

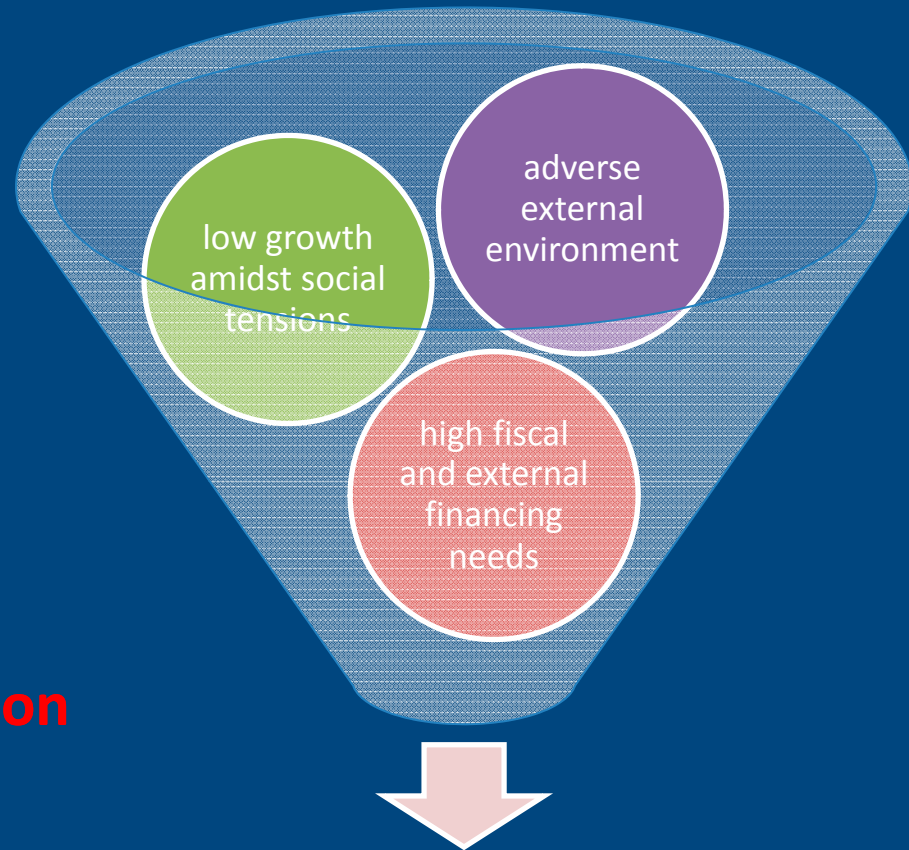
The IMF's Assessment of South Africa

2013 Article IV Consultation

Axel Schimmelpfennig

International Monetary Fund

Senior Resident Representative in South Africa



*policies to boost growth and
manage vulnerabilities*



A social bargain for growth and job creation



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Developments and outlook

Fiscal and monetary policy

Structural reforms for growth and jobs



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Developments and outlook

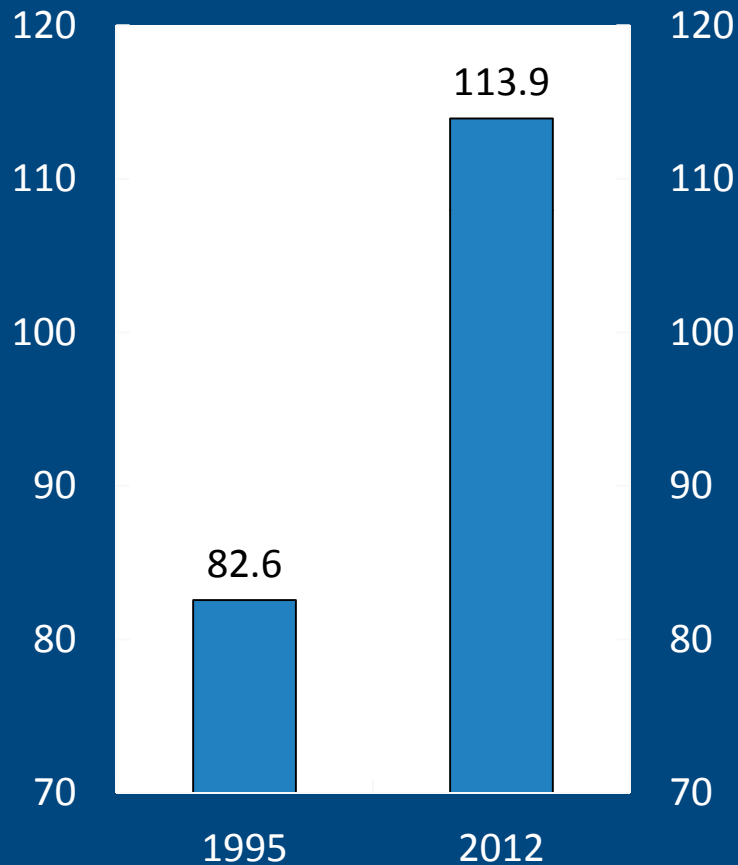
Fiscal and monetary policy

Structural reforms for growth and jobs

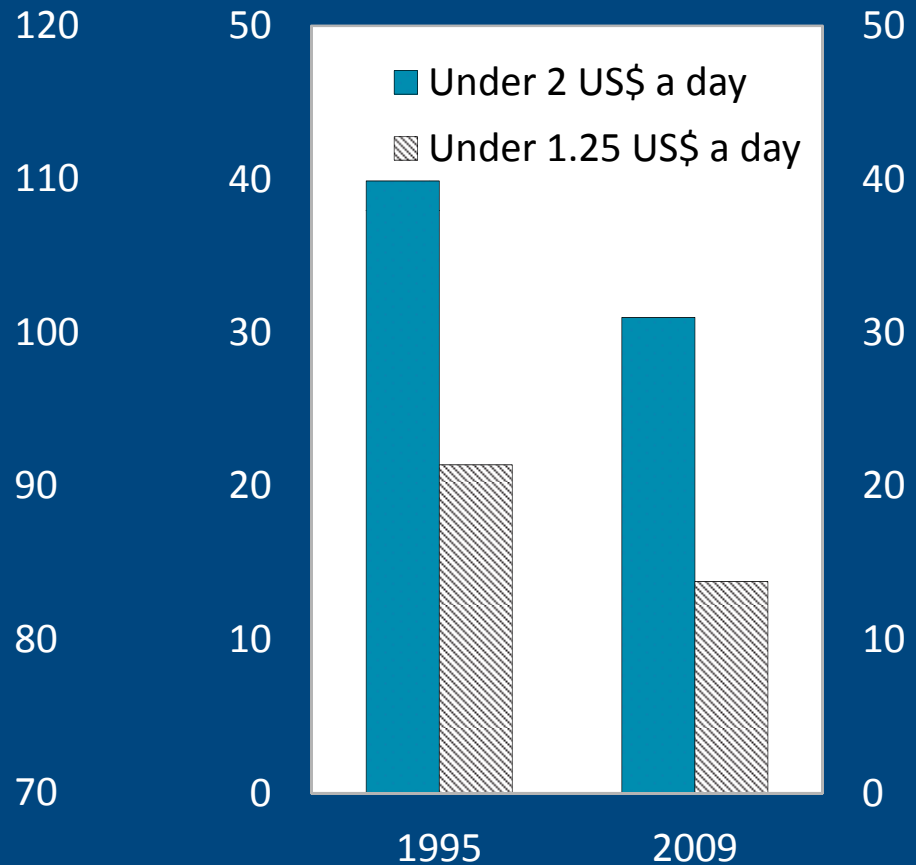


Achievements over two decades

Real GDP per capita
(2005=100)

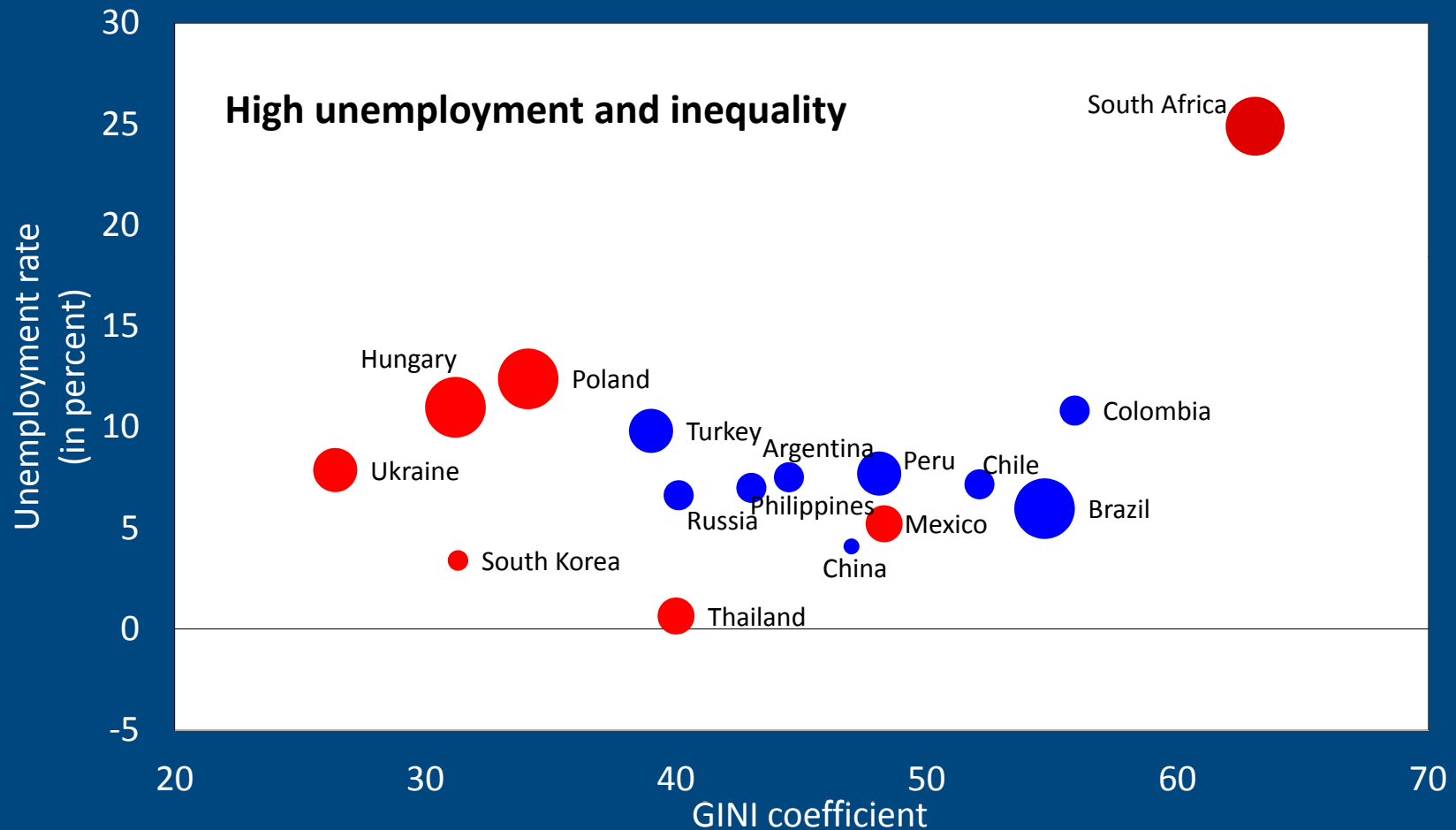


Poverty head count
(in percent of population)



Source: IMF's World Economic Outlook and the World Bank.

