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IMF Staff Concludes Visit to South Africa

An International Monetary Fund (IMF) mission, led by Ana Lucía Coronel, visited South Africa during May 27–June 3, 2019 to discuss recent economic developments and outlook in the context of its regular surveillance activities. At the end of the visit, Ms. Coronel issued the following statement:

"Following President Ramaphosa's election, there is a sense of cautious optimism about economic prospects as the new government formulates its policy agenda. Amid challenging global economic conditions, the growth outlook will depend critically on the pace of implementation of reforms that address long-standing structural constraints. If reform implementation accelerates sufficiently to lift business confidence and jump-start private investment, growth would be reignited. However, if reforms are delayed, investment would fail to pick up, economic growth would remain weak in the medium term, and per-capita income would continue to decline. With underexploited export potential, the external position would remain weak and the current account deficit financed mainly by non-FDI inflows.

"The fiscal deficit is set to worsen as weak growth constrains revenue, current expenditure remains rigid, and public enterprises require additional support. As a result, debt pressures are likely to further increase in the near term. Weak finances and operations of public enterprises, particularly Eskom, represent a major downside risk to growth and the fiscus. Against this background, action is needed to reduce the fiscal deficit, reverse the ongoing increase in public debt, and restore much-needed fiscal buffers to protect the government's development objectives and its ability respond to shocks.

"Given favorable food price developments, inflation has remained at or below the midpoint of the official target range in the last few months, contributing to a moderation of inflation expectations. In this context, monetary policy is appropriately focused on anchoring inflation expectations at a lower level, balancing upside inflation risks from higher administered prices and temporary supply factors on the one hand, with the recent subdued inflation developments on the other. Financial stability has been maintained, despite weak growth having started to negatively affect banks' performance. The entry of a few new players to the banking system has contributed to the reduction of the pricing of financial products.

"A focus on policy actions to remove long-standing structural constraints to growth and accelerate job creation is a must. The government has a renewed opportunity to press ahead with policies to further strengthen governance, encourage competition, increase labor market flexibility, and, more generally, reduce the cost of doing business. Public enterprise efficiency needs to be improved with measures that strengthen their finances and harden the budget constraints they face. In particular, Eskom will require bold action to redefine its business model so that it becomes self-sustained and ensures affordable and reliable electricity supply. Without fundamental reforms in Eskom's finances and operations, continued budget transfers or assumption of its debt by the government will not resolve the company's issues. Postponing the needed adjustment of the entity will only force greater difficulties down the road.

"Acting decisively on tackling structural impediments to growth would help complement the authorities' efforts to conduct sound macroeconomic policies, thus restoring policy certainty and boosting investor confidence. An improved business environment resulting from reform implementation would attract much-needed private investment, and, in turn, lead to a virtuous cycle of growth, job creation, and social inclusion.

"The mission thanks the authorities and other counterparts for their hospitality and productive discussions."