national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

THE INTERNATIONAL MONETARY FUND ARTICLE IV REPORT FOR THE 2018 ARTICLE IV CONSULTATION WITH SOUTH AFRICA

The International Monetary Fund (IMF) has today published the outcome of its Article IV consultation with South Africa that took place between 28 May and 11 June 2018. As part of its surveillance mandate prescribed in the IMF's Articles of Agreements, the IMF visits each of its member countries annually, to conduct an economic and financial assessment of government policies and provide policy recommendations. During the consultation, the IMF met with various stakeholders, including government, state-owned enterprises (SOEs), business, organised labour and academia.

The outcome of the visit is summarised in an Article IV Report. Cabinet, on 4 July 2018, considered and noted the content of the report and acknowledged key risks identified and policy recommendations made by the IMF. South Africa values on-going engagements and work programs with all multilateral institutions, including the IMF.

IMF Findings

The IMF acknowledges that South Africa's economy remains well integrated in the global economy, diversified and has a sophisticated financial services sector. The IMF has welcomed ongoing initiatives to further buttress financial sector stability, including the new Financial Sector Regulation Act that lays the foundations of the Twin Peaks model of financial regulation. In addition, the IMF notes that strong institutions and a young workforce will contribute to higher growth potential.

However, several impediments to growth are highlighted, including policy uncertainty and regulatory overreach that hinders private investment, inefficiencies in SOEs, labour market rigidities, insufficient competition in product markets and corruption.

The IMF's growth forecast of 1.5 per cent for 2018 was unchanged from its World Economic Outlook (WEO) projection in April 2018 and is in line with National Treasury's projections at the time of the 2018 Budget.

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The IMF's concerns on fiscal policy relates to the rapid increase in public debt as a share of GDP, which has doubled over the last decade, depleting fiscal buffers and constraining fiscal policy space. Risks related to potential SOEs bailouts will further constrain fiscal policy.

The IMF deems the current monetary stance appropriate but emphasised that monetary policy authorities should be cautious given fiscal risks and the need to build buffers. Furthermore, the IMF welcomes the authorities' increased focus on lowering inflation expectations toward the mid-point of the band.

While the IMF acknowledges South Africa's recent reform efforts to combat corruption, they argue that to improve growth and reduce poverty, these actions have to be followed by strict enforcement of good regulations. In addition, clear communication of policies and regulatory decisions is essential to clarify any uncertainty that is weighing on investor sentiment.

Government's response

National Treasury's baseline growth outlook is broadly aligned with the IMF's projections for the near term, but more optimistic over the medium term. National Treasury projects GDP growth of about 2.1 per cent in the medium term (compared to 1.8 per cent by the IMF under its baseline scenario), supported by a greater recovery in private consumption and public investment due to the ongoing improvement in confidence.

Government continues to prioritise job creation and improving investor confidence through addressing policy uncertainty to attract investment. South Africa will host a Jobs Summit later this year to bring together business, labour and government with the objective of boosting employment. Another initiative to support this goal is the YES (Youth Employment Service) initiative, which was launched in March 2018 with the aim of creating one million paid internships for South African youths over the next three years.

Furthermore, an Investment Conference will also be held in South Africa, targeting both domestic and foreign investors with the aim of realizing the $100 billion target over the next five years.

Steady progress has been made in regards to structural reforms, including, the establishment of a Presidential SOE Council and the issuance of a new draft of the Mining Charter for public comment. With regards to improving governance, South Africa has announced board changes at SOEs and is also addressing financial management challenges facing SOEs.

Government concurs with the IMF's views on the urgency to advance the implementation of our reform agenda as set out in the National Development Plan. We remain committed to achieving inclusive growth that will create jobs, eradicate poverty and reduce inequality.

In regards to the IMF's concerns on fiscal policy and debt levels, Government re-emphasizes our commitment to reduce the deficit and stabilize debt as highlighted in the 2018 Budget. Government needs to maintain fiscal sustainability to ensure a stable platform for growth.

As a country, we will use these positive developments and the contributions of partners such as the IMF to work even harder together to move South Africa forward. 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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