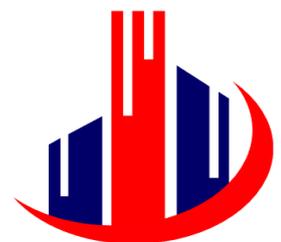


QUARTERLY ECONOMIC CHRONICLES

2020/Q3



ABOUT THIS PUBLICATION

The Quarterly Economic Chronicles is Vindilac Analytics' economic flagship, highlighting a series of economic events taking place at the national, regional and global levels. It is highly driven by the need for economic literacy and financial journalism on the African continent. By providing an economic report that is clear to a non-economist, we unintentionally create an enabling environment for citizens to make informed economic decisions. Our report is unique for it is now compiled and published in several official languages spoken in South Africa. This enables readers to understand economic chronicles in their mother tongues. It is worth noting that this report aims to complement existing economic reports in South Africa.

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1. EXECUTIVE SUMMARY

The coronavirus pandemic took the global economy by storm, disrupting economic activity through lockdown restrictions that were imposed to reduce local transmissions. This saw the bulk of recent economic reports and research studies centred on the impact of Covid-19 on the economy. The general finding is that the Covid-19 pandemic had a significant negative impact on labour, output and investment. Although economic activity is slowly resuming amid the lifting of lockdown restrictions, the road to economic recovery and expansion remains an uphill. Findings in the report indicate that the economy suffered a steep slump during Covid-19 than during the 2008 financial crisis. The European Union seems to have suffered the most both during Covid-19 and the 2008 financial crisis, followed by advanced market economies and emerging market economies. South Africa in particular, was harder hit during the Covid-19 pandemic as compared to the 2008 financial crisis. This is evidenced by the recent economic contraction of 16 per cent between the first and second quarters of 2020 (StatsSA, 2020). On an annual basis, this translates into an annualised economic contraction of 51 per cent.

During the 2008 financial crisis, the South African economy contracted by 1.8 per cent in the final quarter of 2008, followed by an annualised, quarter-on-quarter contraction of 6.4 per cent in the first three months of 2009 (Marais, 2009). The gap between government revenue and government spending has also been of great concern as it stands at 6.3 per cent of GDP and is expected to widen to 15.7 per cent of GDP in the fiscal year ending March 2021 (Bloomberg, 2020). Meanwhile, government debt is expected to rise from 63.4 per cent in 2019/20 to 81.8 per cent in 2021/22. Of interest currently, is how policymakers are planning to reshape public finances to ensure that there's fiscal sustainability. This, however, will be delayed by the need for further spending to stimulate and recover the ailing global economy.

As of 21 September 2020, South Africa moved to level 1 which saw a further relaxing of restrictions and the closest return to pre-Covid-19 normality that we have seen this year and will see in the near future. Estimates show that a return to pre-2019 economic activity would take at least 5 years without major economic interventions (United Nations Development Programme, 2020). In the last months, data on the impact of the national shutdown has been slowly released confirming the case made in first-quarter report that restrictions had locked out those in the informal sector, endangering the livelihoods of the poorest and that interventions through social grants were best suited for combating the harmful effects. The gradual easing of a lockdown has seen a reduced hunger and increased employment. The crisis had an effect of worsening inequality as the gender wage gap has increased and employment in rural communities has been slow to recover compared to urban areas. This has all served to confirm that adverse shocks can and do easily generate poverty traps.

Despite employment of certain strategies to ascertain continued delivery of good quality education, the negative shock to the education system is so significant that it is reasonable to expect a drop in the school completion rate and subsequently a rise in repetition rate in all levels of education. Failure to address the negative impact of Covid-19 on education outcomes may create a cycle of unsatisfactory education outcomes. Reduced completion rate and increased class repetition rate may overwhelm the education infrastructure through the increased ratio of pupil to teacher, increased number of students per textbook, and the number of students per class; and other related matters.

South Africa has come a long way from the start of the lockdown level 5 in March 2020 to lockdown level 1 announced in September 2020. After a long six months of limited economic activity and limited mobility, the damage seems irreversible for most businesses as some have ceased to exist due to existing business difficulties. However, for a few businesses it was an opportunity to venture into new ways of doing business. On the retail front, Edcon has been in business rescue since April 2020 with over 17000 jobs at stake. As of 25 September 2020, the Foschini Group (TFG) has concluded the sale of 382 South African Jet stores saving approximately 4800 employees (TFG, 2020). While for airlines such as FlySafair and Mango it is business as usual, the South African Airways (SAA) and Comair have not returned to the skies. Comair which also owns Kulala is still under business rescue and aims to be back on the skies in November 2020. For SAA, it is uncertain as it needs R10.5 billion for the entity to resume business. Nonetheless, the business confidence index gained momentum in the third quarter of 2020 to 24 from a record low of 5 in the second quarter of 2020. All sectors have shown improvements with the retail sector improving significantly to 33 from 11 in the second quarter of 2020. The wholesale sector improved the most to 33 from 4 in the previous quarter. This has shown how the easing of economic activity has driven the confidence of the respondents.

Lockdown restrictions created a negative supply shock and consequently a negative demand shock. This exacerbated the already low investor confidence as well as low consumer confidence (SARB, 2020). Low consumer demand as a result of job losses as well as a decline in oil prices resulted in a low inflation rate. As a result, inflation was below the target range of 3-6 %, sitting at 2.2% in June 2020 before falling back into the target range at 3.2% in July 2020 (Stats SA, 2020). Although there was a slight increase in inflation on a month-to-month basis, these figures are relatively lower than the pre-Covi-19 figures.

In commodity markets, crude oil prices have hit a major slump since the start of the year. On September 28th, the OPEC basket stood at \$41.61 per barrel, compared to \$ 42.43 for Brent crude oil and \$ 40.57 for West Texas Intermediate (WTI) oil (Sonnichsen, 2020). Oil demand drastically declined following lockdowns and travel restrictions due to the coronavirus pandemic. Furthermore, initial outlooks and uncertainty surrounding the pandemic led to a disagreement between two of the largest oil producers (Russia and Saudi Arabia) in early March. Negotiations between global oil producers led to an agreement on April 13th, with promises to cut petroleum output and help stabilize the oil prices. Following the outbreak of the virus and its subsequent declaration as a global health crisis in March 2020, the stock market in the US hit a circuit breaker for the first time since 1997.

There is a great need to establish a working relationship between the state and the central bank. The relationship can enhance an informed response to domestic economic conditions as well as global threats. An adequate response to macroeconomic concerns requires a balanced response from the central bank and the ministry of finance. South Africa battles enormous structural problems, with electricity shortages being a major problem. Electricity shortages will delay economic recovery and expansion in the medium to the long-term. Eskom outlined that load shedding will persist further into 2021. This, of course, will cost the country millions of rands in production and further exacerbate unemployment. Therefore, plans for economic recovery should focus more on infrastructure development as an incentive to drive the recovery.

