G20 GERMANY 2017
HAMBURG

2017
GROWTH STRATEGY

South Africa

South Africa's 2017 Hamburg Growth Strategy

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A. Economic Objective and Context

South Africa's 2016 real GDP growth disappointed, with full year growth coming in at 0.3 per cent, below the 2017 Budget Review (BR, 22 February 2017) and the 2016 Mid-Term Budget Policy Statement estimate of 0.5 per cent. This outcome stemmed from a worse-than-expected performance in the first and final quarter of the year as well disappointing global demand. Moreover, South Africa is currently experiencing its first recession since 2009 by recording two consecutive quarters of negative real GDP growth in the fourth quarter of 2016 and the first quarter of 2017.

Until the fourth quarter of 2016, GDP growth was weighed down primarily by a contraction of activity in the extractive primary industries due to a drought-stricken agricultural sector and broad-based declines in mining output. Despite slowing, the services sectors exhibited some resilience, particularly in wholesale and retail trade and government services. The manufacturing sector was able to post modestly positive growth in 2016, following increased output in petrochemicals and wood and paper products. However, the manufacturing and trade sectors were the largest negative contributors to quarterly GDP growth in the first quarter of 2017, while the agriculture and mining sectors were the lone positive contributors to GDP growth, supported by more favourable climate conditions and higher production output of gold and platinum.

The expenditure side of the economy was hampered by a notable contraction in fixed capital formation, whilst consumer expenditure grew marginally, held back by weaker purchasing power and declines in employment. From an external vulnerability perspective, there was a welcome decline in the current account deficit, to 3.3 per cent of GDP in 2016 from 4.4 per cent in 2015, and the deficit remained contained at 2.1 per cent of GDP in the first quarter of 2017. In the first quarter of 2017 the largest negative contributors to quarterly GDP growth were net exports and household final consumption expenditure.

In the 2017 Budget Review, the National Treasury anticipated SA GDP growth to rebound to 1.3 per cent in 2017, recovering further to 2.0 per cent in 2018 and 2.2 per cent in 2019. However, the unexpected contraction in real GDP in the first quarter of 2017, together with the deterioration in business confidence in the second quarter of 2017, pose significant downward risks to the 2017 growth projection, even as the factors supporting growth remain in place, namely:

- Improving global growth and stabilising commodity prices,
- Improved availability and security of domestic electricity supply,
- More favourable weather conditions following the severe drought in 2016, with production estimates across summer and winter crops already revised significantly higher for 2017 and the agriculture sector rebounding in the first quarter of 2017,
- Less volatile labour relations, and
- Implementation of growth-enhancing structural reforms.

The primary external risks to South Africa's growth outlook include the **increase in global policy uncertainty**, in particular the potential for a global rise in protectionist policies. Lingering risks include

further capital flow reversals due to global developments such as rising interest rates in advanced economies, weaker than expected growth in China and increased geopolitical tensions. On the upside, continued policy stimulus in China presents opportunities for stronger global growth, which will support commodity prices and consequently the South African growth outlook. Economic activity in sub Saharan Africa is also expected to start picking up, albeit modestly.

Domestically, the increase in policy and political uncertainty and recent sovereign credit rating downgrades pose a downside risk to confidence, and as a result economic growth. The RMB/BER Business Confidence Index declined more than expected to reach a new post-crisis low of just 29 index points in the second quarter of 2017, sharply below the first quarter reading of 40 index points. Although risk premia, and currency and capital flow volatility, have not been signficantly affected by the recent downgrades, this remains a risk for the outlook. The government is working together with social partners to raise growth and investment, to avoid further rating downgrades and to return South Africa's credit ratings to investment status. Commitment to fiscal prudence, and actions to improve investor sentiment and to ensure inclusive and sustainable growth, remain key priorities.

Inflation returned to within the central bank's target band in April 2017. Confronted with an environment of elevated inflation and slowing growth, the South African Reserve Bank (SARB) has kept the repurchase rate stable at 7.0 per cent over the past year, a rate which is still seen as relatively accommodative. The inflation outlook, while more favourable compared to a year ago, continues to face numerous risks. The monetary policy committee remains concerned about the persistence of the longer-term forecast trend at elevated levels within the target, which leaves very little headroom to absorb the impact of possible adverse shocks. Furthermore, inflation expectations have not decelerated sufficiently, and remain close to 6.0 per cent. Therefore, whilst the challenge of rising inflation appears to be abating, the outlook remains vulnerable to shocks with the exchange rate of the rand remaining a key upside risk to the forecast.

