IMF Executive Board Concludes 2024 Article IV Consultation with South Africa

FOR IMMEDIATE RELEASE

Washington, DC – **January 27, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with South Africa.

South Africa's economy has continued to face challenges in recent years. Power shortages and disruptions to rail and port operations constrained growth to 0.7 percent in 2023. Activity remained subdued in 2024, given election-related uncertainty in the first half of the year and severe droughts. Nonetheless, power generation was stabilized and, following the formation of a reform-oriented Government of National Unity in June, consumer, business, and investor confidence rebounded. Inflation moderated from 5.9 percent in 2023 to an estimated 4.5 percent in 2024, with the central bank cutting interest rates by 50 basis points in 2024. While still high, unemployment declined to an estimated 32.8 percent in 2024. Government deficits remained elevated, pushing public debt to above 75 percent of GDP by end-2024.

Looking ahead, real GDP growth is projected to accelerate to 1.5 percent in 2025, driven by recovering private consumption and investment supported by stable electricity generation. Over the medium term, annual growth is expected to reach 1.8 percent, as investment improves gradually on the back of ongoing reform efforts to address electricity and logistics bottlenecks. Inflation is projected to average 4 percent in 2025 and stabilize at the midpoint of the SARB's target range (4.5 percent) in the medium run. With fiscal deficits projected to stay elevated over the medium term, public debt is expected to continue to rise.

The outlook remains marked by high uncertainty, with the balance of risks tilted to the downside. Key downside external risks relate to a further deepening of geoeconomic fragmentation and intensification of protectionist policies, an escalation of ongoing conflicts, a deeper slowdown in main trading partners, or slower global disinflation and tightening financial conditions. Domestically, resistance to and delays in the implementation of needed reforms could add to downside risks. On the upside, faster and more ambitious reform implementation by the new government, or stronger global growth, could boost confidence and growth.

Executive Board Assessment[2]

Directors agreed with the thrust of the staff appraisal. They welcomed South Africa's new Government of National Unity and its commitment to reforms aimed at addressing long-standing challenges. While there are signs of recovery, economic activity remains subdued amid heightened global uncertainty and long-standing structural impediments.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Against this background, Directors emphasized the importance of prudent macroeconomic policies complemented by ambitious structural reforms to support macroeconomic stability and place the economy on a path toward higher, more inclusive, and greener growth.

Directors welcomed the authorities' commitment to fiscal prudence, including plans to reduce the fiscal deficit and stabilize debt. Given increased risks, most Directors called for more ambitious fiscal consolidation efforts to lower debt to more prudent levels and rebuild fiscal buffers, although a few felt that the authorities' preferred approach may be more appropriate given political economy considerations. Directors considered that an evenly paced fiscal consolidation focused on cutting inefficient spending while protecting priority social and infrastructure spending, and continuing to strengthen tax administration, can support debt sustainability while minimizing the negative impact on the economy. Most Directors agreed that introducing a prudent debt anchor supported by a fiscal rule could help underpin the adjustment and bolster credibility, although a few Directors felt that a debt ceiling could constrain flexibility. Enhancing fiscal transparency and risk management can further support the resilience of public finances.

Directors commended the South African Reserve Bank's effective monetary management, which supported a decline in inflation. Looking forward, they recommended maintaining a flexible and data-driven approach to monetary policy decisions amid ongoing uncertainties. Directors saw merit in shifting, at an opportune time, from the current inflation target band to a lower point target, which will require careful design, gradual implementation, close coordination, and appropriate communication.

Directors welcomed the authorities' efforts to safeguard financial stability, including recent banking-resolution and safety-net reforms and macro-prudential policies. They encouraged the authorities to continue to monitor risks, including those related to the sovereign-bank nexus, and to stand ready to implement prudential measures as needed. They considered that strengthened supervision, including for non-bank financial institutions, alongside continued efforts to bolster the AML/CFT framework, remain essential.

Directors commended the authorities for their structural reform efforts aimed at removing critical impediments to growth. They encouraged the new government to implement resolutely ongoing energy and logistics reforms, including by promoting private sector participation. To support higher and greener growth and job creation, particularly among the youth, while reducing inequality and poverty, Directors recommended additional reforms to enhance the business environment, bolster governance, and improve labor market flexibility, along with sustained efforts to facilitate trade and achieve climate goals.

Directors wished the authorities success during South Africa's G20 Presidency and welcomed their leadership in support of multilateral cooperation.

South Africa: Selected Economic Indicators, 2022–27

Social Indicators

GDP		**Poverty (percent of population)**	
Nominal GDP (2022, billions of US dollars)	407	Lower national poverty line (2015)	40
GDP per capita (2022, in US dollars)	6,712	Undernourishment (2019)	7
Population characteristics		**Inequality (income shares unless otherwise specified)**	
Total (2022, million)	62	Highest 10 percent of population (2015)	53
Urban population (2020, percent of total)	67	Lowest 40 percent of population (2015)	7
Life expectancy at birth (2020, number of years)	64	Gini coefficient (2015)	65

Economic Indicators

	2022	2023	2024	2025	2026	2027
				Proj.		
National Income and Prices (Annual Percentage Change Unless Otherwise Indicated)						
Real GDP	1.9	0.7	0.8	1.5	1.6	1.7
Domestic demand	3.9	0.8	0.4	1.5	1.6	1.8
Private Consumption	2.5	0.7	1.2	1.4	1.5	1.6
Government Consumption	0.6	1.9	1.0	1.0	1.2	1.3
Gross Fixed Investment	4.8	3.9	-3.4	2.5	2.7	3.1
Inventory Investment (contribution to growth)	1.5	-0.6	0.0	0.0	0.0	0.0
Net export (contribution to growth)	-2.1	-0.1	0.4	0.1	-0.1	-0.1
Real GDP per capita 1/	1.1	-0.8	-0.7	0.1	0.1	0.2
GDP deflator	5.0	4.8	4.4	4.1	4.5	4.5
CPI (annual average)	6.9	5.9	4.5	4.0	4.5	4.5
CPI (end of period)	7.4	5.5	3.0	4.5	4.5	4.5
Labor Market (Annual Percentage Change Unless Otherwise Indicated)						
Unemployment rate (percent of labor force, annual average)	33.5	33.1	32.8	32.7	32.5	32.3
Unit labor costs (formal nonagricultural)	2.1	-0.8	-0.7	0.1	0.1	0.2
Savings and Investment (Percent of GDP)						
Gross national saving	15.0	13.9	13.2	12.9	13.0	13.0
Investment (including inventories) 2/	15.4	15.5	14.5	14.6	14.8	15.0
Fiscal Position (Percent of GDP Unless Otherwise Indicated) 3/						
Revenue, including grants 4/	27.6	26.8	26.8	26.8	26.9	26.9
Expenditure and net lending	31.9	32.7	32.9	33.3	32.6	32.3
Overall balance	-4.3	-5.9	-6.1	-6.6	-5.8	-5.4
Primary balance	0.3	-0.9	-0.7	-1.0	-0.1	0.4
Gross government debt 5/	70.8	73.4	75.7	78.3	80.1	81.7
Government bond yield (10-year and over, percent)	10.7	11.6	11.2	...	...	...
Money and Credit (Annual Percentage Change Unless Otherwise Indicated)						
Broad money	8.3	7.9	5.2	5.7	6.2	6.3
Credit to the private sector 6/	8.2	4.1	5.0	5.6	6.2	6.3
Repo rate (percent, end-period)	7.0	8.25	7.75	...	...	...
3-month Treasury bill interest rate (percent)	5.2	8.0	8.3	...	...	...
Private sector credit growth (total) 7/	9.2	4.8	4.3	...	...	...
Credit growth (households) 8/	7.7	4.4	3.1	...	...	...
Credit growth (corporates) 8/	10.7	5.2	6.4	...	...	...
Balance of Payments (Annual Percentage Change Unless Otherwise Indicated)						
Current account balance (billions of U.S. dollars)	-1.8	-6.1	-5.3	-7.3	-7.8	-8.9
percent of GDP	-0.5	-1.6	-1.3	-1.7	-1.8	-2.0
Exports growth (volume)	7.4	3.5	-4.0	2.7	2.8	2.9
Imports growth (volume)	14.9	4.1	-4.9	2.2	3.0	3.2
Terms of trade	-8.6	-4.8	1.7	-1.7	-0.3	0.0
Overall balance (percent of GDP)	0.0	0.5	0.8	0.0	0.0	0.0
Gross reserves (billions of U.S. dollars)	60.6	62.5	65.9	65.9	65.9	65.9
in percent of ARA	88.9	97.0	97.1	...	...	...
Total external debt (percent of GDP)	40.4	41.5	43.2	44.7	45.1	45.6
Nominal effective exchange rate (period average)	16.6	18.8	18.6	...	...	...
Real effective exchange rate (period average)	6.8	7.7	7.5	...	...	...
Exchange rate (Rand/U.S. dollar, end-period)	17.0	18.5	18.7	...	...	...

Sources: Bloomberg, Haver, National Treasury South Africa, SARB, World Bank, and IMF staff calculations.

1/ Per-capita GDP figures are computed using STATS SA mid-year population estimates.
2/ Inventories data are volatile and excluded from the investment breakdown to help clarify fixed capital formation developments.
3/ Consolidated government as defined in the budget unless otherwise indicated.
4/ Revenue excludes "transactions in assets and liabilities" classified as part of revenue in budget documents. This item represents proceeds from the sales of assets, realized valuation gains from holding of foreign currency deposits, and other conceptually similar items, which are not classified as revenue by the IMF's Government Finance Statistics Manual 2014.
5/ Central government.
6/ Depository institution's domestic claims on private sector in all currencies.
7/ Credit extended by all monetary institutions/ Claims on the domestic private sector/ Total loans & advances. Data for 2024 is as of November.
8/ Data for 2024 is as of August.

INTERNATIONAL MONETARY FUND

SOUTH AFRICA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

January 7, 2025

KEY ISSUES

Context. A new Government of National Unity (GNU) has been in place since June 2024, which the markets have welcomed. The GNU faces difficult challenges: declining GDP per capita, high unemployment, poverty and inequality, and rising public debt and debt service, which crowd out other urgent spending needs. Its fresh mandate represents an opportunity to pursue ambitious reforms to safeguard macroeconomic stability and address these challenges, placing the economy on a path toward higher, more inclusive, and greener growth.

Outlook and Risks. Real output growth, estimated at 0.8 percent in 2024, is expected to accelerate to 1.5 percent in 2025 on the back of improved electricity generation, monetary policy easing, and a return of investor and consumer confidence post elections. Growth is projected to reach 1.8 percent by the end of the decade, supported by ongoing electricity and logistics reforms, while inflation stabilizes around the midpoint of the central bank's target range. With fiscal deficits moderating but still elevated over the medium term, public debt is projected to continue to rise under the baseline scenario. The outlook critically depends on the ability of the GNU to fully implement much needed structural and fiscal reforms: ambitious actions could further boost growth and reduce public debt, while delays in the implementation of reforms would weigh on growth and the public finances. Risks are tilted to the downside, related to a possible intensification of geoeconomic fragmentation and protectionist policies in the context of an uncertain global environment.

Policy Recommendations:

- **Safeguarding Fiscal Sustainability.** While the GNU has committed to reducing fiscal deficits and stabilizing public debt, a more-ambitious-than-envisaged fiscal consolidation is needed to put debt on a firmly downward path and rebuild fiscal buffers. Durable reforms aiming at improving the efficiency of public spending will be essential in this regard. A fiscal rule, anchored in a prudent debt ceiling, could help underpin the adjustment and support policy credibility.

- **Monetary Policy Normalization.** With inflation declining, the central bank has started to lower the policy rate and should continue to manage its normalization toward the neutral level in a flexible and data-driven manner. Transitioning from a target band to a lower point target with a well-calibrated tolerance band at an appropriate time can help strengthen macroeconomic stability. Close coordination among policymakers and clear communication will be key to minimize costs and help anchor inflation expectations.

- **Safeguarding Financial Stability.** Ongoing banking-resolution and safety-net reforms, together with macro-prudential measures to bolster capital buffers, are welcome. Continued monitoring of risks, including related to the bank-sovereign nexus, together with enhanced supervision, are essential to maintain financial stability. Efforts should continue toward strengthening the AML/CFT framework and enabling exit from the Financial Action Task Force (FATF) grey list in 2025.

- **Bolstering sustainable, inclusive, and green growth.** Ongoing electricity and logistics reforms aiming at alleviating critical supply constraints are welcome and should be ambitiously implemented. Additional well-sequenced business-environment, governance, and labor-market reforms aiming at closing structural gaps relative to peers can help support investment and job creation, particularly in SMEs, generating substantial output gains and helping reduce inequality. Meeting South Africa’s climate goals requires further efforts to increase effective carbon taxation and accelerate the rollout of renewable energy. Adequate communication, targeted support to vulnerable groups to mitigate near-term costs, and strengthened institutions, are key to increase the social acceptability of reforms.

Approved By
Andrea Richter Hume (AFR) and Anna Ilyina (SPR)

An IMF team comprising Delia Velculescu (head, AFR), Tidiane Kinda (Senior Resident Representative), Jana Bricco, Kamil Dybczak, Taehoon Kim (all AFR), Asma Khalid (FAD), Mario Mansilla (MCM), Oliver Exton, Neil Shenai (SPR), and Nasha Mavee (local economist) held discussions with Finance Minister Godongwana, Governor Kganyago, and officials in the Presidency, National Treasury, the South African Reserve Bank (SARB), the South African Revenue Service (SARS), Ministry of Labor, Ministry of Trade, and representatives of Eskom, Transnet, private banks, labor unions, and academia during November 11–25, 2024 in Pretoria, Johannesburg and Cape Town. Vuyelwa Vumendlini and Linda Motsumi (OED) attended the discussions. Lixue Chen, Emma Eiermann, Ankita Goel (AFR), and Hermine Ilunga (local office) provided research support. Erick Trejo Guevara (AFR) and Sandra du Plessis (local office) supported the preparation of the report and mission.

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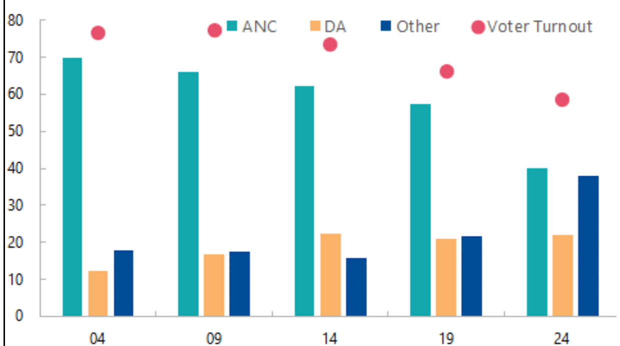
TABLES

ANNEXES

A NEW POLITICAL DAWN

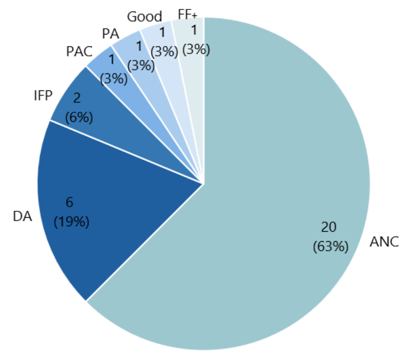
1. **A government of national unity (GNU) took office in June 2024.** With the long-ruling African National Congress (ANC) party securing 40.2 percent of the vote (down from 57.5 percent in the 2019 elections), an historic alliance has been formed with the main opposition party, the Democratic Alliance (DA), and eight other parties. This represents only the second coalition government since the democratic elections in 1994. President Cyril Ramaphosa was reelected, and the Cabinet was expanded and reconfigured, with the ANC holding 20 out of 32 ministerial positions (compared to unanimity pre-elections), the DA holding six, and the remainder split among other GNU parties.

Voting Results Over Last 5 National Elections in South Africa
(In percent)



Source: Electoral Commission of South Africa (IEC).

Composition of South Africa's Cabinet by Party
(Seats and in percent)



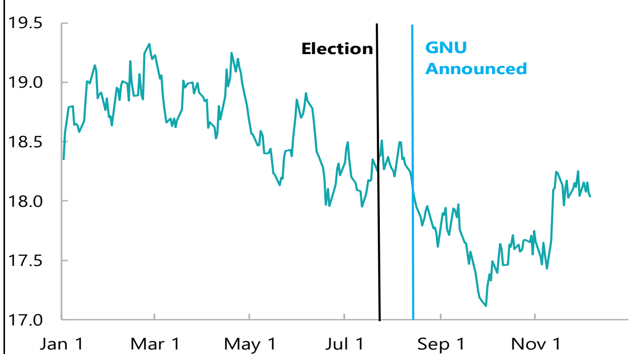
Source: Electoral Commission of South Africa (IEC).

2. **The new government faces massive long-standing challenges.** Entrenched structural rigidities, ineffective policies, and deep governance problems have led to an erosion of standards of living, with real income per capita falling for more than a decade to reach its 2007 level. At over 32 percent, unemployment is the second highest in the world (youth unemployment at 60 percent), poverty remains pervasive, and inequality tops the global charts. Life expectancy is almost a decade shorter compared to the world average. An inability to rein in fiscal spending has caused public debt to triple since the global financial crisis (an increase of 50 percentage points of GDP, one of the largest among peers). On the upside, South Africa's diversified economy, abundant mineral wealth, flexible exchange rate, credible inflation-targeting framework, deep financial markets, and ability to issue domestic-currency debt are sources of strength.

3. **Should the GNU be able to maintain cohesiveness and implement the reforms needed to address these challenges, this could represent a turning point for South Africa**. The new Cabinet has agreed on three key policy priorities: (i) driving inclusive growth and job creation by reforming the electricity, freight rail, port, and water sectors, and supporting investment in infrastructure, digitalization and the just transition to renewable energy, while stabilizing public debt; (ii) reducing poverty and tackling the high cost of living, including through support to vulnerable groups, better education and training, and reforming healthcare; and (iii) building a capable, ethical, and developmental state by professionalizing the public service, fighting corruption,

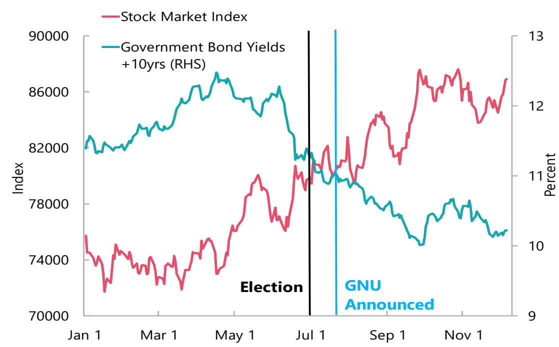
and addressing weaknesses in SOEs.[1] However, it remains to be seen whether the GNU partners can overcome their historical differences and opposition from strong vested interests and garner sufficient social support to implement the reform agenda. Indeed, past reform implementation has been mixed, reflecting strong resistance (Annex I). Moreover, international evidence is unclear on the success of multi-party coalitions: while some end up in gridlock, others can be conducive to stability and reform through coalition agreements and broad support.[2] So far, 60 percent of the population believes the GNU is working well.[3] Markets have welcomed the formation of the GNU, with the exchange rate appreciating, bond yields declining, and stock market valuations increasing.

Exchange Rate
(In Rand/USD, 2024)



Source: Haver.

Market Indicators
(Index and percent, 2024)



Source: Haver.

SOME EARLY GREEN SHOOTS EMERGING

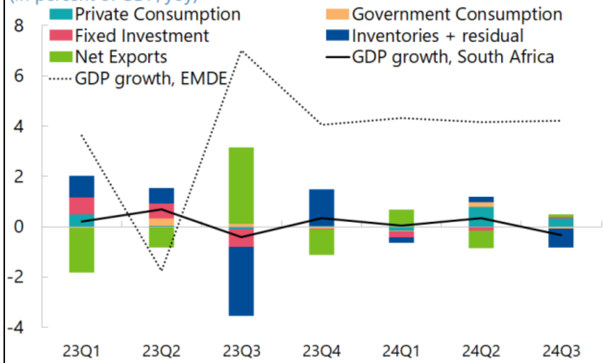
4. Economic activity has remained subdued in 2024, although some tentative signs of recovery are emerging. Power shortages and severe disruptions to rail and port operations, reflecting years of weak management and governance problems at key state-owned enterprises (SOEs), capped GDP growth at 0.7 percent in 2023. Real GDP growth remained subdued in the first three quarters of 2024, with 2024Q3 output declining by 0.3 percent (q-o-q) due to a drought-related contraction of the agriculture sector. Other sectors performed relatively better, and private consumption rebounded, reflecting improved confidence post-elections, no loadshedding since end-March, and declining interest rates. These factors are contributing to a rebound in high frequency indicators for 2024Q4, which point to improving private-sector business conditions and stronger retail trade and consumer confidence.

[1] See Opening of Parliament Address by President Cyril Ramaphosa (2024).

[2] See "Coalition Agreements and Governments' Policy-Making Productivity", Bergman et al. (2024) "Cabinet Formation and Coalition Governance: The Effect of Portfolio Allocation on Coalition Agreements," Krauss and Kluever (2022).

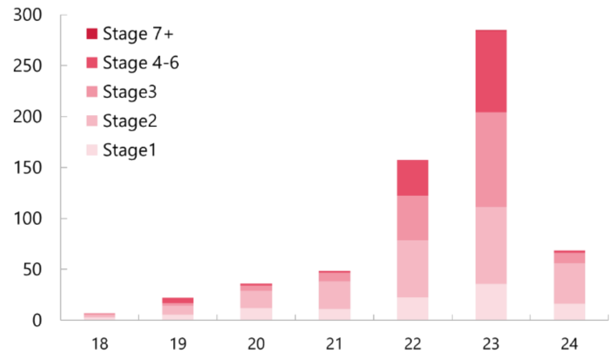
[3] According to a Social Research Foundation (SRF) poll conducted in October 2024.

Real GDP Growth Decomposition
(In percent of GDP, yoy)



Source: Statistics South Africa, and IMF staff calculations.

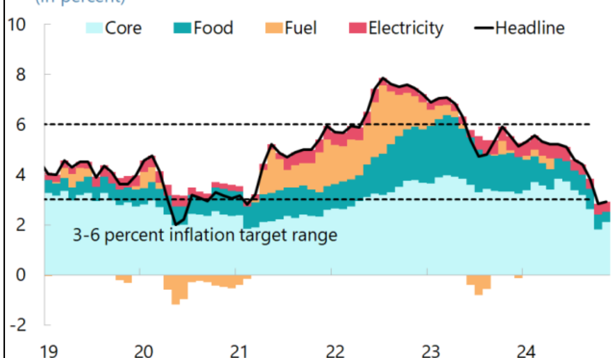
Power Outage Intensity
(Cumulative number of loadshedding days per year)



Source: Eskom.

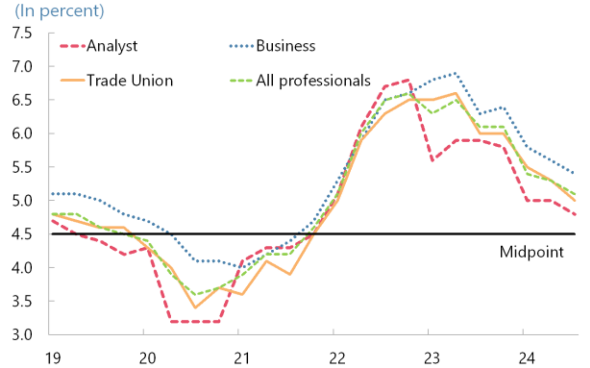
5. Inflation has fallen below the midpoint of the central bank's target range. Inflation decelerated from 5.9 percent in 2023 to an average of 4.6 percent in the first eleven months of 2024, driven by falling fuel and food prices. At 2.9 percent, the November inflation print fell below the lower bound of the SARB's target range (3 to 6 percent). Core inflation reached 3.7 percent at end-November, as prices of both goods and services softened.[4] Inflation expectations have also declined, though they remain above SARB's midpoint.

Contributions to Headline Inflation
(In percent)



Source: Statistics South Africa, and IMF staff calculations.

Current Year Inflation Expectations
(In percent)



Sources: Bureau for Economic Research, Haver, and IMF staff calculations.

6. The labor market has also improved. Unemployment declined to 32.1 percent in 2024Q3, as employment growth accelerated. However, youth unemployment remains too high (60.2 percent), and a significant share (8.1 percent) of the working-age population is classified as discouraged from work (NEET). Indeed, lack of job opportunities has been a key driver of high inequality in South Africa.[5] Average nominal wages and salaries kept pace with inflation in 2024Q3.

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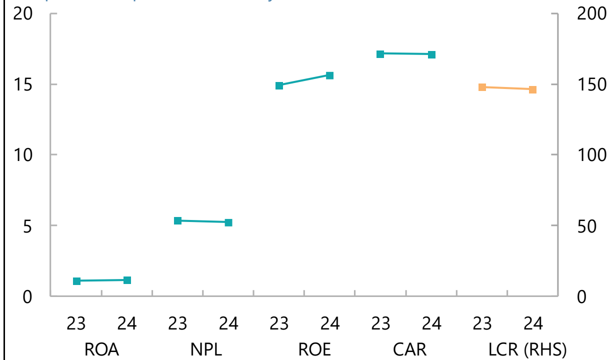
[4] SARB recently developed a "super-core" inflation measure constructed from the core inflation basket by isolating components sensitive to the output gap, which shows that inflation pressures have risen during the post-pandemic recovery, but outcomes are converging to the midpoint in recent months (Monetary Policy Review (April, 2024)).

[5] Anand, Khotari and Kumar (2016) suggest that 10 percentage points reduction in the unemployment rate could lower the Gini coefficient by 3 percentage points.

7. The financial sector has been resilient. Banks have maintained strong capitalization (capital adequacy ratio (CAR) of 17.1 percent) and liquidity (liquidity coverage ratio (LCR) of 146.3 percent). Profitability remained stable (return on equity (ROE) ratio of 15.6 percent) despite non-performing loans (NPLs) reaching 5.2 percent of total loans, above pre-pandemic levels. NPLs are covered by standard IFRS provisions. Recent stress tests by the SARB have indicated that major banks and insurers remain resilient to macroeconomic and financial shocks.[6]

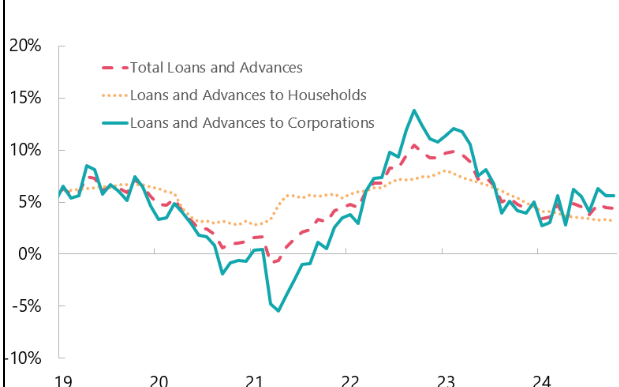
Indicators of Banks' Performance
(In percent, September of each year)



Sources: SARB, and Prudential Authority.

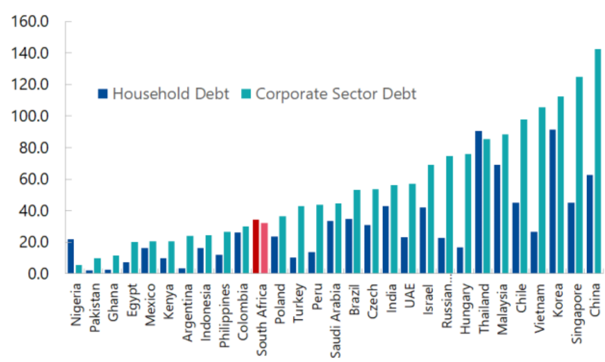
8. While non-financial sector debt remained broadly stable, debt service has increased amid elevated interest rates. Private-sector credit growth increased post pandemic (from a low base) but declined starting in 2023 due to high interest rates, reaching 4.3 percent y-o-y in November. At just below 60 percent of GDP, the credit-to-GDP ratio is estimated to be close to trend (Annex II). Household and non-financial corporate (NFC) debt has remained broadly stable at 34.2 and 32.2 percent of GDP, respectively. However, debt-service costs for households, while still manageable, have risen to 9.1 percent of disposable income, in part due to variable-rate real-estate loans. For corporates, the interest-coverage ratio, while declining to around 3.5 percent, remains above the 2 percent threshold. Residential property price growth has averaged 1.7 percent in 2024H1.

Domestic Private Sector Credit Extension
(In percent, year-on-year)



Source: Haver.

EM Household and Corporate Sector Debt
(In percent of GDP, 2024Q2)

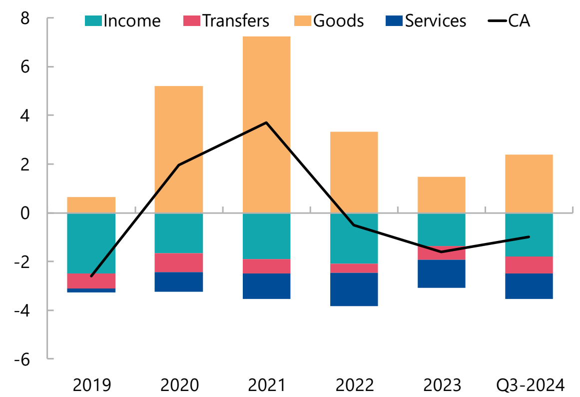


Source: Institute of International Finance.

[6] See SARB: Financial Stability Review, Second Edition Nov 2023 and SARB: Financial Stability Review, First Edition June 2024.

9. The external position in 2024 is estimated to be broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex III). The current account (CA) deficit is estimated to have modestly improved to 1.3 percent of GDP in 2024 (from 1.6 percent in 2023).[7] In the first three quarters 2024, the deficit narrowed to 1 percent of GDP, largely driven by declining imports; it is expected to widen somewhat in 2024Q4, as imports recover with stronger domestic demand. Staff estimates a CA gap of -0.4 percent of GDP relative to the fundamentals-driven norm in 2024. The financial account is estimated to have been in surplus in 2024, supported by net FDI and derivative inflows, offsetting net portfolio outflows. Gross international reserves are estimated at about 97 percent of the IMF's Assessing Reserve Adequacy metric at end-2024, sufficient to cover six months of next year's imports.

Current Account Balance Decomposition
(In percent of GDP)



Source: Haver.

10. The general government deficit widened in FY23, pushing debt up to 74.1 percent of GDP. The FY23 deficit reached 5.9 percent of GDP, 2 percentage points higher than a year ago, reflecting both lower tax revenues (largely corporate income taxes) and higher spending (mainly debt service and support to the electricity SOE Eskom). Consequently, the primary balance registered a deficit of 0.8 percent of GDP (from a surplus of 0.7 percent in FY22). Staff estimates differ from those of the authorities, which show better overall and primary balances of -4.5 and +0.6 percent of GDP, respectively, in FY23. The differences relate to the accounting of Eskom support (averaging 1 percent of GDP per year during FY24-26), which staff accounts as spending above the line, and valuation gains on sales of government assets (0.5 percent of GDP in FY23), which are classified by staff below the line, in line with international accounting standards. In November 2024, the government raised $3.5 billion through two Eurobonds (12- and 30-year maturities), the first Eurobond issuance since 2022.

RECOVERY UNDERWAY, OUTLOOK DEPENDENT ON REFORMS

11. Economic activity is projected to recover over the medium term:

- **Growth** is estimated at 0.8 percent in 2024 (with some uncertainty surrounding the final outturn, depending on agriculture and other developments) and is expected to rise to 1.5 percent in 2025, driven by recovering private consumption and investment, supported by the

[7] South Africa did not benefit from recent shifts in global trading patterns. According to the IMF's PortWatch, port calls have not increased due to re-routing of ships away from the Suez Canal, given disruptions at domestic ports.

two-pot pension reform (Box 1),[8] continued stable electricity generation, further anticipated interest-rate cuts, and normalizing credit conditions. Growth is projected to reach 1.8 percent by the end of the decade, as investment improves gradually on the back of ongoing electricity and logistics reforms (consistent with a halving of the negative growth rate of total factor productivity (TFP) experienced during 2009–2023—Annex IV).

- **Inflation** is projected to average 4.5 percent in 2024 and 4 percent in 2025 before stabilizing at SARB's midpoint of the target range in 2026 and beyond, supported by declining global oil prices and inflation expectations, and a largely closed output gap.

- **The CA deficit** is projected to widen to 1.8 percent of GDP in 2025 and stabilize at 2.5 percent over the medium term, driven by higher imports amid recovering domestic demand. The financial account surplus is projected to increase commensurately, driven by FDI and a resumption of portfolio inflows. International reserves are expected to remain adequate, covering over 4.5 months of imports in the medium run.

Baseline Macroeconomic Projections, 2023–30
(Annual Percentage Change Unless Otherwise Indicated)

	2023	2024	2025	2026	2027	2028	2029	2030
		Proj.						
Real GDP (percent)	0.7	0.8	1.5	1.6	1.7	1.7	1.8	1.8
CPI (annual average, percent)	5.9	4.5	4.0	4.5	4.5	4.5	4.5	4.5
Unemployment rate (percent)	33.1	32.8	32.7	32.5	32.3	32.0	31.7	31.3
Fiscal balance (percent of GDP)	-5.4	-6.1	-6.6	-5.8	-5.4	-5.3	-5.2	-5.1
Gross government debt (percent of GDP)	73.4	75.7	78.3	80.1	81.7	83.1	84.3	85.6
Current account balance (percent of GDP)	-1.6	-1.3	-1.8	-1.8	-2.0	-2.3	-2.4	-2.5

12. **Risks are tilted to the downside, amidst an uncertain external environment** (Annex V). A further deepening of geoeconomic fragmentation and an intensification of protectionist policies, or an escalation of ongoing conflicts, coupled with a slowdown in major economies—especially China—could lead to volatile commodity prices and lower demand for South Africa's exports. Disruptions to the global monetary policy calibration or sudden eruptions in financial market volatility could increase capital-flow and exchange-rate volatility, with implications for confidence, investment, inflation, and growth. Domestically, an inability of the coalition government to implement needed structural reforms to remove impediments to growth and fiscal reforms to stabilize public debt could weaken confidence, lead to financial market stress, increase financing costs, jeopardize electricity and logistics capacity, and erode growth. Persistent unemployment and inequality could give rise to social unrest. On the upside, faster and more ambitious domestic reform implementation or stronger global demand could boost confidence and exports, lower financing costs, and lift growth.

[8] See National Treasury: Budget Review, February 2024, section Tax Proposals, box Policy update: Two-pot retirement reforms.

13. Medium-and long-term prospects critically depend on the implementation and ambition of reforms. A reform scenario combining comprehensive structural reforms closing governance, business environment, and labor-market structural gaps relative to peers with an ambitious fiscal consolidation (as recommended by staff) could lift annual medium-term growth by around 1.2 ppt relative to the baseline (Annex IV and Selected Issues Paper "Growth Benefits of Structural Reforms in South Africa"). This can help reverse the downward trend in real per capital GDP and reduce unemployment (by about 4.5 ppt) and inequality (up to 10 ppt decline in the Gini coefficient, Annex VI). The current account improves due to higher exports, and public debt and financing costs decline on the back of credible fiscal consolidation. Conversely, in a downside scenario combining a global growth slowdown, intensified trade tensions, and financial sector volatility with stalling domestic structural reforms, growth decelerates sharply in the near term (by 1 ppt relative to the baseline) and remains subdued in the medium term (0.6 ppt below the baseline, consistent with no improvement in TFP growth relative to the 2009–23 period), with credit growth declining, fiscal deficits remaining high, debt rising, the CA worsening, and capital outflows intensifying, putting pressure on the exchange rate and inflation. This would require tighter monetary and fiscal policies to rein in inflation and public debt.

Upside Scenario

	2025	2026	2027	2028	2029	2030
	Deviation from baseline					
Real GDP (percent)	-0.1	0.8	1.0	1.1	1.2	1.2
CPI (annual average, percent)	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment rate (percent)	0.1	-0.5	-1.3	-2.3	-3.4	-4.5
Fiscal balance (percent of GDP)	1.0	3.0	3.8	4.2	4.3	4.6
Gross government debt (percent of GDP)	-1.1	-4.8	-8.7	-13.2	-17.3	-22.1
Current account balance (percent of GDP)	-0.2	0.1	0.4	0.9	1.3	1.7

Source: IMF staff calculations.

Downside Scenario

	2025	2026	2027	2028	2029	2030
	Deviation from baseline					
Real GDP (percent)	-1.2	-0.7	-0.6	-0.6	-0.6	-0.6
CPI (annual average, percent)	1.7	0.8	0.3	0.2	0.1	0.0
Unemployment rate (percent)	1.1	1.7	1.9	2.2	2.7	3.1
Fiscal balance (percent of GDP)	-0.2	-0.8	-1.0	-1.0	-0.9	-0.9
Gross government debt (percent of GDP)	1.5	2.0	3.4	4.5	5.7	6.9
Current account balance (percent of GDP)	-0.6	-0.8	-0.7	-0.7	-0.7	-0.8

Source: IMF staff calculations.

Authorities' Views

14. The authorities expected somewhat higher reform-driven medium-term growth and

saw risks as broadly balanced. The authorities considered that improving sentiment and electricity generation, supported by ongoing electricity reforms, will provide impetus to investment, leading to somewhat stronger medium-term growth than expected by staff. In the October 2024 Medium-Term Budget Policy Statement (MTBPS), The National Treasury (NT) projected growth to accelerate to 1.7 percent in 2025, rising to 1.9 percent by 2027. The SARB presented similar projections in its November macroeconomic forecast, with growth reaching 2 percent in three years. Both viewed risks as balanced, although they highlighted the high global uncertainty, particularly with respect to geopolitical tensions and global trade prospects.

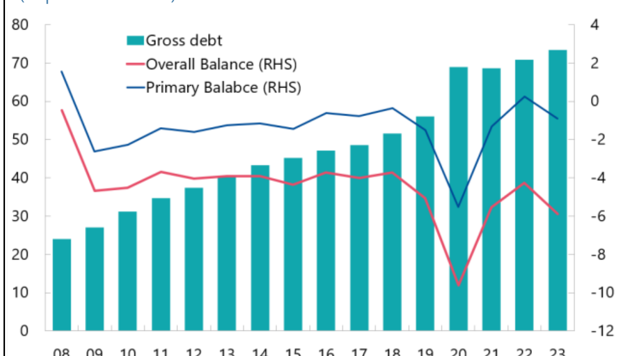
POLICIES FOR MACROECONOMIC STABILITY AND GROWTH

In the context of a nearly closed output gap, declining inflation but still elevated deficits and rising public debt, macro policies should pivot toward less restrictive monetary policy and tighter fiscal policy to rebuild buffers and strengthen debt sustainability. Improving fiscal and inflation-targeting frameworks could help support policy credibility and macroeconomic stability. Financial policies should stay vigilant and safeguard financial stability. With supply-side constraints still binding, bold structural reforms are paramount to reducing unemployment, poverty, and inequality, raising living standards, and supporting the green transition, while easing policy tradeoffs.

A. Restoring Fiscal Buffers, Debt Sustainability, and Policy Credibility

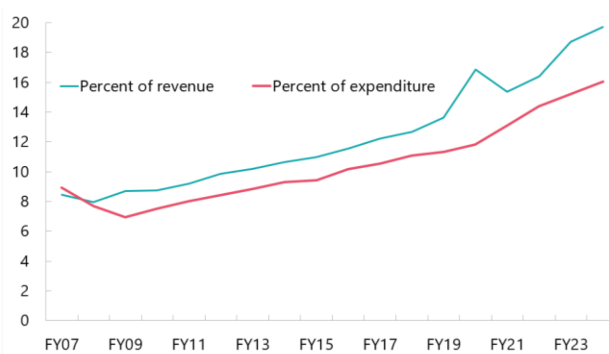
15. South Africa's public finances have deteriorated markedly over the last 15 years. Since the Global Financial Crisis (GFC), fiscal deficits have averaged over 4 percent of GDP, driven by rising wage costs, social transfers, and support to SOEs. Despite some consolidation efforts during the pre-pandemic period, including tax increases and the implementation of a spending rule, revenues underperformed expectations and public expenditure continued to rise, leading to an increase in public debt from 25 to 74 percent of GDP during FY08-23. The pandemic added further strain on the already stretched public finances. Rising debt, together with tight financing conditions and the loss of investment grade, have pushed up interest payments closed to 20 percent of revenues, squeezing other priority spending, including investment.

Public Debt and Fiscal Balance
(In percent of GDP)



Sources: National Budget Reviews, National Treasury, and IMF staff calculations.

Debt-service Cost
(In percent)



Source: National Treasury, and IMF staff calculations.

16. The October Medium-Term Budget Policy Statement (MTBPS) reaffirmed the new government's commitment to reducing fiscal deficits and stabilizing public debt. The February budget proposed a consolidation of 1.9 percent of GDP in primary-balance terms during FY23-26, on account of modest revenue measures (0.2 percent of GDP), tax buoyancy, and primary-expenditure restraint (1.5 percent of GDP) through hiring limits and other yet-to-be specified public-sector reforms, while protecting public investment. The October MTBPS revised down tax revenue forecasts for FY24-27 by 0.5 percent of GDP per year relative to the February budget, reflecting weaker-than-expected revenue performance in FY24H1. Nominal expenditure has been increased moderately in the near term (reflecting incentives for a voluntary early-retirement scheme and a support to a road public entity, among others) but remains broadly unchanged as a share of GDP compared to the budget. The primary balance is projected to improve by 1.8 percent of GDP in the MTBPS, albeit only by FY27, a year later than envisaged in the budget. Debt is expected to peak at 75.5 percent of GDP in FY25, declining to 75 percent by FY27. The authorities are using 2 percent of GDP of valuation gains on foreign-exchange reserves to reduce borrowing needs during FY24-26.[9]

17. Under staff's baseline, absent sufficiently well-specified consolidation measures, deficits are projected to stay elevated, and debt is non-stabilizing over the medium term. Staff's projections include the above-mentioned revenue measures, a modest one-off impact from the two-pot pension reform in FY24/25 (Box 1), and some expenditure restraint based on continuation of spending controls introduced in FY23 and the new early-retirement scheme. However, staff treats support to SOEs above the line, as noted earlier, and has more conservative assumptions on debt-service costs, public sector wages, and transfers, given the absence of concrete spending-reduction measures in the budget and MTBPS. As a result, the deficit is expected to reach around 6.1 percent of GDP in FY24 (staff definition), declining to 5.1 percent over the medium term. The primary balance is projected to improve to 0.5 percent of GDP by FY27 (1.6 ppt less than the authorities' projections), insufficient to stabilize debt. As a result,

Fiscal Projections by Staff and Authorities
(In percent of GDP)

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Staff								
Revenue	26.9	26.7	26.9	26.9	26.9	26.9	27.0	27.0
Expenditure	32.8	32.9	33.6	32.3	32.3	32.2	32.1	32.1
Overall Balance	-5.9	-6.1	-6.7	-5.4	-5.4	-5.3	-5.1	-5.1
Primary Balance	-0.8	-0.7	-1.0	0.3	0.5	0.5	0.6	0.6
Debt	74.1	76.0	79.2	80.2	82.2	83.3	84.6	85.8
Authorities 1/								
Revenue	27.4	26.9	27.0	27.1	27.2			
Expenditure	31.8	31.8	31.3	30.8	30.4			
Overall Balance	-4.5	-5.0	-4.3	-3.6	-3.2			
Primary Balance	0.6	0.3	1.0	1.7	2.1			
Debt	74.1	74.7	75.5	75.3	75.0			
Memo items:								
Staff Revenue (Authorities' Definition) 2/	27.4	26.9	26.9	26.9	26.9	26.9	27.0	27.0
Staff Expenditure (Authorities' Definition) 3/	31.8	32.0	32.2	32.3	32.3	32.2	32.1	32.1
Staff Overall Balance (Authorities' Definition)	-4.4	-5.1	-5.3	-5.4	-5.4	-5.3	-5.1	-5.1
Staff Primary Balance (Authorities' Definition)	0.7	0.4	0.4	0.3	0.5	0.5	0.6	0.6

Note: Consolidated general government.
1/ 2024 MTBPS.
2/ Including Transactions in Assets and Liabilities.
3/ Excluding Eskom Debt Relief.