But challenges remain

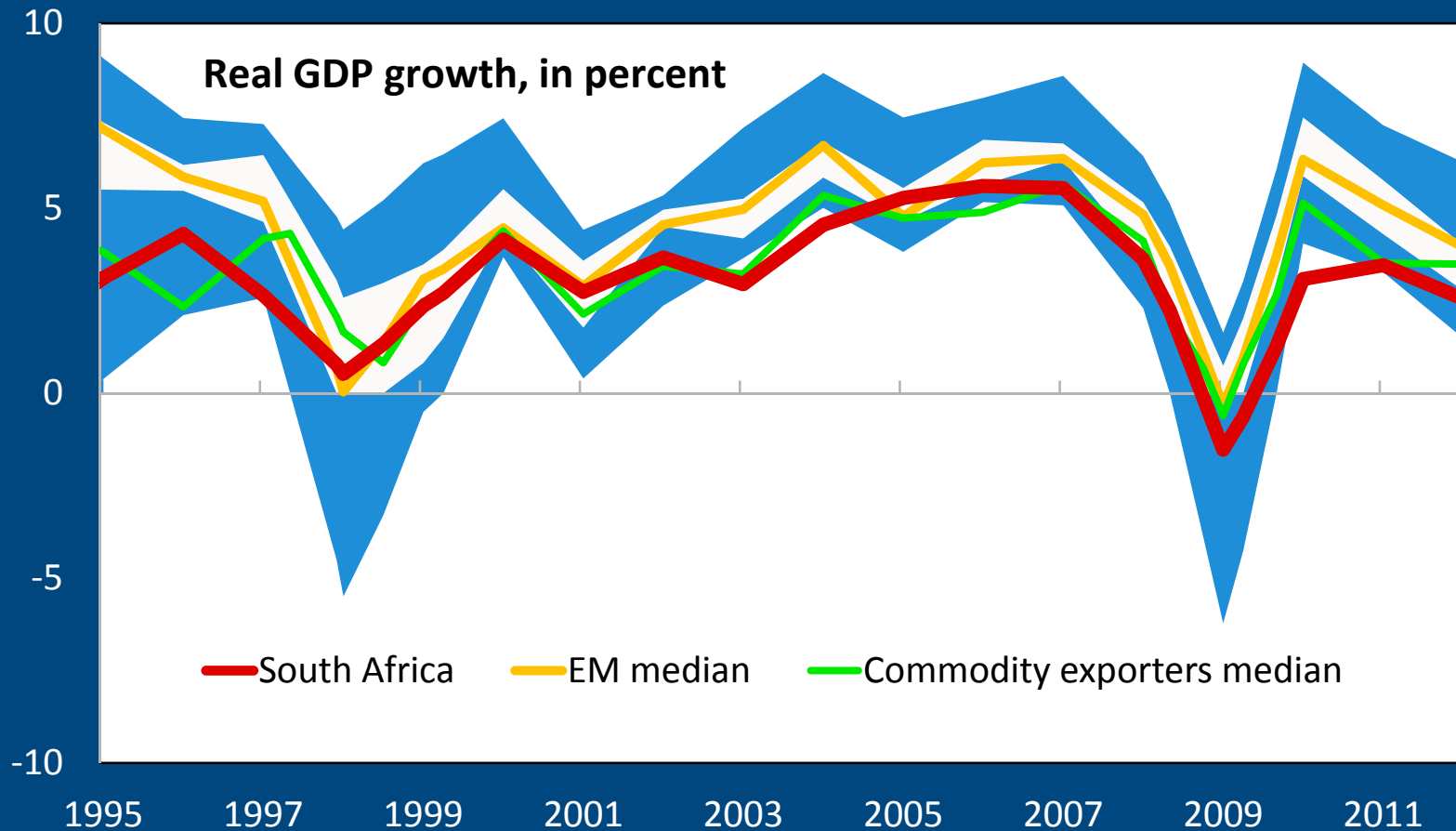


Sources: WEO and World Bank World Development Indicators

1/Blue represents a decrease and red an increase in unemployment between 2008 and 2012. The size of the bubble illustrates the magnitude of the change in unemployment.



Growth has fallen behind peers

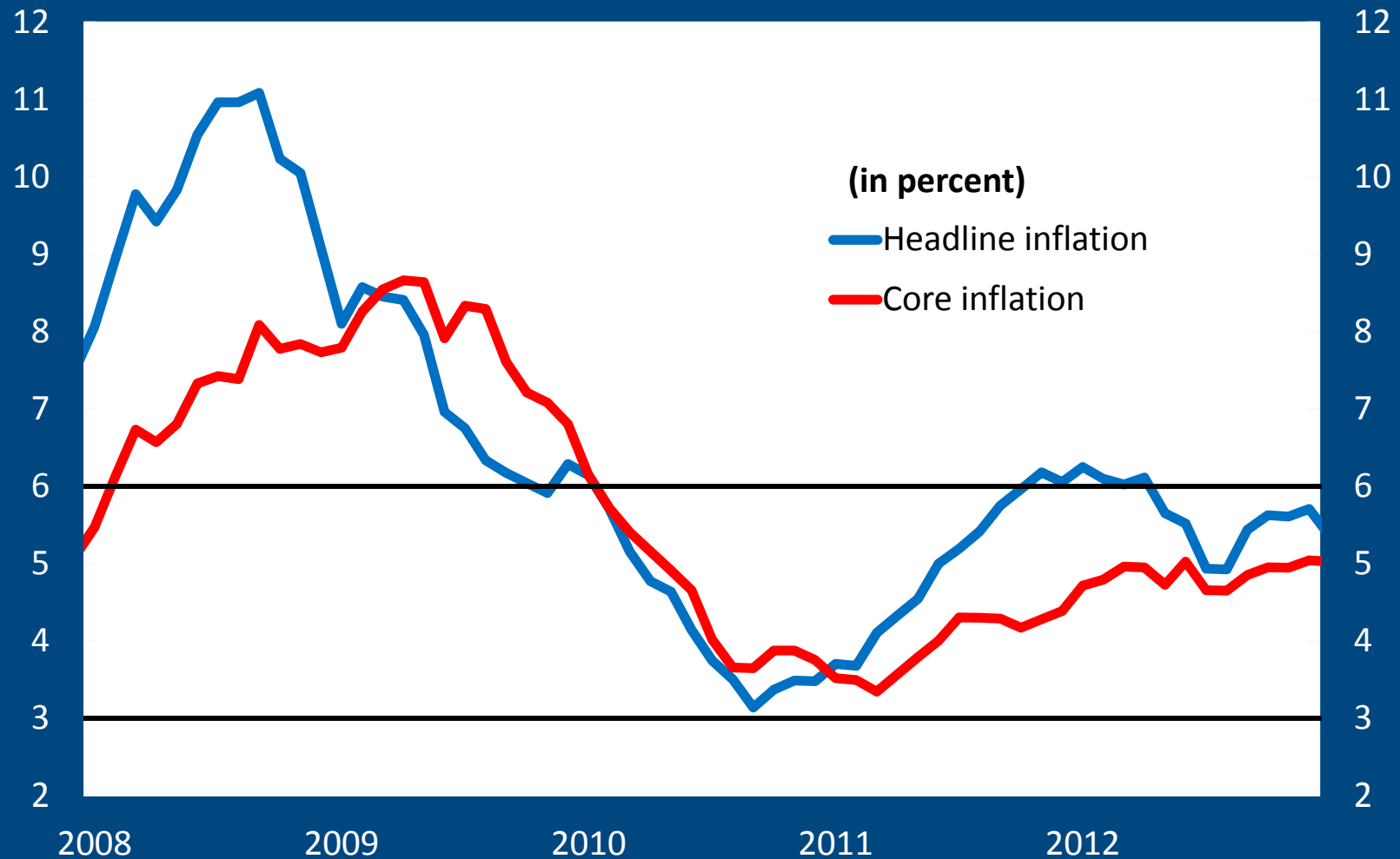


¹ The light blue area represents the center quintile of the distribution of peer EMs, while the dark blue area represent the other two center quintiles.

Sources: WEO; staff estimates.

