



A Call to South Africans to Actively Promote Sound Economic Management and Leadership

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By

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Roadshow Snapshot

Webcast Link: www.goldmansachs.com/our-thinking/podcasts/episodes/11-25-2015-colin-coleman.html

Report Link: www.goldmansachs.com/our-thinking/pages/report-sa-econ-mgmt-and-leadership.html

Presented to Boards / Executives/ Leadership



Scheduled to Present to



The Outlook for the World is Improving but Slower than Prior Forecasts...

South Africa is a Small and Open Economy in the World

	GDP Size	Goldman Sachs Estimates	
		2015E	2016E
World	\$77.3trn	3.1 %	3.5 %
USA	\$17.4trn	2.4 %	2.2 %
Eurozone	\$18.5trn	1.5 %	1.7 %
China	\$10.4trn	6.9 %	6.4 %
India	\$2.0trn	7.4 %	7.8 %
ASEAN ¹	\$2.1trn	4.6 %	4.9 %
Brazil	\$2.4trn	(3.2)%	(1.6) %
Russia	\$1.9trn	(3.5)%	1.5 %
South Africa	\$0.3trn	0.4%	1.5 %
SSA (IMF Data)	\$1.7trn	2.2%	4.3 %

Source: Latest GS research, IMF WEO Report October 2015

¹ ASEAN = Indonesia, Malaysia, Philippines, Singapore – Source IMF Data.

...And Global Storm Clouds Have Darkened the Growth Market Outlook

The “Final Wave” of the Global Financial Crisis Has Growth Markets Economies at its Epicentre

- 1 US Interest rate imminent “lift off” and “flight path” of US Rates
- 2 China’s economic rebalancing
- 3 Commodity prices “lower for longer”

Commodity Environment Remains Depressed

	Spot 1 Year Ago	Change in Spot Prices – 1 Year Ago vs. Today	
		Spot ¹	% Change
Oil (Brent)	\$80	\$46	(42.5)%
Gold	\$1,196	\$1,075	(10.1)%
Platinum	\$1,208	\$842	(30.3)%
Iron Ore	\$70	\$44	(37.1)%

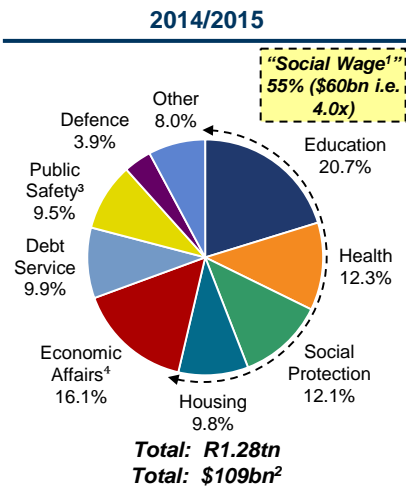
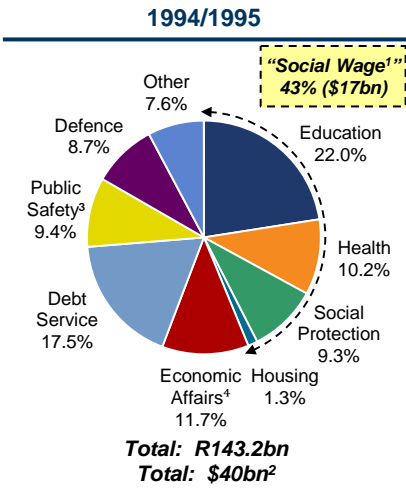
	Goldman Sachs Latest Estimates			
	Spot ¹	3M	6M	12M
Oil (Brent)	\$46	\$43	\$50	\$54
Gold	\$1,075	\$1,100	\$1,050	\$1,000
Platinum	\$842	\$1,050 ²	\$1,100 ²	\$925
Iron Ore	\$44	\$46	\$44	\$42

Source: Bloomberg as at 24-Nov-2015, Latest GS research

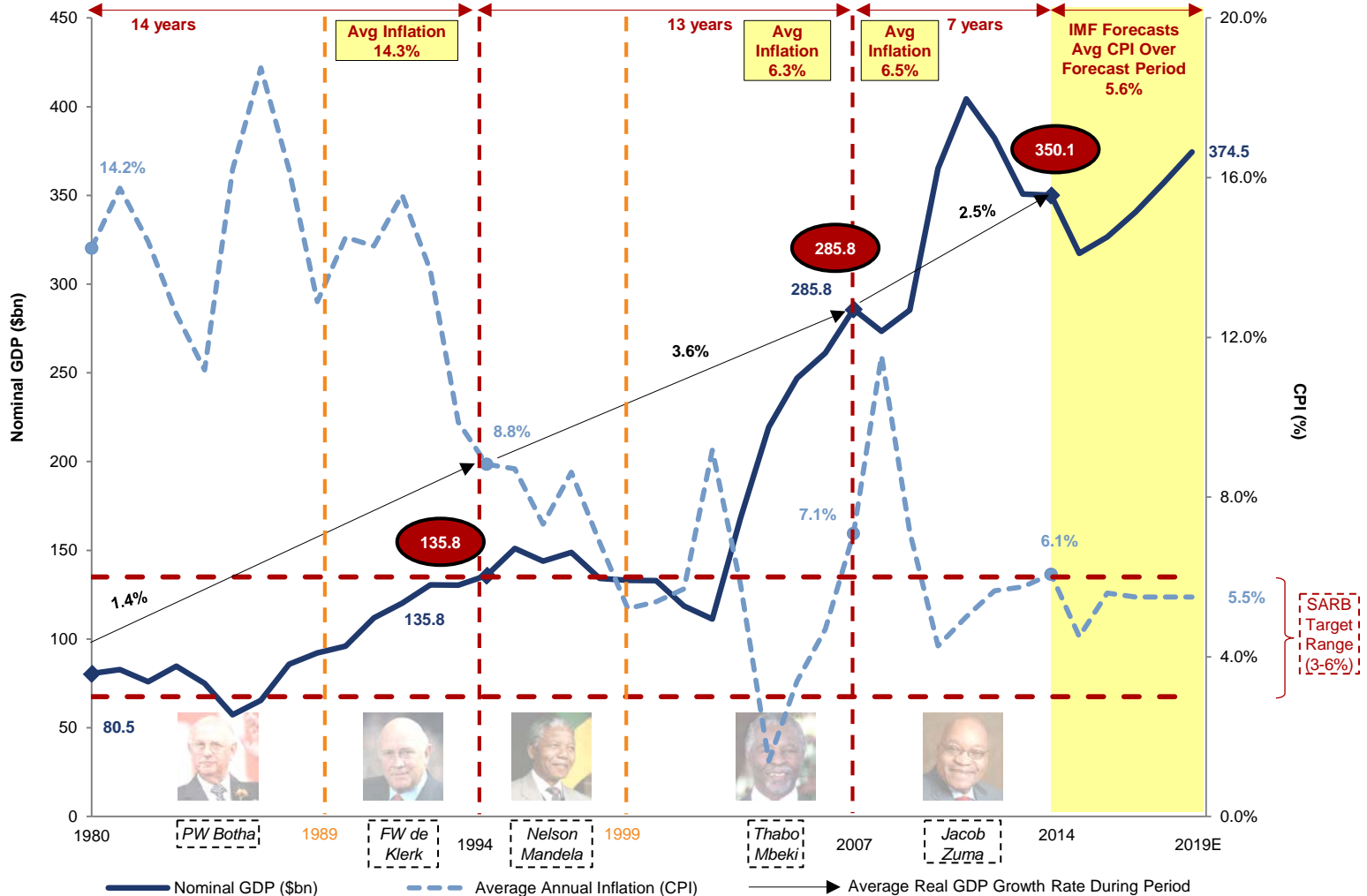
Note: ¹ Bloomberg consensus estimates as at 24-Nov-2015; ² Spot as at 24-Nov-15

Structural Advances: Key Lessons from Two Decades of Freedom

“Social Wage” Has Expanded by c.4.0x



Monetary and Fiscal Progress has Delivered a Budget 3x \$ Size in 20 Years



Source: IMF WEO Apr-2015 Database, Stats SA, National Treasury Budget Review, South African Advertising Research Foundation

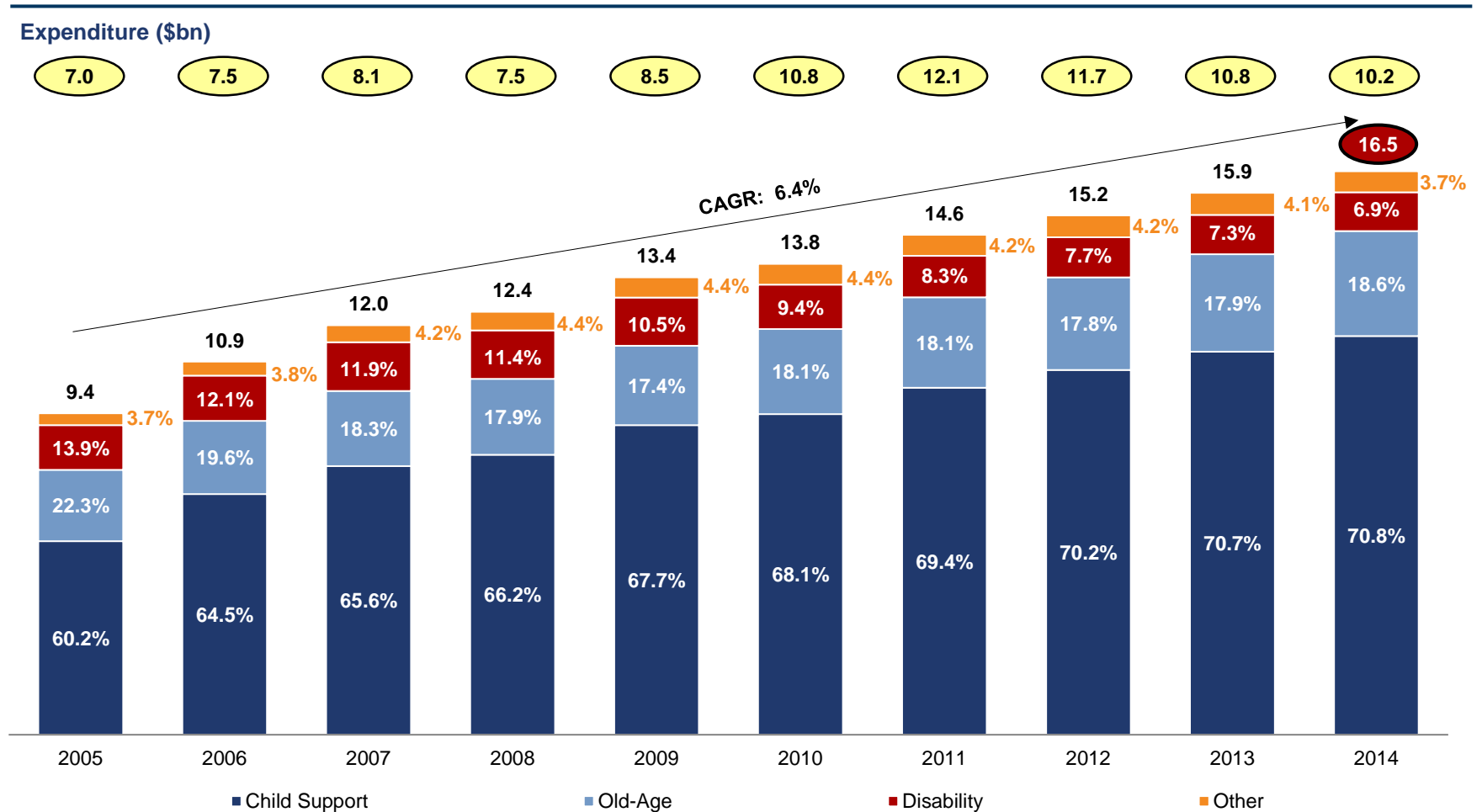
¹ “Social Wage” includes education, health, social protection and housing budget allocations; ² Converted at the annual average ZAR/USD rate for the 1994/1995 and 2015/2016 budget respectively; ³ Includes Police services, law courts, prisons and other safety services. ⁴ Includes general economic and labour affairs, agriculture, forestry, fishing, fuel and energy, transport, communication and environmental production.

