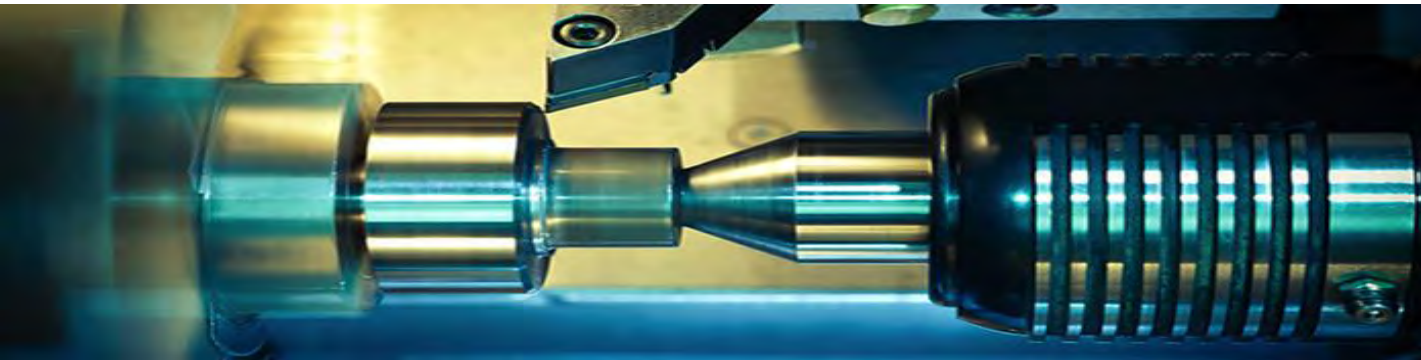


Briefing to Portfolio Committee on Trade and Industry

Industrial Policy Action Plan 2016/17 Annual Report



28 November 2017

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Policy Context: Situating IPAP

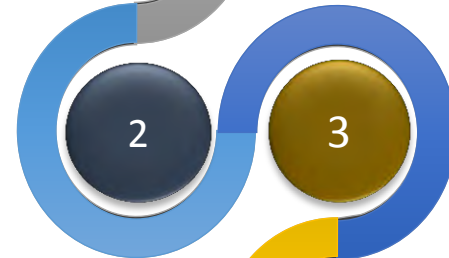


- ✓ The IPAP is informed by the vision set out for South Africa's development provided by the National Development Plan (NDP) and it is a key component of the President's Nine-Point Plan
- ✓ Government policy identifies industrial development as one of the key pillars required to create inclusive growth based on value-addition, labour intensive sectors and export growth
- ✓ IPAP is designed to address the decline in our industrial and manufacturing capacity and contribute to job creation
- ✓ It is a product of the Economic Sector and Employment Cluster of Government and its iterative annual format has served as a useful tool to strengthen intra-governmental integration and co-ordination
- ✓ This Annual Report provides an overview of the achievements of the 2016/7 financial year and thus underscores the importance of collaboration and co-operation between various stakeholders with regards to the country's industrial agenda

IPAP core objectives



Diversifying the economy and providing strong support for value-added manufacturing



Building regional investment, trade and industrial development integration



Emphasis on R&D and movement towards a knowledge economy



Working with the private sector to prepare for and adapt to the challenges in digitised production and logistics associated with the “4th Industrial Revolution”

Developmental model focused on economic transformation and social inclusion

Selected achievement highlights 2016/17



Procurement

Designations: IPAP has placed significant emphasis on leveraging public procurement for domestic manufacturing and the creation of jobs.

- ✓ The total value of tenders awarded based on designated products was R2.6 billion during 2016/17.
- ✓ Further instruction notes were issued during this financial year, including: Steel and steel products; Rail signalling sector; Transformers and associated equipment; and Wheelie bins.

National Industrial Participation

- ✓ Key highlights in support of competitiveness and export capabilities through funding, technology transfer or linking local players with the global value supply chains of OEMs, include:
 - ✓ The agreement between **the dti**, South African Airways Technical (SAAT) and an obligor to revive the aircraft engine maintenance, repair and overhaul capabilities of SAAT.
 - ✓ A contract was awarded to Cobham Satcom, a South African manufacturer, to supply parts to Airbus for the Light Inmarsat Satcom for the A320 NEO (New Engine Option) and the A330 NEO aircraft.
 - ✓ An agreement reached between an obligor and the CSIR for the provision of software for Product Life Management (PLM) for a period of 4 years, in support for SMME development at various stages

Selected achievement highlights 2016/17



Industrial Financing & Incentives

The Industrial Development Corporation (IDC), the major source of dedicated industrial financing, disbursed R9.1 billion in 2016-17 financial year in support of IPAP sectors:

Black Industrialists Development Programme

- ✓ 36 projects expected to create a further 3,979 direct jobs and sustain 3, 837 jobs, to a total support value of R1 billion, leveraging R3.1 billion in private investment.

Automotive Investment Scheme (AIS)

- ✓ an investment valued at R12.2 billion was made by private sector, projected to create 2,514 new jobs and 34 113 projected jobs retained in the passenger and heavy vehicle manufacturing industry.

Industrial Park Revitalisation Programme (IPRP)

- ✓ **the dti** embarked on the revitalisation of six industrial parks, focusing initially on critical infrastructure upgrades.



Industrial Financing & Incentives

Cluster Development Programme (CDP)

- ✓ 6 cluster initiatives totalling R56.6m were approved (the medical devices sector, composites, non-automotive, advanced manufacturing, pharmaceutical and creative industries).

12i Tax Allowance Incentive Scheme

- ✓ 24 projects were approved, with a total investment value of R14.3 billion to cover companies across a wide range of sectors including steel, agro-processing, oil and gas, boatbuilding, chemicals, cement, paper, plastics, food and beverages and furniture.

Aquaculture Development and Enhancement Programme (ADEP)

- ✓ 8 projects were approved with an investment value of R198 million. 220 projected jobs created and 433 projected jobs retained.

Selected achievement highlights 2016/17



Special Economic Zones (SEZ)

- ✓ The total number of secured investments has significantly increased, from 47 to 72; with the total related total value moving up from R19.7 billion to R41.2 billion. Key highlights for some individual IDZs include:
 - ✓ Coega IDZ launched the R11.5 billion BAIC automotive investment with an allocation of 1,000 MW under IPP, at an investment value of R25 billion.
 - ✓ Dube Trade Port signed a R1.3 billion agreement with CIPLA to produce biosimilars.
 - ✓ Saldanha Bay IDZ has a pipeline of 34 investments worth R14 billion.
 - ✓ OR Tambo IDZ has attracted a total of R260 million in new investment covering horticulture and metal refining.
 - ✓ A R40 billion metallurgical cluster within Musina-Makhado SEZ has entered the implementation phase.
 - ✓ 80 government officials from across the three spheres of government have been trained to date relating to Special Economic Zones.

Selected achievement highlights 2016/17



Technology & Innovation

- ✓ Between 2012 and 2016 Technology Localisation Programme supported 16 companies in the development of new products, 650 direct jobs created and 6,500 retained
 - ✓ 22 companies supported with development of export capability and 20 with achievement of import substitution, 57 companies secured works with SOCs/OEMs and 65 retained works.
 - ✓ 40% of companies supported are black women-owned.
 - ✓ R33 million invested in 2016/17 by DST in support of the Technology Stations expansion in their geographical footprint and reach.
 - ✓ the Bombardier locomotive building project received R9 million in funding from the DST, together with co-investment by ABB to the value of R6 million.