2. COMMUNITIES AND LIVELIHOODS

- Caleb Qoyo

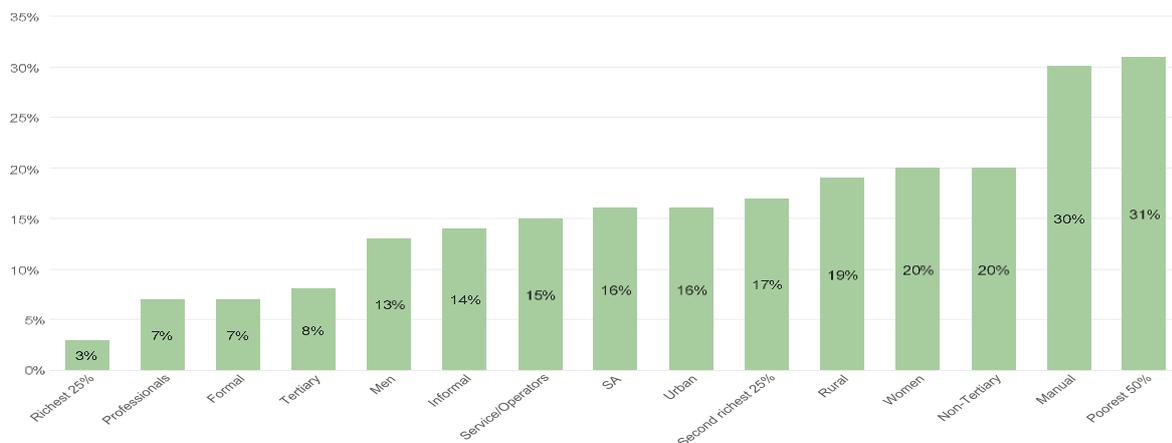
2.1.Introduction

The year 2020 proved to be challenging as the Covid-19 pandemic resulted in a nationwide lockdown that drastically reduced economic activity. As of 21 September 2020, South Africa moved to level 1 which saw a further relaxing of restrictions and the closest return to pre-Covid-19 normality that we have seen this year and will see in the near future. Estimates show that a return to pre-2019 economic activity would take at least 5 years without major economic interventions (United Nations Development Programme, 2020). In the last months, data on the impact of the national shutdown has been slowly released confirming the case made in first-quarter report that restrictions had locked out those in the informal sector, endangering the livelihoods of the poorest and that interventions through social grants were best suited for combating the harmful effects. The gradual easing of a lockdown has seen a reduced hunger and increased employment. The crisis had an effect of worsening inequality as the gender wage gap has increased and employment in rural communities has been slow to recover compared to urban areas. This has all served to confirm that adverse shocks can and do easily generate poverty traps.

2.2.Informal sector- Hardest hit, slowest to recover

A person is defined as informally employed if they have no written contract with their employer, this is regardless of whether they are self-employed, are casual worker, or work fixed regular hours (International Labour Organization, 2004). The nature of the sector is such that there is still no sufficient data to meaningfully determine the depth of the impact of Covid-19. However, the interest in researching and formulating meaningful policy for this sector that has come about in the last decade has shed some light on it. The informal sector tends to be more sensitive to negative shocks than the formal sector as data gathered from the 2008/09 Financial Crisis showed that the sector did not act as a shock absorber (taking in new entrants) but rather shed more jobs than the formal sector (Fourie, 2018). Seeing that the underlying structural issue of the economy has not improved much since then we can expect the effect of the Covid-19 pandemic to be similar and even more acute to the informal sector.

Figure 2.1: Percentage net loss in employment between February and June 2020 by sub-group



Source: Jain et al 2020, NIDS-CRAM Wave 2

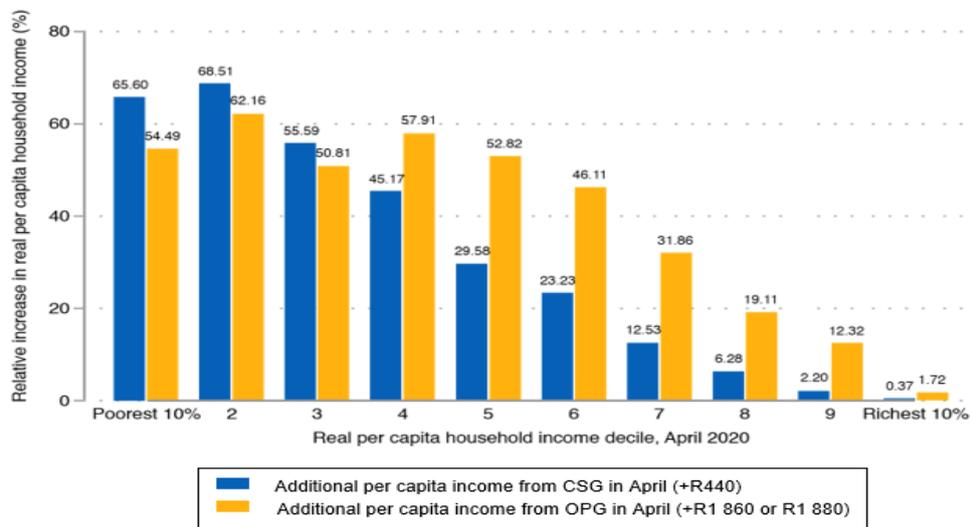
Jain et al (2020) observed that for the first half of the year (February to June) workers who are from rural areas, mostly female, experienced the largest drop in employment within the informal sector. Relaxed restrictions in the second half of the year should show a steady recovery of jobs in each sector as data for the 3rd and 4th quarter comes out. The observation period ended in June 2020 when restrictions were moderate but notably still excluded consumption of food and beverages at or in a place of sale. In this regard, this is anticipated to give a much-needed boost to the parts of the sector (e.g. restaurants and shebeens) that was still severely impacted by restrictions.

Research in South Africa and globally shows consistent gender differences in the labour market responses to economic crises, with women often experiencing a decrease in self-employment and an increase in unpaid work (Fallon and Lucas, 2002; Horn, 2010). Rogan and Skinner (2020) showed that for April 2020 women in the informal economy saw a decrease of 49 percent in the typical hours worked while men in informal employment saw a 25 percent decrease in typical hours. The prolonged closure of schools created the added responsibility of childcare, of which was done mostly by women.

2.3.The Social wage – A Largely successful intervention

In response to the Covid-19 crisis and regulations which restricted movement and interaction, governments around the world expanded their social protection systems as a means of providing relief to vulnerable individuals and households (Köhler & Borat, 2020). This was also the case in South Africa as the government expanded its unconditional cash transfers (social grants) by increasing both the amounts of all existing transfers and introducing a special Covid-19 Social Relief of Distress grant for six months from May to October 2020.

Figure 2.2: Relative increase in per capita household income attributable to Child Support Grant



Source: (Köhler & Borat, 2020)

Apart from the inefficiencies with delivery, this has largely been an effective measure since grants substantially increase the incomes of poor households in relative terms. For the poorest 30 percent of households, getting a child support grant increased the per capita household income by 63 per cent while for the richest 30 per cent it resulted in a 3 per cent increase. It also happens that 63 per cent of employed people in the needy households work in the informal

sector and 78 per cent of those in the poorest 10 per cent of households that receive the child support grant are informally employed as well (Köhler & Bhorat, 2020). Figure 2 below further highlights the effectiveness of the cash transfers.