How is South Africa Doing? (2/6)

Structural Advances: Key Lessons from Two Decades of Freedom



Cushioning Poor: Social Grant by Population (m)



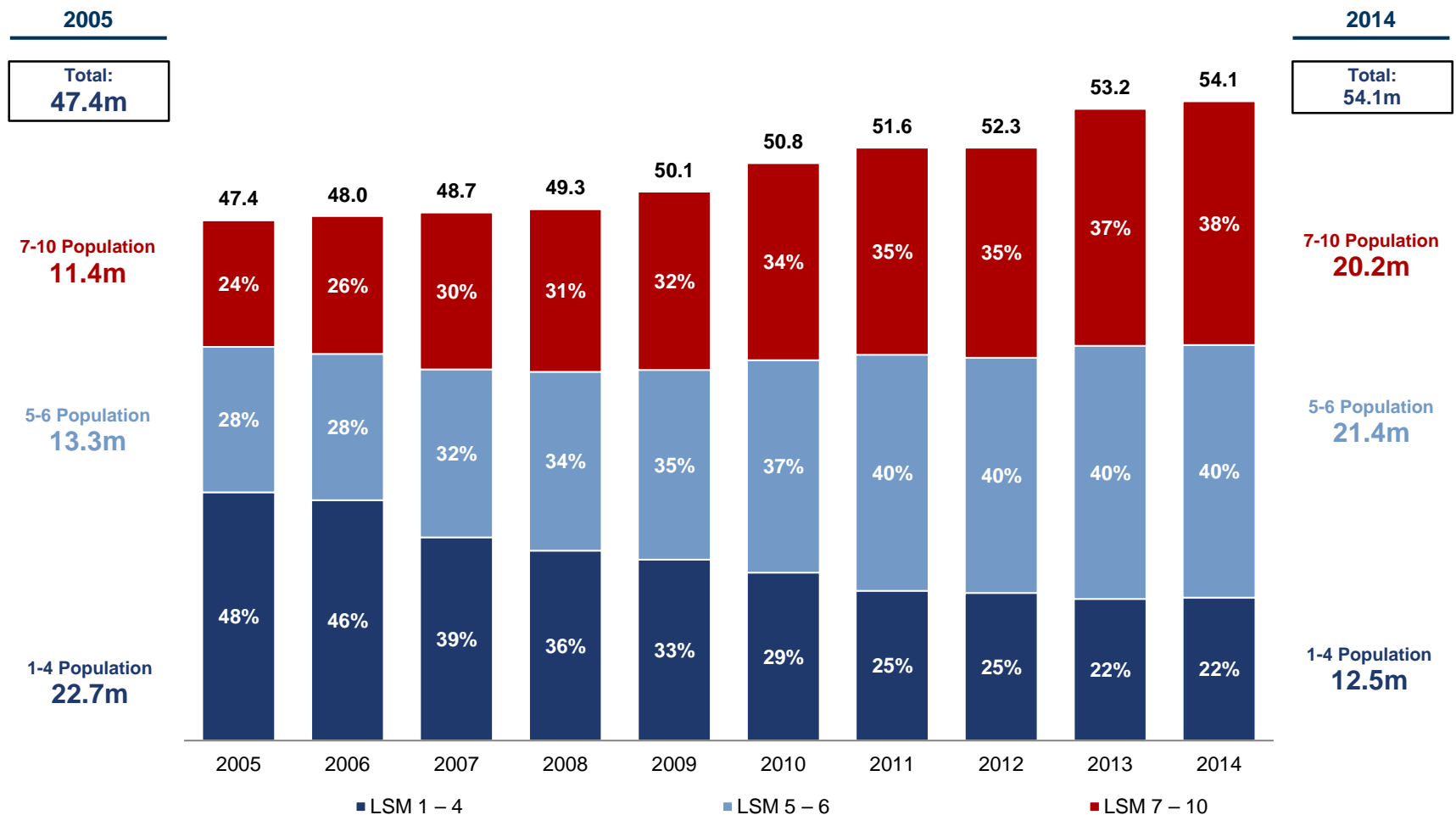
Source: IMF WEO Apr-2015 Database, Stats SA, National Treasury Budget Review, South African Advertising Research Foundation

How is South Africa Doing? (3/6)

Structural Advances: Key Lessons from Two Decades of Freedom



Rise of Middle Class (m): From 2005-2014 Around 17m South Africans Have Joined LSM 5-10



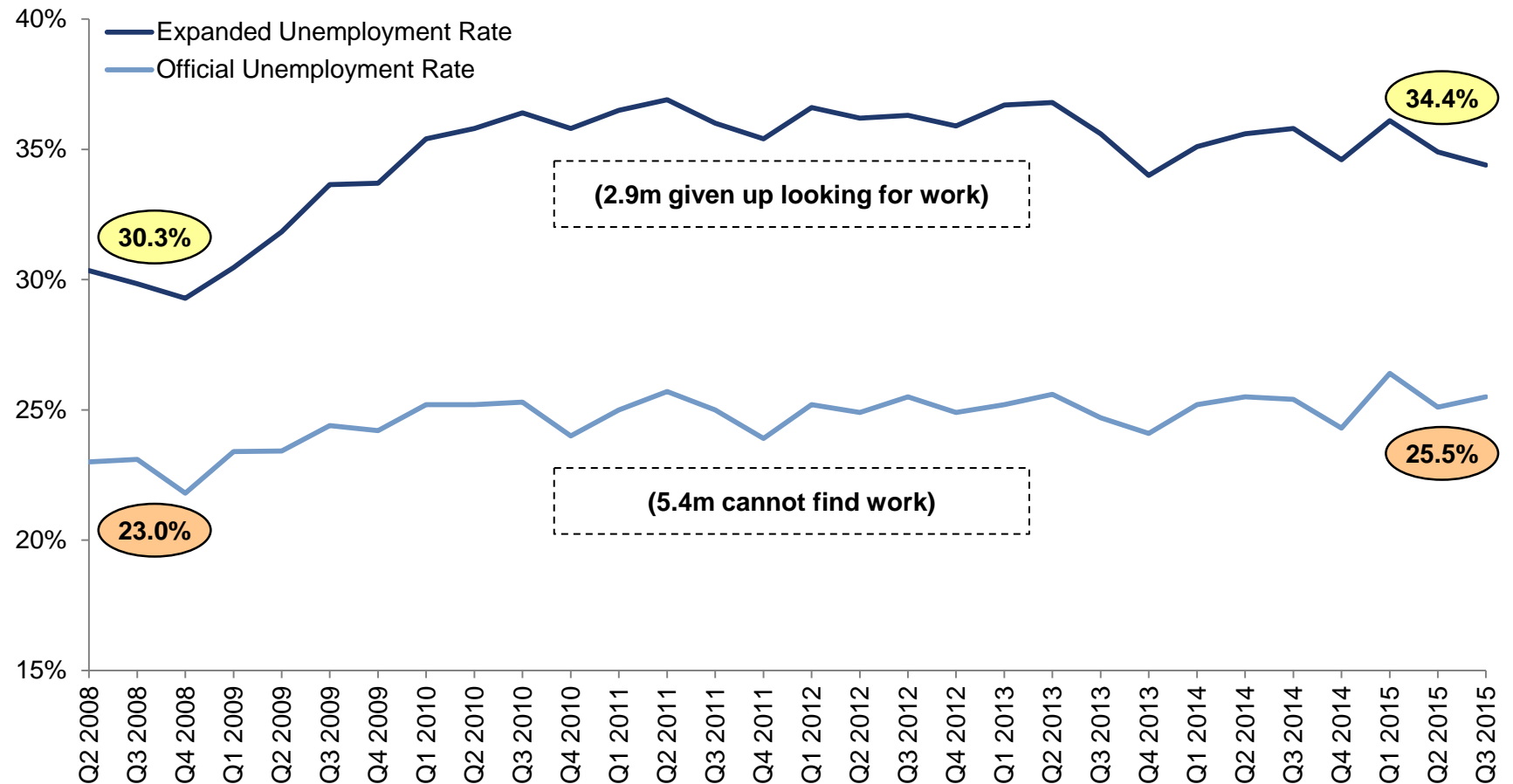
Source: IMF WEO Apr-2015 Database, Stats SA, National Treasury Budget Review, South African Advertising Research Foundation

How is South Africa Doing? (4/6)

Structural Challenges: Key Lessons from Two Decades of Freedom



Structural Unemployment Persists



Youth (Under Age 34) Share of Unemployed 66% | 47% of Unemployed Do Not Have Matric