Selected achievement highlights 2016/17



Trade and Export Promotion

- ✓ 1,473 companies benefited between 2015/16 and 2016/17 financial years (until end of December 2016), from the advanced Global Exporter Passport Programme (GEPP) through training
- ✓ ECIC approved support for 3 export-related projects with a South African local content requirement of 50% for each of the projects, for a total project value of R318.6 million.
- ✓ The Export Marketing and Investment Assistance Scheme (EMIA) supported 1172 projects for a total support package of approximately R106 million.

InvestSA: Securing foreign direct investment in a difficult economic climate:

- ✓ Government has established a national investment One Stop Shop and 2 provincial centres in KZN, WC subsequently launched; thus securing a streamlined, inter-departmental 'clearing house' system
- ✓ InvestSA, was awarded the Global Investment Promotion Agency (IPA) Award for excellence
- ✓ In 2016, South Africa FDI inflows increased at 38% year-on-year
- ✓ Investments by Nestle, Beijing Automotive International Corporation, ACWA Power, Ford, Toyota, Sumitomo Rubber, Cipla, Johnson & Johnson, 3M, amongst others, have reaffirmed South Africa as a regional manufacturing hub



Developmental Trade Policy

Technical Infrastructure

- ✓ Approximately R753 million worth of non-compliant and unsafe products were removed from the market during the past two years by NRCS, including a consignment of 2 million dangerous incandescent lamps
- ✓ The SABS Design Institute, in partnership with Transnet, rolled out the Moving Ideas programme, an enterprise development initiative - subsidised R&D facilities, tools and resources to black entrepreneurs and black-owned SMMEs.
- ✓ SANAS established a system for the accreditation of certification bodies in information security management.
- ✓ NMISA established an internationally-recognised capability for pollutant analysis and an African Feed and Food Reference Material programme to produce matrix reference materials in support of intra-Africa trade and exports.



Steel Industry

Government intervened to save the steel industry in 2016 through effective use and alignment of industrial policy tools and reciprocal control mechanisms. The package of measures implemented to ensure the sustainability of the steel industry is as follows:

- ✓ Increase in the general rate of customs duty on primary steel products to 10%.
- ✓ Downstream support measures including tariff review on a range of downstream products and the deployment of rebates.
- ✓ Agreement on a set of principles for flat steel pricing in SA: i.e. that the product is priced appropriately to ensure that steel-dependent industries are competitive, and the upstream steel mills remain sustainable.
- ✓ Local procurement by government:
 - ✓ undeeding of primary steel in designated products (requiring the use of locally manufactured primary steel);
 - ✓ designation of downstream steel-intensive construction products and components.
 - ✓ Settlement of the Competition Commission issues with Arcelor-Mittal South Africa (AMSA).



Steel Industry

- ✓ AMSA and government have also agreed to remove import parity pricing with immediate effect. Government has finalised the flat steel pricing principles agreement with Arcelor Mittal South Africa (AMSA).
- ✓ The reciprocal conditions attached to the policy support measures for the primary steel industry include commitments to:
 - ✓ Investment of at least R4.6-billion over the next 5 years to improve plant competitiveness;
 - ✓ A competitive pricing policy;
 - ✓ Job retention and Industrial output.
- ✓ Establishment of a of a Steel Industry Competitiveness Fund –to support qualifying enterprises in the downstream steel sector.
- ✓ Investment support through 12i tax incentives.

Selected achievement highlights 2016/17



- Clothing, Textiles, Leather and Footwear (CTLF):** supporting and growing a key labour-intensive sector
- ✓ Since the inception of the CTCP a partnership between **the dti** and the IDC, managed by the IDC - support for the sector has amounted to R4.9 billion in incentives.
 - ✓ 81 252 jobs have been saved and an estimated 9 672 new jobs have been created. 28 new companies established; creation of 2 200 jobs; growth in exports.
 - ✓ **the dti** approved R824 million under a Production Incentive to establish one national and four sub-national clusters in partnership with local clusters institutions.
 - ✓ Support measures resulted in capacity expansions by many manufacturers, the establishment of 28 new companies in the Leather and Footwear subsector, creation of 2,200 sustainable jobs, growth in exports and a reduction of the trade deficit.
 - ✓ A R1.3 billion fabrics manufacturing facility is to be built in Atlantis, creating 200 jobs. Czech company, PEGAS Nonwovens, will build the plant and will train Atlantis residents in the Czech Republic.

Selected achievement highlights 2016/17



Automotives: Supporting and strengthening SA's globally competitive sector

- ✓ Through the APDP incentive, R7.8 billion has been disbursed which unlocked R28.5 billion in private investments. For example:
 - ✓ **Beijing Automobile International Corporation** began building its new R11 billion vehicle manufacturing plant, which is set to create 2,500 direct jobs. The plant will manufacture pickup trucks, SUVs and sedans for the African market
 - ✓ **Toyota SA** opened an R6.1 billion assembly line to produce the Fortuner and Hilux. R1.9 billion will go towards supplier tooling, R1.4 billion to in-house tooling and the rest will be committed to in-house facilities and buildings to cater for new press machines. Around 2,000 new jobs to be created in the supply chain
 - ✓ **Ford SA** is set to invest R11.5 million in the construction and operation of a new job training and entrepreneurial development centre. The Ford Resource and Engagement Centre (FREC) opened in October 2016.
 - ✓ **Volkswagen SA VWSA** has invested R120-million in a new 21,000 try-out press to improve manufacturing capabilities. The new facility will produce close to 10,000 parts per day for the Polo, the Polo Cross and the local Polo Vivo models
- ✓ Work is well advanced on an Automotive Master plan (post-2020) to secure higher economic and employment multipliers and BEE

Selected achievement highlights 2016/17



Metal Fabrication, Capital and Transport Equipment

- ✓ SA's efforts to up-scale our industrial capacities and capabilities in the manufacture of rail transport and components were boosted by the launch of several new facilities:
 - ✓ Bombardier Transportation Propulsion and Control facility launched in Elandsfontein with 100 people employed
 - ✓ AVK Valves, in partnership with Premier Valves, launched a R200m new plant in Benoni
 - ✓ MTU South Africa unveiled its newly-upgraded workshop facility to assemble the diesel engines for the 232 diesel locomotives for China North Rail
 - ✓ Gibela secured 32 local suppliers for the R51bn Passenger Rail Agency of South Africa (PRASA) contract; 580 trains to be built in SA
 - ✓ Rail signalling components designated for local procurement
- ✓ Under the National Tooling Initiative, the new Toolmaker Trade Test was accredited and the Master Toolmaker Qualification was SAQA-registered in 2016/17. Seven colleges were accredited by QCTO as skills development providers for the new Tooling Qualification.
- ✓ NECSA, the first national Trade Test Centre, was accredited and the trade testing process with Indlela commenced in July 2016.