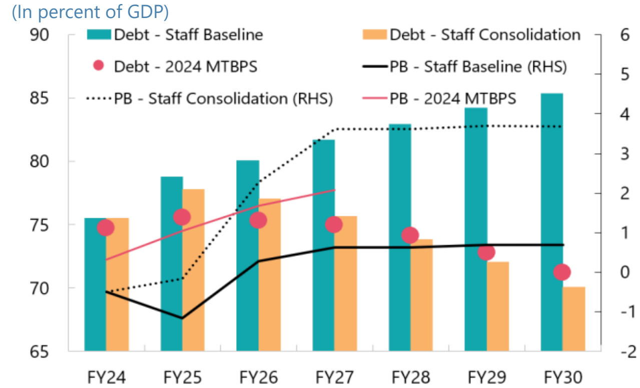
[9] See South Africa: Post-Financing Assessment: Staff Report; Box 1. GFECRA—A Short Primer and SARB: Frequently asked questions relating to GFECRA.

debt is expected to rise close to 86 percent of GDP by FY30. South Africa is assessed to have some fiscal space to provide limited support in case of large negative shocks, but such space is constrained by the large and rising public debt and sizeable contingent liabilities, underlining the need to bolster buffers through steadfast consolidation. The overall risk of debt distress is moderate: while the rising debt and high contingent liabilities represent risks, the currency and maturity composition of debt and depth of domestic capital markets are mitigating factors (Annex VII).

18. Putting public debt on a firmly downward path toward a more prudent level is essential to safeguard sustainability. Lower debt is key to bolstering the capacity to support the economy when shocks occur, helping avoid disruptive future adjustment. It is also instrumental to reducing crowding out of private investment and lowering debt service costs to make space for critical spending needs for infrastructure, education, or health, which are key to reducing inequality (Annex VI). Reducing public debt to around 60–70 percent of GDP over the next 5–10 years would be in line with most common debt ceilings for investment grade Emerging Markets (EMs) and with model-based results for South Africa (see Selected Issues Paper "South Africa's Fiscal Framework: Challenges and Options for Reform"), striking an appropriate balance between the need to finance critical needs and remaining resilient in the face of shocks.

19. A more ambitious-than-envisaged fiscal consolidation of 3 percentage points of GDP is needed to reduce debt to 60–70 percent of GDP over the next 5–10 years. Such effort is essential to durably reverse the rising debt trajectory in the context of an unfavorable interest-growth differential and rising interest payments-to-revenue ratio. The adjustment needs to strike an appropriate balance between credibly restoring debt sustainability and minimizing the negative impact on growth. A front-loaded adjustment can signal a strong commitment to fiscal discipline but carries a larger near-term output cost. Backloading, while less adverse for growth in the near term, can be perceived as less credible, adding to financing costs. Thus, staff recommends an evenly spread fiscal adjustment of 3 ppt of GDP (relative to staff's baseline) over the next three years to achieve a primary surplus of 3.5 percent of GDP by FY27.[10] This is some 1.5 percent of GDP higher than the authorities' MTBPS primary surplus target. Staff's proposed adjustment is expected to have a

Fiscal Baseline and Consolidation
(In percent of GDP)



Source: National Treasury, and IMF staff calculations.

[10] South Africa achieved primary surpluses averaging around 3.5 percent of GDP during 2005–07. Other countries that achieved primary surpluses exceeding 3.5 percent for at least five years are: Algeria (2003–08), Angola (since 2018), Republic of Congo (2003-2012), Dominica (2003–07), Gabon (2000–09), Lesotho (2002–08), New Zealand (2001–7), Russia (2004–08), Seychelles (2008-2016), etc.

modest impact on growth, given the largely closed output gap and low fiscal multipliers.[11] Tighter fiscal policy can also facilitate monetary policy easing. Maintaining the recommended primary surplus over the next 5–10 years can help reduce debt to 60–70 percent of GDP during this period. Once debt targets have been reached, the surplus can be reduced to levels consistent with debt stabilization.

20. To minimize the negative impact on output, the consolidation should be largely on the spending side. As higher spending with limited efficiency has been at the root of worsening public finances over the last decade, there is scope for rolling it back with limited impact on growth. Cutting inefficient spending and reprioritizing expenditure, including to protect vulnerable groups, if appropriately designed and communicated, can be socially more acceptable, enhance the credibility of the consolidation, and support confidence. Spending-efficiency reforms in the following areas could be considered:

- ***Public wages***: The public sector wage bill has increased by 2.2 percentage points of GDP since 2007, due to both hiring and compensation growing faster than inflation. Moreover, there is a sizeable public-sector wage premium relative to the private sector.[12] Limiting wage increases to below-inflation cost-of-living adjustments, reducing allowances and pay progression, introducing an evidence-based approach to pay-setting, and controlling public-sector workforce growth, including through early-retirement schemes, as the authorities are planning, could yield up to 2 percent of GDP in savings.

- ***SOE reform***: Support to inefficient and loss-making SOEs has cost the government an estimated 5 percent of GDP since 2008.[13] Reducing SOE operating costs, including by rationalizing wages and staffing, tackling waste, divesting non-core assets, and streamlining operations to focus on core mandates could generate savings of up to 1.5 percent of GDP.[14] Strict conditions for government support to SOEs, as done for Eskom, can help enhance their financial accountability, reducing fiscal risks.

- ***Procurement*****:** The fragmented procurement system has resulted in uncompetitive and unfair practices, improper selection of procurement methods, and low value for public money. A new Procurement Bill has been recently adopted, introducing a single public-procurement framework across all levels of government aiming to enhance accountability and reduce opportunities for corruption. Implementing regulations (including for beneficial ownership), establishing more efficient and transparent procedures, appeals and monitoring mechanisms, along with

[11] Staff estimates the impact of an expenditure-based consolidation of 1 percent of GDP per year at around 0.2 percentage points based on multipliers of around 0.2 percent as documented in the literature. See Fiscal multipliers in South Africa after the global financial," Janse van Rensburg et al. (2021) and "Time-varying fiscal multipliers for South Africa," Rand et al. (2023).

[12] See "Macroeconomic risks after a decade of microeconomic turbulence, South Africa 2007–2020, Hausmann et al. (2022) and "Labor Market Reform Options to Boost Employment in South Africa," Duval and Shibata (2021) .

[13] See National Treasury (2024): Macroeconomic Policy: A Review of Trends and Choices.

[14] See "The Role of SOEs in South Africa: Issues and Policy Options," IMF (2022) Selected Issues Paper South Africa.

implementing the Electronic Government Procurement (e-GP) Strategy will be key to achieve the reform's goals and could yield up to 1–3 percent of GDP in savings.[15] Ongoing efforts should continue to enhance coverage and compliance of the recently established Beneficial Information register.

- ***Subsidies*:** Better targeting subsidies toward vulnerable households could yield up to 0.5 percent of GDP in savings. One example is the growing allocation of resources to tertiary education subsidies, which largely benefit better-off students and crowd out crucial spending on basic education.

- ***Other reforms*:** Financing in a budget-neutral way additional public investment, including to support the green transition and other initiatives such as transforming the SRD grant into a permanent basic income or implementing the newly legislated National Health Insurance (NHI) system[16] would require full implementation of the above reforms, together with potential additional revenue measures, such as broadening tax bases by ending poorly targeted tax exemptions, further strengthening tax administration, raising other taxes to finance health insurance, or increasing the effective carbon tax (which can also help meet climate objectives).

21. Strengthening the fiscal framework by adopting a fiscal rule anchored in a debt ceiling can help support policy credibility and reinforce consolidation efforts. While the existing nominal expenditure ceiling has been generally abided by, it has proven insufficient to arrest the increase in debt, given that it is not anchored in explicit debt-reduction objectives, does not allow for downward adjustments when revenue outturns fall short of projections, and excludes certain debt-creating items (e.g. Eskom support). To bolster policy credibility and ensure that the government's decisions align with fiscal objectives, the authorities should consider an enhanced fiscal framework including the following elements: (i) a concrete debt anchor (recommended interim target of 70 percent of GDP by 2030 and 60 percent in the long run, as noted above); (ii) a credible fiscal rule, which could encompass both a strengthened expenditure rule (in line with international accounting practices) and a primary balance rule to better support convergence towards debt targets, while including well-defined escape clauses in case of large unforeseen shocks; and (iii) assigning an independent fiscal body to assess the robustness of assumptions and report on implementation (see Selected Issues Paper "South Africa's Fiscal Framework: Challenges and Options for Reform"). In the absence of such a rule, the recommended consolidation would need to be more frontloaded to safeguard credibility.

22. Enhancing fiscal transparency and risk management can further bolster the resilience of the public finances. South Africa follows many strong fiscal transparency practices (Annex VIII).[17]

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[15] See "Public Procurement in South Africa: Issues and Reform Options," IMF (2023) Selected Issues Paper South Africa.

[16] While the permanent extension of the SRD grant is already included in staff's projections, its transformation into a (potentially more generous) universal grant, as well as the NHI, which will likely take significant time to implement, are not included, given lack of details at this time, and represent downside risks.

[17] See "South Africa: Technical Assistance Report-Fiscal Transparency Evaluation" IMF (2024).

However, large public financial corporations (40 percent of public sector liabilities) are not included in fiscal statistics, information on SOE's contingent liabilities is not fully disclosed, and tax expenditures (5 percent of GDP) are poorly reported and not effectively used to inform policy discussions. Thus, enhancing the comprehensiveness, quality, comparability, and integrity of fiscal reporting remains essential. There is also a need to improve the effectiveness and transparency of the public investment management system and public investment governance practices to maximize value and reduce waste. A Public Investment Management Assessment (PIMA) could support the identification of reform needs.

Box 1. Two-Pot Pension System Reform

On September 1, 2024, the two-pot retirement system was launched, allowing all retirement-fund members to make partial withdrawals before reaching retirement. This change aims to provide flexibility in times of need by helping members in financial distress without needing to resign from their pension fund, while protecting long-term retirement funds. The new system will be applicable to all retirement funds, covering both private and public sectors.[1]

Under the new system, contributions to retirement funds are divided into a "savings component" (one-third) and a "retirement component" (two-thirds). The savings component is accessible at any time, allowing members to withdraw amounts before retirement, with a minimum withdrawal of R2,000 per year, taxed at the individual's marginal rate. The retirement component remains protected and cannot be accessed before retirement, including upon resignation.

To assist fund members who may prefer an immediate withdrawal from existing accumulated funds, an initial allocation of funds. e.g., seeding capital, was transferred to the savings component as a one-time event. The seeding capital is defined as the smaller of 10 percent of the funds' value at the end of August 2024 or R30,000. Withdrawn savings are expected to be used for either debt repayment or consumption and will be taxed at the marginal tax rate. Through mid-November, R35.1 billion has been withdrawn.

In the near term, withdrawals could have a positive, albeit temporary impact on consumption, output, and tax revenues. Staff estimates about 0.4 percentage point positive impact on growth over 2024–25 and higher tax collections by 0.2 percent of GDP during this period. In its Moderate Withdrawal scenario, the SARB projects a similar impact on growth in 2024 and 2025, respectively, and about 0.3 percent of GDP on revenue in both years. The National Treasury assumes additional revenue of up to 0.1 percent of GDP in FY24/25. However, in the long term, the new reform could result in lower retirement income and replacement rates, which could exacerbate old-age poverty and increase demand for social assistance.

[1] The system will exclude old generation or legacy retirement annuity policies, funds with no active members, and pensioners and members of provident funds above 55 years old as of March 1, 2021, who have opted out of the two-pot system.

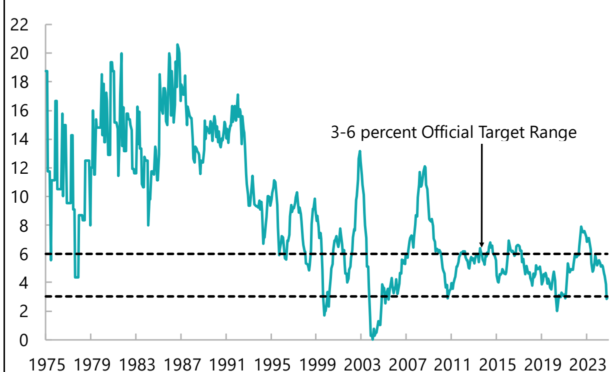
Authorities' Views

23. The authorities reaffirmed their commitment to their medium-term fiscal strategy aimed at narrowing the budget deficit and stabilizing debt. They plan to achieve their fiscal goals by controlling the public sector wage bill, including through new early-retirement incentives, providing no further financial support to SOEs, and continuing to enhance revenue administration and reduce tax non-compliance. They highlighted the importance of prioritizing public investment through upscaling the use of public-private partnerships and new arrangements that crowd in private funding for public infrastructure. The authorities consider that the current path for fiscal consolidation included in the MTBPS will achieve their fiscal objectives, including stabilizing debt, without slowing economic growth. The existing expenditure rule has been augmented with a commitment to achieve a primary fiscal surplus that is consistent with a stable debt level under the authorities' baseline. They are planning to consult widely on the matter of a fiscal anchor in the years ahead. They note the difference of opinion with staff regarding the accounting treatment of the Eskom debt-relief arrangement, which expires in FY25. They plan to continue to manage refinancing risks and interest costs, including by seeking to increase concessional financing from international financial institutions.

B. Managing the Normalization of Monetary Policy

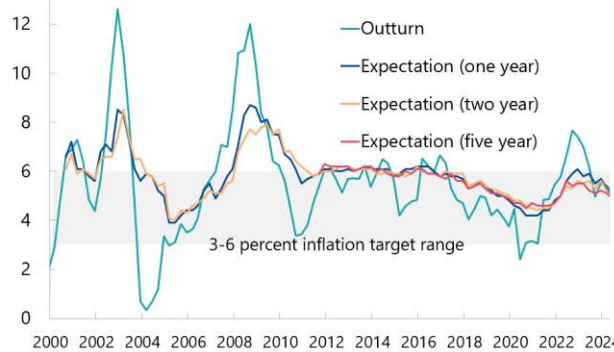
24. The inflation-targeting framework has served South Africa well, although inflation has generally been higher than that of peers. Over the past two and a half decades, the inflation-targeting framework has been a key anchor of macroeconomic stability, supported by an independent and highly transparent central bank. However, inflation expectations have generally stayed above SARB's midpoint of the target range, putting pressure on inflation, which disproportionately affects the poor.[18] Additionally, a positive inflation differential with main trading partners has put pressure on the exchange rate, further eroding purchasing power.

Headline Inflation and Official Target
(In percent)



Sources: Haver, and Statistics South Africa.

Inflation Outturn and Expectation
(In percent, year on year)



Sources: Haver, and IMF staff calculations.

25. After keeping the policy rate unchanged since July 2023, the SARB cut the repo rate by a cumulative 50 basis points in September and November 2024. With inflation hovering around the upper threshold of the target range through 2023 and early 2024, monetary policy remained on hold, corresponding to a moderately restrictive stance. Along with other factors, this helped support a gradual reduction in inflation during 2024, which fell well below the midpoint of the target range in September-November. As a result, and following the start of the easing cycle by major central banks (the European Central Bank, Bank of England, and US Fed), the SARB lowered the policy rate to 8 and 7.75 percent in September and November, respectively.

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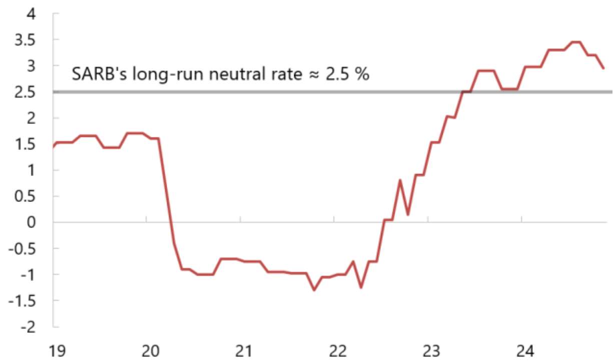
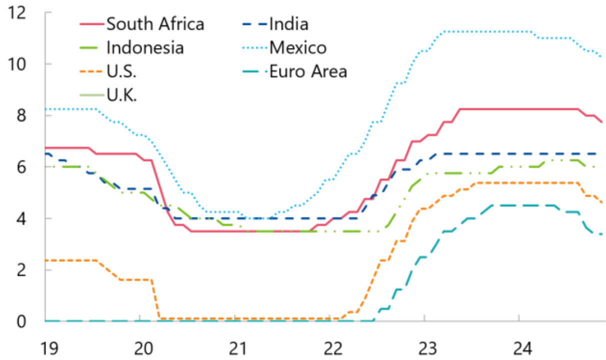
[18] See: "Inflation Expectations Anchoring Across Different Types of Agents: the Case of South Africa" Miyajima and Yetman (2018) and "The Distributional Impact of Inflation," IMF Article IV report (2018), Annex VIII.

Ex-Ante Real Policy Rate
(In percent, relative to BER 1 year-ahead constant inflation expectations)



Sources: Bureau for Economic Research, Haver, and IMF staff calculations.

Policy Rates
(In percent)

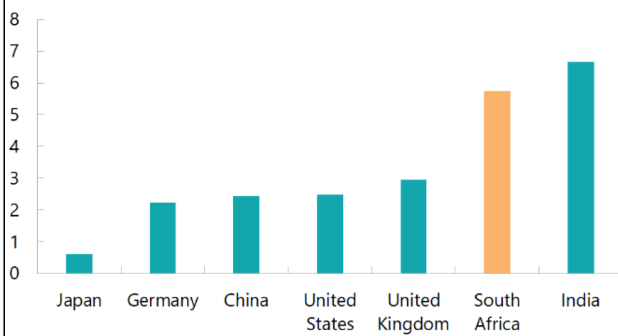


Source: Haver.

26. **Looking forward, monetary policy should continue to carefully manage the normalization of the policy rate towards its neutral level.** With the output gap nearly closed and inflation now below the lower bound of the target range, the priority is to ensure a soft landing. Provided that inflation expectations continue to decline, the nominal policy rate should be reduced gradually such that the ex-ante real rate approaches the SARB's 2.5 percent long-run neutral level. However, bumps in the road cannot be ruled out, given lingering risks to inflation, including slower-than-expected global disinflation and geopolitical tensions, as well as concerns related to domestic administered prices, wages, and food inflation. Thus, monetary policy should remain flexible and data-driven.

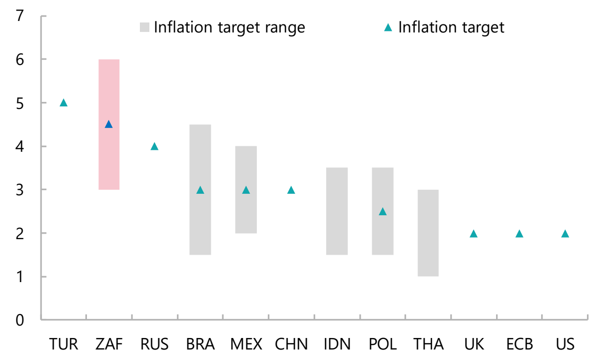
27. **Shifting from the current target band to a lower point target at an appropriate time could help support macroeconomic stability**. International experience suggests that target zones are less effective in anchoring inflation expectations than point targets. Moreover, as noted earlier, the SARB's midpoint target leads to a differential with trading partners that puts pressure on the exchange rate. Thus, moving toward a lower point target would support medium-term macroeconomic stability and confidence and reduce financing costs. However, such a change may impact output and employment negatively in the near term. Fiscal consolidation, while supporting the disinflation process, also entails near-term output costs. Thus, appropriate timing, careful design and gradual implementation are key to minimize reform costs and secure buy in. Given the volatile and shock-prone global environment, a well-calibrated tolerance band is key to allow for adequate flexibility. Careful coordination between the Treasury and the SARB and appropriate communication of policy plans will be critical to help anchor expectations (see Selected Issues Paper "Macroeconomic Effects of a Potential Change in South Africa's Inflation Target").

South Africa's Inflation Relative to Main Trading Partners
(In percent, average 2007–23)



Source: WEO.

Inflation Target Range
(In percent)



Source: Haver, and IMF staff calculations.

28. A robust policy implementation framework, strong central bank balance sheet, and transparent practices are key to supporting the effectiveness of monetary policy. The switch in SARB's Monetary Policy Implementation Framework (MPIF) from a scarce-reserve system to a tiered-floor system in 2022 has resulted in low FX-implied interest-rate differentials to the policy rate, declining surplus funds, and interbank rates closely aligned to the policy rate, supporting the monetary-policy transmission mechanism.[19] Staff assesses that the new Gold and Foreign Exchange Contingency Reserve Account (GFECRA) framework and recent distributions adequately safeguard the SARB's balance sheet and policy solvency. Nonetheless, the distributions to the Treasury should not be seen as a substitute for needed fiscal consolidation. Going forward, the SARB's balance-sheet stress-testing exercise, supported by IMF TA, should help guide potential distributions of realized gains while preserving the SARB's financial strength. The transparency of SARB's monetary-policy framework is strong, supporting the credibility of monetary policy, and the authorities are encouraged to continue to build on the progress achieved so far.[20] Finally, the 2022 safeguards assessment of the SARB found strong safeguards in most areas including in governance and oversight, audit, and financial reporting. Since then, most recommendations have been implemented.

Authorities' Views

29. The SARB remains committed to delivering low and stable inflation with well-anchored inflation expectations. Similar to staff, the SARB projects inflation to remain below 4 percent until mid-2025, stabilizing near the midpoint objective in the medium term. While risks to inflation are seen as balanced, the SARB plans to maintain a cautious approach, with monetary policy decisions remaining outlook dependent, responsive to data developments, and sensitive to the balance of risks. The central bank sees merit in moving to a lower point target to help bolster medium-term macroeconomic stability and reduce financing costs. However, the move will need to be carefully planned in cooperation with the NT and well communicated, and thus may take more

[19] For more details, see Annex VI in the 2023 Article IV Consultation Staff Report.

[20] See South Africa: IMF's Central Bank Transparency Code Review (2024).

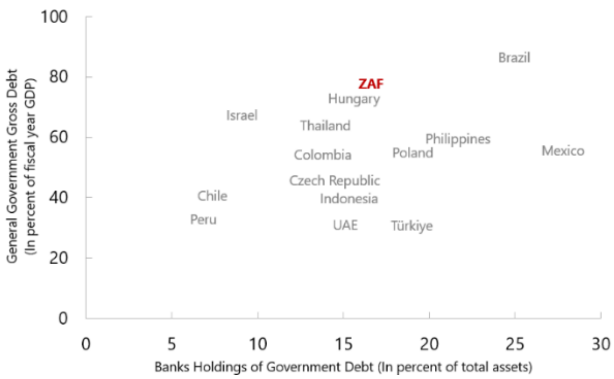
time. The SARB concurs that the MPIF is working well, agrees with the importance of ensuring that the new GFECRA framework effectively safeguards its balance sheet, and remains committed to strong transparency practices.

C. Safeguarding Financial Sector Stability

30. While the system has withstood recent shocks, risks to financial stability remain. Strong balance sheets have allowed the financial system to navigate periods of weak growth, global turbulence, and the high interest-rate environment. However, exposure of the financial sector to sovereign risks has increased, with bank claims on the public sector having risen to 16.4 percent of total assets in 2024Q3 (from 13.7 percent at end-2019); exposure is higher in smaller banks. While the size of the bank-sovereign nexus is comparable to peers, South Africa's higher public debt adds an additional layer of risk. Moreover, the post-pandemic period of high interest rates has led to elevated NPLs, concentrated in the unsecured retail segment and SMEs, which points to potential vulnerabilities to further shocks. Finally, banks' exposures to non-bank financial institutions (NBFI) through wholesale funding are among the largest globally, presenting an additional channel for risk transmission.[21]

Banks' Holdings of Government Debt and General Government Gross Debt

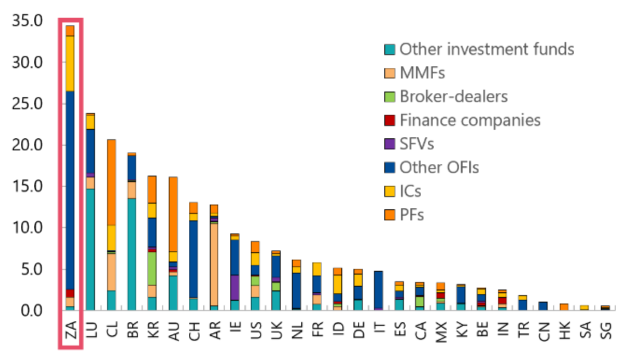
(In percent, 2024Q3 data or latest available)



Sources: WEO, Haver, and IMF staff calculations.

Banks' Use of Funding from NBFI Entities

(In percent of bank assets, end-2022 data)



Source: Financial Stability Board. Note: "Other OFIs" includes CCPs, hedge funds, trust companies, and unidentified OFIs.

31. The authorities have made significant progress enhancing the financial system's resilience to shocks, in line with their Financial Sector Assessment Program (FSAP) recommendations (Annex IX). A positive cycle-neutral countercyclical capital buffer (PCN CCyB) of one percent was announced in 2023 and is expected to be in place by end-2025. With the economy recovering, and under current solvency, liquidity, and profitability levels, banks are assessed to be able to meet this requirement without materially affecting the ongoing credit recovery. The implementation of the new banking-resolution framework is also progressing, including the new deposit insurance scheme (CODI), in place since April 2024. A new loss-absorbing capacity requirement (FLAC), enabling a more efficient use of resolution tools when needed, will become a gradual regulatory requirement for the systemically important banks during the second half of the

[21] See Financial Stability Board (December 2023).

decade, while the market for the FLAC securities develops. The authorities are also working on modernizing the payments system, including by introducing a financial digital ID, expected to reduce costs and improve financial inclusion.

32. Safeguarding financial stability warrants continued vigilance and strengthened supervision. While mitigating risks from the sovereign-financial sector nexus primarily requires fiscal consolidation and structural reforms, continuation of ongoing monitoring and stress testing can help preempt an escalation of risks. Should risks build up, authorities could also consider prudential measures as needed, taking into account potential unintended negative effects on financial institutions' balance sheets and securities markets.[22] Moreover, the authorities should continue to monitor NPLs closely. Supervising the interlinkages between banks and NBFIs and within NBFIs, enhancing NBFI reporting requirements, and adopting a risk-based and harmonized regulatory and supervisory approach can help mitigate contagion and reduce regulatory arbitrage. The SARB's plans to bolster staffing should help enhance supervisory capacity, which can be used to improve the intrusiveness of supervision, including by increasing on-site examinations.

33. The authorities should continue to strengthen their anti-money laundering and counter-financing of terrorism (AML/CFT) framework. Although the Financial Action Task Force's (FATF) "grey-listing" in February 2023 has had limited impact on financial stability, it has raised banks' administrative costs and heightened their reputational risk. Since then, the authorities have made strong progress addressing 16 out of 22 action items recommended by and agreed with the FATF.[23] Looking forward, efforts should continue to implement remaining items to enable exit from the grey list in 2025 and sustainably bolster the AML/CFT framework.[24]

Authorities' Views

34. The regulatory authorities concurred that the financial system remains resilient, although risks call for continued vigilance. In its November 2024 Financial Stability Review, the SARB concluded that the outlook for financial stability improved, although risks persist, given escalating global conflicts and deteriorating public debt, and new risks have emerged, related to increased financial distress in households and SMEs. The authorities continue to monitor risks closely, including through regular stress tests. They agree that prudent fiscal policy should be the first line of defense in addressing risks related to the sovereign-bank nexus; where needed, they prefer to address the issue on a case-by-case basis through moral suasion. They expect the benefits of the upcoming implementation of the CCyB to outweigh a potential marginal and temporary impact on credit growth. They remain committed to implementing ongoing payment-system

[22] See FSAP Technical Note on Systemic Risk Oversight and Macroprudential Policy (2022).

[23] See "Treasury on Financial Action Task Force grey listing" (October 2024).

[24] Remaining items relate to demonstrating sustained progress in the investigation and prosecution of complex money laundering and terrorist financing activities, ensuring transparency of beneficial ownership information, and taking action against unlicensed cross-border money/value transfer service providers.

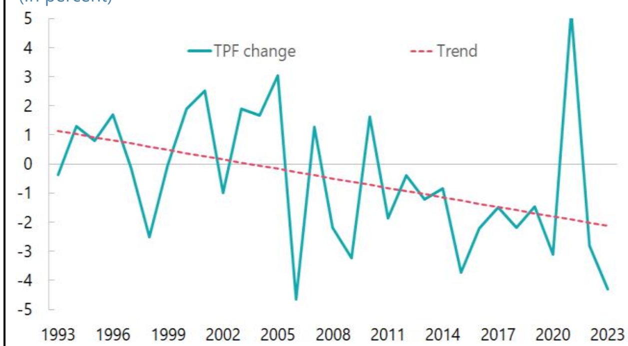
reforms to improve financial inclusion and payment efficiency, while continuing to strengthen their AML/CFT framework, including to facilitate exit from the grey list during 2025.

D. Bolstering Inclusive, Sustainable, and Green Growth

35. South Africa's growth potential has been severely constrained by longstanding structural impediments. The poor growth performance over the last 15 years—coupled with low and declining private investment, rising unemployment, and falling export-market share—cannot be fully explained by macro policies or the commodity cycle.[25] Rather, productivity growth declined markedly, with TFP growth estimated by staff to average -1.3 percent during this period (Annex IV).[26] This reflects a worsening of performance of network industries, particularly in electricity, ports, and rail, rising corruption and worsening governance during the "state capture" era, together with product-market rigidities, such as high administrative requirements and bureaucracy costs, and a rigid labor market characterized by high exclusion, skills mismatches, large spatial disparities and commuting costs, and rigid employment protection legislation and bargaining relative to peers.[27]

Total Factor Productivity Growth Trend

(In percent)



Source: Penn World Table 2023, and IMF staff calculations.

36. Structural reforms required to address these impediments would not only enhance job creation, investment, and growth but can also be instrumental in reducing inequality and poverty. With a Gini coefficient above 60 for several decades, South Africa ranks as one of the most unequal countries in the world. While redistributive fiscal measures, such as progressive income taxes and social grants, have been crucial in alleviating poverty and inequality,[28] they have been insufficient to fully address these deep-rooted problems. Structural reforms improving functioning of product and labor markets, including by providing stable electricity supply, reducing spatial disparities, or improving skills have the potential to durably improve economic opportunities for the poor by supporting job creation. Our empirical analysis suggests that such reforms can reduce inequality and poverty, lowering the Gini coefficient by up to 10 points (Annex VI).

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[25] See Hausmann et al. (2022)

[26] OECD Economic Survey: South Africa (2022) presents comparable estimates of TFP growth over 2000–19.

[27] See: Weir-Smith (2014), Hausmann et al. (2023), Kingdon and Knight (2007), Duval et al. (2021), Banerjee et al. (2007), Van Aardt (2012), Shak et al. (2022).

[28] See: Inequality in South Africa: Trends and the Role of Fiscal Policy and Inequality in Southern Africa : An Assessment of the Southern African Customs Union - Country Brief : South Africa.

37. An ongoing comprehensive reform agenda—"Operation Vulindlela"—is welcome, as it targets key sectoral bottlenecks to growth. A major electricity reform is underway, unbundling generation, transmission and distribution and allowing for private sector participation in the sector, which has helped improve generation capacity, including in renewables. In the logistics sector, freight-rail operations and infrastructure are being separated, and a policy framework for private sector participation is being developed. Significant progress has been made with the completion of the auction of high-demand spectrum, streamlining digital-telecommunications regulations and water licensing, and modernizing the eVisa system. The new government has committed to continue ongoing reforms and complement them with new measures improving local-government service delivery, promoting digital public infrastructure, and addressing spatial disparities.

Operation Vulindlela: Key Achievements

89%	Number of reforms completed or on track
R500 billion	New investment unlocked through reforms
22500 MW	Pipeline of private investment in renewable energy projects
51%	Reduction in the cost of data for a 1.5 GB bundle
90	Number of days to obtain a water use license, down from 300

Source: Operation Vulindlela Phase 1 Review, National Treasury (2024).

38. Bold implementation of the authorities' agenda, prioritizing ongoing electricity and logistics reforms, is essential to alleviate binding constrains on growth (Annex X):

- ***Electricity:*** Efforts should continue to develop the competitive wholesale electricity market (by implementing the new Electricity Regulation Amendment (ERA) Act), establish a fully independent transmission system operator, and put in place regulatory frameworks for transmission and distribution. Expanding the transmission network is essential to allow connecting new renewable energy capacity to the grid. Private-sector participation in transmission will be key and can be facilitated by advancing with planned Independent Power Transmission projects, streamlining the regulatory framework, and exploring innovative financing options to de-risk investments. Explaining the impact of these policies to the public, together with measures mitigating their negative impact on vulnerable groups, can help improve the reform's social acceptability (Annex XI). Eskom's financial viability must also be bolstered by improving operational efficiency and procurement processes, rationalizing its wage bill, and redoubling efforts to recover municipal payment arrears.

- ***Logistics:*** Ongoing reforms must be accelerated to attract private sector participation in freight rail and ports, including by establishing fully independent transport and ports regulators, finalizing without delay the legal framework for a competitive rail sector, and ensuring competitive and transparent concession processes. Transnet should bolster revenue generation through the disposal of non-core assets and by recovering volumes on strategic and profitable corridors, while rationalizing wages and strengthening security.

- ***Other ongoing reforms:*** Efforts should also continue to improve water infrastructure, including by establishing an independent regulator and ensuring strong governance of the new Water Infrastructure Agency. The authorities' initiative to digitalize the payments system and public services, including by implementing a Digital ID, is key to foster financial inclusion, increase efficiency, and enhance tax and AML/CFT compliance. Completing the eVisa reform can help address critical skills gaps.

39. In addition to ongoing reforms, appropriately sequenced business-environment, governance, and labor-market reforms can help unlock the economy's full growth potential. These reforms are essential to support entrepreneurship and SMEs, which are a key source of growth and jobs. Reforms can also alleviate policy tradeoffs by facilitating debt-reduction efforts[29] while helping support the green transition by attracting climate financing (Box 2):

- **Business-environment and governance reforms*:*** Streamlining procedures to start a business, where South Africa lags its peers, by reducing excessive red tape and administrative requirements (e.g via "silence is consent" where appropriate) can help support firm entry, investment, and employment. Bolstering competition enforcement (including by strengthening cooperation between the Competition Commission and other regulators) and ensuring that SMEs and micro enterprises have fair access to markets can also support job growth and lead to lower prices.[30] Further strengthening ongoing efforts to fight corruption and organized crime and tackle governance weaknesses is paramount to supporting activity, enhancing safety, and bolstering trust in public institutions, which in turn is essential for social buy in of reforms more broadly (Annex XI). Building on the State Capture Commission's recommendations and early legislative progress,[31] the authorities should continue to explore the most appropriate model for the anti-corruption architecture, promote whistleblower protection, further strengthen the financial and operational independence of the National Prosecuting Authority, and foster the professionalization of the public administration including by bolstering the autonomy of Public Service Commission. Legislating transparent, merit-based selection and appointment of SOE professional boards independent from public and private influence is also key to bolstering their efficiency. Staff estimate that a reform package closing 50 percent of South Africa's gap to the Emerging Market (EM) best practice frontier in governance and business regulation could boost

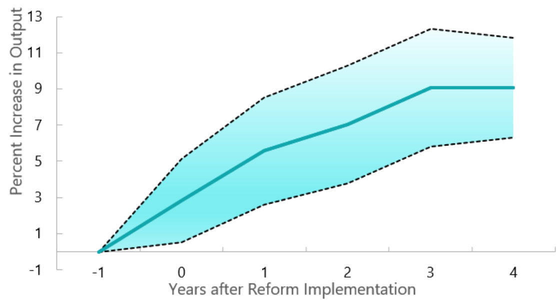
[29] See "Market Reforms and Public Debt Dynamics in Emerging Markets and Developing Economies," Aligishiev et al. (2023).

[30] See "Boosting productivity to improve living standards in South Africa," Cahu et al. (2022)

[31] The Presidency has released two progress reports on government's commitments in response to findings and recommendations of "The Judicial Commission of Inquiry into State Capture Report," Commission of Inquiry into State Capture (2022). The November 2023 progress report documents 16 legislative amendments or new laws to cover legal gaps in a wide range of areas including public procurement, national intelligence, prevention, investigation and prosecution of corruption, money laundering, etc.

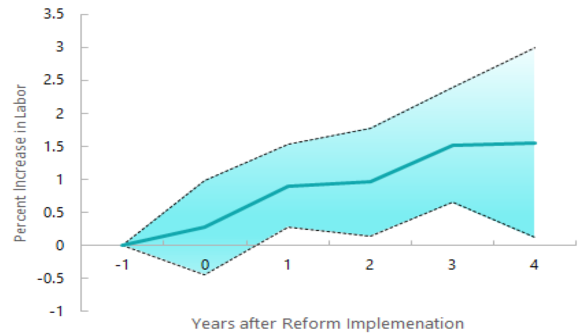
the level of output by up to 9 percent over the next 5 years (see Selected Issues Paper "Growth Benefits of Structural Reforms in South Africa").

Impact on Output Level of Closing Governance and Business Regulation Gaps
(Close output gap to EM frontier by 50%)



Source: IMF staff calculations. Note: 90% confidence intervals.

Impact of Closing Labor Market Gap on Employment
(Close output gap to EM frontier by 50%)



Source: IMF staff calculations. Note: 90% confidence intervals.

- **Labor-market reforms:** Addressing labor-market rigidities is essential to durably lower South Africa's high unemployment rate. Revisiting zoning regulations and improving public transportation can help reduce commuting costs, especially for low-wage earners. Incentivizing apprenticeships, fostering university-business partnerships, and making job search more effective and linked to benefit provision can support employment, especially for youth. While Employment Protection Legislation (EPL) provides important legal protection against discrimination, streamlining dismissal processes, shortening dispute-resolution procedures, and providing more flexibility for SMEs can help support employment. Exempting SMEs from collective-bargaining agreements could help enhance their ability to create jobs.[32] Such labor-market reforms can maximize output gains by further bolstering employment.

Prioritization of Structural Reforms

Source: IMF staff.

[32] See "Labor Market Reform Options to Boost Employment in South Africa," Duval et al. (2021).

40. Enhancing trade integration by lowering non-tariff barriers and trading costs can provide further impetus to growth. The government is committed to increasing intra-Africa trade, supported by the early 2024 agreement to implement the African Continental Free Trade Area (AfCFTA). Ongoing efforts should continue to finalize negotiations on remaining tariffs and protocols on competition, investment, and digital trade, lowering non-tariff barriers (e.g. by relaxing localization requirements and reducing import licensing procedures), and upgrading customs systems (e.g. by implementing a Single Window and the use of uniform procedures and documents, and harmonizing customs and border processes with neighboring countries) and upgrading rail and ports infrastructure, supported by ongoing logistics reforms. Such efforts could boost exports of both goods and services to other African countries by 10–24 percent in the next 5–10 years (Box 2).[33] Industrial policies should focus on well-targeted measures aimed at addressing well-defined market failures, relying on the above-mentioned horizontal structural reforms to support broader development objectives. Such policies should avoid discriminating between domestic and foreign producers to prevent distorting trade and investment decisions and mitigate the risk of retaliatory responses from trading partners.

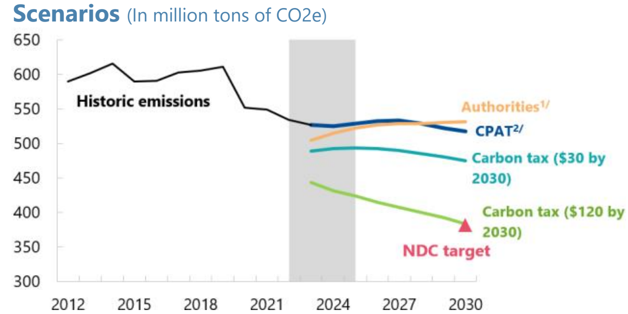
41. Given South Africa's carbon-intensive economy, the authorities are committed to reducing carbon emissions. Over the last three decades, South Africa's greenhouse gas (GHG) emissions increased by close to 30 percent, with its coal-dependent energy sector accounting for nearly 86 percent of the increase. As of 2022, its per capita carbon emissions stood at 6.7 tons per year, making it the largest emitter on the African continent, and the 16th largest in the world. A large share of carbon emissions is concentrated in the electricity sector, primarily dominated by the SOE Eskom, which relies heavily on coal for electricity generation, followed by manufacturing and mining sectors. South Africa has ratified the Paris Agreement in 2016 and committed to reduce GHG emissions by 15–30 percent by 2030 according to its 2021 Nationally Determined Contribution (NDC). This will also be important given the exposure of its exports to the EU's border carbon-adjustment mechanism (CBAM).[34] However, following the electricity crisis in 2023, the authorities delayed their plans for decommissioning of aging coal plants. Actively engaged in global climate initiatives (such as the Climate Vulnerable Forum, and the Africa Group of Negotiators on Climate Change), the authorities have committed to a Just Energy Transition (JET) toward renewable energy and secured $13.8 billion in pledges from international partners to support their efforts. However, this amount covers only a small portion of the total transition cost, estimated at $500 billion by 2050 in net present value terms.

[33] Exports could be further supported by reducing exchange rate volatility and enhancing access to and reducing costs of hedging activities (Annex XII).

[34] See World Bank index (2023).

42. With NDC targets unlikely to be achieved under current policies, stronger efforts are needed to achieve climate goals. The introduction of a carbon tax in 2019 and the 2024 Climate Change Act, empowering the government to set carbon budgets, are key elements of the authorities' mitigation strategy. However, due to multiple allowances and exemptions, effective carbon taxes (not including fuel taxes) amount to only \$0.4/tCo2, below the official rate of \$6.9/tCo2. Existing carbon pricing policies, which envisage a gradual increase in the carbon tax to \$30/tCo2 by 2030, fall well short of meeting NDC targets. Staff estimates that achieving an effective carbon tax rate of \$120/tCO2 by 2030 would be needed to lower emissions in line with NDC commitments.[35] Increasing the carbon tax would not only effectively support firm-level emissions reductions but can also minimize macroeconomic costs compared to other alternatives (Annex XIII). Other complementary measures (e.g. energy-efficiency standards) and aligning the newly established carbon budget with the country's targets can support these efforts. Given South Africa's large transition costs and limited fiscal space, significant private sector investment (supported by efforts to de-risk investments) in renewables and concessional financing will be critical to the success of the green transition. The implementation of ongoing electricity reforms, together with recommended governance, business-environment, and labor-market reforms will be key to promoting private sector participation, attracting concessional climate financing, and facilitating the green transition (Box 3). Well-targeted support to vulnerable groups and communities affected by the transition will be necessary to mitigate the distributional impact of higher carbon prices and the shift from coal to renewable sources of energy, while ensuring that the latter's benefits are broadly shared.[36]

GHG Emissions under Alternative Carbon Tax Scenarios (In million tons of CO2e)



Sources: IMF Climate Change Dashboard, UNFCCC, EDGAR, FAO and IMF staff calculations. Notes: GHG emissions exclude Land Use, Land-Use Change and Forestry. 1/ Based on South Africa's business-as-usual emissions. Carbon tax scenarios assume no tax exemptions/allowances. The NDC represents the unconditional target. For more details, see IMF Country Report 23/195, Selected Issues Paper. 2/ CPAT estimations are indicative as they are based on uniform assumptions across all countries (i.e., no new mitigation policies, 50% reduction in explicit subsidies (if applicable), energy prices based on average IMF-WB forecasts, and macroeconomic projections from the latest WEO).

Authorities' Views

43. The authorities are strongly committed to implementing their structural reform agenda in support of faster growth, job creation, and reduced inequality. They see the implementation of ongoing electricity, logistics, water, digital communications, and eVisa reforms under Operation Vulindlela as indispensable to putting the economy on a path toward higher investment and growth. In electricity, the priority is to continue restructuring Eskom, establish a competitive energy market, expand the transmission network, including by fostering private-sector participation through innovative risk-sharing mechanisms, and improving distribution. The authorities are also committed to allowing open access to the freight railway network and

[35] See "South Africa Carbon Pricing and Climate Mitigation Policy," Qu et al. (2023) for more details about the simulation.

[36] See "How Can Structural Reforms Support the Climate Ambition of South Africa" South Africa 2021 Article IV Consultation Selected Issues Paper.

completing water sector reforms. New initiatives will aim to reverse local government decline, tackle spatial disparities, and advance digital government to improve service delivery. They continue to promote global and regional trade integration, including by implementing the AfCFTA. They remain committed to a just transition to a low carbon economy at a pace and manner that can ensure energy security and adequate protection of vulnerable communities.