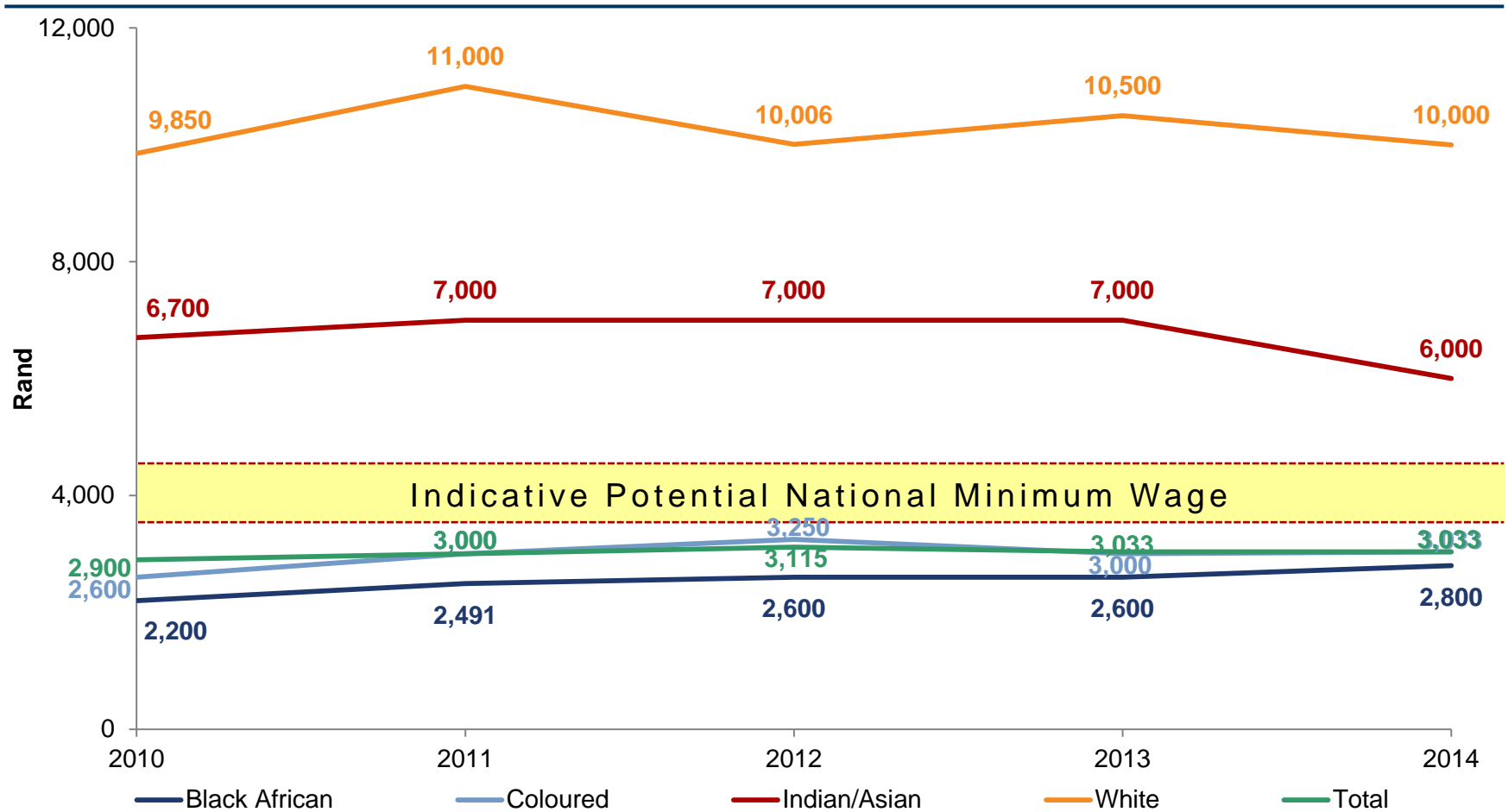
Source: Stats SA, Stats SA Labour Market Dynamics 2014

How is South Africa Doing? (5/6)

Structural Challenges: Key Lessons from Two Decades of Freedom



Racial Inequality of Income Persists¹



Source: Stats SA, Stats SA Labour Market Dynamics 2014

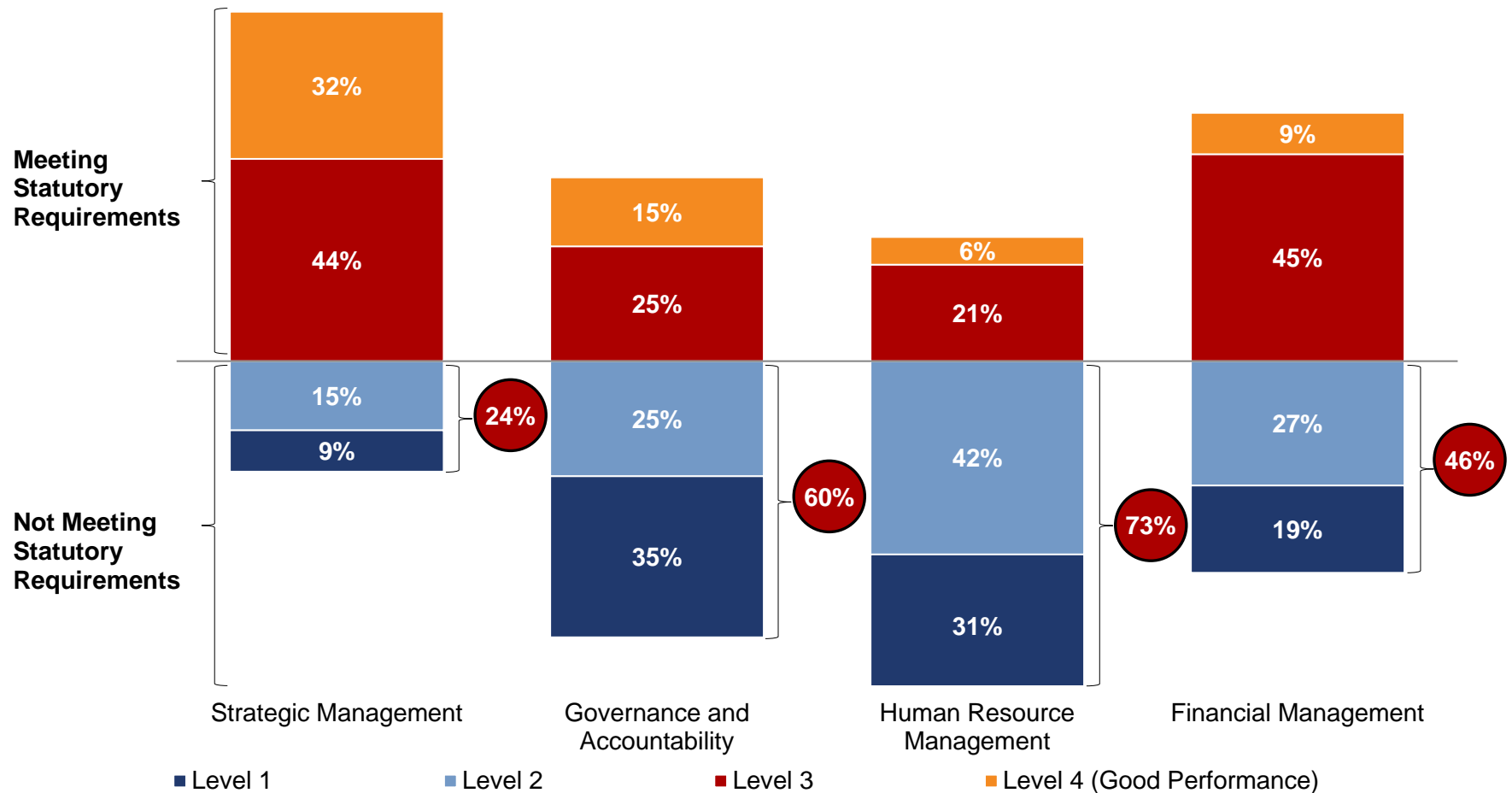
Note: ¹ Median monthly earnings by population group as per Stats SA Labour Market Dynamics report, 2014

How is South Africa Doing? (6/6)

Structural Challenges: Key Lessons from Two Decades of Freedom



Poor Public Sector Scoreboard: 2013 Total % Distribution of Final Scores per Key Performance Area



Source: Ministry in the Presidency (2013) Management Performance Assessment Tool Report: Statement of management practices in the public service

Recent Trends Have Been Disappointing

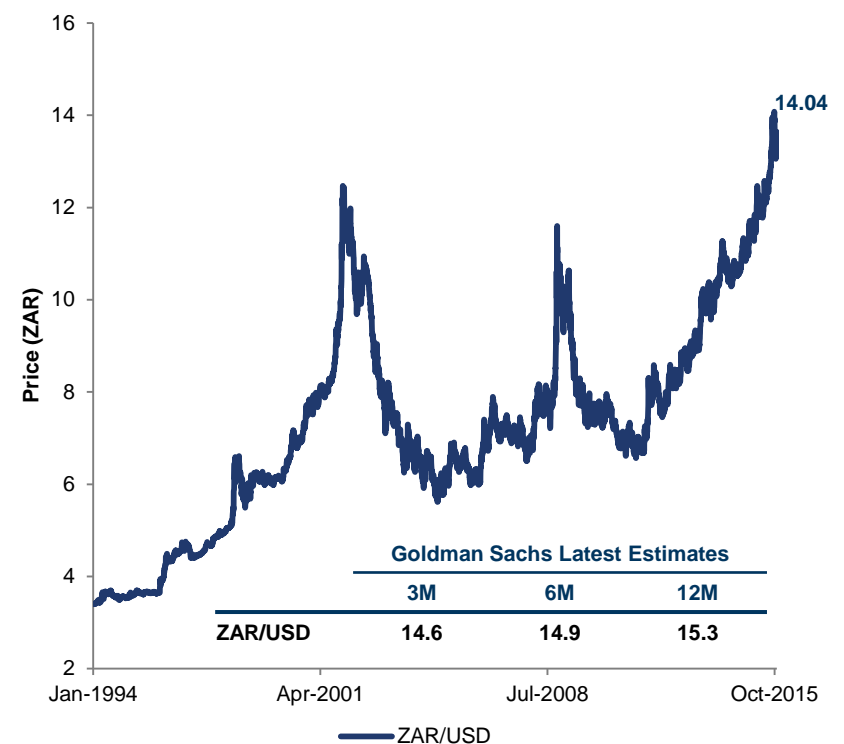
GDP Growth Rate is Trending at More Than Half 20 Year Average

