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REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

SOUTH AFRICA NOTES OUTCOME OF THE IMF ARTICLE IV REPORT FOR 2017

The Government of South Africa notes the outcome of the International Monetary Fund (IMF) Article IV report released today following consultation with South Africa from 3-16 May 2017. The IMF visits each of its member countries on an annual basis as prescribed in the Article IV of the IMF's Articles of Agreement. During this period, the IMF conducts an economic and financial assessment of government policies as well as provides policy recommendations on challenges that could potentially weaken the economy. In this year's review, the IMF met with government, the South African Reserve Bank, state-owned entities (SOEs), business and academia.

Economic Growth

The report notes that sound macroeconomic policies and robust economic growth were mutually reinforcing post-1994, however, the rates of economic growth and poverty reduction have stalled in the recent years. The IMF further indicates that a decline in commodity prices, which started in 2011-12, has impacted growth to a near-standstill in 2016.

At the time of the engagement, the IMF forecasted growth in South Africa at 1.0 per cent for 2017 and 1.2 per cent in 2018, which reflects an upward revision from its World Economic Outlook (WEO) projection (April 2017) of 0.8 per cent for 2017 and a downward revision of its April WEO projection from 1.6 per cent for 2018.

During the budget in February, National Treasury expected economic growth of 1.3 per cent in 2017 and 2.0 per cent in 2018. Risks to the projections are tilted on the downside following Q1 GDP data. Overall, factors that are expected to support growth remain; improved global growth, availability and security of domestic electricity supply, favourable weather conditions, improved labour relations and implementation of growth-enhancing structural reforms.

The IMF highlights that persistent inequality, largely due to the legacies of apartheid, coupled with prolonged low growth are contributing to the increased questioning of whether the prevailing economic policy paradigm can deliver results for all citizens. Thus, proposing that urgent reforms are needed to reignite growth, and render it more





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inclusive, particularly in the labour, product market and service sector. The IMF report states that the scope of monetary and fiscal policies to provide stimulus to the economy is limited and the priority to stimulate economic growth rests with structural reforms.

Fiscal and Monetary Policy

The IMF's observation of fiscal policy to stimulate growth is that there is limited space, consistent with rising debt, sizable contingent liabilities, the relative high cost of government borrowing and significant uncertainties regarding the future path of economic growth and interest rates. Additionally, SOE reforms are important to reduce risks to the government budget.

The IMF deems it appropriate to hold policy rates given that headline inflation is expected to be marginally below the upper inflation target band of 6 per cent for the remainder of 2017 and 2018, however, tightening would be warranted if inflation expectations were to rise. The report states that domestic financial sector remains resilient, owing to effective supervision of the sector and historically deep and liquid markets.

IMF also notes external factors that could pose a risk to growth; including a possible decline in commodity prices, faster than-expected rise in global interest rates, or a retreat from cross-border integration.

Cabinet Response

On 21 June 2017, Cabinet considered the report and acknowledged the risks and vulnerabilities identified by the IMF. The Government of South Africa aims to address these challenges including; inequality, poverty, and unemployment through its national budget which is highly redistributive, as well as other vehicles of economic transformation. The National Development Plan (NDP) remains South Africa's cornerstone for inclusive growth, aiming to address binding constraints, tackle infrastructure bottlenecks and accelerate financial and market inclusion. Government is committed to ensuring the implementation of the NDP, guided by the Medium Term Strategic Framework.

A copy of the full Staff Report can be retrieved from the International Monetary Fund website www.imf.org or the National Treasury website www.treasury.gov.za

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