ensure the sustainability of the country's most important public spending programmes in a weaker economic environment.

The proposals complemented reforms to moderate consumption, boost savings and expand productive investment.

## Jobs Fund

In 2011, President Jacob Zuma launched the "Year of the Job" campaign at the back of the 2008 global economic meltdown that shed one million jobs by 2009.

In support of the President's campaign, the Development Bank of Southern Africa (DBSA), which the Minister of Finance is the governor of, launched the Jobs Fund.

After three funding cycles, 93 projects were approved for an overall funding of R5 billion,

while a further R6,1 billion was leveraged through project partners.

By October 2014, R969,2 million had been disbursed. Total employment in these projects amounted to 167 847, of which 56 356 were new placements into vacant positions.

Over 185 000 beneficiaries received work-related training.

## Budget framework

Government proposed a series of measures to narrow the country's budget deficit from 4,1% in 2014 to 2,5% over the next three years. Among the elements was the reduction of spending. Government lowered its expenditure ceiling by R10 billion in 2015/16 and R15 billion in 2016/17. It also adjusted tax policy and administration.

In the 2015 national budget, proposals were introduced to generate additional revenue of at least R27 billion over the next two years.

Long-term planning also came to the fore with strengthened budget preparation. Emphasis was placed on longer-term planning and efficient resource allocation within a fiscal framework that linked aggregate expenditure and economic growth beyond the medium term.

The headcount of government personnel was frozen while government would also review funded vacancies.

Government adopted a deficit-neutral approach to financing State-owned companies (SOCs), over the next two years ensuring that any capitalisation required does not widen the budget deficit.

## Expenditure planning and statistics

According National Treasury's MTBPS October 2014, South Africa's 2014/15 account deficit increased to about 5,5% of the gross domestic product (GDP) over the past two years.

The trade deficit is projected to widen to -2,4% of the GDP in 2014.

According to the MTBPS, while declining commodity prices in South Africa's traditional export market – the European Union (EU) – has put pressure on exports, other opportunities are emerging.

Trade and financial links with sub-Saharan Africa have grown and South African firms are well positioned to expand to Africa.

The global re-balancing of growth also provided opportunities for South Africa to broaden beyond its traditional reliance on minerals, metal and agricultural commodities to manufactured exports with greater value addition, supported by the more competitive exchange rate.

National Treasury's projection comes at the back of an increased interest by European markets to invest in sub-Saharan Africa.

In October 2014, the European House-Ambrosetti, one of Europe's major think tanks, told Italian and South African CEOs that the region had untapped potential in the energy, manufacturing and agribusiness sectors that could increase the region's exports.

The African Union Commission (AUC) identified regional integration as a key to unlock growth in Africa.

In October 2014, the International Monetary Fund (IMF) forecasted economic growth to remain above 5%.

## Growing the economy

National Treasury proposed increasing its spending over the next three years on initiatives to boost job creation, education and skills development.

The budget proposed expenditure growth of 7,6% a year over the next three years, reaching R1,55 trillion by 2017/18.

Over the past decade the Department of Finance increased public spending of the main budget from 26% to 31% of the GDP. Much of this increase has gone to programmes that contribute to the social wage, including schools, roads, hospitals, housing and municipal services.

The medium-term objective was to ensure that public spending promoted growth and created an environment for greater private-sector investment.

Government planned to spend budget on, among other things:

- reinforcing support for export competitiveness and job creation, including over R18 billion for manufacturing incentives, the establishment of special economic zones (SEZs) and the employment tax incentive
- supporting cities to improve living conditions, modernise transport and communication infrastructure, expand the urban economy and promote trade and investment
- working with development-finance institutions to increase investment in the urban landscape and expand the municipal debt market
- expanding the skills base, with R800 billion to be disbursed on education and skills
- post-school education and training received the fastest-growing share of the budget and would continue to expand.

One-third of the 2014/15 budget went to the compensation of employees. Government budgeted for nominal wage-bill growth in line with consumer-price inflation (CPI).

In the 2014 economic circumstances, it was especially important that government maintained

a careful balance between personnel spending and other resources required for public service delivery.

Changes that set out in the MTSF was government's plan of action over the next five years.

The MTSF includes programmes aimed at improving competitiveness, particularly in new areas such as oil and gas development, renewable energy and green technology.

It recognises the need to support job creation through sector-based interventions, employment incentives, the Expanded Public Works programme (EPWP) and the Jobs Fund.

