



Economic Digest 16

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South Africa's IMF Loan

The International Monetary Fund (IMF) has approved a R70 billion loan to South Africa under its Rapid Financing Instrument (RFI). This is to support the government's efforts to address the challenging health situation and severe economic impact of the Coronavirus pandemic. Approaching the IMF for a loan was not a uniformly popular choice within the governing party, which has traditionally had an aversion to approaching the IMF. The loan was also criticised by some trade unions and civil society organisations, for reasons ranging from mistrust of the IMF to concern over the spectre of corruption in the expenditure of so large a sum. The few curated articles below will assist in understanding some of the issues surrounding the loan.

The pros, cons and potential pitfalls of the IMF loan

Any loan from a banking institution will attract conditions, so too the loan from the IMF. However, loans from IMF are not always straightforward affairs. <https://tinyurl.com/yyp2fhum>

The governing party will struggle to keep the economic promises made to the IMF

The ANC will have to keep its promises to the IMF and, at the same time, convince its support base that an IMF loan is not such a bad thing. However, in order to keep the promises made to the IMF the government will have to adopt reforms that are antipathetic to some of its own economic reform arguments. <https://tinyurl.com/y6ywsp9b>

Taking on more debt is problematic

"South Africa should ideally be scaling down its ever-increasing debt burden, given that the country's debt-to-GDP ratio set to reach 81.8% of GDP by the end of the current fiscal year." <https://tinyurl.com/y644xspd>

Corruption could make the IMF loan expensive

"The IMF loan provides a much-needed cash injection to boost the economic and public health responses to the pandemic. Whether the loan is good for SA in the long run will depend on the conditions attached to it and its cost, as well as the government's effectiveness in providing safeguards from corruption and maladministration." <https://tinyurl.com/y2fvb3uk>

The IMF is neither South Africa's worst enemy nor its saviour

This particular IMF loan will not attract the onerous conditions associated with traditional loans from the institution. Therefore, the criticism levelled at the government for taking the loan is somewhat misplaced. <https://tinyurl.com/y6z65jec>