	2014	2015 GS Forecast	2016 GS Forecast	2014-2016E Average	20 Year Average
Real GDP Growth	1.5%	1.2%	1.5%	1.4%	3.2%
Inflation	6.1%	4.7%	6.1%	5.6%	6.5%

Rising Social Tensions 2014-2015 YTD

	2014	YTD
Number of Strike Incidents	88 ¹	
Number of Workdays Lost Due to Industrial Action	11.8m ²	176k ²
Number of Hours Lost to Labour Strikes	c.110m ¹	
Number of Service Delivery Protests	191 ³	129 ³
Number of People Arrested in Protest Actions	2.5k ⁴	3.4k ⁴

Currency a "Shock Absorber"



Source: GS Research; ¹SA Annual Industrial Action Report 2014; ² South African Reserve Bank Quarterly Bulletin as at Jun-15; ³ Municipal IQ data as at 2-Oct-15; ⁴ South African Police Service Annual Report 2013/14 and 2014/15. Market data as at 24-Nov-2015

How Does SA Compare Today Against a “Dashboard” of Crisis Countries

SA “Middle of the Pack” on Financial Indicators

Legend:

GDP growth

Red: <1%
Yellow: 1% - 3%
Green: 3%>

Inflation

Red: <1%
Yellow: 1% - 3%
Green: 3% - 6%
Yellow: 6% - 7%
Red: >7%

Unemployment:

Red >15%
Yellow: 5 – 15%
Green: 0 – 5%

Current Account:

Red: (5)% >
Yellow: 0 – (5)%
Green: >0%

External Debt %

Red: 50%>
Yellow: 20% – 50%
Green: <20%

Fiscal Balance %

Red: <(3)%
Yellow: -3% - 0%
Green: >0%

FX % change

Red: >15%
Yellow: 0 – 15%
Green: <0%

Bank Capital %:

Red: <7%
Yellow: 7% - 10%
Green: 10%>

South Africa	Real GDP Growth Forecast 2015	Inflation YTD	Unemployment Rate YTD	Current Account Balance % GDP YTD	Debt % GDP	SARB Net FX Reserves	USDZAR Depreciation Last 2 Years Average
	1.2%	4.6%	25.5%	(3.1)%	41.5%	\$41bn	13.0%

2014								
Country	Real GDP Growth 2014	Inflation 2014 ¹	Unemployment Rate 2014	Current Account Balance % GDP 2014	Fiscal Balance % GDP	External Debt % GDP	2014 FX % (App) / Dep Relative to USD	Bank Capital to Assets % 2014
South Africa	1.5%	6.1%	25.1%	(5.4)%	(4.5)%	39.8%	12.4%	11.8%
Selected Case Study Countries Around Crisis								
Median	4.7%	6.9%	7.8%	(3.7)%	(2.3)%	34.8%	5.5%	6.2%
Mexico 1994	4.7	7.0	3.7	(7.0)	(0.6)	38.6	–	ND ²
1995	(5.8)	35.0	6.3	(0.5)	(4.2)	60.2	88.2	ND
Argentina 1994	5.8	ND	13.3	(4.3)	(0.0)	34.8	–	ND
1995	(2.8)	3.4	16.4	(2.0)	(2.3)	39.3	–	ND
Thailand 1996	5.7	5.8	1.1	(7.8)	2.7	(7.8)	1.7	ND
1997	(2.8)	0.0	0.9	(2.1)	(1.7)	(2.1)	23.7	ND
Korea 1997	5.9	4.4	2.6	(4.0)	2.5	(1.8)	18.9	ND
1998	(5.5)	7.5	7.0	10.6	2.6	10.6	46.3	ND
Indonesia 1996	7.8	8.0	4.9	(1.9)	1.2	33.6	3.7	ND
1998	(13.4)	78.3	5.5	3.5	(2.3)	127.7	253.2	ND
Russia 1997	1.4	14.8	10.8	(0.6)	(4.0)	40.0	10.9	ND
1998	(5.3)	27.7	11.9	(0.8)	(8.0)	66.8	75.0	ND
Brazil 1997	3.4	6.9	7.8	(3.5)	(5.7)	24.2	7.3	ND
1999	0.3	4.9	9.6	(4.3)	(5.3)	41.2	56.5	ND
Turkey 2000	6.8	54.9	6.5	(3.7)	ND	46.1	48.0	6.1
2001	(5.7)	53.5	8.3	1.9	ND	57.4	97.8	7.9
Argentina 2001	(4.4)	(1.1)	18.3	(1.4)	(6.0)	61.9	0.0	ND
2002	(10.9)	25.9	17.8	8.5	(15.9)	156.7	215.8	ND
Greece 2008	(0.4)	4.2	7.8	(14.4)	(9.9)	108.8	(6.5)	6.4
2009	(4.4)	1.2	9.6	(10.9)	(15.3)	126.2	5.2	7.0
Egypt 2011	1.9	10.1	12.0	(2.6)	(9.8)	20.7	5.5	6.2
2013	2.1	9.5	13.3	(2.4)	(14.1)	17.4	13.2	7.1

Source: IMF World Economic Outlook Database – April 2015, Institute of International Finance database, Euromonitor, SARB Bank Supervision Department Quarterly Report, World Development Indicators, Datastream

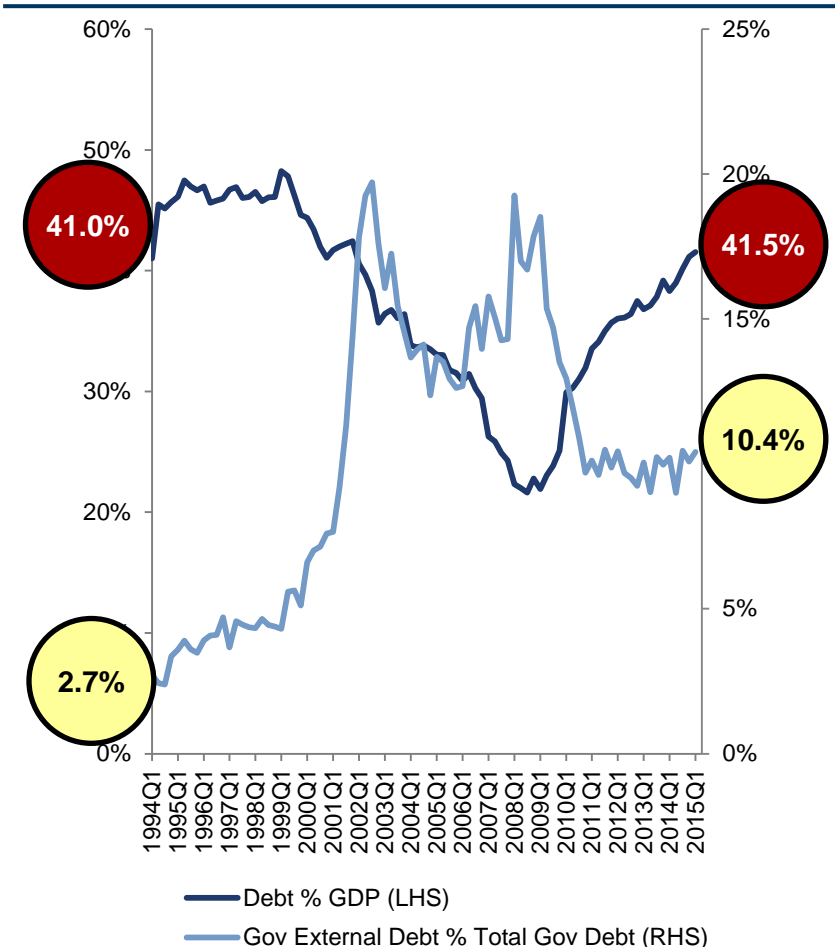
Note: ¹Inflation – Average consumer prices for the year; ²No disclosure prior to 2001 as per World Development Indicators Database

Current account (CA) deficit % GDP as at 2015Q2 is (3.1)% versus (4.7)% in 2015Q1. This print marks the fourth consecutive contraction of the CA deficit (from a peak at 6.2% in 2014Q2)

Government and Hard Currency External Debt is Very Low

Pace of Increase of Debt % GDP Since 2008 a Concern³

South Africa's Indebtedness over Past 20 Years



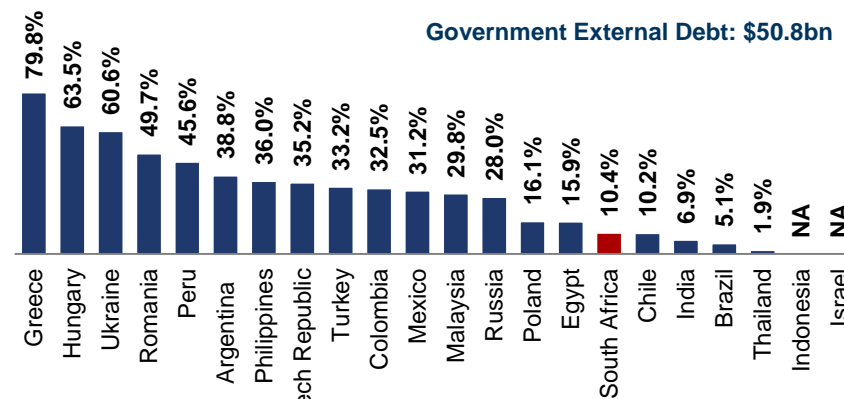
Source: Haver Analytics, Thomson Reuters

