



South Africa: 2011 Article IV Consultations

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International Monetary Fund
November 16, 2011

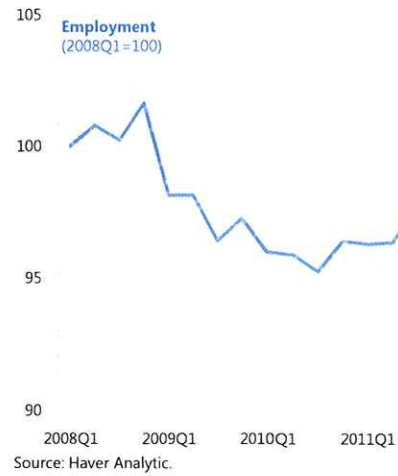
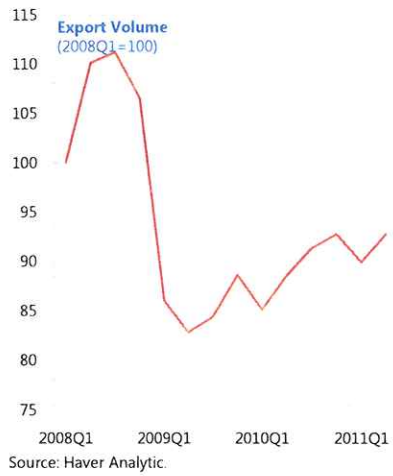


South Africa's recovery has been markedly slower than in other comparable countries



Source: IMF's World Economic Outlook.

... and in several important dimensions remains incomplete



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Why?



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Shocks, Policies and Institutions



– Shocks

- round 1, 2007 – 09:
- round 2, 2010 onwards:

– Policies

- monetary, fiscal, exchange rate

– Institutions

- labor markets
- product markets

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Shocks



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Exogenous Shocks



Round 1—not 1 but 3 shocks during 2007-09

- Electricity shortages starting 2007
- Food and fuel price spike of 2007-08
- Monetary tightening cycle, plus tightening of lending standards with NCA
- Global financial crisis

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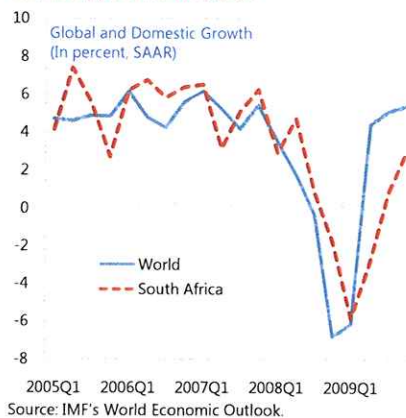
Exogenous Shocks



Inflation rose amid surging international commodity prices...



...and with the onset of the global crisis, South Africa slipped into recession



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Exogenous Shocks (cont)



Round 2—2010 onwards

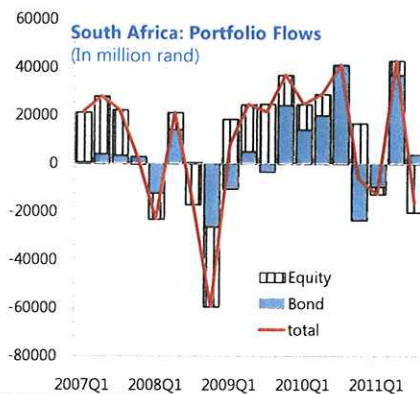
- Ebb and flow of portfolio capital
- More recently, turmoil on global financial markets

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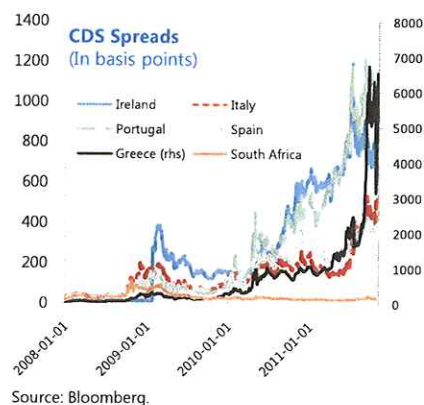
Exogenous Shocks (cont)



Portfolio flows have been volatile...



...and financial stress is building up.



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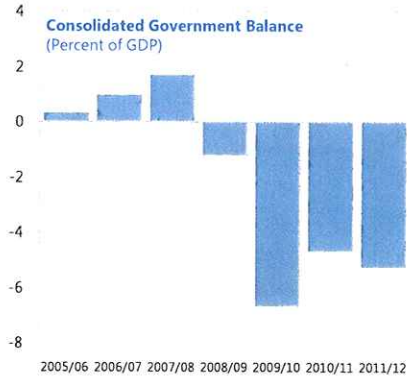


Policies



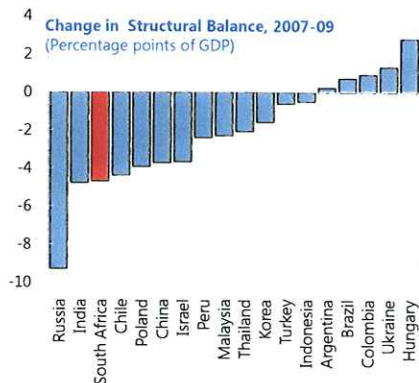
Fiscal policy (so far)