The structural announced in October 2014, included:

- helping companies in the manufacturing sector to enhance their competitiveness and upgrade equipment through the Industrial Policy Action Plan (IPAP), a new framework for SEZs that allows for targeted incentives, logistics improvements and active partnerships between businesses, municipalities and development agencies
- improving links between emerging farmers and produce markets to accompany an improved alignment between land reform and agricultural support programmes
- expanding footprints into sub-Saharan Africa through investments and business partnerships
- extending the independent power producer programme to include 2 500 MW of coal projects and 800 MW of cogeneration projects to be connected into the national electricity grid
- transforming investments in the transport and communication sector, where the Passenger Rail Agency of South Africa (Prasa) has concluded a R53-billion contract to replace over 500 commuter trains over the next 10 years
- improving consumer protection and safeguarding investments including attention to unfair lending and debt recovery practices and initiatives to encourage saving.

The MTSF aims to:

- informing spending patterns across key priority objectives
- improving the quality of the country's education system and health services
- building capacity
- strengthening accountability in the public sector
- reshaping the country's spatial landscape
- investing in dynamic city development, integrated housing and transport programmes
- supporting small business activity and job creation in urban and rural areas.

## International Development and Cooperation

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

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

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

## Overview of the 2014/15 Budget

For the period of 2014 to 2019 government's MTSF provides a roadmap to address challenges as it is the first five-year policy framework designed in line with the 2030 vision of the National Development Plan (NDP).

Among the MTSF priorities for structural reform, is building the capacity of the Public Sector, particularly at local government through a "back to basics" approach as well as reshaping South Africa's urban environment through integrated spatial planning (ISP).

In October 2014, government announced that it would spend R4,4 trillion over the next three years.

South Africa's longer term economic prospects are tied to a successful implementation of the reforms described in the NDP and the MTSF. This included large infrastructure investments in electricity and transport, expanded partnerships to encourage private-sector investment; SEZs to boost exports; programmes to encourage more dynamic, integrated cities and initiatives to improve the quality of education and skills development.

Critical MTSF interventions over the medium term included:

- expanding energy supply through public and private investment, including procuring 2,5 GW of privately supplied baseload electricity and signing cogeneration agreements for over 800 MW to be added to the national grid
- expanding rail capacity for coal exports between Mpumalanga and the Richards Bay coal terminal, building a new heavy-haul rail line from the Waterberg region, and increasing

port capacity for iron exports via Saldanha and the Northern Cape corridor

- enhancing the performance of sea ports and inland terminals, revising and consolidating port charges, establishing a single transport regulator and reducing cross-subsidisation in transport pricing
- preparing to exploit on- and offshore oil and gas by developing an exploratory drilling plan and legislation
- improving dispute-settlement mechanisms in labour relations
- enabling immigration reform to encourage people with skills to work in South Africa.

### Combating corruption

Efforts to combat corruption continued in 2014. Government continued to fight waste and corruption, supported by audit institutions and stringent monitoring and reporting requirements.

Efforts to improve value for each rand spent included strengthened measures to identify, prevent and combat corruption in both the public and private sectors.

Government's anti-corruption task team investigated 169 criminal cases involving 945 individuals. By September 2014, investigations had led to 54 convictions with R1,8 million in assets having been frozen and R105 million in assets being forfeited.

Financial accounting and control systems were also strengthened resulting in improved reporting of unauthorised, irregular or wasteful spending.

Effective responses distinguished between technical infractions and illegal activity.

Additionally, National Treasury announced that between 2014/15 and 2016/17 the Chief Procurement Officer will build a foundation for more cost-effective operations in the public sector.

The range and scope of nationally negotiated contracts will be expanded and a national price referencing system will be introduced. Government will also draw on private-sector expertise and best practice in procurement systems.

The fight against corruption also depends on an active citizenry, which the NDP stresses is a precondition for South Africa to achieve its ambitious social and economic objectives.

### Improving government services

Government expressed its commitment to maintain the core of social expenditure programmes, while sustainably increasing capital investment. Budgets for health, education and social grants will keep pace with inflation over the medium term.

Allocations to employment programmes, technical training and skills development as well as housing and social infrastructure also continued to grow.

The alignment and coordination across government, improved programme effectiveness without requiring additional funds.

Over the medium term the national budget emphasised improving the use of public resources and identifying savings to finance policy priorities without affecting service delivery.

National budgets emphasised restructuring the way departments and agencies work together to eliminate inefficient resource-allocation and overlapping mandates.

It also reinforced cost-containment with the 2015/16 budget by paying particular attention to reducing items that are not critical for service delivery.

Government encouraged expanded partnerships between public agencies or with the private sector where such initiatives could bring about more efficient outcomes.