¹ Of which Transnet \$2.75bn and Eskom \$4.0bn

² Est. 90% for private sector

³ Debt % GDP forecast by National Treasury to rise to 49% by end of 2017

SA vs Peers Today: Government External Debt % Total Government Debt

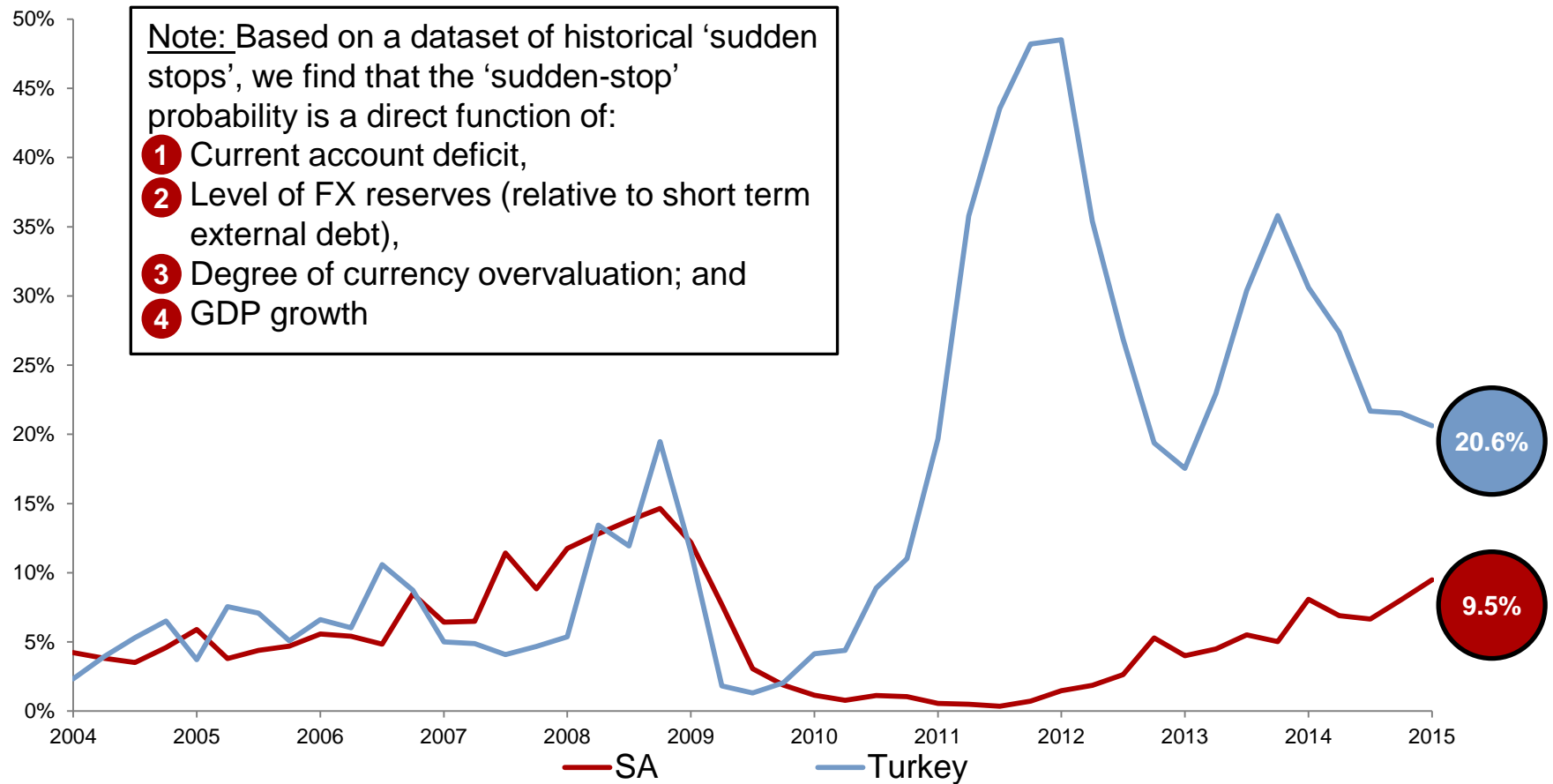


Government External Debt: \$50.8bn

	Total External Debt (\$bn)	Hard Currency External Debt (\$bn)
Government	51	10
SOEs	18	8 ¹
SARB	1	-
Banks	32	29 ²
Other sectors	15	13 ²
Corporates	29	26 ²
Total	144	86

Stress Testing South Africa for a Crisis

Estimated Probability of a 'Sudden Stop' in Foreign Capital Inflows

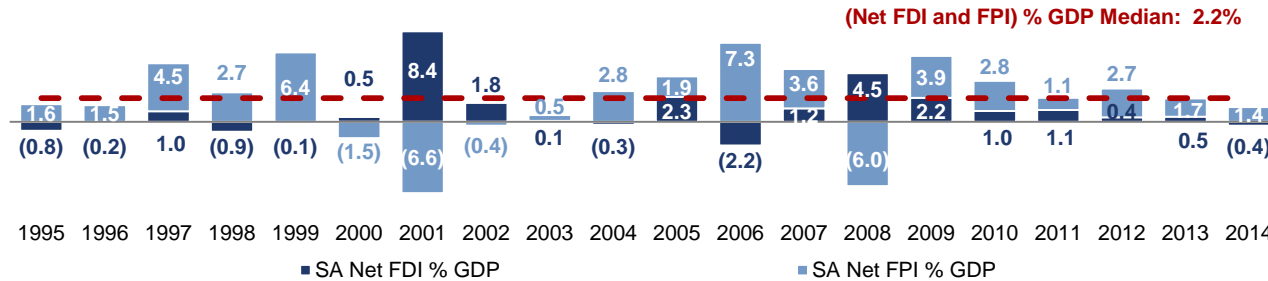


Source: Goldman Sachs Global Investment Research, Haver Analytics

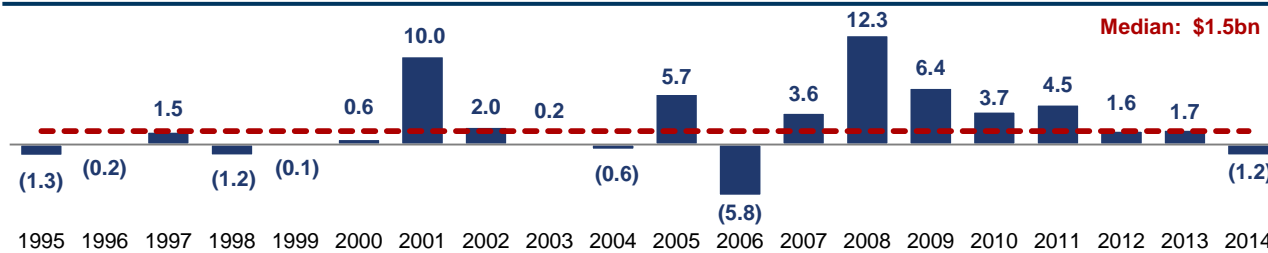
Net Foreign Direct and Portfolio Investments Fund Between Half to Two-Thirds of the Current Account

SA has Lowered its Dependence on Portfolio Flows... Both in Time and Relative to Other EM Countries

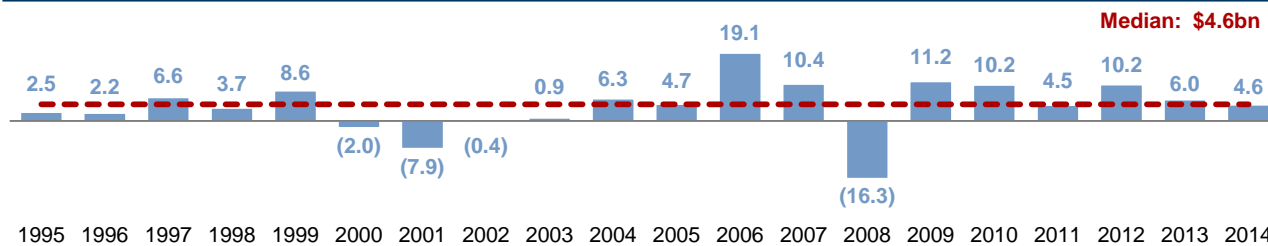
South Africa Net FDI and FPI % GDP: 1994 – 2014



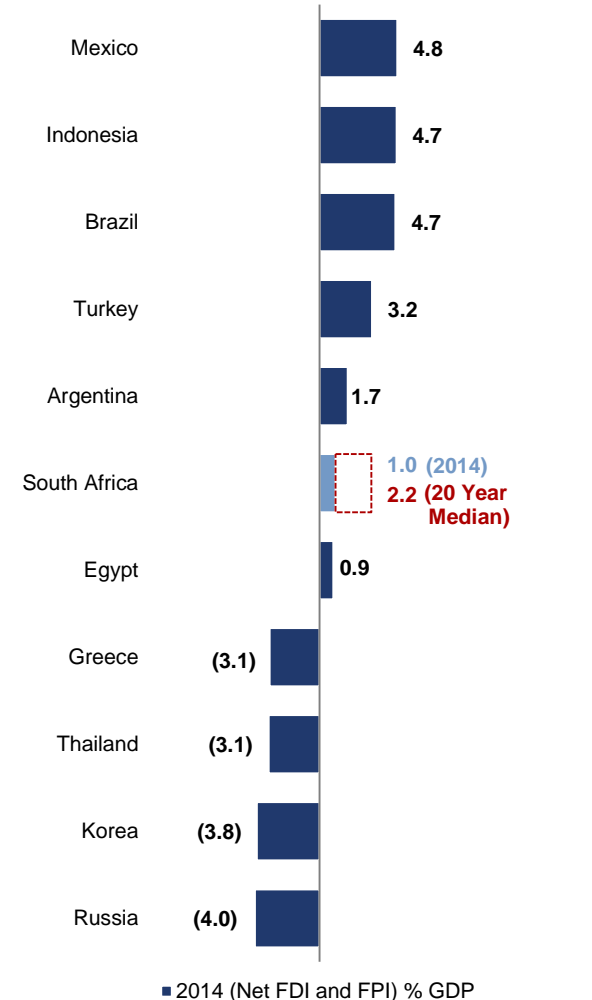
South Africa Net Foreign Direct Investments: 1994 – 2014 (\$bn)



South Africa Net Foreign Portfolio Investments: 1994 – 2014 (\$bn)



