national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

THE INTERNATIONAL MONETARY FUND (IMF) ARTICLE IV REPORT ON SOUTH AFRICA FOLLOWING THE 2019 CONSULTATION

The International Monetary Fund (IMF) today published the outcome of its Article IV Consultation with South Africa, which was held from 6 – 21 November 2019. Part of the surveillance function, as prescribed in the IMF's Articles of Agreement, requires that the IMF visits each member country twice a year to conduct economic and financial assessments of government policies and provide policy recommendations. The IMF staff held meetings with the South African government, the South African Reserve Bank, state-owned enterprises (SOEs), business, organised labour, and academia. The outcome of their consultation is summarised in an Article IV Report, which was also considered by the IMF Executive Board.

IMF Findings

The IMF states that South Africa has undeniable economic potential, which remains largely untapped. However, it notes that downside risks to the economy going forward, include: (i) weak economic growth, (ii) deteriorating fiscal and debt positions and (iii) difficulties in the operations of state owned enterprises (SOEs).

The IMF's baseline scenario assumes that partial reform implementation and continued governance improvement will lift business confidence and gradually allow a limited recovery of investment and consumption. It forecasts South Africa's growth to gradually increase from 0.4 percent in 2019 to 0.8 percent in 2020 and to 1.0 percent in 2021. However, it warns that per-capita growth will continue to contract in the near term.

The IMF recommends that South Africa creates a conducive environment for private sector investment and takes a decisive approach to implement structural reforms in order to boost economic growth. These include reducing the cost of doing business, streamlining operations of SOEs, releasing the spectrum, improving governance, promoting competition in product markets and addressing labour market issues.

Government's response

National Treasury acknowledges the difficult juncture South Africa is at. It projects subdued short-term growth, but expects a stronger recovery in confidence moving forward that would result in GDP growth of 1.7 percent by 2022. Average inflation expectations for 2019 have fallen from 6 percent to 4.5 percent. Most recently, in January 2020, the South African Reserve Bank cut its repurchase rate by 25 basis points, taking into consideration inflation expectations.

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The economic outlook is subject to risks, both domestic and external. Domestically, failure to address governance and operational issues, specifically at State Owned Enterprises (SOEs), would continue to weigh negatively on the outlook. National Treasury is mindful of the fiscal risks that SOEs, particularly electricity utility Eskom, present to the fiscal framework. Furthermore, there is commitment to resolve the challenges facing South African Airways (SAA). The airline has been placed under voluntary business rescue to improve its financial position. Externally, the performance of the global economy has an impact on South Africa, as an open, small economy.

Government has progressed in implementing many of the reforms to revive the economy, however, more urgency is required in the speed of implementation.

Finally, National Treasury remains committed to implementing prudent fiscal policy to achieve a low primary balance, excluding Eskom provisions, by 2022/23 in order to ensure a stabilisation of debt by 2025/26. Government continues to work towards moving South Africa forward and realising strong, sustainable, balanced and inclusive growth that will improve the lives of all South Africans.

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