NATIONAL COUNCIL OF PROVINCES
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 386 [CW517E]
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386. Mr K A Sinclair (COPE-NC) to ask the Minister of Finance:

What innovation and/or intervention strategy is in place to (a) secure the currency, (b) stabilise the balance of payment and economic growth, (c) secure jobs and (d) intervene in the embattled automotive industry regarding (i) the impact of strikes on the economy, (ii) how these impact affects (aa) future relations with manufactures and (bb) relationships with international trade partners and (iii) how these events affected the reputation of our country and its stability?

CW517E

REPLY:

The National Development Plan, along with the New Growth Path and the Industrial Policy Action Plan, list the various interventions that the state will undertake to improve growth, employment and the lives of all South Africans over the next decade. In addition, the implementation of these plans is facilitated through a more coordinated cluster system where government departments discuss and agree on policy interventions. Better policy alignment, greater policy and regulatory certainty will improve confidence and growth in the economy. The President and the National Planning Commission have convened a number of meetings with labour and business to find an agreement on the government's proposals and ensure their speedy implementation.

In terms of specific interventions:

a) <u>Interventions to secure the currency</u>

There are no interventions in place to secure the currency as we are committed to flexible exchange rate regime. In a floating exchange rate regime such as South Africa, currency volatility is an important shock absorber for the economy, which allows growth and interest rates to be less volatile. Although changes in the exchange rate also affect inflation, its pass-through to consumer inflation has been relatively muted. Core inflation remains within the target range. A competitive exchange rate also plays a significant role in the development of competitive export industries.

Currency flexibility plays an important role in supporting macroeconomic stability. A flexible exchange rate allows the Reserve Bank to set monetary policy and interest rates based on domestic considerations rather than international developments. This reduces the volatility of our domestic interest rates, which is particularly important given the current uncertain global environment.

b) <u>There are interventions implemented recently (in line with the NDP) that are likely to improve export competitiveness and help to stabilize the balance of payment. These include:</u>

- **Improving the efficiency, pricing and capacity of local ports to reduce transport costs and enhance competitiveness.** The ports regulator maintained 2013/14 port tariffs at their 2012/13 levels and decreased container export tariffs by 43.2 per cent, container import tariffs by 14.3 per cent and vehicle export tariffs by 21.1 per cent. A new tariff structure will be phased from 2014 to 2018. Handling capacity at the Durban container terminal is being expanded.
- **Investing in freight capacity to help alleviate supply bottlenecks.** Transnet approved a R2.3 billion project to upgrade the rail network to the port of Coega, which will raise annual manganese and export capacity. Transnet will also add 2.4 million tons of annual coal export capacity to the Waterberg rail line by the end of 2013.
- **Creating a more competitive environment.** The competition commission's work in the construction, communication, food and agriculture sectors is expected to reduce prices, improve efficiency and decrease the cost of doing business. Several high profile cases act as signal that anti-competitive behavior or market abuses will not go unpunished.
- **Numerous "doing business" interventions including**: new electronic systems introduced by the SARS, to improve efficiencies, tackle customs fraud and to simplify search and seizure procedures; improvements in standards, accreditation programmes and testing capacity by the South African Bureau of Standards; and new partnerships between the Companies Intellectual Property Commission (CIPC) and private firms to utilize existing platforms to reduce administration and red tape.
- **Investing in electricity capacity**: new capacity, expected to come online in 2014, will allow for higher levels of investment and higher growth.
- In addition to these, the cabinet Lekgotla in August made important decisions around **improving the regulatory environment** (including shale and fracking), accelerating infrastructure (coal 3), supporting small business and stabilizing the mining sector to support economic growth.

c) <u>Interventions to secure jobs</u>

The government is working together with the private sector, civil society organisations and other organisations to stimulate both the demand and the supply side aspects of the job market. The approach focusses on training, skills development, labour market activation and short-term public employment. Some of the interventions implemented include:

- **Reducing unemployment.** Support for employment creation is built into both tax and grant based incentives administered by the Department of Trade and Industry. Tax allowances for learnerships aim to increase skills levels. The Industrial Policy Action Plan, the proposed framework for special economic zones and tourism promotion efforts are aimed at supporting employment and sustainable income generation. There is also small enterprise support through the Small Enterprise Development Agency, which, by enhancing the competitiveness and capabilities of small enterprises, will enable small enterprises to be a significant source of job creation. The Jobs Fund has approved allocations of R3.4 billion to some 64 projects, expected to create over 90 000 permanent jobs and about 100 000 training opportunities over the period ahead. The expanded public works programme continues to prioritise young people and women and more than 60 per cent of jobs created last year were filled by young people, well above the 40 per cent target. The employment tax incentive currently before Parliament will provide additional support to firms. Finally, initiatives are under way to strengthen further education colleges, expand access to student finance and refocus the activities of sector education authorities and the National Skills Fund.

- **Reducing the skill constraint.** The Department of Home Affairs is automating applications for work permits, which is expected to reduce the time required to process work permits for skilled foreign nationals by June 2014.
- **Improving access to finance and support services for small business.** The Small Enterprise Development Agency established eight business incubators during 2012/13, bringing the total to 42. These facilities offer access to financial and technical advice. In 2012/13, the incubation programme supported 1 514 SMMEs and the Small Enterprise Finance Agency approved loans of R560 million.

d) <u>Intervention in the motor industry</u>

- The government currently provides substantial support to the automotive manufacturing sector. In 2010/11, the industry received R22 billion in tax support alone (including import rebates)

- The current programme of support, the Automotive Production and Development Programme, will provide support until 2020, this includes cash grants for investments, tariff support, and tariff rebates.

e) <u>Impact of strikes on the reputation and stability of the country</u>

- Government has worked with business and labour to establish a platform for engagement to ensure that labour disputes are resolved within the law. In addition, a roadmap for resolving policy challenges in the sector has been created. Mining wage negotiations have been much more peaceful this year.

f) <u>Relationships with International Investors</u>

- South Africa relies heavily on foreign direct investment for economic growth, and improving the investment environment is a cornerstone of the National Development Plan. Cabinet mandated the economic ministers (Finance, Economic Development and Trade and Industry) to draft a new Promotion and Protection of Investment Bill. The Bill entrenches property rights, and the principle that foreign investors should be treated no less favourably than domestic investors. It will be published shortly after the MTBPS. Moreover, a joint process to develop a comprehensive investment policy in line with the NDP is underway. It will include new investor-friendly policies in the areas of tax, industrial incentives and exchange control.