2.4. Conclusion

As year-end approaches, restrictions relax and measures such as those made in social wage increase, expire. The livelihoods of many, however, remain worse off than they were this time last year. The crisis has only served to highlight existing structural weaknesses in the economy and hopefully present the need to rebuild a post-crisis economy that is more robust to negative shocks. To do so potential areas that need reform are:

- Further support for the SMME sector that also considers the peculiarities of the informal sector.
- Government may need to extend the Child Support Grant top up past October.

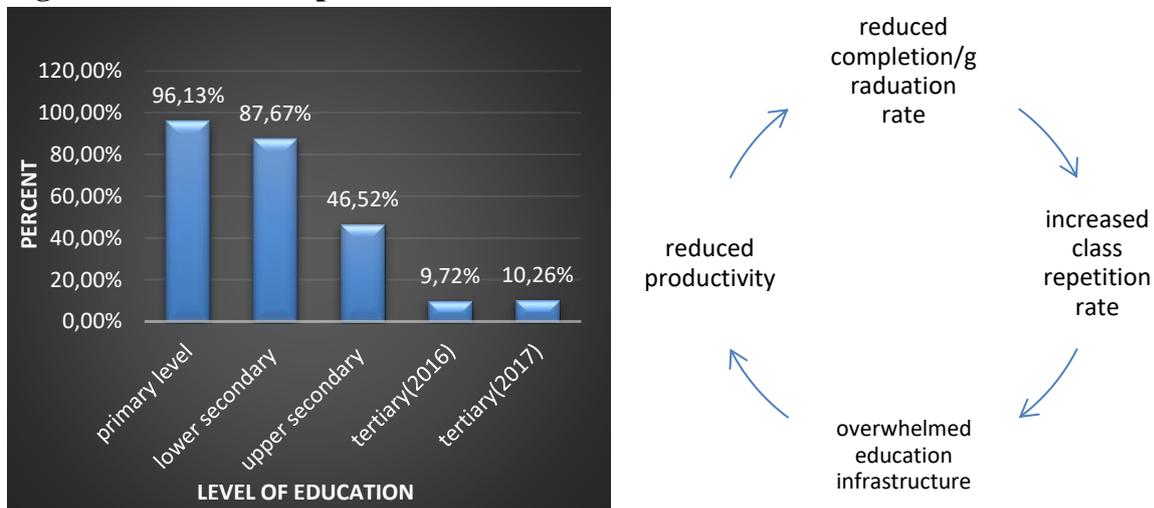
With countries such as France, Poland, Netherlands, Germany, and Brazil experiencing signs of a second wave under relaxed restrictions, there is a possibility that this might happen in South Africa. While it is unlikely that we will ever return to strict levels of lockdown if such an event arises then we can implement the lessons and failures learned this year.

3. EDUCATION AND HEALTH

- Chwayita Mkrola

Mkrola (2020) documented some potential impacts of Covid-19 on education outcomes and financing education. Despite employment of certain strategies to ascertain continued delivery of good quality education, the negative shock to the education system is so significant that it is reasonable to expect a drop in the school completion rate and subsequently a rise in repetition rate in all levels of education. The following figure shows the school completion rate and repetition rate per level of education for the years 2016 and 2017, which is the latest data available at Unesco Institute for Statistics. The school completion rates were 96.13 for primary schools, 87.67 for lower secondary schools, and 46.52 in upper secondary schools. It is evident that as pupils progress to higher grades, the completion rate decreases. The graduation rate in tertiary institutions increased from 9.72 to 10.26 percent. These graduation rates remain low compared to most countries including Russia (70.29), India (27.92) and China (32.94).

Figure 3.1: school completion rates



Source: Unesco Institute for Statistics (2020)

Failure to address the negative impact of Covid-19 on education outcomes may create a cycle of unsatisfactory education outcomes as shown in figure 3.1. Reduced completion rate and increased class repetition rate may overwhelm the education infrastructure through the increased ratio of pupil to teacher, increased number of students per textbook, and the number of students per class; and other related matters. To reduce this impact, education expenditure must be increased according to per-capita spending per level of education and the number of repeaters. However, the economic impact of Covid-19 may limit the fiscal power to inject finances into the education system.

One of the most immediate response would be to make voluntary work in the final year of study compulsory for NSFAS and Funza Lushaka beneficiaries, these final year students must be allocated to schools with high repetition rates; to reduce the number of pupils per teacher, while simultaneously allowing university students to gain experience and increase their employability status. Additionally, an option for distant and independent learning in all levels of school must be made available; students may then appear in schools only for exams. This can reduce the number of students per classroom and avoid overwhelming education

infrastructure. Concerning tertiary institutions who failed with ensuring successful implementation of remote learning strategies on time, affected students must be allowed free registration with the institution, tuition fee enrolment when a student takes the option to study independently and remotely but only appear for exams. This can avoid increased student debt and can reduce the burden of financing education for both households and government (through NSFAS), especially given the impact of Covid-19 on household income and government revenues. Private schools should also offer tuition-free or enrolment for students who repeat a class due to Covid-19 and offer them a sit for exams.

4. FISCAL POLICY AND GOVERNANCE

- Baneng Naape

4.1. The impact of the 2008 financial crisis vis-a-vi the Covid-19 pandemic

The coronavirus pandemic took the global economy by storm, disrupting economic activity through lockdown restrictions that were imposed to reduce local transmissions. This saw the bulk of recent economic reports and research studies centred on the impact of Covid-19 on the economy. The general finding is that the Covid-19 pandemic had a significant negative impact on labour, output and investment. Although economic activity is slowly resuming amid the lifting of lockdown restrictions, the road to economic recovery and expansion remains an uphill. In this issue, our focus is on comparing the impact of the 2008 Global Financial Crisis vis-a-vi the impact of the global coronavirus pandemic on the economy. It is worth mentioning, that our comparisons of the impact of Covid-19 on the economy are based on estimates and illustrated using figures 4.1 and 4.2.

Figure 4.1: Trends in Real GDP growth

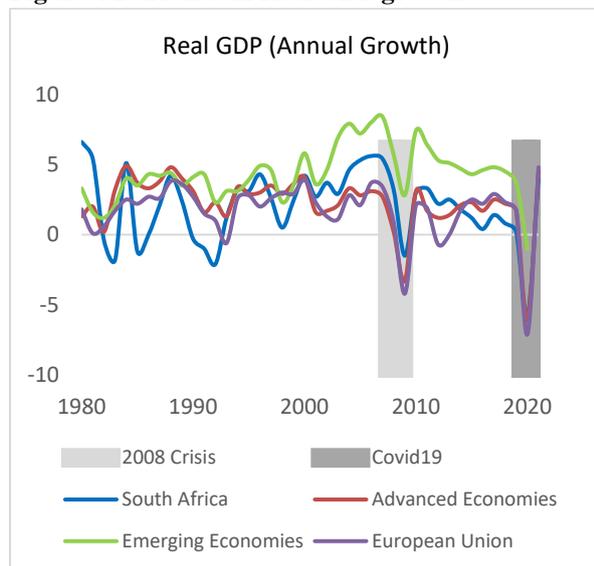
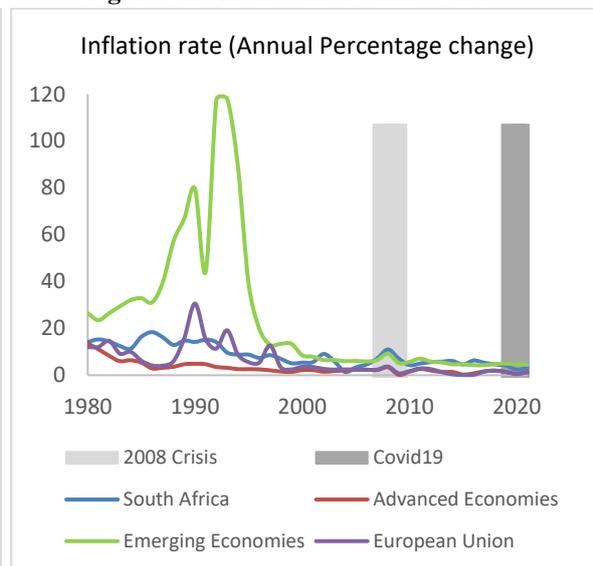


