



South Africa Yearbook 2015/16

Finance

National Treasury's legislative mandate is based on chapter 13, section 216(1) of the Constitution of the Republic of South Africa of 1996, which calls for the establishment of a national treasury to ensure transparency, accountability and sound financial controls in the management of the country's public finances. This role is further elaborated in the Public Finance Management Act (PFMA), 1999 (Act 1 of 1999). The department is mandated to:

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

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

The MTBPS is an important part of South Africa's open and accountable budget process. It empowers Parliament to discuss and shape government's approach to the budget.

The Money Bills Amendment Procedure and Related Matters Act, 2009 (Act 9 of 2009) requires government to table the MTBPS in Parliament at least three months before the national budget is presented.

In the 2015/16 financial year, electricity constraints, weak business confidence and low household demand limited growth.

Without a stronger effort to overcome domestic constraints and speed up the pace of structural change, South Africa will not be able to substantially reduce unemployment, poverty and inequality.

In 2015, government took two crucial steps to adapt to this low-growth world. It identified the broad structural reforms needed to put the economy on a much higher growth path.

It also reduced South Africa's vulnerability by implementing fiscal policy measures to maintain the health of the public finances.

Continuing to make social progress and building a more competitive economy, however, will require more rapid implementation of the National Development Plan (NDP), a

stabilisation of public debt, greater efficiency in public spending, and a sustainable approach to public-sector remuneration.

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

The 2015 MTBPS built on the commitments made in 2014 to stabilise debt levels and improve the effectiveness of spending. A long-term fiscal guideline will align spending growth closely with gross domestic product (GDP) growth, ensuring that all South Africans can enjoy the benefits of future economic expansion.

South Africa's GDP grew by 1,3% in 2015, down from 1,5% in 2014 and 2,2% respectively.

The nominal GDP was estimated at R3 991 billion for 2015 and R194 billion more than in 2014. The main contributors to the increase in economic activity in 2015 were finance, real estate and business services, the mining and quarrying, and the wholesale, retail and motor trade, catering and accommodation industry.

A negative contribution was recorded by the agriculture, forestry and fishing industry. Agriculture decreased by R1 billion to R83 billion.

The economic activity in the agriculture, forestry and fishing industry reflected negative growth of 14,0% due to decreases in the production of field crops and forestry.

Entities

A total of 17 entities report to the Minister of Finance through governance arrangements that give them autonomy but also enable them to align their strategies with government policy. Seven of these entities – the South African Revenue Service (SARS), the Office of the Tax Ombud (OTO), the Financial Intelligence Centre (FIC), the Accounting Standards Board, the Cooperative Banks Development Agency, the Financial and Fiscal Commission (FFC) and the Independent Regulatory Board for Auditors – receive transfers from National Treasury.

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

develops and reports on its own strategic and corporate plan.

Domestic demand

Household consumption grew by 1,6% in the first half of 2015, supported by lower petrol and food prices. However, the overall outlook is subdued, with consumer confidence below its long-term average. Employment growth remains weak. Credit conditions appear to have tightened, with both supply and demand for household credit shrinking.

Lower inflation has provided consumers with some respite. Consumer price index (CPI) inflation eased to 4,5% over the first eight months of 2015, from 6,1% in 2014, largely as a result of lower petrol prices.

Core inflation, which represents the long-run trend of the price level and excludes temporary shocks, was unchanged at 5,7% over the same period. Most upward pressure in core inflation has been generated by utilities, medical aid and education.

Funding the contribution to the New Development Bank

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

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

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

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

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

Jobs Fund

The Jobs Fund, launched in June 2011, aims to co-finance projects by public, private and non-governmental organisations that will significantly contribute to job creation.

This involves the use of public money to catalyse innovation and investment on behalf of a range of economic stakeholders in activities

that contribute directly to enhanced employment creation in South Africa.

By 31 March 2016, the Jobs Fund had allocated R5,5 billion in grant funding to 105 projects, disbursed R3,2 billion to implement portfolio projects and leveraged R6,4 billion in matched funding from project partners.

These projects reportedly created 73 698 new permanent jobs; placed 40 641 individuals in permanent positions; created 17 642 short-term jobs, and trained 148 782 beneficiaries.

Budget framework

In the budget framework tabled in February 2015, a consolidated deficit of 3,9% of GDP was projected for 2015/16, falling to 2.5% in 2017/18.