Selected achievement highlights 2016/17



Business Process Services (BPS): ongoing effort to build this globally competitive and labour-intensive sector

- ✓ Since 2012 the South African offshore BPS market has experienced compounded average growth of 25% year on year and now boasts around 30,000 offshore jobs, with the U.K being the leading buyer of South African BPS services followed by Australia and the USA which is rapidly growing.
- ✓ 11 new projects were approved in the 2016/17 financial year with a 5-year projected Export Revenue of R7,1 billion. The total amount of claims paid for the 2016/17 financial year on the BPS incentive programme were R266,8 million with 12,568 sustained jobs and a youth percentage of 91%.
- ✓ EXL opened its call centre in Cape Town, servicing US clients on analytics and business transformation assistance. The operation launched with 60 new jobs with plans to create more jobs within three years.
- ✓ SA secured 2 projects to provide tutor services to learners in Asia via online platform, 688 jobs created.
- ✓ Funding was approved in May 2016 for Phase 5 of Monyetla Work Readiness Programme which will train an additional 6 000 unemployed learners, leading to the achievement of a target set in 2012 to put 18 000 for the youth into training, with 70% gaining employment.

Selected achievement highlights 2016/17



Agro-processing

- ✓ **Fruit and veg:** SA's R10 billion citrus industry has set up a non-profit entity for emerging growers, through which it will bolster dwindling production and help new players enter the lucrative export market. The Citrus Growers Association stated that the organisation would contribute R14 million to the newly formed entity.
- ✓ A R300m citrus industry black economic empowerment project was launched in the Sundays River valley. The project, Ikamva Lethu, is very broad-based, with a focus on inclusivity and participation, and will result in about 400 community members becoming shareholders and beneficiaries.
- ✓ **the dti** launched a R100 million tomato processing plant ensuring business for 15 commercial farmers
- ✓ **Chicory production:** Nestlé South Africa inaugurated its instant coffee manufacturing plant in KwaZulu-Natal, after a R1.2 billion investment into the expansion of its factory.
- ✓ **Wine:** Koopmanskloof Wines secured a deal with a Russian company to start shipping over 60,000 bottles of wine. They are also working on a long-term strategic partnership aimed at providing half a million bottles by 2020.
- ✓ **Grain staples:** GWK Farm Foods unveiled a technologically-advanced wheat mill, pasta plant and biscuit factory - one of the most modern new food production facilities on the African continent.

Selected achievement highlights 2016/17



Green industries

- ✓ After the successful completion of the first phase of its rooftop solar photovoltaic plant in August 2016, Emperor's Palace in Gauteng is expanding its embedded system from 1.18 to 2.72 MW. It is already producing 15% to 20% of its electricity needs during the daytime, for an equivalent of about R2 million of electricity savings per annum at current tariffs.
- ✓ The City of Cape Town announced the extension of its MyCiTi system with 10 new electric buses. The R126-million pilot contract, which includes the provision of the buses, ancillary equipment, services, and training, would be partly offset by the income generated from selling carbon credits.
- ✓ Since 2013, the NCPC-SA has conducted assessments in 806 plants, identifying annualised potential savings of R 873 million.

Selected achievement highlights 2016/17



Ship & boatbuilding

- ✓ Armscor announced preferred bidders to supply ships for the Navy's projects Biro and Hotel: Southern African Shipyards and Damen Shipyards. The estimated combined value of the tenders is around R5 billion.
- ✓ A R290 million new Durban floating dock was launched on the back of R160 million support through the 12i incentive.
- ✓ The National Research Foundation's Research Vessel Tender to the value of R1.8 million was awarded to NautiTech.

Electro-technical

- ✓ There have been important OEM investments in South Africa in the television and White Goods markets (including Hisense, Defy and Samsung).
- ✓ Yangtze Optics Africa Company (YOAC) launched a R150m fibre optic plant at Dube Trade Port in KZN. approximately 150 new jobs expected to be created.
- ✓ Automation technology group ABB commissioned an integrated solar-diesel microgrid installation – the group's first of its kind in South Africa. The microgrid makes use of power fed from the national grid and a solar photovoltaic (PV) installation, as well as a backup feed from four diesel generator sets.
- ✓ Zero Medical Vaccine Refrigerator, a ground-breaking new off-grid vaccine refrigerator technology, was launched in 2015 by Zero Medical, a subsidiary of Zero Appliances, a South African-based refrigeration manufacturer.

Selected achievement highlights 2016/17



Beneficiation

Metals and minerals

- ✓ The launch of a new R4 billion titanium beneficiation project for manufacturing titanium pigment at the Richards Bay Industrial Development Zone (IDZ)
 - ✓ 1,200 indirect and 800 direct jobs will be created during the construction phase of the plant, with 550 permanent jobs being established once the plant is operational.

Fuel Cells

- ✓ Impala Platinum unveiled an innovative technology that could thrust SA to the forefront of global hydrogen fuel cell developments.
- ✓ As part of its hydrogen fuel strategy, in the next two years Implats to build two fuel cell plants at the Springs refinery.
- ✓ In collaboration with HySA Infrastructure, Anglo Platinum is developing fuel cell-powered mining equipment - namely a dozer and load haul dumper (LHD) - for its own operations. Testing & technology iterations are progressing positively, with innovative fuelling options.
- ✓ Isondo precious metals' (IPM) launched a world-class semi-commercial plant that can manufacture local and international fuel cell component technology.

Selected achievement highlights 2016/17



Plastics and Pharmaceuticals

- ✓ Mpact opened a R350 million Polyethylene Terephthalate recycling plant which created 1,000 indirect jobs. The operation has resulted in SA becoming the first on the African continent to meet Coca-Cola's certification requirements to package their soft drinks.
- ✓ Cipla Biotec formalised its investment in the Dube Trade Port in KZN, the first-of-its-kind facility in SA for the manufacture of biotechnology products.
- ✓ SA Health Protecting Service, a local medical consumable supplier, is now venturing into manufacture of condoms and other medical consumables following their partnership formed with HBM. The total value of the 2015-2018 public sector condoms tender was R3.5 billion.
- ✓ A risk engine to combat misdeclaration and under-invoicing (customs fraud) was established. SARS has thus far recovered about R500,000 through the correction of quantity and duty as part of clampdown on misdeclaration.

Overview of all the KAPs



- ✓ In monitoring progress, a colour coding mechanism is used where:
 - ✓ **Green-coded KAPs** represent milestones that have been achieved. This applies to 220 KAPs.
 - ✓ **Orange-coded KAPs** represent milestones that are close to completion but where parts of the total KAP have not been met and where blockages may still exist. This applies to 57 KAPs.
 - ✓ Development Trade Policy:
 - ✓ Revise the standard on energy efficiency in buildings
 - ✓ Amendment of VC 8014, the compulsory specification for canned fish products
 - ✓ The Development of a Compulsory Specification for re-treated tyres for commercial and passenger vehicles and their tyres
 - ✓ **Red-coded KAPs** represents areas where there are significant delays for 8 KAPs. Some of the reasons for the delays relate to intergovernmental, regulatory, coordination, funding issues and consultations taking longer than expected.
 - ✓ Metal Fabrication, Capital & Rail Transport Equipment: Continuous support and monitoring of the designated rolling stock components.
 - ✓ Green Industries: Strategic industrialisation through the independent power producers programme.
 - ✓ Aerospace and Defence: Building a competitive aerospace and defence industry through establishing a Manufacturing Cluster and Sub-Tier Developmental Park.