Technical Collaboration

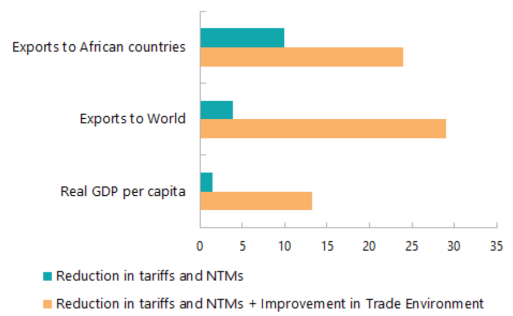
44. The technical cooperation strategy is aligned with the Fund's surveillance activities, and South Africa's technical capacity and data provision is strong (Annex XIV). Recent technical cooperation with the IMF relates to fiscal risks and frameworks, tax and revenue administration, fiscal and central bank transparency, stress testing the central bank balance sheet, capital-flow liberalization, property-price index development, and climate and fiscal statistics. Looking forward, priorities include: (i) bolstering public financial and expenditure frameworks and improving the effectiveness and transparency of the public investment management system, (ii) continuing to strengthen revenue and tax administration, (iii) strengthening supervision and national payment systems, and (iv) continuing to upgrade national accounts statistics, including to better account for emissions. These areas relate strongly to key surveillance priorities: bolstering fiscal credibility and sustainability, safeguarding financial stability, and supporting green and inclusive growth.

Box 2. Opportunities Offered by the African Continental Free Trade Area

While South Africa has relatively low tariffs, high non-tariff barriers hold back trade. South Africa has relatively low tariffs, with average applied Most Favored Nation (MFN) tariffs of 7.6 percent[1] (relative to an average of around 9 percent for WTO members). Further, the network of existing trade agreements within African implies that applied tariffs on imports from the region are already very low even prior to liberalization through the AfCFTA (Boysen, 2024). However, South Africa has high non-tariff barriers, including localization incentive programs, technical standard and import license requirements, and burdensome customs procedures (Estefania-Flores et al., 2022), which can lead to high trading costs and restrict the development of regional and global value chains.

Effects of AfCFTA on South Africa

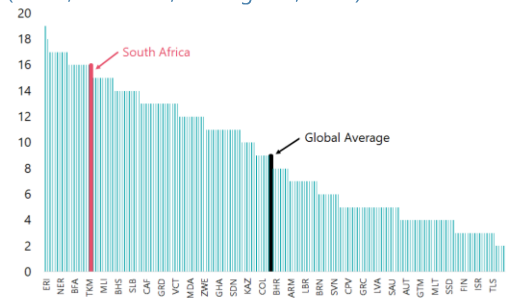
(Change in value of flows in 10 years, in percent)



Source: ElGanainy et al. (2023).

Non-Tariff Barriers for all Countries

(Index, 1=lowest, 20=highest, 2021)



Sources: Estefania-Flores et al. (2022), MATR database, and IMF staff calculations.

Full implementation of the AfCFTA offers opportunities to increase intra-African trade. South Africa began trading under the rules and preferences of the AfCFTA in January 2024. Through reducing barriers to trade, the agreement could increase South Africa's goods and services exports to the region by 10 to 24 percent (ElGanainy et al., 2023). The higher estimates can be realized if the commitments are fully implemented, addressing non-tariff barriers as well as liberalizing tariffs, and if accompanied by broader reforms that improve the trading environment. Such measures would boost economic growth, generate employment, and improve living standards, with the potential for real GDP per capita to rise by 13.2 percent.

Customs, trade facilitation and transit reforms are a priority to reduce non-tariff barriers and improve the trading environment. South Africa can become a regional hub for African value chains due to its relative economic size and high centrality in African trade. The commitments of the AfCFTA on trade facilitation, customs and transit can streamline processes and reduce administrative costs for traders, which is particularly important for complex value chains with multiple border crossings. Priority initiatives include implementing a Single Window, the use of uniform procedures and documents, and harmonizing customs and border processes with neighboring countries. These broader improvements to the trading environment would also promote trade with trading partners outside of Africa, with the potential for the AfCFTA to increase South Africa's aggregate exports by 29 percent.

Further progress in the negotiations is required to achieve the goal of the AfCFTA of creating a single market for goods and services for Africa. Whilst the AfCFTA has formally entered into force, negotiations on Phase I are still incomplete with outstanding areas in tariffs negotiations and rules of origin. Immediate priorities are the conclusion of Phase I negotiations, increased participation in the pilot Guided Trade Initiative and full implementation of the agreement amongst all members. Finalizing Phase II negotiations could promote deep integration of African economies in areas of investment, intellectual property, competition policy and digital trade. These areas will complement multilateral commitments, including preserving tariff-free access for digital imports where South Africa could particularly benefit given the high services value added in GDP.

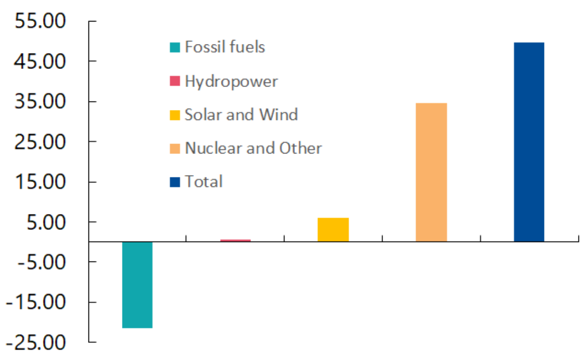
[1] WTO Tariff Profiles (2023).

Box 3. The Transition to Renewable Energy[1]

Increasing power generation from renewable energy sources has a significant potential to boost growth. South Africa's shift toward less carbon-intensive energy is expected to be largely driven by expanded investment in solar and wind technologies, the decommissioning of outdated coal plans, and the effective implementation of carbon pricing. Using the IMF-ENV model, staff estimates that investing in renewables could lift growth up by 0.2–0.4 percent annually during 2025–30, leading to a permanently higher output level by some 2–4 percent relative to the baseline.

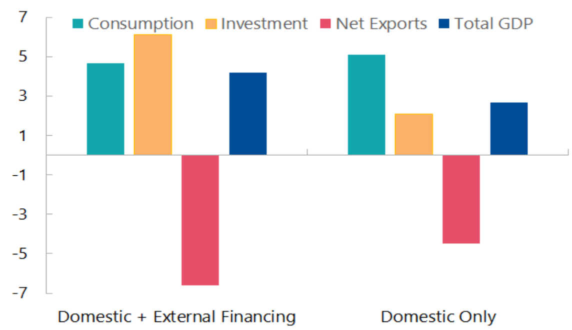
The output gains associated with the green transition would be maximized if both external and financing sources can be utilized. External financing of renewable energy projects would allow domestic funding to be redirected toward investments in other sectors, which stand to benefit from improved electricity supply, ultimately fostering broader economic growth. In this scenario, output gains are driven by a 4 percent increase in consumption and 7 percent increase in investment on the demand side. On the supply side, the structural shift towards renewable electricity boosts electricity production, supporting the manufacturing and services sectors, whose value-added increases by 1.2 and 2.4 percent, respectively, by 2030, relative to baseline. In contrast, agricultural activities experience a fall of 1 percent in value-added.

Projected Change in Electricity Generation by 2030
(TWh)



Sources: International Renewable Energy Agency, and IMF staff calculations based on IMF-ENV model.

Output Gains by 2030
(In percent of GDP)



Sources: International Renewable Energy Agency, and IMF staff calculations based on IMF-ENV model. Note: The change in government consumption (G) is fixed to baseline levels in IMF-ENV (closure rule); therefore, the change in G relative to baseline is zero.

Structural reforms are key for attracting climate financing and maximizing reform gains. Staff analysis based on data from sub-Saharan African countries suggests that a first-generation reform package—including improvements in governance, business regulations, and external sector policies—could result in a 20 percent rise in concessional climate finance and 7 percent increase in renewable electricity generation over five years, maximizing the growth gains of these reforms. In turn, the transition to renewables offers additional job opportunities, which are critical to manage the process of decarbonization and decommissioning of coal plants and have the potential to generate a virtuous cycle of employment and growth.

[1] This box was contributed by Sneha Thube and is based on "Harnessing Renewables in Sub-Saharan Africa: Barriers, Reforms, and Economic Prospects," IMF Staff Climate Note (2024).

STAFF APPRAISAL

45. South Africa's economic performance is expected to improve, with prospects dependent on the ability of the new government to address long-standing challenges. Real output growth, estimated at 0.8 percent in 2024, is projected to accelerate to 1.5 percent in 2025 and gradually rise to 1.8 percent by the end of the decade on the back of improved confidence and ongoing reform efforts to address electricity and logistics bottlenecks. However, challenges remain, given historically weak per-capita income growth, high public debt, and unacceptably high unemployment, poverty, and inequality rates. The outlook is thus dependent on the ability of the new government to implement the reforms needed to address these challenges: ambitious actions could further boost growth and reduce public debt, while delays in the implementation of reforms would weigh on growth and the public finances. Risks are tilted to the downside, related to a possible intensification of geoeconomic fragmentation and protectionist policies in the context of an uncertain global environment.

46. The new government's fresh mandate represents an historic opportunity to implement bold reforms to put the economy on a path towards higher, more inclusive, and greener growth. Well-calibrated and coordinated macroeconomic policies safeguarding debt sustainability and price and financial stability—supported by strong fiscal and inflation-targeting frameworks—are key preconditions for balanced and sustainable growth. To place the economy on a higher growth path needed to lower unemployment, poverty, and inequality and improve living standards, structural reforms are paramount. Achieving climate goals requires further efforts to reduce emissions and a faster transition to renewable energy. Adequate communication, targeted support to vulnerable groups to mitigate near-term reform costs, and strengthened institutions, are key to increase the social acceptability of reforms.

47. An ambitious fiscal consolidation is needed to reduce debt to more prudent levels. Lower debt can help bolster the capacity to support the economy when shocks occur and reduce debt servicing costs to make space for other critical spending necessary to support investment and address poverty and inequality. An evenly paced fiscal consolidation of 3 percent of GDP over the next three years, focused on reducing inefficient spending, while ensuring that vulnerable groups are protected, can strike an appropriate balance between safeguarding debt sustainability and minimizing the negative impact on the economy. A fiscal rule anchored in a prudent debt ceiling (60–70 percent in the next 5–10 years) could help support the adjustment and bolster credibility; absent such a rule, the consolidation would need to be more frontloaded to safeguard credibility.

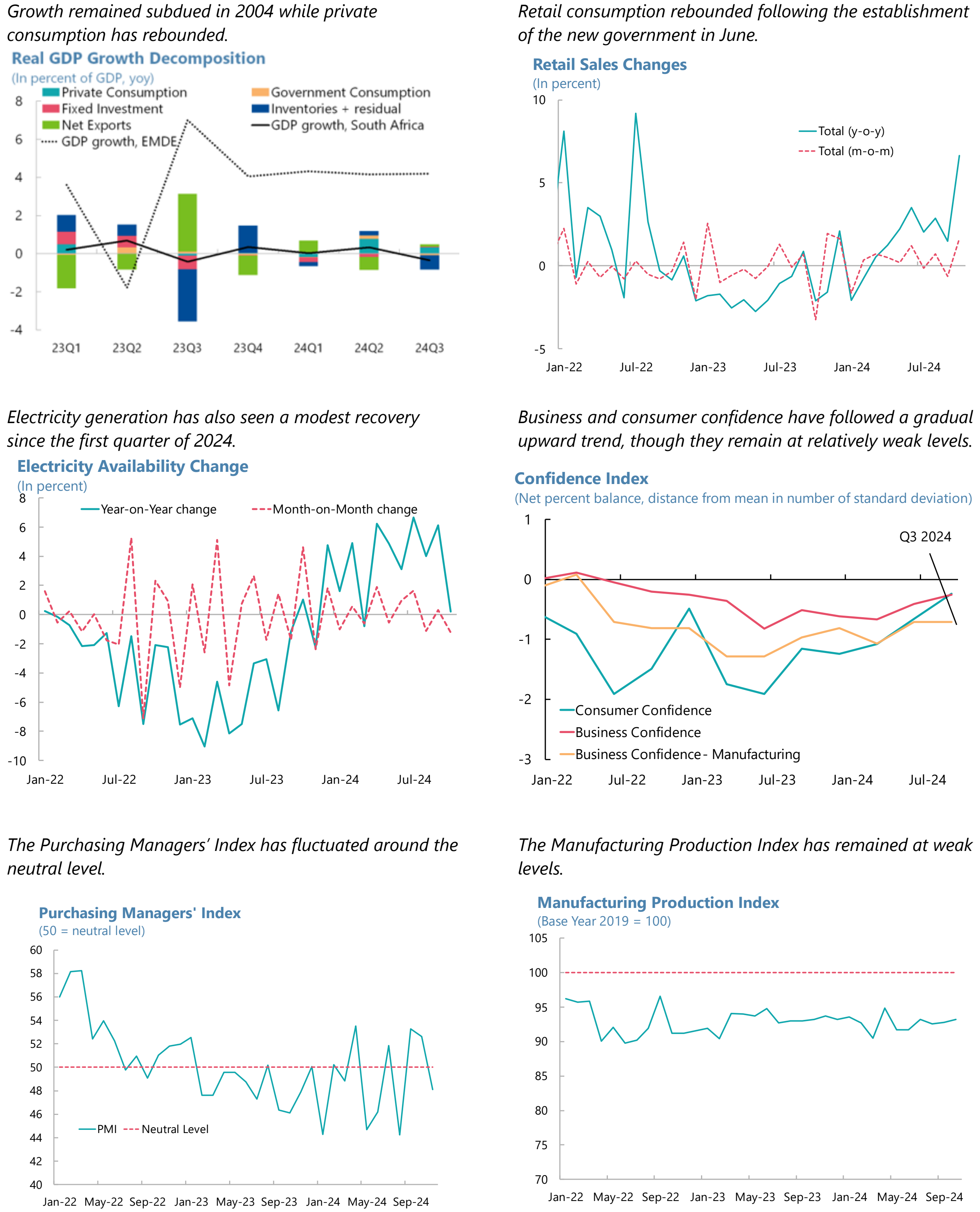
48. Monetary policy should continue to carefully manage the normalization of the policy rate toward its neutral level. With inflation having declined well below the midpoint of the target range, monetary policy has pivoted toward a less restrictive stance. Given continued uncertainty, policy should stay flexible and data-driven. Shifting at an appropriate time from a target band to a lower point target—with a well-calibrated tolerance band to account for the more uncertain external environment—could help support macroeconomic stability. Such a change requires careful design, gradual implementation, close coordination among policy makers, and appropriate communication to support credibility, minimize costs, and anchor expectations.

49. Recent efforts to safeguard financial sector stability are welcome and should continue. Ongoing banking resolution and safety-net reforms, together with the implementation of the countercyclical capital buffer and the announced new loss-absorbing capacity requirement are expected to bolster crisis management tools, depositor protection, and the financial sector's ability to deal with shocks. Continued monitoring of risks remains critical, given still elevated NPLs and risks related to the sovereign-bank nexus. Should the latter risk build up, implementation of carefully designed prudential measures could be considered. Strengthened supervision, including for NBFIs, remains key to safeguarding financial stability. Efforts should continue to strengthen the AML/CFT framework and enable exit from the "grey list."

50. Ongoing structural reforms are welcome and should be accelerated and deepened to support faster job creation, stronger investment, greener growth, and prosperity for all. Resolute implementation of ongoing electricity and logistics reforms, including by incentivizing private sector participation, remains a priority. Complementary and well-sequenced reforms improving the business environment, strengthening governance, and improving the flexibility of the labor market can not only generate additional significant growth and employment benefits, but can also help reduce inequality and poverty. Fully implementing AfCFTA commitments and reducing non-tariff barriers can further boost exports and growth. Achieving South Africa's climate goals requires increasing effective carbon taxation and accelerating the rollout of renewable energy, while supporting affected communities and vulnerable groups.

51. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. South Africa: Real Sector Developments

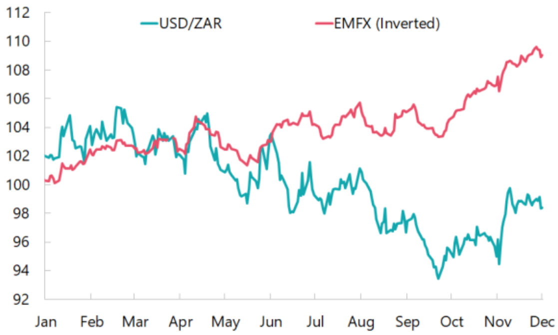


Sources: Haver, Statistics South Africa, World Bank, and IMF staff calculations.
Note: EMDE = emerging markets and development economies, WEO.

Figure 2. South Africa: Financial Market Developments

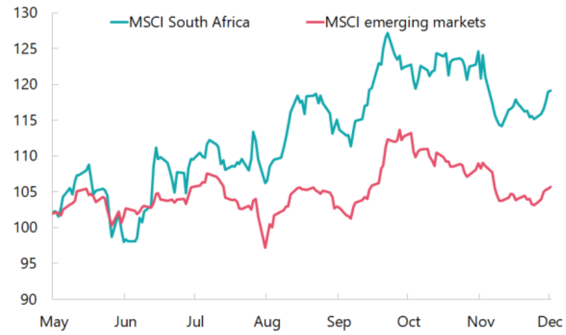
Since the election on May 29, 2024, the Rand has decoupled from EMs currency basket…

South African Rand and Emerging Market Currency
(Index, Jan 1 2024 = 100, 2024)



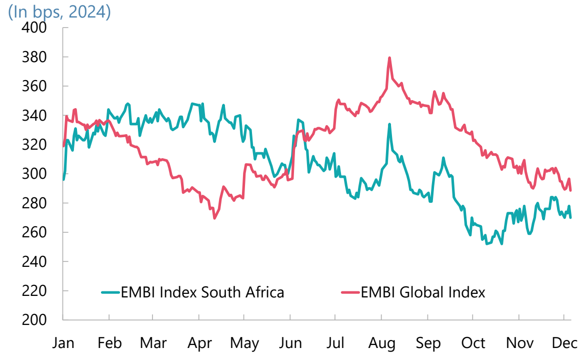
… the stock market started to decouple as well…

MSCI Equity Index
(May 1 2024 = 100, 2024)



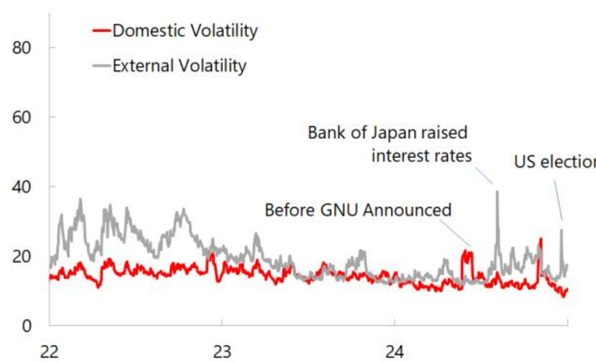
…while spreads also declined…

South Africa EMBI and EMBI Global Index
(In bps, 2024)



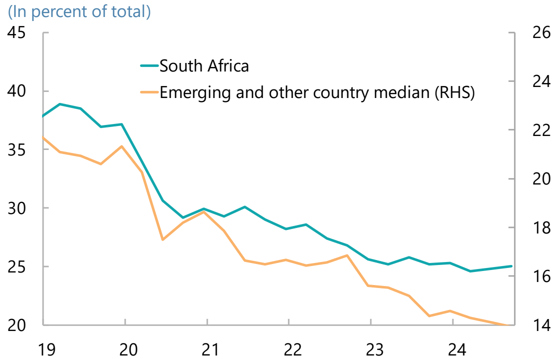
…as election uncertainty dissipated.

Indicators of Domestic and External Volatility
(In percent)



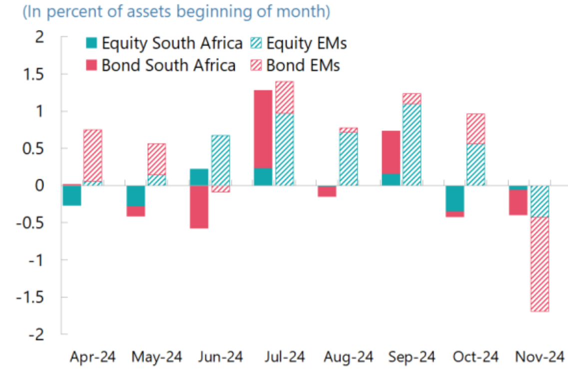
Nonresident investors holdings of local sovereign bonds seem to have stabilized in 2024.

Nonresident Holdings of Local Currency Govt. Bonds
(In percent of total)



High frequency capital flow indicators show some inflows following the election, but investors remain cautious.

EPFR: Equity and Bond Flows (ETFs/Mutual Funds)
(In percent of assets beginning of month)



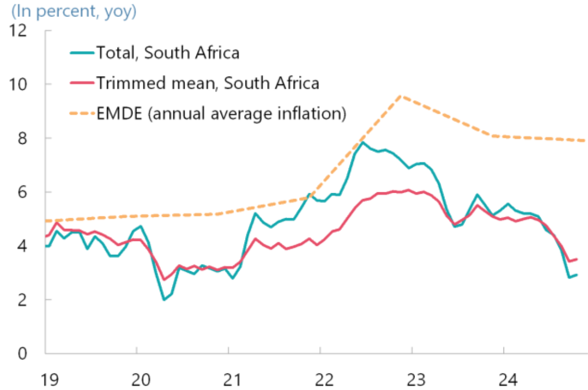
Note: Flows in October 2024 are based on the sum of weekly flows.

Sources: Bloomberg, EPFR, Haver, IIF, and IMF staff calculations.

Figure 3. South Africa: Inflation and Monetary Sector Developments

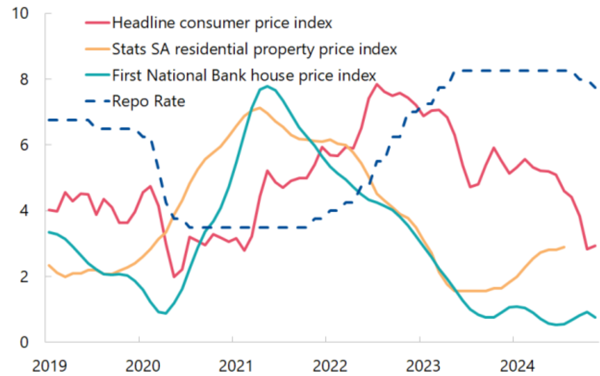
Inflation compared to other EMs and developing economies was significantly lower in past years.

Total and Trimmed Headline Inflation
(In percent, yoy)



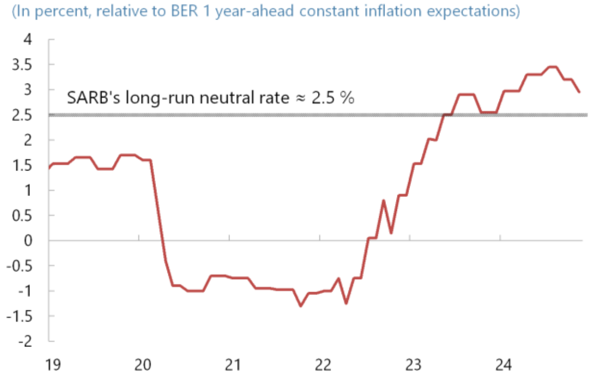
Residential property prices slowed and remained below headline inflation.

Residential Property and Consumer Prices
(In percent)



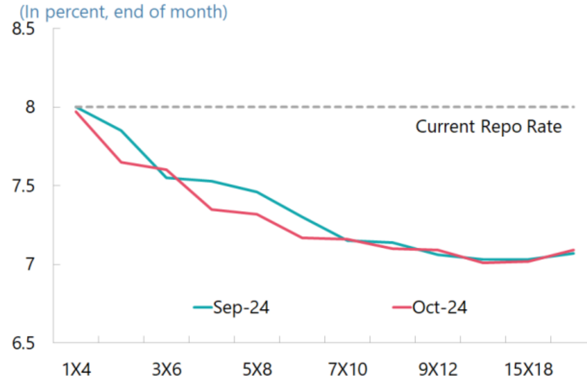
The monetary policy stance remained restrictive.

Ex-Ante Real Policy Rate
(In percent, relative to BER 1 year-ahead constant inflation expectations)



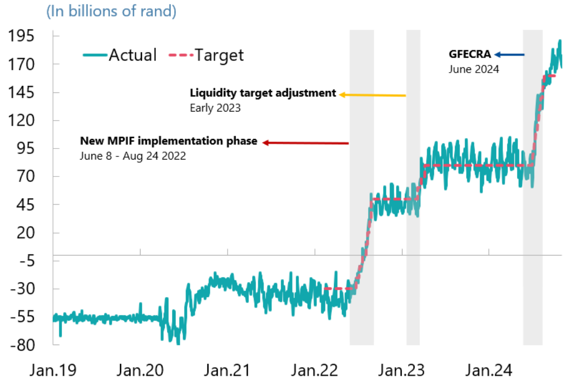
Markets expect the policy rates to ease to close to 7 percent in about nine months.

Forward Rate Agreement (FRA) Curve
(In percent, end of month)



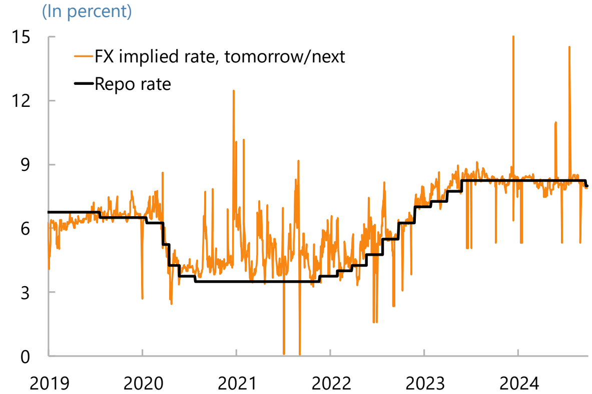
The SARB transitioned to a new monetary policy implementation framework (MPIF) in 2022; moving from a liquidity shortage to a surplus system…

Transition of Liquidity Target and Outturn
(In billions of rand)



The new MPIF improved the transmission of the policy rate and the GFECRA distribution was absorbed well.

Repo and FX-Implied Rates
(In percent)

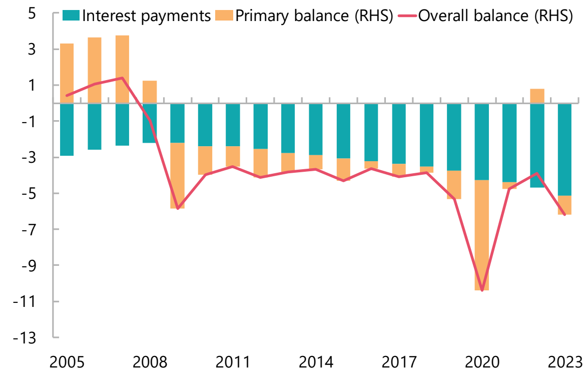


Sources: Bureau for Economic Research, Haver, National Credit Regulator, and IMF staff calculations.
Note: EMDE = emerging markets and development economies, WEO.

Figure 4. South Africa: Fiscal Sector Developments

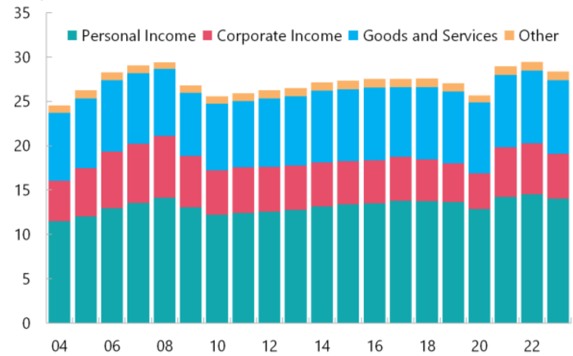
Both primary and overall balances deteriorated in FY23…

Fiscal Balance
(Percent of GDP)



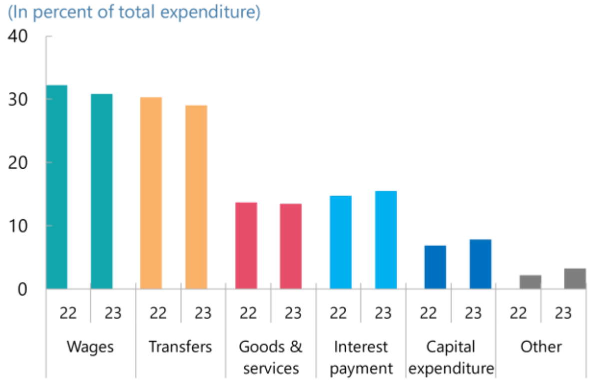
… reflecting lower tax revenue, mainly corporate income taxes…

Main Tax Revenue
(In percent of GDP)



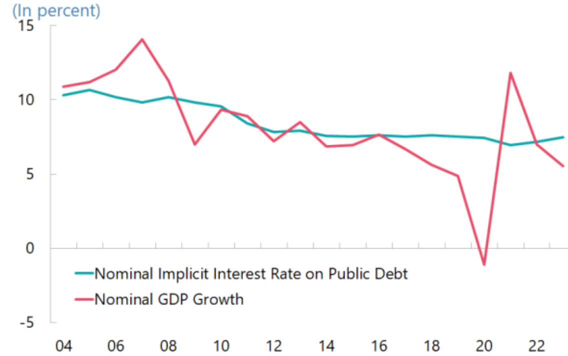
… as well as growing interest payments and support to Eskom.

Government Expenditure by Component, 2022 and 2023
(In percent of total expenditure)



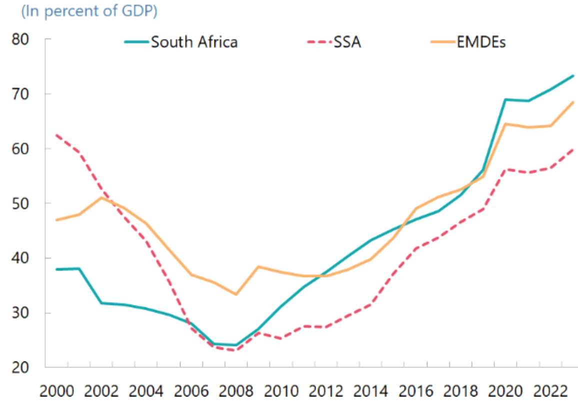
Combined with unfavorable interest rate-growth differential…

Nominal Implicit Interest Rate on Public Debt and Nominal GDP Growth
(In percent)



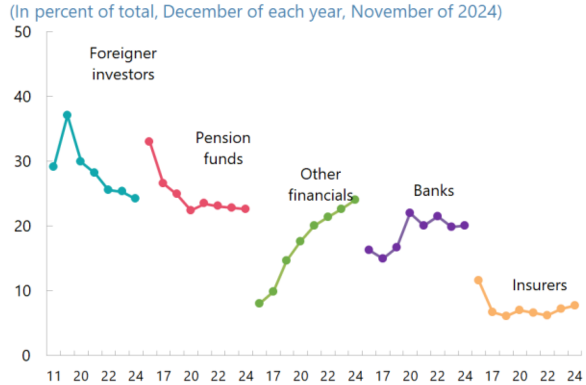
… South Africa's government debt reached a new record of 74 percent of GDP, exceeding peers' averages.

Government Debt
(In percent of GDP)



As nonresidents shed sovereign bond holdings, domestic other financials gained in importance.

Ownership of Domestic Government Bonds
(In percent of total, December of each year, November of 2024)

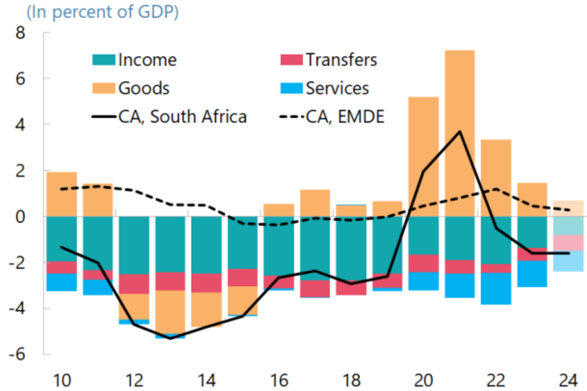


Sources: Bloomberg, Haver, IMF Fiscal Monitor, National Treasury Budget, and IMF staff calculations.

Figure 5. South Africa: External Sector Developments

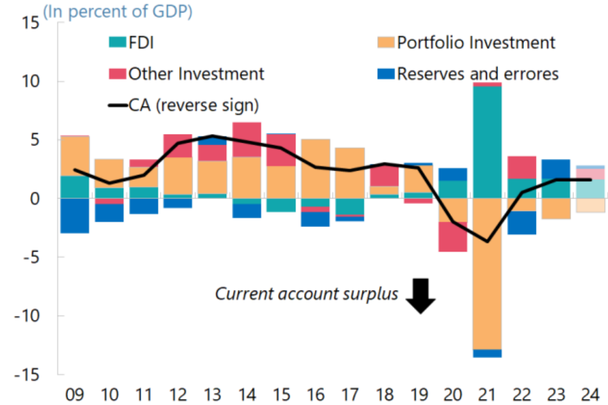
The current account (CA) is estimated to hold steady in 2024…

Current Account Balance Decomposition
(In percent of GDP)



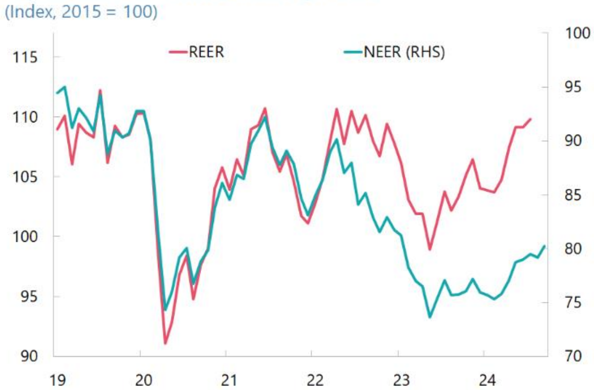
…financed by strong FDI inflows and moderating portfolio outflows.

Financial Account Components and Current Account
(In percent of GDP)



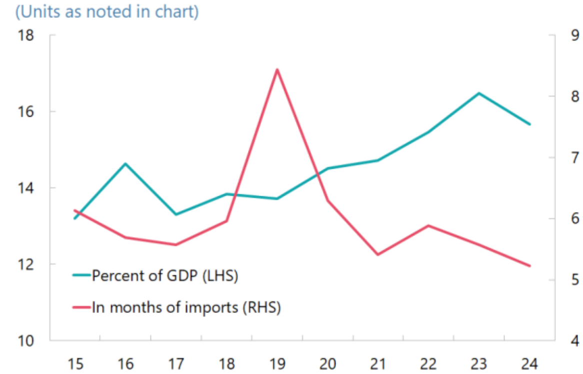
The rand appreciated in 2024 in both real and nominal terms…

South Africa Effective Exchange Rate
(Index, 2015 = 100)



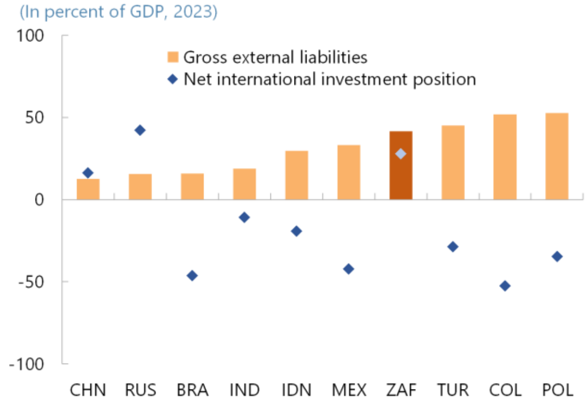
…and gross foreign exchange reserves remained adequate to cover over 5 months' worth of imports.

Gross International Reserves
(Units as noted in chart)



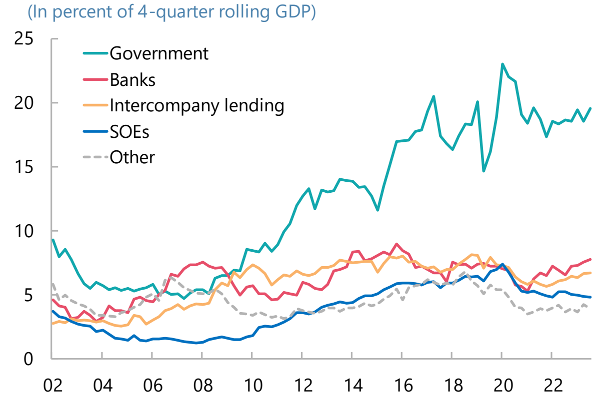
Despite sizable gross external liabilities as a percentage of GDP compared to peers, NIIP remained positive…

Gross External Liabilities and NIIP
(In percent of GDP, 2023)



…while total external debt has climbed amid steady FDI, portfolio, and other investment flows.

External Debt
(In percent of 4-quarter rolling GDP)

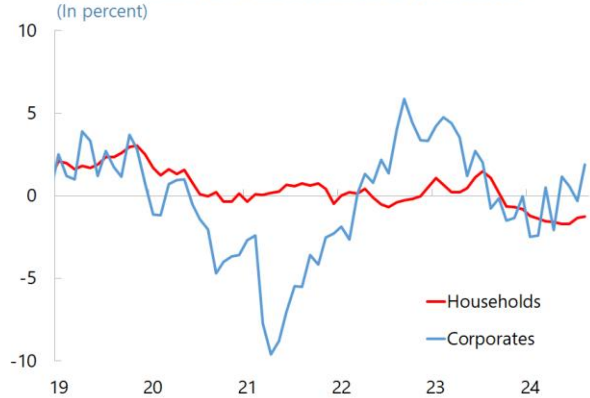


Sources: Haver, SARB, and IMF staff calculations.

Figure 6. South Africa: Credit and Financial Sector Developments

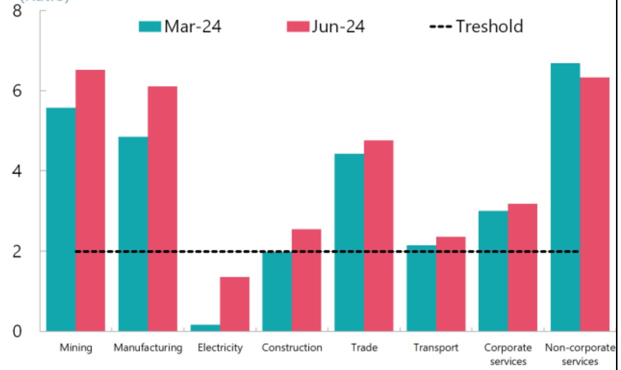
Bank lending (in real terms) to corporates is rebounding but lending to households remains subdued.

Private Sector Real Credit Growth by Borrower
(In percent)



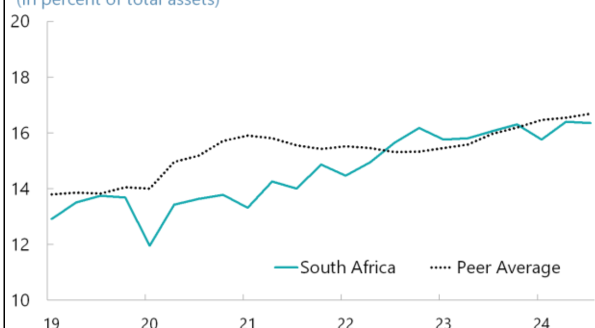
Corporate sector ICR's remain comfortably above the threshold of 2, except for electricity and transportation sectors.

Interest Coverage Ratio by Non-Financial Sectors
(Ratio)



The sovereign-bank nexus is comparable to EM's peers.

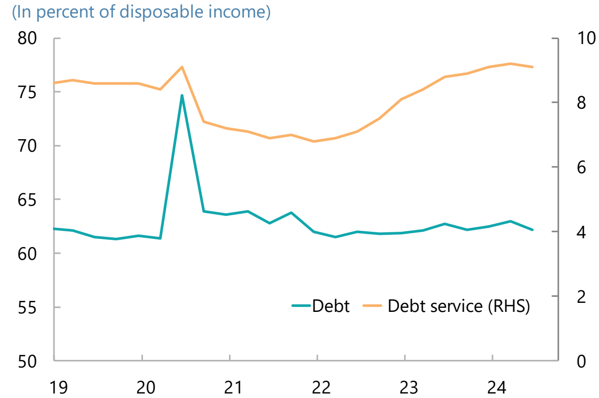
Banks Holdings of Government Debt
(In percent of total assets)



Sources: IMF International Financial Statistics, and Haver.
Note: Peer economics include Brazil, Chile, Colombia, Czech Republic, Hungary, Indonesia, Israel, Mexico, Peru, Philippines, Poland, Thailand, Türkiye, and United Arab Emirates.

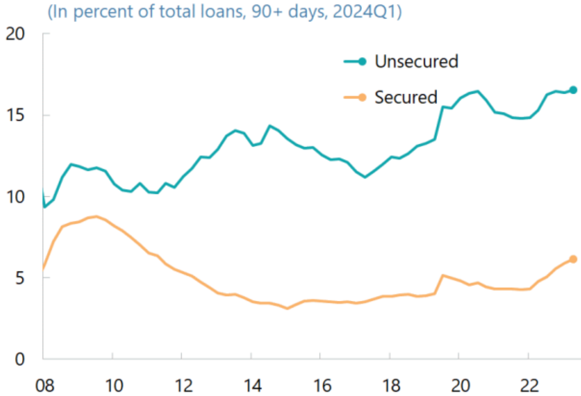
Household debt stabilized while debt service increased due to rising interest rates.

Indicators of Household Indebtedness
(In percent of disposable income)



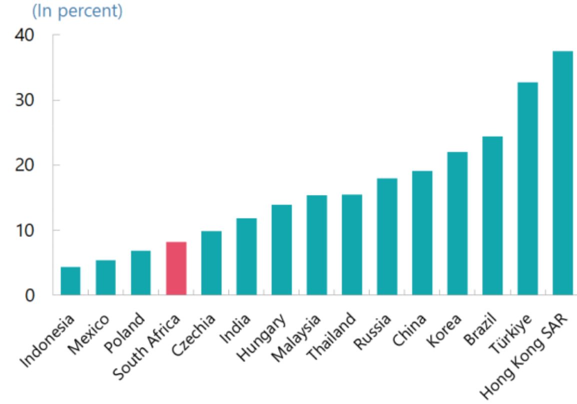
Asset quality of unsecured consumer lending started to deteriorate as rates increased.

Consumer NPL by Type
(In percent of total loans, 90+ days, 2024Q1)



Debt service to income ratio in South Africa for the non-financial sector remains low compared to peers.

Non-Financial Sector Debt Service to Income Ratio
(In percent)

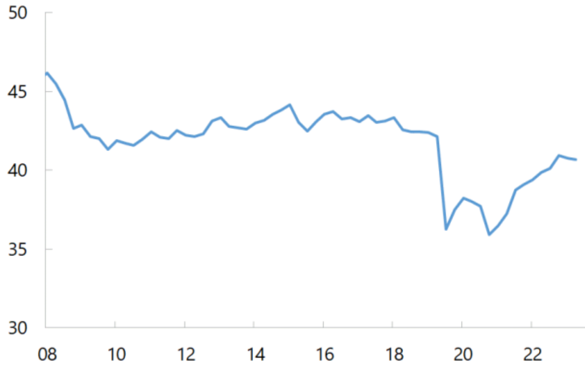


Sources: BIS, Haver, National Credit Regulator South Africa, and IMF staff calculations.

Figure 7. South Africa: Labor and Product Market Developments

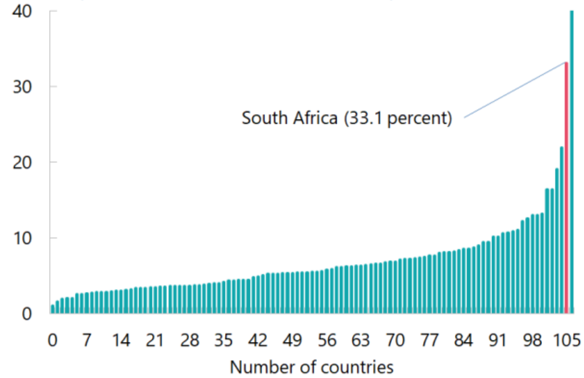
Less than 40 percent of working age population is employed.