Figure 4.2: Trends in the inflation rate



Source: World Development Indicators (2020)

It is undoubtedly clear from figure 4.1 that the economy suffered a steep slump during Covid-19 than during the 2008 financial crisis. The European Union seems to have suffered the most both during Covid-19 and the 2008 financial crisis, followed by advanced market economies and emerging market economies. South Africa in particular, was harder hit during the Covid-19 pandemic as compared to the 2008 financial crisis. This is evidenced by the recent economic contraction of 16 per cent between the first and second quarters of 2020 (StatsSA, 2020). On an annual basis, this translates into an annualised economic contraction of 51 per cent. During the 2008 financial crisis, the South African economy contracted by 1.8 per cent in the final quarter of 2008, followed by an annualised, quarter-on-quarter contraction of 6.4 per cent in the first three months of 2009 (Marais, 2009).

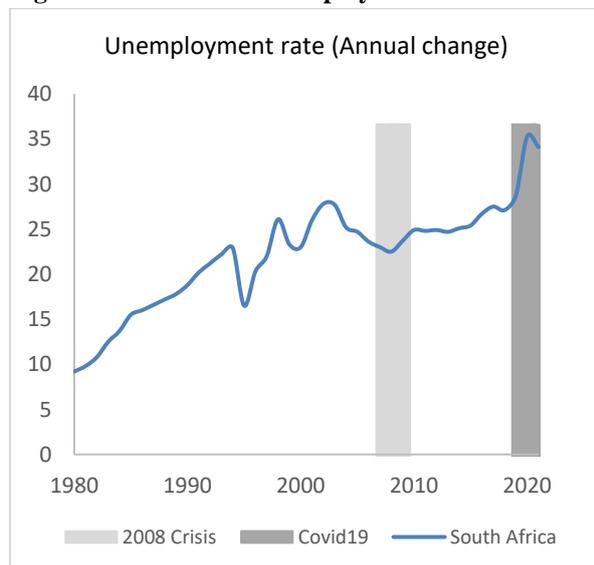
The inflation rate can also be used to illustrate the impact of a crisis on the economy. During a crisis, the inflation rate usually deteriorates since consumption and production become depressed. As a result, the affected nation would experience deflation. To the extent to which expansionary policies are employed, the inflation rate would gain momentum in the long run.

This theory can be observed empirically from figure 4.2. During the 2008 financial crisis, several advanced market economies including Japan, the United Kingdom (UK) and the United States (US) experienced deflation. As a result, several central banks had to execute large-scale asset purchases or the so-called “Quantitative Easing” in response to the deteriorating inflation rate. During the Covid-19 pandemic, a similar trend was observed. The Covid-19 pandemic stroke the global economy at the back of historically low inflation rates, sluggish growth and low-interest rates. As such, countries had to employ their fiscal policy tools by providing tax relief measures to struggling businesses and individuals and increasing spending through deficit financing. To some extent, the combination of these measures managed to stimulate demand and avoid further deflation. It can be seen again from figure 4.2 that deflation was more severe during the Covid-19 pandemic than during the 2008 financial crisis.

4.2.The Fiscal Stance: Do the numbers balance?

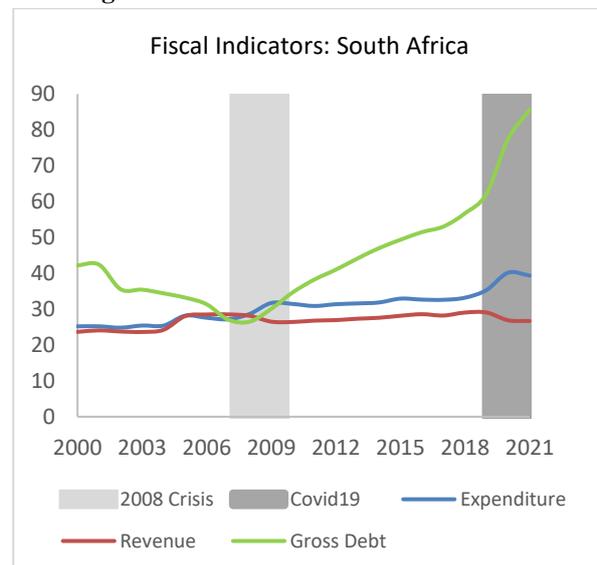
It is clear from earlier discussions that the Covid-19 pandemic had severe effects on the global economy than the 2008 financial crisis had. A major difference between the two crises lies in the way policymakers responded to them. For example, during the 2008 financial crisis, policymakers made use of expansionary monetary policy tools through bulk long-term asset purchases. In contrast, during the Covid-19 pandemic, policymakers exhausted fiscal policy tools through increased spending, borrowing and tax relief measures. Of interest currently, is how policymakers are planning to reshape public finances to ensure that there’s fiscal sustainability. This, however, will be delayed by the need for further spending to stimulate and recover the ailing global economy.

Figure 4.3: Trends in unemployment rate



Source: World Development Indicators (2020)

Figure 4.4: Trends in fiscal indicators



The skyrocketing unemployment rate remains one of the triple challenges in South Africa. A recent study by the National Income Dynamics Coronavirus Rapid Mobile Survey revealed that close to 3 million people lost their jobs over the lockdown in South Africa. This is three times the number of jobs lost during the 2008 financial crisis¹. Nonetheless, the South African

¹ For a detailed discussion on unemployment in South Africa, please see the featured article on page 13

economy was performing exceptionally well during the early 1990s and to a great extent, this benefited revenue mobilisation through automatic stabilizers. Government revenue was performing well above government expenditure and because the gap between government revenue and expenditure was narrow, minimal budget deficits were incurred. Notably, minimal budget deficits imply reduced borrowing requirements and the opportunity to significantly reduce government debt. This can also be seen in figure 6 from the downward trend in the level of gross government debt between the period 2000 and 2008. Following the 2008 financial crisis, government debt rose significantly as a result of increased deficit spending by the government. Post the period 2008, government expenditure has been well above government revenue. Today, the gap between government revenue and government spending stands at 6.3 per cent of GDP and is expected to widen to 15.7 per cent of GDP in the fiscal year ending March 2021 (Bloomberg, 2020). Meanwhile, government debt is expected to rise from 63.4 per cent in 2019/20 to 81.8 per cent in 2021/22. It is clear from these statistics that the fiscal numbers do not balance and are not expected to balance any time soon.

