

**EXECUTIVE
BOARD
MEETING**

SM/23/110
Supplement 2

May 17, 2023

To: Members of the Executive Board

From: The Secretary

Subject: **South Africa—Staff Report for the 2023 Article IV Consultation—Revised Draft Press Release**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Monday, May 22, 2023
Additional Information:	Revised to incorporate editorial changes to shorten and focus the background section of the press release.
Publication:	Yes*
Questions:	Mr. N'Diaye, AFR (ext. 39751) Mr. Qu, AFR (ext. 36193)

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the press release will be published.**



IMF Executive Board Concludes 2023 Article IV Consultation with South Africa

FOR IMMEDIATE RELEASE

Washington, DC – [May 26], 2023: On May 22, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with South Africa.

South Africa's economy is facing mounting economic and social challenges. Growth moderated from 4.9 percent in 2021 to 2 percent in 2022 as the country was buffeted by Russia's war in Ukraine, global monetary policy tightening, severe floods, and an unprecedented energy crisis. Business and consumer confidence and investor sentiment is weak, impacting the sovereign spread for South Africa, which remains higher than the pre-pandemic level. Unemployment, which has increased since the pandemic is around 33.5 percent, threatening social cohesion.

Headline inflation has risen above the South African Reserve Bank (SARB)'s 3–6 percent target range amid higher food and energy prices, prompting the SARB to proactively raise interest rates to keep inflation expectations anchored.

The current account balance deteriorated from a 3.7 percent of GDP surplus in 2021 to a deficit of 0.5 percent of GDP in 2022, due to lower commodity prices and logistical bottlenecks. This, together with tighter global financial conditions, shifts in investors sentiment, and increased domestic political uncertainty have weakened the rand.

The fiscal deficit has continued to narrow, reaching 4.2 percent of GDP in FY2022/23, from 4.8 percent in FY2021/22, thanks to a boost in revenue and expenditure restraint. Despite this improvement, the government debt-to-GDP ratio is estimated to have increased to 70 percent.

Looking ahead, real GDP growth of 0.1 percent is projected for 2023, reflecting record power outages, and weaker commodity prices and external environment. Annual growth of about 1½ percent is expected for the medium term, as long-standing structural impediments, such as product and labor market rigidities and human capital constraints offset expected improvements in energy supply, higher private spending on energy-related infrastructure, and a more supportive external environment. The growth level would be too low to create enough jobs to absorb labor market entrants.

The fiscal position is projected to deteriorate due to weakening mineral revenues, contingent liabilities from state-owned enterprises, wage bill pressures, and rising debt service. As a result, public debt is not expected to stabilize.

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.

Headline inflation would return to the midpoint of the target range by end 2024. The current account deficit is projected to deteriorate to about 2½ percent of GDP in the near term. The outlook is subject to significant uncertainty related to the pace of reform domestically and the challenging external environment.

Executive Board Assessment²

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² At the conclusion of the discussion, the Managing Director, as Chairman 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>.