Consolidated non-interest expenditure was expected to rise from R1.1 trillion in 2015 to R1.4 trillion in 2017/18, which is an average real increase of 2.1% a year. The share of personnel compensation was projected to remain at around 40% of non-interest spending. Interest on state debt was set to rise from R115 billion in 2015 to R153 billion in 2017/18.

Cost-containment and reprioritisation measures were expected limit growth in allocations for goods and services to 5% a year. Spending on catering, entertainment and venues was budgeted to decline by 8% a year, travel and subsistence was expected to be cut back by 4% a year, in real terms.

Allocations for critical items such as school books and medicine, for police vehicles' fuel and for maintenance of infrastructure, was projected to grow faster than inflation.

The budget framework included an unallocated contingency reserve of R5 billion in 2016, R15 billion in 2016/17 and R45 billion in 2017/18. This could allow for new spending priorities to be accommodated in future budgets.

It took into account that the economic outlook was uncertain and that both weaker growth and rising interest rates were possible over the period ahead. Over the next three years, the total amount of money owed by government was projected to increase by about R550 billion to R2.3 trillion in 2017/18.

Redemptions on debt issued over the past decade would add R190 billion to the medium term borrowing requirement. Net loan debt of the national government was expected to stabilise at less than 45% of GDP in three years' time.

Medium Term Strategic Framework 2014-2019

The MTSF is structured around 14 priority outcomes, covering the focus areas identified in

the NDP, namely:

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

Sustaining social progress

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

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

Access to social infrastructure – formal housing, potable water, sanitation and electricity – has increased substantially. Social grants continue to make a meaningful contribution to reducing extreme poverty. With 15% of the budget going to public education, there is universal access to basic education.

Enrolments in early childhood development and post-school education continue to expand. Life expectancy at birth for 2015 was estimated at 60,6 years for males and 64,3 years for females, as public health interventions limit the consequences of the HIV and AIDS pandemic.

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

These achievements were made possible by government's sustainable approach to allocating public funds. Good fiscal planning supports government's ability to act on its constitutional

mandate to realise fundamental social and economic rights in a progressive and affordable manner.

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

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

Economic development

Government support through the budget for economic development is wide-ranging, as it seeks to diversify growth and broaden participation.

Innovation and technology changes are at the heart of this development strategy. Support for the oceans economy was allocated R296 million in 2015 over the next three years. This is expected to enhance climate change research and management of ocean resources.

South African science and technology also continues to benefit from the country's leading role in the Square Kilometre Array astronomy partnership, which will spend approximately R2.1 billion over the next three years.

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

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

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

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

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

International Development and Cooperation

The International Development Cooperation (IDC) unit is responsible for coordinating, mobilising and managing official development assistance (ODA). The IDC enhanced ODA coordination through continuous engagements

with development partners on various platforms, including annual consultations, high-level bilateral meetings and official visits.

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

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

Combating corruption

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

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

In the 2015/16 financial year, the target for vetting of employees was 310 out of the identified list of employees and 241 vetting files were submitted to the State Security Agency. In the 2015/16 financial year, National Treasury conducted and supported forensic investigations to eradicate fraud and corruption.

The department completed 27 projects for investigation/performance audits in the following spheres of government:

- Eight national departments' projects
- 14 provincial departments' projects
- Three local government projects
- Two public entities' projects.
- Referred and supported the following 48 criminal cases to the anti-corruption task team:
 - 10 national departments' projects
 - 22 provincial departments' projects
 - 12 local government projects
 - four public entities.

Improving government services Public procurement reforms

In 2015, government budgeted about R190 billion for goods and services and R162 billion for infrastructure. Initiatives led by the Office of the Chief Procurement Officer aim to deliver lower-cost goods and services more efficiently and transparently through streamlined processes, strategic sourcing, transversal

tenders and improved use of technology. The goal is to reduce bureaucratic inertia and red tape, and stamp out corrupt procurement practices.

Central Supplier Database (CSD)

The CSD has been in operation since 1 September 2015. By October 2015, more than 20 000 suppliers had already registered on the site, with 9 500 verified.

About 1 200 profiles were being created each day on the database, which became mandatory on 1 April 2016 for national and provincial departments and 1 July 2016 for municipalities.

