

2016 BUDGET



**A RESILIENT SOUTH AFRICA
MAKING HARD CHOICES
IN DIFFICULT TIMES**

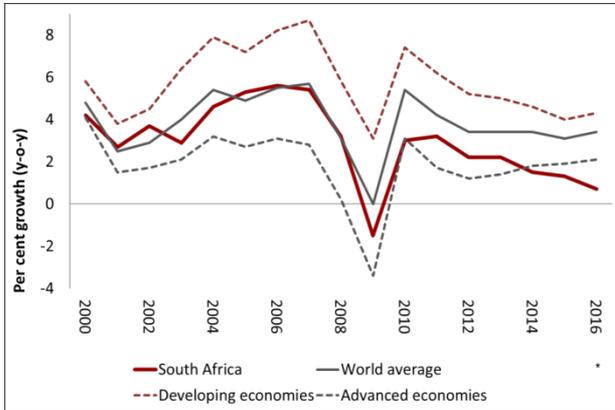


national treasury

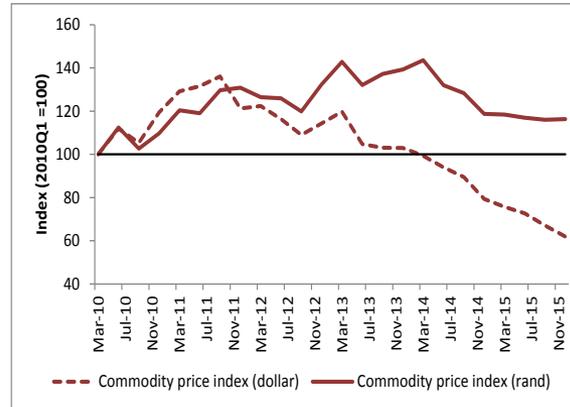
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

South Africa needs to act pre-emptively

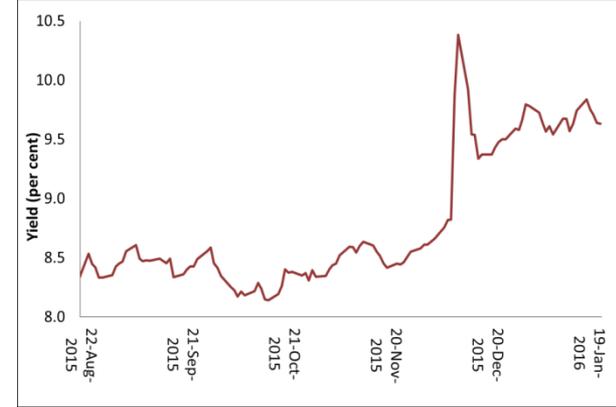
Lower growth...



