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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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MEDIA STATEMENT

2024 INTERNATIONAL MONETARY FUND (IMF) POST FINANCING ASSESSMENT (PFA) REPORT ON SOUTH AFRICA

An International Monetary Fund (IMF) team visited South Africa from 1- 8 July 2024, to receive an update on the economic developments in the country as well as to conduct a Post Financing Assessment (PFA). The PFA is related to the financial assistance provided to South Africa under the IMF's Rapid Financing Instrument (RFI) loan of USD 4.3 billion in July 2020 to support the country's balance of payments needs in the aftermath of the COVID-19 pandemic. The purpose of the PFA is to ensure that a country that has completed an IMF lending programme maintains economic and financial health and that IMF funds can be repaid.

The Executive Board of the IMF concluded the PFA and endorsed the Staff Appraisal on a lapse of time basis. South Africa's capacity to repay the IMF is assessed as adequate.

IMF Findings

The IMF finds that South Africa's economy has shown resilience in the face of disruptions. However, the IMF warns that persistent structural challenges risk a further erosion of living standards. The IMF highlights that South Africa's economy faces significant macroeconomic challenges, including declining GDP per capita, rising debt, high unemployment, poverty and inequality. Global economic risks to South Africa's economic outlook include a slowdown in trading partner growth, intensification of geopolitical tensions, and tighter global financial conditions.

The IMF recommends:
- Policies should focus on bolstering inclusive growth and restoring fiscal sustainability,
- Managing the descent of inflation to target and safeguarding financial stability,
- Implement ongoing structural reforms, including in the electricity and transportation sectors, and complement with measures improving the business environment and functioning of product and labour markets while strengthening governance,
- An ambitious expenditure-based fiscal consolidation,
- Monetary policy should stay data dependent and rate cuts should be considered only after inflation declines sustainably towards the midpoint of the target range,
- Monitor financial sector risks, including those related to the bank-sovereign nexus, and enhance supervision and prudential regulations.

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Government's response

The National Treasury (NT) acknowledges the constructive engagement held with the IMF team regarding South Africa's Post Financing Assessment (PFA). While recognising the macroeconomic challenges highlighted by the IMF, the South African government has affirmed its commitment to prioritise rapid, inclusive and sustainable economic growth to tackle prevailing high levels of unemployment, poverty and inequality. The newly established Government of National Unity (GNU) is firmly committed to addressing immediate and long-term economic challenges.

(a) NT's economic outlook

The National Treasury will update its projections in the Medium-Term Budget Policy Statement (MTBPS) in October 2024. While the IMF is expecting South Africa to grow by 1 per cent in 2024, the NT projected growth of 1.3 per cent in 2024 in the 2024 Budget Review. The South African Reserve Bank (SARB) projected growth at 1.1 per cent this year in its July 2024 Monetary Policy Committee (MPC) forecast report. NT agrees with the IMF that downside risks remain to the growth outlook.

(b) Fiscal policy

The National Treasury is committed to stabilising debt, while preserving economic stability. The fiscal position has improved, with a primary fiscal surplus of 0.4% per cent of GDP being achieved in 2023/24. National Treasury is continuing to target debt stabilisation in 2025/26 and in this regard is focusing on:

- The outcome of the wage negotiations for 2025/26 to ensure a fiscally sustainable settlement.
- Lower government consumption than other categories of gross domestic expenditure to meet fiscal targets, which are anchored around a debt stabilising primary fiscal surplus over the medium term.
- Implementing fiscal reforms to improve the quality and sustainability of expenditure, which are supported by growth enhancing reforms.
- Reducing risks emanating from state-owned enterprises, including through a revised and tighter sovereign guarantee framework.

(c) Structural reform implementation

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South Africa remains committed to the reform agenda focused on addressing supply constraints while supporting activity and employment. South Africa is making progress in the implementation of its structural reforms, as also acknowledged by the IMF.

On the electricity reforms, a 150-day mark of no load shedding has been reached, a sign of the stabilisation of the grid. There is a commitment to further implement the reforms in the electricity sector. The National Transmission Company South Africa (NTCSA) has been fully operationalised as a separate entity from the Generation and Distribution businesses of Eskom. The Electricity Regulation Amendment (ERA) Act has been signed into law to give effect to cost reflective tariffs, which will in turn support the operability of the entity, by the National Energy Regulator of South Africa (NERSA). While Eskom is committed to the renewable energy programme, the emissions reduction 2025-2027 plan will be delayed to 2030, as coal power stations are currently committed to supplement the power shortages to stabilise the grid. Work is currently underway to repurpose and remodel the Komati coal station.

Transnet's Reinvent for Growth strategy has been developed and is in the second phase of the 18-month recovery plan implementation, with the aim of addressing operational challenges, addressing the liquidity of the business, and improving execution of the mandate.

(d) Financial sector policies

The South African financial system continues to demonstrate resilience, supported by strong capital adequacy and high liquidity buffers. NT's view is that the sovereign-bank nexus is not currently a risk to the financial system, however, this will be monitored closely. South Africa is also committed to exit the Financial Action Task Force (FATF) grey list by June 2025. At the recent FATF plenary in Singapore, South Africa received 3 upgrades, adding up to 8 upgrades thus far. Currently, 14 out of 22 action items are still outstanding.

Conclusion

The National Treasury welcomes the fruitful discussions with the IMF and is committed to implementing reforms to unlock sustainable and inclusive growth, improve the fiscal position, and bolster the capacity and effectiveness of the state.

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