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PRESS RELEASE

INTERNATIONAL MONETARY FUND RELEASE ITS 2004 ARTICLE IV STAFF REPORT ON SOUTH AFRICA

The National Treasury wishes to announce that the International Monetary Fund released its 2004 Article IV Staff Report on South Africa today. The key findings of the report are the following:

- The South African authorities continued to implement sound monetary and fiscal policies during the period under review;

- The South African economy is poised for a recovery in activity – growth is expected to rise from under 2 percent in 2003 to more than 2,5 percent in 2004 and to over 3 percent in 2005;

- CPIX inflation has been within the official target range of 3-6 percent since September 2003, there is however evidence of a modest build-up in inflationary pressures, and an adjustment in interest rates may be required during the next 12 months;

- South Africa's external position has strengthened over the past year. A major milestone was reached with the closure of the South African Reserve Bank’s forward book in the foreign exchange market in February 2004, and the SARB has since replenished its net international reserves. A further increase in reserves would help reduce currency volatility and keep long-term interest rates low. As at the end of June 2004 gross reserves stood at US$ 11.4 billion, while short-term debt is estimated at around US$ 11 billion.

- South Africa’s external debt situation remains very comfortable. Official medium and long-term external debt currently stands at less than 10 percent of GDP;

- A budget deficit in the region of 3 percent of GDP should be considered the upper limit of what is desirable to maintain macroeconomic stability and to keep indebtedness under control. An important spending initiative that has been adopted is the universal provision of antiretroviral MIV/ AIDS drugs through the public health system. The deficit for 2004/05 is targeted at 3.1 percent GDP, compared with a deficit of 2.4 percent of GDP in 2003/04;

- Key prudential indicators suggest that the banking and corporate sectors in South Africa are sound;

- Rigidities, skill deficiencies, and relatively high costs in the labour market impede efforts to reduce unemployment**.** It is proposed that more be done to enhance job skills, remove barriers job creation, and increase labour mobility. In this regard it is suggested that greater emphasis be place on training the unemployed and decentralising the collective bargaining system;

- Further liberalization of South Africa’ trade regime and implementation of the privatisation program should be stepped up as it would raise productivity and enhance South Africa's international competitiveness. It has been suggested that the number of tariff bands be reduced to three;

- The implementation of initiatives that reduce income and wealth disparities is necessary and desirable for maintaining social cohesion. Initiatives being undertaken to implement a black economic empowerment program and accelerate land reform are, therefore, welcome; and

- South Africa continued to play a leadership role in conflict resolution and poverty reduction in Africa.

The release and findings of the report reflect Government's continued commitment to sound fiscal and monetary policy, and commitment to greater transparency.

A copy of the full report is available on the International Monetary Funds Web Page at the following address: http://www.imf.org and on the National Treasury's Web Page at the following address: http://www.treasury.gov.za

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