B. Implementation of Past Growth Strategies

Key commitments highlighted in South Africa's previous growth strategies are aligned with the National Development Plan (NDP). The main objective of the NDP is to implement structural reforms to address the binding constraints in the economy, to ensure growth that would create job, lower inequality and eradicate poverty.

Progress in our past commitments has been mixed - as some commitments are long-term in nature with others feasible over a shorter horizon.

1. Key Commitment 1: Fast track implementation of the government's infrastructure development plan

Brisbane Commitment: The Infrastructure Development Act is fast-tracking the implementation of the government's infrastructure development plan, through formalising and establishing in law the Presidential Infrastructure Coordinating Commission (PICC), which outlines the powers of the PICC and enabling the President, who is chair of the PICC, to nominate members of all three spheres of government.

Progress: The commitment is in progress. The PICC has been established to champion the implementation of the government infrastructure development plan. For more information, see **Annex 2**.

2. Key Commitment 2: Streamline regulatory regime

Brisbane commitment: The following measures would reduce compliance costs and facilitate access to equity finance: • Turnover tax regime for micro businesses • Small business corporation tax relief • Venture capital company regime • Tax treatment of grants.
Progress: The commitment has been implemented.

Adjusted Commitment: Measures to improve the regulatory regime and to reduce red tape include: Policy reforms such as Socio-Economic Impact Assessment, visa regulation review, business incentives review, Competition Amendment Act sections, Tax Free Savings and Investment Accounts, Red Tape Assessment Bill, Small, Medium and Micro-sized Enterprise (SMME) initiatives.

Progress: The commitments are at varying stages of implementation. More information is provided in **Annex 2**.

3. Key Commitment 3: Expand and improve employment, particularly among the youth, through the Employment Tax Incentive (ETI)

Brisbane Commitment: Government shares initial cost of hiring with employer to boost job creation. To this end, the **Employment Tax Incentive (ETI)** was implemented in January 2014.

Progress: The commitment is in progress. The ETI and the **Learnership Incentive** have been extended.

Work to quantify the exact impacts of the ETI – particularly on employment and labour market outcomes of youth – has now been completed (National Treasury 2016 descriptive report, hereafter referred to as NTMC, 2016). The NTMC shows that the ETI has been successful in the past two years, in its aim of giving young work seekers the opportunity to gain experience in the labour market.

Additional **labour market reforms** have been announced in 2017 (more detail provided in **Section C2 and Annex 3 on post-Hangzhou commitments**).

4. Key Commitment 4: Improve investment environment for private sector

Initial Brisbane Commitment: Improve investment environment for private sector.
Progress: The progress with the initial commitment is detailed below (Adjusted Hangzhou Commitment).

Adjusted Hangzhou Commitment: Commitment for further bidding rounds for the **renewable energy programme** and commitment for the establishment of similar competitive bidding process for the production of **electricity from other sources (coal and gas)**.

Progress: The commitment is in progress. Further bidding rounds have been committed to, and coal and gas projects have been included. More information is provided in **Annex 2**.

Hangzhou Commitment: Measures to improve environment for private sector investment and improve cooperation between the public and private sectors through: i) InvestSA; ii) addressing policy uncertainty by passing the Mineral and Petroleum Resources Development Act (MPRDA) Amendment Bill, Mining Charter, and legislation on land holdings and security of tenure, and iii) the Chief Executive Officer (CEO) initiative (measures to unblock obstacles to faster employment growth in 8 key sectors and SMEs).

Progress: Government has prioritised investment and the commitments to unblock regulatory obstacles to investment are in progress. Some commitments such as the InvestSA and CEO initiative have made great progress, while by contrast, the MPRDA has not yet been passed. The Mining Charter was published in the government gazette in June. More information is provided in **Annex 2**.

5. Key Commitment 5: Facilitate cross-border trade and investment for South African firms

Brisbane Commitment: Facilitate cross-border trade and investment for South African firms.
Progress: Commitment is in progress

Adjusted Commitment: Introduce a one-stop border post (OSBP), Customs Control and Customs Duty Acts, Tourism promotion.

Progress: The commitment is in progress. Government is working with the private sector on tourism promotion.