South Africa Net FDI and FPI % GDP vs. "Crisis" Countries¹ 2014



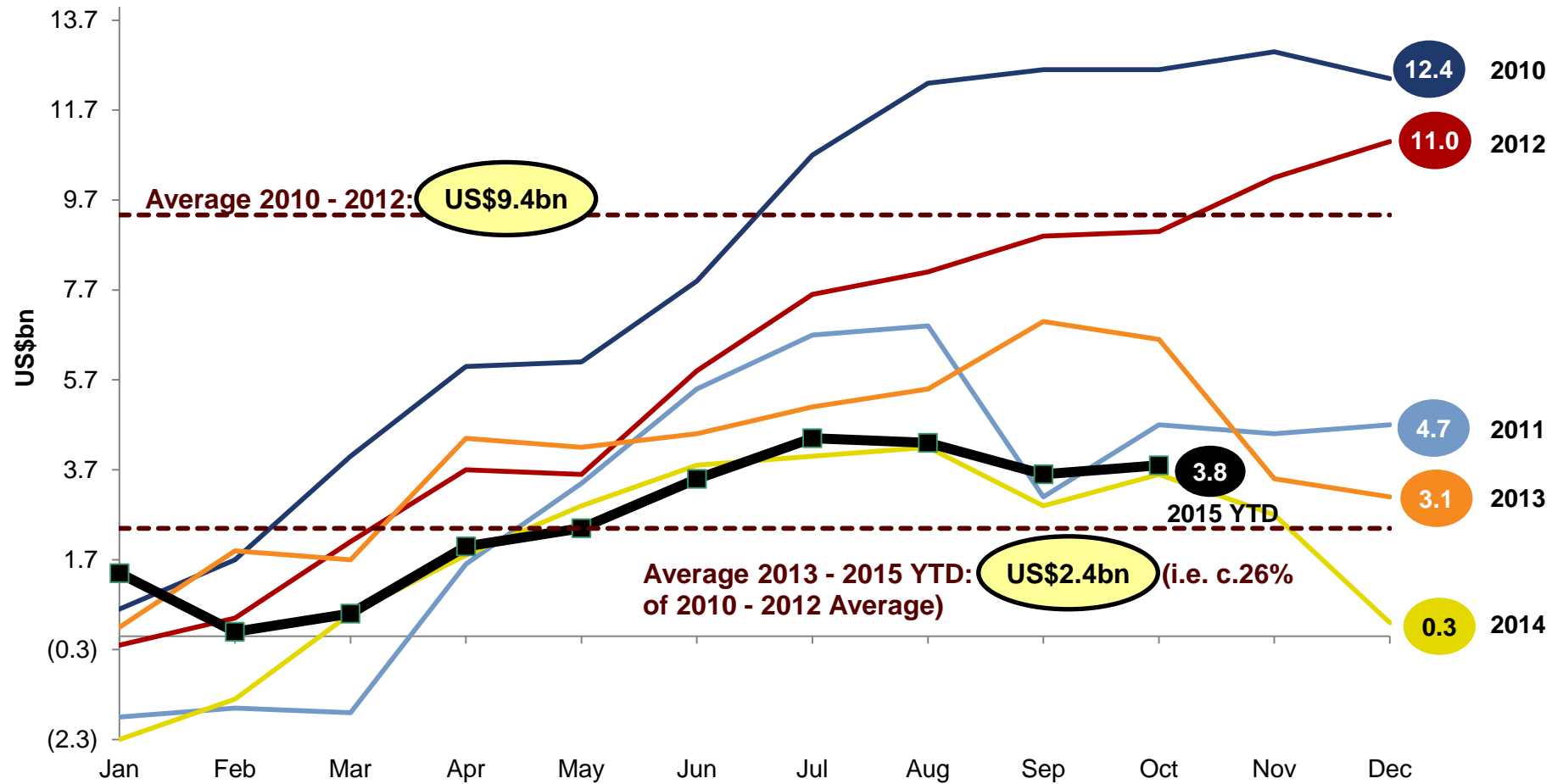
Source: IMF, South African Reserve Bank converted to dollars at annual historic average ZAR/USD

Note: ¹ The current account is funded through a combination of FDI, FPI, banks wholesale funding and others (corporate, unrecorded transactions, etc.); the remainder (if any) triggers changes in central bank reserves

2015 Current Account Deficit % GDP: (3.9%) = c.\$11bn to Fund

Falling Net Bond and Equity Inflows will Put Pressure on SARB's Net Reserves

Cumulative Marketable¹ Bond and Equity Inflows 2010-2015 YTD



Source: Haver Analytics, Bloomberg, Goldman Sachs Investment Research

Note: ¹ Does not include non-marketable fixed income (e.g. a bond that is not an index or loans with maturity of less than 1 year) and non-marketable equity (e.g. private equity)

Stress Test: Three Shock Scenarios

Sudden Stop vs. Arab Spring (“Social Disruption”) vs. Complete Outflow

Scenario 1	‘Sudden-stop’ (i.e. foreigners no longer provide finance) as external shock
Scenario 2	‘Social disruption’ as internal shock with external assets sell-off
Scenario 3	‘Complete outflow’ (i.e. foreigners exiting / redeeming all bonds) resulting from internal / external shocks - completely

					Scenario 1	Scenario 2	Scenario 3
		Sustainable	Historical (Last 20yr Average)	Recent (Last 2yr Average)	“Sudden Stop”	“Social Disruption”	“Complete Outflow”
Assumptions	Real GDP Growth		3.2%	1.9%	1%	(1)%	(4)%
	CPI (GDP deflator) Inflation		7.5%	5.9%	5%	9%	2%
	Nominal Interest Rate		10.0%	7.6%	10%	10%	14%
	\$/ZAR Depreciation		4.5%	13.0%	20% (to \$/ZAR 16.1)	25% (to \$/ZAR 16.8)	30% (to \$/ZAR 17.4)
	JSE All Share Index		+30% ((50)% in 2008-2009)	+6% (YTD to 52,500)	(20)% (to 43,000)	(30)% (to 32,350)	(50)% (to 27,000)
	Output	Primary Fiscal Balance	+0.5% of GDP (Surplus)	+0.2% (Borderline)	(1.8)% (Unsustainable)	(2.5)%	(2.0)%
Government Gross Loan Debt (% of GDP)		Stable	39%	47% (Rising +3% pa)	53% (Soaring +6% pa)	53% (Soaring +6% pa)	60% (Soaring +13% pa)
CA Balance		(2.5)% of GDP (Deficit)	(3.2)% (Borderline)	(4.6)% (Unsustainable)	(6.0)%	(9.0)%	(18.0)%
External Debt (% of GDP)		Stable	19%	39% (Rising +2.9% pa)	45% (Soaring +7% pa)	48% (Soaring +9% pa)	57% (Soaring +18% pa)
Public Sector Debt				\$176bn	\$198bn	\$198bn	\$223bn
FX Denominated Public Sector Debt				\$18bn	\$20bn	\$21bn	\$22bn
Foreign Owned Public Sector Debt				\$51bn	\$51bn	\$51bn	\$0bn
Foreign Owned and FX Denominated Public Sector Debt				\$4bn	\$4bn	\$4bn	\$0bn
SARB Net FX Reserves (\$41bn ¹)				\$41bn			
After Shock With Capital Controls					\$39bn	\$38bn	\$19bn
After Shock Without Capital Controls					\$35bn (≈ 4 Month Import Cover)	\$34bn (≈ 4 Month Import Cover)	\$(14)bn
Months to Run Out of Reserves From Onset of Theoretical Crisis (With Capital Controls)					~ 24 months	~ 18 months	< 6 months

- These scenarios highlight the potential danger of severe external (‘sudden stop’) or internal (‘social disruption’) shocks
- It appears that, taken in isolation, these shocks could be manageable (without external assistance from the IMF or BRICS)
- A combination of these shocks with a potential ‘complete outflow’ by foreigners, albeit a remote probability would be damaging and would likely require foreign assistance

¹ Current.

Key Conclusions from Stress Test

Maintaining Investment Grade Rating Critical to Our Participation in Bond Indices



<p>1 Depth of Financial Market</p>	<ul style="list-style-type: none"> ■ Deep and sophisticated local asset management and banking sector can absorb foreign selling pressures ■ Foreign shareholdings of South African Equities have remained stable above 40% over past 4 years ■ Corporate sector: Earnings resilient and well governed 	<p>1 Current Account Deficit and External Debt</p>	<ul style="list-style-type: none"> ■ Remains one of the widest in EM (2015Q2: 3.1% GDP) ■ Global risk sentiment a threat to external financing needs and borrowing requirement of state owned enterprises
<p>2 External Balance Sheet</p>	<ul style="list-style-type: none"> ■ Strong external balance sheet makes SA resilient ■ Low levels of dollar denominated debt ■ High reporting and transparency standards 	<p>2 Fiscal Deficit and Public Debt</p>	<ul style="list-style-type: none"> ■ Funding of twin deficit makes SA vulnerable to portfolio flow reversal
<p>3 Flexible Exchange Rate</p>	<ul style="list-style-type: none"> ■ Free floating exchange rate acts as a shock absorber ■ Helps on the asset side as USD/ZAR depreciates (majority JSE Top 40 revenues offshore) 	<p>3 Unemployment</p>	<ul style="list-style-type: none"> ■ One of the highest rates in EM countries ■ Structural rigidities in labour and product markets

How Can South Africa Return To 3.2% GDP Growth Rates?

Key Self-inflicted SA Macro Problems

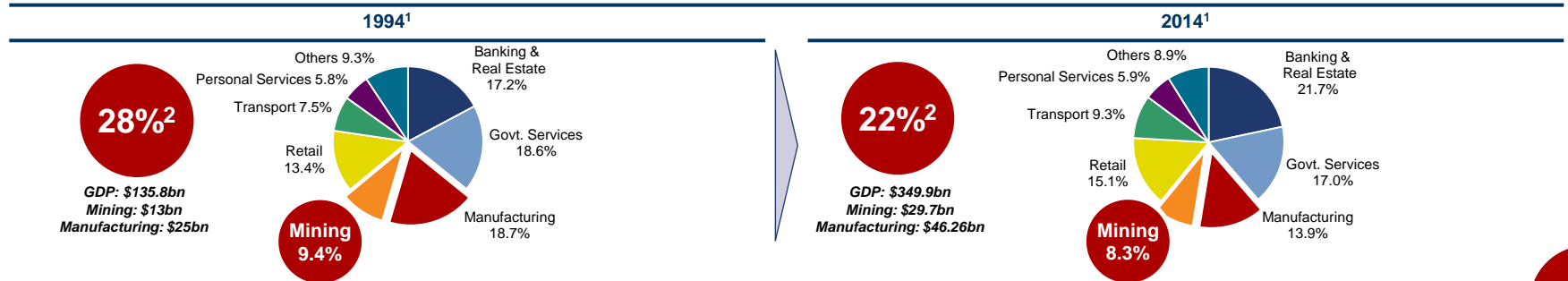
Urgent to Resolve What South Africa Controls

-
- 1 Labour conflicts, strikes, wage inflation and related impacts on productivity and exports
-
- 2 Energy supply disruptions and inefficiencies
-
- 3 Weak public sector output (education, health and infrastructure)
-
- 4 SOE failures with growing funding needs