A considerable widening in fiscal deficit,

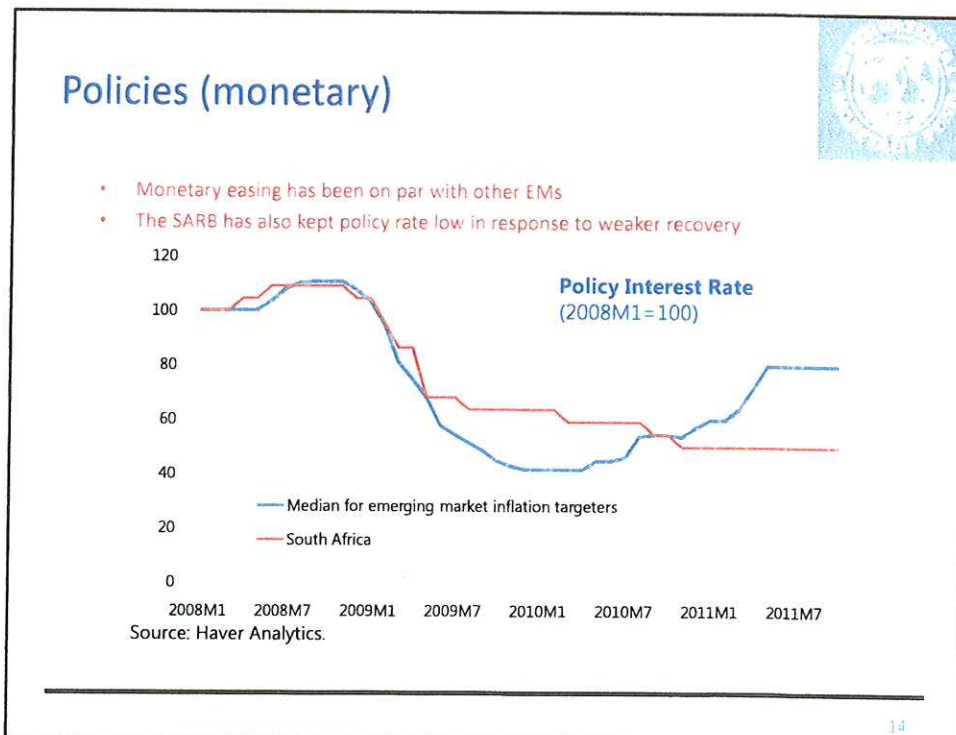
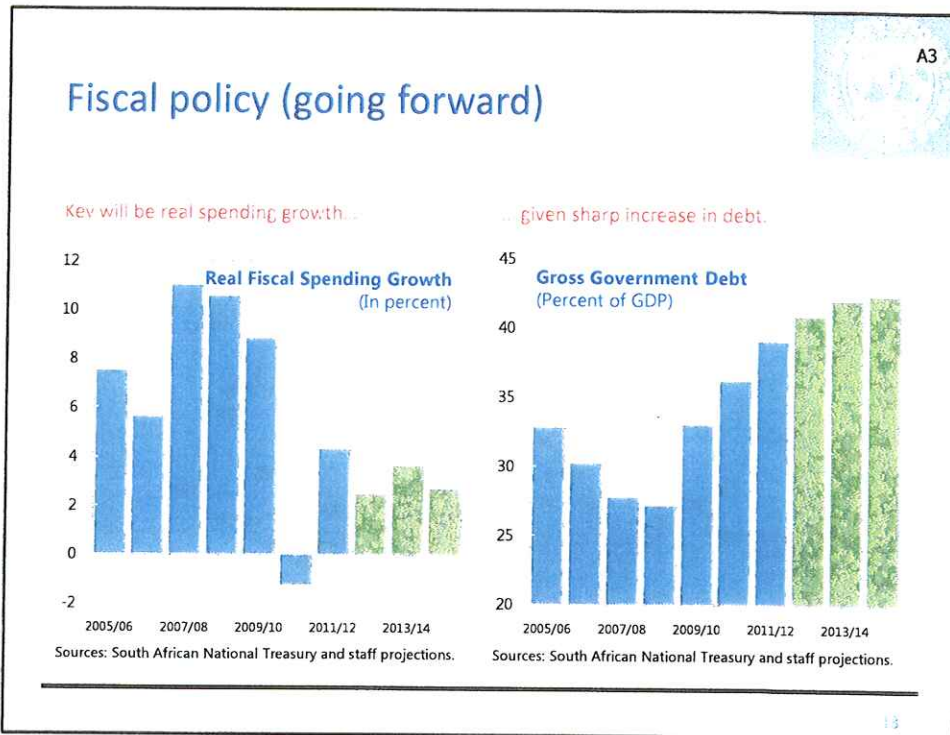


Source: South African National Treasury.

...and structural balance.