5. BUSINESS AND FINANCE

- Zaziwe Maluleke

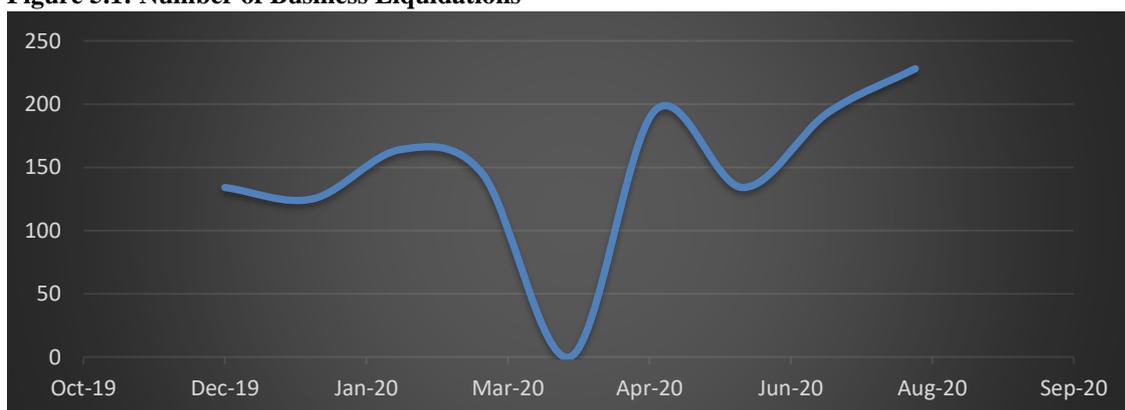
5.1. How far we have come

South Africa has come a long way from the start of the lockdown level 5 in March 2020 to lockdown level 1 announced in September 2020. After a long six months of limited economic activity and limited mobility, the damage seems irreversible for most businesses as some have ceased to exist due to existing business difficulties. However, for a few businesses it was an opportunity to venture into new ways of doing business. On the retail front, Edcon has been in business rescue since April 2020 with over 17000 jobs at stake. As of 25 September 2020, the Foschini Group (TFG) has concluded the sale of 382 South African Jet stores saving approximately 4800 employees (TFG, 2020). This is an opportunity TFG got from the lockdown.

While for airlines such as FlySafair and Mango it is business as usual, the South African Airways (SAA) and Comair have not returned to the skies. Comair which also owns Kulala is still under business rescue and aims to be back on the skies in November 2020. For SAA, it is uncertain as it needs R10.5 billion for the entity to resume business. The Department of Public Enterprises (DPE) is clear that the national carrier will not be liquidated and prioritises the finalisation and implementation of the business rescue process (DPE, 2020).

From the start of lockdown level 4, there has been a rise in the number of businesses liquidations². The figure below illustrates the number of liquidations that took place since December 2019, this has seen the liquidations drop to 0 in April 2020 as the country was in lockdown level 5. The number of liquidations rose to 228 in August, which includes both voluntary and involuntary business liquidations. Most of the liquidations came from financing, insurance, real estate, business services which has the most businesses and employs a lot of people with 74 liquidations concluded for August (StatsSA, 2020). Trade, catering and accommodation have 39 liquidations for August (StatsSA, 2020). This is evidence that for most businesses, the easing of restrictions still made it difficult for a business to continue.

Figure 5.1: Number of Business Liquidations



Source: StatsSA, 2020

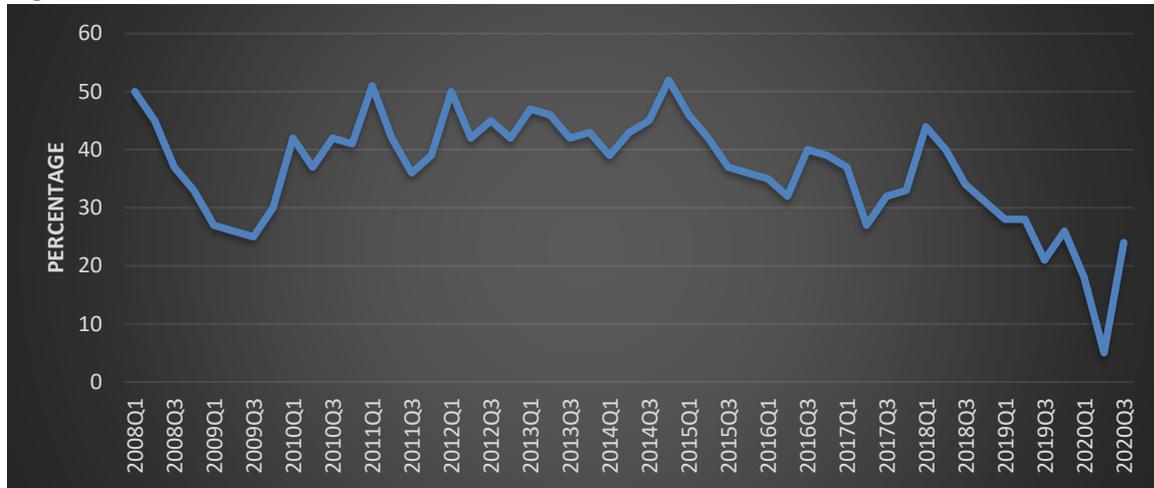
5.2. Business confidence

The business confidence index gained momentum in the third quarter of 2020 to 24 from a record low of 5 in the second quarter of 2020. All sectors have shown improvements with the

² Liquidation is a formal insolvency procedure in which a company is ended; all its assets are liquidated and the proceeds from the sale of assets is used to repay creditors.

retail sector improving significantly to 33 from 11 in the second quarter of 2020. The wholesale sector improved the most to 33 from 4 in the previous quarter. This has shown how the easing of economic activity has driven the confidence of the respondents.

Figure 5.2: RMB/BER Business confidence index³



Source: Bureau for Economic Research (2020)

5.3. Tourist accommodation income

South African tourism has lost significant income due to the domestic and international borders being closed to contain the virus in various countries. This has seen income drop to an all-time low of approximately 40 million, but it is slowly recovering, at 200 million in July.

Figure 5.3: Tourist accommodation income



Source: StatsSA (2020)

The biggest losses came from caravan parks and camping parks which peaked -99% between April and June and slowly recovering to -97.6% in July; guest-houses and guest-farms where contractions peaked -99.4% in May and recovering to -87.4% in July; and hotels peaking at -98% in April and May and recovering to -88.1% in July (StatsSA, 2020). The opening of international borders will allow tourists to visit South Africa which will improve revenues for the sector. Health requirements remain a concern as anyone entering or leaving the country needs to have tested negative for Covid-19 within 72 hours.

³ An index less than 50 is said to indicate a loss of confidence, while an index of more than 50 shows increased confidence.