Overview of all the KAPs cont.



The table below provides an overview of progress across all the KAPs for the implementation of IPAP

Breakdown of KAPs	Total	Transferred to other Depts.	Deleted from IPAP	Revised Total	Percentage
Green	220	0	0	220	77%
Orange	57	0	0	57	20%
Red	8	0	0	8	3%
Total	285	0	0	285	100%

Key challenges



- ✓ The global economy was faced with the lingering effects of the global recession and its aftershocks in the form of weak growth and demand
- ✓ Domestic economy is beset by a series of deep seated and historical structural fault lines which remain stubbornly difficult to overcome:
 - ✓ Policy uncertainty and programme misalignment between SOC's mandates & industrial policy e.g.
 - ✓ Eskom not signing contracts with Independent Power Producers under the REIPPP programme resulting in factory closures.
 - ✓ Non-compliance with localisation prescripts e.g. rail localisation programme
 - Estimated cost of Transnet Locomotives: R52 billion
 - China North and South Share: estimated R30 billion
 - CNR localisation: +- 20%
 - GE and Bombadier localisation +- 55%
 - 35% (difference in local content) of R30 billion is R10,5 billion
 - R10,5 billion of additional national demand with manufacturing multiplier of 3 = R31,5 billion.

✓ **This is the 'lost' GDP arising from failure to localise.**

Key challenges



- ✓ Pricing of electricity especially where high municipal premiums are added including security of supply in particular in smaller municipalities
 - ✓ E.G. unpaid power bills by local councils, most of which are in financial distress pose a threat to the manufacturing sector
- ✓ Deep-seated skills shortages and mismatches which have acted as a barrier to growth
- ✓ Red tape, legislative and regulatory delays particularly with respect to securing coherent, integrated and developmental-friendly legislation and regulations
 - ✓ e.g. issuance of water licences, EIAs
 - ✓ Inconsistent interpretations of environmental legislation by municipalities impacting on foundries sustainability.
- ✓ High input costs where private sector market power enables high pricing for key downstream sectors
- ✓ Continuing resource dependency
- ✓ Weak domestic demand and persistent unemployment (latest statistics approx. 27%)

Key challenges cont.

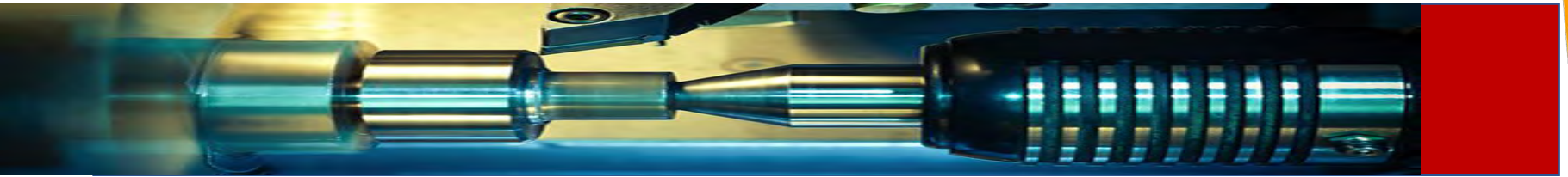


- ✓ Road, rail and port logistics together with inefficiencies together with high input costs where abuse of market power raises prices
 - ✓ E.G Rail 2017/18 – R347 per unit more expensive than road transport
 - ✓ In 2016/17 rail was R135 more expensive than road transport
 - ✓ Benchmark study overview with SA's key competitor market (Thailand).
 - ✓ Thailand is R6 047 cheaper than SA to export to the same location in Europe.
Mainly due to:
 - ✓ Plant to Port Cost – R1396.
 - ✓ Port Handling Cost – R508 per unit negative.
 - ✓ Cargo Dues – R537 per unit impact.
 - ✓ Port Cost SA vs. Thailand (handling cost + cargo dues) : R1046 more expensive
 - ✓ Rail accounts for approx. 1.2% damage per year of high end export derivatives

Conclusion and the importance of Parliamentary oversight



- ✓ IPAP 2016/17 – 18/19 set out a higher impact iteration of cross-cutting and sector specific programmes.
- ✓ The key underlying principles of IPAP 2016/17 emphasised:
 - ✓ the need for a national industrial effort with policy coherence and policy certainty across government
 - ✓ A commitment to ensure that the linkages between the primary and secondary production sectors of the economy are maximised to overcome the key constraints to manufacturing-led, value-adding and inclusive growth with a key emphasis on labour intensive sectors.
- ✓ Policy alignment and coherence in government is fundamental in order to contribute to this sustainable growth path of value-added manufacturing together with employment creation in labour-absorbing sectors.



