

South African National Treasury statement: 2003 IMF Article IV report on SA

11 June 2004

1. The National Treasury received the final 2003 Article IV report from the International Monetary Fund on 13 September 2003. An analysis and review of the report was completed. The report was deemed to be a very positive review of the South African economy and economic policies.
2. Given the stream of reporting on the economy done on a daily basis by the financial sector, the reports of the Treasury on revenue, the Reserve Bank's six-yearly Monetary Policy Committee statements, the Monetary Policy Review, and the Quarterly Bulletin, it was advised that the Article IV Report should be referred to the new cabinet composed after the elections upcoming at that time.
3. This would provide the new cabinet with an opportunity to engage with and gain insight from an important review of South Africa's economic performance. In effect, this meant that the report would be released in a timeframe two to three months longer than occurred for the 2002 report.
4. While we agree that ideally the report could be released sooner, we are confident that the flow of information about economic developments in South Africa, the large number of public and private reports on the economy, and our ability to raise capital at good rates on international capital markets are equally important indicators of the strength of our economy and policies.
5. It is worth noting, moreover, that the 2002 report was the first IMF Article IV report released since 1994. The decision to release the report is handled in different ways in other countries. In some countries, where the release is very quick, government officials authorize the release. In South Africa, we believe the Article IV is worth reviewing and discussing in Cabinet, and this takes some time to get done.
6. The Article IV report for 2003 was reviewed by Cabinet on Wednesday, and has been authorized for release.
7. I am certain that like me you will welcome the positive tone and content of the report as a fair reflection of the strength and sustainability of our economic policies.

The Article IV Report for 2003:

8. The Board commended the authorities for their sound macroeconomic management and the implementation of structural policies, which had helped increase the economy's efficiency and resilience to external shocks.
9. Expresses confidence with Government's prudent fiscal expansion as the right approach to the economic slowdown in the rest of the world in 2002 and sluggish growth in 2003.
10. The Board commended the government for its strong record of fiscal discipline in the face of budgetary pressures, which had helped keep long-term interest rates low, maintain a competitive exchange rate, and revive confidence in the economy.
11. Agrees with Government's increased balance of expenditure on social policy, skills development, and economic services.
12. The Board noted that South Africa's financial and corporate sector indicators were healthy, and that these sectors appeared to be resilient to major exchange and interest rate shocks. The Board welcomed the passage of anti-money laundering legislation in 2002.
13. Increased and more effective skills development was indicated to be a critical element of raising employment. The Fund suggests that Government should continue to conduct ongoing reviews of labour market regulation, and expressed support for the previous review which streamlined

conciliation and mediation procedures and created greater consideration of small business issues.

14. Monetary policy was appropriately gauged to address inflationary pressures.

15. Changes in 2003 to the inflation-targeting framework were supportive of the policy aim of better influencing inflation expectations. These include the creation of an "explanation clause" and a move to a rolling-monthly target.

16. The Fund expressed continued support for Government's policy of gradual exchange control liberalization.

17. The Board welcomed the elimination in May 2003 of the SARB's negative net open forward position in foreign exchange, which had long been a source of external vulnerability.

18. The Fund expressed support for Government's approach to BEE, and suggested continued focus on its financing aspects.

19. South Africa's relatively low level of foreign exchange reserves remained a concern to the Fund, as greater reserves would provide greater stability to the rand. The Fund further supported South Africa's floating exchange rate policy.

20. The Board agreed that the main policy challenge for South Africa continued to be the achievement of higher, broad-based, and employment-generating economic growth. In the Board's view this will be critical to realising the goal of reducing poverty and unemployment, addressing the prevalence of HIV/AIDS, and ensuring a more equitable society.

21. The Board stressed the importance of improving the investment climate, which would help boost growth and employment. The Board felt that moving ahead with privatisation and parastatal restructuring would help realise efficiency gains and benefits from the transfer of technology. The Board welcomed the government's efforts to strengthen social safety nets to mitigate any potentially adverse short-run employment consequences of restructuring.

22. The Board indicated a concern about HIV and Aids in South Africa and felt that the government was appropriately treating the disease as a fiscal, as well as a social priority, while ensuring that budgetary resources were well spent.

23. South Africa's economic data were viewed as being of generally high quality and fully adequate for surveillance purposes. The Board suggested the authorities address the weaknesses that remained in the quality and frequency of labour market data and commended their recent efforts in this area.

24. The Board also welcomed the authorities' ongoing efforts to improve data quality in other areas, notably the consumer price index statistics. The Board praised South Africa's leadership role in contributing to conflict resolution and poverty reduction in Africa, including through grant support for the PRGF-HIPC Trust.

**The report can be downloaded from the National Treasury website:
<http://www.treasury.gov.za>.**