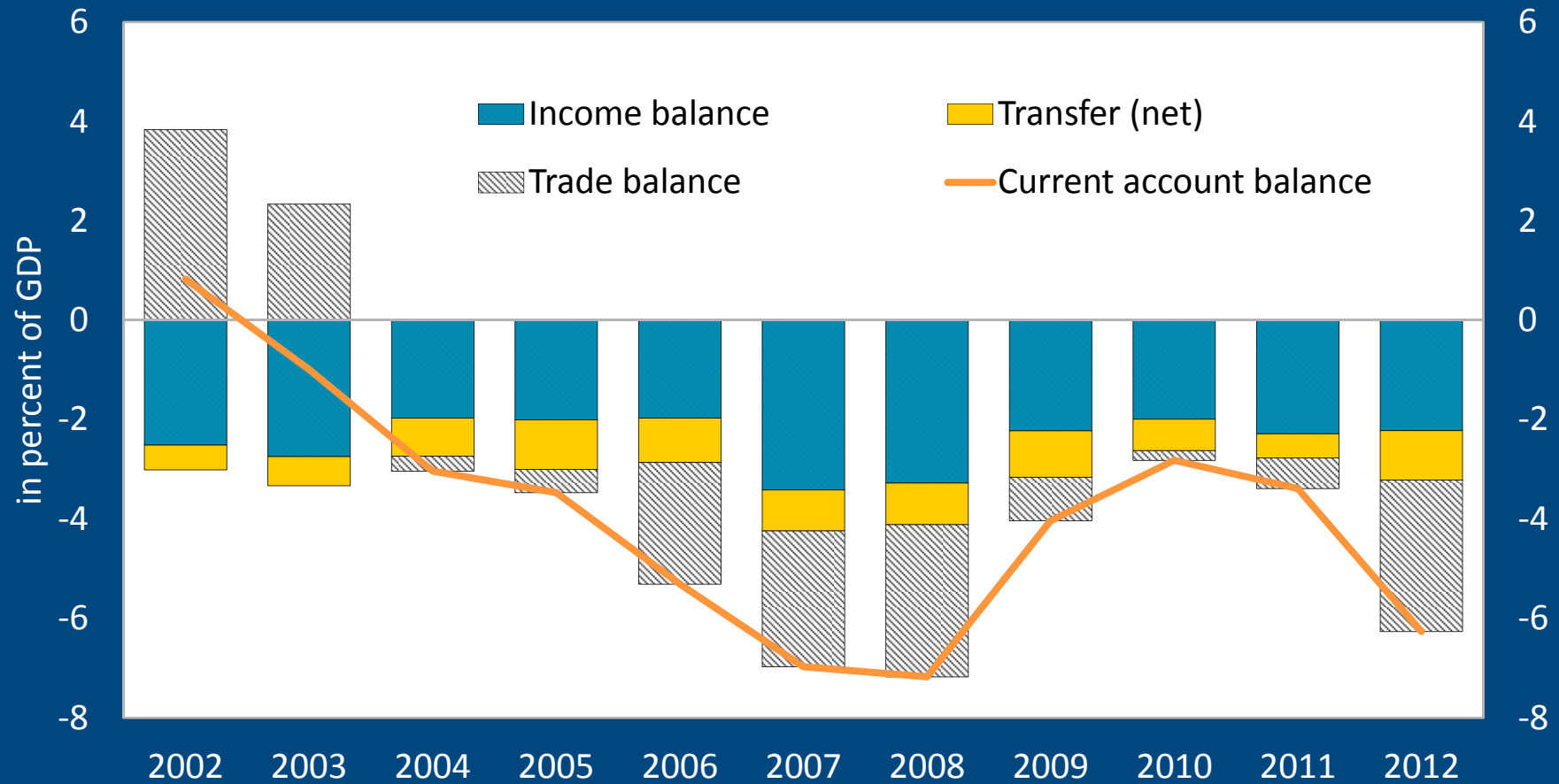


Inflation remains in the band



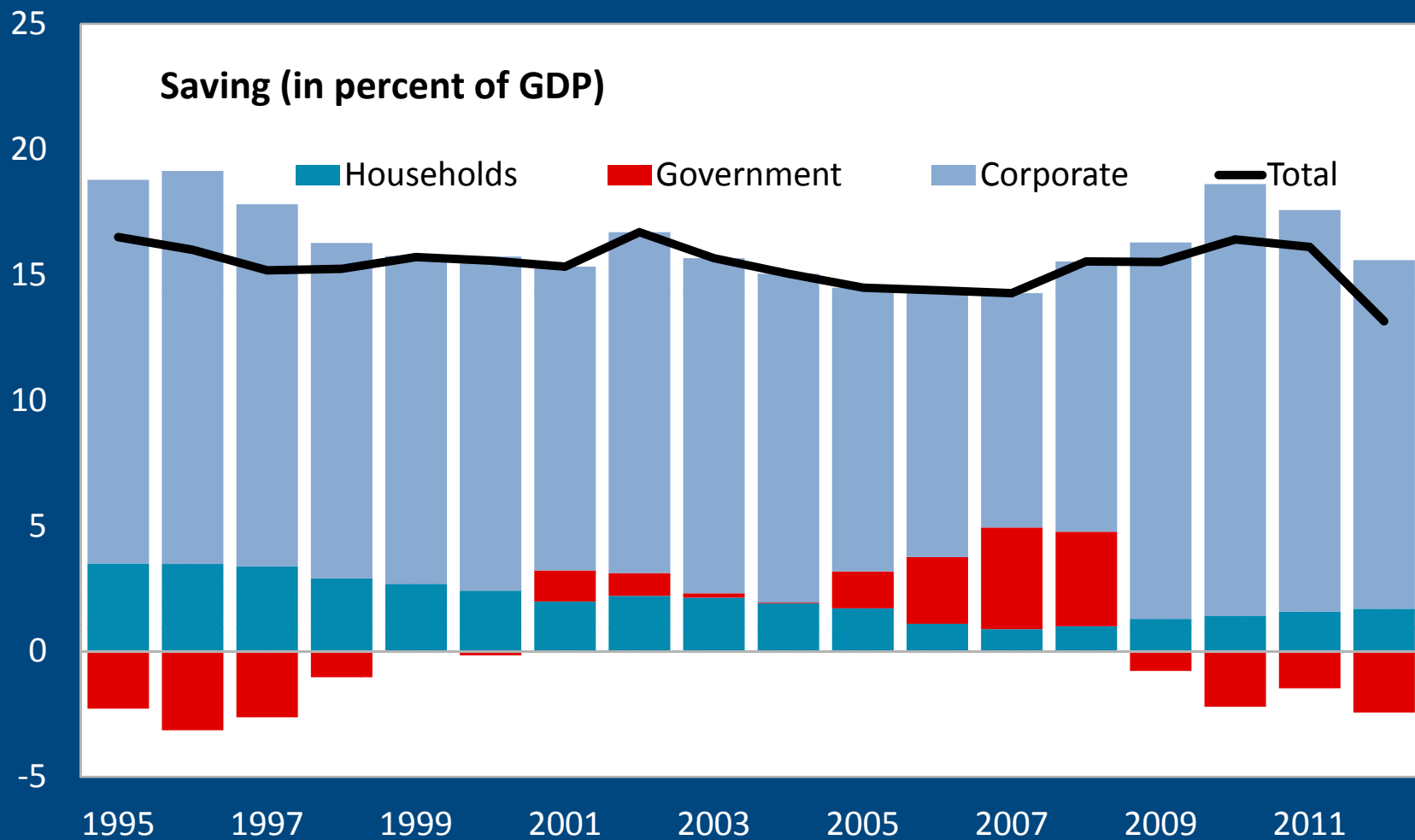
Sources: Statistics South Africa

Widening current account deficit



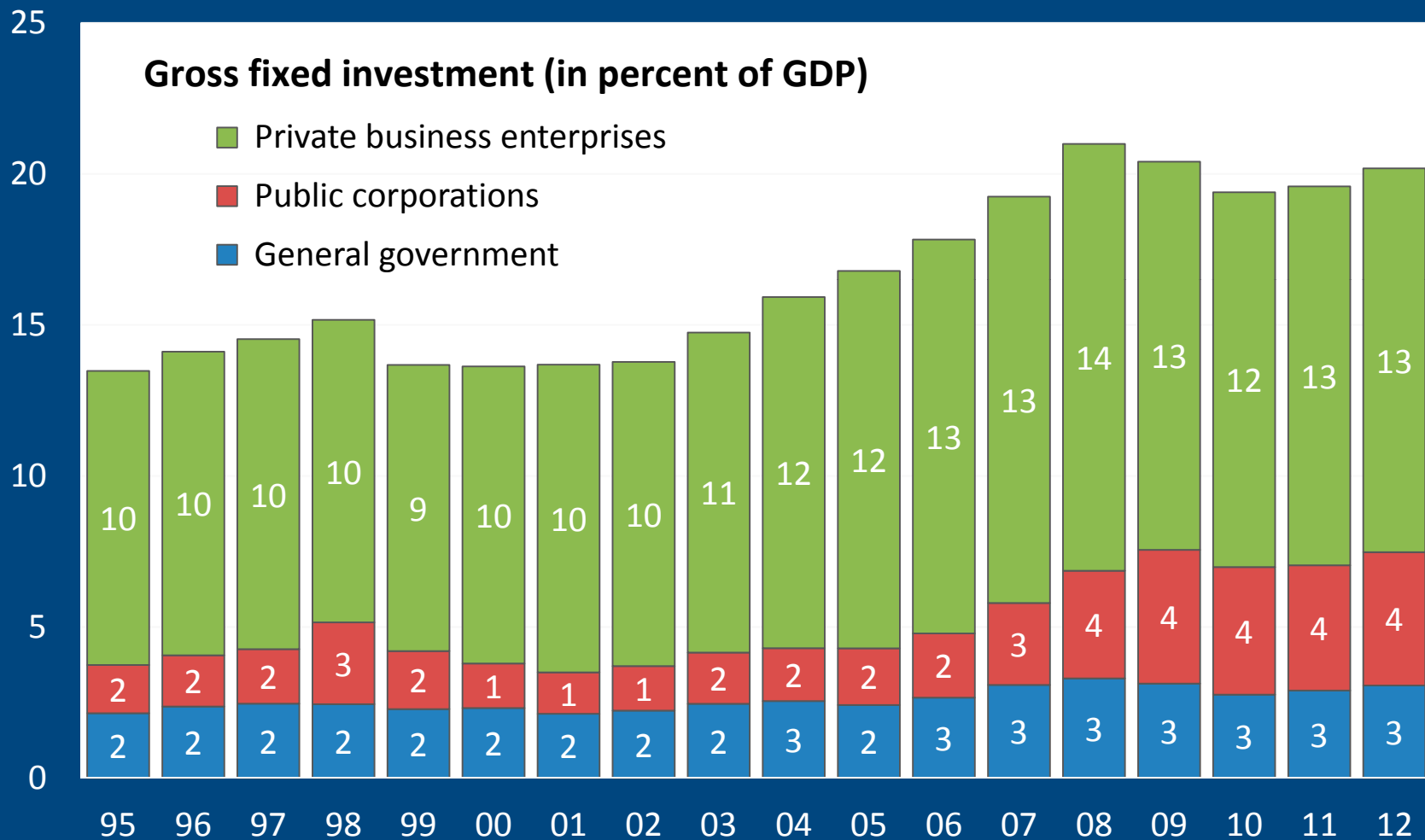
Sources: Haver, InterBank Fund Transfer System, Statistics South Africa, South African Reserve Bank; and Fund staff estimates.

