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REPUBLIC OF SOUTH AFRICA

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MEDIA STATEMENT

RESPONSE TO THE STAFF CONCLUDING STATEMENT OF THE 2024 INTERNATIONAL MONETARY FUND (IMF) ARTICLE IV CONSULTATION FOR SOUTH AFRICA

An International Monetary Fund (IMF) team visited South Africa from 11-25 November 2024 to hold meetings with economic authorities and other counterparts from the public and private sectors for the 2024 Article IV annual consultation. Discussions focused on policies to ensure macroeconomic stability and the structural reforms needed to durably lift potential growth, create jobs, reduce poverty and inequality, and facilitate the transition to a greener economy.

Today, the IMF published its “Staff Concluding Statement”, outlining its staff preliminary findings and do not necessarily represent the views of the IMF’s Executive Board. Based on the preliminary findings, the IMF staff will prepare South Africa’s Article IV report, which is expected to be considered by the IMF Executive Board in January 2025.

IMF Findings

The outlook is improving and activity is recovering, driven by recovering domestic demand supported by renewed post-election confidence, improved power generation (with no loadshedding since end-March 2024), and declining interest rates. However, risks are tilted to the downside, including from a further deepening of geoeconomic fragmentation, a deeper slowdown in key trading partners or an escalation of ongoing conflicts. The IMF staff’s preliminary findings highlight that the Government of National Unity (GNU), in place since June 2024, represents an opportunity to put South Africa’s economy on a path toward higher and more inclusive growth.

The IMF recommends:

- Ambitious implementation of structural reforms, prioritizing electricity and logistics reforms, which pose binding constraints on growth.
- Continuing development of the competitive wholesale electricity market, establishment of a fully independent transmission system operator, and putting in place regulatory frameworks for transmission and distribution.
- Accelerating ongoing reforms to attract private-sector participation in freight rail and ports, including by establishing fully independent transport and ports regulators, finalizing the legal framework for a competitive rail sector, and ensuring competitive and transparent concession processes.
- Implementing additional business-environment, governance, and labor-market reforms
- A more-ambitious-than-envisaged fiscal consolidation to place public debt on a sustained downward path.
- A fiscal rule anchored in a prudent debt ceiling to underpin the consolidation.
- Continued implementation of the 6 remaining action items recommended by and agreed with the Financial Action Task Force (FATF) to facilitate removal from the “grey list” in 2025.

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- Continue to enhance trade integration
- Reduce carbon emissions

Government's response

The National Treasury (NT) appreciates the constructive engagement with the IMF team and notes the contents of the IMF Staff Concluding Statement. In general, the IMF's concerns are aligned with Government's response as the GNU is committed to addressing immediate and long-term economic challenges.

(a) NT's economic outlook

While the IMF is expecting South Africa to grow by 1.1 per cent in 2024 and 1.5 per cent in 2025, NT is projecting growth of 1.1 per cent in 2024 and 1.7 per cent in 2025 in its 2024 Medium Term Budget Policy Statement (MTBPS). The prospects for the economy are improving, with better energy supply supporting a marginal upward revision to medium-term growth. Risks to the domestic outlook are more balanced than at the time of the 2024 Budget Review.

(b) Fiscal policy

Despite fiscal risks, the balanced fiscal strategy first outlined in the 2023 MTBPS is registering progress. Higher economic growth, if sustained, will improve the fiscal position. Despite slower-than-expected revenue growth, the state is on track to achieve primary surpluses in 2024/25 and over the medium term. Debt is expected to stabilise at 75.5 per cent of GDP in 2025/26. In turn, this will enable government to arrest the trend of mounting debt-service costs, which will peak as a proportion of revenue at 21.7 per cent in 2025/26 and decline thereafter. Although there are significant external and domestic risks to the fiscal strategy, government is determined to maintain a prudent, disciplined approach to ensure sustainable public finances.

(c) Structural reform implementation

In its first phase, Operation Vulindlela implemented 35 reform actions in five network industries, including reducing power cuts, improving the performance of the logistics system, lowering data costs, improving water supply and enabling the country to attract critical skills. The next phase of reforms will support higher medium-term growth, which is required to significantly expand employment. New initiatives aim to reverse local government decline, tackle spatial inequality and advance digital government to improve large-scale service delivery.

Priority will be given to continued restructuring of Eskom and to establishing a competitive energy market with adequate supply for a growing economy. The cumulative effects of reforms include

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improved power station performance and no “load-shedding” since 26 March 2024. The Electricity Regulation Amendment Bill was signed into law in August of this year. This, together with the creation of the National Transmission Company of South Africa, which began operating on 1 July 2024, is establishing rules and procedures for a competitive electricity market. The ongoing Energy Action Plan has boosted efforts to restore energy availability and procure new generation.

Transport reforms that open the freight rail network to private operators will reduce inefficiencies and costs, helping firms offer lower prices and boosting economic growth. To this end, the Economic Regulation of Transport Bill – enabling private-sector use of the rail network – was signed into law in June 2024.

The Department of Home Affairs has reformed the visa system to attract skills and boost tourism, including implementing an eVisa system for 34 countries, a trusted employer scheme and revised immigration regulations from May 2024. The rollout of 5G infrastructure is lowering data costs, expanding connectivity and improving access to network services.

Water sector reforms being prioritised by Operation Vulindlela include independent regulation, strengthening local water services by licensing water service providers, legal proceedings on non-compliance by municipalities and trading services reforms. The National Water Resources Infrastructure Agency Bill, signed on 27 August 2024, creates an independent agency to oversee bulk water resources. The Water Services Amendment Bill, allowing for intervention in failing municipalities, has received public comment and will soon be submitted to Cabinet for approval.

(d) Financial sector policies

The South African financial system continues to demonstrate resilience, supported by strong capital adequacy and high liquidity buffers. South Africa is also committed to exit the Financial Action Task Force (FATF) grey list by June 2025. Currently, 6 out of 22 action items are still outstanding.

Conclusion

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

For enquiries, please contact media@treasury.gov.za

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