Thank you



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

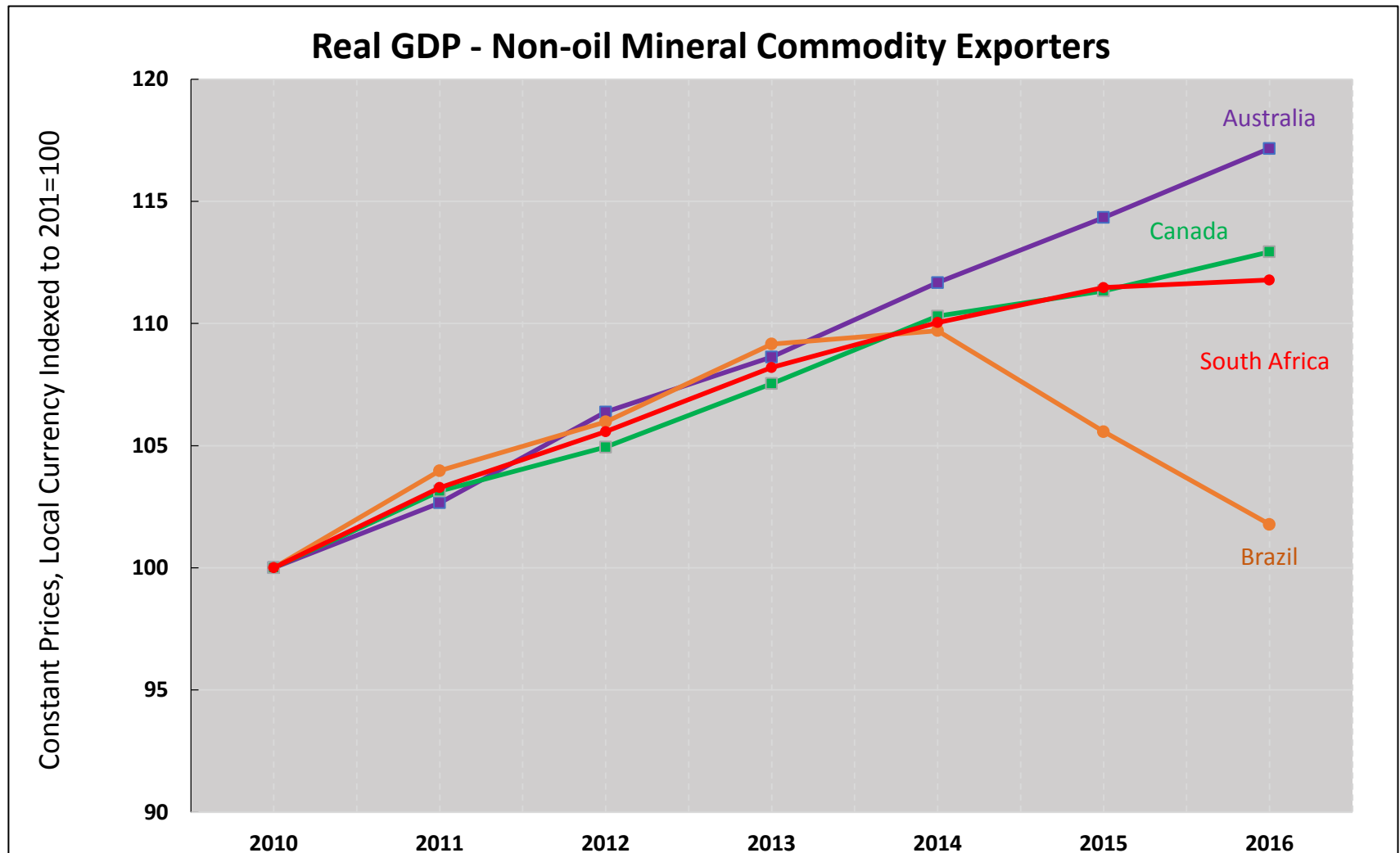


ANNEXURE: Key Economic Data

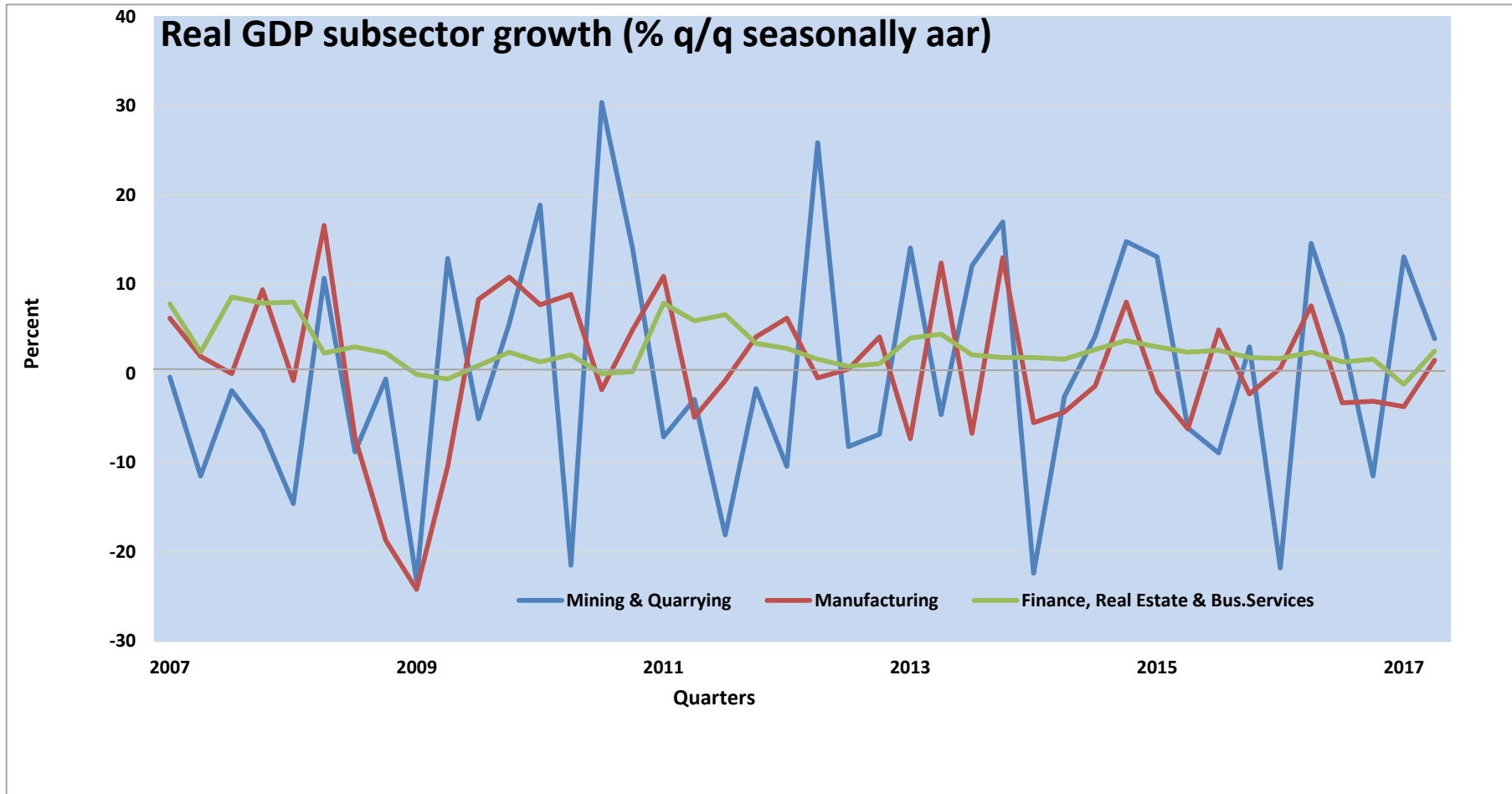
SA growth patterns: gradual divergence from peers

- ✓ From the onset of the Global Financial Crisis in 2009 to 2014, SA GDP growth closely tracked peer non-oil mineral commodity exporters
- ✓ SA deployed a range of policy interventions after the 2008/09 GFC - including the infrastructure build programme and supply-side support measures – the Manufacturing Competitiveness Enhancement Programme (MCEP) and others
- ✓ However, after 2014 SA GDP growth began to demonstrate divergence from other non-oil, mineral commodity exporters
- ✓ A key causal factor in 2015 was the emergence of several domestic policy shocks and challenges - especially sharply escalating administered prices – electricity, freight, municipal and other economic infrastructure constraints etc.