### Legislation and policies

- The Public Finance Management Act, 1999 (Act 1 of 1999) ensures that public funds are managed by a less rigid environment for financial management, with a stronger emphasis on the prudent use of state resources, improved reporting requirements and the use of management information to enhance accountability.
- The Municipal Finance Management Act, 2003 (Act 56 of 2003) applies to all municipalities and municipal entities, and national and provincial organs of state, to the extent of their financial dealings with municipalities.
- The Cooperative Banks Act, 2007 (Act 40 of 2007) provides for the establishment of the Cooperative Banks Development Agency as a public entity under the executive authority of the Minister of Finance.
- Division of Revenue Act, 2012 (Act 5 of 2012)
- Appropriation Act, 2012 (Act 7 of 2012)
- Rates and Monetary Amounts and Amendment of Revenue Laws Act, 2012 (Act 13 of 2012)
- Adjustments Appropriation Act, 2012 (Act 17 of 2012)
- Division of Revenue Amendment Act, 2012 (Act 18 of 2012)
- Financial Markets Act, 2012 (Act 19 of 2012)
- Tax Administration Laws Amendment Act, 2012 (Act 21 of 2012)
- Taxation Laws Amendment Act, 2012 (Act 22 of 2012)
- Credit Rating Services Act, 2012 (Act 24 of 2012).



- Finance Intelligence Centre (FIC) Act, 2001 (Act 38 of 2001).

## Financial institutions Financial Intelligence Centre

The FIC is South Africa's national centre for the gathering, analysing and disseminating financial intelligence. The FIC was established to identify proceeds of crime, combat money laundering and the financing of terrorism. In so doing the PIC's primary role is to protect the integrity of South Africa's financial system. The FIC was established by the FIC Act, of 2001 and reports to the Minister of Finance and to Parliament. The FIC's mandate is to:

- identify the proceeds of crime, combat money laundering and prevent terror financing
- supervise and enforce compliance with the FIC Act 38 of 2001
- share information with law enforcement authorities, supervisory bodies, intelligence services, the South African Revenue Service (Sars) and other local and international agencies
- facilitate effective supervision and enforcement by supervisory bodies
- formulate and lead the implementation of policy regarding money laundering and the financing of terrorism
- provide policy advice to the Minister of Finance
- uphold the international obligations and commitments required by the country in respect of anti-money laundering and combating financing of terrorism (AML/CFT).

The FIC Act of 2001, introduces a regulatory framework of measures which requires certain categories of business to take steps regarding client identification, record-keeping, reporting of information and internal compliance structures.

All businesses have to report various suspicious transactions to the FIC. The FIC also receives additional financial data from accountable and reporting institutions.

South Africa is a member of the Financial Action Task Force, the international body, which sets standards and policy on anti-money laundering and for combating the financing of terrorism (AML/CFT). The FIC is also a member of Eastern and Southern Africa Anti-Money Laundering Group, which aims to support countries to implement the global AML/CFT standards.

The FIC is a member and current chair of the Egmont Group, which consists of financial intelligence units from 147 countries around the world. The primary aim of the organisation is to facilitate cooperation and sharing of financial intelligence information among its members.

## Financial and Fiscal Commission (FFC)

The FFC is an independent, objective, impartial and unbiased constitutional advisory institution. It is a permanent expert commission with a constitutionally defined structure, a set of generic responsibilities and institutional processes.

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

The research includes:

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

The Constitution and other legislation requires government to consult with the FFC on issues such as provincial and local government revenue sources, and provincial and municipal loans.

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

## Public Investment Corporation (PIC)

The PIC's clients are public-sector entities, most of which are pension, provident, social security, development and guardian funds.

The PIC's role is to invest funds on behalf of these clients, based on investment mandates set by each client and approved by the Financial Services Board (FSB), with which it is registered as a financial services provider (FSP).

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

The PIC was established as a corporation on in accordance with the PIC Act, 2004 (Act 23 of 2004).

Corporatisation has enabled the PIC to structure its investment activities and operations in a manner comparable to that of private-sector investment managers.

Apart from pursuing FSB-compliant mandates, the PIC benchmarks its investment performance against market-driven indices, enabling clients and the shareholder to compare PIC's returns with those achieved in the marketplace.

## South African Revenue Service

Sars is an organ of State outside the public

service, established in accordance with the Sars Act, 1997 (Act. 34 of 1997).

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

- collecting and administering all national taxes, duties and levies imposed under national legislation
- collecting revenue that may be imposed under any other legislation, as agreed upon between Sars and an organ of State or institution entitled to the revenue
- advising the Minister of Finance on revenue
- facilitating trade
- providing protection against the illegal import and export of goods
- advising the Minister of Trade and Industry on matters concerning control over the import, export, manufacture, movement, storage or use of certain goods.

### Tax administration

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

A single, modern framework for the common administrative provisions of various tax Acts administered by Sars, excluding customs, was established by the Tax Administration Act, 2011 (Act 28 of 2011). The Act simplifies and provides greater coherence in South African tax administration law. It eliminates duplication, removes redundant requirements, and aligns disparate requirements that previously existed in different tax Acts administered by Sars.