Driven by falling saving



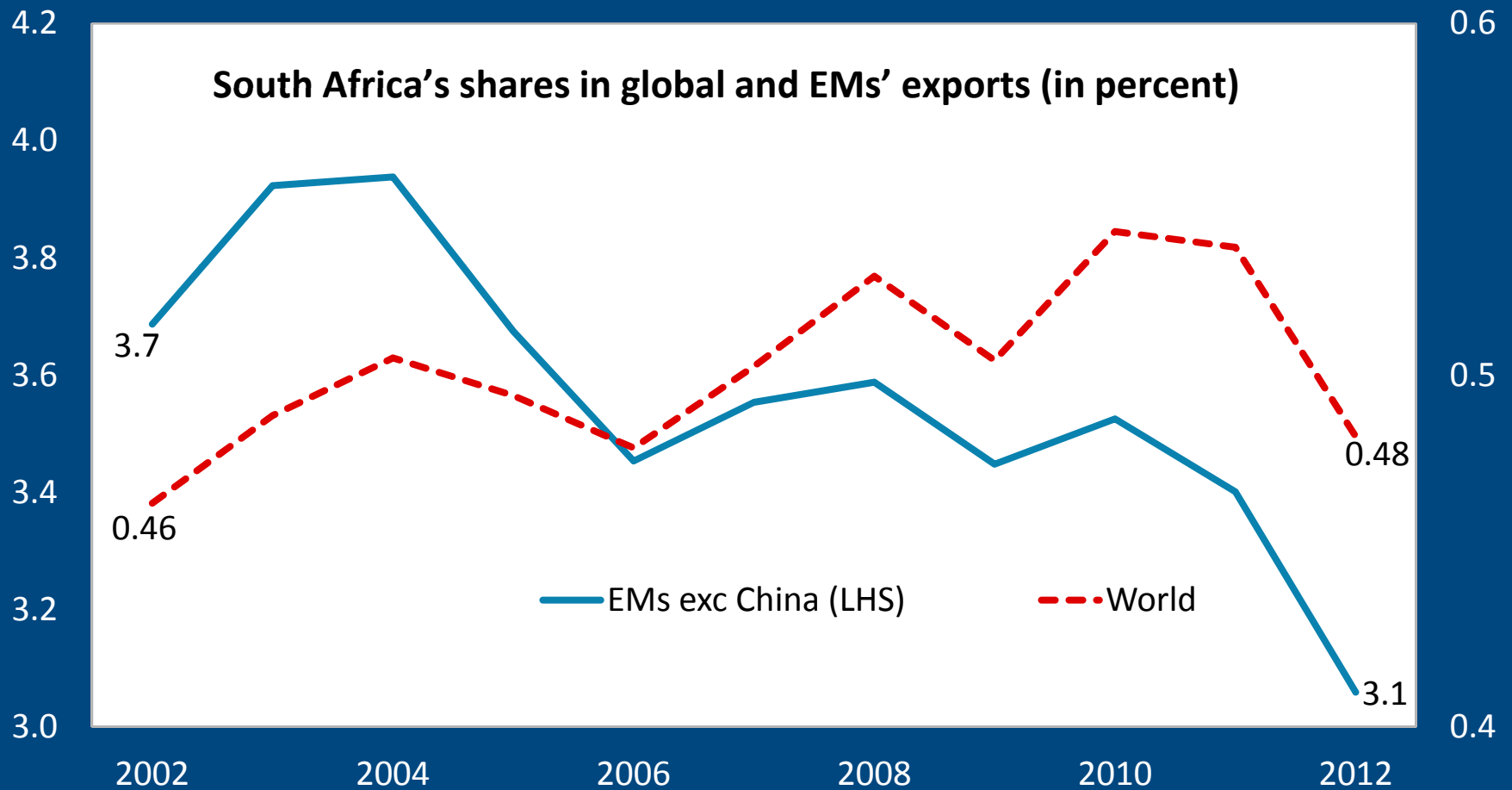
Source: WEO, South African Reserve Bank, and Haver

While investment is stable, if low



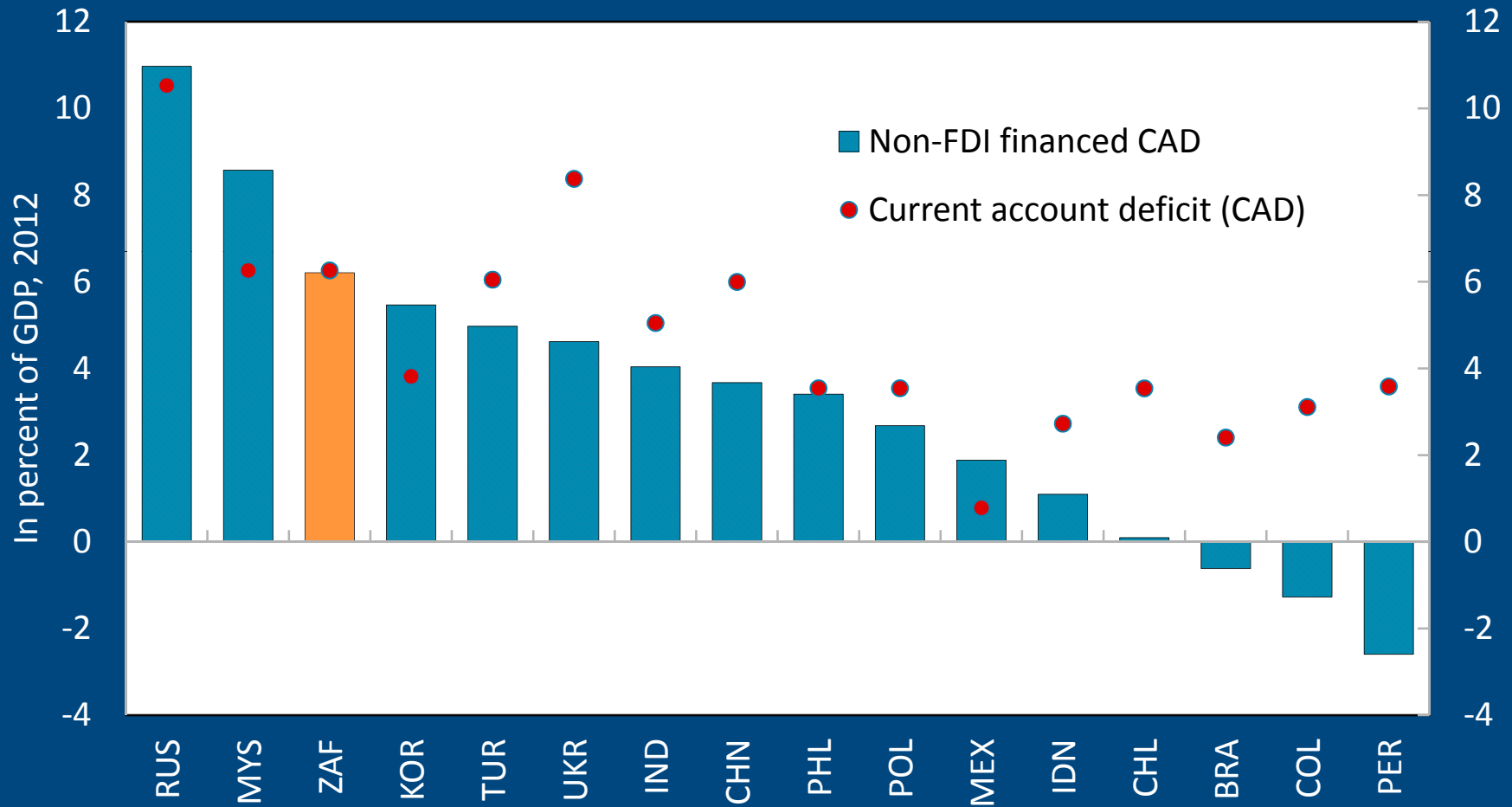
Source: WEO, South African Reserve Bank, and Haver

Loss in competitiveness



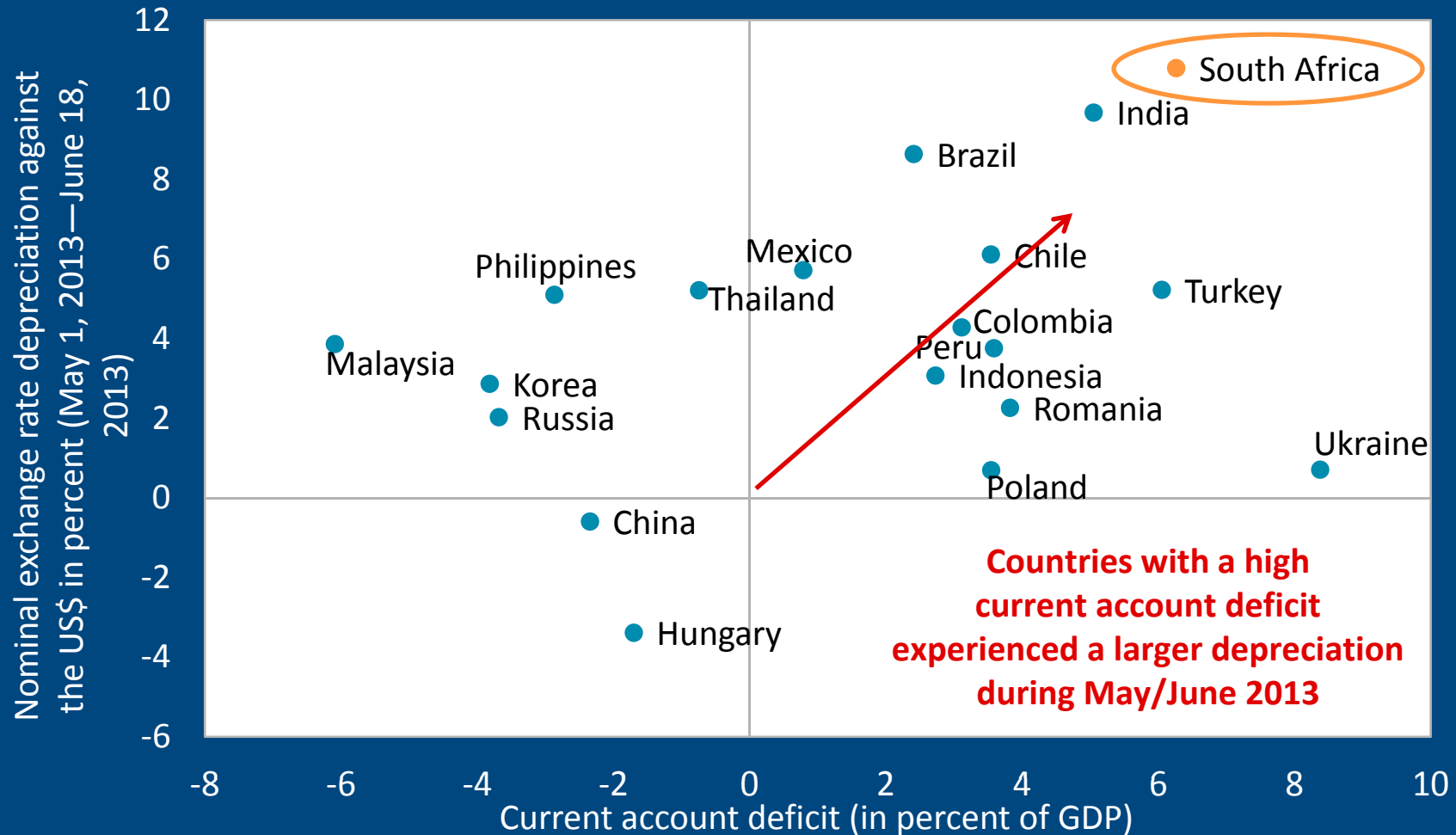
Sources: Haver, InterBank Fund Transfer System, Statistics South Africa, South African Reserve Bank; and Fund staff estimates.