The process to set up the OBSP is underway. A Transaction Officer has been appointed to oversee the entire process of the **one-stop border posts (OSBP) policy** and possibly the subsequent implementation. The bilateral legal framework to support South Africa's first OSBP has formally been finalised with Mozambique and the DHA is currently also responsible for managing relevant implementation. Discussions have also begun with Zimbabwe to establish an OSBP, while the Heads of State of the Southern African Customs Union (SACU) have highlighted OSBP implementation for the region.

6. Non-Key Commitment: Implementation of Twin Peaks financial regulatory regime

Progress: The commitment is in progress. On 13 June 2017, the Minister of Finance signed and gazetted the coming into operation of various provisions of the Financial Intelligence Centre Amendment Act ("FIC Amendment Act"), bringing the country in line with international standards, and thereby further strengthening the transparency and integrity of the South African financial system in promoting *inter alia* the objective to combat financial crime. The FIC Amendment Act was signed into law by the President on 26 April 2017 and gazetted on 2 May 2017, but the determination of the commencement date was left to the Minister of Finance. More information is provided in **Annex 2**.

7. Non-Key Commitment: Reprioritise spending and reduce budgets for non-essential goods and services in national government departments

The commitment is in progress. In MTBPS 2016, government announced a cap on wage expenditure to help protect investment and other spending priorities. The Office of the Chief Procurement Officer has undertaken a range of reforms to allow savings. More information is provided in **Annex 2**.

Progress: Section C2 below provides information on **public sector reforms** undertaken since the Hangzhou Summit (**Interventions to improve state-owned companies (SOCs), modernise government procurement, and improve government expenditure efficiency**).

C. Major New Policy Actions Supporting Growth - Hamburg Summit

C1. Macroeconomic Policies and Infrastructure Investment

The key priorities are **safeguarding South Africa from further credit rating downgrades, regaining its investment grade status and supporting accelerated transformation**:

- The **fiscal framework** and government policy agendas are prioritising policies to accelerate transformation, and more inclusive growth. Maintaining infrastructure spending will be critical to this and government will establish a **new financing facility for large infrastructure projects** during the fiscal year 2017/18 to address shortcomings in state infrastructure planning and execution.
- The fiscal framework will support investor confidence through the maintenance of the expenditure ceiling, tax and spending proposals that maintain fiscal consolidation, and measures to address the weakened financial health of some of the **state-owned companies (SOCs** – more detail on SOC reforms are provided below in **section C2**).
- South Africa's commitments to **global standards in financial sector regulation** support investment. On 13 June 2017, the Minister of Finance signed and gazetted the coming into operation of various provisions of the **Financial Intelligence Centre Amendment Act ("FIC**

Amendment Act"), bringing the country in line with international standards, and thereby further strengthening the transparency and integrity of the South African financial system in promoting *inter alia* the objective to combat financial crime.

With respect to **monetary policy**, the SARB has held the policy rate steady at 7 per cent since the Hangzhou Summit. Despite a cumulative 125 basis point hike in the policy rate between July 2015 and March 2016, the monetary policy stance has remained accommodative as real interest rates have increased only marginally. The monetary policy committee (MPC) has suggested that the end of the tightening cycle may have been reached but that a sustained improvement in the inflation outlook is required before policy rates can be reduced. Inflation returned to within the target range in April 2017.

C2. Structural Reform and Other Actions to Foster Strong, Sustainable Balanced, and Inclusive Growth

1. High impact structural reform and other policy actions since Hangzhou Summit

In addition to the policy commitments made in Hangzhou, SA will prioritise the following actions:

1.1 Preventing further downgrades

Both Fitch and S&P downgraded South Africa's foreign currency debt to below investment grade in early April and maintained their credit ratings in early June. The rating agencies indicated their concern that political developments may have an adverse impact on public finances.

Government has reaffirmed its commitment to fiscal consolidation as outlined in Budget 2017, which contains the budget deficit and stabilises public debt. The spending ceiling remains in place and tax measures are being implemented. Government's fiscal stance takes into account risks associated with the macroeconomic outlook, budget execution and the finances of some state-owned companies (SOCs).

1.2 Safeguarding government infrastructure plan

SOCs account for about 77 per cent of government's total economic infrastructure spending.

Government will continue to implement the recommendations from the 2010 Presidential Review Commission of SOCs. For example, the Cabinet has endorsed a private sector participation framework to guide government and private sector collaboration in SOCs. National Treasury together with relevant departments are exploring ways in which this would be given effect to SOCs' plans.