SA growth patterns: gradual divergence from peers



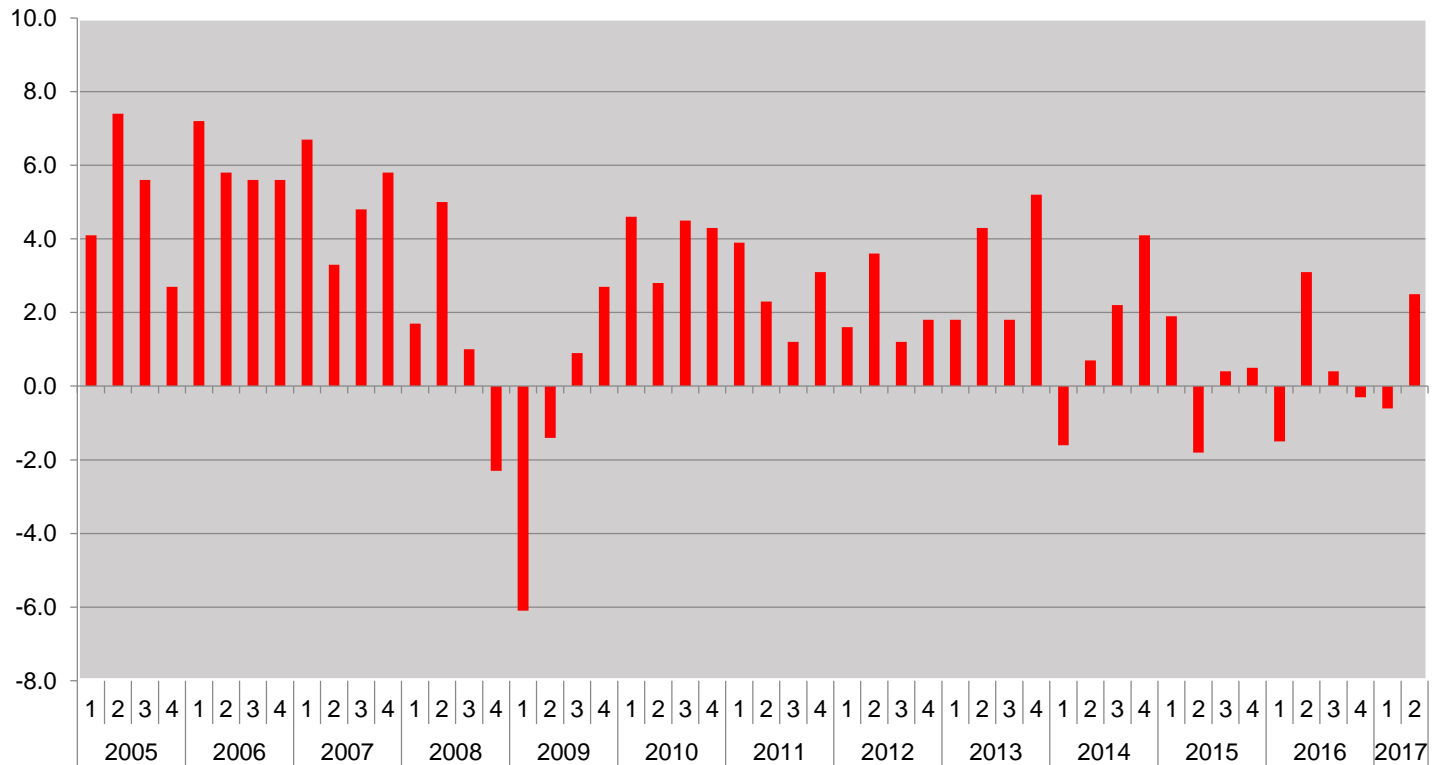
On the edge of crisis: Key numbers/volatility



Source: Stats SA

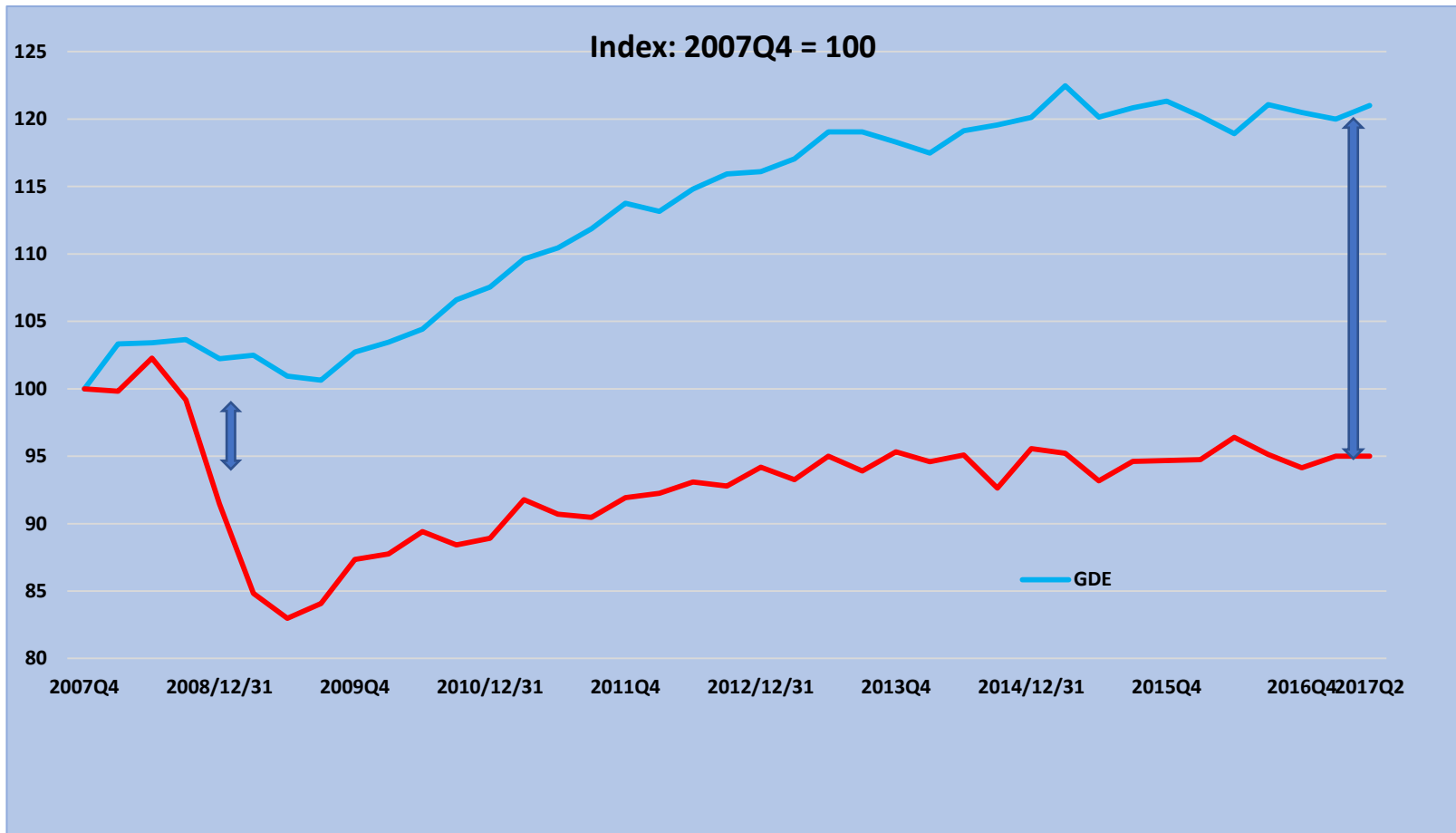
On the edge of crisis: Key numbers/volatility

GDP at market prices



Source: Stats SA

On the edge of crisis: Key numbers/volatility



Source: SARB

On the edge of crisis: Key numbers/volatility

- ✓ After falling to its lowest level since 2009 in July (42.9 points), the Absa PMI improved marginally (to 44 points) in August 2017
- ✓ Respondents were pessimistic about the future. The sub-index measuring expected business conditions over the coming six months fell to 46.6 points from 51.3 in Julv