Reliance on Non-FDI Flows for funding



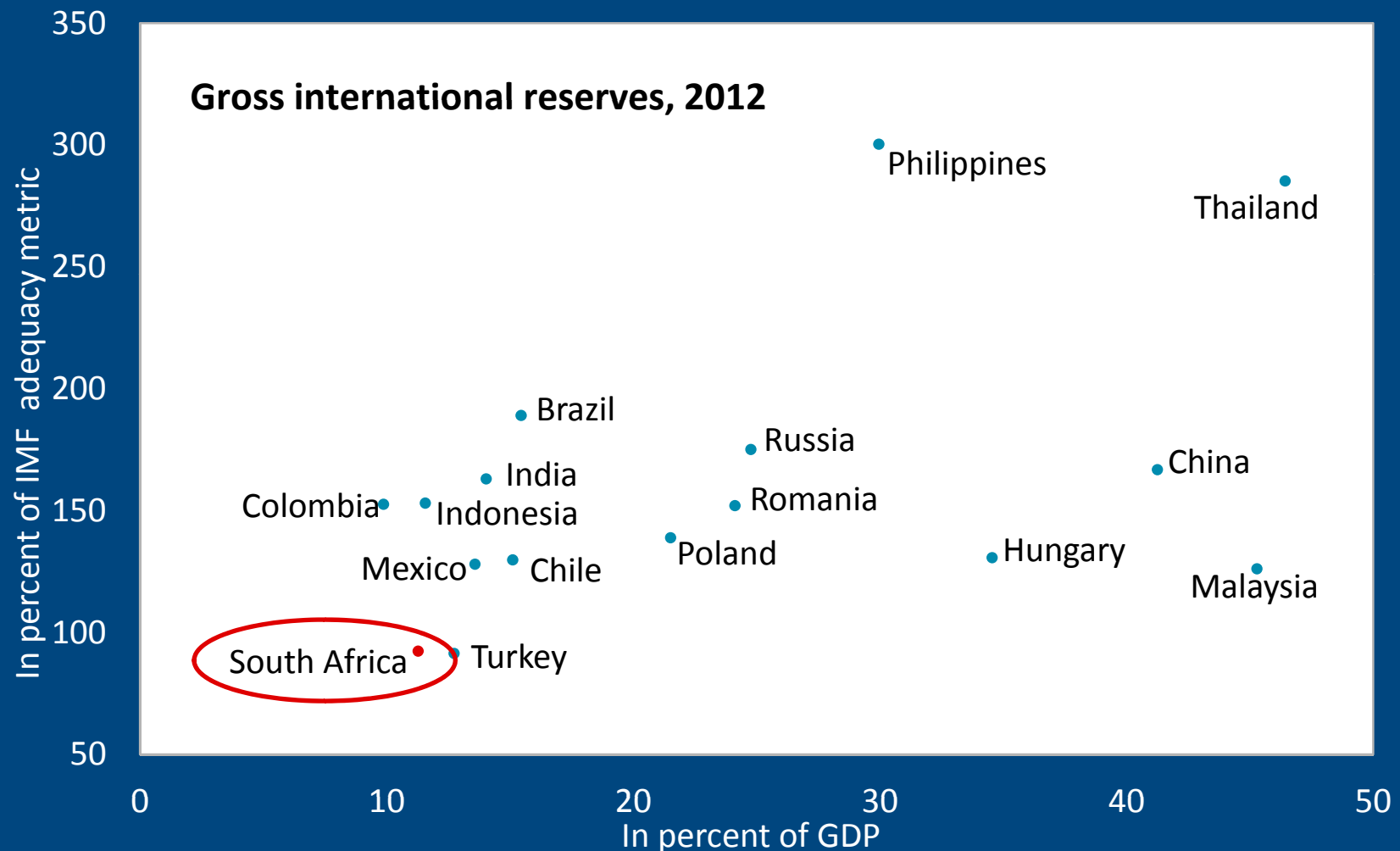
Sources: WEO; and Fund staff estimates.

External vulnerabilities have risen



Sources: Bloomberg, WEO; and Fund staff estimates.

Low levels of reserves relative to other EMs

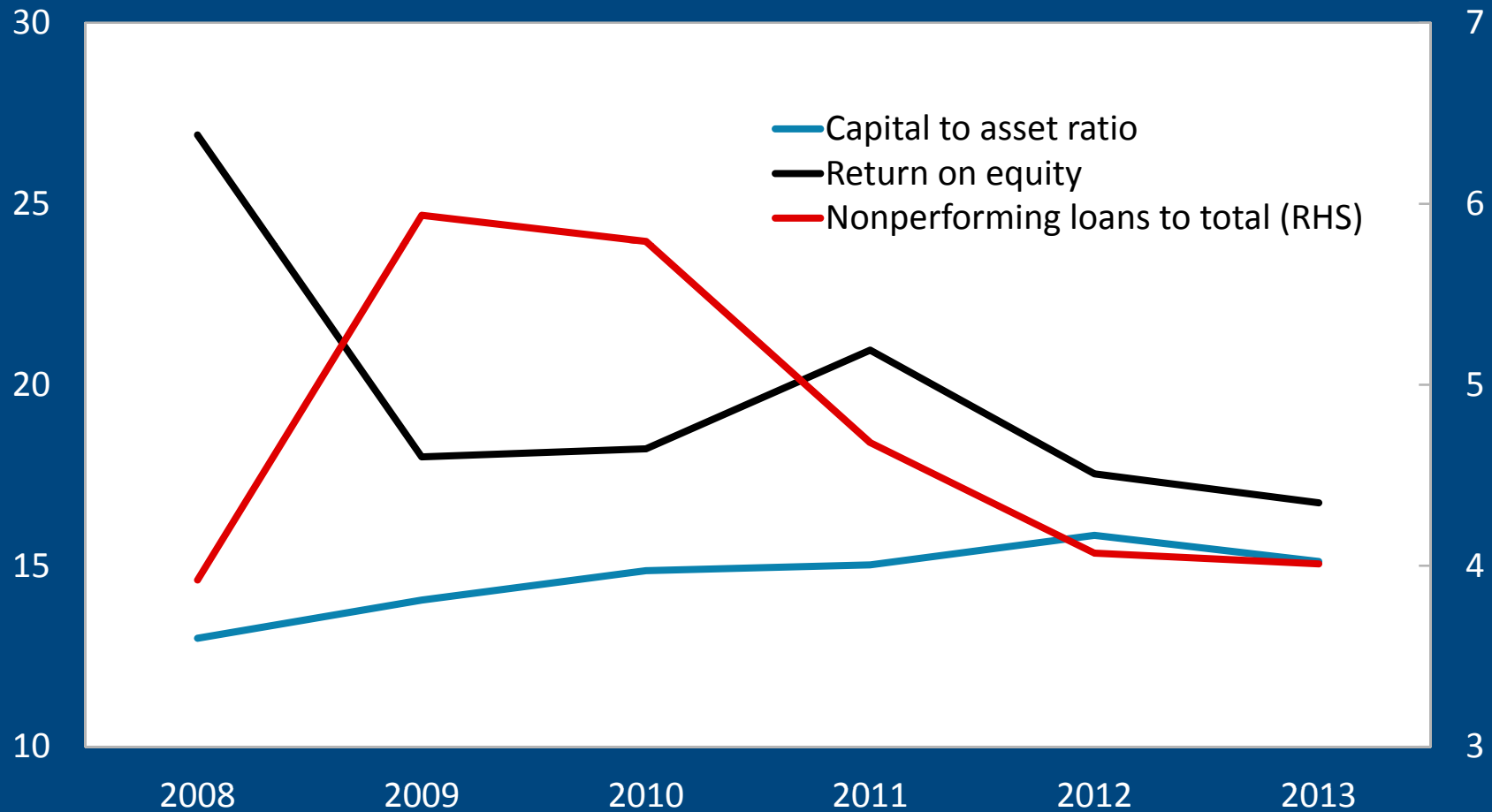


Sources: WEO; and Fund staff estimates.

Note: The IMF composite adequacy metric is a weighted sum of exports, short-term debt at remaining maturity, other external liabilities, and broad money.

