national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA RELEASE: THE INTERNATIONAL MONETARY FUND STAFF REPORT FOR THE 2010 ARTICLE IV CONSULTATION WITH SOUTH AFRICA

The International Monetary Fund (IMF) today released its 2010 Article IV Staff Report. This report is an assessment of South Africa's macroeconomic conditions, including developments in the monetary, fiscal and financial sectors of the economy. The IMF conducts regular consultations with its member countries to discuss the national and international consequences of their economic and financial policies, to fulfill its global economic and financial surveillance objectives (as required under Article IV of its Articles of Agreement). To conduct their analysis, IMF economists visit country authorities, private sector representatives, unions and academics.

Cabinet considered the report compiled by the IMF Staff Mission following their Article IV Consultation with South Africa on 5-8 May 2010.

IMF comments

The IMF report forecasts that the South African economy will grow by 3.25 percent in 2010. This is more optimistic than the latest growth forecast by South African Reserve Bank of 2.8 percent for the whole of 2010. In the medium term, the IMF sees growth reaching 4.5 percent and the output gap being closed by around 2014. The output gap is the difference between the rate at which an economy is growing and the maximum rate at which it can grow.

However, the IMF report also points to downside risks, the main risk being the impact on the South African economy of an interruption in the global economic recovery. In particular, the weakness of the Euro zone poses considerable risks to South Africa's economy. The speed of economic recovery in the country's major trading partners may also impact on the sectoral composition of South Africa's economic growth, with major implications for job creation. The country's exports to the Euro zone are dominated by manufactured goods while exports to China, for example, are dominated by commodities.

The IMF projects that employment levels are only likely to return to their 2008 peak by around 2015. However, if the economy grows at 5.5 - 6 percent a year, employment levels will return to their 2008 peak by 2013. South Africa therefore needs to raise its growth rate to 6 percent, with this growth being more labour intensive, if it is to create jobs on a large scale. This is in line with the recent statements by Finance Minister Pravin Gordhan that South Africa needs sustained growth of at least 7 percent a year over a 20 year period to significantly reduce unemployment and poverty.

On the management of capital inflows, the IMF report supports the flexible and floating exchange rate system but notes that the volatility of the rand has been very high. This is accounted for by the fact that non-residents account for nearly 75 percent of the daily turnover of $10-$12 billion in the South African foreign exchange market. The size of the market and its dominance by non-residents limits the government's ability to influence the level of the rand.

The report notes that while increasing foreign exchange reserves may not have much effect on the level of exchange rate, it could be helpful in absorbing large shocks. Similarly, a small tax on inflows might help slow down the volume of inflows or change its composition. However, taxing inflows might be easily circumvented and its effectiveness eroded overtime.

The IMF reinforces the prudent fiscal and monetary policies the South African government has been implementing since 2002. These policies cushioned the country's economy to some extent from the full impact of the global economic recession. Now that the recession is over, government can use the fiscal and monetary space to support the economic recovery.

The report commends South Africa for its solid regulation and the strength of its financial services sector, a point also noted by the 2010 Competitiveness Report published by the World Economic Forum this month.

View of the South African government

The South African government welcomes opportunities to engage with organisations such as the IMF, the Organisation for Economic Cooperation and Development (OECD), the World Bank and others, which play an important role as independent evaluators of government's economic policies.

Though the government does not share all the views expressed in the IMF report, the report is a fair assessment of the economic conditions in South Africa. The government will consider the recommendations made by the IMF and other international organisations.

Many of the issues raised by the IMF report mirror the list of priorities that government is already addressing, including work on inclusive growth and policies aimed at tackling youth unemployment. Regarding the volatility of the currency, the Minister of Finance has on numerous occasions, including in the 2010 Budget, called for a stable and competitive real exchange rate. In addition, National Treasury has agreed to support the South African Reserve Bank to accumulate foreign exchange reserves. Government will update its macroeconomic forecasts on October 27 when the Minister of Finance tables the 2010 Medium Term Budget Policy statement.

A copy of the full report can be downloaded from the International Monetary Fund website (www.imf.org) or the National Treasury website (www.treasury.gov.za).

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