Employment
(In percent of working age population 15-65 years)



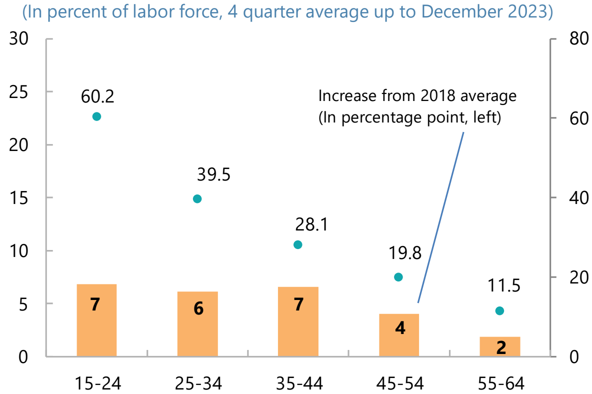
Unemployment remains high in South Africa...

Unemployment in 2023
(In percent of labor force, 110 countries, April 2024)



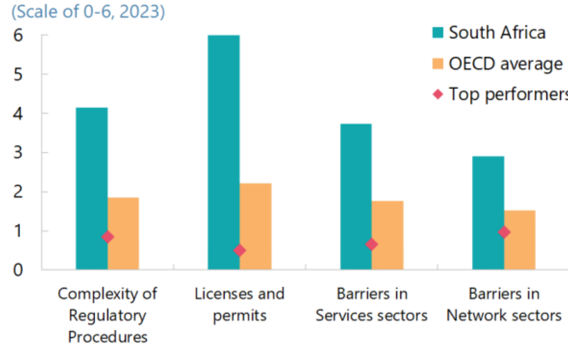
...especially among the youth.

Unemployment by Age Group
(In percent of labor force, 4 quarter average up to December 2023)



High product market barriers stifle competition.

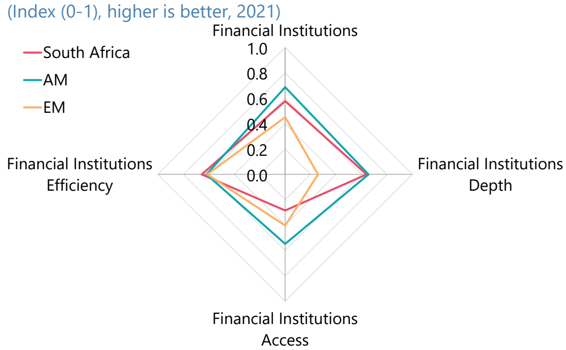
Product Market Barriers to Competition
(Scale of 0-6, 2023)



Sources: OECD 2023 PMR database and IMF staff calculations.
Note: A higher value indicates greater regulatory barriers. Top performer = average of top 5 performing OECD countries.

Access to finance remains relatively low.

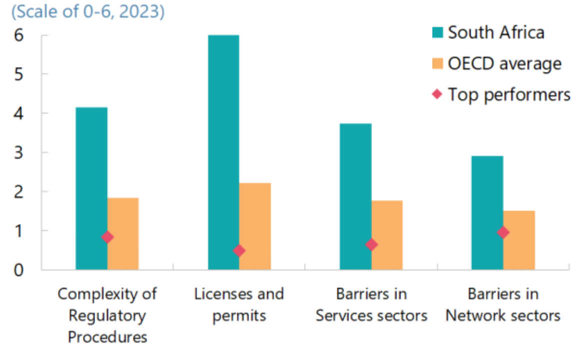
Financial Institution Development
(Index (0-1), higher is better, 2021)



Note: Financial institutions include banks, insurance companies, mutual funds, and pension funds. The dataset is maintained by the IMF SPR department.

Barriers to entry and distortions from state involvement are high.

Product Market Barriers to Competition
(Scale of 0-6, 2023)



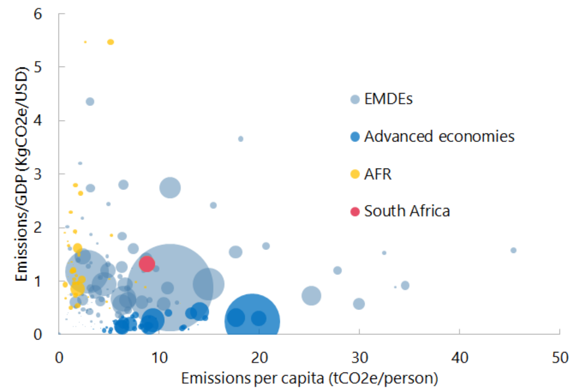
Note: A higher value indicates greater regulatory barriers. Top performer = average of top 5 performing OECD countries.

Sources: Haver, OECD, IMF Financial Development Index, and IMF staff calculations.

Figure 8. South Africa: Climate and Carbon Tax Developments

South Africa is the 16th largest emitter globally. It is also the largest in Africa, both in total emissions and on a per capita basis.

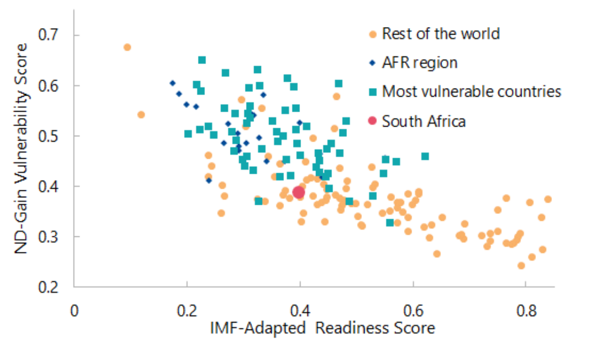
GHG Emissions Intensity vs. Total Emissions
(2021)



Note: Bubble size indicates total GHG emissions excluding land-use and land-use change and forestry. Outlier excluded.

Despite facing moderately low vulnerability, South Africa also faces low readiness to face climate change risks.

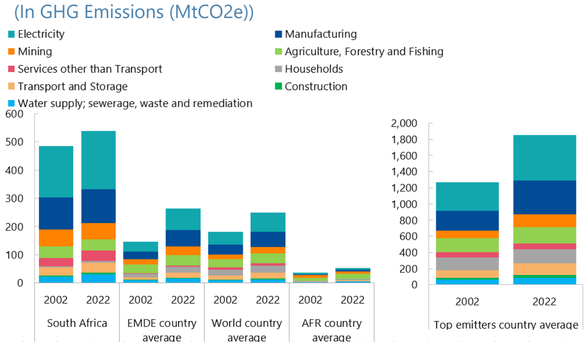
Climate Risks and Readiness
(2021)



Note: The Vulnerability Score assesses a country's current vulnerability to climate, reflecting exposure, sensitivity, and adaptive capacity. The Readiness Score assesses a country's readiness to leverage public and private sector investment for adaptative actions.

The power, manufacturing, and mining sectors account for 71% of the country's emissions.

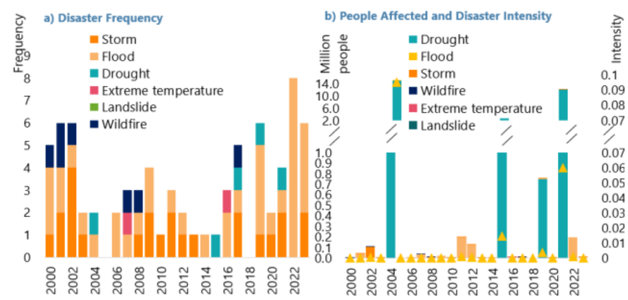
GHG Emissions by Sector
(In GHG Emissions (MtCO2e))



Note: GHG emissions exclude Land Use, Land-Use Change and Forestry.

South Africa is particularly vulnerable to droughts, floods and storms, with early evidence of a rise in intensity.

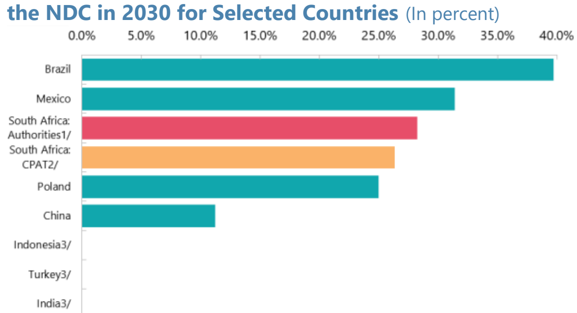
Key Natural Hazard Statistics



Note: Intensity is defined as (Total death+30% Total Affected)/Total population.

The NDC target implies GHG emissions reductions comparable to those of key peer countries.

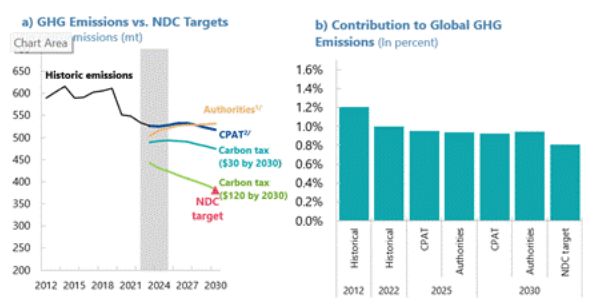
Difference in GHG Emissions between the Baseline and the NDC in 2030 for Selected Countries (In percent)



1/ Based on South Africa's business-as-usual emissions. Carbon tax scenarios assume no tax exemptions/allowances. The NDC represents the unconditional target. For more details, see IMF Country Report 23/195, Selected Issues Paper. 2/ CPAT estimations are indicative as they are based on uniform assumptions across all countries (i.e., no new mitigation policies, 50% reduction in explicit subsidies - if applicable-, energy prices based on average IMF-WB forecasts, and macroeconomic projections from the latest WEO). 3/ There is no difference in GHG emissions between the baseline and the country's NDC in 2030.

South Africa contributes 1% of global GHG emissions and faces a significant mitigation gap between business-as-usual (BAU) emissions and its NDC target.

GHG Emissions vs. NDC targets

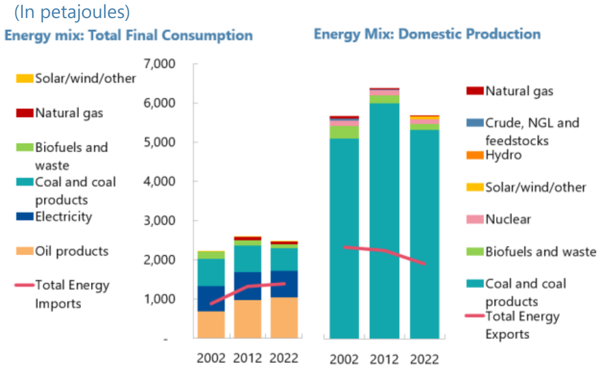


Note: Projections based on South Africa's business-as-usual emissions. Carbon tax scenarios assume no tax exemptions/allowances. The NDC represents the unconditional target. For more details, see IMF Country Report 23/195, Selected Issues Paper. CPAT estimations are indicative as they are based on uniform assumptions across all countries.

Figure 8. South Africa: Climate and Carbon Tax Developments (concluded)

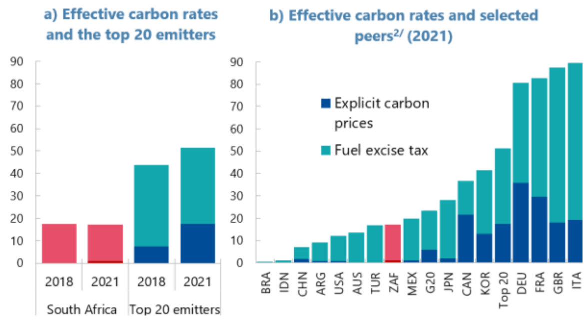
South Africa is a major coal producer and a net exporter of both coal and crude oil, while renewables remain a minor component of the energy mix.

Energy Mix
(In petajoules)



Average effective carbon rates[1/] are low compared to other large emitters.

Effective Carbon Pricing
(In EUR/tCO2e, 2021 prices)

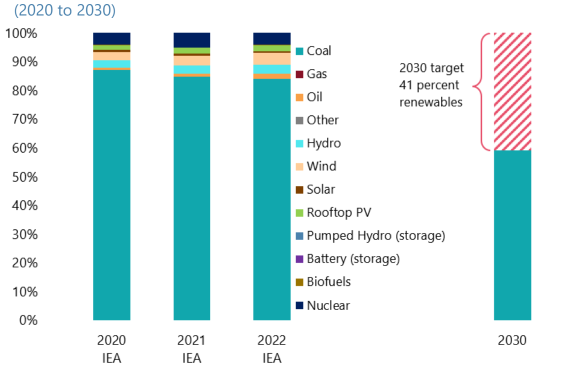


1/ Effective carbon rates measure the price of carbon emissions arising from the sum of taxes and tradeable permits.

Note: This chart has been updated from the earlier version found in IMF Country Report 23/195, Selected Issues Paper, using the latest OECD data.

Coal remains the dominant source of electricity generation. Renewable energy has experienced only moderate growth in the energy mix; accelerating this transition is crucial to achieve the 2030 target of 41%.

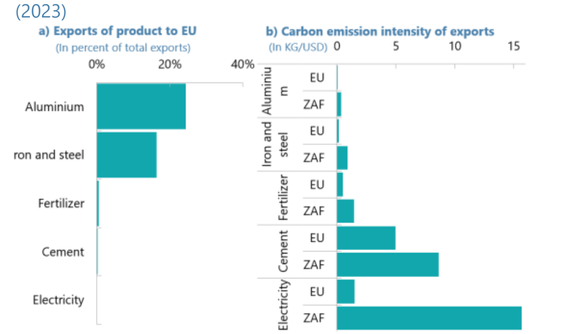
Electricity Generation Mix
(2020 to 2030)



Note: Projections based on South African Authorities Baseline Scenario and IEA Electricity Mix.

With a high[1/] relative CBAM exposure index, South Africa may face the 14th highest decline in competitiveness. Given its export share to the EU and carbon intensity, the iron and steel sector is the most vulnerable to the EU's CBAM.

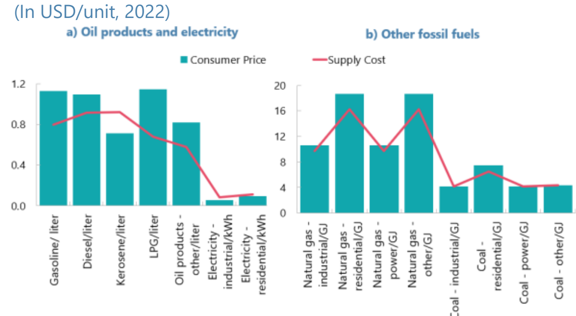
CBAM Exposure
(2023)



1/ The Relative CBAM Exposure Index is designed to identify countries with a high exposure to the EU CBAM, using carbon emissions intensity and exports of CBAM products to the EU. An index higher than zero indicates that a country may lose from export competitiveness.

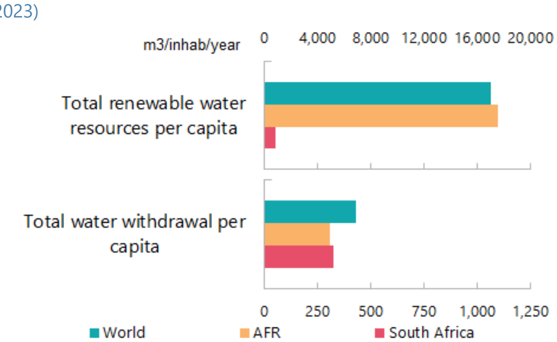
Consumer prices are well above supply costs. Kerosene and electricity subsidies are estimated at $4.5 billion.

Explicit Consumer Fuel Subsidies
(In USD/unit, 2022)



The country has significantly fewer renewable water resources per capita than both the world and regional averages

Water Availability and Use Efficiency
(2023)



Sources: EMDAT, FAO Aquastat, IMF Climate Change Indicators Dashboard (with data from UNFCCC, EDGAR, FAO), IMF Fossil Fuel Subsidies database, International Energy Agency Electricity Mix, ND-GAIN Index, National Treasury Budget, OECD, OECD Air Emission Accounts, OECD Effective and Net Effective Carbon Rates, WRI Aqueduct 4.0 (2023), WRI Climate Watch, WEO, World Bank Relative CBAM Exposure Index (2023), and IMF staff calculations.

Table 1. South Africa: Selected Economic Indicators, 2022–27

Social Indicators			
GDP		**Poverty (percent of population)**	
Nominal GDP (2022, billions of US dollars)	407	Lower national poverty line (2015)	40
GDP per capita (2022, in US dollars)	6,712	Undernourishment (2019)	7
Population characteristics		**Inequality (income shares unless otherwise specified)**	
Total (2022, million)	62	Highest 10 percent of population (2015)	53
Urban population (2020, percent of total)	67	Lowest 40 percent of population (2015)	7
Life expectancy at birth (2020, number of years)	64	Gini coefficient (2015)	65

Economic Indicators	2022	2023	2024	2025	2026	2027
				Proj.		
National Income and Prices (Annual Percentage Change Unless Otherwise Indicated)						
Real GDP	1.9	0.7	0.8	1.5	1.6	1.7
Domestic demand	3.9	0.8	0.4	1.5	1.6	1.8
Private Consumption	2.5	0.7	1.2	1.4	1.5	1.6
Government Consumption	0.6	1.9	1.0	1.0	1.2	1.3
Gross Fixed Investment	4.8	3.9	-3.4	2.5	2.7	3.1
Inventory Investment (contribution to growth)	1.5	-0.6	0.0	0.0	0.0	0.0
Net export (contribution to growth)	-2.1	-0.1	0.4	0.1	-0.1	-0.1
Real GDP per capita 1/	1.1	-0.8	-0.7	0.1	0.1	0.2
GDP deflator	5.0	4.8	4.4	4.1	4.5	4.5
CPI (annual average)	6.9	5.9	4.5	4.0	4.5	4.5
CPI (end of period)	7.4	5.5	3.0	4.5	4.5	4.5
Labor Market (Annual Percentage Change Unless Otherwise Indicated)						
Unemployment rate (percent of labor force, annual average)	33.5	33.1	32.8	32.7	32.5	32.3
Unit labor costs (formal nonagricultural)	2.1	-0.8	-0.7	0.1	0.1	0.2
Savings and Investment (Percent of GDP)						
Gross national saving	15.0	13.9	13.2	12.9	13.0	13.0
Investment (including inventories) 2/	15.4	15.5	14.5	14.6	14.8	15.0
Fiscal Position (Percent of GDP Unless Otherwise Indicated) 3/						
Revenue, including grants 4/	27.6	26.8	26.8	26.8	26.9	26.9
Expenditure and net lending	31.9	32.7	32.9	33.3	32.6	32.3
Overall balance	-4.3	-5.9	-6.1	-6.6	-5.8	-5.4
Primary balance	0.3	-0.9	-0.7	-1.0	-0.1	0.4
Gross government debt 5/	70.8	73.4	75.7	78.3	80.1	81.7
Government bond yield (10-year and over, percent)	10.7	11.6	11.2	...	...	...
Money and Credit (Annual Percentage Change Unless Otherwise Indicated)						
Broad money	8.3	7.9	5.2	5.7	6.2	6.3
Credit to the private sector 6/	8.2	4.1	5.0	5.6	6.2	6.3
Repo rate (percent, end-period)	7.0	8.25	7.75	...	...	...
3-month Treasury bill interest rate (percent)	5.2	8.0	8.3	...	...	...
Private sector credit growth (total) 7/	9.2	4.8	4.3	...	...	...
Credit growth (households) 8/	7.7	4.4	3.1	...	...	...
Credit growth (corporates) 8/	10.7	5.2	6.4	...	...	...
Balance of Payments (Annual Percentage Change Unless Otherwise Indicated)						
Current account balance (billions of U.S. dollars)	-1.8	-6.1	-5.3	-7.3	-7.8	-8.9
percent of GDP	-0.5	-1.6	-1.3	-1.7	-1.8	-2.0
Exports growth (volume)	7.4	3.5	-4.0	2.7	2.8	2.9
Imports growth (volume)	14.9	4.1	-4.9	2.2	3.0	3.2
Terms of trade	-8.6	-4.8	1.7	-1.7	-0.3	0.0
Overall balance (percent of GDP)	0.0	0.5	0.8	0.0	0.0	0.0
Gross reserves (billions of U.S. dollars)	60.6	62.5	65.9	65.9	65.9	65.9
in percent of ARA	88.9	97.0	97.1	...	...	...
Total external debt (percent of GDP)	40.4	41.5	43.2	44.7	45.1	45.6
Nominal effective exchange rate (period average)	16.6	18.8	18.6	...	...	...
Real effective exchange rate (period average)	6.8	7.7	7.5	...	...	...
Exchange rate (Rand/U.S. dollar, end-period)	17.0	18.5	18.7	...	...	...

Sources: South African Reserve Bank, National Treasury, Haver, Bloomberg, World Bank, and Fund staff estimates and projections.
1/ Per-capita GDP figures are computed using STATS SA mid-year population estimates.
2/ Inventories data are volatile and excluded from the investment breakdown to help clarify fixed capital formation developments.
3/ Consolidated government as defined in the budget unless otherwise indicated.
4/ Revenue excludes "transactions in assets and liabilities" classified as part of revenue in budget documents. This item represents proceeds from the sales of assets, realized valuation gains from holding of foreign currency deposits, and other conceptually similar items, which are not classified as revenue by the IMF's Government Finance Statistics Manual 2014.
5/ Central government.
6/ Depository institution's domestic claims on private sector in all currencies.
7/ Credit extended by all monetary institutions/ Claims on the domestic private sector/ Total loans & advances. Data for 2024 is as of November.
8/ Data for 2024 is as of August.

Table 2. South Africa: Consolidated Government Operations 1/ FY22–30

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
		Est.	Proj.						
	(In billions of rand)								
Total Revenue and Grants	1874.2	1908.3	2010.0	2123.7	2269.0	2407.1	2564.6	2734.2	2909.7
Tax revenue	1643.0	1661.1	1755.6	1854.5	1984.2	2108.1	2246.1	2395.7	2549.3
Non-tax revenue 2/	34.0	12.6	19.7	34.8	37.3	39.4	42.0	44.7	47.5
Provinces, social security, and other entities	197.2	234.6	234.6	234.4	247.5	259.6	276.5	293.9	312.9
Total Expenditure	2141.1	2329.4	2471.3	2651.4	2728.1	2888.6	3066.3	3250.8	3457.0
Current expenditure	1947.0	2082.1	2211.2	2338.5	2485.9	2632.4	2787.2	2953.1	3142.1
Wages and salaries	689.2	724.1	761.4	806.3	853.1	897.6	951.1	1003.0	1067.7
Other goods and services	292.4	312.7	323.1	337.4	360.8	381.9	406.8	432.4	460.3
Interest	315.8	363.1	409.7	446.1	482.5	523.5	548.3	581.1	617.1
Transfers	649.6	682.1	717.1	748.6	789.6	829.4	881.1	936.6	997.0
Capital expenditure	147.5	171.4	190.7	200.4	214.2	226.8	250.5	267.3	282.6
Payment for financial assets	46.5	76.0	69.4	112.6	27.9	29.4	28.6	30.4	32.3
Contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary Balance	48.9	-58.0	-51.7	-81.6	23.4	42.1	46.6	64.5	69.8
Overall Balance	-266.9	-421.2	-461.4	-527.7	-459.1	-481.5	-501.7	-516.6	-547.3
Financing	266.9	421.2	461.4	527.7	459.1	481.5	501.7	516.6	547.3
Local Currency Debt (net)	301.1	372.6	370.8	372.2	336.3	388.3	404.4	420.6	451.7
Foreign Currency Debt (net)	53.0	56.9	30.6	90.3	92.0	93.2	92.6	92.3	92.0
Transactions in Assets and Liabilities	17.0	36.3	114.3	26.5	26.3	1.4	1.5	1.0	1.1
Use of cash and other balances	-118.3	14.5	-19.9	38.7	4.4	-1.4	3.2	2.6	2.5
Structural Primary Balance	65.5	-60.0	-52.6	-77.9	21.9	43.1	46.6	64.5	69.3
Gross Government Debt	4765	5259	5709	6256	6770	7342	7932	8559	9243
Total Revenue and Grants	27.7	26.9	26.7	26.9	26.9	26.9	26.9	27.0	27.0
Tax revenue	24.3	23.4	23.4	23.5	23.5	23.6	23.6	23.7	23.7
Non-tax revenue	0.5	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Provinces, social security, and other entities	2.9	3.3	3.1	3.0	2.9	2.9	2.9	2.9	2.9
Total Expenditure	31.7	32.8	32.9	33.6	32.3	32.3	32.2	32.1	32.1
Current expenditure	28.8	29.3	29.4	29.6	29.4	29.5	29.3	29.2	29.2
Wages and salaries	10.2	10.2	10.1	10.2	10.1	10.0	10.0	9.9	9.9
Other goods and services	4.3	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Interest	4.7	5.1	5.5	5.6	5.7	5.9	5.8	5.7	5.7
Transfers	9.6	9.6	9.5	9.5	9.4	9.3	9.3	9.3	9.3
Capital expenditure	2.2	2.4	2.5	2.5	2.5	2.5	2.6	2.6	2.6
Payment for financial assets	0.7	1.1	0.9	1.4	0.3	0.3	0.3	0.3	0.3
Contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary Balance	0.7	-0.8	-0.7	-1.0	0.3	0.5	0.5	0.6	0.6
Overall Balance	-3.9	-5.9	-6.1	-6.7	-5.4	-5.4	-5.3	-5.1	-5.1
Financing	3.9	5.9	6.1	6.7	5.4	5.4	5.3	5.1	5.1
Local Currency Debt (net)	4.5	5.3	4.9	4.7	4.0	4.3	4.2	4.2	4.2
Foreign Currency Debt (net)	1.0	0.0	0.0	1.1	1.1	1.0	1.0	0.9	0.9
Transactions in Assets and Liabilities	0.3	0.5	1.5	0.3	0.3	0.0	0.0	0.0	0.0
Use of cash and other balances	-1.7	0.2	-0.3	0.5	0.1	0.0	0.0	0.0	0.0
Structural Primary Balance (Percent Of Potential Gdp)	1.0	-0.8	-0.7	-1.0	0.3	0.5	0.5	0.6	0.6
Gross Government Debt 3/	70.5	74.1	76.0	79.2	80.2	82.2	83.3	84.6	85.8
Memorandum Items:									
Fiscal year GDP (billions of rand)	6,763	7,095	7,516	7,896	8,442	8,937	9,519	10,119	10,772
Fiscal year real GDP growth (percent)	1.4	1.4	1.1	1.3	1.8	1.6	1.8	1.8	1.8
Fiscal year GDP Deflator growth (in percent)	5.4	3.4	4.8	3.7	5.0	4.2	4.7	4.4	4.5
Fiscal year nominal GDP growth (percent)	6.9	4.9	5.9	5.1	6.9	5.9	6.5	6.3	6.5

Sources: South African National Treasury And Fund Staff Estimates And Projections.

1/ Data are on a fiscall year basis (April 1-March 31) and factor in the 2024 Budget. Consolidated government corresponds to the national government, social security funds, provincial governments, and some public entities. Local governments are only partially captured through the transfers sent to them by national government.

2/ Non-tax revenue excludes transactions in financial assets and liabilities. These transactions are classified as a domestic financing item given that they involve primarily revenues associated with realized exchange rate valuation gains from the holding of foreign currency deposits and other conceptually similar smaller items.

3/ Covers Only National Government Debt.

Table 3. South Africa: Balance of Payments, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Proj.						
	(In billions of US dollars)								
Balance On Current Account	-2.0	-6.1	-5.3	-7.3	-8.1	-9.0	-10.7	-11.7	-12.0
Balance on goods and services	8.0	1.3	4.8	3.4	2.8	2.5	1.5	1.4	1.3
Exports of goods and services	136	125	128	133	139	146	152	158.8	164.6
Imports of goods and services	-128	-123	-123	-130	-137	-144	-151	-157.5	-163.3
Balance On Income	-8.5	-5.2	-7.1	-7.5	-7.8	-8.1	-8.7	-9.4	-9.6
Income receipts	11.3	11.7	12.1	12.8	12.7	12.5	12.1	11.8	11.6
Income payments	-19.8	-16.9	-19.2	-20.3	-20.5	-20.6	-20.8	-21.2	-21.3
Balance on Transfers	-1.5	-2.2	-3.0	-3.1	-3.1	-3.4	-3.5	-3.6	-3.7
Capital Flows (Including Errors and Omissions)	6.2	5.4	8.7	7.3	8.1	9.0	10.7	11.7	12.0
Balance on Capital and Financial Account	6.4	2.2	8.7	7.3	8.1	9.0	10.7	11.7	12.0
Balance on capital account	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance on financial account	8.1	2.2	8.7	7.3	8.1	9.0	10.7	11.7	12.0
Direct investment	6.9	6.3	5.2	6.3	6.9	7.2	7.4	8.2	8.8
Liabilities	9.3	3.5	4.8	5.9	6.5	6.7	7.0	7.7	8.3
Assets	-2.4	2.8	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Portfolio investment	-4.5	-6.6	-2.0	-1.3	0.4	0.9	1.4	1.4	1.5
Liabilities	2.6	-5.4	-4.0	-3.8	-0.4	0.0	0.0	0.0	0.0
Assets	-7.1	-1.3	2.0	2.5	0.9	0.9	1.4	1.4	1.5
Financial derivatives	-2.0	2.4	1.9	1.6	0.0	0.0	0.0	0.0	0.0
Liabilities	-17.5	-14.5	-11.7	-9.7	0.0	0.0	0.0	0.0	0.0
Assets	15.5	16.8	13.6	11.3	0.0	0.0	0.0	0.0	0.0
Other investment	7.7	0.1	0.0	0.7	0.7	0.9	1.8	2.0	1.7
Liabilities	11.3	-0.3	8.0	9.0	9.5	10.0	10.5	11.0	11.0
Assets	-3.6	0.4	-8.0	-8.3	-8.8	-9.1	-8.7	-9.0	-9.3
Errors and Omissions	-0.2	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Reserves (End of Period)	60.6	62.5	65.9	65.9	65.9	65.9	65.9	65.9	65.9
	(In percent of GDP)								
Balance on Current Account	-0.5	-1.6	-1.3	-1.7	-1.9	-2.0	-2.4	-2.5	-2.5
Balance on goods and services	2.0	0.3	1.2	0.8	0.6	0.5	0.3	0.3	0.3
Exports of goods and services	33.4	32.8	31.7	31.8	32.1	32.5	32.7	32.9	33.6
Imports of goods and services	-31.4	-32.4	-30.5	-31.0	-31.5	-32.0	-32.4	-32.6	-33.3
Balance on goods	3.3	1.5	2.2	1.8	1.6	1.6	1.3	1.2	1.3
Balance on services	-1.4	-1.1	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Balance on income	-2.1	-1.4	-1.8	-1.8	-1.8	-1.8	-1.9	-2.0	-2.0
Balance on transfers	-0.4	-0.6	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8
Capital Flows (Including Errors and Omissions)	1.5	1.4	1.3	1.7	1.9	2.0	2.4	2.4	2.5
Balance on Capital and Financial Account	1.6	0.6	1.3	1.7	1.9	2.0	2.4	2.4	2.5
Balance on capital account	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance on financial account	2.0	0.6	1.3	1.7	1.9	2.0	2.4	2.4	2.5
Direct investment	1.7	1.7	1.3	1.5	1.6	1.6	1.6	1.7	1.8
Portfolio investment	-1.1	-1.7	-0.5	-0.3	0.1	0.2	0.3	0.3	0.3
Financial derivatives	-0.5	0.6	0.5	0.4	0.0	0.0	0.0	0.0	0.0
Other investment	1.9	0.0	0.0	0.2	0.2	0.2	0.4	0.4	0.4
Errors and Omissions	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Reserves (End of Period)	15.5	16.5	16.0	15.5	15.1	14.7	14.2	13.8	13.7
in months of next year's imports	5.9	6.1	6.1	5.8	5.5	5.2	5.0	4.8	4.7
Memorandum Items:									
Total external debt	40.4	41.5	43.2	44.7	45.1	45.6	46.5	46.9	47.0
International investment position (net)	19.6	27.9	27.9	25.2	22.2	19.2	16.2	13.1	10.6
GDP at current prices (US$ billion)	407	381	404	419	434	449	465	482.7	490.2

Sources: South African Reserve Bank And Fund Staff Estimates And Projections.

Table 4. South Africa: Financial Corporations, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Est.			Proj.				
				(In billions of rand)					
Central Bank									
Net foreign assets	1,070	1,150	1,167	1,194	1,236	1,279	1,310	1,355	1,438
Net domestic assets	-699	-743	-739	-742	-757	-771	-771	-782	-829
Domestic claims	-674	-697	-687	-715	-735	-749	-749	-759	-806
Central government (net)	-817	-811	-800	-826	-845	-859	-858	-869	-916
State and local government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public nonfinancial corporations	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Private sector	0.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other depository corporations	139	109	109	109	109	109	109	109	109
Other financial corporations	3.5	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Other items net	-37.5	-57.2	-63.8	-38.8	-33.8	-33.8	-33.8	-33.8	-33.8
Monetary base	360	396	416	440	467	497	528	561	597
Other Depository Corporations									
Net foreign assets	257	286	295	319	350	383	415	454	508
Net domestic assets	3,751	4,039	4,311	4,599	4,925	5,277	5,654	6,060	6,477
Domestic claims	5,146	5,515	5,774	6,055	6,373	6,716	7,084	7,480	7,886
Central government (net)	759	904	939	967	990	1,014	1,044	1,072	1,089
State and local government	21.6	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Public nonfinancial corporations	75.7	52.4	52.9	53.4	53.9	54.4	54.8	55.3	55.3
Private sector	3,889	4,047	4,250	4,488	4,764	5,063	5,380	5,725	6,091
of which loans and securities	3,794	3,959	4,157	4,390	4,661	4,953	5,263	5,600	5,959
Central Bank	218	252	259	259	259	259	259	259	259
Other financial corporations	751	848	848	848	848	848	848	848	848
Other items net	-1,395	-1,476	-1,463	-1,456	-1,448	-1,439	-1,430	-1,420	-1,409
Depository Corporations									
Net foreign assets	1,328	1,436	1,461	1,513	1,585	1,662	1,725	1,808	1,946
Net domestic assets	3,570	3,805	4,045	4,307	4,594	4,905	5,253	5,617	5,954
Domestic claims	4,685	5,066	5,316	5,556	5,838	6,147	6,495	6,858	7,194
Central government (net)	-57	92	139	141	145	156	186	203	173
State and local government	21.6	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Public nonfinancial corporations	77	53	54	54	55	55	56	56	56
Private sector	3,890	4,048	4,250	4,488	4,765	5,064	5,381	5,726	6,092
of which loans and securities	3,794	3,959	4,157	4,390	4,661	4,953	5,263	5,600	5,959
Other financial corporations	754	852	852	852	852	852	852	852	852
Other items net	-1,115	-1,261	-1,271	-1,249	-1,244	-1,243	-1,242	-1,241	-1,240
Broad money	4,715	5,089	5,354	5,660	6,009	6,386	6,786	7,221	7,683

Table 4. South Africa: Financial Corporations, 2022–30 (concluded)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Est.			Proj.				
				(In billions of rand)					
Other Financial Corporations									
Net foreign assets	2,969	3,207	3,434	3,477	3,563	3,655	3,746	3,854	4,352
Net domestic assets	5,707	6,036	6,383	6,804	7,249	7,728	8,236	8,776	9,022
Domestic claims	6,183	6,543	6,967	7,416	7,892	8,405	8,948	9,526	9,819
Central government (net)	1,338	1,483	1,636	1,823	1,997	2,186	2,388	2,596	2,492
State and local government	38.4	40.9	43.4	45.5	47.8	50.4	53.0	55.9	59.2
Public nonfinancial corporations	409	410	419	429	438	447	456	466	466
Private sector	2,221	2,291	2,406	2,541	2,697	2,866	3,046	3,241	3,448
of which loans and securities	657	678	712	752	798	798	798	798	798
Central Bank	0.9	1.0	1.1	1.1	1.2	1.2	1.3	1.4	1.5
Other Depository Corporations	2,175	2,317	2,461	2,578	2,711	2,854	3,004	3,166	3,353
Other items net	-476	-507	-584	-612	-643	-677	-712	-751	-797
Non-liquid liabilities	8,676	9,243	9,817	10,281	10,813	11,383	11,982	12,630	13,374
Financial Corporations									
Net foreign assets	4,296	4,643	4,896	4,990	5,149	5,317	5,471	5,662	6,298
Net domestic assets	5,509	5,763	6,150	6,583	7,029	7,510	8,038	8,584	8,792
Domestic claims	7,937	8,439	8,969	9,542	10,166	10,845	11,586	12,364	12,806
Central government (net)	1,281	1,575	1,775	1,964	2,142	2,342	2,573	2,799	2,665
State and local government	59.9	61.6	64.1	66.2	68.6	71.1	73.7	76.6	79.9
Public nonfinancial corporations	486	463	473	483	493	502	512	522	522
Private sector	6,110	6,339	6,656	7,029	7,462	7,930	8,426	8,966	9,540
of which loans and securities	4,451	4,638	4,870	5,142	5,459	5,751	6,061	6,399	6,757
Other items net	-2,428	-2,676	-2,819	-2,958	-3,136	-3,336	-3,548	-3,781	-4,014
Liabilities	9,805	10,406	11,046	11,573	12,178	12,827	13,508	14,246	15,091
Liquid	947	1,011	1,077	1,132	1,195	1,263	1,335	1,412	1,500
Nonliquid	8,858	9,394	9,969	10,441	10,983	11,563	12,173	12,834	13,591
Memorandum Items:									
Central Bank (billions of US dollar)									
Net foreign reserves	63.0	62.1	65.0	65.0	65.0	65.0	65.0	65.0	65.0
Central gov. FX deposits	-0.1	-0.1	-1.0	-4.0	-4.9	-4.9	-4.9	-4.9	-4.9
Year-on-year growth (percent)									
Monetary base	15.2	9.9	5.2	5.7	6.2	6.3	6.3	6.4	6.4
Broad money	8.3	7.9	5.2	5.7	6.2	6.3	6.3	6.4	6.4
Claims on private sector	8.2	4.1	5.0	5.6	6.2	6.3	6.3	6.4	6.4
Broad money multiplier (ratio)	13.1	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
Claims on public sector (percent of total assets)									
Other Depository Corporations									
Central government	14.8	15.4	15.6	15.3	14.7	14.3	13.8	13.4	12.9
Public nonfinancials	1.0	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.5
Other Financial Corporations									
Central government	11.1	11.5	11.8	12.5	12.9	13.3	13.8	14.2	13.0
Public nonfinancials	2.8	2.6	2.5	2.5	2.4	2.3	2.3	2.2	2.1

Sources: International Financial Statistics, South African Reserve Bank, And Fund Staff Estimates.

Table 5. South Africa: Financial Soundness Indicators, 2019–24

	2019	2020	2021	2022	2023	2024
		(Percent)				
Capital Adequacy						
Regulatory capital to risk weighted assets 1/	16.6	16.6	18.1	17.5	17.4	17.1
of which Tier 1 capital 1/	15.6	15.7	17.1	16.6	15.2	15.0
Capital to total assets 2/	8.0	7.6	8.1	7.7	…	…
Asset Quality						
Impaired advances to gross loans and advances 1/	3.9	5.2	4.5	4.5	5.4	5.4
Nonperforming loans net of provisions to capital	18.1	25.1	18.6	19.7	…	…
Earnings, Profitability, and Efficiency						
Return on assets 1/	1.5	0.7	1.4	1.5	1.1	1.1
Return on equity 1/	14.0	7.4	13.2	13.5	14.6	15.1
Net interest income to interest-earning assets 1/	3.9	3.7	3.9	4.0	4.1	4.1
Non-interest revenue to total assets 1/	2.2	1.9	2.0	2.0	2.0	2.1
Operating expenses to total assets 1/	3.1	2.7	2.8	2.8	2.9	3.0
Cost to Income Ratio 1/	58.8	58.7	58.3	57.0	57.0	56.9
Interest margin to gross income	53.9	54.9	54.7	54.8	…	…
Trading income to total income	5.6	6.2	6.6	7.2	…	…
Non-interest expenses to gross income	62.5	63.1	62.4	62.0	…	…
Personnel expenses to non-interest expenses	49.1	47.4	49.0	48.5	…	…
Liquidity						
Liquid assets held to liquid-asset requirement 1/	262.2	304.7	327.5	338.0	344.6	344.9
Liquidity coverage ratio 1/	143.3	138.9	144.8	153.2	147.7	150.6
Ten largest depositors to total funding 1/	16.4	19.2	19.5	20.8	19.1	18.8
Liquid assets to total assets	18.5	18.7	19.2	18.4	…	…
Liquid assets to short-term liabilities	37.1	35.2	34.6	33.4	…	…
Customer deposits to total loans	63.9	70.0	71.5	71.5	…	…
Exposure to FX Risk						
Net open FX position to capital	0.9	0.7	0.6	0.6	…	…
Foreign-currency-denominated loans to total loans	8.3	8.7	7.8	7.8	…	…
Foreign-currency-denominated liabilities total liabilities	7.8	7.1	7.0	6.8	…	…
Derivatives						
Gross asset position in financial derivatives to capital	51.1	102.1	49.5	50.4	…	…
Gross liability position in financial derivatives to capital	49.2	98.3	52.4	52.5	…	…
Real Estate Market						
Residential real estate price growth 3/	2.5	2.4	6.7	4.3	1.5	…
Residential real estate loans to total loans	24.2	23.6	24.3	24.3	…	…
Commercial real estate loans to total loans	8.0	8.0	7.9	7.6	…	…
Household Debt 4/						
Household debt to GDP	40.5	42.7	41.8	40.4	…	…
Household debt service to disposable income	9.4	7.7	7.2	7.5	…	…

Sources: SARB Prudential Authority, Financial Soundness Indicators Database (FSID), Haver, and IMF staff calculations.
1/ 2019-2023 data are end of period, 2024 data are as of July, the source of data is SARB Prudential Authority. The rest are from FSI unless noted otherwise.
2/ All data (note specified in 1/ and 3/) are from FSID, as of July 2022.
3/ Annual average data from First National Bank, Haver.
4/ As of June 2022.

Table 6. South Africa: Medium-Term Macroeconomic Framework, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Proj.						
National Income and Prices (Annual Percentage Change)									
Real GDP	1.9	0.7	0.8	1.5	1.6	1.7	1.7	1.8	1.8
Domestic demand	3.9	0.8	0.4	1.5	1.6	1.8	1.7	1.8	1.8
Private Consumption	2.5	0.7	1.2	1.4	1.5	1.6	1.6	1.7	1.7
Government Consumption	0.6	1.9	1.0	1.0	1.2	1.3	1.3	1.3	1.3
Gross Fixed Investment	4.8	3.9	-3.4	2.5	2.7	3.1	3.1	3.1	3.1
Inventory Investment (contribution to growth)	1.5	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CPI (annual average)	6.9	5.9	4.5	4.0	4.5	4.5	4.5	4.5	4.5
Output gap (percent of potential real GDP)	-0.3	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Labor Market (Annual Percentage Change)									
Unemployment rate (percent of labor force, annual average)	33.5	33.1	32.8	32.7	32.5	32.3	32.0	31.7	31.3
Savings and Investment (Percent of GDP)									
Gross national saving	14.9	13.9	13.2	12.9	13.0	13.0	12.8	12.9	12.9
Investment (including inventories) 1/	15.4	15.5	14.5	14.6	14.8	15.0	15.1	15.3	15.5
Fiscal Position (Percent of GDP) 2/									
Revenue, including grants	27.6	27.1	26.8	26.8	26.9	26.9	26.9	27.0	27.0
Expenditure and net lending	31.9	32.6	32.9	33.3	32.6	32.3	32.3	32.2	32.1
Overall balance	-4.3	-5.4	-6.1	-6.6	-5.8	-5.4	-5.3	-5.2	-5.1
Primary balance	0.3	-0.4	-0.7	-1.0	-0.1	0.4	0.5	0.6	0.6
Gross government debt 3/	70.8	73.4	75.7	78.3	80.1	81.7	83.1	84.3	85.6
Balance of Payments (Percent of GDP Unless Otherwise Indicated)									
Exports of Goods and Services (volume, annual percentage change)	6.8	3.7	-4.0	2.7	2.8	2.9	3.4	3.5	3.5
Imports of Goods and Services (volume, annual percentage change)	15.0	3.9	-5.1	2.2	3.0	3.2	3.3	3.3	3.3
Current account balance (billions of U.S. dollars)	-2.0	-6.1	-5.3	-7.3	-7.8	-8.9	-10.7	-11.7	-12.0
percent of GDP	-0.5	-1.6	-1.3	-1.7	-1.8	-2.0	-2.3	-2.4	-2.4
Gross reserves (billions of U.S. dollars)	60.6	62.5	65.9	65.9	65.9	65.9	65.9	65.9	65.9
percent of short-term debt (residual maturity)	121.9	124.5	128.8	135.5	127.7	122.9	120.5	118.5	117.5
Total external debt	40.4	41.5	43.2	44.7	45.1	45.6	46.5	46.9	47.0

Sources: Haver, South African National Treasury, World Bank, And Fund Staff Estimates And Projections.
1/ Noisy inventories data are excluded from the investment breakdown to highlight fixed capital formation developments.
2/ Consolidated government unless otherwise indicated.
3/ National government.