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

eTender portal

The portal provides a single point of entry to identify business opportunities with government. Between 1 April and 15 October 2015, more than 2 000 tenders worth about R28 billion were posted onto the portal. Launched on 1 October 2015, www.gCommerce.gov.za gives government departments an opportunity to purchase routine supplies through transversal contracts, reducing administrative processes.

Business incentives

In 2015, more than R7 billion was expected to be transferred directly from the fiscus to support the operations of South African companies, which also receive about R24 billion in tax incentives annually.

A number of additional proposals that would increase incentives to the private sector had also been raised for consideration. The first phase of the Economic Competitiveness Support Programme, which was introduced in 2011/12, concludes in 2017/18.

Over the six-year period, total allocations to this programme amount to R22.7 billion. The programme supports training, equipment and technological upgrades to improve competitiveness, and research and development.

Government intends to renew the programme following a review of all business incentives. The review, which was planned to be conducted during 2016, was meant to assess the impact of incentives on economic growth, productivity, competitiveness, the balance of trade and employment.

Particular focus was to be given to job creation and the need to incentivise labour-intensive

economic activities. The outcomes of the review would inform the allocation of resources for business incentives in 2018/19 and beyond.

Legislation and policies

- The PFMA of 1999 ensures that public funds are managed by a less rigid environment for financial management, with a stronger emphasis on the prudent use of state resources, improved reporting requirements and the use of management information to enhance accountability.
- The Municipal Finance Management Act, 2003 (Act 56 of 2003) applies to all municipalities and municipal entities, and national and provincial organs of state, to the extent of their financial dealings with municipalities.
- The 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).
- 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 FIC'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 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

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

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

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

The PIC was established as a corporation in accordance with the PIC Act, 2004 (Act 23 of 2004). The PIC's total budget for 2016/17 is R1.1 billion.

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.

In the 2015/16 fiscal year, despite the challenging global and local economic environment, SARS collected R1 069 983 million, R283 million more than the Revised Estimate. A total of 5,94 million returns were submitted during 2015, and 4,2 million returns were from individual taxpayers for the 2015 tax year.

More than 92% of taxpayers filed their returns before the end of the filing season deadline and more than 95% of filed returns were assessed within three seconds and 99% were assessed within 24 hours.

Approximately 1,8 million refunds amounting to R15 billion were paid out and more than 95% of refunds were paid out within 72 hours.

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

Collectively, the service channel, comprising these two divisions initiated over 2.1 million revenue collection interactions and banking R2.5 billion. During the 2015/16 financial year, SARS serviced 218 167 taxpayers through a fleet of 15 Mobile Tax Units.

The SARS Contact Centre team was awarded first place for "Best Innovative Contact Centre" at the 2015 Contact Centre Management Group awards held in August 2015.

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.

Labour markets

Persistently high unemployment remains one of South Africa's most pressing challenges. Labour relations have improved during 2015, with 176 000 workdays lost to industrial action in the first half of the year, down from 7,5 million in the first half of 2014. Strikes have been relatively short-lived, primarily affecting individual firms rather than entire subsectors.

Difficult trading conditions and low business confidence levels have limited hiring during 2015. According to Statistics South Africa, most of the 338 000 jobs created in the first half of the year were in the informal sector.

The formal sector lost 76 000 jobs, with sharp declines in manufacturing and construction, as well as community, social and personal services.

Employment is not expanding rapidly enough to absorb the estimated 659 000 new entrants into the job market in the first half of 2015. As at June 2015, there were an estimated 2.43 million discouraged work seekers.

Office of the Tax Ombud

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

South African tax system

South Africa has a residence-based income tax system. Residents are, subject to certain

exclusions, taxed on their worldwide income, irrespective of where their income was earned. Non-residents are taxed on their income from a South African source.

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

The main tax revenue sources are income tax (individuals, trusts and companies), value-added tax (VAT) 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.

Excise duty

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

Environmental levy

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

Fuel levy

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

Transfer duty

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

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

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

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

Estate duty

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

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

Dividends tax

Dividends tax is a final tax at a rate of 15% on dividends paid by resident companies and by non-resident companies in respect of shares listed on the JSE. Dividends are tax exempt if the beneficial owner of the dividend is a South African company, retirement fund or other exempt person.