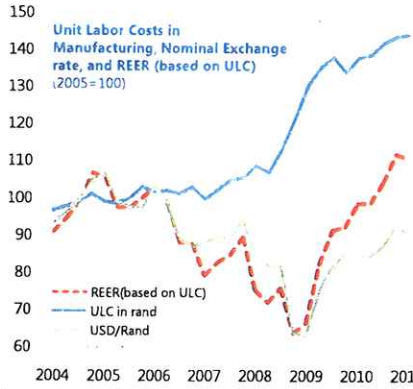


Source: Haver Analytics.

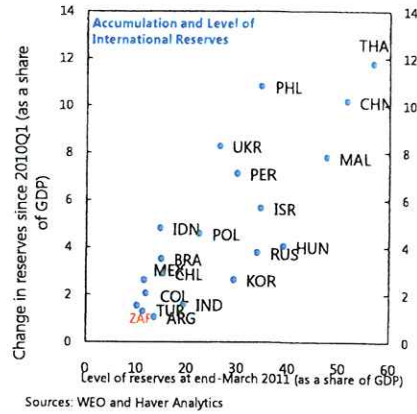


Policies (exchange rate)

Real exchange rate until recently has appreciated, reflecting nominal appreciation but also rising domestic production costs.



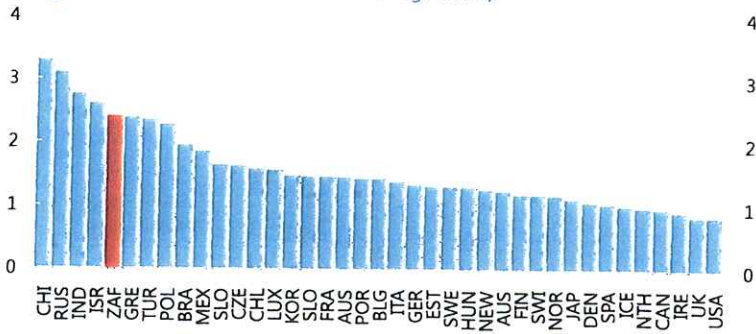
while reserve accumulation remains modest relative to peers



Institutions

Product market competition is limited in South Africa, partly for policy-induced reasons ...

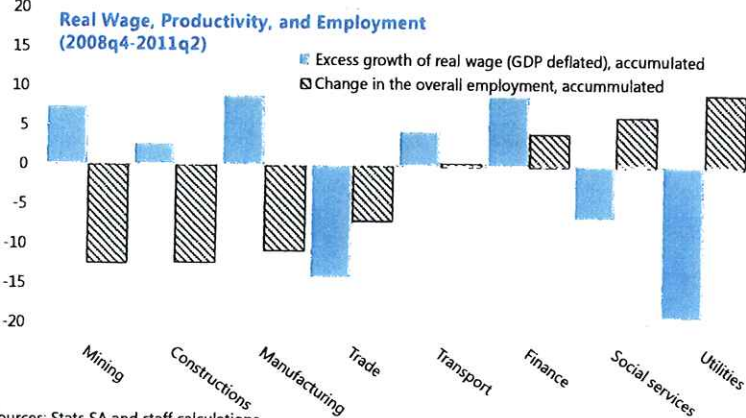
OECD's Product Market Regulation Index
(A higher number means more restrictive regulation)



Source: OECD.

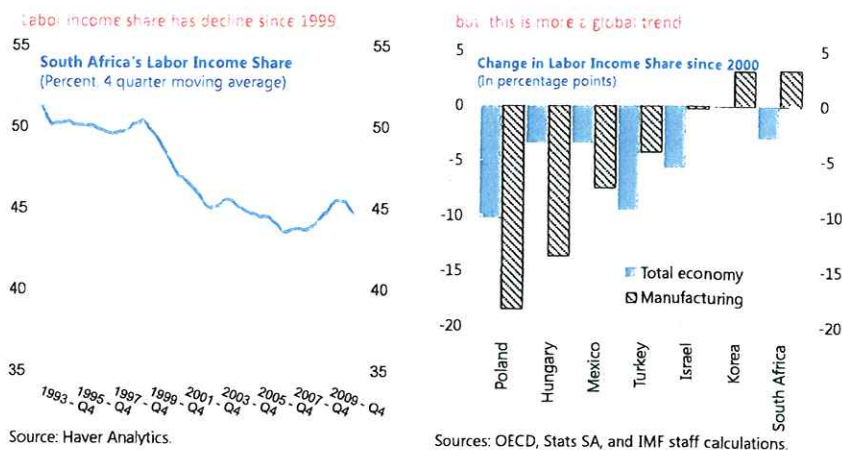
The impact of the exogenous shocks has likely also been aggravated by some features in the labor market

Bargaining outcomes in recent years have emphasized wage increases ahead of productivity growth



Sources: Stats SA and staff calculations.

The trend decline in the labor share of income has been cited as an argument that high real wage growth is not a problem...



In sum:

- South Africa current predicament partly on account of the severity of shocks
- But the inefficiency of product and labor markets has likely also exacerbated the impact of these shocks
- It will be critical to these structural problems in order to:
 - enhance competitiveness
 - make economic growth more labor-intensity
 - raise potential growth