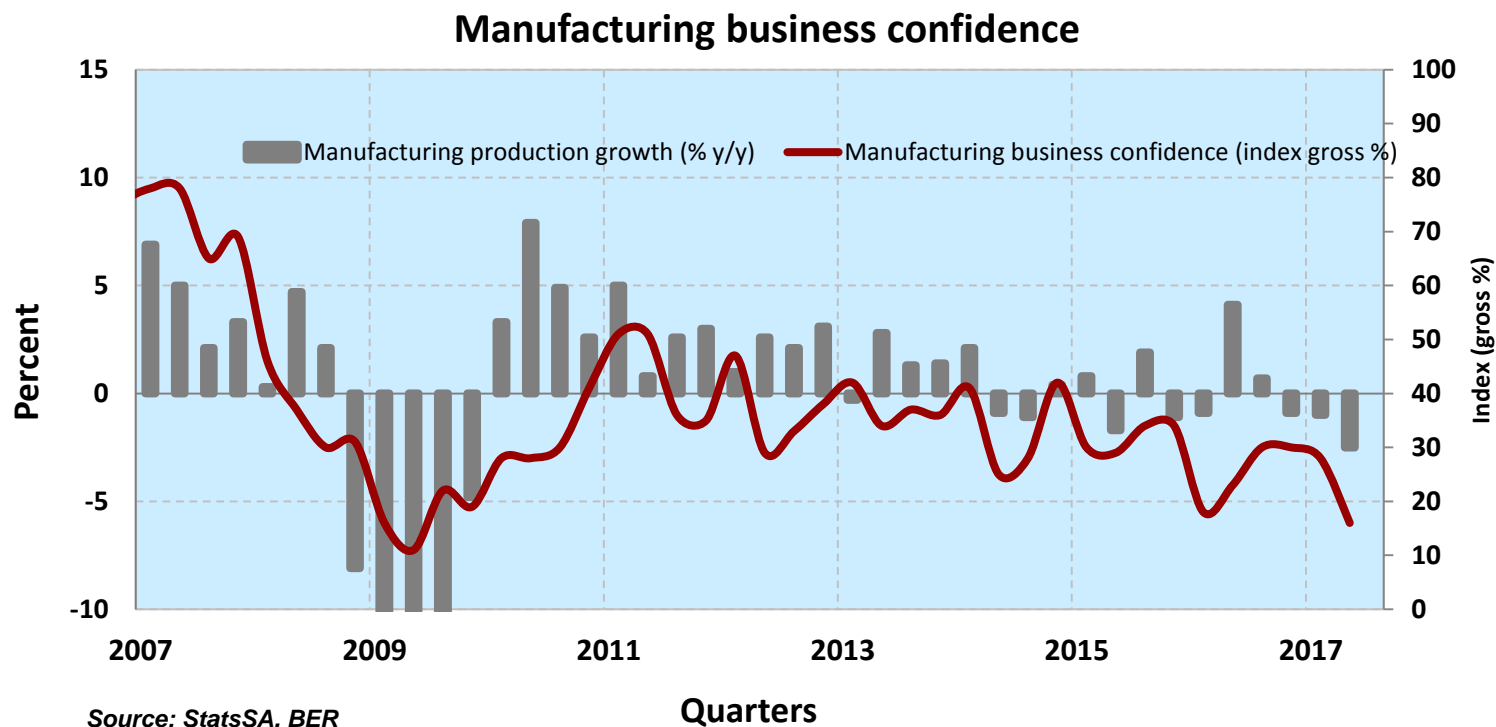
Absa Purchasing Managers' Index (seasonally adjusted)



Source: StatsSA, BER

On the edge of crisis: Key numbers/volatility

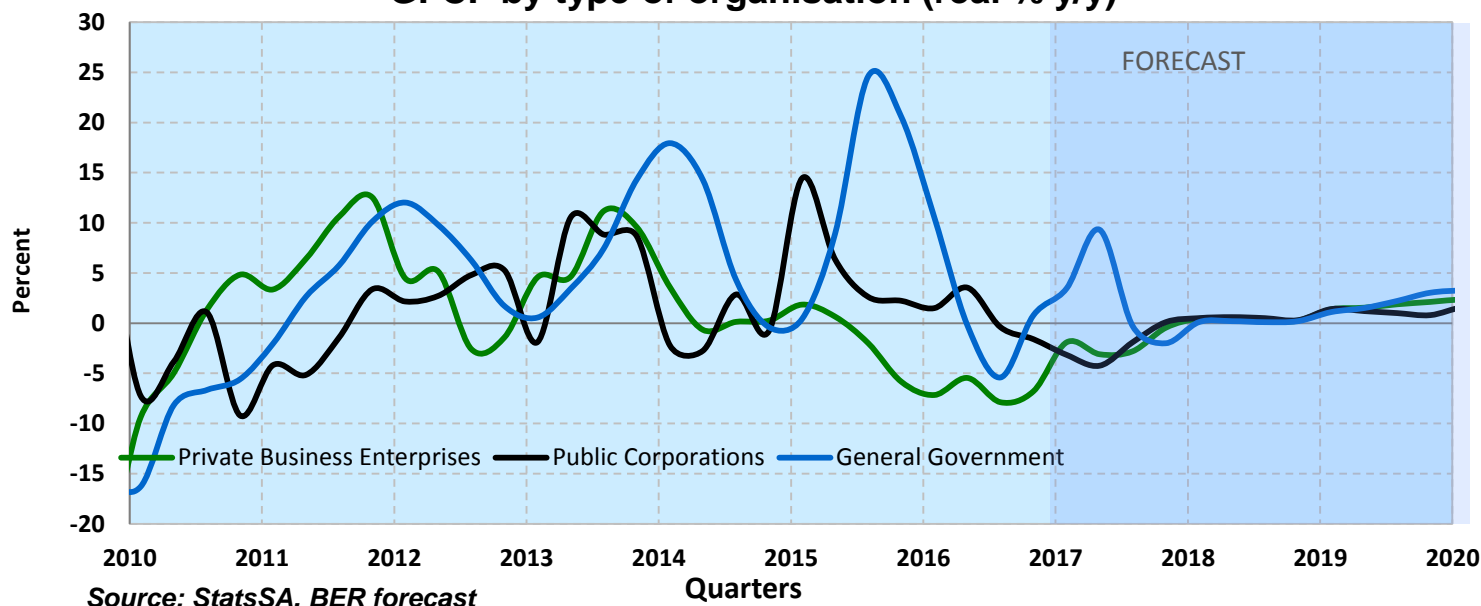
- ✓ According to the BER manufacturing survey, business confidence fell sharply in 2017Q2 to 16 points from 28 in Q1. Confidence fell to levels last seen in 2009
- ✓ The general political climate was highlighted as a significant constraint to business operations



On the edge of crisis: Key numbers/volatility

- ✓ In 2016, real capital outlays contracted by -3.9% - the first annual contraction rate since 2010
- ✓ As a percentage of GDP, investment fell below 20% - capital investment of 25% - especially in the productive sectors - is required to sustain adequate growth
- ✓ In 2017 Q2, investment contracted across all asset types - with the exception of machinery and other equipment which grew by 2.9% q-o-q in Q2
- ✓ Even investment in residential buildings sustained a big fall of 13% q-o-q, after accelerating

