national treasury

Department:
National Treasury
**REPUBLIC OF SOUTH AFRICA**

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**MEDIA STATEMENT**

# THE 2022 INTERNATIONAL MONETARY FUND (IMF) STAFF VISIT TO SOUTH AFRICA

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The International Monetary Fund (IMF) staff held meetings with South Africa from 26 May to 6 June, 2022 as part of their routine economic surveillance function, as prescribed in the IMF's Articles of Agreement. The IMF staff discussed economic developments in the country with the Government, the South African Reserve Bank, state-owned enterprises (SOEs), business and academia. The visit by the Staff does not result in a Board discussion or publication of a report on South Africa's economy.

## Main findings of IMF as contained in their press statement

The IMF staff is of the view that South Africa's economic recovery from the pandemic should continue this year as some sectors including tourism, hospitality, and construction, gradually improve. The Staff notes that South Africa is benefiting from favourable commodity prices, which have raised exports.

Nonetheless, the IMF points to various shocks that continue to impact South Africa's economic outlook; namely the flooding in KwaZulu-Natal, uncertainty arising from the conflict in Ukraine, tightening of global financial conditions and lower economic growth in China.

The IMF staff acknowledges progress made in implementing structural reforms and encouraged South Africa to deepen and speed up implementation of structural reforms to address a number of obstacles. Areas needing urgent attention include: growth, load shedding, and addressing deficiencies in the transportation system which limit the benefits from the higher commodity prices. Other key reform areas highlighted include: improving procurement processes, transforming network industries, fostering competition to attract private investment; and advancing the functioning of the labour market.

In addition, the Staff underscores that operations, finances and governance of Eskom and Transnet should be improved to contribute to the sustainability of public finances.

The Staff emphasised the need to implement growth-friendly fiscal consolidation to ensure that the country's debt as a percentage of GDP is on a declining and sustainable path. Containment of compensation costs and streamlining transfers to SOEs were some of the recommendations tabled. In addition, the Staff underscored that operations, finances and governance of Eskom and Transnet should be improved to contribute to the sustainability of public finances.

The Staff recommends that the SARB's focus should continue to ensure low and stable inflation; and that urgent actions are needed to address the shortcomings identified by the Financial Action Task Force (FATF) in the areas of anti-money laundering and combating the financing of terrorism.

**Government's response**

The National Treasury acknowledges that South Africa's economic recovery has been un-even and that risks remain high. 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) as well our commitment towards growth and fiscal sustainability as highlighted in the 2022 Budget.

**(a) Fiscal framework**

In the 2022 Budget, it was emphasized that permanent increases in spending will be financed in a way that does not worsen the fiscal deficit.

On fiscal risks posed by some SOEs, the Presidential State-Owned Enterprises Council is considering their value add and which SOEs will be rationalised or consolidated to reduce their continuing demand on South Africa's public resources.

The National Treasury is working on a sustainable solution to deal with Eskom's debt in a manner that is equitable and fair to all stakeholders. Any solution will be contingent on continued progress to reform South Africa's electricity sector and Eskom's own progress on its turnaround plan and its restructuring.

**(b) Structural reform implementation**

National Treasury remains committed to fast-tracking structural reforms to foster job-led growth, as supported through Operation Vulindlela. A total of 26 structural reforms were prioritised and of this total, 8 reforms have been completed while another 11 are progressing well.

Key achievements to date on structural reforms implementation include: concluding the spectrum auction, opening bid windows 5 and 6 of the renewable energy programme, publishing the draft electricity regulation amendment bill, Cabinet approval of the white paper on the National Rail Policy, publishing of the Green Drop report to ensure better monitoring of water and wastewater treatment quality, publishing the revised critical skills list, issuing of the RFP (Request For Proposal) to initiate third party access to the freight rail network. Looking ahead, work is also underway to reform the procurement system and launching of the e-Visa system in 14 countries.

Concerning energy security, the process of unbundling Eskom is underway. On 17 December 2021 the National Transmission Company South Africa SOC Limited (NTCSA) was executed. Eskom has also applied to the National Energy Regulator of South Africa for the transmission license for the Transmission Company.

On environmental matters, South Africa remains committed to address climate change based on science, equity and sustainable development. South Africa's Presidential Climate Finance Task Team will advise the country on the execution of the Just Energy Transition (JET).

**Conclusion**

Government recognizes the need to address deep-rooted socioeconomic challenges, including unemployment, inequality, and poverty, while stabilizing government debt. To this end, Government's steadfast commitment to restoring sustainability to public finances is supported by better than expected revenue collection, albeit temporary, and fiscal restraint. As stated in the 2022 Budget, government is using a portion of the additional revenue to reduce the fiscal deficit and stabilise debt, with the majority targeted to address urgent social needs, promote job creation through the presidential employment initiative, and support the public health sector. Faster implementation of economic and SOE reforms, accompanied by fiscal consolidation to provide a stable foundation for growth, easing of investor concerns, and support a faster recovery and higher levels of economic growth.

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