CONCLUDING STATEMENT

South Africa: Staff Concluding Statement of the 2025 Article IV Mission

FOR IMMEDIATE RELEASE

Washington, DC – December 9, 2025: An International Monetary Fund (IMF) team led by Delia Velculescu visited South Africa on December 1-8 to hold meetings with the economic authorities and other counterparts from the public and private sectors for the 2025 Article IV annual consultation. Discussions focused on policies to ensure macroeconomic stability and the structural reforms needed to durably lift potential growth, create jobs, and reduce poverty and inequality.

Context, Macroeconomic Outlook, and Risks

The South African economy has proven resilient to renewed global turbulence this year. Faced with greater protectionism, tariffs, and heightened policy uncertainty, the economy has shown resilience, owing to its abundant mineral wealth, independent institutions, credible inflation-targeting framework, flexible exchange-rate regime, and deep domestic capital markets. Financial-market indicators have improved, in part reflecting important domestic policy developments, such as the shift to a lower inflation target and exit from the FATF grey list, which, together with the recent Medium-Term Budget Statement's reaffirmation of the government's commitment to debt stabilization, led to an upgrade of South Africa's credit rating. Nonetheless, persistent impediments—including product- and labor-market rigidities, spatial disparities, governance weaknesses, inadequate infrastructure, and elevated public debt—constrain the economy's ability to rebound strongly from shocks, create needed jobs, and achieve its true growth potential.

Activity is expected to improve gradually. Following two quarters of strong activity, growth is projected to reach 1.3 and 1.4 percent in 2025-26, driven by continued robust private consumption. While exports remain hampered by tariffs and continued global trade policy uncertainty, strong commodity prices are supporting export receipts in the near term. Ongoing electricity and logistics reforms are expected to boost investment over the medium run, with growth projected to reach 1.8 percent by the end of the decade. In view of the move to a new lower inflation target, inflation is projected to average 3.3 and 3.6 percent in 2025 and 2026, before settling to 3 percent by end-2027 and beyond.

Risks remain tilted to the downside. Weaker-than-expected global activity—in the context of heightened geopolitical tensions, escalating trade measures, and prolonged global policy uncertainty—could dampen exports and increase commodity-price volatility. An abrupt global financial market correction and tighter financial conditions could lead to exchange-rate and capital-flow volatility and higher sovereign bond yields. On the domestic side, higher costs of disinflation may impact activity in the near term, while a slower pace of structural-reform implementation may exacerbate supply-side constraints and weigh on medium-term growth. On the upside, more ambitious domestic reforms, combined with a de-escalation of tariffs and improved global demand, could help boost confidence and support investment and growth.

Policies in Support of Macroeconomic Stability and Inclusive Growth

Bolstering resilience in a more shock-prone world and pivoting toward higher standards of living for all requires coherent and well-coordinated policies and reforms to safeguard fiscal sustainability, secure low and stable inflation, ensure financial stability, and address entrenched bottlenecks to growth.

Fiscal Policy

The mission welcomes the authorities' commitment to reduce fiscal deficits and debt. The November 2025 Medium-Term Budget Policy Statement reaffirms the commitment to stabilize and reduce debt over time by achieving a primary surplus of 1.5 percent of GDP in FY26 and 2.3 percent by FY28. The authorities aim to reach these targets through higher revenues and lower spending, while safeguarding public investment and social spending. Under the IMF baseline, however, in the absence of additional well-specified fiscal reforms, revenues are projected to be somewhat less buoyant and public spending to decline more gradually than the authorities forecast. As a result, the primary surplus is expected to increase more slowly and be insufficient to stabilize public debt over the medium run.

A credible, growth-friendly, and politically and socially feasible adjustment is needed to stabilize and reduce public debt, while safeguarding critical spending. With debt high and rising and growth below potential, policymakers face the difficult task of balancing debt-sustainability considerations against the need to safeguard the recovery. Spending needs are also substantial, given high unemployment and poverty rates, weak education and health outcomes, and deteriorating infrastructure. In this context, a well-calibrated fiscal consolidation that accounts for the economic and social realities and needs yet can deliver more credibly on debt-sustainability objectives is critical.