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

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

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

The short and long term implications for economic growth and job creation will be a key consideration to this.

In 2014, Sars reported a collection of R899,7 billion in tax in the 2013/14 fiscal year. Collections were up 10,5% from the R814,1 billion collected in the 2012/13 year. Due to the increased collections the Government was able to meet its 4% deficit target.

### Employment Tax incentives

Government's employment tax incentives, which were introduced in 2014, attracted buy-in from employers.

The tax incentive began to improve the job prospects for young workers. The incentive was introduced to encourage employers to appoint young workers with little or no work experience.

By August 2014, about 23 500 employers had claimed the incentive for at least 209 000 employees.

Over the past five years, the EPWP created four million jobs on short- to medium-term.

The Department of Environmental Affairs (DEA) runs several programmes that create jobs and train people.

The Department of Trade and Industry (dti) provides incentives to create jobs in areas such as business process outsourcing and off shoring, which created 9 000 jobs by October 2014.

This came against the backdrop of the 2014 Quarterly Labour Force Survey, which showed that formal employment creation was more moderate.

The unemployment rate remained at about 25% (or 35% if discouraged job seekers were included.) The survey indicated that 403 000 jobs had been created since June 2013. Data also showed that temporary employment associated with the national and provincial elections in May 2014, and growth in public employment programmes accounted for a large share of growth recorded in 2014.

Weak employment outcomes were reflected in slowing real disposable income growth. As household balance sheets came under strain, credit extension declined, reducing the pace of household consumption growth.

### Davis Tax Committee

In July 2013, the Minister of Finance appointed a tax review committee, headed by Judge Dennis Davis.

The terms of reference of the committee includes evaluating the current tax system against internationally accepted standards, principles and practices, improving tax compliance and addressing base erosion and profit shifting.

### Tax Ombud

In terms of the Tax Administration Act of 2011,

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

### South African tax system

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

Non-residents are taxed on their income from a South African source. The liability of taxpayers is determined subject to the provisions of International Agreements for the Avoidance of Double Tax.

Tax is levied on taxable income, which is calculated as gross income, less exemptions and permissible deductions, plus the applicable percentage of the net capital gain, for the year.

The main tax products are company income tax (CIT), personal income tax (PIT), value added tax (VAT) and customs and excise duties. Relief is often available from any consumption-based tax when the goods are exported under certain terms and conditions.

### Company income tax

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

### Value-added tax

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

The quoted or displayed price of goods and services must be VAT-inclusive. A person who supplies goods or services is liable to register for VAT, if the income earned is more than R1 million in a 12-month period, or when there is a reasonable expectation that the income will exceed this amount. A person can also register voluntarily for VAT, if the income earned from supplying goods or services for 12 months exceeded R50 000.

### Personal income tax

PIT mainly focuses on the taxation of individuals' income. The main contributor to PIT is employment income from salary earners, and income

generated from sole-proprietor activities. The tax rate applicable to PIT-related taxable income is progressive, ranging from marginal rates of 18% to 40%. As a means of collecting PIT from salary and wage income, a mechanism known as Pay-as-you-earn (PAYE) is in operation that enables employers to withhold tax due to Sars from employees and pay this over to Sars monthly and reconciled biannually.

### Other tax products administered by Sars

#### Carbon tax

The carbon tax policy presents improved linkage between the proposed carbon tax pricing mechanism and the desired emission reduction outcomes (DEROs) proposed in the National Climate Change Response Policy. South African technologies, such as coal-to-liquids processes, were some of the most advanced in the world; however, it had high emission rates and, therefore, the country would have to decide whether it wanted to close down the sector and lose that revenue to reduce the country's carbon emission. DEA was also expected to in future be more prominent in the measurement, reporting and verification of greenhouse gases, with emphasis being placed on an updated greenhouse-gases inventory.

#### Excise duty

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

#### Environmental levy

There are four main areas of levies in this category namely the plastic bags levy, electricity generation levy, electric filament levy and motor vehicle CO<sub>2</sub> emission levy.

#### Fuel levy

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

#### Transfer duty

Transfer duty is payable on the acquisition of property. With effect from 23 February 2011, property costing less than R600 000 attracts no duty. A 3% rate applies to properties costing between R600 000 and R1 million.

In respect of property with a value between R1 million and R1,5 million, the duty is R12 000 plus 5% of the value above R1 million.

In respect of property above R1,5 million, the duty is R37 000 plus a rate of 8% of the value exceeding R1,5 million.

### Estate duty

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

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

### Dividend-withholding tax

With effect from 1 April 2012, a dividend-withholding tax is levied on shareholders on payment of a dividend at 15%. The tax is withheld by either the institution paying the dividend or by a regulated intermediary distributing the dividend. The dividend-withholding tax replaces the secondary tax on companies.