Falling commodity prices

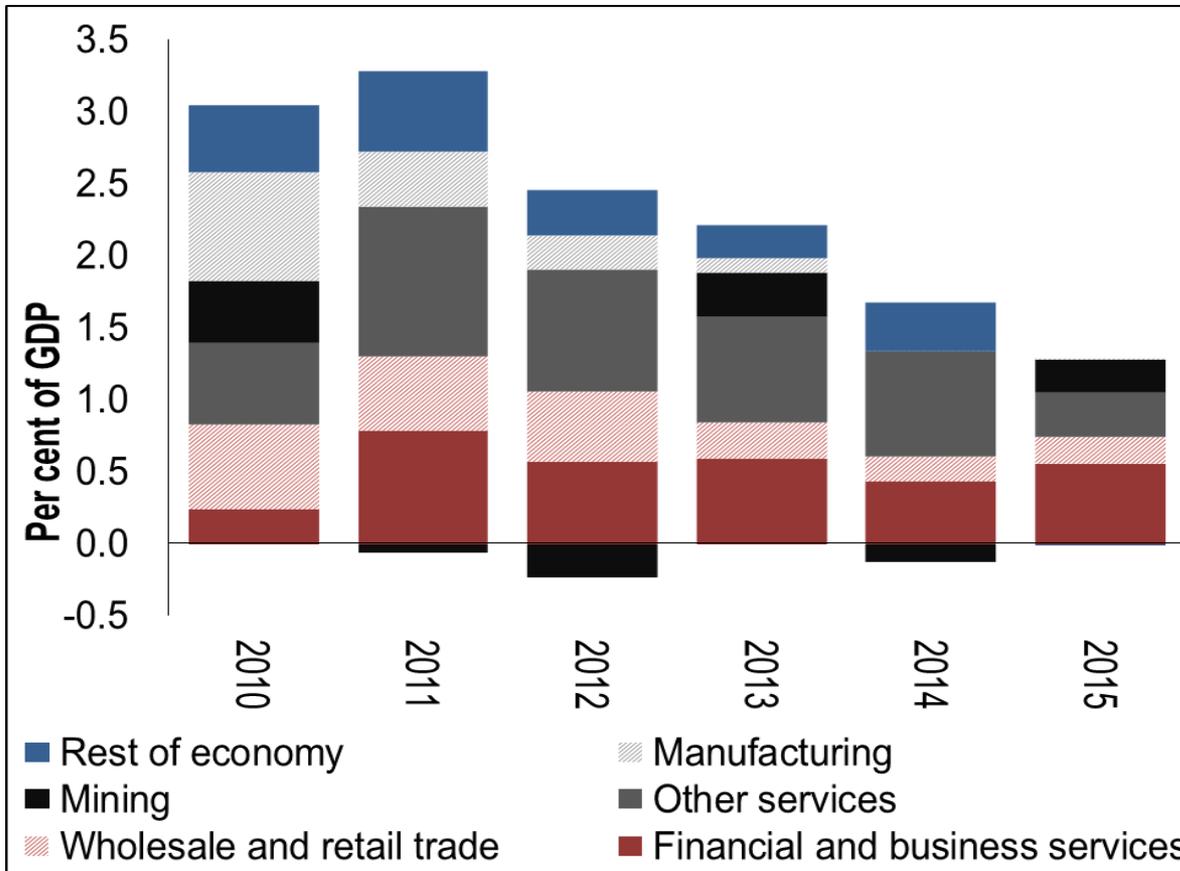


... and higher borrowing costs



- Weaker domestic outlook, lower domestic confidence and risk of ratings downgrades
- Amidst backdrop of challenging global macroeconomic environment characterised by:
 - Lower global growth prospects
 - weaker commodity prices,
 - heightened financial market volatility
 - concerns around trend developing country growth
- Calls for pre-emptive measures to return public finances to a sustainable path

South African economy undergoing structural change: Services unpinning resilience