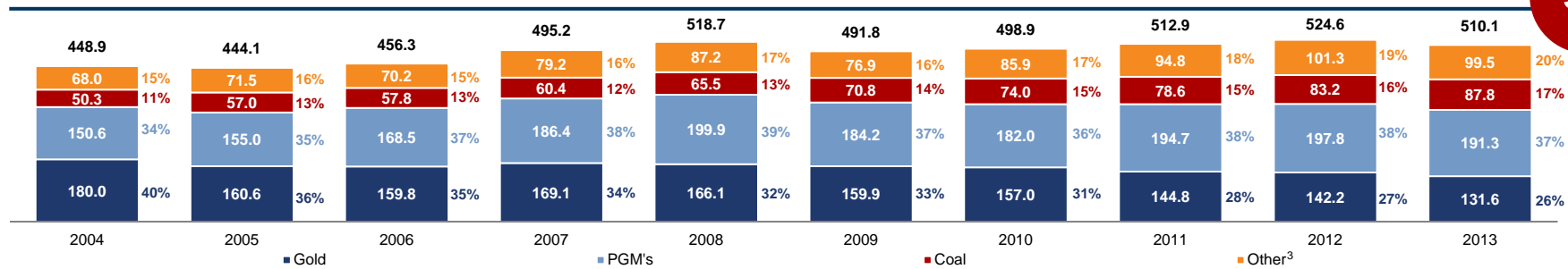
“The Mining Industry is in Trouble⁴”

Manufacturing and Mining are Falling as Contributors to South African GDP

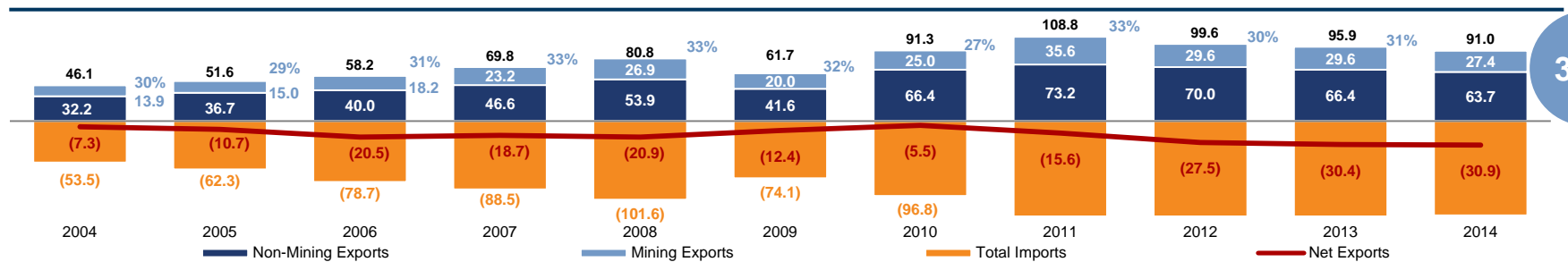
Composition of the South African Economy (Contribution to GDP at Current Prices)



Direct Employment by Commodity ('000s)



Contribution of Mining to Exports (\$bn)



Source: Stats SA, United Nations Conference on Trade and Development (“UNCTAD”) Statistics and SA Chamber of mines facts and figures 2014 publication, Department of mineral resources as at Jun-2014

Note: UNCTAD Statistics SA Mining exports constitutes Mining/Mineral Primary Merchandise Export Sales

¹ 1994 and 2014 Other includes Agriculture, Forestry and Fishing, Electricity, Gas and Water and Construction

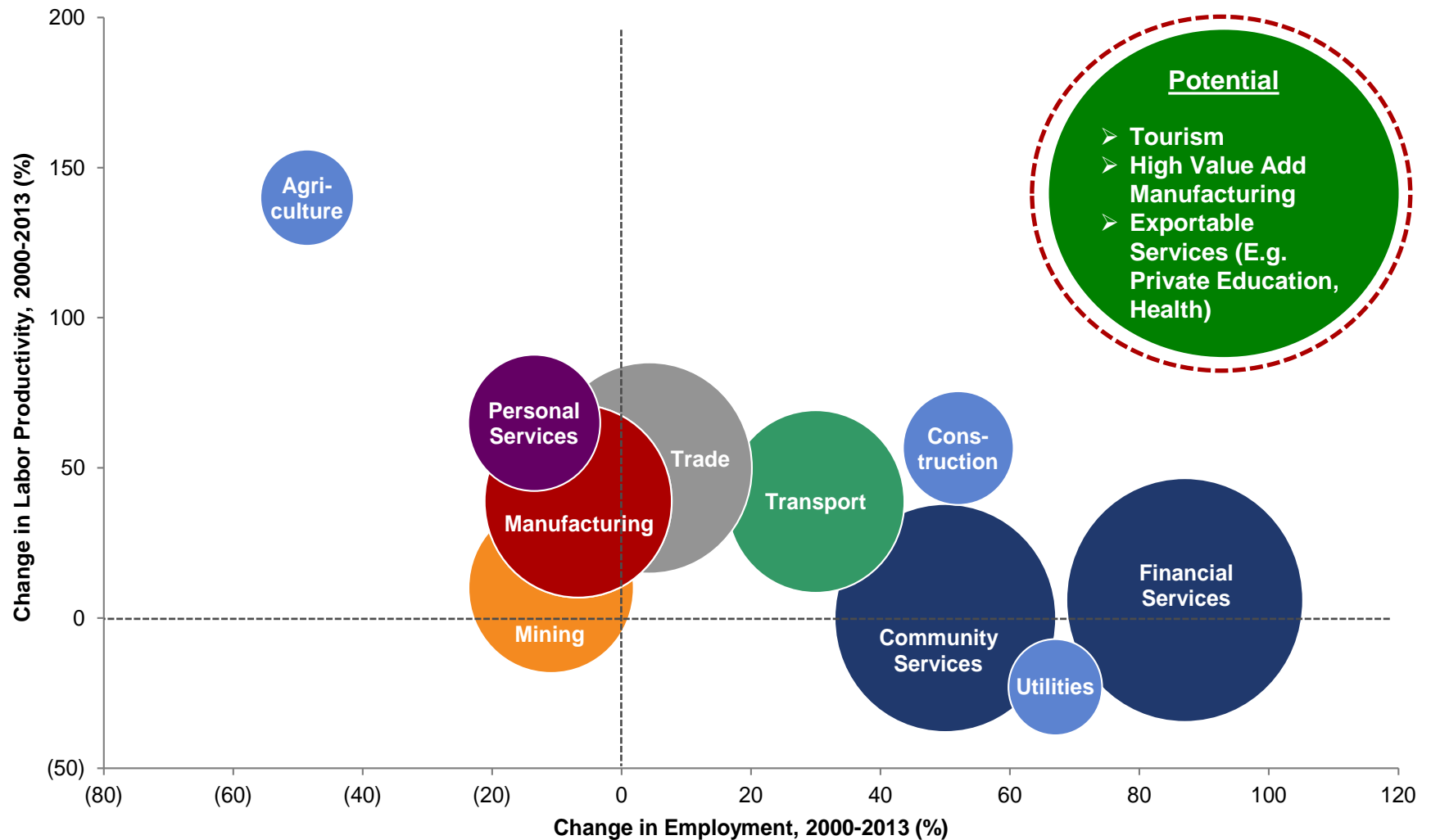
² Represent the sum contribution of Mining and Manufacturing to GDP

³ Other incorporates the following commodities: Iron ore, Copper, Chrome, Manganese, Diamonds, Aggregate and Sand, and Other Mines and Quarries

⁴ Ebrahim Patel (Minister of Economic Development) on Talk Radio 702, 05-Aug-2015

Employment and Labour Productivity

South Africa Needs to Innovate in High Employment and Productivity Sectors



Source: World Bank South Africa Economic Update. World Bank calculations based on real GDP per capita and employment from the revised 2000-07 Labor Force Survey (September series) and the Quarterly Labor Force Survey data for 2008 Q3 to 2013 Q3 using consistent census weights. The size of the bubble corresponds to the rand value of gross value-added of the sector in 2013 reported by Statistics South Africa

Stabilising Labour Relations is a Key Priority For South Africa

A “Design Fault” in the Economic Structure

- 15.8m employed and 8.3m unemployed in South Africa
 - Of these employed workers, c.3.6m are unionised (23% of employed, 15% of total potential workforce including unemployed)
 - c.61% of unionised (i.e. 2.2m) are members of Cosatu
- The recent Numsa expulsion could result in the loss of c.350,000 Cosatu members, and perhaps more should disaffected unions join a breakaway union movement
 - Of the remaining c1.85m members of Cosatu, c.55% are government employees (39% today) making Cosatu a majority public sector union federation



Current Priorities for South Africa and President Zuma's Administration

South Africa Can Score “Quick Wins” with the Right Focus

- 1 Stabilise mining as a key industry feeding the SA economy and supporting emerging new high growth potential industry sectors
- 2 Stabilising labour relations and ending inter-union rivalry, introducing a national minimum wage, improving productivity and linking wage inflation to these productivity improvements
- 3 Lifting outputs from investments in public health, education and infrastructure
- 4 Clamping down on underperformance and corruption in SOEs and professionalising SOE's by appointing skilled staff and boards as a precursor to minority listing where and when practicable
- 5 Specifically accelerating progress at Eskom: especially Medupi and Kusile
- 6 Reprioritising budget expenditures, eliminating corruption and waste, using smart technology, improving governance, empowering managers and the overall capacity of the state
- 7 Identifying targeted ways of engaging unemployed youth in productive activities in the short term, and seeking ways to open up employment opportunities in the medium term, including a comprehensive plan for SME's
- 8 Co-ordinating economic policy and cross sectoral decision making to avoid “own goals” (e.g. Tourism visa regulations) and focus on driving growth and employment

**Implementation & Execution is the Key to Making the
“Desirable” “Do-able”**

What Roles can Reasonably be Expected from Each Social Partner to Drive the Growth and Employment Agenda...