Table 7. South Africa: Gross External Financing Requirement and Sources, 2019–25

	2019	2020	2021	2022	2023	2024	2025
	(In billions of US dollars)						
Gross External Financing Requirements	65.0	47.2	30.3	44.2	55.8	56.8	63.3
Current account deficit	10.1	-6.7	-15.5	2.0	6.1	6.6	8.0
Short-term debt at remaining maturity	54.8	53.9	45.8	42.2	49.7	50.2	55.3
Short-term debt at original maturity	47.9	44.5	37.1	36.1	43.0	41.1	44.8
MLT amortization	10.0	11.5	7.4	6.0	6.7	8.0	10.5
Sources of Financing	65.0	47.2	30.3	44.2	55.8	56.8	63.3
FX reserves drawdown	-1.8	-2.2	-2.6	-3.0	-2.0	-0.7	0.0
FDI (net)	2.0	5.0	40.1	6.9	6.3	6.4	6.3
New borrowing and debt rollover	64.8	38.9	-7.2	40.3	51.5	51.1	57.0
Short-term debt	44.5	37.1	36.1	43.0	41.1	44.8	58.0
Long-term debt	20.3	1.9	-43.4	-2.6	10.4	6.3	-1.0
Other sources (including IFI)	0.0	5.5	0.0	0.0	0.0	0.0	0.0
RFI	0.0	4.2	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)						
Gross External Financing Requirements	16.7	14.0	7.2	10.9	14.7	14.1	15.1
Current account deficit	2.6	-2.0	-3.7	0.5	1.6	1.6	1.9
Short-term debt at remaining maturity	14.1	16.0	10.9	10.4	13.1	12.5	13.2
Short-term debt at original maturity	12.3	13.2	8.8	8.9	11.3	10.2	10.7
MLT amortization	2.6	3.4	1.8	1.5	1.8	2.0	2.5
Sources of Financing	16.7	14.0	7.2	10.9	14.7	14.1	15.1
FX reserves drawdown	-0.5	-0.7	-0.6	-0.7	-0.5	-0.2	0.0
FDI (net)	0.5	1.5	9.5	1.7	1.7	1.6	1.5
New borrowing and debt rollover	16.6	11.5	-1.7	9.9	13.5	12.7	13.6
Short-term debt	11.4	11.0	8.6	10.6	10.8	11.1	13.9
Long-term debt	5.2	0.5	-10.3	-0.7	2.7	1.6	-0.2
Other sources (including IFI)	0.0	1.6	0.0	0.0	0.0	0.0	0.0
RFI	0.0	1.2	0.0	0.0	0.0	0.0	0.0

Source: SARB and Fund Staff Estimates.

Table 8. South Africa: Indicators of Fund Credit (RFI arrangements) 2023–30
(In millions of SDRs, unless otherwise indicated)

	2023	2024	2025	2026	2027	2028	2029	2030
		Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Existing and prospective Fund credit (SDR million)								
Disbursements	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	2,669.8	1,144.2	0.0	0.0	0.0	0.0	0.0	0.0
Obligations	521.1	1,642.2	1,175.0	8.7	8.7	8.7	8.7	8.7
Principal (repayments/repurchases)	381.4	1,525.6	1,144.2	0.0	0.0	0.0	0.0	0.0
Charges and interest	139.7	116.6	30.8	8.7	8.7	8.7	8.7	8.7
Baseline Scenario:								
Fund obligations (repurchases and charges) in percent of:								
Quota	17.1	53.8	38.5	0.3	0.3	0.3	0.3	0.3
GDP	0.18	0.54	0.37	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	0.6	1.7	1.2	0.0	0.0	0.0	0.0	0.0
Gross international reserves	1.1	3.3	2.4	0.0	0.0	0.0	0.0	0.0
Government revenue	0.7	1.9	1.3	0.0	0.0	0.0	0.0	0.0
External debt service, public	1.4	4.2	2.8	0.0	0.0	0.0	0.0	0.0
Fund credit outstanding in percent of:								
Quota	87.5	37.5	0.0	0.0	0.0	0.0	0.0	0.0
GDP	0.94	0.38	0.00	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	2.9	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves	5.7	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Government revenue	3.5	1.3	0.0	0.0	0.0	0.0	0.0	0.0
External debt, public	2.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items under baseline scenario:								
Quota (SDR million)	3,051.2	3,051.2	3,051.2	3,051.2	3,051.2	3,051.2	3,051.2	3,051.2
Gross domestic product (USD million)	380,592	403,819	419,311	433,910	449,242	465,329	482,739	490,213
Exports of goods and services (USD million)	124,661	128,045	133,355	139,479	146,186	152,218	158,847	164,583
Gross international reserves (USD million)	62,518	65,859	65,859	65,859	65,859	65,859	65,859	65,859
Government revenue (USD million)	102,658	113,929	117,258	120,400	125,158	129,075	129,583	132,818
External debt service (USD million)	51,154	52,314	54,666	52,387	55,520	57,736	59,026	67,409
Total external debt (USD million)	158,124	174,444	187,348	195,615	204,648	216,336	226,357	230,381

Source: IMF staff calculations.

Annex I. Status of Key Recommendations from the 2023 Article IV Consultation

	Recommendation	Status
Fiscal Policy	Stabilize public debt and put it on a downward path towards a level in line with that of investment grade sovereigns and consistent with most common debt ceilings across the world (60–70 percent of GDP).	The 2024 budget envisages a concerted effort to contain public debt. However, debt-to-GDP ratio is expected to remain above 70 percent in the medium term. Fiscal risks arising from spending pressures on the wage bill, social grants, and transfers to SOEs could add to public debt.
	Achieve a fiscal consolidation of 3 percentage points of GDP over three years, mostly by reducing public spending.	The 2024 Budget proposes a reduction in primary spending of close to 2 percent of GDP over three years. t However, the budget is not specific on the reforms needed to durably achieve this spending compression.
	Introduce efficiency-enhancing revenue collection measures, including by limiting tax exemptions and strengthening tax administration.	Some revenue measures, including freezing adjustments to personal income tax brackets and increasing certain excise duties, were introduced. The South African Revenue Service (SARS) continues to rebuild following the period of state capture. Improved service offerings and digitalization have helped reduce fraud. Further effort is needed as scope remains to limit base erosion and profit shifting, strengthen compliance, reduce tax gaps, and enhance dispute resolution. Exemptions related to selected sectors and special economic zones have not been removed.
	Reduce the cost of servicing public debt.	The government is using a portion of valuation gains in the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) to reduce debt-service costs. However, this should not be seen as a substitute for sustained fiscal consolidation needed to decisively reduce the cost of servicing public debt.
	Introduce a debt ceiling to complement the nominal primary expenditure ceiling.	The MTBPS indicates the authorities' intention to put in place an enhanced fiscal framework that safeguards debt sustainability, which is expected to be further defined in the FY25 Fiscal Strategy Statement
	[Undertake a Public Investment Management Assessment (PIMA).]	The authorities have requested a PIMA.

	Recommendation	Status
Monetary and Financial Policy	The SARB needs to maintain a data dependent approach to monetary policy decisions.	The SARB cut the repo rate by 25 basis points (bps) for the first time in September 2024, underpinned by a sustained deceleration in inflation expectations, with inflation dropping below the target midpoint. This cut followed a tightening cycle since November 2021 that increased the repo rate by a cumulative 425 bps.
	Formalize the current focus on the midpoint of the target range and lower the inflation target, as conditions allow and with adequate communication.	The authorities are assessing the benefits and costs and the appropriate timing of such a potential policy change.
	Continue to closely monitor the impact of the new monetary policy implementation framework, notably banks' liquidity position.	The SARB is continuously monitoring banks' liquidity positions.
	The flexibility of the rand should be maintained.	The government has maintained a flexible ER regime, with no FX intervention.
	Increase foreign exchange reserves as opportunities arise	Reserves have increased, standing at 6 months of imports.
	Pursue efforts for a swift removal from the Financial Action Task Force's (FATF) list.	The authorities have completed 16 (out of 22) action items required to improve AML/CFT enforcement, with 6 items still outstanding.
Product Market Reforms	Improve Eskom's operation efficiency and reduce its footprint in the energy sector.	Unbundling of Eskom's generation and transmission functions has been completed. Plant operational efficiency has also improved, with Eskom achieving more than six months of uninterrupted power supply since March 2024. The passage of the Electricity Regulation Amendment Act in August 2024 opened the market to independent power producers (IPPs), which is expected to reduce Eskom's footprint in the energy sector, along improving energy security, and promoting competition and the use of renewable energy.
	Make SOEs, particularly in the network industries, lean, efficient, and competitive.	Eskom and Transnet have benefited from government debt relief and guarantees, respectively, provided against recovery plans aiming to improve their efficiency and competitiveness.
	Lower entry barriers to make it easier for businesses to start, grow, and compete.	Beyond progress in the electricity sector, industrial policy remains largely unchanged, with strong emphasis on localization and protection.

	Recommendation	Status
Labor Market Reforms	Improve representativeness in the collective bargaining system and allowing firm-level flexibility.	Reforms are still pending
	Streamline enforcement of employment protection legislations.	Reforms are still pending
	Activate social grants to encourage labor force participation and job search.	The SRD grant has been extended several times since the end of the pandemic with the latest increase on April 1, 2024. The 2024 Budget envisages another SRD grant extension in 2025 with the funding provisionally allocated through March 2027. The grant is not linked to job search.
	Introduce an effective immigration framework.	The eVisa system was expanded to 34 countries, with almost all countries covered with either a visa waiver or an eVisa.
	Improve the quality of the education system.	The Department of Basic Education strengthened classroom support in underserved schools through additional teaching assistants and enhanced curriculum by introducing coding and robotics to basic education.] Reforms in education and ALMPs to address skills mismatches are still pending.
Governance Framework	Strengthen criminal prosecution and enforcement of sanctions against corruption offenses.	The Investigating Directorate Against Corruption (Idac) has been established within the National Prosecuting Authority (NPA). The planned NPA Amendment Act aims to provide greater independence and specialized capabilities for prosecutors to help tackle the growing threat of organized crime and complex financial offenses, for instance by making the Investigating Directorate a permanent entity. The Asset Forfeiture Unit of NPA is adjusting its asset recovery strategy to focus on high impact cases particularly related to corruption. A number of high-profile cases have been finalized (including those identified in Zondo Commission report, e.g., Gupta's), and freezing orders have been made for accounts of convicted persons/entities.
	Equip anti-corruption agencies with sufficient legal power, capacity, and operational autonomy.	Work is ongoing to finalize legislation strengthening the NPA's operational and financial independence. Legislation has been passed establishing the Investigating Directorate Against Corruption (IDAC) as a permanent unit within the NPA with criminal investigative powers to deal with complex corruption and related crimes. IDAC is now in the process of recruiting permanent criminal investigators with full police powers. IDAC is also collaborating with the private sector for skills' build up (especially digital and financial forensic experts) as part of the broader Presidential Public Private Partnership Initiative.

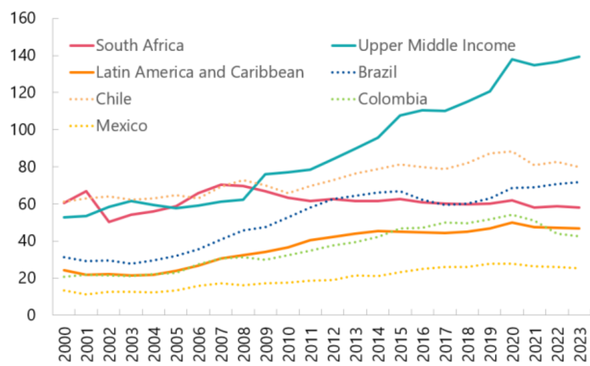
	Recommendation	Status
Governance Framework		The Anti-Corruption Academy was launched in 2024 to improve the capacity of law enforcement officers to combat corruption. The academy is designed to provide specialized training in detecting, investigating, and preventing corruption at various levels of government. The government's broader anti-corruption strategy includes efforts to exit the Financial Action Task Force (FATF) grey list by enhancing anti-money laundering measures.
Climate Mitigation	Advance climate transition	The Climate Change Bill has been signed into law. The Act aims to strengthen co-ordination between departments and support progress towards commitments in Nationally Determined Contribution (NDC) under the Paris Agreement. However, the authorities have delayed the decommissioning of aging coal plants
	Implement South Africa's Just Energy Transition Investment Plan.	Funding from international partners is being channeled towards projects such as repurposing coal plants, strengthening the electricity grid, and developing renewable energy solutions such as solar and wind.
	Provide targeted support to affected workers and communities.	South Africa's JET strategy includes a multi-faceted approach to support affected communities, focusing on economic diversification, job creation, and social protection to mitigate the impact of the transition away from coal.
	Improve the effectiveness of the carbon tax to align carbon pricing with emission reduction targets.	The second phase of carbon tax implementation, originally scheduled in 2023, has been postponed to 2026 to give industries more time to adapt to the tax system while transitioning to more sustainable practices.

Annex II. Credit Trends and the Credit Gap in South Africa[1]

This note provides a few key stylized facts for the dynamic of credit in South Africa and re-estimates the credit-growth-gap as a measure of the potential for sustainable economic recovery and the space to catch up with peers on this metric.

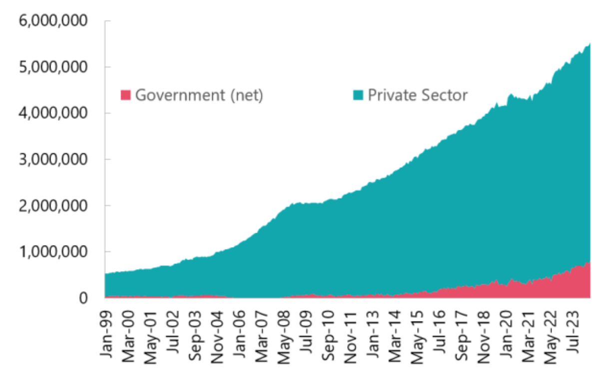
1. **In contrast with many of its peers, the bank credit-to-GDP ratio in South Africa has been slowly decreasing in the last decade**, settling at just below 60 percent in the post pandemic period—above some comparators but still significantly below the upper middle-income average. The conditions during the COVID-19 shock caused credit to remain volatile, in the context of extremely low economic activity. In the last three years, as the economy recovered, nominal credit also started showing signs of gradual improvement, though at a slow pace, and the credit-to-GDP ratio appears to be reverting to its long-term trend. This recovery has retail credit as one of its drivers, despite the still high interest rates, which may lead to a period of continued high NPLs.

Figure 1. Credit to the Private Sector
(In percent of GDP)



Sources: WDI, and IMF staff calculations.

Figure 2. Banking Sector Claims
(In millions of Rand)

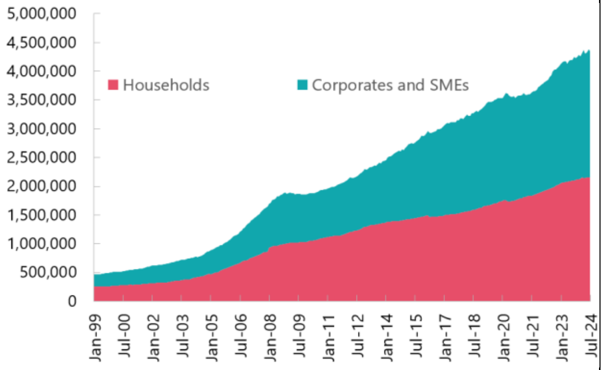


Sources: SARB, and IMF staff calculations.

2. **In nominal terms, total banking sector claims, which include investments, discounted bills, and net claims to the government, have followed an almost continuous growth pattern since the early 2000s**. That trend was temporarily interrupted during the global financial crisis and more recently during the pandemic. Reflecting developments in the fiscal sector and the securities market, the net claims on the government have gradually taken more importance in system's total claims, especially in the last 10 years. While the exposure to the government remains relatively manageable and aligned with other emerging markets, net claims on the government (i.e. not including SOE and municipal debt) currently represent almost 15 percent of the total compared to the less than 3 percent at end-2014. Moreover, this segment has been one of the most dynamic in the post pandemic period, doubling its amount since end-2021 in nominal terms.

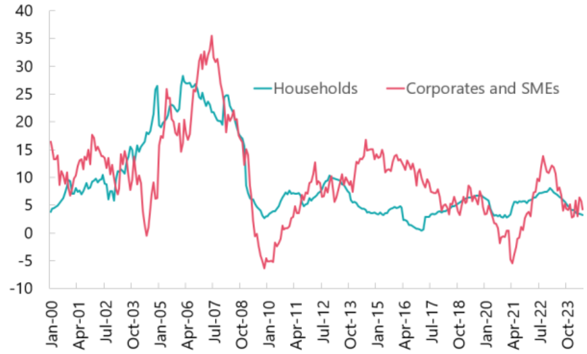
[1] Prepared by Mario Mansilla (MCM).

Figure 3. Credit to the Private Sector
(In millions of Rand)



Sources: SARB, and IMF staff calculations.

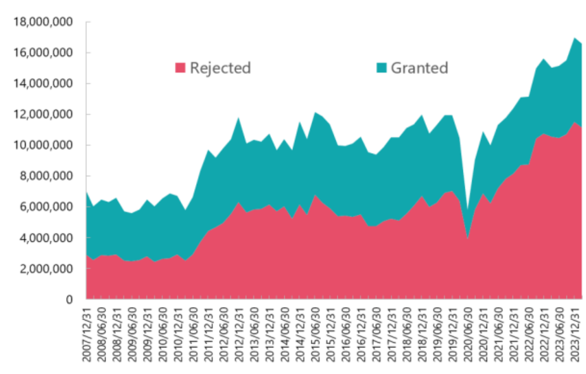
Figure 4. Total Credit Growth: Households vs. Corporates and SMEs
(In percent change)



Sources: SARB, and IMF staff calculations.

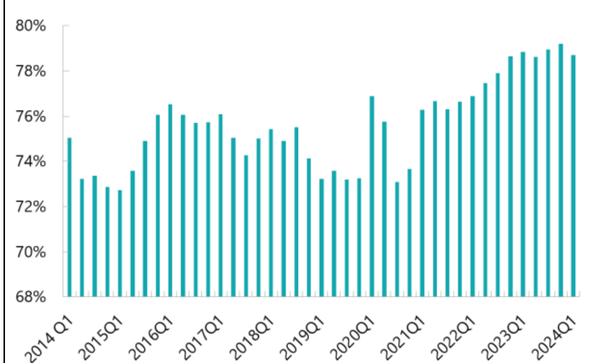
3. **At the same time, the banking claims on the private sector remain the most important segment of the market** and, excluding investments and discounted bills, has been almost equally distributed between exposures to households and enterprises. While both components have followed similar paths along the business cycle, in the last ten years the credit growth to corporates and SMEs has been almost three times more volatile than the credit to households. This pattern has also been observed during the pandemic period, with both segments seeming to converge to similar growth rates in the last two years.

Figure 5. Credit Applications



Source: National Credit Regulator South Africa.

Figure 6. Percentage of Credit Accounts in Good Standing



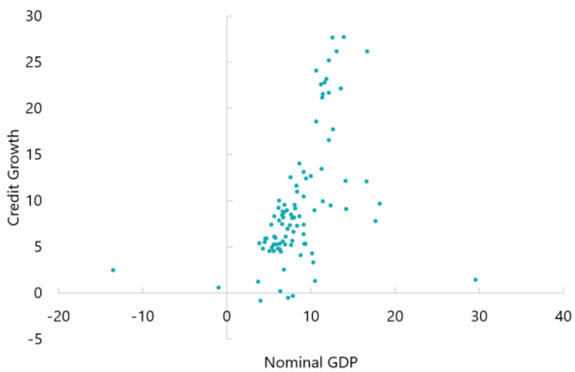
Source: National Credit Regulator South Africa.

4. **Total credit to the private sector in South Africa and nominal GDP have been positively correlated, with credit growth being more prone to wider swings over the business cycle and in a procyclical pattern**.[2] Both growth rates series appear to have a negative trend in the last two decades, and in the post pandemic period they seem to have converged to a fairly low nominal

[2] G. Chakanyuka (2016). Analysis of the long run relationship between economic growth and bank credit availability in South Africa. International Journal of Finance Vol 1, Issue No1. On synchronization of business and credit cycles see also: M. C. Nyati et.al. Macroprudential and Monetary Policy Interactions and Coordination in South Africa: Evidence from Business and Financial Cycle Synchronization. Economies, 2023.

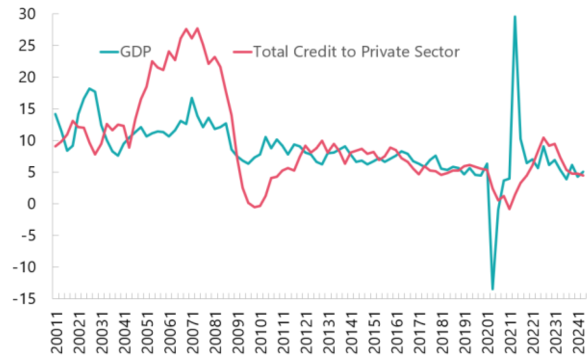
growth rate. While the latter could be attributed to the high interest rates environment, note that similar rates levels were also observed in the pre-pandemic period.

Figure 7. Growth Scatter Plot: Nominal GDP vs. Credit
(In percent, quarterly)



Sources: SARB, and IMF staff calculations.

Figure 8. GDP and Credit Growth
(In percent, yoy, quarterly)



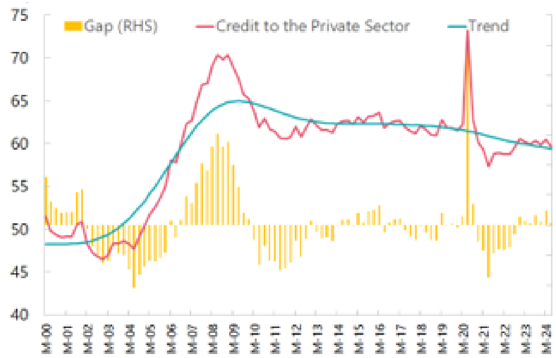
Sources: SARB, and IMF staff calculations.

5. **Credit demand has been growing rapidly since 2021, despite the prevailing high interest rates, especially in the retail sector.** Reflecting this, the number of credit applications by consumers and small enterprises has been growing at two-digit annual rates in the last two years, though there are signs of a moderation in 2024 (average 17 percent y-o-y in 2022–24 vs 13 percent in 2024 first half). However, the banks' risk appetite has not been growing in tandem. In the pre-pandemic period, the percentage of rejected credit applications was close to 50 percent, while at present they represent about two-thirds. This is despite the noticeable increase in the number of accounts classified in good standing since the pre pandemic period (79 percent of total in 2024.1 vs 60 percent at end-2019). The increased conservatism may be a signal of the banks perception of higher credit risk, partly already reflected on higher NPLs, associated to the slow GDP growth and still high interest rates.

6. **The ratio of credit to the private sector to GDP has had a slightly negative trend down for almost 10 years, with a current level just below 60 percent.** This was accompanied by a sound standing of the banking system and development of the retail market. During that time, deviations of the credit-to-GDP from trend fluctuated within safe levels. Then after an extremely volatile pandemic period, in which the gap fluctuated by almost 16 percentage points (largely due to denominator effects), the ratio gradually returned to its (slightly declining) long-term trend.[3] This relatively rapid convergence to trend by the bank credit ratio post-pandemic, reflects the continued resiliency of the banking system to shocks and its capacity to adapt to volatile economic conditions. At the same time, the negligible gap suggests that risks of unsustainable credit growth in South Africa are subdued at present.

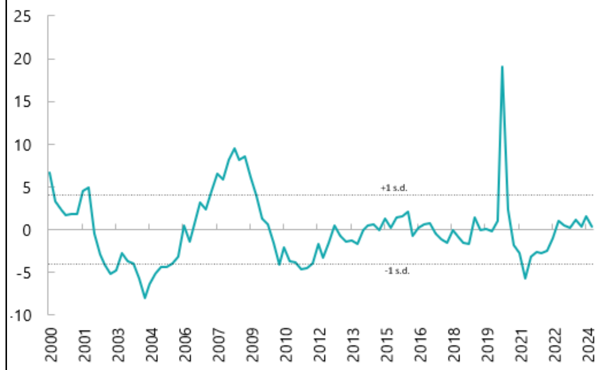
[3] The trend was calculated using the standard HP-Filter (λ=1600), on quarterly data for the period 2000-24. Credit is defined as loans and advances from banks to the private sector.

Figure 9. Credit-to-GDP Gap
(In percent of trend credit-to-GDP ratio)



Sources: Haver, and IMF staff calculations.

Figure 10. Credit-to-GDP Gap
(In percent of trend credit-to-GDP ratio)



Sources: Haver, and IMF staff calculations.

7. At the same time, from a long-term perspective, the South African economy would benefit from higher (and sustainable) levels of bank credit penetration in the economy. While the downward trend of the ratio may be biased by the post-pandemic transition, it cannot be dismissed that even prior to 2020 credit-to-GDP already seemed on a declining path while that of South Africa's peers grew noticeably. Higher credit penetration could improve the access to finance for the economy in general but specially the SME segment, as South Africa ranks below upper middle-income economies and the average of Sub-Saharan in this area.[4]

8. In recent years, financial oversight authorities have made significant enhancements to the regulatory and legal framework that improves the resiliency of the financial system, including the activation of a countercyclical capital buffer (CCyB), which aims to make credit more stable, avoiding sharp contractions during economic downturns and preventing credit booms during expansions. The tool consists of an extra capital buffer requirement that is typically built during the expansionary phase of the cycle, which then can be flexibly used during a downturn. The international experience with this tool suggests that keeping a positive buffer, even if the economy is in neutral territory, helps with the releasability the buffer. Basel also recommends that the CCyB is not associated with regulatory and market-induced penalties when the buffer is released (e.g., there is no "stigma" effect). In that sense, it is important that authorities publish the CCyB framework and develop a robust communication strategy for their decisions in this regard.

9. The CCyB was already part of South Africa's macroprudential tools but had been set to zero ever since its creation. In late 2023 it was decided to set the requirement to one percent of risk-weighted assets on a positive cycle-neutral basis. Banks are expected to comply by end-2025 with this requirement. The timing of the activation of the positive neutral CCyB is important as banks may respond by reducing risk-weighted assets and credit supply. However, at this point that is not expected in South Africa because, on average, banks currently hold capital significantly above the minimum requirement (17 percent vs. 9 percent CAR), so the CCyB will only partially lock-in the

[4] South Africa Financial System Stability Assessment Report. International Monetary Fund. 2022. See also: A. Leke et.al. Emerging Stronger: How Africa's Policymakers can Bolster their Economies during and beyond the Covid-19 crisis". 2021. Brookings.

excess over minimum. At the same time, banks are liquid (about 150 percent LCR) and profitable (15 percent ROE), which would allow a fairly rapid absorption of the requirement without materially inhibiting credit extension in this recovery phase of the economy. Once in place, the CCyB will be an additional tool to mitigate the impact of future economic downturns on the system and the real sector by reducing the pro-cyclicality of credit.

10. Looking forward, South Africa would benefit from a deeper bank credit market, in particular for the SME segment and to some extent the retail segment, subject to prudential standards. Without losing sight of the need to protect the prudent regulation and supervision of banks, and given the magnitude and diversification of the South African financial system, this long-term objective may include the following:

- Fostering banking sector competition and contestability. The experience with the entry of digital banks seemed to have contributed to price convergence, other similar models (e.g. limited banking licenses) may have similar effects. Open banking schemes can also contribute to higher competition among banks.

- Improved credit bureau reporting and further developing credit information systems can reduce the lending risk and help access to finance.

- Upgrading payments systems to ensure higher efficiency and security.

11. By focusing on these areas, South Africa can work towards increasing its financial depth, which in turn can support broader economic development.

Annex III. External Sector Assessment

<table>
<tr><td colspan="6">Overall Assessment: On a preliminary basis, the external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The CA deficit is estimated to have declined to about 1.3 percent of GDP in 2024, from 1.6 percent in 2023. The CA deficit is projected to widen modestly to 1.8 percent of GDP in 2025 and stabilize at 2.5 percent over the medium term, driven by recovering imports.

Potential Policy Responses: A combination of bold structural reforms and fiscal consolidation is necessary to safeguard macroeconomic stability and bolster growth and can help support South Africa's external position. Structural reforms supporting competitiveness, jobs, and growth, should focus on addressing energy and logistics bottlenecks (including by promoting private sector participation), as well as on improving the business environment, governance, and the functioning of labor markets. An ambitious spending-based fiscal consolidation is needed to put debt on a sustained downward path toward a more prudent level, while protecting vulnerable groups. Industrial policies, where desirable, should address specific market failures to promote competition and exports in concerned industries and technological advancement, while avoiding discriminatory contents that violate international trade rules or accentuate trade tensions. The flexible exchange rate should remain the main shock absorber, and maintaining an adequate level of international reserves can further support resilience to shocks.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="5">Background. At end-2024, South Africa's NIIP is estimated at 27.9 percent of GDP, broadly in line with the 2023 level, due primarily to an uptick in inbound direct and other investment in 2024 amid nominal exchange rate appreciation, and above the 2019-23 NIIP average of about 22.4 percent. The positive NIIP position is expected to moderate over the medium term as the CA deficit increases further. Gross external debt increased slightly to 43.2 percent of GDP in 2024 from 41.5 percent in 2023. It is expected to increase over the medium term to about 47 percent of GDP by 2030 due to portfolio and other debt-related inflows, anchored by the structural reform effort. Short-term external debt (on a residual maturity basis) is projected to decline slightly to about 11.4 percent of GDP by 2030 down from 2023 levels of 13.2 percent.

Assessment. The level and composition of NIIP and gross external debt indicate that South Africa's external position is sustainable. Risks from South Africa's large gross external liabilities are mitigated by limited sectoral foreign exchange mismatches, the large foreign asset position (primarily gross international reserves), and the liability composition (mostly in equities, with a significant share of external debt (43 percent) being rand denominated).</td></tr>
<tr><td>2024 (% GDP)</td><td>NIIP: 27.9</td><td>Gross Assets: 124.3</td><td>Debt Assets: 16.5</td><td>Gross Liab.: 99.3</td><td>Debt Liab.: 43.0</td></tr>
<tr><td>Current Account</td><td colspan="5">Background. The CA deficit is preliminarily estimated at 1.3 percent of GDP in 2024, lower than 1.6 percent in 2023 and higher than the 0.2 percent CA deficit average during 2019-23. Over the medium term, the CA deficit is projected to widen gradually to about 2.5 percent of GDP as import growth continues alongside a recovery in domestic demand and resumption of capital flows (including FDI) to pre-pandemic levels.

Assessment. Staff estimates a CA gap in the range of 0.5 to -1.3 percent of GDP in 2024 (-0.4 midpoint estimate). The cyclically adjusted CA is estimated at -1.6 percent of GDP in 2024, relative to a model-based EBA CA norm of 0.6 percent of GDP. Accounting for South Africa's lower life expectancy relative to other countries, an adjustor of 0.4 percentage points is applied, bringing the norm to 0.2 percent of GDP. Staff also adjusts the CA for the statistical treatment of Southern African Customs Union transfers (1 percent of GDP) and income balance measurement issues (0.4 percent of GDP),[1] resulting in an estimated adjusted CA of -0.2 percent of GDP and a CA gap of -0.4 percent of GDP, which is largely explained by structural factors outside of the model.</td></tr>
<tr><td>2024 (% GDP)</td><td colspan="5">CA: -1.3 | Cycl. Adj. CA: -1.6 | EBA Norm: 0.6 | EBA Gap: -2.2 | Staff Adj.: 1.8 | Staff Gap: -0.4</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="5">Background. Following an 8.3 percent depreciation in 2023, the CPI-based REER appreciated about 6.9 percent as of end-September 2024, reflecting primarily a nominal appreciation of the rand by about 7.8 percent against the U.S. dollar over the same period. Over the last 5 years, the REER appreciated by about 20 percent.

Assessment. The CA model suggests a REER gap of -1.9 to 5.3 percent (midpoint of 1.7 percent, applying an estimated elasticity of 0.25), while the REER-based regression points to a gap ranging between -6.7 percent (level approach) and -14.7 percent (index approach).</td></tr>
</table>

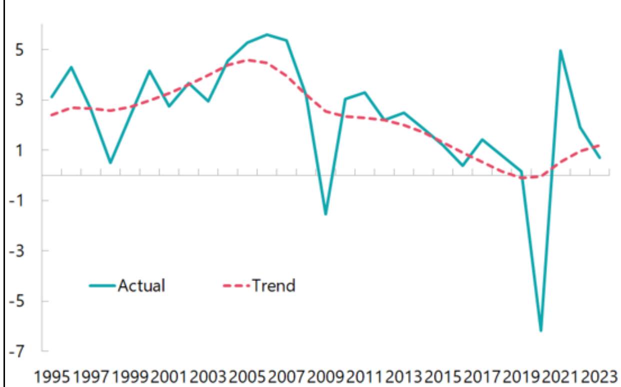
Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net FDI inflows are estimated to have declined marginally to 1.3 percent of GDP in 2024 (from 1.7 percent in 2023), while net portfolio outflows decelerated to 0.5 percent of GDP from 1.7 percent over the same period. Derivative net inflows declined slightly to 0.5 percent of GDP from 0.6 percent, while other net investment held steady at 0 percent of GDP in 2024, in line with 0 percent in 2023. Gross external financing needs are estimated at 14.0 percent of GDP in 2024, down from 14.8 percent in 2023, driven by a reduction in short-term debt service. **Assessment.** Risks from South Africa's traditionally large reliance on non-FDI inflows for external financing are mitigated by relatively small currency mismatches in the economy, the large equity liability composition of the NIIP, and its large and liquid domestic investor base. This market depth tends to reduce asset price volatility during periods of market stress.
FX Intervention and Reserves Level	**Background.** South Africa's exchange rate regime is classified as floating. Central bank intervention in the FX market is rare. International reserves are estimated at about 16.0 percent of GDP at end-2024, covering about 6.1 months of imports. Reserves comprise about 97 percent of the IMF's composite ARA reserve adequacy metric (109.1 percent when capital controls are taken into account), in line with the recommended 100–150 percent range. **Assessment.** Maintaining an adequate level of international reserves well within the recommended range can further support South Africa's resilience to shocks.

[1] Because South Africa is among the few countries with relatively high adult mortality rates, the demographic indicators are adjusted to account for the younger average prime age and exit age from the workforce, resulting in a lower CA norm. Other adjustors account for transfers related to the Southern African Customs Union (SACU), assessed to have a net negative impact on the CA, and measurement biases related to the treatment of retained earnings on portfolio equity assets and inflation compensation, which are likely to contribute to an underestimation of the income balance.

Annex IV. Drivers of Growth in South Africa—A Growth Accounting Analysis[1]

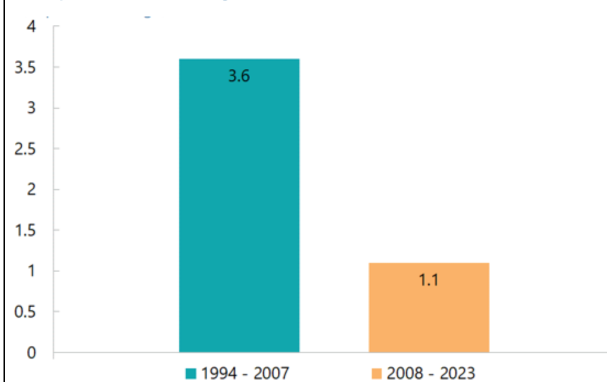
1. Except for a short post-pandemic recovery, South Africa's growth has been on a declining trend since the Global Financial Crisis (GFC). Following a period of robust growth in the decade following the end of apartheid, the growth rate fell from an average of 3.6 percent during 1994-2007 to 1.1 percent over 2008-2023. This raises a question about the main drivers of this change in trend growth, and what do they imply for the prospects for South Africa's growth going forward.

Figure 1. GDP Growth
(In percent change)



Sources: Penn Table, and IMF staff calculations.

Figure 2. GDP Growth, 1994-2007 and 2008-2023
(In percent change)



Sources: Penn Table, and IMF staff calculations.

2. Growth accounting offers a framework to assess the drivers of growth. Assuming a Cobb-Douglas production function of the form:

$$Y_t = TFP_t * {EL_t}^{\alpha} * {K_t}^{(1-\alpha)}$$

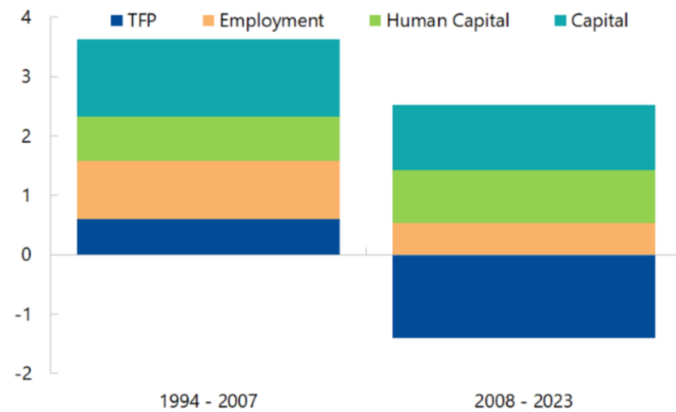
where Y_t represents real GDP, K_t is capital stock, α is the labor income share in total income, and TFP_t is total factor productivity. Effective labor (EL_t) is defined as $EL_t = EM_t * HC_t$ with EM_t being aggregate employment, further defined as a multiple of the size of working-age population (WAP_t), participation rate (PR_t), and unemployment rate (UR_t), e.g., $EM_t = WAP_t * PR_t * UR_t$. Lastly, HC_t is a proxy measure of human capital, which is a function of years of schooling. The overall growth rate can be decomposed into contributions of individual factors as follows:

$$\frac{\Delta Y_t}{Y_{t-1}} = \frac{\Delta TFP_t}{TFP_{t-1}} + \alpha \frac{\Delta EL_t}{EL_{t-1}} + (1-\alpha)\frac{\Delta K_t}{K_{t-1}}$$

[1] Prepared by Kamil Dybczak (AFR).

3. A historical analysis of growth drivers reveals that the slowdown in growth after the GFC was mainly due to a significant decline in TFP growth. Using data from the Penn World Tables, we quantified the contributions to growth for the periods 1994-2007 and 2008–23. The contributions from both capital and effective labor, despite shrinking somewhat across these periods, remained positive. The components of effective labor also changed, with the contribution from employment declining with rising unemployment since the GFC, and the contribution from human capital increasing due to improved access to education. The most dramatic changes, however, occurred for TFP growth, which declined by about 2 percentage points, from +0.6 percent to -1.3 percent, between the two periods.

Figure 3. Contributions to Growth
(In percentage points)



Sources: Penn Table, and IMF staff calculations.

4. Several factors have contributed to the decline in TFP growth. Private investment growth has been about half the median for other emerging markets, hindered by bureaucracy, corruption, red tape, and policy instability.[2] Despite being substantial, public investment has been inefficient, primarily directed towards underperforming large SOEs. One of them, Eskom, has been responsible for severe energy shortages that have dragged growth, amid insufficient private sector participation, governance deficiencies, and inefficient public sector operations.[3] Furthermore, high market concentration in several sectors, including manufacturing and banking, has inhibited the emergence of smaller firms that create new jobs. High labor costs, skills mismatches, and regulated hiring and firing practices have further contributed to high unemployment and low productivity growth.

5. The key question is what these trends imply for the future. Using the UN projections for working-age population growth of 1.2 percent annually over the next 5 years, and assuming that participation and unemployment rates remain at their 2023 levels (60 and 32 percent, respectively), employment would grow by 1.2 percent. With human capital growth of 1.3 percent, as in the past, effective labor is projected to grow by 2.5 percent. Given a labor share of 0.6, the contribution of effective labor to growth would be 1.4 percentage points. Following a decade of negative growth, investment is projected to accelerate up to 3 percent annually, driven by the resumption of credit and foreign investment. With the depreciation rate remaining at 6 percent, capital stock growth is projected to reach 2 percent by 2030, contributing to overall growth by about 0.9 percentage points. If TFP growth were to stay close to its 2008-23 average of -1.3, long term output growth would be

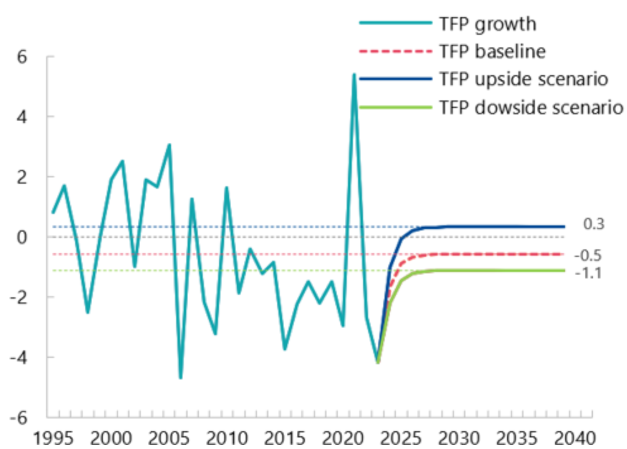
[2] OECD Economic Surveys: South Africa 2022 | OECD Economic Surveys: South Africa | OECD iLibrary (oecd-ilibrary.org)

[3] IMF (2020) Selected Issues Growth in South Africa: Issues and Reform Options

only 1.2 percent. However, accounting for ongoing structural reforms, including in key network sectors, TFP growth, while still negative, is expected to halve to -0.5 percent relative to the average during 2008–23, leading to an estimate medium-term growth of 1.8 percent.

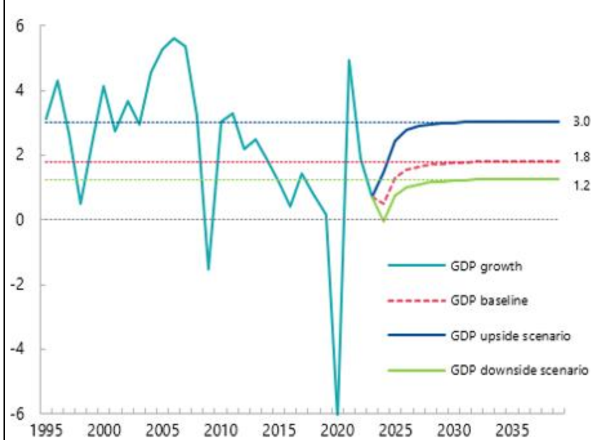
6. **A more ambitious package of structural reforms, including ongoing reforms of electricity and logistic sectors complemented by efforts to close gaps to best practice in the business environment, governance, and labor markets, could further support an improvement in TFP and long-term growth.** Such reforms are expected to facilitate investment (raising capital stock growth by a further 0.4 ppt relative to the baseline, leading to an increase in the contribution of capital by 0.2 ppt) , spur employment growth by 0.6 ppt relative to the baseline (increasing the contribution of effective labor by 0.2 percentage points), and bolster TFP growth (by a further 0.8 ppt) resulting in an improvement of 1.2 percentage points in medium term growth relative to the baseline.

Figure 4. TFP Growth
(In percent)



Sources: Penn Table, and IMF staff calculations.

Figure 5. GDP Growth
(In percent)



Sources: Penn Table, and IMF staff calculations.

Table 1. South Africa: GDP Growth and Contributions to Growth
(Percent and percentage points)

	Baseline	Downside	Upside
GDP Growth	1.8	1.2	3.0
Contributions to Growth			
Effective Labor	1.4	1.4	1.6
Capital	0.9	0.9	1.1
TFP	-0.5	-1.1	0.3

Sources: Penn Table, and IMF staff calculations.