The mission supports the authorities' FY26 primary surplus target and recommends more ambitious medium-term targets to support debt sustainability. To reach a primary surplus of 1.5 percent of GDP next year, as the authorities aim, a fiscal adjustment of around ¾ percent of GDP will be needed relative to staff's baseline. Locking in savings brought by favorable near-term revenue dynamics, together with additional reforms, can support this effort. In the medium run, the mission considers that a primary surplus target of 3 percent of GDP would be needed to bring debt down to around 70 percent of GDP by 2033, as the authorities plan. This will necessitate an additional fiscal effort of at least ½ percent of GDP per year in FY27-28. Maintaining this primary surplus until debt declines to 60 percent of GDP can help bolster policy buffers against shocks and further reduce debt costs.

The credibility and feasibility of the adjustment hinges on specifying concrete, durable, and growth-friendly reforms, while protecting vulnerable groups.

- ***Reprioritizing and improving the efficiency and fairness of public spending is essential to support the adjustment and achieve social and political buy in***. Building on ongoing efforts supported by spending reviews, the mission recommends reforms focused on: (i) improving the efficiency of procurement practices by finalizing the implementing regulations of the new Procurement Act, along with strengthening internal controls, transparency, and accountability, which are also key to reduce corruption; (ii) rationalizing the wage bill, building on ongoing efforts to incentivize early retirement, strengthen payroll integrity, and link pay with performance; (iii) limiting and linking transfers to state-owned enterprises to reform progress and operational improvements; (iv) streamlining underperforming, duplicate, and low-priority programs and entities; (v) better targeting subsidies; and (vi) further strengthening debt management and the financial management of transfers to provincial and local governments. Such measures would not only contribute to debt-reduction objectives but also create space for additional priority spending on public-infrastructure investment, primary education, and healthcare. Building on ongoing efforts to enhance verification processes and tackle fraud in the social-grants system, further bolstering efficiency and targeting can help ensure that benefits reach those most in need.
- ***Revenue measures could also be considered, if needed to support the adjustment or finance additional priority spending.*** Efforts made by the South African Revenue Service (SARS) to raise tax collections and reduce tax debt are commendable and should continue, supported by advancements in digitalization and AI. South Africa's tax revenue is already high and comparable to peers, with limited scope for significant gains. Potential revenue options include: curtailing tax expenditures that benefit mostly upper-income individuals; raising carbon tax rates, which can also support climate objectives; raising gambling taxes, as currently proposed; and considering additional social contributions if needed to finance the new health system or a redesigned social-relief-of-distress grant linked to job search.
- ***A fiscal rule anchored in a prudent debt ceiling can help underpin the consolidation and support policy credibility***. A numerical debt rule—anchored in prudent debt targets (70 percent of GDP in the medium term and 60 percent in the long term), supported by expenditure and primary-balance rules, well-defined escape clauses, and an independent fiscal body—can help bolster the discipline, credibility, and predictability of fiscal policy, while reducing fiscal risks.

Monetary and Financial-Sector Policies

The adoption of a lower inflation target in the context of a strengthened inflation targeting framework is a major policy achievement. The shift to a lower 3 percent inflation target with a +/-1 percent tolerance band is welcome and expected to support macroeconomic stability and debt sustainability by reducing borrowing costs. In view of subdued inflation and downward-trending inflation expectations, the monetary policy stance remains appropriate. Looking forward, policy should continue to remain data driven and focused on guiding inflation expectations to the new target. Careful communication will be key to maintaining credibility and anchoring inflation expectations, while gradual implementation of the new target remains important to allow for flexibility in case of shocks.

The supervisory authorities have continued to manage financial-sector risks prudently. Systemic risks have increased this year, given higher global uncertainty and sizeable exposure of banks and non-bank financial institutions (NBFIs) to still rising government debt.

Nonetheless, the banking system has remained sound and able to expand credit to the economy. It resiliency also reflects important progress made to strengthen crisis-management and prevention tools, such as the new banking-resolution framework, enhanced depositor protection, and stress testing. The phasing-in of a positive cycle-neutral countercyclical capital buffer in 2025 and the planned issuance of loss-absorbing liabilities over the medium term can further help bolster banks' resilience to shocks.

Looking ahead, monitoring risks carefully and strengthening the supervision of banks and NBFIs remain essential to safeguard financial-sector stability. Risks from the sovereign-bank nexus should primarily be addressed through growth-friendly fiscal consolidation and continued monitoring and risk assessments of banks. Should such risks intensify, consideration could be given to additional prudential measures, while being mindful of potential unintended consequences on financial institutions' balance sheets and securities markets. In view of sizeable interlinkages between banks and NBFIs, the mission supports the authorities' efforts to assess system-wide interconnectedness and identify contagion risks and recommends enhancing reporting requirements for NBFIs and ensuring a consistent regulatory and supervisory approach for banks and non-banks.

