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National Treasury
REPUBLIC OF SOUTH AFRICA

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# MEDIA STATEMENT

## 2023 INTERNATIONAL MONETARY FUND (IMF) ARTICLE IV STAFF REPORT ON SOUTH AFRICA

The National Treasury notes the publication of the International Monetary Fund (IMF) Article IV Staff Report on South Africa today. This Report outlines the outcomes of the IMF Article IV Consultation in South Africa that was held soon after the 2023 Budget, from 2 -17 March 2023, during which IMF staff discussed economic developments in the country with the Government, the South African Reserve Bank (SARB), state-owned enterprises (SOEs), parliament, business, labour and academia.

Since the publication of the Budget Review on 22 February 2023, some risks to the economy identified in the Budget have materialised. These include the further worsening of domestic structural constraints in electricity and logistics, which continue to limit production and exports; a higher cost of living wage settlement for the public service; and higher borrowing costs, which are expected to weigh on consumption and investment. Additionally, real GDP growth in 2022 was weaker than expected, at 2 per cent, posing adverse carry-over effects into 2023.

### IMF Findings

The IMF highlights that South Africa is facing mounting economic and social challenges. They project real GDP growth of 0.1 percent in 2023, reflecting a significant increase in the intensity of power outages, and weaker commodity prices and external environment. The IMF does not expect public debt to stabilize during the MTEF and recommends stronger fiscal measures by government.

In summary, the IMF recommends:

- Predominantly expenditure-based fiscal consolidation measures of 3 percent of GDP over the medium-term to put the public debt on a firmly declining path;
- Improving the institutional fiscal framework to support growth-friendly fiscal adjustment, create fiscal space, and improve risk management;
- Carefully calibrated and communicated prudential measures to mitigate risks from the sovereign- debt nexus and continuing efforts towards a swift removal from the FATF grey list;
- A well-sequenced implementation of reforms, including urgent advancement of SOE reforms, broad-based actions to reduce regulatory burdens and entry barriers, deeper regional trade integration, creating an enabling environment for the expansion of the digital economy, enhancing the flexibility of labour markets to support inclusive growth, a multipronged approach to achieve South Africa's climate ambition, promoting governance; and
- Continuing monetary policy normalization as planned, remaining data-dependent, to keep inflation expectations anchored and bring headline inflation back within the target band.

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## Government's response

The National Treasury (NT) appreciates the productive engagement with the IMF. NT is aware of the downside risks to economic growth and government is working on further measures in this regard.

### (a) NT's economic outlook

NT will update its projections to take account of risks that have materialised and present these updates in the Medium-Term Budget Policy Statement (MTBPS) in October 2023. The 2023 Budget projection was a downward adjustment from the projected growth of 1.4 per cent for 2023 in the 2022 MTBPS. The 2023 Budget revision was informed by the negative impacts of load shedding on the economy, stubbornly high inflation, rising borrowing costs, and a less supportive external environment, among others.

### (b) Fiscal policy

The fiscal deficit has narrowed, both as a percentage of GDP and in nominal terms, but risks remain elevated and some have begun to materialize. Government will consider recommendations in this regard to ensure that fiscal imbalances are addressed and debt stabilizes according to the time-frame committed to in the 2023 Budget. Any such measures will be announced in the October MTBPS. On the financing front, government will continue to maintain an active debt management strategy to manage borrowing costs and maturity risks, and explore further concessional borrowing, including through climate finance.

The ESKOM debt relief programme and unbundling process provides a clear path for the financial future of the utility while reducing contingent liabilities. Government has stepped up efforts to increase private participation in network industries and is considering recommendations to rationalize public entities.

Government is also considering alternative options to the COVID-19 SRD grants beyond 2024 and will seek to finance any permanent replacement grants in a deficit neutral way.

### (c) Structural reform implementation

Government continues to prioritise the implementation of structural reforms to lift the potential growth rate of the economy. In the near term, government is addressing electricity and transport challenges, including through fostering greater private sector participation in these sectors. Numerous reforms in other sectors are under way through Operation Vulindlela and the Economic Reconstruction and Recovery Plan.

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On trade integration, the authorities will focus on the implementation of the African Continental Free Trade Agreement (AfCFTA), which will deepen African economic integration and boost growth. On the digital transition, the switch-off of analogue transmission will soon be completed to unlock investment for the rollout of 5G mobile networks. The ongoing work on promoting digital payment services will help broaden access to financial services in the country.

**(d) Eskom**

Restructuring of Eskom is ongoing with Eskom being unbundled into generation, transmission and distribution entities, with the establishment of the National Transmission Company of South Africa as a separate subsidiary through the amendment of the Electricity Regulation Act (2006).

**(e) Anti-corruption reforms, including those recommended by Financial Action Task Force (FATF) and state capture inquiry commission**

Government is committed to take decisive action against crime and corruption and are implementing the recommendations of the state capture inquiry commission and addressing deficiencies in combatting money laundering and terrorism financing identified by the FATF for a swift removal from their "greylist".

Most recently, the Cabinet has embarked on reforms to modernise the procurement system working with the World Bank and OECD, and approved the long-awaited draft Public Procurement Bill. The draft bill aims to create a single framework for public procurement and eliminate fragmentation in the laws dealing with public procurement.

The National Anti-Corruption Advisory Council was established to advise on suitable mechanisms to stem corruption. Government also plans to make integrity assessments mandatory for public service recruitment and introduce entry exams.

**Conclusion**

South Africa's economy is facing significant risks. We are navigating this difficult environment with policies that support faster growth and addressing fiscal risks through ensuring a stable macroeconomic framework, implementing growth-enhancing reforms and strengthening the capacity of the state to deliver quality public services, invest in infrastructure and fight crime and corruption.

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