Government has also implemented actions to improve governance in SOCs. In November 2016, Cabinet:

• Endorsed a private-sector participation framework to guide collaboration between SOCs and the private sector on infrastructure projects;

• Adopted a guideline for the remuneration and incentive standards for directors of SOCs;

• Approved the broad thrust of a guide for the appointment of boards and executive officers;

• Recommended further consultation on the first draft of a new government shareholder policy, which will culminate in overarching legislation for SOCs; and

• Noted the proposal to determine and cost the developmental mandates of SOCs.

Government's new financing facility for large infrastructure projects is intended to support infrastructure spending by national departments.

1.3 Broadband roll-out

Concluding the transition from analogue to digital television signals, and allocating new spectrum to broadband services remains key, as this will promote cheap and reliable internet, which will lower costs and create business opportunities for new entrants, as well as provide a platform to expand health and education services in remote areas.

Discussions surrounding challenges related to broadband and spectrum allocation have been escalated to the **Broadband War Room**, a gathering of all the relevant government ministries, to ensure that policy implementation is prioritised and that policy formulation is consistent across departments.

1.4 Labour market reforms

The introduction of a **National Minimum Wage** has been endorsed by all social partners through the National Economic Development and Labour Council (Nedlac) process. Nedlac social partners have signed an agreement to introduce a NMW of R20 an hour, to be implemented from no later than 1 May 2018.

Social partners also worked together in other ways to find practical ways to improve labour **relations.**

- **Amendments to the Labour Relations Act** have been drafted, which include the introduction of secret ballots for strikes and reinforcing the independence of the registrar of unions.
- The **Socio-Economic Impact Assessment System (SEIAS)** is underway and the draft legislation should be presented to Parliament by the end of the year.
- An **agreement on codes of good practice** that should help to normalise employer/employee relations, build trust and increase propensity to hire has been concluded.
- The more active role played by the **Commission for Conciliation, Mediation and Arbitration (CCMA)** has helped to reduce strike activity.

1.5 Tax Reform

A new top personal income tax rate of 45 percent for those with taxable income above R1.5 million will be implemented.

2. Policies to promote inclusive growth

South Africa's national budget is highly redistributive in favour of the poor and working families. It also redistributes substantial resources from the urban economy to fund services in rural areas. The budget is strongly aligned with constitutional imperatives.

- Roughly two-thirds of the 2017 Budget is allocated to functions dedicated to realising constitutional mandated social rights, including education, healthcare, social security and housing.

Annexes

Annex 1. Key Economic Indicators

Please update table of key indicators as follows:

Key Indicators

	2016***	2017	2018	2019	2020	2021
I. Macroeconomic Indicators						
Real GDP (% yoy)	0.3	1.3	2.0	2.2		
Nominal GDP (% yoy)	7.1	7.3	8.0	8.2		
Output Gap (% of GDP)*						
Inflation (%, yoy)	6.4	6.4	5.7	5.6		
Fiscal Balance (% of GDP)**	-3.4	-3.1	-2.8	-2.6		
Unemployment (%)	26.6					
Savings (% of GDP)	16.2					
Investment (% of GDP)	19.6					
Public Fixed Capital Investment (% GDP)	7.8	7.9	7.8	7.8		
Private Fixed Capital Investment (% GDP)	12.3	12.2	12.2	12.3		
Total Fixed Capital Investment (% GDP)	20.1	20.1	20.0	20.2		
Current Account Balance (% of GDP)	-3.3	-3.9	-3.7	-3.8		

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

****A positive (negative) balance indicates a fiscal surplus (deficit). The consolidated budget balance indicators are for the fiscal year starting on 1 April (source: 2017 Budget Review, 22 February 2017).**
***** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.**
Sources: South African Reserve Bank (SARB) Quarterly Bulletin, 22 March 2017; Statistics South Africa; 2017 Budget Review, 22 February 2017.

Annex 2. Implementation of Past Growth Strategies – Hangzhou, Antalya and Brisbane commitments

Key Commitments

List of key commitments already fully implemented at the time of Hangzhou Summit

1. The implementation of the **initial Brisbane Streamline Regulatory Regime key commitment (reduce compliance costs and facilitate access to equity finance)** has been completed. However, the adjusted Streamline Regulatory Regime key commitment has not been fully implemented. The progress in the implementation of the adjusted commitment is provided below.
2. The **African Growth and Opportunity Act (AGOA) dispute** was resolved (part of **key commitment: Facilitate cross-border trade and investment for South African firms**).