Ensuring that the financial sector continues to support the economy, including by providing efficient services, is equally important. A well-functioning financial sector not only depends on but also contributes to a healthy and strong economy through the provision of adequate credit and cost-effective financial services to firms and households. Addressing impediments to SME financing will require revisions of the National Credit Act, reforms of title deeds to unlock collateral, and sustained efforts to foster information sharing across financial institutions. Promoting venture capital and better connecting SMEs to capital markets would help expand SME's funding options. The mission supports the authorities' efforts to modernize the payments ecosystem and improve its efficiency by developing a digital payments infrastructure, allowing non-bank participation in the system, improving interoperability, and introducing a digital ID, which can also support tax compliance and prevent financial fraud and social-transfer misuse.

South Africa's recent removal from the FATF gray list marks an important milestone. This notable achievement reflects the significant progress made by the authorities to strengthen the AML/CFT framework by improving risk-based supervision of financial and non-financial sectors, establishing beneficial ownership registries for legal persons and legal arrangements, and collaborating across domestic and international agencies to investigate and prosecute complex money-laundering activities. The authorities are encouraged to continue to sustain these efforts.

Structural Reforms

The authorities have advanced structural reforms, albeit at a pace not yet commensurate with the economy's needs to generate sustainable growth and jobs. Notable progress has been made under Operation Vulindlela to increase electricity generation, including from renewable sources, and allow for private-sector participation in freight rail and ports. New planned reforms aimed at improving local-government service delivery and governance, promoting digital public infrastructure, and addressing spatial disparities are also welcome. However, much remains to be done to fully implement these reforms and permanently lift growth to a level consistent with higher standards of living for all.

With fiscal space and state capacity limited, the private sector will need to drive job creation and growth over the medium run. The current state-led development model appears to have reached its limits in addressing South Africa's low productivity, high unemployment, and widespread poverty and inequality. Moreover, the strained public finances constrain the ability of the government to support growth through public resources. Thus, unlocking the potential of the private sector through more ambitious structural reforms remains the only viable option to not only boost productivity and employment but also generate the sustained growth needed to achieve South Africa's social objectives.

The priority remains to swiftly implement ongoing electricity and logistics reforms allowing for competition through increased private-sector participation. Adequate and cost-effective electricity, railways, and ports are essential to support productive activity in all sectors and boost exports. In the electricity sector, efforts should focus on expediting the operationalization of the wholesale electricity market and ensuring fair competition, fully unbundling Eskom's generation and transmission functions to ensure the latter's operational and functional independence, expanding and modernizing the transmission grid, including through accelerating independent power-transmission projects, and developing sustainable operating models for municipalities. Private-sector participation in logistics requires strengthened governing legislation and credible freight-rail access rules, standardized rail and port-concession frameworks, and the establishment of an independent transport regulator. Both Eskom and Transnet should continue to improve their operational and financial performance to reduce dependence on the state.

In addition, an ambitious package of product-market, governance, and labor-market reforms is necessary to help unlock the private sector's full job and growth potential. Staff analysis suggests that reforms closing half of South Africa's structural gap with top emerging markets on business environment and governance could boost real output by up to 9 percent, lifting growth to around 3 percent in the medium term.

- ***Business environment***: Burdensome regulations and red tape severely hinder firm—especially SME—productivity. The mission recommends reforms focused on streamlining licensing and permitting, including by establishing a national licensing framework, strengthening local authorities' licensing capacity, introducing a public inventory of permits/licenses, and simplifying procurement procedures. Reducing regulatory uncertainty, including in the mining sector, can help support investment and growth. Further strengthening the competition-policy framework can also help lower barriers to firm entry and reduce costs.

- **Governance and anti-corruption**: Sustained efforts remain necessary to address corruption and governance weaknesses. Reforms should focus on establishing an independent Office of Public Integrity and Anti-Corruption, clarifying the mandates of law-enforcement agencies and strengthening accountability, and ensuring the financial and institutional independence of the National Prosecuting Authority. Maintaining an accurate and updated beneficial-ownership database and promoting whistleblower protection are equally important. At the same time, implementing transparent, merit-based selection and appointment of SOE boards and senior public-administration officials and bolstering local governments' governance and service delivery, including for electricity and water, can help build public trust and support growth.