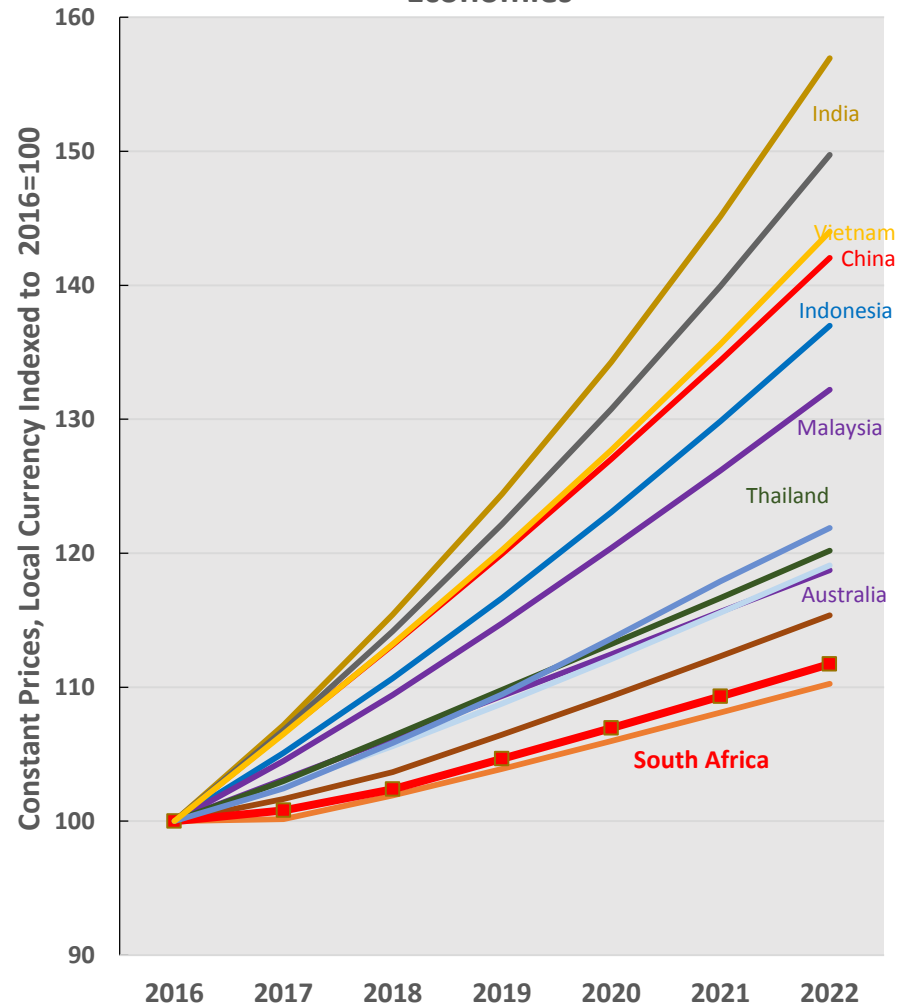
GFCF by type of organisation (real % y/y)



On the edge of crisis: Key numbers/volatility

- ✓ The IMF's World Economic Outlook suggests that SA is facing the possibility of sustained slow growth – possibly for 5 years
- ✓ Obviously a key - and not unreasonable - assumption of the IMF forecast is that commodity prices continue to recover only slowly
- ✓ Faster mineral commodity price growth will benefit SA - but in the absence of structural change these benefits will be temporary at best
- ✓ Of the major emerging markets, only Brazil is forecast to grow more slowly than SA
- ✓ Deindustrialisation in SA has not slowed down and has a regional and sector character/profile

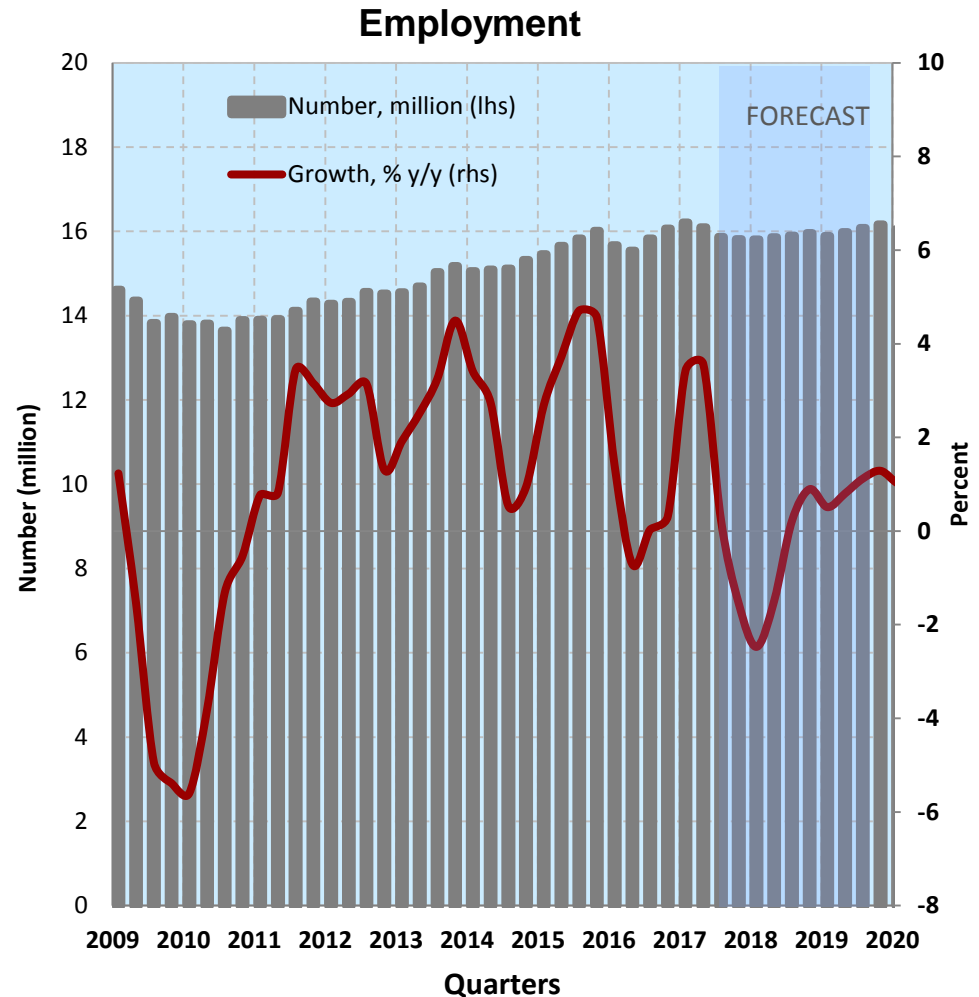
Forecast Real GDP - Selected Emerging Economies



Source: IMF

On the edge of crisis: Key numbers/volatility

- ✓ According to Stats SA's latest QLFS, the national unemployment rate remained unchanged at 27.7% in 2017Q2 compared to Q1
- ✓ However, job losses were recorded in construction (110,000), agriculture (40,000), mining (13,000), transport (11,000) and community and social services (9,000)
- ✓ Gains were recorded in trade (58,000), manufacturing (10,000) and utilities (2,000)
- ✓ Employment prospects remain very weak in line with poor domestic economic prospects
- ✓ Public sector employment constrained by limited fiscal space



Source: StatsSA, BER forecast