national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

THE INTERNATIONAL MONETARY FUND STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION WITH SOUTH AFRICA

The International Monetary Fund (IMF) today released the outcome of its Article IV Consultation with South Africa following the staff visit from 23 May-5 June 2012[1]. The analysis was reviewed by Cabinet on 21 August 2012.

Main Findings:

Growth forecast revised: Since the last Article IV consultation in 2011, the ongoing crisis in Europe - South Africa's main regional trading partner - has slowed South Africa's growth, and the forecast for 2012 has been revised down to 2.6 per cent and to 3.4 per cent for 2013. This is marginally below National Treasury's forecasts made during the tabling of the Budget in February of 2.7 per cent for 2012 and 3.6 per cent for 2013.

The report highlights external risks to the outlook, including renewed concerns about the euro area and signs of a slowdown in China that could result in slower demand for South Africa's exports and a further decline in commodity prices. Although the sources of risk are mainly external, domestic risks are also identified.

There are increased economic and financial integration linkages with economies in the region: Sub Saharan Africa accounts for a third of South African manufactured exports and this has contributed to diversification of export destinations and reduced dependence on European markets.

[1] The IMF holds bilateral discussions with its members every year as prescribed in Article IV of the IMF's Articles of Agreement. An IMF staff team visits the country to collect economic and financial information, and holds discussions with a number of key stakeholders within the country to better inform their assessment. The outcome of the analysis and discussions with policy makers is summarised in an Article IV report.

Fiscal and Monetary policy approach commended - with reservations: The fiscal stance has provided further stimulus given weak external demand and a negative output gap and the IMF says the pace of fiscal consolidation outlined over the budget horizon is broadly adequate. The growing public sector wage bill is a concern and the composition of spending needs to be rebalanced away from the wage bill and toward capital spending. The IMF welcomed the forthcoming report on the long-term dynamics that will inform fiscal choices beyond the three-year period as a measure that will further improve fiscal transparency. The IMF supports the current monetary policy stance and finds that inflation targeting has been crucial for South Africa's resilience to changes in the global environment.

A flexible exchange rate, but lingering external competitiveness problems: South Africa's flexible exchange rate is an important shock absorber, helping to smooth the impact of external shocks. Despite recent rand depreciation, IMF staff finds that various indicators point to enduring problems with external competitiveness as a result of high domestic costs of production, including unit labour costs.

More action needed to deliver labour-intensive growth: The focus on job creation in the New Growth Path (NGP) and the draft National Development Plan (NDP) is welcomed but needs to be supported with concrete actions, and the IMF suggests that the structure of product and labour markets may make it more difficult for South Africa to reduce unemployment.

Reliance on monetary stimulus in the event of a severe adverse scenario: South Africa has limited fiscal space within which to respond to future adverse shocks and may require policy measures to ensure fiscal sustainability. Under a severe adverse scenario, authorities may need to rely more on monetary policy to respond to a substantial deceleration in economic activity.

Financial Institutions are largely unaffected by the crisis in the global financial system: Financial institutions remain well-capitalised and liquid. Progress has been made toward achieving Basel III benchmarks, however authorities should continue with on-going negotiations on key implementation dates with the Basel Committee to avoid any disproportionate effects or unintended consequences of these reforms.

Comments

The South African government welcomes engagement opportunities with institutions such as the IMF, as well as others such as the Organisation for Economic Cooperation and Development (OECD) and the World Bank.

Many of the issues raised by the IMF report are already reflected in the priorities and outcomes that government has set itself, including work on inclusive growth, policies aimed at accelerating job creation, and measures to improve the efficiency and effectiveness of government spending.

We welcome the IMF's assessment that South Africa has a stable and resilient economy but one that could do better.

On external competitiveness, the rand exchange rate has depreciated over the past twelve months by 13.6 per cent against the US dollar and 7.2 per cent on a trade-weighted basis, which should have provided a fillip to the country's exporters. However, nominal export growth has slowed from an annual rate of 17.5 per cent in the second half of 2011 to 6.9 per cent in the first half of 2012. In part this reflects the continuing economic turmoil in Europe and slowing global growth that has sapped external demand. Slower export growth also reflects the fact that South Africa's inflation is higher in relation to our trading partners continues to undermine external competitiveness.

South Africa has long-acknowledged the importance of reorienting exports toward faster growing non-traditional emerging markets. Recent trade trends indicate that South Africa is starting to take advantage of rapid regional economic growth – the IMF projects Sub-Saharan Africa to grow at an average annual pace of 5.5 per cent over the next five years – with nominal exports into Africa growing by 21.7 per cent over the past 12 months.

Government will update its macroeconomic forecasts on 24 October 2012 when the Minister of Finance tables the 2012 Medium Term Budget Policy statement.

A copy of the full Staff Report can be downloaded from www.imf.org or www.treasury.gov.za

ENDS

Issued by: National Treasury

23 August 2012