South Africa: Selected Economic Indicators, 2020–2025

Social Indicators						
GDP			Poverty (Percent of population)			
Nominal GDP (2022, billions of US dollars)	406		Lower national poverty line (2015)			40
GDP per capita (2022, in US dollars)	6,694		Undernourishment (2019)			7
Population Characteristics			Inequality (Income shares unless otherwise specified)			
Total (2022, million)	61		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						
	2020	2021	2022	2023	2024	2025
			Est.		Proj.	
National Income and Prices (Annual percentage change unless otherwise indicated)						
Real GDP	-6.3	4.9	2.0	0.1	1.8	1.6
Real GDP per capita 1/	-7.7	4.0	1.3	-1.4	0.3	0.1
Real domestic demand	-7.8	4.7	3.8	0.8	1.8	1.2
GDP deflator	5.7	6.2	5.1	5.3	4.8	4.5
CPI (annual average)	3.3	4.6	6.9	6.0	4.9	4.5
CPI (end of period)	3.2	5.4	7.4	5.3	4.6	4.5
Labor Market (Annual percentage change unless otherwise indicated)						
Unemployment rate (percent of labor force, annual average)	29.2	34.3	33.5	34.7	34.7	34.8
Unit labor costs (formal nonagricultural)	2.8	1.5	6.9	6.0	4.9	4.5
Savings and Investment (Percent of GDP)						
Gross national saving	14.4	16.5	14.6	13.9	14.0	14.5
Public (incl. public enterprises) 2/	-6.0	-1.5	0.0	-0.9	-1.4	-1.8
Private	20.4	17.9	14.6	14.8	15.4	16.3
Investment (including inventories) 3/	12.4	12.8	15.1	16.1	16.6	16.8
Public (incl. public enterprises)	4.0	3.8	3.9	3.9	4.0	4.0
Private	9.8	9.2	10.2	10.6	11.0	11.3
Fiscal Position (Percent of GDP unless otherwise indicated) 4/						
Revenue, including grants 5/	25.0	27.1	27.7	27.5	27.2	27.2
Expenditure and net lending	34.6	32.7	32.2	33.4	33.3	33.9
Overall balance	-9.6	-5.6	-4.5	-5.8	-6.1	-6.7
Primary balance	-5.4	-1.2	0.2	-0.7	-0.5	-0.6
Structural balance (percent of potential GDP)	-5.7	-5.0	-5.5	-6.3	-6.4	-6.2
Gross government debt 6/	69.0	69.0	71.0	72.2	73.8	76.9
Government bond yield (10-year and over, percent) 7/	9.7	9.9	11.3	11.1	...	...
Money and Credit (Annual percentage change unless otherwise indicated)						
Broad money	9.4	5.7	8.7	5.5	8.0	6.1
Credit to the private sector 8/	1.0	5.1	8.9	4.5	6.5	4.7
Repo rate (percent, end-period) 7/	3.5	3.8	7.0	7.2	...	...
3-month Treasury bill interest rate (percent) 7/	3.9	3.9	6.5	6.9	...	...
Balance of Payments (Annual percentage change unless otherwise indicated)						
Current account balance (billions of U.S. dollars)	6.7	15.4	-1.9	-9.1	-10.7	-9.9
percent of GDP	2.0	3.7	-0.5	-2.3	-2.6	-2.3
Exports growth (volume)	-11.9	10.0	7.5	3.6	5.7	5.3
Imports growth (volume)	-17.4	9.5	14.2	5.9	5.3	3.6
Terms of trade	9.3	4.3	-9.4	-2.3	-0.7	-0.7
Overall balance (percent of GDP)	-1.0	1.1	1.0	-0.2	-0.4	-0.2
Gross reserves (billions of U.S. dollars)	55.5	58.1	61.0	60.2	58.6	57.6
in percent of ARA (w/o CFMs)	78.1	85.2	89.5	88.3	85.8	84.4
in percent of ARA (w/ CFMs)	86.6	94.7	99.5	98.2	95.4	93.8
Total external debt (percent of GDP)	50.5	38.3	40.6	43.3	44.4	45.5
Nominal effective exchange rate (period average) 7/	-11.6	7.6	-4.9	-8.0	...	...
Real effective exchange rate (period average) 7/	-10.1	9.7	-1.4	-10.1	...	...
Exchange rate (Rand/U.S. dollar, end-period) 7/	14.7	15.9	17.0	17.8	...	...

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/ Public savings are the sum of public corporations and general government gross savings, using SARB financial accounts data. This allows to obtain a private sector savings estimate that excludes SOEs (SOEs are included in the National Accounts), derived as the difference between the National Accounts gross national savings and the public savings.

3/ Inventories data are volatile and excluded from the investment breakdown to help clarify fixed capital formation developments.

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

5/ 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.

6/ Central government.

7/ Average January 1- April 19, 2023. For nominal and effective exchange rate, year on year change of average January 1-April 19.

8/ Other depository institutions' "loans and securities" in all currencies.