Key Commitments for Monitoring Purposes

Fast track implementation of the government's infrastructure development plan	**Infrastructure Development Act will fast-track implementation of the government's infrastructure development plan. Formalises and establishes in law the Presidential Infrastructure Coordinating Commission (PICC), which outlines the powers of the PICC and enabling the President, who is chair of the PICC, to nominate members of all three spheres of government to implement the government infrastructure development plan..**	
Inclusion of the commitment in growth strategies	This measure was initially included in the Brisbane growth strategy.	
Detailed implementation path and status	Interim Steps (include deadlines) for Implementation	Status
	1 – Government remains committed to its **infrastructure spending plan** (on-going commitment). 2 – The **Presidential Infrastructure Coordinating Commission (PICC)** has been established under the	1 – In the Budget 2017, about R947bn was allocated to infrastructure spending over the medium-term. The majority of spending is budgeted towards energy (R234.5bn), transport (R327.7bn) and water and sanitation (R125.4bn). SOE's currently accounts for about 77% of the total economic infrastructure spending. 2 – During the FY2015/16 reporting period the PICC had spent R269bn. There were a total of 312 PICC

	Presidency to oversee government's strategic infrastructure projects. This is an on-going commitment.	monitored infrastructure projects. On PICC monitored projects 191 142 jobs had been created.
Impact of Measure	Infrastructure bottlenecks are hampering potential growth. These measures are thus expected to result in higher potential growth and reduce the cost of doing business.	
Streamline regulatory regime	**Adjusted commitment:** Measures to improve the regulatory regime and to reduce red tape: Policy reforms such as Socio-Economic Impact Assessment, visa regulation review, business incentives review, Competition Amendment Act sections, Red Tape Assessment Bill, Small, Medium and Micro-sized Enterprise (SMME) initiatives	
Inclusion of the commitment in growth strategies	This measure was initially included in the Brisbane growth strategy and subsequently adjusted.	
Detailed implementation path and status	Interim Steps (include deadlines) for Implementation	Status
	1 – Regulatory reforms to reduce barriers to entry and promote shared access to **broadband infrastructure** will soon be proposed. Rationalising state agencies working in ICT will complement this approach.	1 – Discussions surrounding challenges related to broadband and spectrum allocation have been escalated to the **Broadband War Room**, a gathering of all the relevant government ministries, to ensure that policy implementation is prioritised and that policy formulation is consistent across departments.
	2 – The **Socio-Economic Impact Assessment System (SEIAS)** process became compulsory from 1 April 2015, ensuring that before any bill or policy is considered by Cabinet it has to go through this process to improve policy coordination.	2 – During FY2016/17, about 335 submissions (including bills, regulations, policies, etc.) were made by government departments, and DPME analysed and provided feedback on 311 SEIAS reports which made 93 per cent of the total submission. The average turnaround time to provide feedback to departments was 15 days.
	3 – The **business incentive review** is	3 – Government has appointed

	in progress. 4 – **Changes to Competition Act** to criminalise collusion behaviour and allow the Competition Commission to investigate strategic sectors. 5 – **Visa regulation review** - 6 – **Small, Medium and Micro-sized Enterprises (SMMEs) initiatives** An **SMME investment fund** was established by the private sector to provide small businesses with access to finance and mentorship. Approximately R1.5bn has been committed by companies The **Black Business Supplier Development Programme** will provide 2 000 SMME's with financial support.	consultants to work on the review. The findings of the review are expected in October 2017. 4 – The **Competition Amendment Act** is completed, and all these changes have been incorporated. 5 – The Draft First **Amendment of the Immigration Regulations** was published for public comment in September 2016, addressing birth certificate requirements and visa amendments. 6 – The 2017 Budget has allocated R3.9bn to support SMME's over the medium-term to improve market access, competitiveness and for financial support The Department of Small Business Development is working on updating the definition of "small business" and amending the **Small Business Act** to improve support for SMME's and refine the legislative landscape. **Red tape reduction guidelines** are being implemented while financial and other support services, such as how to open a bank account, register a company, and set up a business plan, are brought into one location.
Impact of Measure	Better regulation should help reduce blockages, most importantly, in investment and the creation of SMEs.	
Improve investment environment for private sector	Commitment for further bidding rounds for the **renewable energy programme** and commitment for the establishment of similar competitive bidding process for the production of **electricity from other sources (coal and gas)**. Measures to improve environment for private sector investment and **improve cooperation between the public and private sectors** through i) InvestSA; ii) addressing policy uncertainty by passing the Mineral and	