5.4. What can South African businesses do differently?

Businesses should investigate phasing out the typical physical business structure as Covid-19 has proven that people can work remotely from home without compromising productivity or sales. Providing employees with Information and Communications Technology (ICT) training is also crucial to ensure that employees are up to date with technologically led ways of doing business.

6. MONETARY FRAMEWORK

- Thabang Serobe

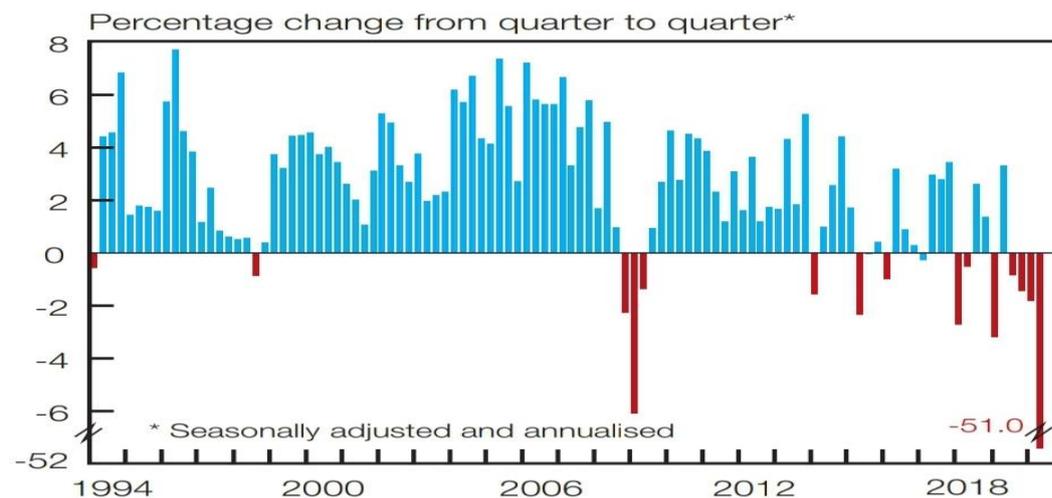
6.1. Economic Overview

6.1.1. GDP trends

South Africa's economy was already in shambles pre-Covid-19, characterized by high unemployment figures, low output rates, high inequality gap and low investor confidence. Output levels had already contracted three consecutive quarters before Covid-19 lockdown (South African Reserve Bank, 2020). For example, GDP contracted by 0.8% in the third quarter of 2019, followed by a contraction of 1.4% in the fourth quarter of 2019 and a contraction of 1.8% in the first quarter of 2020 (STATS SA, 2020). This year's first-quarter contraction can be attributed to intense electricity load shedding which significantly impacted the manufacturing and mining sectors, resulting in lower production.

Lockdown restrictions in March 2020 exacerbated the situation leading to a GDP contraction of 51.0% in the second quarter of 2020. Manufacturing contributed greatly to the contraction with a decline of 74.9% in the second quarter of 2020.

Figure 6.1: Growth in GDP (%)



Source: SARB (2020)

6.2. Inflation

Lockdown restrictions created a negative supply shock and consequently a negative demand shock. This exacerbated the already low investor confidence as well as low consumer confidence (SARB, 2020). Low consumer demand as a result of job losses (an estimation of 2.2 million job losses) as well as a decline in oil prices resulted in a low inflation rate. As a result, inflation was below the target range of 3-6 %, sitting at 2.2% in June 2020 before falling back into the target range at 3.2% in July 2020 (Stats SA, 2020).

Although there was a slight increase in inflation on a month-to-month basis, these figures are relatively lower than the pre-Covi-19 figures. "Price changes for products banned for sale in June were also imputed in this as there are no actual June prices available to use for comparison with actual July prices." (Stats SA, 2020).

Table 6.2: CPI headline year-on-year rates

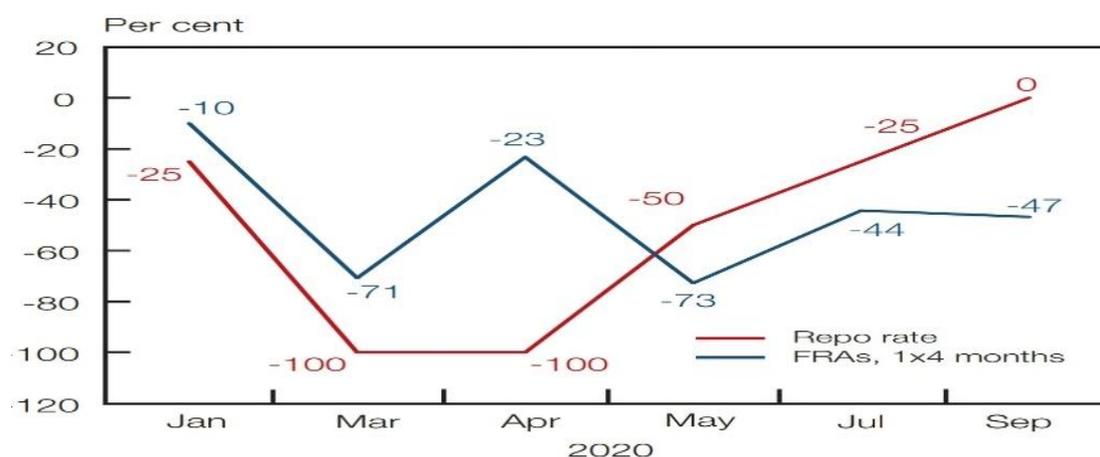
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Average ¹
2016	6,2	7,0	6,3	6,2	6,1	6,3	6,0	5,9	6,1	6,4	6,6	6,8	6,4
2017	6,6	6,3	6,1	5,3	5,4	5,1	4,6	4,8	5,1	4,8	4,6	4,7	5,3
2018	4,4	4,0	3,8	4,5	4,4	4,6	5,1	4,9	4,9	5,1	5,2	4,5	4,7
2019	4,0	4,1	4,5	4,4	4,5	4,5	4,0	4,3	4,1	3,7	3,6	4,0	4,1
2020	4,5	4,6	4,1	3,0	2,1	2,2	3,2

Source: STATS SA (Second quarter CPI, 2020)

6.3. Interest rates

At the height of the pandemic, SARB used interest rates as the major instrument to stimulate the economy, and influence inflation and demand. In response to the global spread of Covid-19, the Monetary Policy Committee (MPC) decided to cut the repo rate by 100 basis points in March 2020. However, the decision did not take into consideration the domestic lockdown that was to follow. As a result, the MPC decided to further cut the repo rate by 100 basis points in April 2020 following the announcement of domestic lockdown (SARB, 2020).

Figure 6.3: Short-term rates: market expectations versus actual outcome



Source: Bloomberg and SARB (2020)

Following the Quarterly Projection Model (QPM) repo rate projections, the MPC decided to further implement two consecutive repo rate cuts of 50 and 25 basis points over the second half of 2020. This left the repo rate at 3.5% and the prime lending rate at 7%.

6.4. The coordination between the central bank and the National Treasury

There is a great need to establish a working relationship between the state and the central bank. The relationship can enhance an informed response to domestic economic conditions as well as global threats. An adequate response to macroeconomic concerns requires a balanced response from the central bank and the treasury. Evident in the South African case, an independent response by either the treasury or the central bank is inadequate to address the economic challenges. Therefore, the government’s response to the economic crisis requires a sound and scientific integrated plan inclusive of both fiscal policy and monetary policy.