Non-resident beneficial owners of dividends may benefit from reduced tax rates in limited circumstances. The tax is to be withheld by

companies paying the taxable dividends or by regulated intermediaries in the case of dividends on listed shares.

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

Securities transfer tax

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

Skills-development levy

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

This skills development levy is payable by employers at a rate of 1% of the total remuneration paid to employees. Employers paying annual remuneration of less than R500 000 are exempt from the payment of this levy.

Unemployment Insurance Fund (UIF)

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

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

Tax on international travel

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

Rates on property

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

Customs duty

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

A new Customs Control Act, 2014 (Act 31 of 2014) and Customs Duty Act, 2014 (Act 30 of 2014) were promulgated in July 2014 to provide a platform for the modernisation of customs

administration that achieves a balance between effective customs control, the secure movement of goods and people into and from the Republic and the facilitation of trade and tourism. The new Acts will come into operation on a date to be determined by the President.

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

Southern African Customs Union (SACU)

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

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

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

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

Compliance levels

Registration compliance

SARS continues to broaden the tax base and expand its taxpayer and trader register. In the 2010/11 financial year SARS changed its registration policy. It stipulated that all individuals who are formally employed must register with SARS and not, as in the past, only those individuals above the tax threshold.

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

PIT filing compliance

PIT filing compliance is calculated by comparing the total number of returns received on time for a particular filing season (From 1 July to end 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 permanent VDP was introduced in terms of the Tax Administration Act of 2011, in October 2012. The permanent VDP is part of a package of compliance measures aimed at encouraging non-compliant taxpayers to regularise their tax affairs.

In addition the Minister of Finance has announced a Special VDP for non-compliant taxpayers to voluntarily disclose offshore assets and income, with a limited window period – from 1 October 2016 to 31 March 2017.

National Gambling Board (NGB)

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

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

The NGB maintains a national gambling database that contains information on national gambling statistics such as turnover, gross gambling revenue (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 Commission (NLC)

The NLC was launched on 29 June 2015 and was established in terms of the Lotteries Amendment Act, 2013 (Act 32 of 2013) to regulate the National Lottery as well as other lotteries, including society lotteries to raise funds and promotional competitions.

The NLC evolved out of the National Lotteries Board, established in terms of the Lotteries Act, 1997 (Act 57 of 1997). NLC members are also trustees of the National Lottery Distribution Trust Fund (NLDTF), into which National Lottery proceeds that are intended for allocation to good causes are deposited.

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

The NLC is mandated to:

- advise the Minister on the issuing of the license to conduct the National Lottery;
- ensure that the National Lottery and Sports Pools are conducted with all due propriety;
- ensure that the interests of every participant in the National Lottery are adequately protected;
- ensure that the net proceeds of the National Lottery are as large as possible;
- administer the NLDTF and hold it in trust;
- monitor, regulate and police lotteries incidental to exempt entertainment, private lotteries, society lotteries and any competition contemplated in section 54 of the Act;
- advise the Minister on percentages of money to be allocated in terms of section 26(3) of the Act;
- advise the Minister on the efficacy of legislation pertaining to lotteries and ancillary matters;
- advise the Minister on establishing and implementing a social responsibility programme in respect of lotteries;
- administer and invest the money paid to the board in accordance with the Lotteries Act;

- perform such additional duties in respect of lotteries as the Minister may assign to the board;
- make such arrangements as may be specified in the licence for the protection of prize monies and sums for distribution
- advise the Minister on any matter relating to the National Lottery and other lotteries or any other matter on which the Minister requires the advice of the Board.

Ithuba Holdings was announced as the third national lottery operator and they began operations on 1 June 2015.

Auditor-General of South Africa

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

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

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

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

Financial sector

South African Reserve Bank (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).

The SARB is responsible for:

- formulating and implementing monetary policy;
- issuing banknotes and coin; supervising the banking sector;
- ensuring the effective functioning of the

- national payment system;
- managing official gold and foreign-exchange reserves;
- acting as banker to the government;
- administering the country's remaining exchange controls;
- acting as lender of the last resort in exceptional circumstances.

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.

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

Creating a liquidity requirement

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

South Africa's five largest commercial banks – Capitec Bank, FNB, Absa, Nedbank and Standard Bank – continued to dominate the South African banking sector.