	Petroleum Resources Development Act (MPRDA) Amendment Bill, Mining Charter, and legislation on land holdings and security of tenure, in order to improve certainty and so promote investment in mining and agriculture; and iii) the Chief Executive Officer (CEO) initiative (measures to unblock obstacles to faster employment growth in 8 key sectors and SMEs).	
Inclusion of the commitment in growth strategies	This measure was initially included in the Brisbane growth strategy and subsequently adapted in the Hangzhou growth strategy.	
Detailed implementation path and status	Interim Steps (include deadlines) for Implementation	Status
	1 – The **Renewable Energy Independent Power Producer Procurement Programme (REIPPPP)** has already established a flagship public-private partnership model for South Africa. In line with the national commitment to transition to a low-carbon economy, independent power producers (IPPs) will generate 14 725 MW from renewable energy sources. 2 – Two **coal Independent Power Producer (IPP) projects** have been procured with a total investment of R40.4bn.	1 – Through 6 bid windows the REIPPPP secured the following successes: i. 102 projects have been procured bringing investments of R 194.1 billion (of which R53.4 billion from foreign investors). A green-industry has started to develop.; and ii. 64 projects have signed contracts representing 4 006 MW capacity (including early operation) as at 17 January 2017. In the State of the Nation address (9 Feb 2017), the President had assured that Eskom would sign REIPPP contracts made in the last window. The new IRP envisages a higher level of renewable energy in the next IRP period. Renewables will thus be an important part of the energy mix.

	3 – **Gas to power projects** will attract investment worth R75bn.	4 – Ongoing. Fiscal sustainability and consumer affordability will inform government's choices on the preferred generation mix.
	4 – The broader objective of **InvestSA** is to reduce red tape and improve the ease of doing business. The One Stop Shop aims to assist investors with the procedures required to start up and run a business, and provide streamlined access to registration and authorisation processes. InvestSA established a specialised Unit with officials seconded from regulatory departments to ease the environment for local and foreign investors.	5 – The **InvestSA National One-Stop shop** was launched in March 2017 by the President. The 3 provincial one-stop-shops in Gauteng, KwaZulu-Natal and Western Cape are set to be launched by the end of the year.
	5 – **Mineral and Petroleum Resources Development Act (MPRDA) Amendment Bill**	6 – The **MPRDA Amendment Bill** has been passed by parliament and it is with the National Council of Provinces for consideration.
	6 – **Mining Charter**	7 –The Department of Mineral Resources (DMR) published the revised **Mining Charter** in the government gazette in June. The DMR has been criticised by mining companies for lack of appropriate consultations. The Chamber of Mines is challenging the Charter in court.
	7 – Government and the private sector are also collaborating through the **Chief Executive Officer (CEO) initiative**, convened by the President in 2016 to support growth and transformation.	8 – The progress with the CEO initiative is provided below in **Annex 3**.

Impact of Measure	Investors have highlighted the importance of policy certainty and simple regulation to improve investment. The Invest SA and policy bills are intended to address these concerns for the economy in general and the mining sector respectively. Government's cooperation with the private sector to expand the **independent producer programme (IPP) in renewables and gas** has provided certainty to investors and so opened up substantial opportunities for black-owned firms, created thousands of jobs and boosted power supply. IPPs have helped to reduce South Africa's carbon emissions and thus made a significant contribution to a cleaner environment and to helping South Africa meet its international Climate Change Mitigation commitments. IPPs also fostered the development of new renewable energy firms, some of which have become exporters. Local communities own 11 per cent of the projects and are expected to receive R29.2 billion in income over 20 years. **Source:** National Treasury Budget Review, Feb 2017.

Non-key Commitments

In the table below, please list your non-key commitments and provide an update on their progress by indicating whether the policy measures are fully implemented, in-progress, or abandoned.