### Securities transfer tax

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

### Skills-development levy

The Skills Development Fund is intended to be used for employee training and skills development.

The levy, which is an amount paid by all employers to Sars, goes into a government body responsible for organising education and training programmes within a specific sector. Each sector has its own Sector Education and Training Authority (Seta). The rate is 1% for employers with an annual payroll in excess of R500 000.

### Unemployment Insurance Fund (UIF)

The UIF insures employees against the loss of earnings, due to termination of employment, illness or maternity leave. The contribution to the UIF is shared equally by employers and employees at a rate of 1% of remuneration each. The employee share of 1% is withheld by the employer and paid to Sars, together with the employer share of 1%, monthly.

### Tax on international travel

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

### Rates on property

Property-related taxes include municipal rates and charges for refuse and sewerage.

### Customs duty

Customs duty is a tax levied on imports by the customs authority to protect domestic industries. Anti-dumping duty, countervailing duty and safeguard measures are trade-remedy tools that allow government to take remedial action against imports which are causing material injury to a domestic industry.

The policy on customs duty rates and trade remedies relating to the importation of goods into South Africa is set by the International Trade Administration Commission under the authority of the dti.

A new Customs Control Act, 2014 (Act 31 of 2014) and Customs Duty Act, 2014 (Act 30 of 2014) were promulgated in July 2014 to provide a platform for the modernisation of customs administration that achieves a balance between effective customs control, the secure movement of goods and people into and from the country and the facilitation of trade and tourism. In addition, VAT is also collected on goods imported and cleared for home consumption.

### Southern African Customs Union (SACU)

Botswana, Lesotho, Namibia, South Africa, and Swaziland are signatories to the SACU Agreement. They apply similar customs and excise legislation and the same rates of customs and excise duties on imported and locally manufactured goods. Applying uniform tariffs and harmonising procedures simplifies trade within the SACU area by enabling the free movement of goods for customs purposes. However, all other national restrictive measures such as import and export control, sanitary and phytosanitary requirements and domestic taxes apply to goods moved between member states.

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

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

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



## Compliance levels

### Registration compliance

Sars continues to broaden the tax base and expand its taxpayer and trader register. In the 2010/11 financial year Sars changed its registration policy. It stipulated that all individuals who are formally employed must register with Sars and not, as in the past, only those individuals above the tax threshold. The number of individuals on the Sars register has increased from around 6,4 million taxpayers in 2009/10 to 16,8 million in 2013/14. This shift in policy, together with other measures implemented by Sars, grew the taxpayer and trader register by 9,8% during the 2013/14 financial year.

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

### PIT filing compliance

PIT filing compliance is calculated by comparing the total number of returns received on time for a particular filing season (From 1 July to end November when taxpayers must submit income tax returns) with the expected total number of returns for the same filing season. During the 2013 filing season more than 91% of all returns expected by Sars were filed by the end of the filing season.

### Voluntary Disclosure Programme

A one-year Voluntary Disclosure Programme (VDP) was introduced in November 2010. This was followed by a permanent VDP in terms of the Tax Administration Act of 2011, in October 2012. The permanent VDP is part of a package of compliance measures aimed at encouraging non-compliant taxpayers to regularise their tax affairs. By 2014, the combined revenue collected through the programmes stands at R6,7 billion.

### Modernisation Programme

Through its Modernisation Programme, launched in 2006, Sars established an electronic platform to help taxpayers, traders and employers engage with the organisation quickly and efficiently. The eFiling service allows Sars clients to request information, submit returns, make declarations and pay taxes and duties electronically. It supports major tax products, such as CIT, PIT, PAYE and VAT as well as several customs and excise products. Sars clients can access the eFiling service via the internet or by visiting

a Sars branch office. A mobile facility, which enables taxpayers to access the eFiling service from a mobile device, was introduced in 2013.

The modernisation programme has also enabled Sars to use advanced technology to improve compliance, manage risk and combat fraud and corruption. Sars is deploying an increasing proportion of its personnel in service and compliance activities. Greater access to third-party data has helped Sars tailor its electronic platform to suit client requirements better as well as improve the verification of information submitted by taxpayers and traders.

### National Gambling Board (NGB)

The NGB is governed by the NGA, 2004 (Act 7 of 2004).

The vision of the board is to position South Africa as the pre-eminent jurisdiction with an effectively regulated industry. The NGB is committed to effective regulation and super-vision of the South African gambling industry, which is a significant economic sector, by upholding internationally recognised standards of compliance.

The emergence of illegal internet gambling raises challenges to the regulatory regime concerning when, how and what the framework of interactive gambling will be, and what the challenges are.