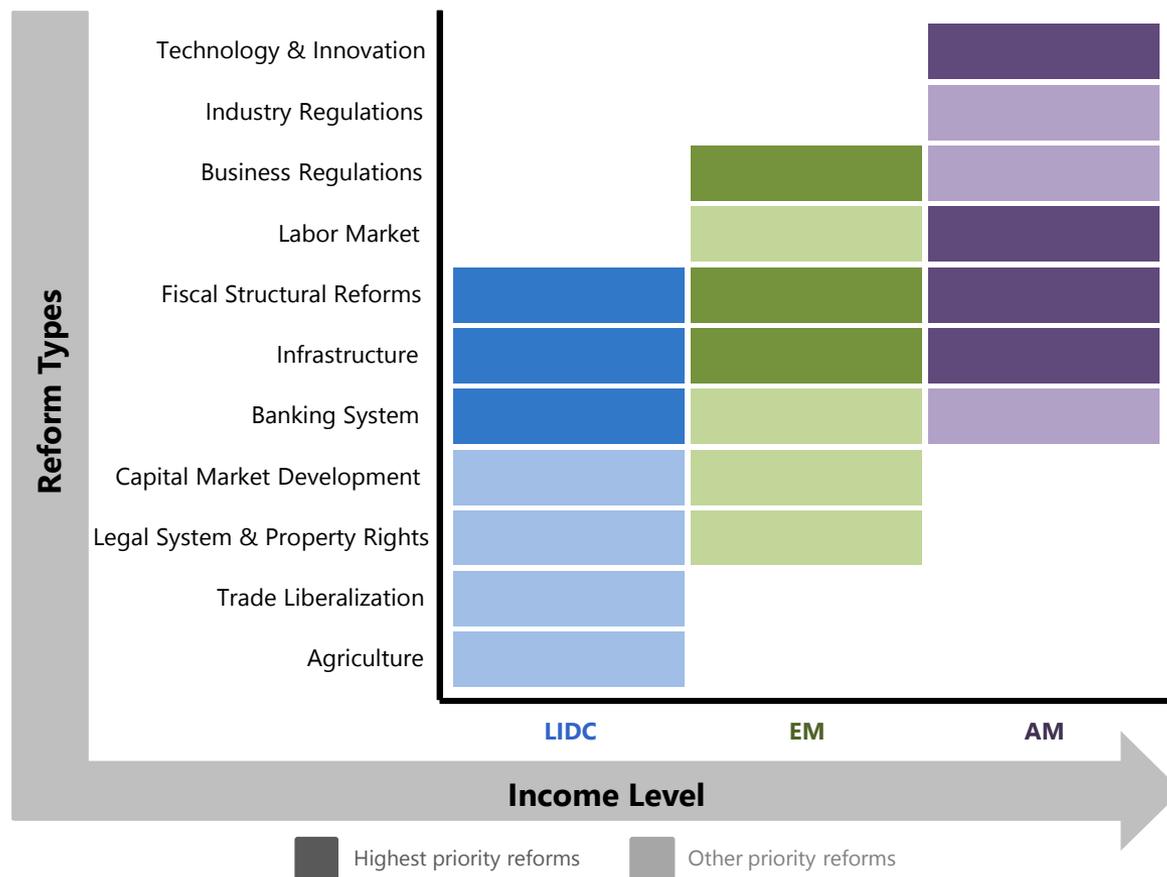


- Q4 2015: growth of 0.6 % q/q saar. 1.3 y/y
- Manufacturing and agriculture each reduced headline growth by 0.3%
- Slower growth in financial and business services, and transport and communications offset an uptick in retail trade growth
- Services sector growth remained the major support for growth in 2015

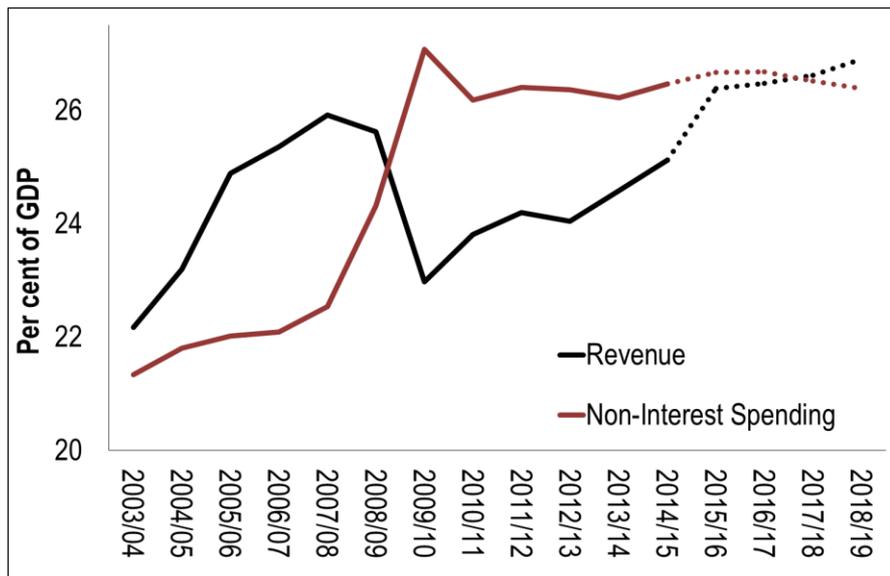
IMF emphasises structural reforms for growth

- **Fiscal reforms:** Strengthening tax administration, spending efficiencies and fiscal frameworks
- **Banking sector reforms:** Mobilises savings, lowers the costs of credit and allows for efficient allocation of capital
- **Capital market development:** Access to capital and financing innovation.
- **Increasing quantity and quality of infrastructure:** Can alleviating infrastructure bottleneck and help realise economies of scale
- **Improving institutional and legal framework :** Promotes private investment and entrepreneurship, fosters financial sector development. Property rights and ability to enforce contracts
- **Simplifying regulation, addressing administrative burdens and liberalising FDI and reducing barriers to entry in product market**
- **Enhance the design of labour market institutions:** Facilitates stronger use and more efficient allocation of labour
- **Easing product market regulation:** Improves resource allocation
- **Knowledge capital and innovation**