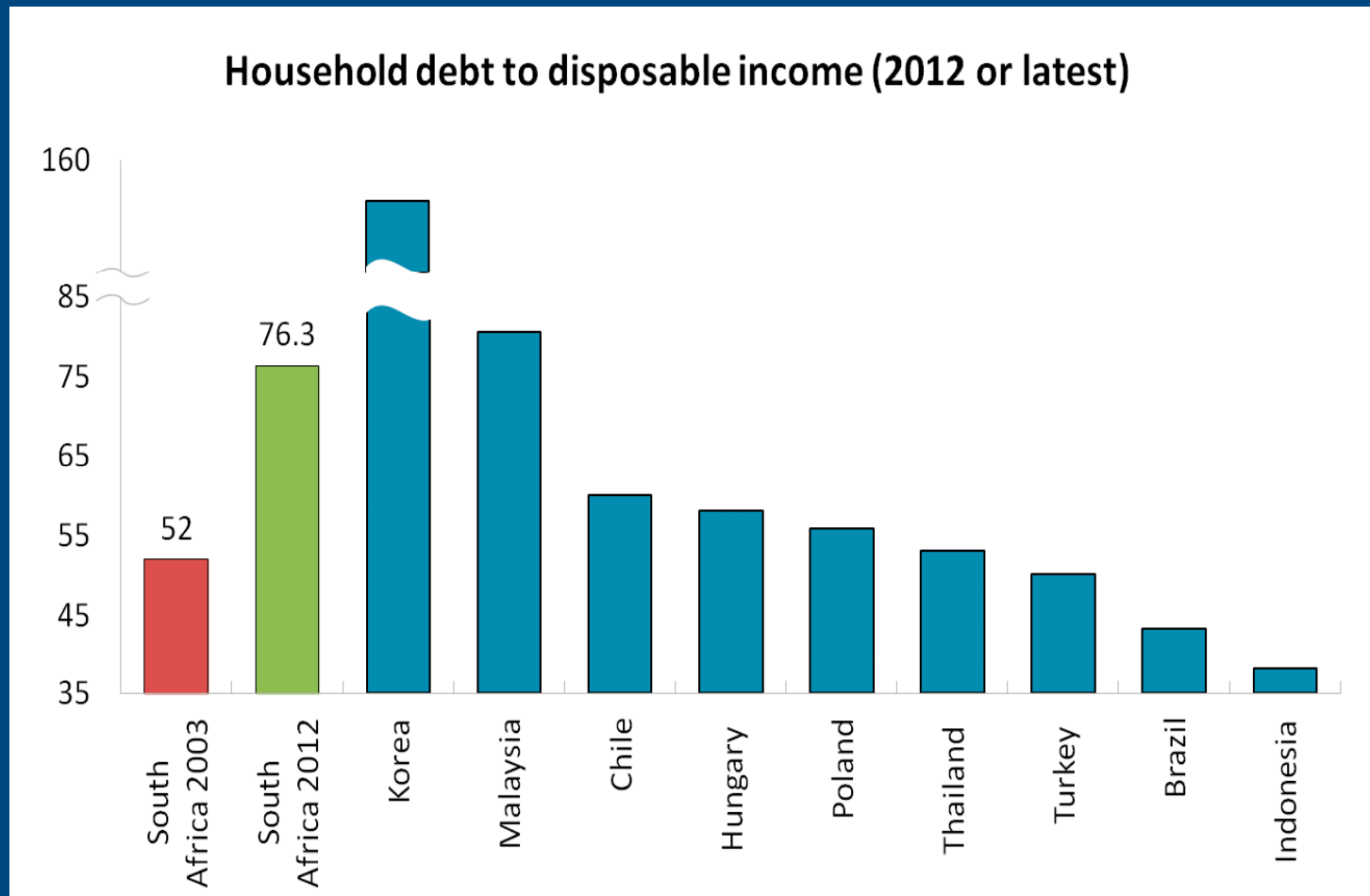


Financial soundness indicators remain strong



Source: GFSR and staff calculations

Increased credit risk from lending to households



Sources: OECD, South African Reserve Bank; and Fund staff estimates

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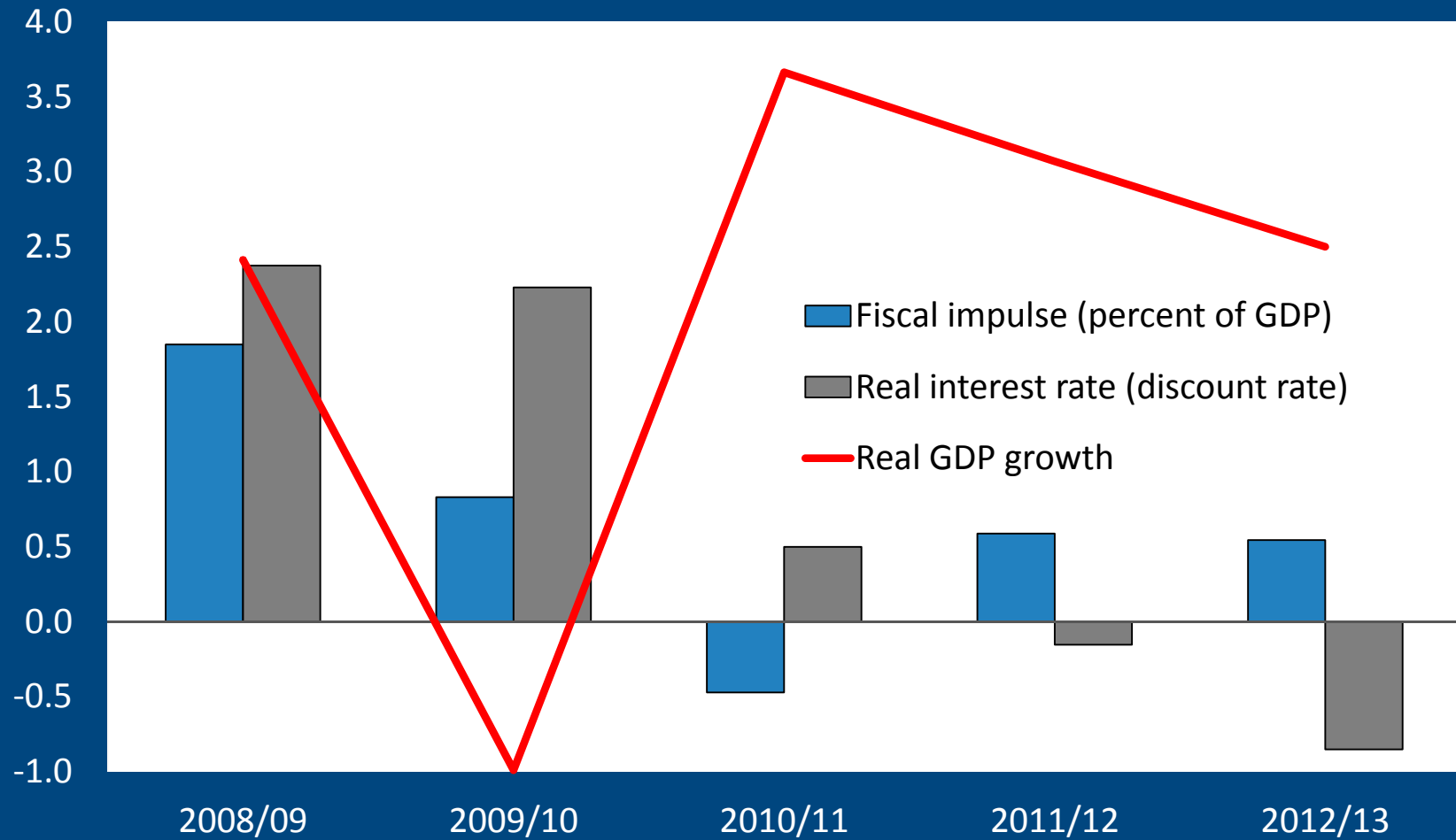
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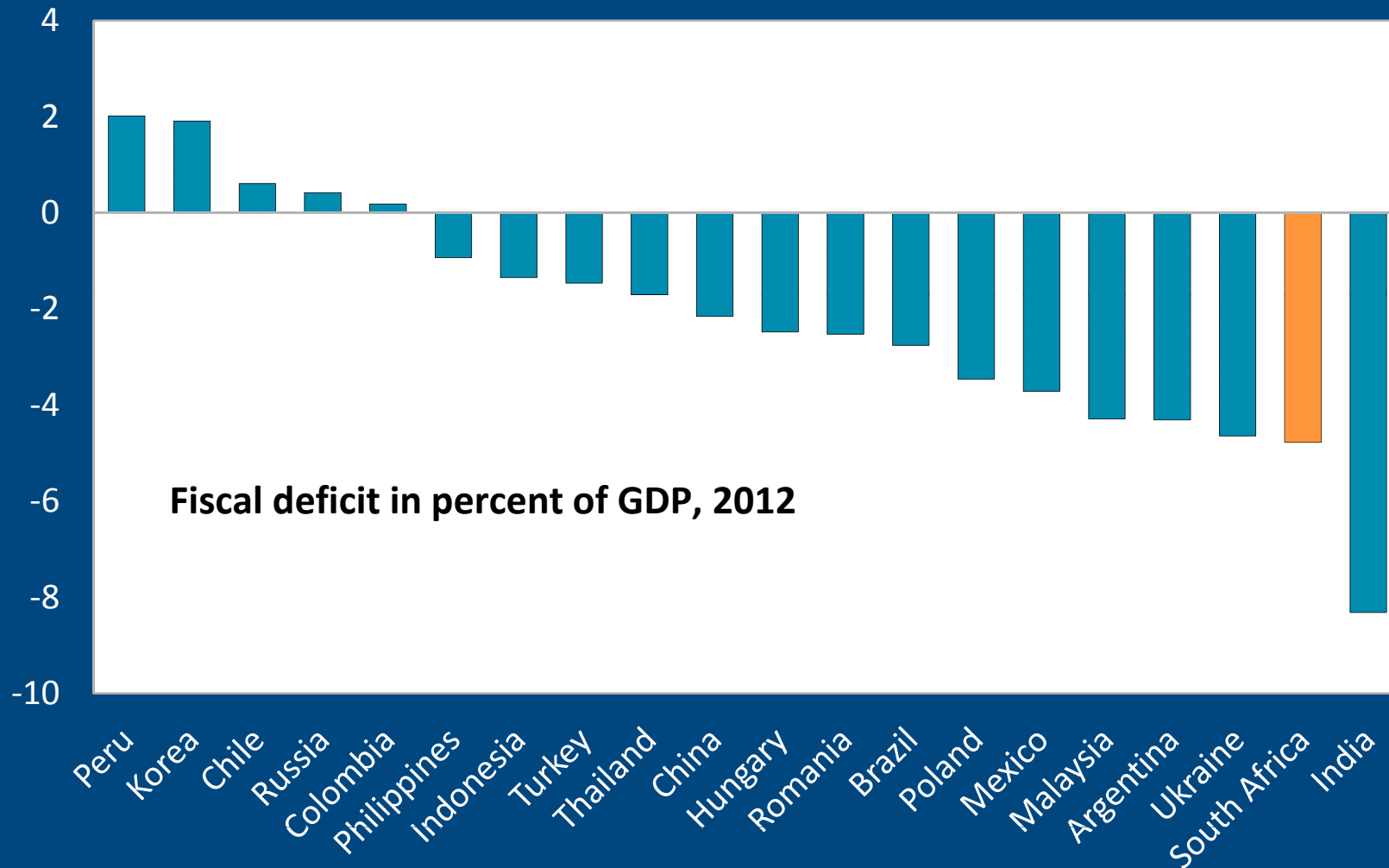


Counter-cyclical fiscal and monetary policy



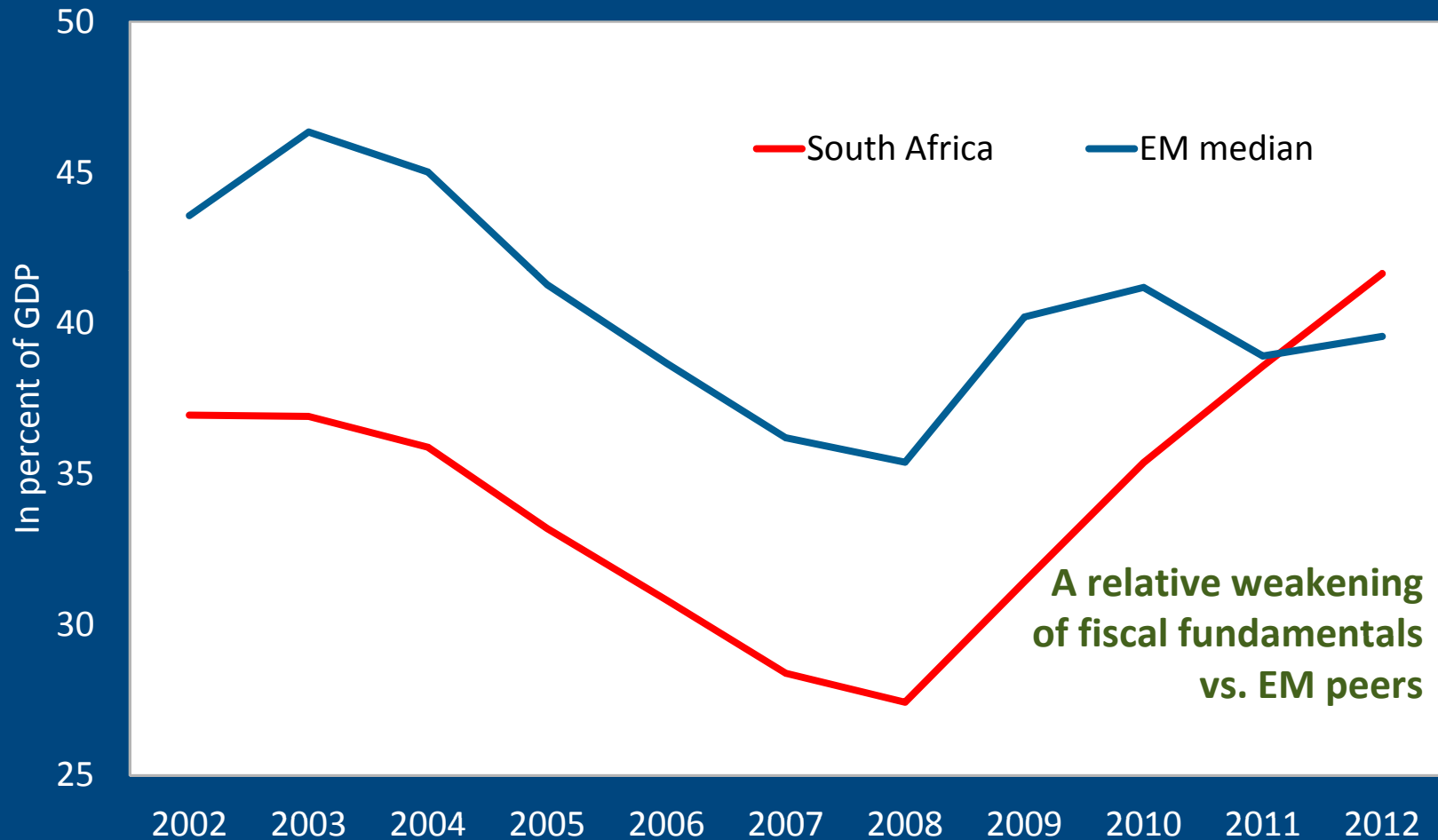
Sources: SARB; and Fund staff estimates.