### Statistics

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

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

### Responsible gambling

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

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

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

The NRGP has various operational components, such as public awareness and prevention,

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

### **National Lotteries Board (NLB)**

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

The board's main activities include:

- advising the Minister of Trade and Industry on the issuing of the licence to conduct the National Lottery
- ensuring that the National Lottery and sports pools are conducted with all due propriety
- ensuring that the interests of every participant in the National Lottery are adequately protected
- ensuring that the nett proceeds of the National Lottery are as high as possible
- administering the National Lottery Distribution Trust Fund and holding it in trust
- advising the Minister on percentages of money to be allocated, in terms of the Lotteries Act of 1997
- advising the Minister on establishing and implementing a social-responsibility programme in respect of lotteries
- administering and investing the money paid to the board in, accordance with the Lotteries Act, 1997.

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

### **Auditor-General of South Africa**

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

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

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

Various business units provide auditing services, corporate services and specialised

audit work, such as performance audits, information system audits and audit research and development. The AGSA also has an international auditing complement.

## **Financial sector**

### **South African Reserve Bank (SARB)**

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

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

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

Since its establishment, the SARB has always had private shareholders who have limited rights. It has more than 600 shareholders. Its shares are traded on the over-the-counter share-trading facility managed by the SARB. Its operations are not motivated by a drive to return profits, but to serve the best interests of all South Africans.

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

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

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

### **System of accommodation**

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

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

The main instrument for managing liquidity in the money market is repo transactions. The repo rate is the price at which the SARB lends cash to the banking system and is the key operational variable in the monetary-policy implementation process. It represents the most important indicator for short-term interest rates.

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

### Creating a liquidity requirement

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

The SARB, therefore, creates a liquidity requirement (or shortage) in the money market, which it then refinances at the repo rate – a fixed interest rate determined by the Monetary Policy Committee (MPC), comprising the bank's governors and other senior officials. After each meeting, the MPC issues a statement indicating its assessment of the economy and announces policy changes, if necessary.

The SARB has to intervene regularly in the money market to create a shortage that would drain excess liquidity. In addition to the liquidity-management operations, the SARB uses other open-market operations to achieve its monetary-policy objectives. The open-market operations refer to the selling of SARB debentures, longer-term reverse repos, money-market swaps in foreign exchange and the movement of public-sector funds, for example, the Corporation for Public Deposits and central government funds, as well as changes in the cash-reserve requirements for banks.

### Functions

The primary function of the SARB is to protect the value of South Africa's currency.

In discharging this role, it takes responsibility for:

- ensuring that the South African money, banking and financial system as a whole

is sound, meets the requirements of the community and keeps abreast of international developments

- assisting the South African Government, as well as other members of the economic community of southern Africa, with data relevant to the formulation and implementation of macroeconomic policy
- informing the South African community and all stakeholders abroad about monetary policy and the South African economic situation.

**Open-market operations:** Through this mechanism, the bank can exert influence over interest rates in the market. These operations are conducted to:

- neutralise or smooth the influence of exogenous factors on the liquidity position in the money market
- maintain an adequate liquidity requirement in the market, which has to be refinanced from the bank.

### Service to government:

#### • Gold and foreign-exchange reserves:

The bank is the custodian of the country's official gold and foreign-exchange reserves. Subsequent to the conversion of the negative net open foreign currency position in May 2003 into a positive position, foreign reserves have been growing.

#### • Banker and adviser to government:

The main services provided are administering the auctions of government bonds and National Treasury bills, participating in the joint standing committees between the bank and National Treasury, and managing the flow of funds between the exchequer account and tax and loan accounts.

#### • Administration of exchange control:

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

#### • Provision of economic and statistical services:

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

#### • Bank supervision:

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

#### • The national payment system:

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

from settlement default by one or more of the settlement banks.

- **Banker to other banks:**

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

- **Banknotes and coins:**

The South African Mint Company, a subsidiary of the bank, mints all coins on behalf of the bank. The South African Bank Note Company, another subsidiary of the bank, prints all banknotes on behalf of the SARB. Currency is distributed to commercial banks through the bank's seven branches. It is the responsibility of the branches to ensure that there is an adequate supply of new notes available to meet demand, and to replace unfit notes. The branches are responsible for the quality of banknotes in circulation in their respective regions.

- **Lender of last resort:**

In terms of its "lender-of-last-resort" activities, the bank may, in certain circumstances, provide liquidity assistance to banks experiencing liquidity problems.

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

- **Provision of internal corporate support services and systems:** To ensure smooth operations and administration, the bank provides its own internal services, supported by information, communication and technology, and human resources.

## Monetary policy

The SARB is responsible for the monetary policy of South Africa. Monetary policy can be defined as the measures taken by monetary authorities to influence the quantity of money and the rate of interest in a country, with a view to achieving stable prices and facilitating full employment and sustainable economic growth. South Africa's monetary policy is conducted within an inflation targeting framework and the refinancing system is the mechanism used by the Bank for the implementation of monetary policy.