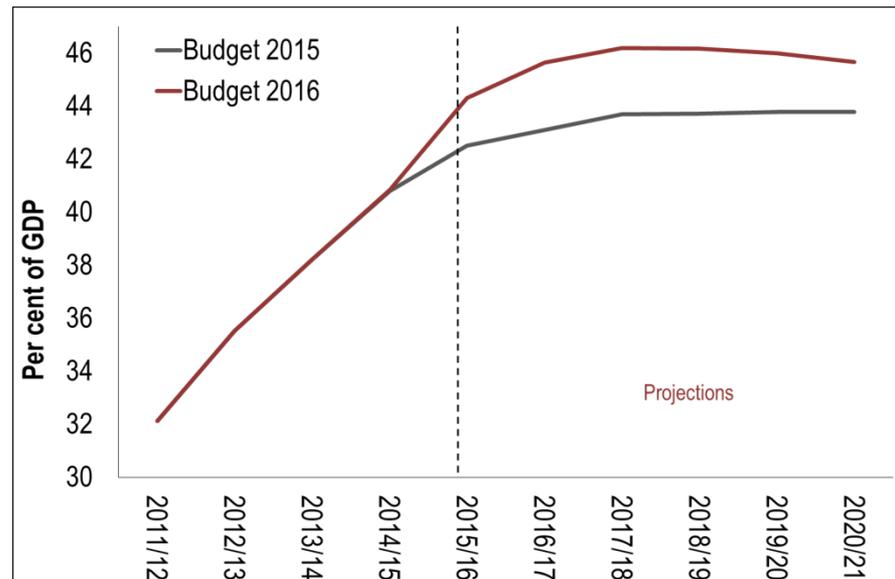
IMF: Areas with highest productivity payoff for structural reforms



Fiscal sustainability a priority in South Africa



- Government returns to primary surplus sooner than expected
- First consolidated primary surplus since the 2009 recession in 2016/17
- Main budget framework in surplus in 2017/18



- Debt stabilisation occurs sooner in 2017/18 vs 2019/20
- Stabilises at a slightly higher level (46.2% GDP vs 45.7%) due to weaker growth and rand depreciation raising foreign debt in rand terms

Supported by cost containment measures

- Restrictions on filling managerial and administrative vacancies
- Reduced transfers for operating budgets of public entities
- Capital budgeting reforms to align plans with budget allocations

Doing more with less

- Chief Procurement Officer (CPO) mandated to achieve savings of R25bn a year out of a government procurement budget of about R500bn a year (*these will be in addition to Budget 2016 expenditure projections*)
- Mandatory use of the new e-tender portal which will enforce procurement transparency and accessible reference prices
- New centrally negotiated contracts for banking services, ICT infrastructure, school building and learner support materials which will be mandatory from April 2016
- CPO to monitor procurement plans and supply chain processes of state-owned entities and review contracts above R10mn to ensure value for money
- National travel and accommodation policy and instructions on conference costs
- New guidelines to limit the value of vehicle purchases for political office bearers
- Renegotiation of government leasing contracts

Reforms aimed at removing constraints

High cross border costs

- Process is underway to improve port tariffs
- New pricing structure to be implemented soon
- Container export tariffs have already declined by 43%

Government action to dealing with constraints

Electricity supply issues

- Unit 6 of Medupi connected to the grid. Synchronisation of Kusile to begin in the first half of 2017
- Additional capacity procured through the private sector – 2GW connected from 6GW already procured

Slow regulatory processes

- CIPC working with banks and other agencies to fast track setting up shop locally
- Government streamlining licensing processes for mining, environmental authorisations and water use
- Concessions made on new visa regulations

Labour market constraints

- Task team looking into practical ways of addressing production disruptions due to large scale strikes
- Amended LRA seeks to streamline the processes of the CCMA to help serve business and labour better and faster

Reforms to encourage investment

Invest SA (One-Stop Shop)

- Aims to coordinate investment promotion, facilitation and after-care at the national level
- Seeks to unblock regulatory bottlenecks affecting investment
- Ease delays for investors in obtaining VISAs, licences, permits, registration and approvals

Immigration regulation

Inter-ministerial Committee has identified the following for possible implementation:

- Implementation of biometrics at all ports of entry
- Long-term Multiple Entry Visa for frequent travellers
- Business visa-waiver for India, China, Brazil, Russia and other countries
- Opening two Business Visa Facilitation Centres in Durban and Port Elizabeth, similar to the one in Sandton

Government initiatives to attract investment

Socio-Economic Impact Assessment System (SEIAS)

- Seeks improve the quality of legislation
- Reduce the unintended consequences of new laws and regulations before they come to effect
- Better align regulations with government's priorities