Annex V. Risk Assessment Matrix[1]

Nature/Source of Threat	Likelihood	Time Horizon	Expected Impact on Economy	Policy Responses
Global Risks				
Intensification of Regional Conflict(s). Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	***High***	*ST*	***H/M***. Increasing spillovers from the war in Ukraine and the Middle East could lead to persistently high global fuel and food prices, lifting core inflation and de-anchoring inflation expectation. External and domestic financing conditions could abruptly tighten with capital outflows and rand depreciation. On the other hand, the country's coal and precious metal exports might provide an external offset to the adverse effects.	Pause easing cycle and, if needed, tighten policy rates, if large currency depreciation and a surge in general uncertainty de-anchor inflation expectations. Frontload fiscal consolidation if budget financing becomes problematic, while preserving well targeted social spending. Implement bold structural reforms to bolster growth, and exports, and facilitate private sector-led employment creation.
Commodity Price Volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	***High***	*ST-MT*	***H/M***. Commodity price volatility is a main driver for the country's current account (CA) performance in the coming period given the importance of mining exports. Terms of trade would worsen from lower commodity prices and external demand, and exports of precious metals and coal would decline, as well as tax mining revenues. In contrast, higher commodity prices could temporarily and significantly improve the CA.	Pause easing cycle and, if needed, tighten policy rate further if large currency depreciation and a surge in general uncertainty de-anchor inflation expectations. Frontload fiscal consolidation if budget financing becomes problematic, while preserving well targeted social spending. Implement bold structural reforms to bolster growth, and exports, and facilitate private sector-led employment creation.
Global growth slowdown. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	***Medium***	*ST*	***H/M***. A worsening external environment may lead to a recession. Weaker demand could reduce inflation pressures, but any exchange rate depreciation would counteract this. Increasingly costly fiscal financing would rely on domestic sources amid a deepening bank-sovereign nexus, further crowding out private investment. Terms of trade would worsen, and exports of precious metals and coal would decline.	Frontload fiscal consolidation if budget financing becomes problematic, while preserving well targeted social spending. Implement bold structural reforms to bolster growth, and exports, and facilitate private sector-led employment creation. Monetary policy should stay data dependent, and policy rates should be tightened if large currency depreciation and a surge in general uncertainty de-anchor inflation expectations.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

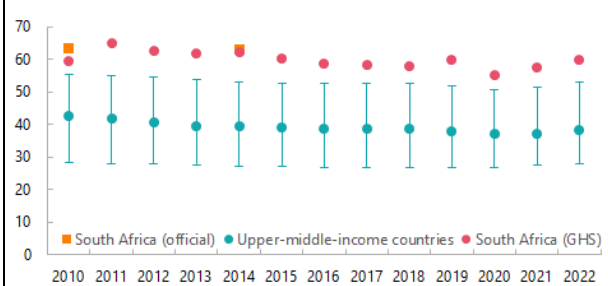
Nature/Source of Threat	Likelihood	Time Horizon	Expected Impact on Economy	Policy Responses
Global Risks				
Monetary Policy Calibration. Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	***Medium***	*ST-MT*	***H/M***. Capital flow reversals would cause a sharp tightening of financial conditions, rand depreciation, and an increase in risk premia across asset classes, weakening the external and fiscal positions.	Pause easing cycle and, if needed, tighten policy rate further if large currency depreciation and a surge in general uncertainty de-anchor inflation expectations. Frontload fiscal consolidation if budget financing becomes problematic, while preserving well targeted social spending. If market conditions turn disorderly and crisis circumstances are imminent, consider temporary measures to stem capital flow reversals among a broader policy package of measures to restore orderly conditions, ensuring that such measures do not substitute for warranted macroeconomic adjustment.
Deepening Geo-Economic Fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	***High***	*MT-LT*	***H***. Reconfiguration of trade and financial flows could have a sizable impact on South Africa, although the direction and the magnitude of the potential effect also depend on the degree of fragmentation, as the country is a major exporter of precious metals that are highly sought after.	Implement bold structural reforms to improve the business environment and benefit from trade and capital flow diversion. Advance the implementation of the regional trade integration under the African Continental Free Trade Area.
Domestic Risks				
Social Discontent. High inflation, real income loss, spillovers from conflicts (including migration), and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects, leading to policy uncertainty and market repricing.	***Medium***	*ST-MT*	***H/M***. Social tensions would disrupt key infrastructure and supply channels, and weaken confidence generally, dampening economic growth. Employment would deteriorate, fiscal deficits worsen, risk premia surge, and domestic financing conditions tighten.	Enact support measures targeted to the poor while continuing an ambitious, expenditure-based, and growth friendly fiscal consolidation to ensure debt stabilization. Implement bold structural reforms to bolster growth, and exports, and facilitate private sector-led employment creation. Monetary policy should stay data dependent, and, and policy rates should be tightened if large currency depreciation and a surge in general uncertainty de-anchor inflation expectations.
Climate Change. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment	***Medium***	*MT-LT*	***H***. The economy is among the most carbon intensive EMs. The country primarily exports coal, minerals, and metals, and its major trading partners are similarly carbon-intensive nations, facing significant uncertainties regarding climate policies.	Facilitate investment in renewable energy, including through structural reforms improving the business environment., Ensure stable macroeconomic policies that are conducive to attracting FDI into green sectors.

Nature/Source of Threat	Likelihood	Time Horizon	Expected Impact on Economy	Policy Responses
Domestic Risks				
Delays in Implementing Structural Reforms. Difficulties in attaining consensus within the new government of national unity on needed reforms including in the electricity and transportation sectors, delay their implementation. On the upside, reforms could be implemented faster under the new administration	***Medium***	*ST-MT-LT*	***H***. Structural constraints to growth, including renewed electricity shortages and disruptions at ports and rails, would continue to erode confidence, trigger capital outflows, and raise financing costs amid further sovereign rating downgrades. Poverty, inequality, and unemployment would worsen, and dissatisfaction would become widespread. Failure to address vulnerabilities at Eskom and Transnet would also have adverse consequences for the public finances. On the upside, faster reform implementation could lead to higher confidence and growth, supporting capital inflows and the fiscal position.	Swiftly implement reforms to address electricity and transportation bottlenecks, including by attracting private sector participation, improving SOE operational efficiency, enhance competition in product markets, and increase labor market flexibility, while strengthening governance. Advance anti-corruption and anti-money laundering measures to boost confidence.
Higher-than-expected Budget Deficits and Ballooning Debt. The fiscal deficit is already high and threatened by continuous SOE bailouts, compensation policy challenges, and high current expenditures.	***High***	*ST-MT*	***H***. Perception that public debt is unsustainable would lead to capital outflows, amid deteriorating confidence, and challenging BOP financing. Financial sector vulnerability would increase with entrenched bank-sovereign nexus and loss of appetite for sovereign credit.	Frontload fiscal consolidation if budget financing becomes problematic, while preserving well targeted social spending. Implement bold structural reforms to bolster growth, and exports, and facilitate private sector-led employment creation.

Annex VI. Income Inequality and Structural Factors[1]

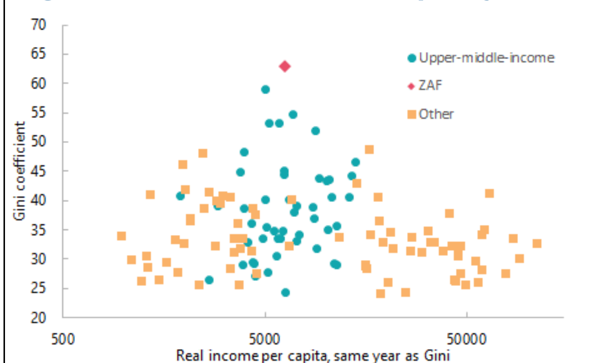
1. Despite improvements in living standards since the end of apartheid, inequality in South Africa remains one of the highest in the world. Alternative measures of inequality, such as a Gini coefficient exceeding 60 and a Palma ratio nearing 7, rank among the highest globally (WDI, 2020; WIID, 2020).[2] Using information on labor income after taxes and transfers from the General Household Survey (GHS), we estimate these indicators between 2010 and 2023 and arrive at comparable results, with the Gini coefficient around 60 in 2023, and the Palma ratio averaging 6 between 2010 and 2023, confirming that the deep-rooted and enduring nature of inequality in South Africa has been affecting various aspects of economic and social life.

Figure 1. Inequality in South Africa Compared to Upper-Middle-Income Countries
(Gini coefficient)



Sources: World Bank WDI Database, and IMF staff calculations.
Note: GHS = General Household Survey. Upper-middle-income countries: 95% confidence interval, 5-year moving average.

Figure 2. Real Income and Inequality



Source: World Bank WDI Database, and IMF staff calculations.
Note: Real income per capita defined as aggregate real income in constant 2017 PPP US$ divided by population.; Gini coefficient and real income measured in the same year. Gini coefficient and real income per capita is the latest available for each country.

2. The high levels of inequality have profoundly impacted both the economy and society. Periods of low growth have exacerbated income inequality through slow job creation, stagnant wages, and a reduced income share for workers. Conversely, high levels of inequality and associated lower access to education and healthcare have hindered economic growth by limiting economic opportunities for lower-income individuals, confirming the two-way relationship suggested by literature (Berg, 2021). Furthermore, high inequality has weakened social cohesion and increased the likelihood of social unrest and discontent, indicating that inequality has become a macro-critical issue.

3. Redistributive fiscal policy has played a crucial role in mitigating inequality.[3] Specifically, South Africa relies more on direct taxes, particularly a progressive personal income tax

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[1] Prepared by Kamil Dybczak (AFR) and Sergii Meleshchuk (AFR).

[2] Palma ratio compares the income share of the top 10 percent to the bottom 40 percent.

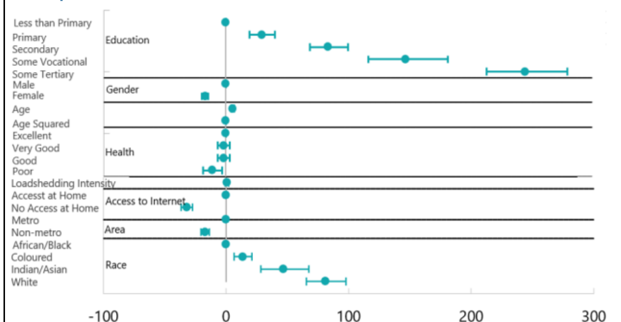
[3] While not within its primary mandate, monetary policy can also affect inequality. Miyajima (2021) presents evidence indicating that individuals at the lower end of the consumption distribution, who rely more heavily on government

(continued)

(PIT), than most other emerging markets. Additionally, the expanded coverage of targeted direct cash transfers, indirect transfers, and in-kind transfers has been instrumental in addressing inequality and poverty (IMF, 2018 and 2023). Indeed, some studies indicate that in the absence of these redistributive policies, inequality in South Africa would have been much higher.[4] Despite these positive impacts, South Africa's inequality remains among the highest globally, as noted above.

4. **Even after redistributive policies, inequality remains very high and masks significant disparities across age, race, gender, or regions**. Utilizing data from the GHS, we estimate the impact of various factors on individuals' income through a regression model.[5] Specifically, we analyze individuals' labor income against standard control variables such as age, education level, health status, and race. Additionally, we consider structural factors like employment contract type (formal/informal), internet access, exposure to load-shedding, and residence in metro areas. Our findings highlight the importance of both sets of factors in determining labor income. Specifically:

Figure 3. Effect on Wages Relative to Base Category
(In percent)



Source: IMF staff calculations.

- Race: Despite the end of apartheid over three decades ago, significant income disparities persist among ethnic groups. Our results show that White South Africans earn almost twice as much as Black South Africans on average after controlling for key individual and structural characteristics discussed below (education, gender, age, etc.). A 2016 survey by Statistics South Africa revealed that Black South Africans' average income was one-fifth that of White South Africans. Another study by Sulla et al. (2024) identifies race as the largest contributor to inequality in South Africa.

- Education: There is a statistically significant relationship between education levels and income. On average, individuals with tertiary education earn nearly 2.5 times more than those with incomplete primary education. Educational attainment disparities are the second most significant driver of inequality in South Africa (Sulla et al., 2024).

- Gender*:* Our estimates indicate that women, on average, earn about 17 percent less than men.

- Age: The positive coefficient for age and negative coefficient for age-squared suggest that labor income increases with age but at a decreasing rate. For instance, 21-year-olds earn

transfers and allocate a larger share of their income to food, benefit more from lower inflation. This suggests that monetary policy tightening may contribute to a reduction in consumption inequality.

[4] World Bank (2022) estimates that without social transfers and social spending, inequality in South Africa would be about 20 Gini points higher.

[5] See Box 1: Data Description and Estimation Strategy.

3.5 percent more than 20-year-olds on average, but the marginal effect of one additional year of age halves to 1.7 percent around age 40 and becomes negative at age 59.

- Health Status: Healthier workers tend to earn more. Specifically, individuals with excellent health earn nearly 11 percent more than those with fair or bad health.

- Formality: Workers in the formal sector earn almost twice as much as those in the informal sector. The informality rate in South Africa is significantly lower than in most other emerging market countries. However, it means that workers who would be in informality are not in the formal sector either and they remain excluded from economic activity and challenged by poverty (OECD, 2022).

- Load-shedding: Although indirectly linked to labor income, our results suggest that individuals with more stable electricity supply have labor income higher by about 3 percent.[6]

- Internet Access: Internet access has become crucial for working from home, children's education, receiving social support, and accessing financial services, especially in remote areas (Garcia-Escribano, 2020). A stable internet connection can enhance job search efficiency and the productivity of entrepreneurs and small businesses. Our estimates indicate that individuals without home internet access earn 33 percent less on average than those with access.[7]

- Residence in Metro Areas: Living in a metro area is associated with approximately 20 percent higher income compared to living further from the city center, where most of higher-paying jobs are located.

5. Pre-distributive policies have the potential to reduce inequality while fostering growth. By providing access to education, better health services, and basic infrastructure, pre-distributive policies can level the playing field for individuals before they enter the labor market. This not only improves economic opportunities for the poor but also addresses structural bottlenecks and boosts growth. Additionally, active labor market policies that promote employment may play a crucial role too.

6. Well-designed policies have the potential to reduce inequality and boost growth. Our econometric estimates suggest that addressing some of South Africa's longstanding structural issues would help increase individuals' incomes. We simulate the impact of four individual policy changes on labor income, as well as the combined effect of all four policies. Finally, we calculate Gini coefficients using the simulated values of labor income. Since the estimated coefficients do not fully capture the second-round effects of addressing these structural bottlenecks on growth, job creation,

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[6] The stability of electricity supply is proxied by the number of days a household experiences scheduled load shedding and/or unscheduled outages or blackouts in a week as information on the duration of blackouts experienced by households is not available.

[7] While individuals can access the internet at educational facilities, libraries, or other public spaces, home internet access remains crucial for remote work and online education for several reasons, including privacy and security, reliability of connections, and the flexibility of working hours.

and wages, our estimates and simulations represent a lower bound of the impact of the simulated policy changes. Our results suggest the following:

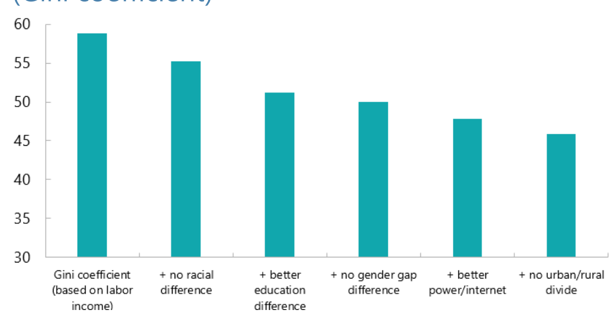
- South Africa's education system is currently failing to provide young people with adequate human capital, and the quality of education is generally low for disadvantaged groups, perpetuating income inequality. Moreover, the current education policy settings are not anticipated to reduce inequality in the future (IMF, 2024). A better-educated or skilled labor force would lead to higher levels of human capital and lower skill gaps, resulting in higher incomes and lower inequality. Assuming educational attainment improves by one grade for those with elementary and secondary education, individuals' incomes would improve substantially, reducing the Gini coefficient by 3 points compared to its current value.

- Ensuring a stable electricity supply and universal access to internet would improve income and reduce the Gini coefficient by 3 points. The benefits of reduced load-shedding would be mostly felt by low-income individuals living in rural areas and with limited access to alternative energy sources and heavy reliance on the public grid. This also limits their access to internet. The impact of the necessary electricity reform to permanently remove load-shedding is likely significantly underestimated, as it neglects its large potential impact on growth, productivity, and job creation.

- Closing the gender and racial pay gaps would increase the income of women and non-white population, whose wages remain significantly below the average. Achieving this goal would reduce the Gini coefficient by 4 points.[8]

- Assuming all three policies are implemented simultaneously, significant gains in labor income could be expected, leading to a remarkable reduction in the Gini coefficient by 10 points to 48 points and bringing South Africa closer to its peers.

Figure 4. Improvements in Inequality from Policy Measures
(Gini coefficient)



Source: IMF staff calculations.

[8] Francis and Valodia (2021) review the literature on occupational segregation and the gender and race pay gaps in post-Apartheid South Africa.

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Box 1. Data Description and Estimation Strategy

We utilize the General Household Survey (GHS) to perform a micro-level analysis of inequality and its determinants. Published annually since 2002, the latest available data is from 2023. The survey includes individual and household modules, covering a representative sample of the South African population. It captures information on individual labor status, income, education, health status, and household access to the internet, formality, and other relevant characteristics for our analysis.

Our empirical study focuses on labor-related income, which accounts for three-quarters of income inequality in South Africa (Stats SA, 2015). The regression sample, consisting of about 16,000 individuals, is restricted to employed individuals with non-zero labor income. While the overall coverage of the regression sample is broadly similar to the full sample of approximately 70,000 individuals, it includes a higher proportion of better-educated individuals, males, those employed in the formal sector, and individuals with better internet access and living in metro areas. The distribution of race, health, and load-shedding indicators appears comparable. (Table 1).

We estimate the impact of selected variables on individuals' income using a regression model of the form:

$$\ln \boldsymbol{Salary} = \boldsymbol{M}\beta + \boldsymbol{S}\gamma + \epsilon$$

where $ln\,\boldsymbol{Salary}$ is the vector of a natural logarithm of labor income, $\boldsymbol{M}$ is the matrix of "Mincerian" control variables including age, age squared, and categorical variables for education level, health status, and race; $\boldsymbol{S}$ is a matrix of structural factors, representing (i) type of employment contract (formal/informal), (ii) access to internet, (iii) exposure to load-shedding, and (iv) residence in metro-area.

To quantify the impact of potential policy measures on labor income and inequality, we allow the individual and structural variables to improve as discussed in the main text, and then quantify their effect on individuals' income. Specifically, we quantify:

$$\ln \widetilde{\boldsymbol{Salary}} = \widetilde{\boldsymbol{M}}\hat{\beta} + \widetilde{\boldsymbol{S}}\hat{\gamma} + \hat{\epsilon}$$

where $\widetilde{\boldsymbol{M}}, \widetilde{\boldsymbol{S}}$, represent the new matrix of improved variables and the vectors of estimated coefficients by $\widehat{\beta}\,, \widehat{\gamma}$. And

$$\hat{\epsilon} = \ln \boldsymbol{Salary} - \boldsymbol{M}\hat{\beta} - \boldsymbol{S}\hat{\gamma}$$

a vector of residuals in the regression. Finally, we compare the distribution of actual and counterfactual wages ($\ln \boldsymbol{Salary}$ and $\ln \widetilde{\boldsymbol{Salary}}$), calculate Gini inequality coefficients and quantify the contribution of individual variables to a difference between the original and counterfactual Gini coefficients.

Table 1. South Africa: 2024 Generalized Household Survey – Descriptive Statistics

		Full sample	Regression sample
Number of observations		71,174	15,628
		Share of population, percent	
Level of education	at least some primary	23	6
	at least some secondary	52	69
	at least some vocational	1	2
	at least some tertiary	9	23
	N/A	15	
Gender	Male	49	56
	Female	51	44
Health	Excellent	30	30
	Very good	27	28
	Good	37	38
	Fair/Poor	6	4
Access to internet in the household	Yes	15	22
	No	85	78
Load shedding	Every day	79	78
	5-6 days per week	5	5
	3-4 days per week	5	5
	1-2 days per week	4	5
	Never	7	7
Living in a metro area	Yes	42	53
	No	58	47
Employment sector	Formal	23	84
	Informal	6	16
	N/A	71	
Race	African/Black	82	77
	Colored	9	10
	India/Asian	2	3
	White	7	10

Source: GHS 2023 and IMF staff calculations.

Annex VII. Sovereign Risk and Debt Sustainability Framework

Figure 1. South Africa: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, as the authorities still have time to address unfavorable medium term debt dynamics arising from persistent weak growth, elevated fiscal deficits, and the materialization of contingent liabilities from SOEs. Mitigating factors include the depth of the domestic investor pool, and low FX and short-term debt exposure. A credible medium-term fiscal consolidation and growth enhancing structural reforms are key to put debt on a downward path and contain medium term sovereign stress risks.
Near term 1/	N/A	N/A	N/A
Medium term	Moderate	High	Medium-term risks are assessed as high, given the probability of debt not stabilizing, and the high terminal debt level. The stress tests for commodity and contingent liabilities further confirm the high risk, including for GFN. Tighter for longer global financial conditions, additional spending pressures, and large SOE liabilities exacerbate the medium-term risks.
Fanchart	High	...	
GFN	Moderate	...	
Stress test	Comm. Prices Cont. Liabty.	...	
Long term	...	High	In the absence of policy changes, the persistence of medium-term factors which imply a non-stabilizing medium term debt path would also affect the long-term outlook. Financing needs for climate mitigation would substantially increase public debt and GFN if borne fully by the government at market rates.
Sustainability assessment 2/			Not required
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: South Africa is at a moderate overall risk of sovereign stress. Debt is not expected to stabilize in the baseline over the medium term. However, medium-term liquidity risks as analyzed by the GFN Financeability Module are moderate, with the currency and maturity composition of debt mitigating these risks. The deep domestic capital markets further help mitigate the risks. Advancing fiscal consolidation as part of a credible medium-term framework and structural reforms to boost growth are needed to contain medium term risks of sovereign stress. For climate finance, already high levels of debt underscore the need for greater private sector involvement, increased use of concessional financing, raising additional revenue (including through a carbon tax) and achieving efficiency gains in public spending.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. South Africa: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
CG (chosen)				

1a. If central government, are non-central government entities insignificant? 0

2. Subsectors included in the chosen coverage in (1) above:

		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	No	
CPS / NFPS / GG: expected	4	State governments	No	
CPS / NFPS / GG: expected	5	Local governments	No	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
Missing	Chosen	Chosen	Missing	Missing

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
	Chosen	Chosen		

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
	Chosen

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

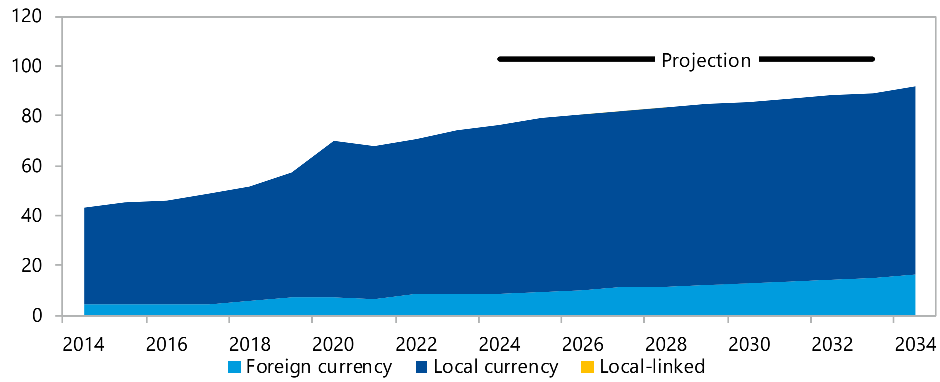
	Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Consistent with the debt coverage available from the authorities, calculations are based on the national government's budget (central government). Consolidated general government debt figures are not available due to difficulties in identifying cross debt holdings across institutional sectors. While this methodology excludes provincial governments, social security funds, and extra-budgetary institutions, these entities are not allowed to incur debt. Even though municipalities can borrow, most provincial and municipal expenditure is funded through transfers from the national government and is thus already captured to a considerable extent. However, the DSA also excludes SOEs, whose indebtedness has increased rapidly in recent years.

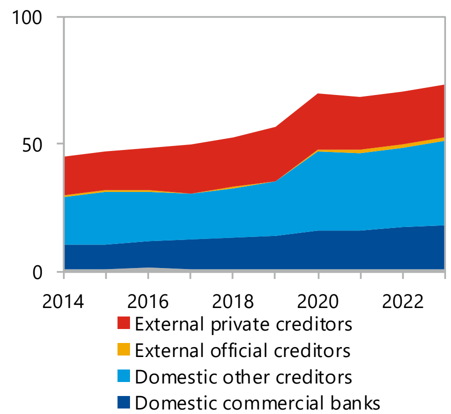
Figure 3. South Africa: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



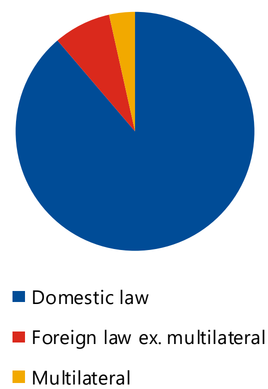
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



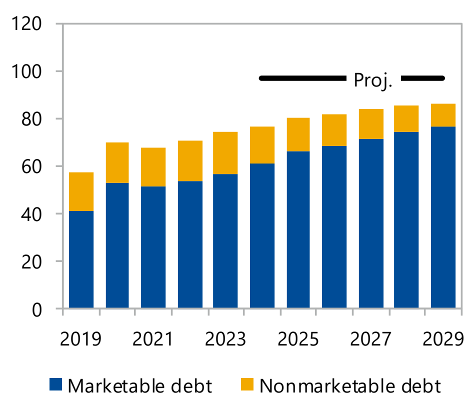
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2023 (Percent)



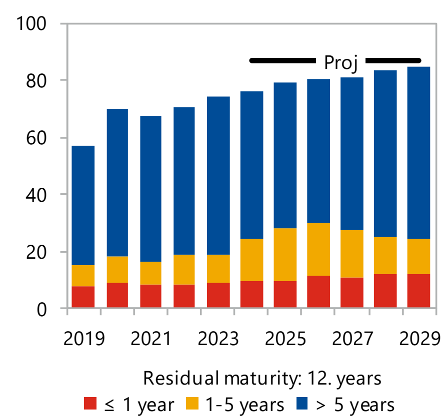
Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is central government.

Commentary: The debt-to-GDP ratio is projected to rise in the projection period, driven primarily by unfavorable automatic debt dynamics. Domestic financing sources are expected to continue to play a significant role, as non-residents' local currency bond purchases have declined following the sovereign downgrade below investment grade in 2020. The charts also show the relatively favorable debt composition with relatively long maturities and low foreign currency denominated debt.

Figure 4. South Africa: Baseline Scenario

(Percent of GDP unless indicated otherwise)

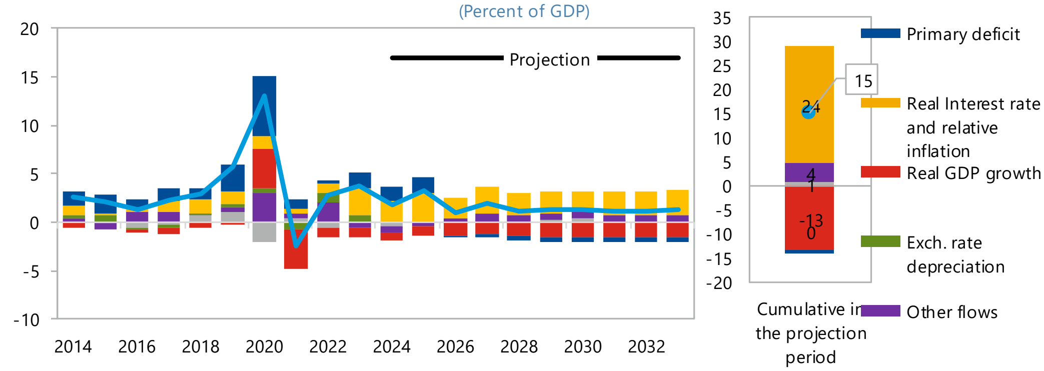
	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public Debt	74.1	76.0	79.2	80.2	82.2	83.3	84.6	85.8	87.0	88.1	89.3
Change in Public Debt	3.7	1.8	3.3	1.0	2.0	1.1	1.3	1.2	1.2	1.1	1.3
Contribution of identified flows	3.7	2.2	3.2	0.9	1.9	1.1	1.1	0.9	1.0	0.9	1.1
Primary deficit[1]	1.7	1.5	1.5	-0.1	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5
Noninterest revenues	23.6	23.6	23.9	23.9	24.0	24.0	24.1	24.1	24.1	24.1	24.1
Noninterest expenditures	25.3	25.1	25.4	23.8	23.7	23.6	23.6	23.6	23.6	23.6	23.6
Automatic debt dynamics	2.4	1.4	2.0	0.7	1.5	0.9	0.9	0.8	0.9	0.8	1.0
Real interest rate and relative inflat	2.7	2.1	3.0	2.2	2.7	2.3	2.4	2.3	2.4	2.4	2.5
Real interest rate	2.7	1.9	2.9	1.9	2.5	2.0	2.1	2.0	2.1	2.1	2.1
Relative inflation	0.0	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Real growth rate	-1.0	-0.8	-1.0	-1.4	-1.2	-1.4	-1.5	-1.5	-1.5	-1.6	-1.5
Real exchange rate	0.7	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.5	-0.7	-0.3	0.3	0.8	0.7	0.7	0.6	0.7	0.6	0.6
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions[2]	-0.5	-0.7	-0.3	0.3	0.8	0.7	0.7	0.6	0.7	0.6	0.6
Contribution of residual	0.0	-0.3	0.0	0.0	0.1	0.0	0.2	0.3	0.1	0.2	0.2
Gross Financing Needs	14.7	15.0	16.1	14.5	16.2	15.7	17.1	17.1	17.0	15.4	16.1
of which: debt service	13.0	13.5	14.6	14.6	16.6	16.1	17.6	17.6	17.5	15.8	16.6
Local currency	11.6	12.5	13.2	13.4	15.5	14.9	16.4	16.5	16.7	14.7	15.4
Foreign currency	1.4	1.0	1.4	1.2	1.1	1.2	1.2	1.0	0.8	1.1	1.1
Memo:											
Real GDP growth (percent)	1.4	1.1	1.3	1.8	1.6	1.8	1.8	1.8	1.8	1.9	1.8
Inflation (GDP deflator; percent)	3.4	4.8	3.7	5.0	4.2	4.7	4.4	4.5	4.5	4.5	4.5
Nominal GDP growth (percent)	4.9	5.9	5.1	6.9	5.9	6.5	6.3	6.5	6.3	6.4	6.4
Effective interest rate (percent)	7.5	7.6	7.6	7.5	7.5	7.3	7.1	7.0	7.1	7.0	6.8

[1] Primary deficit of the Central Government

[2] This includes the impact of GFECRA

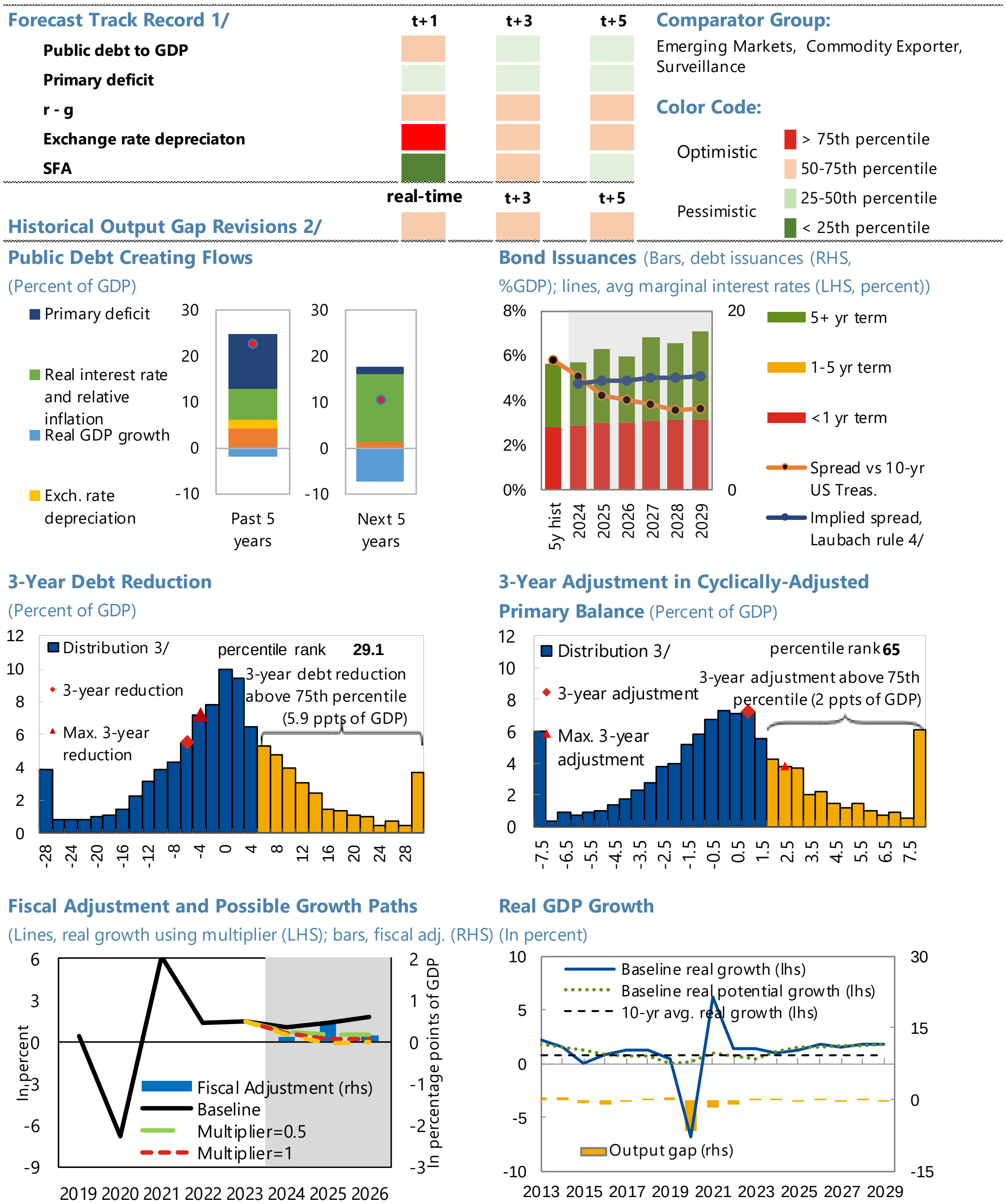
Contribution to Change in Public Debt

(Percent of GDP)



Commentary: Public debt will continue to rise, driven by the r-g dynamics which reflects persistent weak real growth and a relatively high average interest rate on public debt. While the real GDP growth is expected to offset some of the unfavorable automatic debt dynamics in the longer-term, it will be insufficient to lower the public debt ratio. GFNs are projected to remain on average 15.5 percent of GDP in the medium term and rise to above 17 percent of GDP in 2029-31, despite the still-favorable maturity and currency structure of the debt. The Eskom debt relief arrangement is included above the line as a capital transfer, resulting in higher noninterest expenditures in 2023-25. The distribution of R150 billion from the SARB's GFECRA account to the NT (to be paid out in three tranches of R100 billion in 2024, and R25 billion each in 2025 and 2026) lowers financing needs and is reflected below the line in other identified inflows.

Figure 5. South Africa: Realism of Baseline Assumptions



Commentary: The forecast track record is generally within bounds for optimism, except for exchange rate depreciation projections. Debt creating flows are compositionally different between the last and next 5 years, driven by the inclusion of data from the COVID-19 pandemic which biases GDP growth's contribution downwards. The three-year debt and CAPB adjustments are around the median of the distribution of comparator countries' experience. The effect of fiscal adjustment on growth is broadly within the bounds of standard multiplier assumptions.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

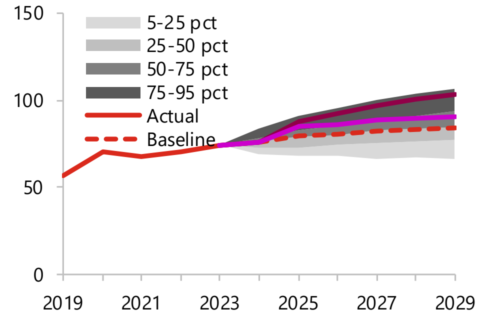
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates.

3/ Data cover annual oberservations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

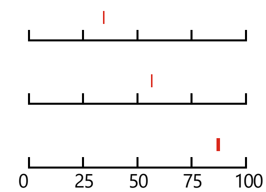
Figure 6. South Africa: Medium-Term Risk Assessment

Final Fanchart (Percent of GDP)

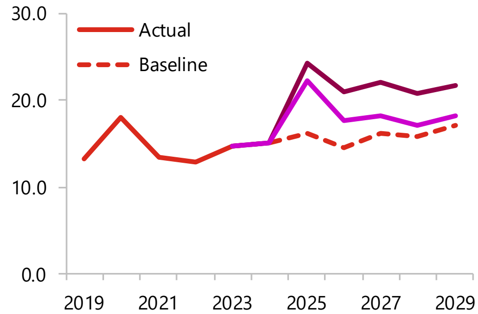


Debt fanchart module

	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	40.0	0.6	
Probability of debt non-stabilizaiton *(percent)*	64.1	0.5	
Terminal debt-to-GDP x institutions index	53.9	1.2	
Debt fanchart index (DFI)		2.3	
Risk signal: 3/		**High**	

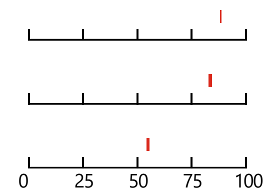


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

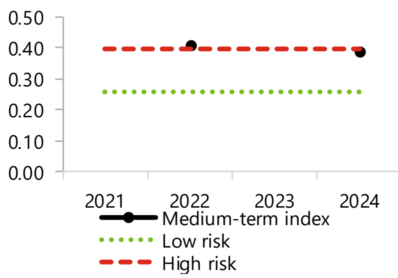
	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	15.8	5.4	
Initial Banks' claims on the gen. govt *(pct bank assets)*	15.6	5.1	
Chg. In banks' claims in stress *(pct banks' assets)*	10.5	3.5	
GFN financeability index (GFI)		14.0	
Risk signal: 4/		**Moderate**	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	2.3	0.5	0.5	0.3
GFN financeability index	14.0	0.3	0.5	0.1
Medium-term index		0.4		
Risk signal: 5/		**Moderate**		
Final assessment:		**High**		

Prob. of missed crisis, 2024-2029, if stress not predicted: 27.3 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 10.2 pct.

Commentary: The medium-term analysis suggests a high risk of sovereign stress over that time horizon. The main issue suggested by the analysis is the possibility of substantial increases in the public debt ratio under low-probability downside scenarios. The increase in gross financing needs under a stress scenario is moderate. The commodity price and contingent liability stress scenarios were triggered. The contingent liability (CL) stress scenario assumes a full materialization of total SOE debt guaranteed by the government, in 2025. The commodity price stress scenario assumes a 30 percent reduction in commodity prices. The materialization of these risks significantly increases both the fanchart and GFN financeability risks.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. South Africa: Long-Term Risk Assessment

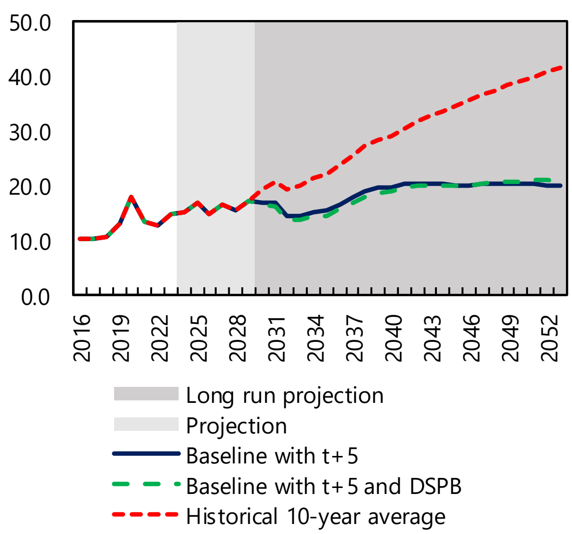
South Africa: Triggered Modules

Large amortizations	Pensions	Climate change: Adaptation	Natural Resources
	Health	**Climate change: Mitigation**	

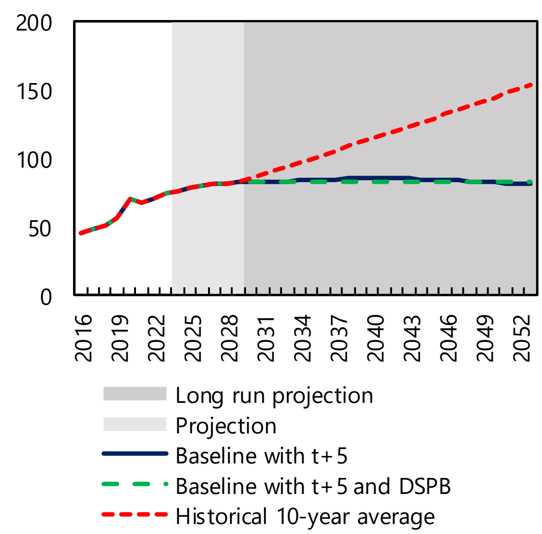
South Africa: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



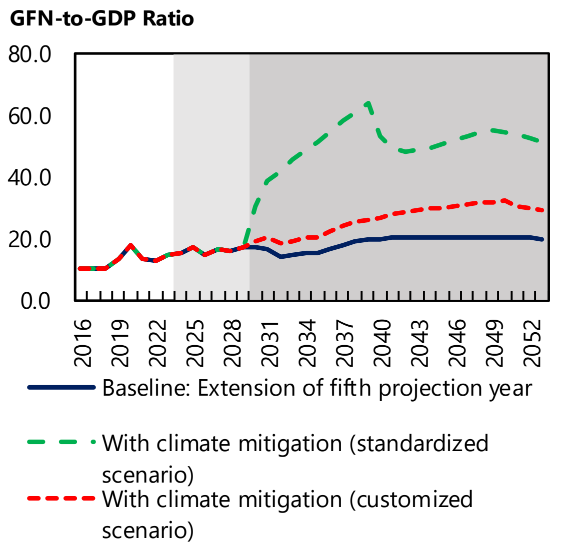
Total Public Debt-to-GDP Ratio

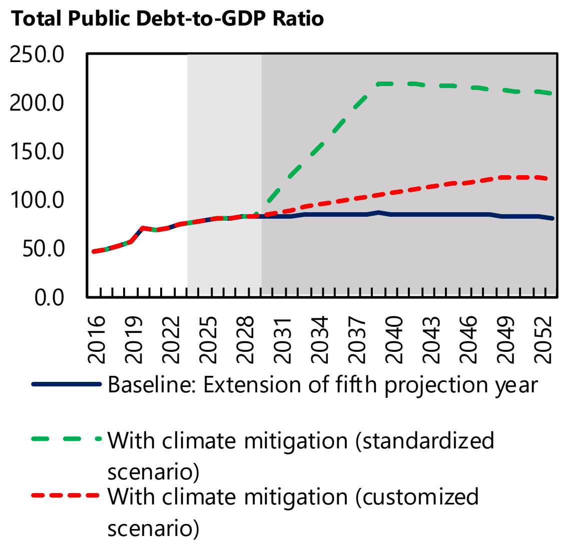


Commentary: Over the long term, South Africa is facing sizable rollover risks. However, these risks are mitigated by a very large domestic investor base, a very high share of local currency debt, and authorities' proactive debt management that includes (among other measures) regular switch auctions to smooth out the amortization profile. The historical scenario might not be representative as it reflects historically elevated deficit, including the impact of Covid-19 pandemic.