Owing to a slightly improved inflation outlook, stable inflation expectations and the downside risk posed by the weak growth outlook, the Monetary Policy Committee (MPC) decided to keep the repurchase rate unchanged at 5,75% at its September and November 2014 meetings. While the inflation trajectory remained

uncomfortably close to the upper end of the target range, the combination of stubborn inflation and a sluggish growth outlook continued to pose a difficult dilemma for monetary policy.

## The banking industry

As at the end of December 2014, 34 banking institutions – 10 locally controlled, six foreign-controlled, 14 registered branches, three mutual banks and one cooperative bank were reporting data to the Bank Supervision Department of the SARB.

There were also 39 authorised representative offices of international banks in South Africa. By December 2014, two banks were in liquidation namely Islamic Bank Limited and Regal Treasury Private Bank Limited.

## The microlending industry

The dti introduced the National Credit Act (NCA), 2005 (Act 34 of 2005), to allow the credit market to function in a robust and effective manner.

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

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

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

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

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

## Other financial institutions Cooperative Banks Development Agency

The Cooperative Banks Development Agency was established to regulate, promote and



develop cooperative banking, including deposit-taking and lending co-operatives. The agency envisages a strong and vibrant cooperative banking sector that broadens access to and participation in diversified financial services towards economic and social well-being.

Cooperative Banks Development Agency are to:

- register, regulate and supervise cooperative banks
- promote, register and regulate representative bodies
- facilitate, promote and fund education and training to enhance the work of co-operative financial institutions
- accredit and regulate support organisations
- provide liquidity support to registered cooperative banks through loans or grants manage a deposit insurance fund. financial cooperatives seeking to increase their capacity and work towards becoming cooperative banks, support organisations, representative bodies and regulatory authorities operating within the sector.

### **Development Bank of Southern Africa**

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

In March 2014, the European Union (EU) appointed the DBSA as its fund manager for a €100-million programme designed to accelerate the preparation of social and economic infrastructure projects in South Africa and the broader region.

Known as the Infrastructure Investment Programme for South Africa (IIPSA), the fund specifically aims to move priority energy, transport, water, information and communications technology, education and health projects from concept to bankability.

Besides the direct financial input from the European governments, IIPSA is also being backed by the European Investment Bank, Germany's KfW, the Agence Française de Développement and the UK's Department for International Development.

### **Land and Agricultural Development Bank (Land Bank)**

The Land Bank operates as a development finance institution within the agricultural and

agribusiness sectors, and is regulated by the Land and Agricultural Development Bank Act, 2002 (Act 15 of 2002).

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

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

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

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

### **Financial Services Board**

The FSB is a regulatory institution, established in terms of the FSB Act, 1990 (Act 97 of 1990).

The functions of the board include:

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

The Financial Markets Act, 2012 (Act 19 of 2012), which will regulate financial markets and over-the-counter (OTC) derivatives. The introduction of the new law is meant to bring South Africa in line with international norms and standards.

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

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

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

### Collective investment schemes (CIS)

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

### Financial advisers and intermediaries

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

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

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

### Recognised representative bodies

Section 6(3)(iii) of the FAIS Act of 2002 provides for the Registrar of FSPs to delegate any of its powers, in terms of the Act, to anybody recognised by the Act. Two such functions, the consideration of applications for licences under Section 8 and the consideration of applications for approval of compliance officers under Section 17(2) of the Act, were delegated to two recognised representative bodies. As recognised examination bodies, another four bodies are responsible for developing and delivering the regulatory examination.

### Advisory Committee on Financial Service Providers

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

The advisory committee comprises a chairperson, a representative of the Council for Medical Schemes, established by Section Three of the Medical Schemes Act, 1998 (Act 131 of 1998), persons representative of product suppliers, FSPs and clients involved in the application of this Act.

The members of the advisory committee, except for the Registrar and Deputy Registrar, who are ex officio members, hold office for a period determined by the Minister.

### Licensing of financial service providers

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

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

### Insurance companies

Insurance is an agreement between a policyholder and an insurance company. It is divided into long and short-term insurance. In terms of the Long-Term Insurance Act, 1998 (Act 52 of 1998) and the Short-Term Insurance Act, 1998 (Act 53 of 1998), all insurance companies must be registered by the FSB and must comply with the provisions of these Acts.

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

### Market abuse

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

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

### Retirement funds

To encourage South Africans to save more, employer contributions to retirement funds

will become an employee fringe benefit for tax purposes from April 2015.