Has resulted in a high fiscal deficit



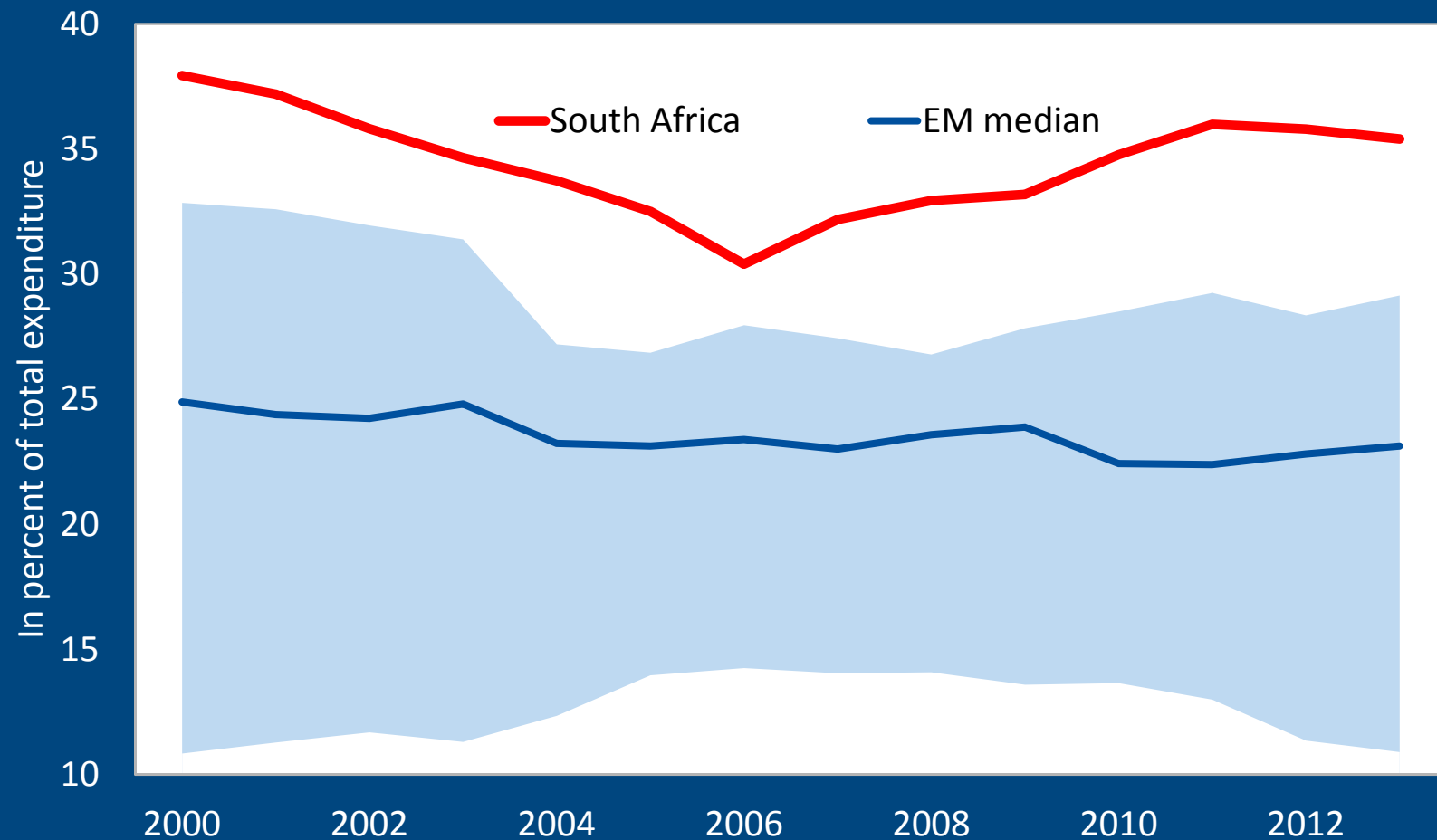
Sources: WEO; and Fund staff estimates

And rising government debt



Sources: WEO; and Fund staff estimates

High civil service wage bill

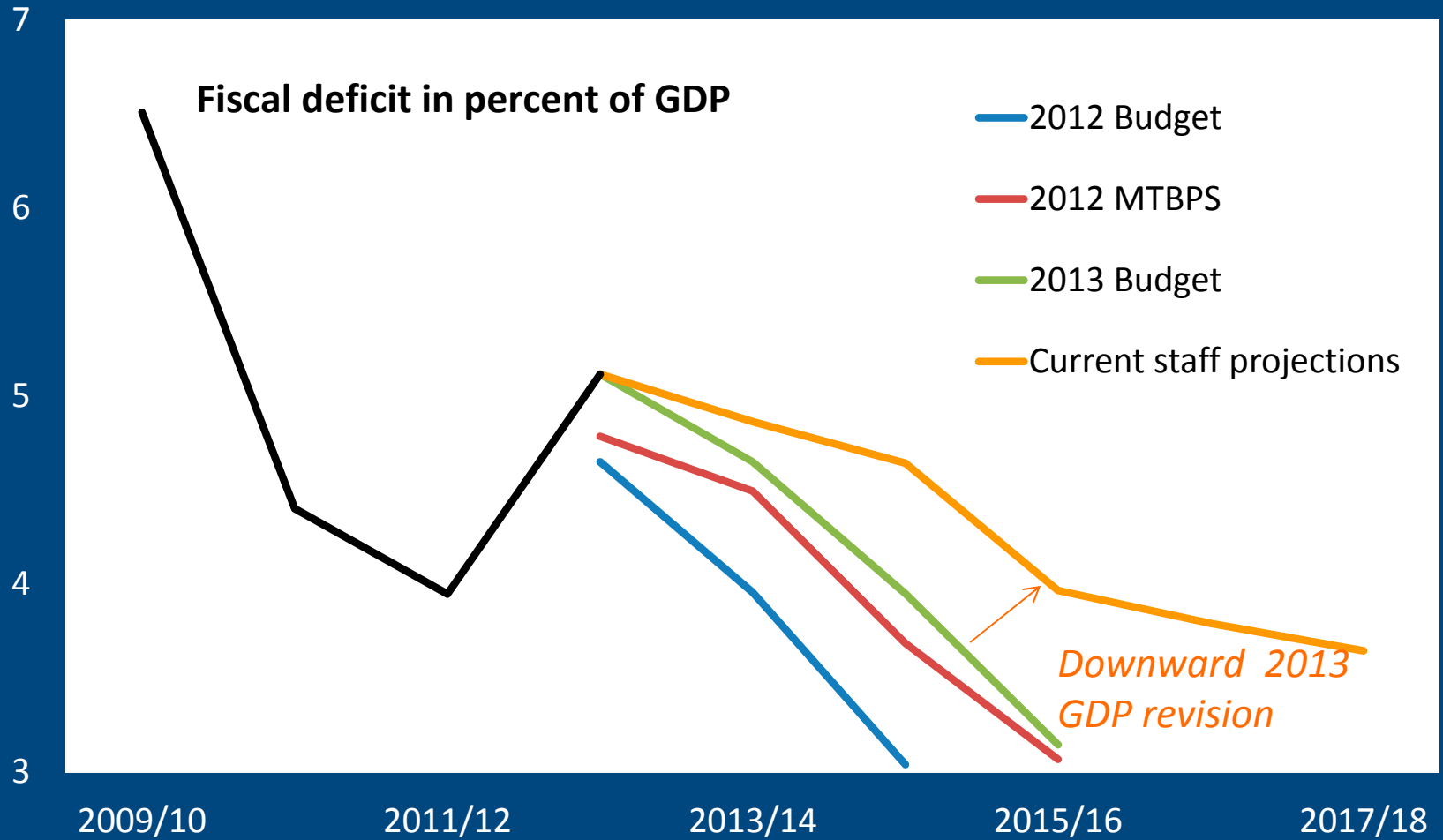


Sources: WEO; and Fund staff estimates.

1/ The shaded area represents the 10 to the 90th percentile of the cumulative distribution function of EM governments' wage bill.



Fiscal consolidation backloaded



Sources: National Treasury; and Fund staff estimates.



Downside risks weigh heavily on the outlook

Possible External Trigger:
global repricing of risk linked to
unwinding of unconventional
monetary policies

