

SU/22/20

February 9, 2022

**The Acting Chair's Summing Up  
South Africa—2021 Article IV Consultation  
Executive Board Meeting 22/12  
February 7, 2022**

Executive Directors agreed with the thrust of the staff appraisal. They noted that COVID-19 has exacerbated already low growth, high unemployment and inequality, and elevated public debt. Directors commended the authorities' strong policy response to the pandemic, which has been supported by anchored inflation expectations, a sound financial system, and a flexible exchange rate. They underscored the need to address longstanding challenges through sound fiscal policy and reforms to support sustainable, green, and inclusive growth.

Directors recommended ambitious fiscal consolidation to reduce public debt, while protecting the most vulnerable. This consolidation should be mainly focused on the expenditure side and complemented by revenue administration enhancements and a credible public debt anchor. They viewed the upcoming February budget as an opportunity to define concrete measures, including containing public-sector compensation, rationalizing transfers to state-owned enterprises (SOEs), streamlining tax expenditures, and better targeting education subsidies. Directors highlighted the need for well-targeted social spending to reduce poverty and inequality. Noting the deteriorating performance of SOEs, Directors urged prompt action to strengthen their operations and finances and advance anti-corruption efforts in procurement and administration. They noted that restructuring the national electricity company is critical to ensure energy security, reduce fiscal risks, and transition away from coal-powered energy.

Directors welcomed the South African Reserve Bank's plan to gradually unwind accommodative monetary policy amid rising inflation risks. They recognized its commitment to price stability and focus on strengthening monetary policy transmission to support market functioning. Directors saw merit in reducing the inflation target when conditions allow.

Directors welcomed the financial sector's resilience to the pandemic while calling for enhanced supervision and regulation and continued monitoring of the deepening bank-sovereign nexus. They stressed that greater use of fintech to enhance financial inclusion should be complemented by adequate oversight. Directors encouraged swift completion of the bank resolution framework and the deposit insurance scheme, and measures to strengthen the AML/CFT framework.

Directors stressed the importance of improving economic efficiency and facilitating the green transition through increased competition in product markets and flexibility in labor markets. They emphasized that measures to reduce regulatory barriers and modernize labor markets would support greater private sector participation. These efforts are essential for boosting investment, creating employment, and strengthening the external position. Directors encouraged further actions to strengthen governance and fight widespread corruption, including by safeguarding pandemic-related funds.

It is expected that the next Article IV consultation with South Africa will be held on the standard 12-month cycle.