The policy action	Status of Implementation	Impact of the policy
1 Twin Peaks model of financial regulation	On 13 June 2017, the Minister of Finance signed and gazetted the coming into operation of various provisions of the Financial Intelligence Centre Amendment Act ("FIC Amendment Act"). The FIC Amendment Act was signed into law by the President on 26 April 2017 and gazetted on 2 May 2017, but the determination of the commencement date was left to the Minister of Finance.	The FIC Amendment Act will bring South Africa in line with international standards, and thereby further strengthening the transparency and integrity of the South African financial system in promoting *inter alia* the objective to combat financial crime.
	The **Financial Sector Regulation (FSR) Bill** was passed by the National Assembly on 22 June 2017.	Once signed into law by the President, the FSR Bill will give effect to the establishment of two of the key financial regulators, namely the

	Following the recent passage of the FSR Bill, the **Financial Sector Conduct Authority and Ombud Council** will be established in 2017. These institutions will ensure a fairer and more effective financial sector. Further details on improved market conduct will be set out in the draft **Conduct of Financial Institutions Bill** and the **financial literacy policy** to be published in 2017.	Prudential Authority and the Financial Sector Conduct Authority, and their respective powers and responsibilities. In addition, the Bill provides the South African Reserve Bank with the function of maintaining, promoting and enhancing financial stability in South Africa, as well as functioning as a resolution authority.
2 Reprioritise spending and reduce budgets for non-essential goods and services in national government departments	Getting value for money is a central objective over the period ahead. In the past two years, the Office of the Chief Procurement Officer has expanded centralised procurement of common goods and services. Over the medium term, the office aims to save R25 billion by renegotiating contracts with government's top 100 suppliers, consolidating spending on common goods, using technology to reduce duplication and cutting red tape (source: Budget 2017). By negotiating transversal agreements and consolidating contracts, savings of R1.2 billion will be realised over the medium term expenditure framework (MTEF) period. A travel policy framework will be in place by 1 April 2017. It will standardise dealings with travel management companies through uniform bid specifications, evaluation principles and a common remuneration model. The policy is expected to save the fiscus R1.3 billion over the next three years. Centrally negotiated software license agreements will save R2.5 billion over the same	This will free up more money for government to spend on essential goods and services and growth-enhancing items.

	period.	
3		

Annex 3. Major New Policy Actions Supporting Growth - Hamburg Summit

Public sector reforms	Interventions to improve state-owned companies (SOCs), modernise government procurement, and improve government expenditure efficiency
Objective(s) of policy	To address the weakened financial health of some of the **state-owned companies (SOCs**), to ensure the efficient management of all SOCs and to transform SOCs into financially sustainable entities that do not become a burden on the fiscus, but instead contribute to economic growth as envisaged through the implementation of their infrastructure plans and mandates. To save funds for the fiscus and reduce leakage through a controlled procurement processes To enhance government efficiency

Implementation path and expected date of implementation	The **Presidential State-Owned Companies Co-ordinating Council** announced in August 2016 will focus on monitoring and coordination of SOCs.
	
	Cabinet endorsed recommendations from the **2010 Presidential Review Commission of SOCs** including:
	
	• Private sector participation framework to guide government and private sector collaboration in SOC's. The framework will be published for public comment by the end of this financial year.
	• Remuneration and incentive standards guideline
	• Guideline for appointment of shareholders and executive officers. Progress has also been made with transforming boards of key companies:
	  • A new South African Airways (SAA) board has been appointed.
	  • A new South African Post Office board and CEO have been appointed.
	
	A **Public Procurement Bill** is being finalised, taking into account submissions from more than 500 practitioners and advisors, continuing government's attempts to **modernise government procurement and improve government expenditure efficiency**.

What indicator(s) will be used to measure progress?	Savings for the fiscus through: 1. Reduction in fiscal deficit- and debt-GDP ratios

	2. Reduction on the contingent liability of government through a reduction in the take up of guarantees Implementation of SOCs' infrastructure plans and mandates
Explanation of additionality or adjustment (where relevant)	These measures will add to existing measures aimed at the efficient management of SOCs and the creation of financially sustainable SOCs that do not become a burden on the fiscus.

