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REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

THE IMF ARTICLE IV REPORT FOR THE 2016 CONSULTATION WITH SOUTH AFRICA

The International Monetary Fund (IMF) has today published the outcome of its Article IV consultation with South Africa that took place between 18 April and 4 May 2016.

The IMF holds bilateral discussions with every member country annually as prescribed in Article IV of the IMF's Articles of Agreement, to assess their economic developments and policies. During this time, an IMF Staff Mission visits the member country to meet with key stakeholders and to collect economic and financial information.

The outcome of their analysis is summarised in an Article IV Report. Cabinet, on 22 June 2016, considered and noted the report compiled by the IMF Staff Mission. South Africa values on-going engagements and work programs with all multilateral institutions.

IMF Findings

In the Article IV report, the IMF acknowledges that South Africa has made progress in terms of addressing infrastructure bottlenecks (especially in the electricity sector), public procurement and the commitment to state owned enterprise (SOE) reforms. The IMF also recognises that the government and the South African Reserve Bank (SARB) have taken appropriate steps to counter rising government debt and inflation.

The IMF notes that the South African economy remains constrained by deep-rooted structural impediments which together with rising policy uncertainty weaken growth and employment prospects. Furthermore, the report highlights external risks to South Africa emanating from further shocks from China, heightened global financial volatility and lower global growth.

The IMF's forecast for 2016 growth in South Africa is 0.1 per cent, a downward revision from their January projection of 0.7 per cent. In the outer years, the IMF expects growth to rebound to 1.1 per cent in 2017 and 2.0 per cent in 2018. The IMF also predicts elevated fiscal and current account deficits of 3.7 per and 4.1 per cent of GDP respectively for 2016.

The IMF highlights that domestic risks to South Africa's growth include developments perceived to damage confidence, the realisation of SOEs' contingent liabilities and a downgrade in the sovereign credit rating to speculative grade.





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GOVERNMENT'S RESPONSE

National Treasury forecast is more positive compared to the IMF. In the immediate term, we expect growth and employment to be supported by several structural reforms and targeted government interventions as guided by the National Development Plan and the Nine-point plan. Furthermore, collaborative efforts by government and private sector aimed at co-investments in infrastructure, supporting Small, Medium and Micro-sized Enterprises (SMMEs) and finding sector specific interventions are expected to further improve growth prospects.

We recognise, as articulated in the IMF report, that a comprehensive package of structural reforms is necessary to increase growth, create jobs and lower income inequality. An IMF/G20 guiding framework for structural reforms recommends that emerging market economies should focus on fiscal reforms, business regulations, labour market, infrastructure, banking/capital markets and product market regulations. South Africa's structural reforms implementation package is anchored by the Nine-Point Plan, which entails:

- Resolving the energy challenge
- Revitalising agriculture and the agro-processing value chain
- Advancing beneficiation or adding value to minerals
- More effecting implementation of a higher impact industrial action plan
- Encouraging private-sector investment
- Moderating workplace conflict (labour)
- Unlocking potential for SMMEs, cooperatives, townships and rural enterprises
- State reform and boosting the role of state-owned companies: broadband rollout, water, sanitation and transport infrastructure.
- Growing the oceans economy

Our economic growth scenario is anchored by progress demonstrated in various areas of South Africa's Nine-Point Plan reform package.

- The Department of Public Enterprises and the Department of Energy are not only resolving, what was an energy crisis, but have made South Africa a global leader in renewable energy in partnership with the private sector. The energy department will soon unveil the first coal Independent Power Producers (IPPs) and further pursue IPPs for gas.
- The Deputy President is leading government, labour and business at Nedlac on discussions on various labour reforms including introduction of secret ballots, codes of good practice and national minimum wage.
- The Department of Agriculture has begun development of agriparks.
- The Deputy President is leading the work on SOEs reforms. The Inter-Ministerial Committee IMC, under his leadership, is progressing in the development of a





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framework for private sector participation in SOEs and principles of disposal of non-strategic assets.

- The Department of Trade and Industry has broadened its efforts to support and grow the local manufacturing base. The recent announcements of expansions by Toyota, building on investments by BMW, Mercedes-Benz, Ford and other manufacturers.
- Under the leadership of the Minister of Environmental Affairs, great initiatives are in progress in growing the oceans economy and expanding employment associated with environmental sustainability.

A detailed update on progress can be found on the following website www.gov.za .

These programs are further supported by government collaboration with the private sector through various work-streams to boost economic growth. These interactions are already bearing fruit, for example the creation of a SMMEs venture fund, which provides start-ups with access to funding as well as mentoring by seasoned business leaders. The fund has already raised contributions in excess of R1.5 billion. The work-streams are in the process of canvassing recommendations on sector interventions with various departments.

In the longer-term, South Africa will benefit further from a solid foundation of a strong institutional framework which promotes accountability and transparency as well as prudent fiscal and monetary policies.

As a country, we will use these positive developments and the contributions of partners such as the IMF to work even harder together to move South Africa forward.

A copy of the full Staff Report can be downloaded from the International Monetary Fund website www.imf.org or the National Treasury website www.treasury.gov.za .

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