- **Labor market**: Complementary labor-market reforms are also needed to support job creation and reduce inequality. On the labor-supply side, addressing spatial inequality requires integrated reforms across housing policies, urban transport, and rural connectivity. Well-targeted mortgage and rental assistance programs and incentives to develop low-cost housing in high economic-activity areas, supported by zoning and building regulation reforms, will be key to support urban employment. Upgrading roads, improving public transit, and formalizing informal transport are also needed to help reduce prohibitively high commuting costs and improve access. Better tailoring active labor-market policies can also support job search and address skills mismatches. On the labor-demand side, shortening dispute-resolution procedures, further streamlining dismissal processes, and allowing for exemptions for SMEs from collective agreements will be key to allow firms to generate much needed jobs.

- **Trade:** Continuing to engage constructively on trade and enhancing trade diversification and regional integration can further help support resilience and growth. The mission supports the authorities' efforts to continue exploring export opportunities, including deeper integration under the African Continental Free Trade Area (AfCFTA) through lowering non-tariff barriers and upgrading customs systems. To minimize fiscal risks and avoid market distortions and spillovers, any support measures to sectors affected by ongoing trade disruptions and tariffs should remain targeted and temporary. IMF analysis suggests that macroeconomic gains from industrial policy are generally modest, while broader structural reforms have significantly larger and more durable effects on value added.

The IMF mission team thanks the South African authorities and all other interlocutors for their hospitality and candid exchange of views.

South Africa: Selected Economic Indicators, 2024-28

Social and Demographic Indicators

GDP		**Poverty (percent of population)**	
Nominal GDP (2024, billions of US dollars)	401	Below poverty line (3.65US$/day, 2023)	34
GDP per capita (2024, in US dollars)	6,253	Undernourishment (2022)	8
Population characteristics		**Inequality (income shares unless oth. specified)**	
Total (2024, million)	63	Highest 10 percent of population (2017)	54
Urban population (2023, percent of total)	68	Lowest 40 percent of population (2017)	5
Life expectancy at birth (2023, number of years)	66	Gini coefficient (2017)	67

Economic Indicators

Title	2024	2025	2026	2027	2028
		Proj.			
National Income and Prices					
Real GDP (annual percentage change)	0.5	1.3	1.4	1.5	1.7
CPI (annual average, annual percentage change)	4.4	3.3	3.6	3.3	3.0
Output gap (percent of potential real GDP)	-0.3	-0.1	-0.1	0.0	0.0
Money and Credit					
Broad money (annual percentage change)	6.7	5.3	5.4	4.8	4.7
Credit to the private sector (annual percentage change) 1/	4.4	5.3	5.4	4.8	4.7
Repo rate (percent, end-period) 6/	7.75	6.75	...	...	...
Labor Market					
Unemployment rate (percent of labor force, annual average)	32.6	32.6	32.5	32.4	32.3
Savings and Investment (Percent of GDP)					
Gross national saving	13.4	12.6	12.7	12.6	12.5
Investment 2/	14.1	13.5	13.8	14.0	14.2
Fiscal Position (Percent of GDP) 3/					

Overall balance	-5.8	-5.8	-4.8	-4.4	-4.1
Primary balance	-0.5	-0.5	0.5	0.9	1.1
Gross government debt 4/	76.0	77.0	77.5	78.9	80.1
Balance of Payments (Billions of U.S. dollar Unless Otherwise Indicated)					
Current account balance	-2.6	-3.9	-5.3	-7.2	-8.7
Gross reserves	65.5	72.1	72.1	72.1	72.1
in percent of GDP	16.3	16.7	15.2	14.6	14.0
in months of next year's imports	6.2	6.0	5.7	5.4	5.2
in ARA in percent, excl. CFM	96.0	95.4	91.5	88.5	86.2
in ARA in percent, incl. CFM	107.4	107.3	102.9	99.6	97.1
Total external debt (percent of GDP)	42	45	45	46	48
Exchange Rates					
Real effective exchange rate (percent change) 5/	3.9	0.8	...	...	...
Exchange rate (Rand/U.S. dollar, end-period) 6/	18.7	16.9	...	...	...
Memorandum Items					
Nominal GDP (billions of U.S. dollar)	401	432	475	494	513

Sources: Haver, National Treasury, SARB, UNU WIDER, World Bank, and IMF staff calculations.

1/ Depository institution's domestic claims on private sector in all currencies.

2/ Noisy inventories data are excluded from the investment breakdown to highlight fixed capital formation developments.

3/ Consolidated government as defined in the budget unless otherwise indicated.

4/ Covers national government, provincial governments, and social security funds.

5/ As of December 2025. A positive number represents depreciation and vice versa.

6/ Value for 2025 as of December 6, 2025.