Labour Market Reforms	**National Minimum Wage; Labour Relations Amendment Act; Socio-Economic Impact Assessment System; more active role for Commission for Conciliation, Mediation and Arbitration**
Objective(s) of policy	Employment creation, especially for the youth Improved labour relations, less strike action and less exploitation by employers Increase in living wage of the poorest working South Africans
Implementation path and expected date of implementation	The **National Minimum Wage (NMW)** is to be implemented by no later than May 2018. The **Labour Relations Act (LRA) amendments** are due to be passed by end 2017. The **Socio-Economic Impact Assessment System (SEIAS)** is underway and the draft legislation should be presented to Parliament by the end of the year. An **agreement on codes of good practice** that should help to normalise employer/employee relations, build trust and increase propensity to hire has been concluded.
What indicator(s) will be used to measure progress?	Increase in youth employment Increase in work hours Reduction in strike action and associated disruption in economic activity
Explanation of additionality or adjustment (where relevant)	**National minimum wage (NMW)** will come into force in May 2018 and the **Labour Relations Act (LRA) amendments** are due to be passed by end 2017, thus adding labour market policy measures to the existing measures.

Chief Executive Officer (CEO) initiative	Partnerships in labour-intensive sectors, including Youth Employment Scheme (YES)
Objective(s) of policy	To work with government's social partners to address constraints and identify opportunities for partnerships in eight labour-intensive sectors, including agriculture, manufacturing and tourism, where there are great employment and growth multipliers. To unlock employment enhancing industries
Implementation path and expected date of implementation	To date the CEO initiative has: • Agreed to set up a **Youth Employment Scheme (YES)** to provide opportunities for 1 million young people to gain work experience to improve their job prospects. • Raised R1.5 billion in contributions from the private sector for a small business fund to stimulate entrepreneurship and self-employment. Government has committed to step up funding for small business development to augment this initiative. • Formulated proposals to address binding constraints in the agriculture and tourism sectors.
What indicator(s) will be used to measure progress?	Youth employment Private sector investment Number of SMME businesses
Explanation of additionality or adjustment (where relevant)	The CEO initiative was convened by the President in 2016 as a collaborative effort between the private sector and government to support growth and transformation. It is thus additional to previous (pre-2016) growth policy initiatives.

Annex 4. Past commitment – St. Petersburg fiscal commitment

Please update the tables as follows*:*

Medium-term projections, and change since last submission (required for all members):

			Estimate Projections				
	2014-15*	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Gross Debt	46.4	49.4	51.0	52.3	52.9	52.4	

	Estimate	Projections					
	2014-15*	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
ppt change	*-0.4*	*-1.1*	*0.1*	*1.3*	*2.4*	*n.a.*	
Net Debt**	41.0	44.1	45.7	47.0	47.6	48.1	
ppt change	*-0.2*	*-0.2*	*0.0*	*0.8*	*1.4*	*n.a.*	
Deficit	-3.5	-3.5	-3.4	-3.1	-2.8	-2.6	
ppt change	*0.1*	*0.4*	*-0.2*	*-0.3*	*-0.4*	*n.a.*	
Primary Balance	-0.3	-0.1	0.1	0.4	0.9	1.1	
ppt change	*0.1*	*0.5*	*-0.3*	*-0.3*	*-0.3*	*n.a.*	
CAPB							
ppt change							

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.
** *Please explain how net debt is measured in your economy.*

Sources: South African Reserve Bank (SARB) Quarterly Bulletin, 20 June 2017; 2017 Budget Review, 22 February 2017. The debt numbers are for total government gross loan debt and net loan debt. The deficit and primary balance numbers are for the consolidated government. Estimates and projections are for the fiscal year starting 1 April. The percentage point change is from the estimates and projections in the 2016 Hangzhou Growth Strategy, which were sourced from the 2016 Budget Review, 24 February 2016.

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

	Estimate	Projections					
	2014-15*	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Real GDP growth	1.7	0.5	0.5	1.3	2.1	2.3	
ppt change	*0.1*	*-0.4*	*-0.7*	*-0.6*	*-0.4*	*n.a.*	
Nominal GDP growth	7.6	5.6	7.3	7.5	8.2	8.1	
ppt change	*1.1*	*-0.3*	*-0.4*	*-0.8*	*-0.4*	*n.a.*	

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

Sources: 2017 Budget Review, 22 February 2017; South African Reserve Bank (SARB) Quarterly Bulletin, 20 June 2017. Estimates and projections are for the fiscal year starting 1 April. The percentage point change is from the estimates and projections in the 2016 Hangzhou Growth Strategy, which were sourced from the 2016 Budget Review, 24 February 2016.