Enable expansion of SA to the rest of the continent

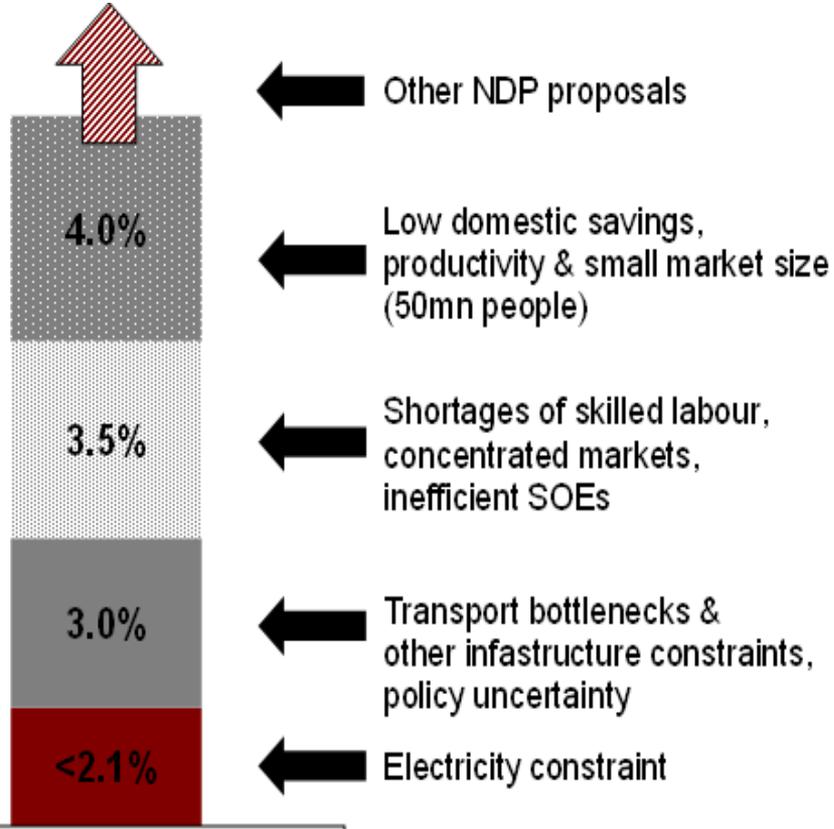
- Domestic banks are allowed to acquire foreign assets
- Removal of exchange controls over non-residents and proceeds from sale of assets can be freely remitted
- Cross-border transaction thresholds have been amended to reduce red tape, simplify payment mechanisms and reduce the bias between resident and non-resident individuals

State-owned companies reforms

Area of reform	Description	Progress
Stabilisation	Aims to improve near-term financial and operational performance	A framework to quantify the cost of developmental activities has been developed. SAA, Eskom, SAPO – financial plans
Coordination and collaboration	Maximization of contribution to the economy and elimination of duplication.	Joint infrastructure projects are taking place in the energy, transport, mining and water sectors
Rationalisation and consolidation	Reduction of state participation in sectors where several entities operate with overlapping mandates.	Currently underway with the rationalization of Broadband Infraco Other options – aviation; telecomms.
Governance framework	Enactment of overarching legislation, informed by a review of the current shareholder management model.	Board appointment processes will be standardised, and remuneration frameworks reviewed to ensure that compensation growth is contained and linked to efficient performance.

Quantifying reforms: NDP and 9 priorities seek to resolve structural impediments to growth

Impact on potential growth



Sound Infrastructure

- R865 billion dedicated to infrastructure over MTEF lower cost of doing business, job search costs, uncertainty
- REIPP programme adding electricity to the grid

Difficult labour relations contribute to investor uncertainty, poor perceptions & unemployment

- Agreement on introducing balloting
- Agreement on national minimum wages

State-owned companies reforms

- Rationalisation and consolidation of SOCs i.e. Broadband Infraco
- Improving governance framework by enacting overarching legislation
- Stabilization of the near-term financial position and operational performance

Policy and Regulatory certainty

- Study on cost of doing business across 9 municipalities is complete and municipalities are working on identified reforms
- Socio-Economic Impact Assessment System (SEIAS)

Openness to trade

- Port tariff reform strategy continues to lower cost of trading
- Tripartite Free Trade Area could bring together a market of 600 million consumers
- North-South corridor infrastructure projects

Source: Economic Modelling and Forecasting, National Treasury

Conclusion

Looking back on his extraordinary life of resilience, and of commitment, former President Mandela said this:

“I am fundamentally an optimist. Whether that comes from nature or nurture I cannot say. Part of being optimistic is keeping one’s head pointed toward the sun, one’s feet moving forward. There were many dark moments when my faith in humanity was sorely tested, but I would not and could not give myself up to despair. That way lays defeat and death.”