Figure 7. South Africa: Long-Term Risk Assessment (concluded)

South Africa: Climate Change: Mitigation





Commentary: South Africa's investment needs to meet its climate change mitigation targets are one of the highest in EM countries, estimated at 13.5 percent annually between 2030-2039. Under the standardized scenario, which assumes that the entire financing requirement in this period would be borne by the government through financing at market rates, public debt could rise to an extreme 210 percent of GDP by 2050. Under a customized scenario--based on the World Bank's CCDR estimates of 4.4 percent of GDP annually during 2030-2050, which is more aligned with the authorities' gradual decarbonization path, and assuming that concessional external financing covers around 15 percent of total financing (in line with pledges for 2022-2027), and close to half of remaining requirements are financed via private investments, as per the authorities' Just Energy Plan for 2022-2027—public debt is expected to rise to around 120 percent of GDP by 2050. This underscores not just the need for greater private sector involvement and enhanced concessional sources of financing, but also highlights the importance of raising additional revenue (including through a carbon tax) and achieving efficiency gains in public spending.

Annex VIII. Fiscal Transparency

1. A recent evaluation of fiscal transparency practices in South Africa confirms its strong standing across various dimensions.[1] The evaluation is based on the IMF's Fiscal Transparency Code, comprised of an assessment of a set of 36 principles built around three pillars: fiscal reporting, fiscal forecasting and budgeting, and fiscal risk analysis. The assessment against this code reveals that South Africa achieves advanced practice standards on 12 out of 36 principles, 9 principles are rated as good, and 7 meeting the basic standard, while 8 are not yet met. South Africa ranked highest on fiscal reporting, followed by fiscal forecasting and budgeting, with fiscal risk analysis being relatively weaker.

Table 1. South Africa: Summary Assessment Against the Transparency Code

I. Fiscal Reporting	II. Fiscal Forecasting & Budgeting	III. Fiscal Risk Analysis & Management
1.1.1. Coverage of Institutions	2.1.1. Budget Unity	3.1.1. Macroeconomic Risks
1.1.2. Coverage of Stocks	2.1.2. Macroeconomic Forecasts	3.1.2. Specific Fiscal Risks
1.1.3. Coverage of Flows	2.1.3. Medium-term Budget Framework	3.1.3. Long-term Fiscal Sustainability
1.1.4 Coverage of Tax Expenditures	2.1.4. Investment Projects	3.2.1. Budgetary Contingencies
1.2.1. Frequency of In-Year Reporting	2.2.1. Fiscal Legislation	3.2.2. Asset and Liability Management
1.2.2. Timeliness of Annual Accounts	2.2.2. Timeliness of Budget Documentation	3.2.3. Guarantees
1.3.1. Classification	2.3.1. Fiscal Policy Objectives	3.2.4. Public Private Partnerships
1.3.2. Internal Consistency	2.3.2. Performance Information	3.2.5. Financial Sector Exposure
1.3.3. Historical Revisions	2.3.3. Public Participation	3.2.6. Natural Resources
1.4.1. Statistical Integrity	2.4.1. Independent Evaluation	3.2.7. Environmental Risks
1.4.2. External Audit	2.4.2. Supplementary Budget	3.3.1. Sub-national Governments
1.4.3. Comparability of Fiscal Data	2.4.3 Forecast Reconciliation	3.3.2. Public Corporations

LEVEL OF PRACTICE	RATING			
	Not Met	Basic	Good	Advanced

Source: IMF Staff.

2. South Africa has significantly enhanced the coverage, quality, and timeliness of its fiscal reports over the years. Various fiscal documents, including budget-execution reports, consolidated financial statements, and government finance statistics, provide information on the

[1] South Africa: Technical Assistance Report-Fiscal Transparency Evaluation. IMF Fiscal Affairs Department. February 2024.

operations of different public sector levels. Fiscal reports align broadly with international standards. Fiscal statistics from the South African Reserve Bank (SARB) and Statistics South Africa (StatsSA) are consistent with the Government Finance Statistics 2014 (GFSM 2014). In-year fiscal reports are both frequent and timely. The Statement of National Government's Revenue, Expenditure, and National Borrowing, published monthly, serves as South Africa's budget execution report. This report details payments into and out of the National Revenue Fund within 30 days of the month's end. Expenditure is detailed by national vote and shows the extent of budget execution. Statistical integrity is assessed to be high due to the independence of SARB and StatsSA.

3. Budget transparency is one of the South Africa's strong suites, supported by a solid medium-term expenditure framework. The availability, quality, and accessibility of budget information adhere to many advanced practices. This aligns with the assessment of Open Budget Survey 2023 that ranked South Africa fourth in the world for transparency. The Budget Review and Medium-Term Budget Policy Statement are detailed and well-explained. Budget information is accessible in various formats to public to facilitate their participation. Parliamentary Committees invite public input and publish reports that summarize public comments, proposed budget changes, and departmental instructions. South Africa also follows advanced practices for presenting forecasts of key economic indicators with underlying assumptions twice a year. Budget documents present successive vintages of forecasts of revenue and expenditure, explaining impact of new policies.

4. However, South Africa has room to improve its transparency practices in a number of areas:

- Fiscal reporting: (i) fiscal statistics currently do not cover the consolidated public sector despite the availability of separate data; (ii) institutional coverage (including extra-budgetary units, provincial and local governments) varies across fiscal reports produced by NT, SARB and StatSA; and (iii) forward-looking tax expenditure estimates are unavailable, which constrains informed policy discourse.

- Budgeting and forecasting: (i) medium-term expenditure plans have persistently relied on optimistic growth and revenue projections, which did not materialize, (ii) no independent evaluation of forecasts is presented in the budget documents though some limited assessment is done by independent fiscal institutions, and (iii) full costs of multi-year public projects are not disclosed in budget documents, cost benefit analysis is not systematically published, and deficiencies persist in the procurement system.

- Fiscal risk assessment: (i) the presentation of specific risks in the fiscal risk statement is not complete and lacks a discussion on the likelihood of materialization, (ii) the information on risk assessment is fragmented and does not provide a comprehensive view, including from SOCs, (iii) the information related to state-owned companies in budget documents is fragmented and does not show net impact on public finances, (iv) there is no legislated ceiling established for provision of guarantees, and (v) information on value and volumes of available natural resource reserves is not disclosed, whereas fiscal risks from natural disasters are not quantified.

5. The authorities should focus on several priority areas for further enhancing transparency and fiscal risk management. They can improve comparability of fiscal data by eliminating unnecessary differences in the data across various reports and explaining unavoidable differences to the public. To guide budget decisions, the objectives and impact assessment of all existing tax expenditures could be provided along with the impact of new tax proposals. The evaluation of official forecasts needs to be enhanced with independent comparisons and capacity development in independent fiscal institutions. In addition, key measures to enhance fiscal risk analysis and disclosure are needed, including improving the analysis of macroeconomic, specific, and long-term risks in the Fiscal Risk Statement, and regularly publishing financial information on PPP projects. There is a need to consolidate all transfers between SOCs and the government into a single document to show the net fiscal impact on the budget. Additionally, the authorities should consider introducing limits on guaranteed exposure. Transparency of the use of contingency and unallocated reserves also needs to be strengthened.

Annex IX. Implementation of 2021 FSAP Key Recommendations

Recommendations	Progress
Vulnerability Analysis	
Further strengthen analytical tools, including for solvency and liquidity stress tests and climate risk analysis, and incorporate results in risk-based supervision.	Starting in 2023, South Africa conducts an industry-wide common scenario stress test (CSST) on the banks and insurers. The findings of the 2023 bank CSST exercise were published in the second edition of the Financial Stability Review (FSR) of 2023. Results from a CSST for the insurance sector were published in the first edition of the FSR in 2024. A common scenario climate risk stress test for banks is underway and expected to be completed by mid-2025. Furthermore, the Financial Stability Committee (FSC) noted and supported the roadmap for the various stress testing exercises over the next four years. A decision will be taken in 2026 about the proposed publication of individual results. The work of the Prudential Authority Climate Task Team (PACTT) on climate risk indicators as well as the work currently being done on stress testing and scenario analysis by the Financial Stability Department and NT's scenario analysis working group will strengthen and enhance the analytical capability for stress testing and climate risk analysis of the PA. The outputs of the various pieces of work will also be used to enhance the PAs risk-based supervisory approach.
Financial Sector Oversight	
Continue to broaden the macroprudential toolkit and close data gaps.	In April 2024 a reviewed macroprudential policy framework was endorsed by Financial Stability Committee (FSC). The published document sets out the SARB's macroprudential policy framework and decision-making process and should be read in conjunction with the SARB's financial stability monitoring and assessment framework. Its publication aims to increase transparency on how the SARB pursues its financial stability mandate in line with international best practice.
Consider carefully calibrated measures to alleviate the financial sector-sovereign nexus.	At the moment policy interventions will not be explored. The PA continues to monitor developments and conduct regular stress testing on concentration risks. Measures are taken on a case-by-case basis.
Continue safeguarding the supervisory agencies' operational independence, further strengthen resourcing, and enhance coordination.	The FSR Act, which establishes both the PA and FSCA provides for a funding mechanism of these supervisory agencies. The agencies covered under the FSR Act are funded by the industry through levies and they have operational independence that allows them to independently determine their resource requirements and budgets.

Recommendations	Progress
Financial Sector Oversight	
Pursue more structured, intrusive, and comprehensive supervision, with greater focus on governance and risk management.	In 2021, the PA approved and begun adopting its enhanced Risk Framework which assesses the risk, probability and impact of each financial institution being unable to fulfil its obligations to the depositors and policyholders. The outcome of that assessment then informs the required supervisory intensity ahead of the new supervisory calendar year. The probability assessment within the PA Risk Framework explicitly considers the adequacy of the governance arrangements and controls in place to mitigate risks across the key business units and significant activities that the PA would have reviewed throughout the year by using its supervisory guideline on Governance, Culture and Remuneration practices. In order to further enhance governance and risk management in supervision, the PA's Risk Framework is in the process of being refined and will be embedded across the PA by 31 March 2025. The Supervisory guideline on Governance, Culture and Remuneration reviews has been adopted. The assessment guides the type of questions to pose to arrive at an overall view for the adequacy and effectiveness of governance and risk management structures. The PA Governance, Culture and Remuneration Practice Group (GCR), established in 2021, provides further support to the PA in assessing governance-related matters emanating from ongoing supervision. In order to further strengthen this capability within the PA, a proposal to establish a separate governance unit is under consideration. The PA and the FSCA are in the process of developing a Joint Standard on Governance requirements that will be applicable to all the regulated financial institutions on a proportionate basis. Both Authorities are planning to publish the draft joint standard for public consultation between Q4/2024 and Q1/2025.
Develop a rigorous framework for early intervention in banks.	A monthly trigger report (early warning indicators) is produced and submitted to PA management. These management information reports (MIR) reports provide key information on individual entities and signals outliers on key prudential benchmarks and key statistics. The purpose of the trigger reports is to indicate to PA management of the key indicators and ratios (including prudential requirements), as soon as possible following data availability.

Recommendations	Progress
Financial Sector Oversight	
	The reports indicate potential problem areas or instances where prudential requirement(s) are breached. This enables the PA to take appropriate action timely. This process of producing the early warning indicators was formalised within a supervisory guidance document that is still going through the approval process for formal adoption.
For insurers, scrutinize capital calculations, review products with high lapse and surrender rates, conduct industry-wide stress tests, and analyze IFRS 17 impact.	An Industry wide IFRS 17 quantitative impact study (QIS) was completed, and the analysis of the results is still in progress. The results will be formally processed within the PA. The insights from the QIS are currently being used to inform relevant changes/updates within the insurance returns/Quantitative Reporting Templates (QRTs) which the regulated Insurance entities are required to submit to the PA on quarterly, bi-annually and annual basis. The impact of IFRS 17 was not found to be significant on the regulatory numbers i.e. Solvency position of the Insurers. A set of potentially systemic South African insurers are subject to periodic stress testing.
Enact the COFI bill. Develop and implement conduct supervision framework.	Not implemented.
Expedite NPS Act adoption. Buttress Fintech supervision.	Not implemented.
Implement a consistent multi-sectoral regulatory framework that articulates supervisory and oversight expectations for cyber resiliency.	A joint standard on cybersecurity and cyber resilience was issued for industry consultation by the PA and FSCA. Comments were received and the joint standard was updated and published for another round of consultation during December 2022. The Joint cybersecurity and cyber resilience standard was finalized and published in May 2024. The Standard is envisaged to commence on 1 June 2025.
Improve climate risk oversight.	The PACTT issued communication to industry on the PA's current views and expectations around climate risks. There are efforts to integrate climate-related risks into financial stability monitoring as part of the financial stability frameworks over time. In addition, the SARB and PA are planning a comprehensive climate risk vulnerability assessment (including a stress test of the banking sector). Stress testing capacity at SIFIs will be supported by the development of a macroprudential climate stress test being conducted by FinStab.

Recommendations	Progress
Financial Sector Oversight	
Improve the implementation of the risk-based approach to AML/CFT and bring all sectors covered by the FATF standards under the AML/CFT framework.	Initial discussions among the relevant institutions have started.
Financial Safety Nets	
Adopt and operationalize the new resolution and deposit insurance legislation.	Corporation for Deposit Insurance (CODI) is a subsidiary of the SARB and became operational on 1 April 2024. Insuring ZAR 100,000 per depositor (less than USD 5000).
After adopting the new legal framework, step up crisis preparedness through resolvability assessments, resolution planning, and recurrent simulations.	The SARB became the Resolution Authority in June 2023 under the Financial Sector Laws Amendment Act. The Act provides for, inter alia, the establishment of a resolution framework for designated institutions to manage the impact or potential impact of a failed institution on financial stability, as well as establish a deposit insurance scheme. Resolution planning became an ongoing function of Finstab at that point and work on developing resolution plans has begun. The Corporation for Deposit Insurance (CODI) and the Deposit Insurance Fund became fully operational early this year.
Systemic Liquidity	
Extend SARB's ELA guidance into temporary liquidity support for solvent banks.	Completed.
Improve the repo market (establish collateral interoperability, harmonize regulatory treatments of collaterals and repos, and promote repos under GMRA).	Following a round of public comments on a discussion paper the FSC gave an 'in-principle' approval of the NBFI Repo facility. The operational preparations needed for the implementation of the facility require further internal work at SARB in consultation with international bodies for best practice.
Competition and Efficiency, Financial Inclusion, Green and MSME Finance	
Enable the provision of payment services by nonbanks.	The Conduct of Financial Institutions (COFI) Bill has been revised in response to comments from stakeholders but has yet to be tabled in Parliament. In the meantime, the following initiatives are being implemented: • PayShap, one of the solutions under the Rapid Payments Programme (a collaboration between the banks, clearing houses, regulators, and other market players), was launched in 2023 to enable instant payment. Payments will be made to a bank account or a proxy (such as a mobile phone number) that has been linked to an account or wallet at any bank. • South African mobile network operators launched super Apps and offering mobile money with a suite of services including wallet, payments, and lending which will enable unbanked customers to access financial services.

Recommendations	Progress
Competition and Efficiency, Financial Inclusion, Green and MSME Finance	
	• Tap on Phone solution from large payment schemes and big tech firms enable MSMEs to turn their mobile phones into POS devises. • Payment service providers are offering online payment methods that reach small businesses and enable them to participate in e-commerce. • Open banking solutions from fintech's being launched to enable consumers to make instant payments without logging into their bank accounts. • Banks seeking to tap into the informal sector by digitizing payments in the public transport sector.
Foster retail payment instrument interoperability and open banking standards.	The open banking framework is currently being developed as a long-term framework. The implementation of the open banking framework is dependent on the promulgation of the NPS Act amendments. There are other efforts currently underway. Following the publication of the consultation paper on open banking in 2020, the NPSD is working towards crafting an open banking framework with emphasis on the payments system, consistent with its mandate. In the interim, the NPSD is developing a directive to address the immediate risks associated with 'Instant EFT' services that use screen scraping. In May 2023, the SARB published for industry comment a draft directive with interim measures to address risks associated with screen scraping. The SARB is currently processing the comments. In November 2021, the IFWG Open Finance Integration (OFI) Working Group published a paper on articulating the policy rationale and policy imperatives for Open Finance in South Africa. The paper presented an initial view on various open finance issues, including the appropriate regulatory regime for it, and the potential benefits and risks of open finance. Separately, the FSCA published a draft position paper on open finance as well as a final position paper on conduct in respect of Open Finance.
Improve credit information environment.	Discussions are still at elementary phase between IFC, NCR and DSBD.
Strengthen secure transaction framework.	Not implemented.
Finalize the taxonomy of 'green' economic activities and start monitoring flows.	The South African Green Finance Taxonomy (GFT) was launched on 1 April 2022 following a two-year consultation and developmental processes. The SA GFT is a voluntary tool. Our approach has thus been to introduce voluntary market tools for green finance to allow the market time to develop capacity, to adjust and reassess where necessary. Monitoring and adherence mechanisms are still underway.

Recommendations	Progress
Competition and Efficiency, Financial Inclusion, Green and MSME Finance	
	Developments will `be reviewed by National Treasury, in conjunction with the financial sector regulators, DFFE and SARS through the Intergovernmental Sustainable Finance Working Group. The FSCA is expected to issue a position paper, that may be followed by regulatory guidance/regulation.
Finalize guidelines on climate-related financial disclosures.	Voluntary guidelines and information tools have been issued. The regulators, Prudential Authority and Financial Sector Conduct Authority, will provide regulatory guidance on disclosures and taxonomy in 2023/24. The JSE Sustainability and Climate Disclosure Guidelines was published in June 2022 and includes an extensive range of frameworks aligned to international best practices i.e., Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

Annex X. Electricity and Transportation Reforms: Current Status and Next Steps[1]

1. The energy and logistics sectors are the backbone of any functioning economy. National growth and sustainable development objectives are predicated on uninterrupted energy access and supply chains, and any disruptions can derail countries from their development trajectories. Indeed, in South Africa, the deteriorating performance of the energy and logistics sectors over the last 15 years due to poor governance and inefficient financial and operational practices hit the rest of the economy in the form massive blackouts, port congestions, and freight rail service interruptions, delays, and breakdowns, causing supply bottlenecks and reducing activity, exports and growth. Electricity generation from renewable sources is also essential for the achievement of national emissions targets and the green transition.

2. Modernizing of network industries is thus at the core of structural reforms initiated by the government in recent years. To ensure accelerated implementation in priority areas like electricity and logistics, these reforms are centralized under the Presidency-National Treasury initiative, Operation Vulindlela (OV), which identifies and monitors reform actions. The objective of the reforms is to restore the long-term sustainability of these sectors via unbundling of vertically integrated SOEs and enhancing private sector participation, while restoring the commercial viability of the key SOEs (Eskom and Transnet) and improving their governance. Other immediate measures have been focused on addressing short-term supply constraints.

A. The Reform Landscape: Addressing Immediate Bottlenecks and Covering Legislative and Regulatory Gaps

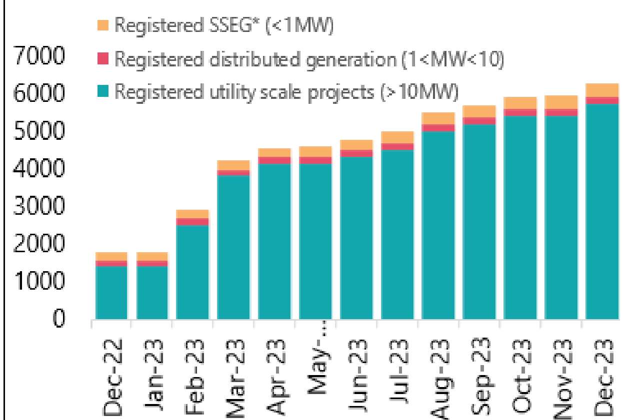
Electricity Sector

3. The removal of the threshold for private participation in electricity generation in December 2022 has been a key landmark of the electricity sector reform. The historical decision to allow private generation of electricity without restrictions, coupled with tax incentives for small-scale embedded generation, added over 8,000MW capacity of renewable energy (RE). Since then, new renewable energy capacities have been added under public capacity procurement programs and in distributed generation sphere. The flagship renewables program was revived in 2021 after the lapse of 5 years (since the last bid window was offered). Other technology-neutral programs were also introduced in 2020 to overcome short-term challenges. Under these programs, 780MW wind and 375MW solar capacity is under construction, and an additional 1000MW solar and 600MW gas-based capacity is expected to reach financial close. These and other planned initiatives, including from Eskom, would increase South Africa's electricity capacity to a total of 106,540 MW by 2034 from 65,589 MW in 2024 (Transmission Development Plan, 2025-2034).

[1] Prepared by Asma Khalid (FAD).

Figure 1. Registered Electricity Capacity
(In MW)

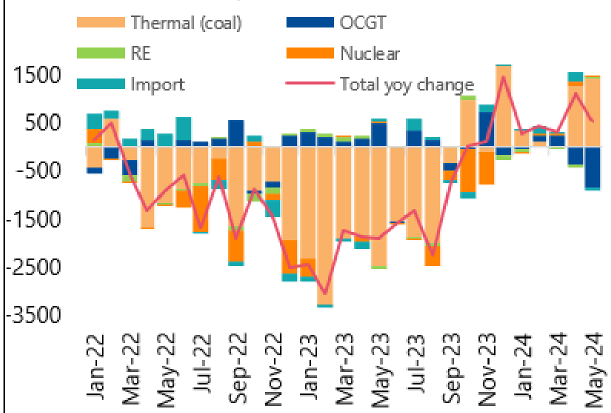
Steep rise in registered capacity since the removal of 100MW licensing threshold.



Sources: National Treasury, and IMF staff calculations.

Figure 2. Electricity Supply
(YoY change in MW)

Supply improved from last year with better performance of Eskom's coal-fired plants.



Sources: Authorities' data, and IMF staff calculations.

4. The unbundling of Eskom into generation, transmission and distribution was another key milestone. A new management was installed in early 2024 with a tall task of addressing the entity's ongoing financial and technical crises, spearhead unbundling plans, and reposition Eskom to steer the country's energy transition**.** Moreover, the provision of debt relief for Eskom, amounting to R250 billion over 3 years allowed it to improve plant performance and its energy availability factor (EAF), helping reduce power outages in 2024. The government's planned takeover of Eskom's R70 billion debt in 2025/26 (already included in R250 billion support) will further ease entity's debt servicing burden and improve cashflows.

5. The adoption of Electricity Regulation (Amendment) Bill (ERA) in early 2024 has paved the way for private sector participation in the development of the wholesale, competitive electricity market, as well as in grid expansion. The wholesale electricity market would provide multiple electricity generators a transparent and non-discriminatory access to grid, which would help promote long-term energy security, ensure cost efficiency and price transparency, and would deliver environmental benefits by allowing renewable power producers to enter the market and compete on a level playing field. The new transmission company – National Transmission Company South Africa (NTCSA) – is now empowered to buy and sell electricity from Eskom's plants, independent power producers (IPPs) and import channels in a most cost-effective way and can leverage grid investments through private partnerships.

6. However, challenges persist with grid connectivity, compounded by Eskom's financial problems. Capacity procurement targets from the private sector were missed due to constrained dispatch capacity in the RE intensive Cape region, leading to the cancellation of wind projects. The draft Integrated Resource Plan (IRP) 2023 projects the supply deficit to prevail until 2027 despite capacity additions. A regulatory framework for private investment in transmission infrastructure, including financing mechanism, has yet to be put in place, while Eskom's own transmission projects, for which financing has already been approved, have struggled with cost and delay challenges related to land acquisition, equipment procurement, environmental approvals, construction, and uncertain tariff determinations. The sustainability of Eskom post debt relief remains uncertain, as municipalities' underpayments continue, and the revenue base is shrinking amid high scheduled debt repayments.

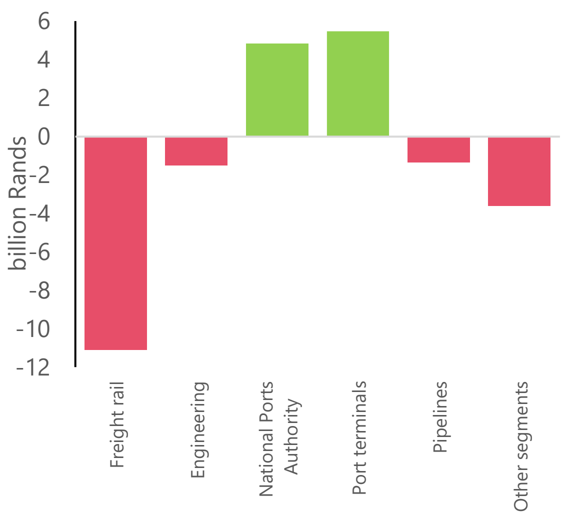
Logistics Sector

7. **In the logistics sector, the authorities have initiated reforms to unbundle Transnet and address freight rail bottlenecks and port congestion**. The Economic Regulation of Transport Bill, 2020 (ERT Bill) and National Rail Policy, 2022 (NRP) and Freight Logistics Roadmap (2023) provided the foundation and legal support for a rail network access regime and a tariff structure. To support Transnet's Recovery Plan, aiming at network rehabilitation and boosting operations, a sovereign guarantee of R46 billion was provided in December 2023. The interim Transnet Rail Infrastructure Manager (IM) was established as a distinct entity from the Freight Operating Company, and the draft Network Statement and Tariff Methodology has been released for public comments in early 2024. The outsourcing contract has been awarded for the upgrade and development of Pier 2 of the country's largest Durban container terminal, and similar arrangements are being worked on for other container terminals. A new management team was appointed in March 2024 to spearhead follow-up efforts.

8. **Transnet's quasi-regulatory status and its still weak financial position are adding complexities to the reform process.** While the network statement and tariff methodology for private participation in freight rail is still being finalized, legal challenges have emerged in outsourcing of container terminals. Meanwhile, Transnet's financial position has further weakened due to high debt, rising energy costs, court challenges related to its pipeline, equipment breakdowns, increasing crime and vandalism impacting critical equipment and infrastructure (Transnet Annual Report 2024). Regarding ports, the concession awarded for DCT terminal is facing legal challenges, whereas plans for private sector participation for Ngqura terminal and the container corridor between Johannesburg and Durban have been postponed.

Figure 3. Segment Contribution to Transnet's Financial Performance
(In billion Rands, 2024)

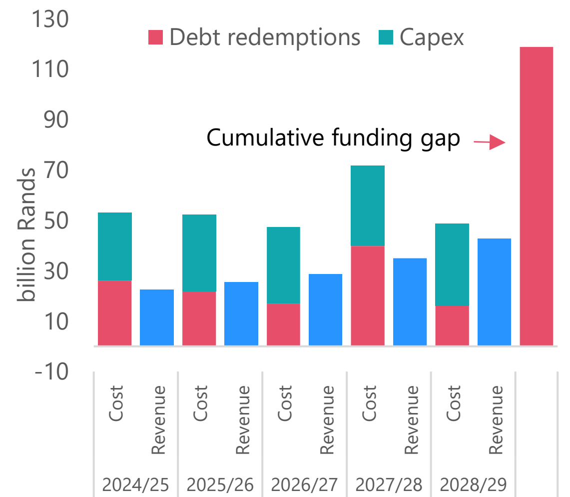
Freight rail contributed the most to Transnet's 2024 financial loss.



Source: Transnet Annual Financial Statements 2024.

Figure 4. Transnet's Funding Gap
(In billion Rands)

Transnet is projecting a funding gap of R119 billion for its debt repayments and capex.



Sources: Transnet Annual Financial Statements 2024, and IMF staff calculations.

B. Next Steps: Designing Frameworks for Private Sector Participation and Restoring SOEs' Commercial Viability

9. Policy interventions should prioritize expanding private sector participation in electricity generation and transmission and freight rail and ports, while bolstering Eskom's and Transnet's financial viability.

- In the ***electricity sector***, the priorities are:

- Generation: Setting out the terms of trading and settling arrangements in the wholesale electricity market requires finalizing the Market Code and Rules. Carefully evaluating the proposed Curtailment Framework is vital to make space for new generation capacity in the dispatch grid without building unnecessary cost. The framework should balance the cost of new projects against curtailed power and consider implications for consumer tariffs. Introducing grid-tied solutions (including feed-in tariffs) for embedded generation would help taking up excess generation and minimize waste, and adopting national wheeling and net billing frameworks to promote investment.

- Transmission: Identifying and operationalizing private sector participation models for the expansion of transmission grid is key. Facilitating both public and private investment in transmission requires streamlining regulations, including local content requirements, to address procurement and construction delays. The NT is finalizing pilot Independent Power Transmissions (IPT) projects, as was successfully done by Brazil, Chile, Colombia, Peru and

India—which can help provide early insights and facilitate a full-scale rollout. Assessing and implementing legal and regulatory provisions to facilitate the IPT financing model is also necessary. This includes defining contractual agreements (build, own, operate, transfer), governance structures (regulated vs. unregulated), and IPT procurement policies. Establishing a dedicated IPT procurement unit (along the lines of Independent Power Producer Office), ringfencing transmission revenues, and setting cost-reflective transmission tariffs are essential steps.

- Distribution: Completing the establishment of separate entities for generation and distribution is important to enable economies of scale in the distribution sector and upgrade infrastructure. Eskom's distribution grid requires capital investment of R42.6 billion over the next 5 years[2] to accommodate integration of new RE sources, connect new transmission infrastructure to the existing distribution network, and connect new bulk loads, while addressing technical losses and breakdowns. Municipalities, which own and operate nearly half of the country's distribution network, also need to address maintenance backlogs and expand and modernize the distribution grid and integrated equipment and systems (such as smart metering and billing systems) to ensure off-taking of embedded generation. They also need to adopt more sustainable operating models to balance the tradeoff between providing electricity at sufficiently affordable rates and generating funding for necessary infrastructure maintenance. Decisive actions are needed to enhance their bill recoveries and root out the non-payment culture.

- Eskom viability: Post-unbundling, Eskom's financial viability must be assessed and bolstered by taking decisive actions to curb theft and illegal practices, improving procurement processes to reduce costs, boosting operational efficiency, and further rationalizing its wage bill. Addressing municipal debt issues decisively is also key. Stakeholders, including regulator and the South African Local Government Association, should collaborate to enhance municipal bill recovery and upgrade networks to minimize line losses.

- In the ***logistics sector***, the priorities are:

- Private sector participation: Establishing an independent transport regulator is critical to encourage greater competition and enable regulated access to the network. The authorities will also need to prioritize the resolution of private investors' concerns regarding proposed tariff levels and Transnet's dual role as both infrastructure manager and rail operator. Streamlining regulations, including on local content requirements, can help expedite network expansion and repair, including through private investment. A similar approach is needed in the container segment, where the corporatization of Transnet National Ports Authority –aiming to establish a financially autonomous entity capable of attracting private-sector investments and strengthening licensing and regulatory oversight – is long-awaited. The authorities must ensure full transparency in the concessionaire selection process, develop a widespread buy-in among all

[2] Source Just Energy Transition Implementation Plan 2023–27.

stakeholders, and carefully design preconditions and business propositions to avoid unnecessary delays in the process.

- Transnet viability: Expediting Transnet's revenue generation through the disposal of non-core properties and new leases can help to generate cashflows in line with the revised recovery plan targets. Fostering collaborative relationship with original equipment manufacturers (OEMs) for freight rail can facilitate the return of long-standing locomotives to service and recover volumes at least on strategic and more profitable corridors. Deepening collaborative efforts with law enforcement agencies is key to strengthen security and protect infrastructure and equipment from theft. Transnet could also recalibrate recovery plan targets to reflect additional measures needed against debt-related support and continue with wage rationalization beyond the existing wage agreement that expires next year.

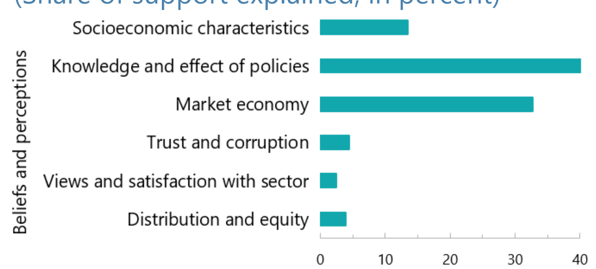
Annex XI. Factors Impacting Social Acceptability of Electricity Sector Reforms in South Africa[1]

1. **Unreliable electricity provision has plagued South Africa for many years.** The root of the problems has been an inefficient state monopoly (Eskom), which provides about 90 percent of the country's electricity, and whose operational and financial capacity has been eroded over time due to years of mismanagement and governance irregularities. These problems culminated in 2023 with an unprecedented electricity crisis that resulted in almost 300 days of loadshedding. Given the importance of electricity for the rest of the sectors, this almost brought the economy to a halt. The crisis has highlighted the importance of reforming the sector to ensure that supply can meet growing demand and ensure electricity availability for all at affordable prices.

2. **Although the need for electricity sector reforms in South Africa is widely recognized, and a comprehensive reform is ongoing, its implementation is not without challenges.** The ongoing electricity reform aims to unbundle generation, distribution, and transmission of electricity, while allowing private sector participation in the sector. Implementing such reform can be politically challenging, as it can entail short-term costs for certain groups, despite long-term benefits for society as a whole. Strong vested interests, weak institutions, and lack of trust could undermine the ability of the government to effectively implement the needed reform. Overcoming these challenges and securing broad buy in is thus crucial for its success.

3. **Understanding the drivers of people's policy preferences can help improve reform design and increase the likelihood of implementation.** Policy preferences are influenced by individuals' socioeconomic characteristics (such as age, educational level, employment, income level, and geographical location) as well as their perceptions and beliefs, including about the beneficial effect of policies. A 2024 survey of 2,100 South African[2] respondents reveals that while individual characteristics do impact policy views, they account for only about 13 percent of total support for reforms to increase private participation and competition in the electricity sector (Figure 1). Instead, policy views are primarily driven by individuals' beliefs, perceptions, and other behavioral factors which, overall, account for

Figure 1. Drivers of Electricity Sector Reform Support
(Share of support explained, in percent)



Source: IMF staff calculations based on IMF-YouGov survey.
Note: The figure shows the results of a dominance analysis that quantifies the share of variance in support for reforms or policies explained by individuals' socioeconomic characteristics and different sets of beliefs and perceptions based on an ordinary least squares regression (Online Annex 3.3.1). The regression controls for country fixed effects and treatment indicators, whose contributions are not shown.

[1] Prepared by Hippolyte Balima (RES) and Kamil Dybczak (AFR).

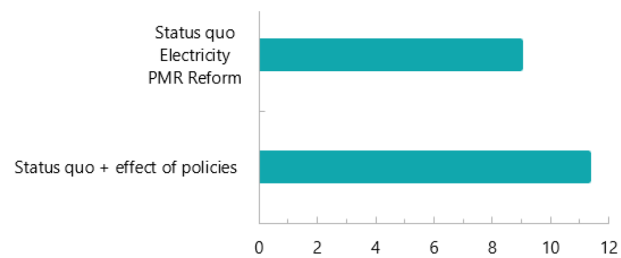
[2] The survey was conducted in the context of the IMF's October 2024 World Economic Outlook analytical chapter "Understanding the Social Acceptability of Structural Reforms".

85 percent of the variability in policy support. Importantly, knowledge and perceptions about the effect of policies explain 41 percent of policy support: those who are better informed about policies and those who believe that more competition would lead to lower prices, higher quality, or broader access to electricity are more likely to support reforms in the electricity sector. Respondents who perceive the distribution of income as unfair, have distributional concerns about the reforms, or do not trust the government, are less supportive, with these factors explaining about 10 percent of the differences in policy support across individuals.

4. **Effective communication of the need for reform and how policies work can correct individuals' misperceptions and improve policy support.** Providing information about the implications of not implementing reforms (that is, the cost of the status quo) can raise awareness of the need for change and increases policy support. Randomized survey experiments show that providing factual information about the cost of electricity in South Africa compared to the US and quality of services (i.e., the frequency and duration of loadshedding) increases the share of respondents that would support reforms to increase private participation and competition by 9 percentage points (Figure 2). Moreover, when the information about the need for reforms is complemented with research-based evidence on the effects that similar reforms had on the price, quality, and access to electricity in other countries, the impact becomes even stronger, with reform support increasing by 12 percentage points. This additional support is sizable as it is equivalent to 40 percent of the share of respondents who oppose the reform in the control group that didn't receive any information. Overall, the survey results suggests that beliefs not only play a key role in driving reform support but can also be shaped by policy interventions. Providing clear nonpartisan information on how policies work is particularly effective in increasing reform support.

Figure 2. Effect of Information Strategies on Electricity Sector Reform Support

(Additional support relative to the control group, in percentage points)



Source: IMF staff calculations based on IMF-YouGov survey. Note: The figure shows the difference in support shares between each treatment group and the control group. Dark blue bars denote that the difference is statistically significant at the 90 percent confidence level according to the regression analyses in Online Annex 3.3.1 and 3.3.2.

5. **Mitigating measures are critical in boosting support for reforms**. Simply explaining the need for reforms and how they can improve outcomes may not be enough to secure comprehensive support. By focusing on individuals who would not support policy changes, the survey identifies the main reasons for nonsupport and tests whether complementing the reforms with mitigating measures would change their stance. The results for South Africa suggest that personal concerns about the price or quality of services, or the possibility of losing their jobs represent about 20 percent of concerns against electricity reforms (Figure 3). Instead, more than ½ of the responses cite concerns about the impact that the reform could have on other people or their communities. Indeed, the two most cited concerns against the electricity sector reform are the consequences for the poorest households in terms of service affordability and access if private companies were permitted to manage the sector (together about 40 percent of total responses).

Furthermore, the results indicate that, irrespective of the concerns raised by respondents, offering tailored complementary and compensatory measures can significantly foster support for reforms. Indeed, an astounding 75 percent of respondents in the control group who initially opposed electricity reforms indicated they would change their stance to support if mitigating measures were taken to address their concerns, indicating the criticality of mitigating measures to the reform's success.

Figure 3. Reasons for Nonsupport and the Role of Compensatory and Complementary Policies
(In percent)

Source: IMF staff calculations based on IMF-YouGov survey. Note: The blue bars show the distribution of respondents' reasons for not supporting the reform (control group only). The yellow (red) bars display the proportion of these respondents that would opt to support (remain against) policies if offered mitigating measures (Online Annex 3.3.3.).

6. **Reforms targeting governance and corruption can enhance trust in public institutions and support for reforms**. Respondents who remained opposed to the reforms even after receiving additional information and promises of mitigating measures, primarily cited issues of trust. They doubted the involved parties' ability to effectively implement the reforms or the mitigating measures. Specifically, about 56 percent of respondents expressed distrust in the private sector or in the government's willingness and capability to implement effective reforms (Table 1). Additionally, about 41 percent of respondents don't want the private sector or foreign investors to control the electricity sector. These findings suggest that lack of trust can fuel resistance to policy changes, even when the benefits are clearly communicated, and mitigating measures are proposed. This underscores the importance of creating mechanisms that build trust in public institutions and the reform process, enhance collective understanding, and improve the design and oversight of both the reforms and compensatory measures.

Table 1. South Africa: Reasons for Ultimate Non-Support to Electricity Sector Reform
(In percent)

Do not want the private sector or foreign investors to control the provision of services	41.11%
Do not trust the private sector	38.52%
Do not trust the government's willingness or ability to implement good reforms	17.78%
Other reasons	2.59%

Source: IMF staff calculations based on IMF-YouGov survey.

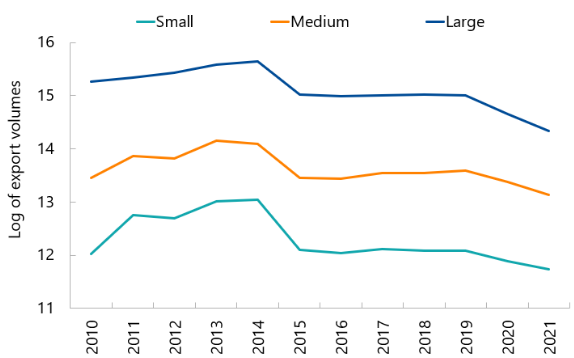
7. **A multipronged strategy to build consensus around the ongoing electricity reform in South Africa should include trustworthy communications, mitigation measures, and strengthened trust through a robust institutional framework.** Clearly explaining the need for reform and how policies can improve outcomes can help secure broad support. Providing well-targeted measures to mitigate the impact on those most affected can have dramatic effects on social acceptability of the reform. Survey results also suggest that an effective communication strategy must be backed by a robust institutional framework that builds trust among all stakeholders and the general public. For instance, independent policy research can help raise awareness of the

need for reform, and credible, independent public bodies may conduct and validate policy analysis. This highlights the importance of reforms that address governance and corruption issues. Involving other social partners, such as independent policy researchers, at the policy design stage can help raise awareness of the need for reform and achieve consensus.

Annex XII. Effects of Foreign Exchange Volatility on Exports [1]

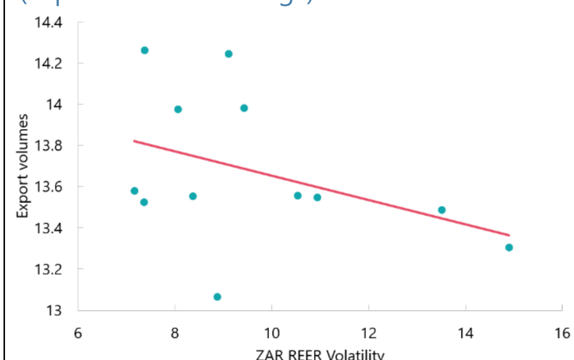
1. **Exports have been identified as a key driver for economic growth and employment creation in South Africa.** Nonetheless, South Africa's export performance has deteriorated over the past couple of years (Figure 1). While South Africa's flexible exchange rate is a significant source of strength and helps the economy adjust to shocks; excessive exchange rate volatility, could be hamper export performance (Figure 2). The Accelerated and Shared Growth Initiative for South Africa (ASGISA), published in 2006, named currency volatility as one of the six 'binding constraints' to growth and employment creation. More recently, Hausmann, et al., 2022; paper on South Africa's macroeconomic risks after a decade of microeconomic turbulence (2007–2020) stated that a significant number of interviewees consider exchange rate volatility an issue for businesses; particularly those involved in international trade. Against this background, this annex investigates the impact of rand volatility on South African manufacturing firm's export performance.

Figure 1. Export Volumes by Firm Size
(In logs)



Sources: IMF staff calculations based on National Treasury and UNU-WIDER, 2021 panel data.

Figure 2. All Firms Export Volumes and REER Volatility
(Export volumes in logs)



Sources: IMF staff calculations based on National Treasury and UNU-WIDER, 2021 panel data.

2. **The analysis is based on a panel fixed effects specification/methodology using the SARS-NT firm-level panel (National Treasury and UNU-WIDER 2021) which harmonizes firm-level, employee-level and value-added tax at a firm-level as well as transaction-level customs information retrieved from completed tax return forms**. This enables us to examine the role of firm-level characteristics (such as firm size, product categories, and export dependency)[2] in explaining the response of firm-level exports to rand exchange rate volatility. The sample includes only exporting firms in the manufacturing industry between 2010 and 2021 and excludes firms with zero turnover or missing values, leading to a baseline sample of 99052 exporting firms across the time horizon. Large firms account for 23 percent of all exporting firms while medium and small sized

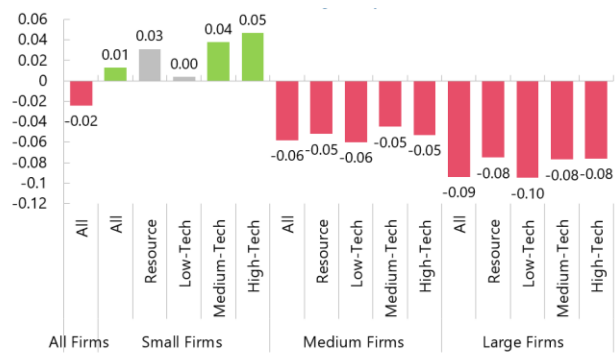
[1] Prepared by Nasha Mavee (local IMF Economist) and Keagile Lesame (National Treasury, South Africa).

[2] Firm size is defined using turnover thresholds by industry from the Department of Trade and Industry. The thresholds are updated annually by Statistics South Africa. Product category includes resources, low, medium, and high-tech products from exporting firms as classified by the SARS-NT firm-level panel data. Export dependency is expressed as the share of firms' exports to total sales.

firms account for 24 percent and 53 percent respectively. See Box 1 for model specification and Table 1 for empirical results.

3. **The results show that exchange rate volatility has a negative impact on South African manufacturing firms' exports, with the magnitude of the impact differing across key characteristics (firm size and product categories) -** see Figure 3 and Table 1**.** With respect to firm size, the results indicate that an increase in exchange rate volatility reduces firm-level export volumes of large firms the most, followed by medium-sized firms, while the impact on small firms is ambiguous and depends on product categories. Investigating potential heterogeneity across product categories/sophistication (resources, low, medium, and high-tech products) highlights that large and medium-sized firms exporting low technology products are slightly more sensitive to exchange rate volatility compared with their peers exporting resource-based products and medium and high technology products. Small firms' exports have a small positive reaction to an increase in exchange rate volatility; however, the results are only statistically significant in the case of exporters of medium and high-tech products. These results are robust to alternative measures of exchange rate volatility and accounting for additional drivers of export performance (including external demand, relative prices, firm's productivity, investment, and imports) – see Table 1.

