



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

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## **MEDIA STATEMENT**

### **THE INTERNATIONAL MONETARY FUND (IMF) ARTICLE IV STAFF REPORT ON SOUTH AFRICA FOLLOWING THE 2021 CONSULTATION**

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The International Monetary Fund (IMF) today published the outcome of its Article IV Consultation with South Africa, which was held from 17 November to 7 December 2021. Part of the surveillance function, as prescribed in the IMF's Articles of Agreement, requires that the IMF has consultations with each member country at least once a year to conduct economic and financial assessments of government policies and provide policy recommendations. The IMF staff held virtual meetings with the South African government, the South African Reserve Bank, Eskom, business, organised labour and academia. The outcome of their consultations is summarised in an Article IV Staff Report, which was also considered by the IMF Executive Board on 7 February 2022.

#### **IMF Findings**

The IMF acknowledges that South Africa has faced formidable challenges created by the COVID-19 pandemic and that more recently, the Omicron variant that caused additional health and economic distress amid relatively low vaccination rates.

The IMF's outlook for South Africa points to some growth recovery in the near-term and lacklustre medium-term performance. It states that economic output is capped by structural constraints, weak confidence and less-favourable terms of trade. The IMF estimates South Africa's economic growth at 4.6 percent in 2021 and projects growth at 1.9 percent in 2022 with an average of 1.4 percent over the medium term. Inflation is to converge to the midpoint of the 3–6 percent target range. The IMF highlights the main downside risks as slow progress in the implementation of structural reforms, deteriorating health and travel conditions from prospective COVID-19 waves, tightening of global liquidity conditions and Eskom's operational and debt problems that raises macro-critical challenges.

On the positive side, the IMF notes that key economic strengths acted as mitigating factors, including a flexible exchange rate regime, a sound inflation targeting framework underpinned by strong central bank credibility and deep domestic financial markets and healthy banks. However, the IMF recommends that the SARB should continue to unwind the accommodative monetary policy stance.

The IMF believes that efforts to mitigate the pandemic's impact, notably accelerating vaccination, is a key priority. Furthermore, the IMF recommends urgently advancing long standing reforms in order to reignite growth. The IMF adds that the country needs to address governance and corruption vulnerabilities in order to foster private investment to improve the economy's productivity and competitiveness.

Additionally, the IMF argues that an ambitious and growth-friendly fiscal consolidation over the next three years is necessary to reverse the risky upward trend in the debt ratio and reduce high financing costs, while protecting well-targeted social expenditures and investment. The IMF notes that there is an urgent need to reduce transfers to state owned entities.

## Government's response

The National Treasury acknowledges the difficult juncture South Africa is at. In general, the IMF's concerns are aligned with Government's response programme to stimulate economic growth, which is guided by South Africa's Economic Reconstruction and Recovery Plan (ERRP) aimed to transform the economy through reindustrializing, accelerating economic reforms, improving competitiveness, reducing the high cost of doing business and addressing the weak public sector balance sheet. The ERRP also seeks to unlock private sector investment and green growth in line with the Vision 2030 National Development Plan.

### (a) NT's economic outlook

National Treasury is somewhat more optimistic than the IMF on the medium-term growth and fiscal outlook, expecting growth in the medium term to be driven by a gradual recovery in confidence and private investment. However, it concurs that the economy is subject to significant downside risks.

### (b) Fiscal issues

National Treasury remains committed to ensuring fiscal and debt sustainability through growth friendly fiscal consolidation to place public debt on a declining path. Fiscal policy has to balance supporting the economic recovery with rebuilding public finances.

### (c) Structural reform implementation

The South African Government remains committed to fast-tracking structural reforms, through Operation Vulindlela, to foster job-led growth, with great importance placed on addressing long-term structural constraints and reducing scarring from the effects of the pandemic.

There has been progress in advancing structural reforms to support economic growth, including increasing the licensing threshold for embedded generation, corporatizing the Transnet National Ports Authority, restructuring of Eskom, development of the e-visa system, reviewing the legal regime governing skilled migration, addressing issues blocking the release of high demand spectrum, accelerating infrastructure investment and securing grant funding to support South Africa's just transition to a low-carbon, climate resilient future.

Given the importance of energy security, work is underway to restructure Eskom with the establishment of the Transmission Company as a subsidiary, which was registered by the Companies and Intellectual Property Commission as of 31 December 2021. Eskom has also applied to the National Energy Regulator of South Africa for the transmission license for the Transmission Company. The legal separation of the Generation and Distribution subsidiaries is envisaged to be concluded by 31 December 2022.

## Conclusion

Government recognizes the need to address deep-rooted socioeconomic challenges, including unemployment and poverty while stabilizing government debt. To this end, they remain committed to a growth-friendly fiscal consolidation, while prioritizing structural reforms critical to foster strong, sustainable, inclusive, and green growth that will improve the lives of South Africans. Monetary policy decisions remain data-dependent and the authorities stand ready to take necessary steps to safeguard price and financial stability.

A copy of the full Staff Report can be retrieved from the IMF website [www.imf.org](http://www.imf.org) or the National Treasury website [www.treasury.gov.za](http://www.treasury.gov.za)

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Enquiries: Communications Unit  
Email: [media@treasury.gov.za](mailto:media@treasury.gov.za)  
Tel: (012) 315 5046