A working relationship between the South African Reserve Bank and the National Treasury can lower the interest in nationalization of the reserve bank. The relation can, in essence,

support the political independence of the central bank. It can also help to insulate monetary policy decisions from political processes. With no interference, the central bank will be able to independently implement its mandate.

6.5. Conclusion

South Africa battles enormous structural problems, with electricity shortages being a major problem. Electricity shortages will delay economic recovery and expansion in the medium to the long-term. (SARB, 2020). Eskom outlined that load shedding will persist further into 2021. This, of course, will cost the country millions of rands in production and further exacerbate unemployment. Therefore, plans for economic recovery should focus more on infrastructure development as an incentive to drive the recovery. The government and the central bank can play an important role in stimulating both demand and supply.

Expansionary monetary policy, for the Covid-19 period, has begun to yield results as there are signs of recovery in the mortgage applications and grants through the help of low-interest rates. Low-interest rates support credit growth as well as government borrowing. Moreover, lower interest rates assist to curb inflation and to ensure that it is contained within the target range (SARB 2020).

To strengthen the recovery, the government should put more emphasis on sovereign debt sustainability, fiscal policy stance as well as structural reforms. It will take some time for the economy to return to pre-2019 levels. However, with proper measures in place, appropriate monetary policy instruments and sufficient resources, economic recovery is certain.

7. TRADE & FINANCIAL MARKETS

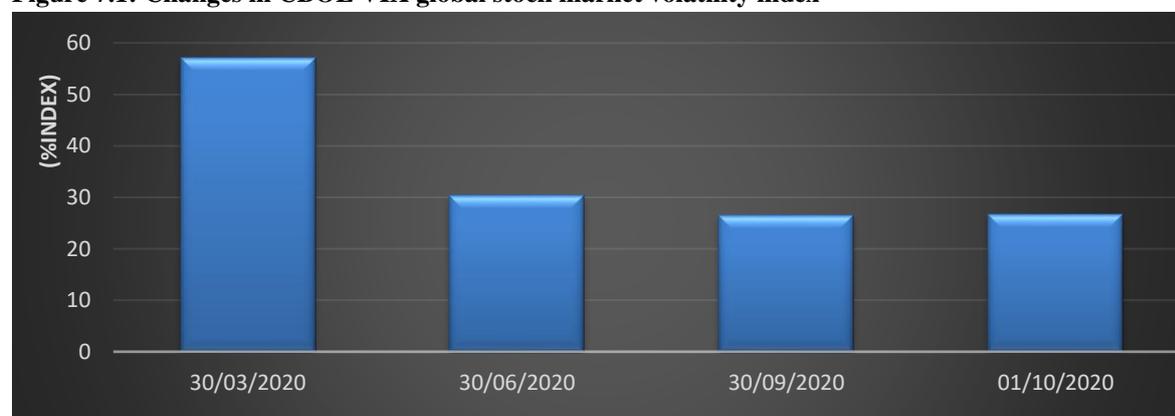
- Bekithemba Qeqe

The outbreak of the Covid-19 pandemic has created significant uncertainty surrounding almost every aspect including employment, people's livelihoods, businesses, the capacity of healthcare systems to meet an extraordinary challenge; how long it will take to develop effective vaccines; the ultimate size of the mortality shock; the duration and effectiveness of social distancing, market lockdowns, and containment strategies; the near-term economic impact of the pandemic and policy responses; the speed of global economic recovery, etc. While volatility is regarded as a natural occurrence in financial markets, the uncertainty associated with the outbreak of the virus has inspired a greater than normal amount of volatility, especially during the first three months of 2020. Following the outbreak of the virus and its subsequent declaration by the World Health Organisation (WHO) as a global health crisis in March 2020, the stock market in the US hit a circuit breaker for the first time since 1997.

A circuit breaker is a "fail safe-measure" aimed at curbing panic selling in the stock market (Fronza, 2020). They typically involve stopping trading for a period of some time, in the event that share prices fall to below predetermined levels. Stock markets in Europe and Asia also plunged during this period. Figure 10 shows changes in the Chicago Board Options Exchange (CBOE) VIX index, a measure of global market volatility between the end of the 1st quarter and the beginning of the 4th quarter of 2020. As can be seen on the graph, the VIX index closed at around 57.08% on 30 March 2020, indicating a significant amount of uncertainty and volatility during the first quarter. Central banks and authorities around the world responded immediately by throwing their policy instruments into the market. The South African Reserve Bank in particular, cut the repo rate by a total of 300 basis points to 3.50%, leading also to a reduction in prime rate quoted by commercial banks to 7.00 %.

Additional measures taken by the monetary authorities include providing regulatory relief to the financial sector to maintain credit flow as well as the buying of governments in the secondary market to improve market functioning. These measures coupled with fiscal policy responses and a gradual return to economic activity in different parts of the world, inspired forward-looking optimism and this led to a decline in volatility to below 30% by the 1st of October 2020 as shown in figure 7.1.

Figure 7.1: Changes in CBOE VIX global stock market volatility index



SOURCE: OWN DIAGRAM MADE WITH DATA FROM CBOE

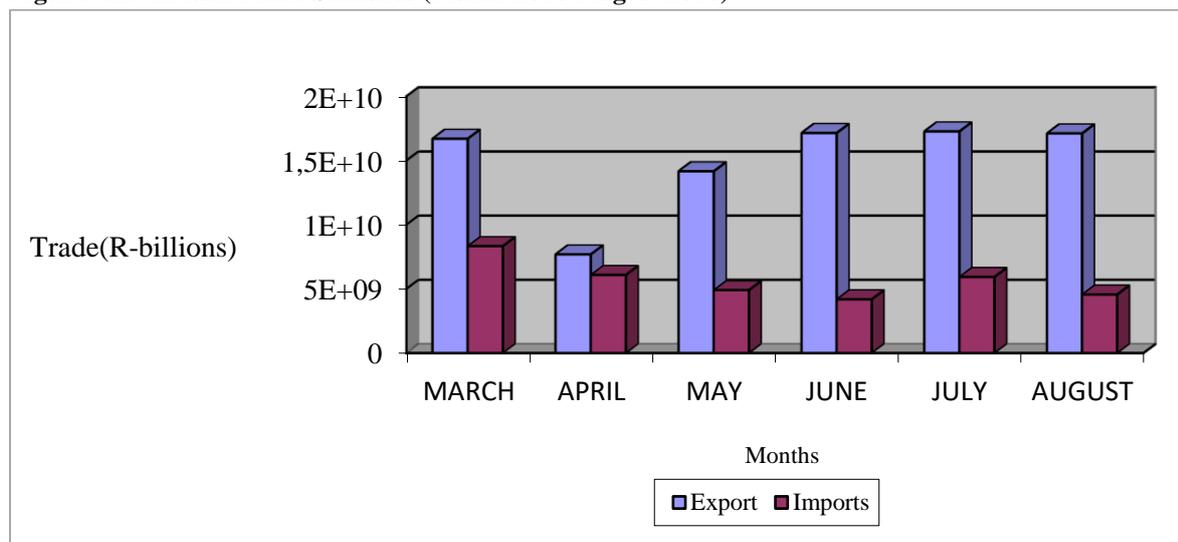
Local stocks followed a similar trend as the global markets, with the Johannesburg Stock Exchange All Share Index (JSE ALSI) closing at 54 445.78 on 1st October 2020, 20.26% higher than the 43 413.63 observed on the last day of March 2020. In the currency markets, the rand and other emerging market currencies weakened significantly against the relatively stronger US dollar for most of the time since the start of the year. The rand fell 19% against the dollar in the first six months of the year, while the Brazilian Real was down 26%, Mexico Peso was down 18% and the Turkey lira was down by almost 13% over the same period as investors were pulling back from emerging markets due to growing uncertainty and poor economic growth prospects (BusinessTech, 2020). The rand was sitting at R16/\$ on 1st October 2020 as compared to the R17/\$ observed on the last day of March 2020.