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

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

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

## Enforcement

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

The FSB administers the following Acts:

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

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

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

## Government bonds

### Retail bonds

Government issued retail bonds to encourage South African citizens to save and as a diversified source of funding. Retail bonds may be purchased from National Treasury, the South African Post Office and Pick n Pay stores countrywide.

### Domestic capital market bonds

Increased global demand for emerging markets' higher-yielding debt has led to rising international interest in South African government bonds.

## Primary market

National government is responsible for the bulk of the net issuances in the local bond market, consistent with its elevated funding needs.

Government funding in the domestic primary market is, among others, effected through long-term market loans, which comprise fixed-income bonds, inflation-linked bonds, floating-rate notes and retail bonds.

The gap between the nominal yield on conventional bonds and the real yield on inflation-linked government bonds also narrowed in recent months as inflation expectations improved, regardless of the depreciation in the exchange value of the rand. The break-even inflation rate in the nine-year maturity range progressively moved lower from 6,77% in June 2014 to 5,87% in November 2014, as the conventional government bond yield declined, while the real yield on inflation-linked government bonds increased. Consistent with the downward trend in domestic bond yields, the currency risk premium on South African government bonds narrowed from 401 basis points in May 2014 to 369 basis points in October, as yields on rand-denominated bonds declined more pronouncedly than yields on US dollar-denominated bonds.

## International bonds

The country's outstanding foreign currency-denominated debt declined marginally to US\$62,2 billion at the end of the second quarter of 2014 due to the redemption of international bonds by the private as well as the public sector. The JPMorgan Emerging Markets Bond Index Plus (EMBI+) yield spread above United States of America (US) government bonds fluctuated wider from 283 basis points in July 2014 to 322 basis points in October, as investor sentiment towards emerging markets turned less favourable along with the sell-off of emerging-market currencies. The sovereign risk premium on South African government US dollar-denominated bonds in the 10-year maturity range trading in international markets narrowed noticeably from 233 basis points in February 2014 to 169 basis points in September, before widening to 189 basis points in October 2014.

## Secondary market

Sentiment towards emerging-market economies, including South Africa, improved notably in the third quarter of 2014 as indicated by non-resident investors' interest in three international bonds issued by the South African Government. The bond issues comprised a dollar-denominated bond, a euro-denominated bond and a well over-subscribed Sukuk (Islamic) bond, the

first of its kind issued by South Africa. In total, government raised more than R23 billion through these issuances. Non-resident investors' net purchases of South African equities amounted to R23,6 billion in the third quarter of 2014.

### Exchange rates

Positive economic developments in the United States of America (USA), among other factors, caused the nominal effective exchange rate of the US dollar to increase, on balance, by about 7% in the third quarter of 2014. During 2014, the exchange rate of the euro weakened by 4%, weighed down by concerns about lacklustre economic growth. Among emerging-market currencies, the oil-sensitive Russian rouble and the Argentine peso proved to be two of the worst performing currencies in 2014, while the Indian rupee and Indonesian rupiah were rated among the best-performing currencies.

The South African rand experienced some strain in the third quarter of 2014, in line with the performance of other emerging-market currencies. Factors that weighed down on the rand included industrial strike action in the steel and engineering industry, subdued domestic economic growth, a decline in international commodity prices and the country's twin deficits. On balance, the nominal effective exchange rate of the rand declined by 2% in the third quarter of 2014 with the depreciation concentrated in September 2014, partly due to the strengthening of the US dollar. However, the nominal effective exchange rate of the rand recovered by no less than 4% in October as the US Federal Reserve announced that monetary policy in the US would remain accommodative for longer and further stimulus injection measures were introduced by the People's Bank of China and the European Central Bank. In addition, the exchange rate of the rand also benefited from the announcement of a narrowing in the country's trade deficit for September and a prudent MTBPS in October 2014. The real effective exchange rate of the rand on balance increased by about 6% from January 2014 to October 2014, but remained below its 10-year average level. Structural factors continued to impair South Africa's ability to take full advantage of the more competitive levels of the exchange rate and step up the country's exports.

### Exchange controls

Exchange Control Regulations are administered by the SARB, on behalf of the Minister of Finance. The Minister of Finance has also appointed certain banks to act as authorised dealers in foreign exchange, as well as authorised dealers

in foreign exchange with limited authority, which gives them the right to buy and sell foreign exchange, subject to conditions and within limits prescribed by the Financial Surveillance Department of the SARB. Authorised dealers are not agents for the Financial Surveillance Department, but act on behalf of their customers.

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

By 2014, South African individuals were able to transfer up to R4 million, per individual per calendar year, out of the country and invest it overseas. Additional allowances were available for travel and other defined activities.

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

### Johannesburg Stock Exchange Ltd

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

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

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

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

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

The electronic settlement system, Share Transactions Totally Electronic (Strate), has replaced the previous manual settlement method.



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

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

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

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

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



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