Possible Domestic Trigger:
escalating industrial tensions

Prolonged Stop in Capital Inflows

Upside:
quicker
implementation of
structural reforms



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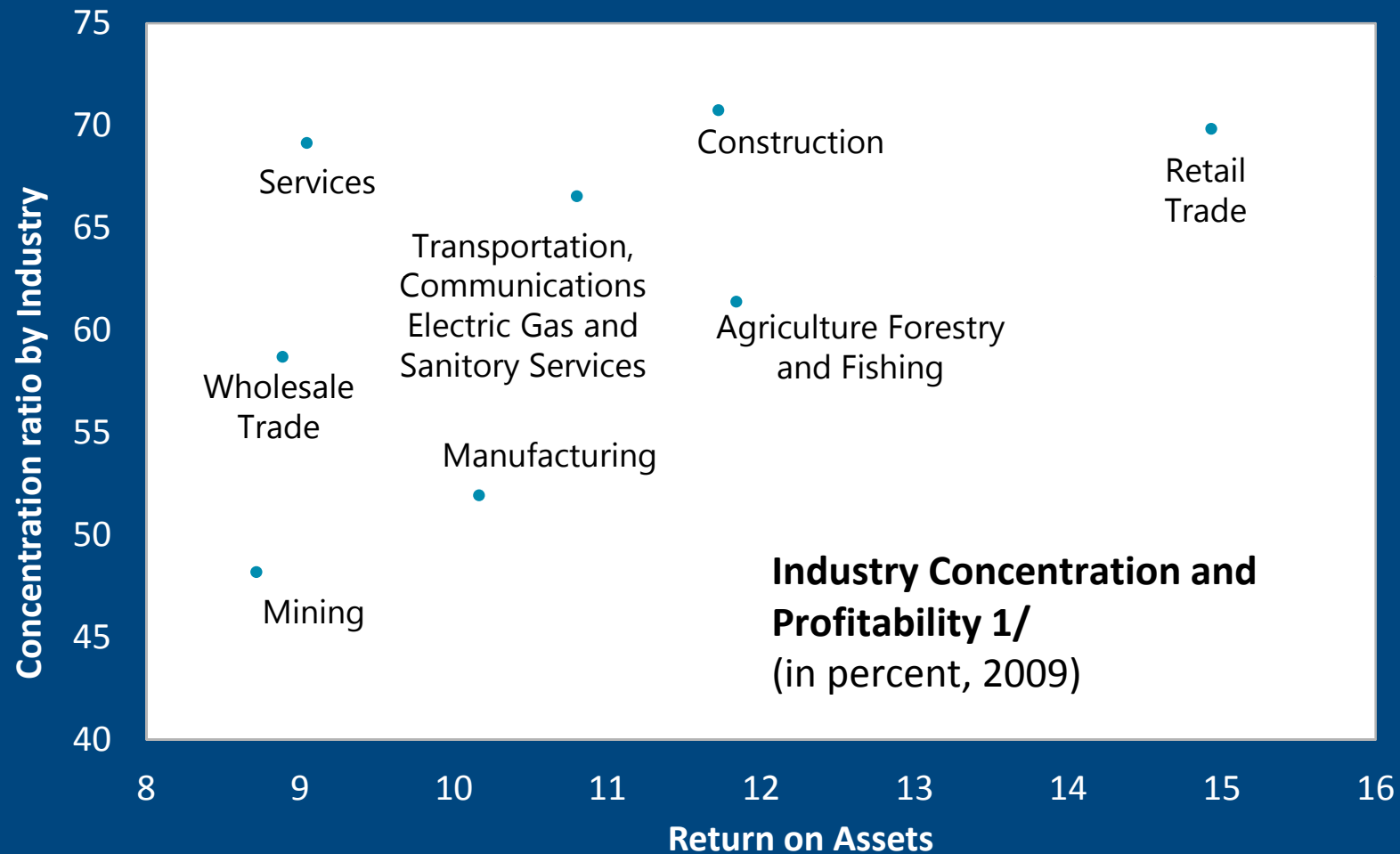
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Highly concentrated and highly profitable

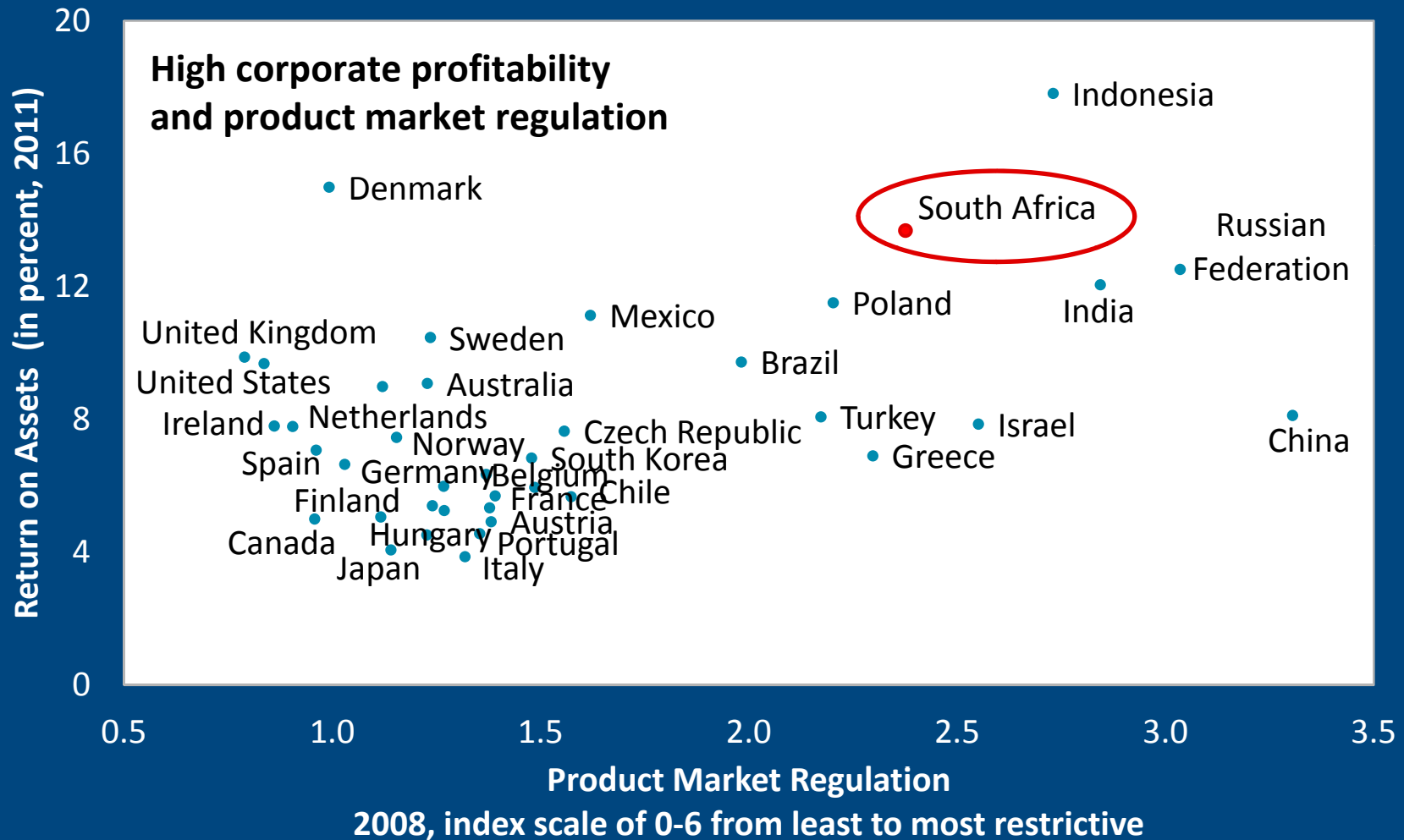


1/ Industry concentration is the total asset of top five listed companies as a share of all listed companies in the same sector.

Sources: OECD Product Market Regulation Database, Worldscope, World Bank WDI Database, Genesis Analysis; and Fund staff estimates.



Helped by product market regulations



Sources: Corporate Vulnerability Utility; and OECD.



More competition for growth and jobs

Recent Reforms

- Market level inquiries

Competition Commission

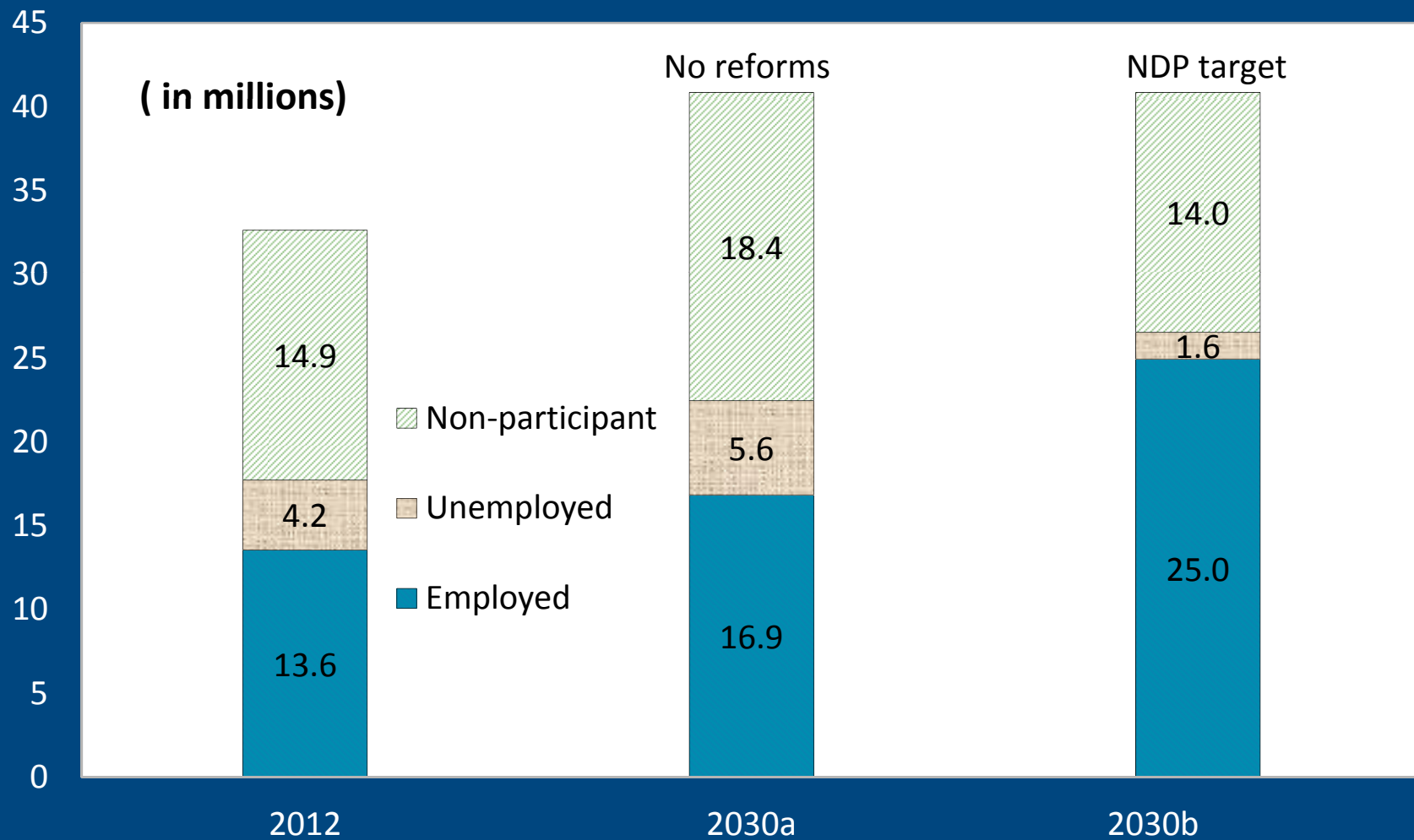
- Moving to effects-based standards
- Raising costs for uncompetitive behavior
- Staffing

Entry Barriers

- Identify means by which incumbents protect their position
- Further trade liberalization

Reforms could yield 1-1½ ppts higher growth

NDP says 11 million jobs needed



Sources: Stats SA, NDP, and staff estimates

Labor market policies to create jobs

Skill gap

- Education system
- Vocational training
- Certificates



- Youth employment incentive
- On-the-job training
- Education system: accountability, infrastructure, school vouchers

Labor relations

- Wage setting
- Compliance costs
- Temporary employment



- Allow unemployed a seat at the table
- Discontinue extension of wage agreements
- Retain well-regulated labor brokers

Spatial gaps

- Long distances
- High commuting costs



- Better public transport
- More competition in mini-bus industry
- Targeted transport subsidies

Key take-aways

External vulnerabilities have risen

Growth outlook insufficient to create needed jobs

*Social Bargain to Generate
Consensus Around Reforms*

Fiscal and monetary policy appropriate at this juncture
Fiscal consolidation—possibly requires additional measures

Policy focus on structural reforms and implementation



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