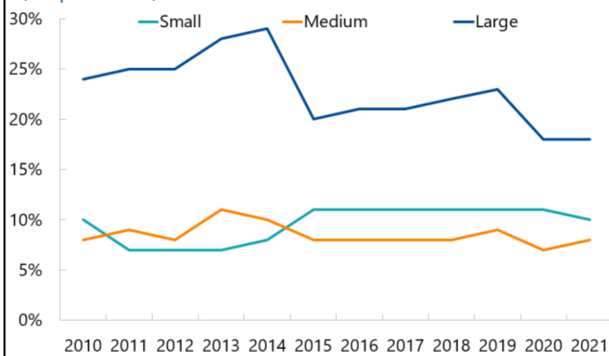
Figure 3. Response of Export Volumes to a Percent Increase in South Africa's REER Volatility
(In percent)



Sources: IMF staff calculations; results of panel fixed effects specification/methodology using the SARS-NT firm-level panel (National Treasury and UNU-WIDER 2021).

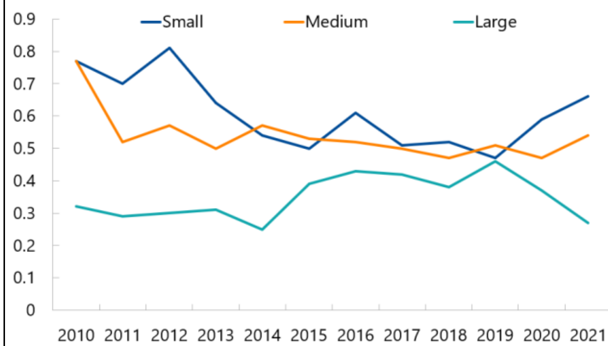
4. **While the negative impact of exchange rate volatility on firm's export performance is widely expected, the positive, though small, impact on small firms' export could stem from various factors such as**: *(1) The degree of exposure to international trade;* small firms have on average lower exposure to international trade activity relative to larger firms (Figure 4) and as a result lower exposure to exchange rate risk (Domingueza and Tesar (2006); Bergbrant et al. (2014)). *(2) Flexibility due to small scale;* Tunç and Solakoğlu (2017) found that due to their small-scale trade activities, small firms can avoid exchange rate risk by switching more easily to other more profitable export destinations. *(3) Higher natural hedge*; while small firms engage in less derivative or currency hedging activities than large firms due to need (amidst low engagement in/ or exposure to international trade), expertise and costs (Correia, Holman and Jahreskog, (2012); Mwangi, E. (2020); Holman,et. al. (2013)); small firms in our sample generally have a higher natural hedge, measured by the coverage ratio, than medium and large firms (Figure 5). Solakoglu et al. (2008) found that firms with higher coverage ratio can better mitigate the effect of exchange rate volatility on exports as export receipts tend to match or more than compensate for import expenses.

Figure 4. Share of Exports in Percent of Total Sales
(In percent)



Sources: IMF staff calculations based on National Treasury and UNU-WIDER, 2021 panel data.

Figure 5. Coverage Ratio by Firm Size
(In log of imports/log of exports)



Sources: IMF staff calculations based on National Treasury and UNU-WIDER, 2021 panel data.

5. **While exchange rate flexibility has been a key shock absorber for South Africa, the results suggest that lower exchange rate volatility can help improve firms' export performance.** Policymakers can mitigate exchange rate volatility through various channels, including well-coordinated and complementary fiscal, monetary, and structural policies. Prudent fiscal policy that supports public debt sustainability and a steadfast implementation of structural reforms would help boost growth prospects, reduce macroeconomic vulnerabilities and uncertainty, lower fiscal risks, and help mitigate exchange rate volatility. Maintaining price stability is also key for macroeconomic stability, including containing exchange rate volatility. In addition to macro-level policies, enhancing access and information to a wider range of hedging instruments and reducing the costs of hedging activities can help mitigate the impact of exchange rate volatility and support export performance. This would help all firms mitigate currency risks in their trade decisions, whilst also helping small firms prepare to face the adverse impact of exchange rate volatility as they grow bigger.

Box 1. Model Specification and Empirical Results

To gauge the impact of exchange rate risk on firm-level exports the annex estimates the panel fixed effects specification in Equation 1 (following Doğanlar 2002; Hall et al. 2010; Tunc et al. 2018).

$$EX_{i,t} = \beta_0 + \beta_1 \mathrm{FXvol}_t + \beta_2 \mathrm{Y}_t + \beta_3 \mathrm{RP}_t + \lambda_i + \mu_t + \varepsilon_{i,t} \qquad 1$$

Where i and t denote firm and year respectively, $EX_{i,t}$ is export volumes and calculated as export values deflated by the export deflator from the national accounts; and $FXvol_t$ is the exchange rate volatility measured by generalized autoregressive conditional heteroskedasticity (GARCH (1,1)) using monthly log returns of the real effective exchange rate. $\mathrm{Y}_{i,t}$ captures external demand approximated by the manufacturing production index of G-7 countries; and $\mathrm{RP}_{i,t}$ is the relative price measure expressed as the ratio of domestic to foreign consumer price index. λ_i captures firm-level fixed effects to control for time-invariant firm characteristics such as export destination (Bernard et al. 2007; Melitz, 2003) and μ_t captures time dummies. $EX_{i,t}$ and $\mathrm{RP}_{i,t}$ are expressed in logs, while $FXvol_t$ and $\mathrm{Y}_{i,t}$ are expressed as growth rates. All independent variables are included in lags to mitigate potential endogeneity.

Building on equation (1), equation (2), (3), (4), and (5) explore the differentiated response of firm's export performance to exchange rate volatility, depending on firm size (equation 2), type of product (equation 3), extent of natural hedge and export share (equation 4), and inclusion of additional control variables (equation 5):

1. Firm size (small, medium, and large firms):

$$EX_{i,t} = \beta_0 + \beta_1 \mathrm{FXvol}_t + \beta_2 \mathrm{Y}_t + \beta_3 \mathrm{RP}_t + \beta_4 \mathrm{FXvol}_t * Fsize_{i,t} + \lambda_i + \mu_t + \varepsilon_{i,t} \qquad 2$$

2. Type of products (exporters of resources, low-technology, medium-technology, and high-technology products, using the 5-digit level industry code):

$$EX_{i,p,t} = \beta_0 + \beta_1 \mathrm{FXvol}_t + \beta_2 \mathrm{Y}_t + \beta_3 \mathrm{RP}_t + \beta_4 FXvol_t * Fsize_{i,p,t}, + \lambda_i + \mu_t + \varepsilon_{i,t} \qquad 3$$

3. Firms natural hedge (measured by coverage ratio ($Cov_{i,t}$) that is the ratio of import to export value) and the magnitude of exports (share of exports to total sales- $Exps_{i,t}$).

$$EX_{i,t} = \beta_0 + \beta_1 \mathrm{FXvol}_t + \beta_2 \mathrm{Y}_t + \beta_3 \mathrm{RP}_t + \beta_4 \mathrm{FXvol}_t * Cov_{i,t} + \beta_5 \mathrm{FXvol}_t * Exps_{i,t} + \lambda_i + \mu_t + \varepsilon_{i,t} \qquad 4$$

4. Additional control variables (import $IMP_{i,t}$, investment $INV_{i,t}$ and labor productivity $PROD_{i,t}$ all expressed in log).

$$EX_{i,t} = \beta_0 + \beta_1 FXvol + \beta_2 \mathrm{Y}_{i,t} + \beta_3 \mathrm{RP}_t + \beta_4 IMP_{i,t} + \beta_5 INV_{i,t} + \beta_6 PROD_{i,t} + \lambda_i + \mu_t + \varepsilon_{i,t} \qquad 5$$

The results in Table 1, show that exchange rate volatility has a negative impact on South African manufacturing firm's exports, however the magnitude and sign of the impact differ across firm classification.

Table 1. South Africa: Model Specification Results

Variables	Equation 1	Equation 2	Equation 3 (Resources)	Equation 3 (Low tech)	Equation 3 (Medium tech)	Equation 3 (High tech)	Equation 4	Equation 5
FXvol	-0.024***	0.013**	0.031	0.004	0.038*	0.047**	0	-0.018**
	0	-0.028	(-0.151)	(-0.703)	(-0.063)	(-0.022)	0	-0.02
Y	0.040***	0.037***	0.009	0.043***	0.019	-0.004	0.044***	0.042***
	0	0	(-0.672)	0	(-0.256)	(-0.832)	0	0
RP	-1.785***	-1.515***	-0.143	-1.634***	-0.87	-0.315	-2.106***	-1.382***
	0	0	(-0.837)	0	(-0.142)	(-0.622)	0	0
FXvol*medium		-0.058***	-0.052***	-0.060***	-0.045***	-0.053***		
		0	0	0	0	0		
FXvol*large		-0.094***	-0.075***	-0.095***	-0.077***	-0.076***		
		0	0	0	0	0		
FXvol*Cov							0.014***	
							0	
FXvol*Exps							-0.025***	
							0	
IMP								0.080***
								0
INV								0.025***
								0
PROD								0.123***
								0
N	51085	44498	2994	14862	4191	4235	33394	24897
r2	0.011	0.031	0.024	0.036	0.025	0.016	0.039	0.024

p-values in parentheses * p < 0.10, ** p < 0.05, *** p < 0.01

Note: All independent variables are lagged, and year time dummies included in all specifications. The dependant variable is the log of export volume. FXvol and Y are expressed as growth rates and RP is in logs. Fixed effects model is estimated with cluster-robust standard

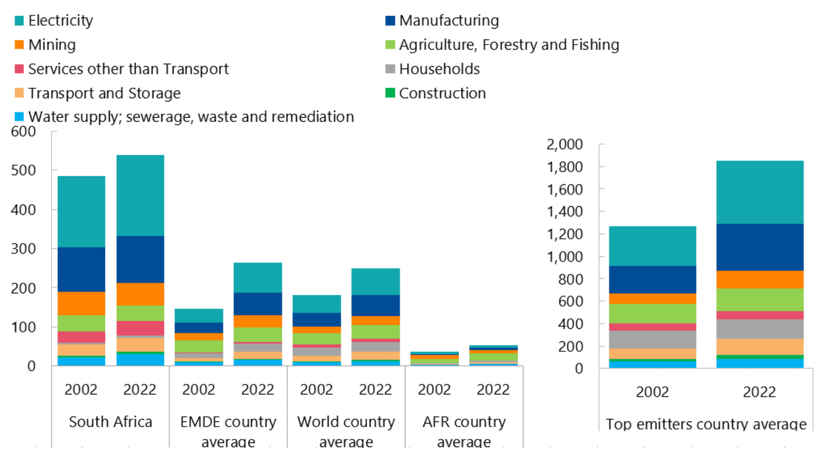
Source: Authors calculations based on the (National Treasury and UNU-WIDER, 2021) panel.

Annex XIII. Climate Policies at the Firm Level[1]

1. **South Africa is the largest greenhouse gas (GHG) emitter on the African continent, largely to do its dependence on coal-generated electricity**. South Africa's GHG emissions increased by close to 30 percent over the last three decades, and its per capita carbon emissions stood at 6.49 tons per annum at end-2022, larger than any other country in the African continent and the 16th largest in the world. A large share of carbon emissions is concentrated in the electricity sector, primarily dominated by the state-owned Eskom, which relies heavily on coal for electricity generation, followed by manufacturing and mining (Figure 1). Given the outsized role of these few sectors and companies therein, the country's ambitious plans to reduce GHG emissions by 15–30 percent from current levels (as per its 2021 Nationally Determined Contribution, NDC) and policies to do so would need to take into account the behavior and potential of these sectors and firms therein to contribute to the NDC reductions.

Figure 1. GHG Emissions by Sector

(In MtCO2e)



Sources: OECD Air Emission Accounts; UNFCCC; EDGAR, and IMF staff calculations.
Note: GHG emissions exclude Land Use, Land-Use Change and Forestry.

2. **This annex evaluates various potential climate policy interventions, using South African firm-level data.** The assessment is based on firm-level data and a modeling framework developed by Capelle et al. (2023)[2]. Annual firm-level emissions, self-reported in line with the Greenhouse Gas Protocol, are sourced from ICE Data Services. The panel data is merged with financial information obtained from S&P Compustat Global. The dataset covers 96 publicly traded South African firms across multiple industries.[3] The note first presents key stylized facts about the carbon emission profiles and investment trends of the firms covered by this dataset. Then, a

[1] Prepared by Damien Capelle (RES), Taehoon Kim (AFR), Divya Kirti (RES), Nicola Pierri (RES) and German Villegas Bauer (RES).

[2] "Mitigating Climate Change at the Firm Level: Mind the Laggards," Capelle, Kirti, Pierri, and Bauer (2023), IMF Working Paper.

[3] There are 96 firms that appear in at least one year in the sample. The maximum number of firms within a given year is 60. Eskom is excluded as it is a public utility company.

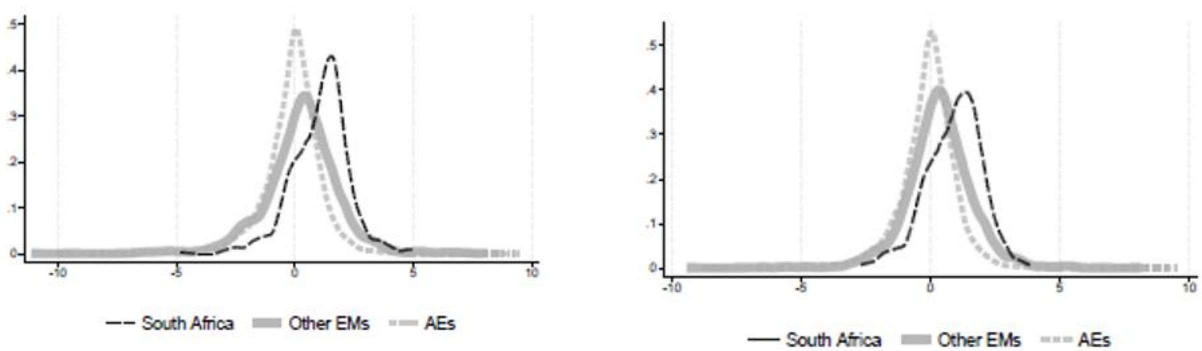
counterfactual technology transfer simulation is undertaken to examine the potential of South African firms to reduce emissions by closing the gap to top performers (domestically and globally). Finally, a general equilibrium model, calibrated with firm-level data, is used to analyze the impact of climate change policies.

Stylized Facts

3. South African firms generally have higher carbon emissions compared to their counterparts in both advanced economies and other emerging markets. Figure 2 displays the kernel density plots of the log of emissions intensity (measured as emissions over revenues) for South Africa, other emerging markets, and advanced economies, while controlling for industry times year fixed effects. Panel (a) includes all industries, while panel (b) excludes firms in the finance and utility sectors. In both panels, South African firms (represented by the black dashed line) consistently show higher average carbon emission intensities than firms in other emerging markets and advanced economies. Notably, these carbon emission gaps between countries persist even within the same industry. The panels also highlight considerable variation in emission intensities among South African firms, with a small number of firms exerting a disproportionately large impact. Comparing within industries, the top 10 percent of South African firms with the highest emission intensities emit at least 8 times more CO2 per unit of revenue than firms in the bottom 10 percent.

Figure 2. Heterogeneity in Emission Intensity within Industries

Panel A: All Industries | **Panel B: Excluding Certain Industries**



Source: IMF staff calculations.

4. Firms with older physical capital stock, less intangible capital and lower productivity tend to emit more carbon relative to their size within the same industry. Figures 3 (a, b, c) shows binned scatter plots of emission intensity (log of emissions over revenue) against the age of capital/the share of intangible capital/and productivity (measured as revenue per worker), normalized by standardized deviations. As illustrated, firms with older physical capital stocks, a smaller share of intangible capital and lower productivity generally produce more carbon emissions. The fitted slopes of theses plots are comparable among South Africa, and other emerging and advanced economies. However, South African companies with similar characteristics generally produce more carbon emissions. These findings suggest that climate policy can be potentially effective for a broader range of firms in South Africa, rather than specific groups.

Figure 3(a). Emission Intensity and Age of Physical Capital

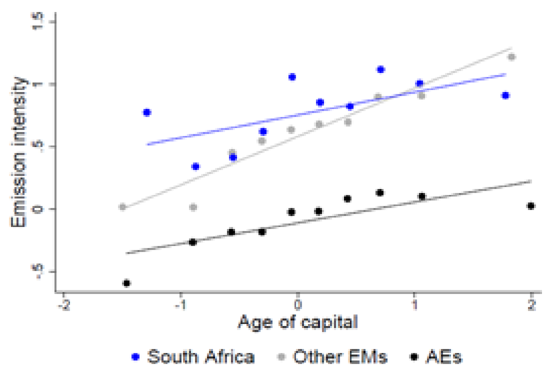


Figure 3(b). Emission Intensity and Share of Intangible Assets

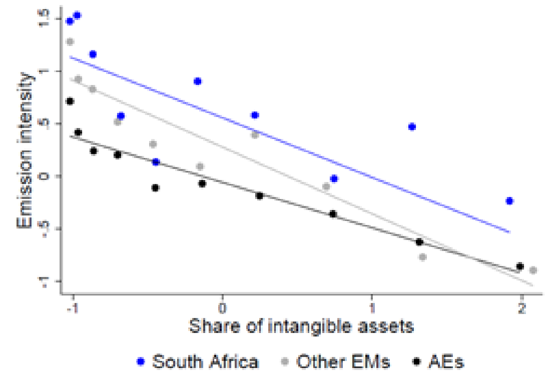
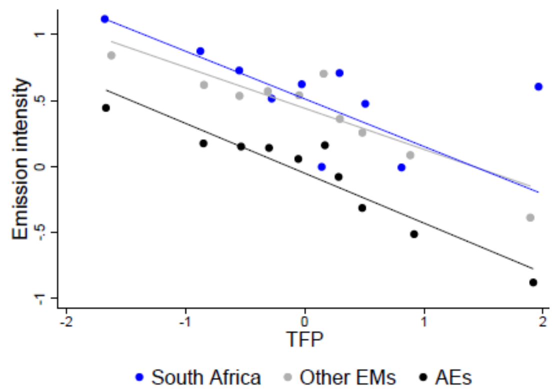


Figure 3(c). Emission Intensity and Productivity



Sources: Compustat, ICE data services, Capelle et al. (2023), and IMF staff calculations.

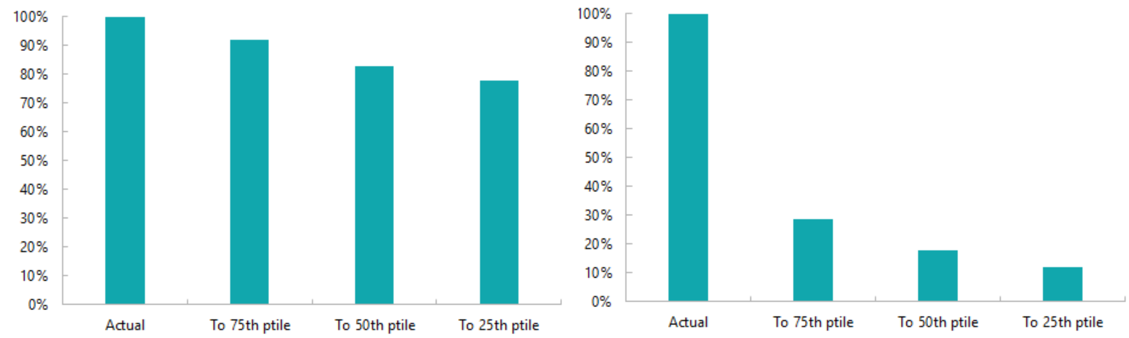
Technology Transfers

5. If lagging South African firms adopted improved technologies and production processes of the top performers, this could lead to a substantial reduction in total emissions. Figure3(a) illustrates the counterfactual emissions of South African firms that would occur if every firm with an emission intensity above the n'th percentile within its industry and year group reduced its emission intensity to that percentile. Panel (b) simulates a similar counterfactual but using the emission intensity percentiles of firms in advanced economies. As illustrated, the potential reductions in emissions could be up to 20 percent if technology transfers were undertaken domestically. A more dramatic reduction in emissions, up to 70–85 percent could be achieved if South African firms were to emulate the best firms globally.

Figure 4. Back-of-the-Envelope Counterfactuals on Total Emissions of South African Firms

Panel A: Transfers within South African Industries
(In percentage of emissions)

Panel B: Transfers from AE Firms
(In percentage of emissions)



Sources: Compustat, ICE data services, Capelle et al. (2023), and IMF staff calculations.

Climate Policies

6. **To evaluate the effects of climate policy interventions, a general equilibrium model is developed, calibrated to South African data, following the framework proposed by Capelle et al. (2023).** A key feature of the model is that firms make various business and investment decisions that affect their carbon emissions. In the short run, firms can adjust their variable inputs to reduce energy consumption. In the medium term, they can invest in research to improve overall efficiency. Additionally, firms can upgrade to more advanced capital equipment, cutting energy use and emissions. Finally, they can increase capital intensity to further optimize energy usage. By utilizing firm-level data, the model enables more precise calibration and provides a deeper analysis of the potential impact of climate-related policies on macroeconomic outcomes and firm performance.

7. **Four climate policy instruments, (a) carbon tax (b) carbon feebate (c) capital subsidy and (d) research subsidy, are evaluated.** The objective is to assess the macroeconomic costs, such as reductions in output, consumption, fiscal expenditures, and firm profits, associated with reducing total carbon emissions by 15 percent under each policy instrument (Table 1). Assuming an increase in the carbon tax equal to \$23.5/tCO2s, consistent with an emissions reduction of 15 percent, steady state output, consumption, and firm profits would be lower by around 2¼ percentage points relative to the baseline, with the discounted sum of consumption lower by 2.6 percentage points relative to the baseline. On the upside, the carbon tax would generate revenues that would allow lowering fiscal expenditures by 2.3 percentage points of GDP. Introducing a carbon feebate of \$24.5/tCO2 yields similar output and consumption losses but leaves company profits and fiscal expenditures unchanged. In contrast, the implementation of capital subsidies equal to 41.7 percent of the price can raise steady state output, consumption and profits by about 2 percentage points relative to the baseline, even as the discounted sum of consumption along the transition path to the new steady state declines by close to 9 percentage points, given the need to cover the large capital investment expenditures and associated fiscal cost (around 13 percentage points of GDPI). The implementation of research subsidies of close to 95 percent of the cost would not be sufficient to achieve the

targeted 15 percent reduction in carbon emissions.[4] Achieving half the target, for a hefty fiscal cost of 6 percentage points of GDP, leads to output, consumption, the NPV of consumption, and profits declining by 7–8 percentage points relative to the baseline.

Table 1. Summary Model Simulations for South Africa

	Output	Consumption	Profits	Fiscal Cost	NPV of Consumption	Reduction in emissions	Upgrades	Policy Instruments
	All values in % change of actual economy							
Carbon Tax	-2.2	-2.2	-2.3	-2.3	-2.6	-14.9	16.7%	$23.5/tCO2
Feebate	-2.3	-2.3	0.0	-0.1	-2.7	-15.0	16.7%	$24.5/tCO2
Capital Subsidy	2.2	2.2	2.1	12.9	-9.3	-14.9	66.7%	41.7%
Research Subsidy	-7.9	-7.9	-7.8	6.1	-6.9	-8.2	0.0%	95.7%

Notes: NPV=Net Present Value. A 4%-time discount factor is used to compute the net present value of consumption. Output, consumption, and profits refer to their value in the steady-state and are weighted averages across sectors, where the weights are the country-specific sector shares. Fiscal cost is the sum of the steady-state and transition net subsidies, annualized, and is in percent of steady-state GDP in the counterfactual economy. Upgrades refer to the share of firms upgrading their physical capital stock to a newer vintage.

8. In sum, carbon taxes and feebates appear to have lower consumption costs over time, with neutral or beneficial impact on the public finances. A carbon tax is particularly efficient because it encourages all firms to reduce emissions across multiple areas, from adjusting variable inputs to investing in research and capital upgrades.[5] Additionally, the reallocation effect, where more efficient firms and sectors expand while less efficient ones, contributes to lowering aggregate carbon emission intensity. The feebate operates similarly to the carbon tax in these respects. While the carbon tax strictly penalizes pollution by making it more expensive, the feebate combines both incentives and penalties, as it taxes emissions but reverts the fiscal revenues back to firms in proportion to their sales This makes the feebate less costly for corporate profits. In contrast, capital subsidies (used by close to 70 percent of firms) incur very large fiscal costs, leading to significant consumption losses in the transition to the (higher) steady state. Research subsidies appear to be the least effective in achieving emissions targets and minimizing fiscal and macroeconomic costs.

9. These findings suggest that South Africa could strengthen its carbon tax policy, alongside introducing feebates to achieve its ambitious climate targets. Although South Africa was among the first EMs to implement a carbon tax, the effective rate remains low due to generous tax-free thresholds and allowances. Achieving the planned emissions reduction targets will require raising the effective carbon tax rate, as demonstrated by Qu et al. (2023). Sector-specific feebates may also help encourage emissions mitigation across various industries and complement the carbon tax. Any of these instruments minimize consumption losses and do not lead to fiscal costs. In fact, the carbon tax generates additional revenues that could be instrumental in mitigating the costs for vulnerable groups.

[4] Capelle et al. (2023) presents a broader quantitative analysis calibrated against global firm-level data, which resembles South Africa's results. These include the effectiveness of carbon taxes and the inefficiencies associated with research and capital subsidies, regardless of countries' development stages.

[5] An underlying assumption here is that firms are not constrained by non-climate related factors such as debt overhang and limited access to credit. In this context, a macroenvironment supportive of investment is important for carbon taxes to effectively facilitate a green transition.

Annex XIV. Data Issues

Table 1. Data Adequacy for Surveillance

Data Adequacy Assessment Rating 1/
A

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	B	A	B	B	B

Detailed Questionnaire Results

Data Quality Characteristics	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency
Coverage	A	A	B	A	A	
Granularity 3/	A		A	A	A	
			A		B	
Consistency			B	A		B
Frequency and Timeliness	A	A	B	A	B	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. **South Africa's data is adequate for surveillance.** Data is generally timely, comprehensive and granular across all sectors though there are a few shortcomings in the fiscal data and in the timelines and granularity of the Financial Soundness Indicators. Fiscal data is produced by Statistics of South Africa, the National Treasury (NT), and the central bank (SARB). For surveillance purposes, data provided by the NT has been used, despite it not covering all general government units (local governments and some extrabudgetary units are excluded). The NT publishes budgetary central government, which covers a large proportion of the total revene and expenditure, on a monthly basis, however the consolidated government accounts data is published only in the context of the budget (February) and revised budget (MTBPS - November) with a six month lag. Data by SARB has better coverage and is published quarterly, nonetheless, is not strictly comparable to the NT's data, as the NT's data does not follow some of the international standards, requiring revenue and expenditure data to be amended by staff before analyzing/publishing. Regarding FSI data, granularity is low compared to other AFR and EM countries and the time lag is about two years which is not conducive for surveillance in the financial sector. However the SARB publishes comparable bank and insurance sector financial stability indicators on a monthly basis with a lag of three months, that staff is using instead.

Changes since the last Article IV consultation. The authorities have been working with the Statistics Department (STA) of the IMF in aligning NT's and SARB's fiscal data to the Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS). There has been also technical assistance (TA) by AFRITAC South to assist Statistics South Africa with establishing and finalizing a new residential property price index, which was preliminary disseminated in March 2023. Another TA mission by STA on Compilation of Energy and Air Emissions Accounts took place June 2024.

Corrective actions and capacity development priorities. The authorities are working in collaboration with the Fund to improve data quality and methodological compilation of government finance statistics. The last GFS Technical Assistance Mission in November 2024 included work with all three compilers of fiscal data in South Africa, the NT, SARB and Stats SA, and made a number of recommendations to bring GFS data into greater alignment across the three institutions, as well as changes to bring fiscal data into greater conceptual alignment with the GFSM 2014. A follow up GFS mission is proposed for FY26.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff estimates for Public and Private Sector Savings are used in lieu of official statistics

Other data gaps. **N/A.**

Table 2. Data Standards Initiatives

South Africa subscribes to the Special Data Dissemination Standard (SDDS) since August 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Table of Common Indicators Required for Surveillance

(As of December 09, 2024)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	South Africa[8]	Expected Timeliness[6,7]	South Africa[8]
Exchange Rates	Dec-24	Dec-24	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov-24	Dec-24	M	M	M	30	1W	30
Reserve/Base Money	Nov-24	Dec-24	M	M	M	30	2W	5
Broad Money	Oct-24	Dec-24	M	M	M	30	1M	21
Central Bank Balance Sheet	Nov-24	Dec-24	M	M	M	30	2W	5
Consolidated Balance Sheet of the Banking System	Nov-24	Nov-24	M	M	M	30	1M	21
Interest Rates[2]	Nov-24	Nov-24	D	D	D	...	...	1
Consumer Price Index	Oct-24	Nov-24	M	M	M	30	1M	21
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Oct-24	Nov-24	A	A	A	90	2Q	70
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Oct-24	Nov-24	M	M	M	30	1M	30
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Sep-24	Oct-24	Q	Q	Q	30	1Q	30
External Current Account Balance	Jun-24	Sep-24	Q	Q	Q	90	1Q	90
Exports and Imports of Goods and Services	Oct-24	Nov-24	M	M	M	30	8W	30
GDP/GNP	Sep-24	Dec-24	Q	Q	Q	90	1Q	68
Gross External Debt	Jun-24	Sep-24	Q	Q	Q	90	1Q	90
International Investment Position	Jun-24	Sep-24	Q	Q	Q	90	1Q	90

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

SOUTH AFRICA

January 7, 2025

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	The African Department in collaboration with other Departments

CONTENTS

RELATIONS WITH THE IMF

As of November 30, 2024

Membership Status

Joined: December 27, 1945

Accepted the obligations of Article VIII Sections 2, 3, and 4 of the IMF's Articles of Agreement on September 15, 1973.

General Resources Account	**SDR Million**	**%Quota**
Quota	3,051.20	100.00
IMF holdings of currency	3,542.97	116.12
Reserve tranche position	652.45	21.38
Lending to the Fund		

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	4,709.85	100.00
Holdings	4,447.83	94.44

Outstanding Purchases and Loans	**SDR Million**	**%Quota**
Emergency Assistance 1/	1,144.20	37.50

1/ Emergency Assistance may include ENDA, EPCA, and RFI.

Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-By	Nov 03, 1982	Dec 31, 1983	364.00	159.00
Stand-By	Aug 06, 1976	Aug 05, 1977	152.00	152.00
Stand-By	Jan 21, 1976	Aug 06, 1976	80.00	80.00

Outright Loans:

Type	Date of Commitment	Date Drawn	Amount Approved (SDR million)	Amount Drawn (SDR million)
RFI	Jul 27, 2020	Jul 29, 2020	3,051.20	3,051.20

Projected Payments to the IMF

(SDR million; based on existing use of resources and present holdings of SDRs)

			Forthcoming		
	2024	2025	2026	2027	2028
Principal		1,144.20			
Charges/interest		31.18	8.85	8.85	8.85
Total		1,175.38	8.85	8.85	8.85

Exchange Arrangements

The currency of South Africa is the South African rand (ZAR). The exchange rate of the rand is determined by market forces in the foreign exchange market. South Africa's de-jure exchange rate arrangement is free floating, and the de-facto arrangement is floating. South Africa has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. South Africa has continued to gradually liberalize the system of exchange controls in place since the apartheid regime.

With the abolition of the financial rand in 1995, all exchange controls on nonresidents were eliminated. Nonresidents are free to purchase shares, bonds, and other assets, and to repatriate dividends, interest receipts, and current and capital profits, as well as the original investment capital. Foreign companies, African governments, and institutions may list equity and debt instruments on South Africa's securities exchanges.

Exchange controls on capital transactions by residents have been gradually relaxed. The authorities' main objective has been to move toward a system based on prudential limits and supervision, and away from a rigid system of quantitative controls. The National Treasury and the SARB will continue to develop the legislative framework for the new capital flow management system.

Article IV Consultation

The 2023 Article IV consultation was concluded by the Executive Board on May 22, 2023. South Africa is on the standard 12-month Article IV consultation cycle.

Safeguards Assessment

A first-time safeguards assessment of the SARB, conducted in connection with the Rapid Financing Instrument (RFI) approved by the Executive Board on July 27, 2020, was completed in January 2022. The assessment found solid safeguards in place in all assessed areas, including audit mechanisms and financial reporting practices, which adhere to international standards. Governance arrangements are strong; the SARB Board and its Audit Committee are actively engaged in oversight, and a collegial executive management team is in place. The central bank has a strong control and risk culture, which is supported by a well-developed risk management function. As recommended by the assessment, the SARB enhanced internal audit reports and strengthened the analysis of the contingency reserve for risks carried by its balance sheet. It also revised its involvement in, and the business model of, the Corporation for Public Deposits to better safeguard the central bank's autonomy. The SARB Act's provisions on autonomy could also be further strengthened to align with leading practices.

Technical Support

The Fund has been providing technical assistance and training to assist South African authorities on various macroeconomic and financial issues and policies. Specific capacity development projects in 2024 include the following:

Fiscal Affairs Department	**Date of Delivery**	**Beneficiary Agency**
Fiscal Risks, Fiscal Rules and Institutions	Sep-24	NT
Tax Administration	Oct-24	NT
Revenue Administration	Nov-24	SARS & NT
Monetary and Capital Markets Department		
Central Bank Transparency Code Review	May-24	SARB & NT
Fintech Seminar (virtual)	Jul-24	SARB
Stress Testing the Central Bank Balance Sheet	Jul-24	SARB
Developing and Reforming National Payment System (Cross-Border)	Aug-24	SARB
Common Monetary Area (CMA): Central Bank Digital Currency Exploration	Sep-24	SARB
Liberalization of Capital Outflows	Oct-24	SARB & NT
Statistics Department		
Real Sector - Property Price Index	Jan-24	SSA
Environment & Climate Change Statistics	Jun-24	SSA
Government Finance Statistics (GFS)	Oct-24	SARB & NT

SARB=South African Reserve Bank; NT=National Treasury; SSA=Statistics South Africa

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: https://www.worldbank.org/en/country/southafrica
- African Development Bank: https://www.afdb.org/en/countries/southern-africa/south-africa
- Regional Technical Assistance Center for Southern Africa (AFRITAC South—AFS): http://www.southafritac.org/

Statement by Mr. Adriano Isaias Ubisse Executive Director for South Africa, Ms. Vuyelwa Vumendlini Alternate Executive Director for South Africa, and Ms. Linda Motsumi Senior Advisor to the Executive Director for South Africa
January 27, 2025

Introduction

1. The South African Authorities appreciate the constructive engagement with the Fund staff and broadly concur with the staff analysis and the assessment of key policy priorities.

2. The Article IV Consultation took place against the backdrop of the newly formed Government of National Unity (GNU), following the May 2024 national elections. The post-election outcomes demonstrate South Africa's commitment to democracy and boosted confidence in the country. The GNU is prioritizing achieving rapid and inclusive growth, as well as enhancing job creation.

3. The authorities' current agenda promotes macroeconomic stability, accelerating public infrastructure investment, improving the capability of state functions, and implementing structural reforms for higher growth potential. In this context, energy supply has stabilized, transport and logistics challenges are being addressed, and investment in infrastructure is being prioritised. Going forward water supply constraints will be prioritised, while local government will receive greater focus, including through the reform implementation programme known as Operation Vulindlela.

Recent Economic Developments and Outlook

4. South Africa's economic growth prospects are poised to recover in 2025, following the lacklustre economic performance in 2023 and 2024, as household consumption gradually increases, supported by rising purchasing power, employment recovery and wealth gains. Real GDP growth is projected to accelerate to 1.1 per cent in 2024 and 1.7 per cent in 2025, before rising to 1.9 per cent in 2027. The risks facing the outlook are balanced, with downside risks emanating from the external environment, including the slowdown in China, volatile commodity prices and the escalation of geopolitical conflicts, while the ambitious reform agenda, including through Operation Vulindlela, could bolster growth.

5. Headline inflation averaged 4.5 percent in 2024, declining from an average of 5.9 percent in 2023. It dipped to 2.9 percent in November 2024, mainly due to favourable goods prices, a stronger exchange rate, lower oil prices and a modestly restrictive monetary policy stance. At the time of the November 2024 MPC meeting, headline inflation was projected at 4% for 2025, stabilising at the 4.5% midpoint of the target range thereafter. Core inflation is expected to remain low over the medium-term, moderating from 4.3 percent in 2024 to 3.9 percent in 2025. Monetary policy decisions will remain responsive to data developments and sensitive to the balance of risks to the forecast.

6. The current account deficit is expected to widen from 1.6 per cent of GDP in 2023 to 1.8 per cent of GDP in 2024. South Africa's gross international reserves position remains broadly constant at 6.1 months of import cover for 2023 and 2024.

Fiscal Policy and Debt Management

7. The authorities are committed to fiscal consolidation and to setting debt on a sustainable path. The fiscal year 2023/24 was a significant success, with the authorities producing the first primary surplus in 15 years. A similar outcome is expected in the 2024/25 fiscal year, given the trend in revenue collections, and stronger expenditure control.

8. An overall main budget deficit of 4.7 per cent of GDP is expected for the current fiscal year. This is projected to decline to 4.3 per cent in 2025/26. On a consolidated basis, during the same period, the deficit will narrow from 5 per cent of GDP to 4.3 per cent, as the financial positions of social security funds improve, while the nominal fiscal deficit declines. Meanwhile, debt as a percentage of GDP is expected to stabilize in the 2025/26 financial year, with debt-service costs as a percentage of revenue also peaking at the same time.

9. Tax revenues are expected to remain stable at 24.8 per cent of GDP over the next three years, with an average tax buoyancy of 1.08. To expand the tax base, the authorities are stepping up administrative efforts to implement more data science and artificial intelligence that will improve detection capabilities against tax evasion. The authorities seek to strengthen laws against the illicit economy and enhance dispute prevention and resolution. The two-pot pension system, which permits members of retirement funds to make taxable withdrawals before reaching retirement, is expected to boost revenue.

10. Spending increased modestly in 2024/25, partly cushioned by unspent funds and a contingency reserve drawdown. The cost of public employment will be mitigated through an early retirement programme for non-critical staff. Year-to-date expenditure on goods and services remains below the initial budget estimates, and the budget does not include any new financial support to state-owned enterprises (SOEs).

11. The authorities are committed to placing debt on a medium-term sustainable path. To achieve this, they have taken steps to lower the gross borrowing requirement, while accumulating cash balances. The debt management strategy includes financing the gross borrowing requirement at the lowest possible costs within a set of strategic risk benchmarks. The authorities have amended the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) settlement agreement to manage the surpluses in this account more effectively. Proceeds from the GFECRA will be used to reduce the government borrowing requirement. The authorities are confident that debt will peak at 75.3 per cent of GDP in 2025/26 and decline thereafter.

Monetary and Exchange Rate Policies

12. The SARB is dedicated to maintaining low and stable inflation and anchoring inflation expectations around the mid-point of the target band.

13. The SARB values transparency in the implementation of monetary policy, including its flexible exchange rate framework. The monetary policy implementation framework adopted in 2022 has proven effective in transmitting interest rate decisions. The SARB and NT have formed a collaborative research team to examine the current inflation target band in the context of the country’s unique economic structure, demographics, current reforms, domestic growth, citizen living standards, and other national experiences. This work will inform future discussions regarding changes to the target.

Financial Sector Policies

14. The SARB has maintained its focus on ensuring that the financial system remains robust. Presently, the banking sector's solid balance sheets have provided most banks with protection against high inflation and elevated interest rates. However, new challenges have started to surface, including increased financial strain among households and small and medium enterprises, leading to a rise in non-performing loans for banks. The SARB will monitor banks' credit risk management strategies, urging them to maintain diligent financial and risk management practices. The SARB will continue to closely observe the connection between the sovereign and financial sectors, considering the exposure of domestic financial institutions to the government's escalating debt levels and higher debt-servicing costs.

15. The SARB has reached several significant milestones aimed at enhancing confidence in the financial system and increasing the sector's resilience. Starting on 1 July 2023, the SARB assumed the role of resolution authority, requiring it to adopt resolution strategies for banks and insurers deemed systemically important in the event of their failures. Alongside this development, the SARB launched the Corporation for Deposit Insurance (CODI), a new subsidiary responsible for overseeing the nation's inaugural deposit insurance program, which protects eligible depositors with coverage of up to R100 000, in cases where their bank fails, is liquidated, or enters into a resolution.

16. The SARB performed its first stress test of South Africa's key insurance firms during the 2023/24 cycle, of which climate-related risks were prominent. Ongoing efforts to exit the FATF grey list during 2025 are well underway, with 16 out of 22 action items having been addressed.

Structural and Governance Reforms

17. The current focus of the reform agenda includes the stabilisation of the electricity grid, enhancing the efficacy of freight and ports operations, implementing e-Visas, as well as prioritizing the advancement of targeted industries to enhance the business climate and promoting equitable growth. Nearly 94 per cent of the reforms aimed for implementation by 2024 have been accomplished or are significantly progressing. Operation Vulindlela, will be going into its second phase with new initiatives aimed at reversing local government decline, tackling spatial inequality and advancing a digital government to improve service delivery.

18. Government has through legislation, facilitated the generation of energy from independent power producers and provided tax breaks to incentivise individual consumers and businesses to generate own energy. On the transmission side, the National Transmission Company of South Africa (NTCSA) commenced operations on July 1, 2024, however extensive investment will be required to sufficiently transmit generated energy on the national grid. In August 2024, the Electricity Regulation Amendment Bill was signed to encourage competition within the electricity sector.

19. The execution of transport network reforms has progressed effectively. Transnet's Reinvent for Growth strategy has been developed and is in the second phase of its recovery plan. The National Logistics Crisis Committee (NLCC) was formed to implement the National Freight Logistics Roadmap, which aims to ensure open access to rail infrastructure. The Economic Regulation of Transport Bill was enacted in June 2024, and the Transport Economic Regulator (TER) will be established in April 2025. A Private Sector Participation (PSP) unit is being created within the Department of Transport to attract private investment.

20. To secure the water supply, processing times for Water Use License Applications (WULA) have decreased from over 300 days to a target of 90 days. The South African National Water Resources Infrastructure Agency SOC Ltd Bill was signed into law by the President on August 27, 2024, creating a new state-owned company responsible for managing and developing the nation's water infrastructure. A revised Raw Water Pricing Strategy has been proposed for approval to ensure efficient water pricing and support vulnerable populations. Furthermore, private sector participation in the water sector will be supported through the Water Partnerships Office housed in the Development Bank of Southern Africa. The Department of Water and Sanitation is also strengthening water regulation including through the future establishment of an Independent Economic Regulator in the water sector.

21. On July 23, 2024, the Climate Change Bill was enacted to establish a comprehensive framework guiding South Africa's transition toward a low-carbon, climate-resilient economy. The Just Energy Transition continues to focus on plans to assist workers and communities affected by the transition to a green economy.

22. Unemployment remains stubbornly high. Ongoing work by the authorities to address this challenge include various active labour market policies such as the extended public works programmes and incentivizing entrepreneurship. To address the structural nature of the unemployment problems, the authorities are considering reforms on spatial disparities, which would entail developing dynamic and integrated cities that will enable economic activity and bring jobs to the people, and harnessing digital public infrastructure, as a driver of growth and financial inclusion.

23. In the fight against corruption, significant advancements have been made in finalizing legislation to bolster the operability and independence of the National Prosecuting Authority. The Anti-Corruption Academy was established in 2024 to enhance the capabilities of law enforcement officials in combating corruption. Regarding prosecutions, several high-profile cases have been concluded, and freezing orders have been issued against the accounts of convicted entities and individuals.

Conclusion

24. The authorities are committed to implementing policies that will enhance inclusive economic growth, achieving a sustainable public debt level, further repairing and strengthening network industries, and strengthening state capacity to support economic activity. The authorities remain optimistic about the positive outcomes from the reforms already implemented.