In January 2016 there were 34 banking institutions registered in South Africa, one more than in 2015, while the number of foreign banks with approved representative offices in South Africa declined to 38, down from 40 in January 2015.

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

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

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

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

Land and Agricultural Development Bank (Land Bank)

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

The dti released the draft credit life insurance regulations on 13 November 2015. The suggested revisions include a reduction in the monthly credit life insurance charges paid by consumers to credit providers to no more than R4,50 per R1 000 on credit facilities and unsecured credit transactions, and no more than R2,00 per R1 000 on mortgage agreements.

The proposed caps include the cost of any commission fees and/or expenses incurred, and are to be calculated on the total outstanding

obligations as opposed to the original loan amount.

Market abuse

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

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

Retirement funds

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

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

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

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

Enforcement

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

The FSB administers the following Acts:

- CIS Control Act, 2002 (Act 45 of 2002)
 - FSB Act of 1990, 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

The monthly average real yield on the R197 inflation-linked government bond displayed, on balance, little movement from January to November 2015. With the nominal yield on the R186 government bond trending higher, the break-even inflation rate, within the eight-to-11-year maturity range, fluctuated higher from a low of 5,24% at the end of January 2015 to 6,75% at the end of November.

The deterioration in bond market participants' inflation expectations can, among other things, be attributed to the depreciation in the exchange value of the rand and a worsening of food price projections.

Foreign bonds

Net redemptions to the value of R2,1 billion were recorded in foreign bonds and loans in April – December 2015.

The average remaining maturity of foreign marketable bonds of national government shortened from 115 months at the end of March 2015 to 105 months at the end of December as no new foreign bonds were issued during the period.

Exchange rates

The South African rand depreciated sharply against most major currencies in the fourth quarter of 2015 as both global and domestic developments negatively affected the currency.

Whereas the weighted average exchange rate

of the rand increased, on balance, marginally by 0,2% in October 2015, it declined by 2,1% and 8,3% in November and December respectively. On balance, the nominal effective exchange rate of the rand declined by 10,0% in the fourth quarter of 2015 compared with a decline of 9,0% in the third quarter.

The weighted exchange rate of the rand declined by no less than 19,7% from 31 December 2014 to 31 December 2015, the sharpest fall since the 23,5% decline in 2008.

Like the currencies of many other emerging-market economies, the performance of the rand was affected by the normalisation of US monetary policy, declining international commodity prices as well as concerns about global economic growth.

Domestic factors – such as sluggish economic growth, a widening of the current-account deficit, concerns regarding the sustainability of the fiscal projections as well as multi-year low business and consumer confidence levels – negatively affected the performance of the domestic currency in especially the second half of 2015. The rand was one of the world's worst-performing currencies in 2015.

Exchange controls

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

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

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

Foreign debt

South Africa's gross external debt decreased from US\$141,7 billion at the end of June 2015 to US\$134,5 billion at the end of September due to a decline in rand-denominated debt over the period.

This decline marks the third consecutive quarterly decrease in South Africa's gross external debt position, having previously

increased steadily from September 2013.

However, expressed in rand terms, South Africa's external debt rose from R1 734 billion at the end of June 2015 to R1 858 billion at the end of September due to the depreciation in the exchange rate of the rand.

Foreign currency-denominated debt increased from US\$65,7 billion at the end of the second quarter of 2015 to US\$66,6 billion at the end of the third quarter. The accumulation of foreign currency-denominated debt was mainly driven by an increase in the loan obligations of the nonmonetary private sector as well as a rise in non-resident deposits and long-term loans extended to South African banks.

The latter was partially offset by the repayment of short-term loans by the domestic banking sector in the third quarter of 2015. Relative to total foreign currencydenominated debt, South Africa's short-term foreign currency-denominated debt (i.e. debt with an original maturity of less than one year and other longer-term foreign currency-denominated debt maturing within the next 12 months) remained broadly unchanged at 46,1% from the end of June 2015 to the end of September 2015.

The country's rand-denominated foreign debt, expressed in US dollars, declined markedly from US\$76,0 billion at the end of the second quarter of 2015 to US\$67,9 billion at the end of the third quarter. This decrease could primarily be attributed to the depreciation in the exchange value of the rand against the US dollar. Relative to the country's total external debt, rand-denominated debt decreased from 53,6% at the end of the second quarter of 2015 to 50,5% at the end of the third quarter.

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.