South Africans are “In it Together”

... Government

- Conducive overall environment for business
- Predictable and consistent regulatory architecture and administration including licensing, empowerment, planning consents, customs and immigration
- Administrative competence and deployment of capable public servants
- Zero tolerance of corruption. Implement the State Tender Board
- Regional integration including improved cross-border trade, logistics and infrastructure
- Modern, efficient, reliable and effective SOEs supplying “systemic” services (water, electricity, roads, ports, etc)
- Affordable and efficient infrastructure
- Responsive labour system to limit strikes, drive productivity and attract investment
- “Bang for buck” from public investments in health and education
- Ease burden of poor and unemployed
- Cut waste and drive optimal return on budget expenditure

... Business

- Raise domestic capital investment to drive domestic growth and jobs
- Manage workplace environment
- Constructive industrial and human resource relations including positive engagement with unions and closing historical wage gaps
- Training and development of employees
- Engage in broader “education for work” support including internships, CSI, etc
- Target support for youth employment
- Seek partnerships with Government / IDC / PIC to grow infrastructure and industrial capacity
- Constructive intervention in public policy & regulatory environment
- Assist government to target building SMEs
- Compliance with regulatory and governance requirements
- Driving empowerment/BEE

... Labour

- Create stable environment for industrial relations
- Secret strike balloting
- Wage demands linkage to CPI adjusted increases and productivity improvements
- Public sector performance monitoring and evaluation of public services
- Identify and implement measures to improve business / worker / community relations
- Engage pension funds on constructive investment of worker pensions for economic growth
- Engage boards and management on worker participation, executive compensation and overall productivity
- Engage government on public policy and regulatory environment
- Participate and guide companies in BEE, CSI, training and other corporate programs

How Can South Africa Get To 5% GDP Growth Rates?

A “Grand Bargain” for Economic Transformation

To Drive a Break-Out in Economic Growth and Development

- A **Government-led initiative** negotiated with its’ **business** and **trade union partners** with the following **four-part components** of an **interdependent 5-year package**
 - 1 Labour Accord / Stability Pact (including a productivity linked wage pact and introducing a minimum wage)
 - 2 National Youth Service Initiative (targeting an additional 300,000 youth in five years at an average cost to fiscal of \$900m per annum)
 - 3 Fiscal Stimulus for incentivising 300,000 new SMEs each year
 - 4 Modernisation of SOEs including minority listings, raising private capital and enhancing governance and operational efficiencies in SOEs
- Including training and mentoring support from businesses in all areas
- A **fiscally neutral** programme to **stimulate employment, growth** and **poverty relief**
- Aims to **instill confidence** amongst domestic and international investors and encourage / result in a boost to **fixed private sector investment**, ultimately driving **higher growth** in the economy
- The revenue and expenditure initiatives are **interdependent**
- Government, as part of the package, would agree to maintain the regulatory architecture and avoid moving goal posts in this 5 year period

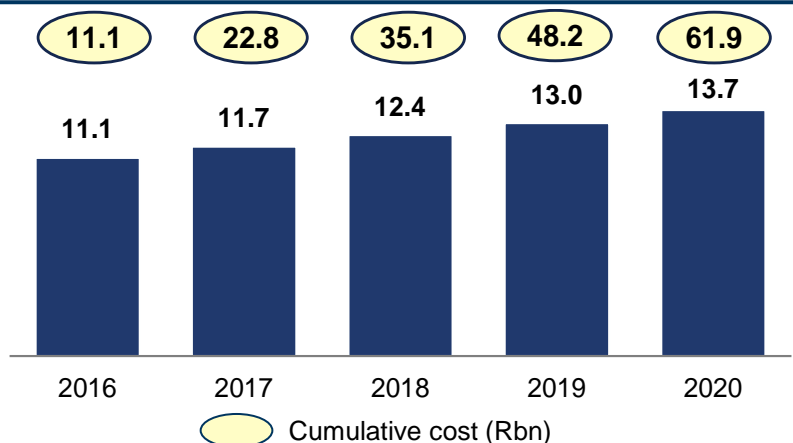
A National Youth Service Initiative

Attracting 300,000 of The Unemployed Youth Over The Next 5 Years

A National Defence Force Programme to Address Youth Unemployment

- A community service programme aimed at empowering the unemployed youth with relevant skills and technical training
- Assumes 60,000 unemployed youth (aged 18-34) are “recruited” by the defence force per annum and are educated by way of a volunteer programme. Therefore attracts **300,000 unemployed youth over 5 years**
- Recruits are trained, housed and remunerated with a **monthly stipend**, given **artisanal and basic military training** and do **community service in uniform**
- Total cost of c.R62bn over 5 years, cost of R11.1bn in year 1 representing 0.8% of the national budget for 2015/16
- Cost per person assumed to be new recruit at SA Army low skilled pay level, inflated by 1.5x multiplier to accommodate all in personnel cost across army ranks, inflated by CPI over the 5 year period
 - Low Skilled Average Cost Per Employee of R123k
 - Current 2015/16 Defence budget of R45.2bn
- Construction, banking and other business organisations should be **encouraged to participate in artisanal and other training** for the National Youth Service recruits

Cost Over the Period (Rbn)



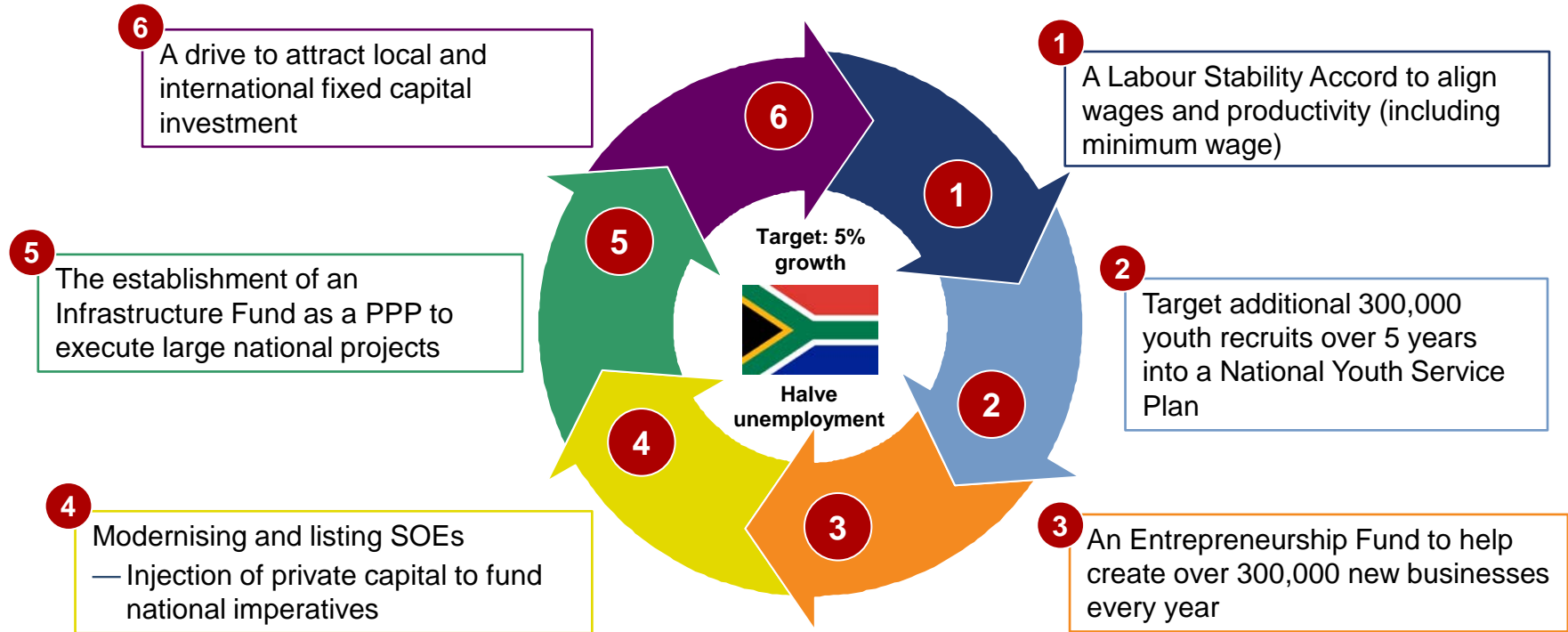
Resultant Effects on the Economy in Year 1

Q3 2015 potential labour force	21.2m
Total unemployed (narrow)	5.4m
Youth aged 15-34 unemployed (as of Q3 2015)	3.5m
% of youth aged 15-34 affected over 5 years	8.6%
2015/16 national budget	R1,351bn
Total cost as a % of 2015/16 budget	0.8%

Source: National Treasury 2015/16 MTEF Budget Review and South African National Defence Force Annual Report March-15 year end

Communicate the Transformation Story to Build Investor Confidence

A “Team South Africa” Approach



Improving confidence in the South African economy...

- ➔ **Driving higher growth**
- ➔ **Labour stability**
- ➔ **Encouraging entrepreneurship**
- ➔ **Public private partnerships**
- ➔ **Address youth unemployment and skills**

Domestic Restructuring¹



Africa Growth Story



Globalisation



¹ Including balance sheet repair, domestic M&A and/or cost cutting initiatives.

- 1 South Africa's recent economic slowdown, higher unemployment, rising inflation and interest rates is a cause for concern
- 2 However, South Africa is resilient and recent trends are not cause for panic
- 3 The resiliency comes from the combination of
 - Deep domestic financial market (est. local funds' AUM around \$500bn) that offset the effects of asset sales from foreign owners
 - Institutional strength from independent and strong institutions such as SARB
 - Strong country balance sheet, meaning negative liability changes tends to be more than offset by positive asset changes
 - Flexible exchange rate making up for other (mostly structural) rigidities
- 4 A potential future vulnerability is the external borrowing needs of SOEs; this could be alleviated by
 - Sustainable solutions (e.g. tariff hikes, modernisation reforms and private participation) to reduce borrowing needs
 - Shift toward domestic (as opposed to foreign) sources of debt funding
 - Increasing participation of privately sourced domestic and foreign equity in SOE's

- 5 The data demonstrates that whilst deteriorating trends may be discerned, even in a low probability stress scenario, SA remains resilient to shock with significant cushion at hand
- 6 This should give confidence to private and public sector fixed investors, and domestic and international institutional investors, and calm fears of an impending crisis
- 7 Current corporate restructuring trends will assist the country to withstand shocks
- 8 However, South Africa cannot afford to be complacent. SA's public policy makers and private sector actors should act with urgency to increase the pace and effectiveness of reforms to modernise the economy and address the weaknesses of unemployment, twin deficits and slow economic growth. Government should embrace business, and visa versa, as partners for economic growth
- 9 Strong economic management, leadership and policy co-ordination is urgently required to put South Africa on a sustainable growth path. The private sector and trade unions are key partners for the Government to execute its national economic plan to restore growth. Forming an economic council to drive growth is recommended
- 10 Without urgent action, South Africa may be caught in a low growth trap, amidst rising un-met domestic social pressures and an approaching storm of global headwinds