In commodity markets, crude oil prices have hit a major slump since the start of the year. On September 28th, the OPEC basket stood at \$41.61 per barrel, compared to \$ 42.43 for Brent crude oil and \$ 40.57 for West Texas Intermediate (WTI) oil (Sonnichsen, 2020). Oil demand drastically declined following lockdowns and travel restrictions due to the coronavirus pandemic. Furthermore, initial outlooks and uncertainty surrounding the pandemic led to a disagreement between two of the largest oil producers (Russia and Saudi Arabia) in early March. Negotiations between global oil producers led to an agreement on April 13th, with promises to cut petroleum output and help stabilize the oil prices.

However, with storage facilities and oil tankers quickly filling up, fears grew over where to store excess oil, leading to benchmark prices seeing record negative prices between April 20 and April 22 (Sonnichsen, 2020). Some industry experts have estimated that oil demand may take until 2022 to see a full recovery, especially if the possibility of a second wave of coronavirus eventually materializes. The price of precious metals has been on the rise since the start of the year. Gold prices have increased more than 32% so far this year, breaching the \$2,000 mark for the first time in history in August 2020. Silver prices also followed in the same direction, increasing more than 30% thus far (Tan, 2020).

The effects of the pandemic were also felt through the disruptions to international trade and global supply chains. This affected mainly the trade-dependent, least developed countries in Africa due to their strong reliance on exports of commodities, tourism as well as imports of medical, pharmaceutical and food products (Agarwal & Mulenga, 2020). While countries have tried to keep trade open to reduce the negative impact on vulnerable populations around the world by announcing policy measures to ensure supply of essential goods and maintain supply chain connectivity, they have also been forced implement restrictive measures to protect their domestic markets in the form of export bans, import restrictions and subsidies to import-substituting industries to reduce dependence on imported goods and improve self-reliance (Agarwal & Mulenga, 2020).

Figure 7.2: African Trade Statistics (March 2020-August 2020)



SOURCE: OWN DIAGRAM MADE WITH DATA FROM SARS

Figure 7.2 above shows the African trade statistics from March to August 2020. A slowdown in economic activity due to the closing of national borders meant that essential commodities cannot be moved to vulnerable regions, thus depriving people of much-needed health care and food supplies. This is shown in the graph by the sharp decline in trade (exports and imports) during April 2020. As shown in the figure, trade improved from May 2020 as more and more countries including South Africa began to lift restrictions and return to economic activity. South Africa in a particular recorded a trade surplus of R38.87 billion in August 2020 as compared to the R24.25 billion realised in March 2020 (South African Revenue Services (SARS), 2020). The trade surplus was attributable to exports of R130.22 billion and imports of R91.35 billion during August (SARS, 2020).

Financial markets usually move in the same direction as the real economy, however, there were times during the year where some disconnect was observed between the markets and the real economy. An example is when unemployment in the US increased significantly, with 36 million Americans filing for unemployment claims and US GDP falling by 4.8%, but US stock was surprisingly increasing (Reinicke, 2020). Notwithstanding this, however, what has remained clear since the start of the year is that markets don't react well to uncertainty, hence it is expected that the down and up fluctuations in the markets will continue to exist for some reasonable time into the future. Investors are thus encouraged during this time of uncertainty and volatility to avoid reacting from a place of fear or panic, always have an emergency fund, focus on diversifying their portfolios and develop a long-term perspective when making financial plans or investments.

8. ENERGY & TECH

- Thabang Serobe

8.1. Energy (Focus on IPPs)

“Electricity is differentiated from the other services we find in the home. Unlike air or water that can be harvested from nature, electricity must be manufactured” (Eskom, 2020). Electricity is vital to economic growth. It fuels the economy, creates employment and stimulates output. In the second half of 2020, Eskom continued to battle with load shedding crisis emanating from the constant growing electricity demand. Much of lockdown restrictions offered the power utility an opportunity to service and maintain its power stations to mitigate the load shedding crisis, however, Eskom's progress has been eroded as the power utility cannot meet the electricity demands due to the easing of lockdown restrictions. The latest load shedding schedules were blamed on cold conditions that sparked the demand.

In the past few years, there has been an enormous demand for electricity than Eskom can generate. The average annual electricity demand is estimated to grow by 2.0% by 2030 and 1.66% by 2050. This calls for a geared-up response in electricity generation capacity to meet the growing demand. Much has been said on the effects of load shedding on the economy, however, with the current generation, frequent load shedding schedules are inevitable. Other methods of electricity generation are “either impractical or much more expensive” as Eskom alludes (Eskom, 2020). This acknowledges that the country is far from reaching sustainable clean energy and the energy crisis will persist for the foreseeable future. However, with the use of Independent Power Producers, the country can gradually move to sustainable and green energy.

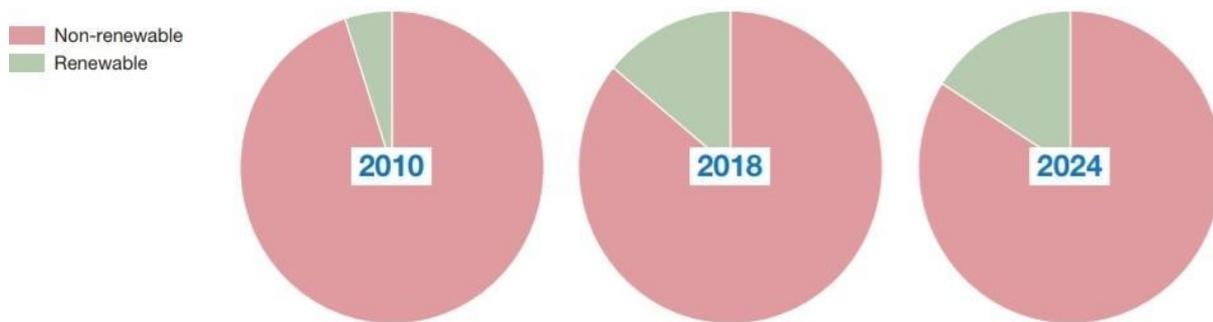
Through the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), the government has been able to achieve a significant step in addressing the incapacity of Eskom to meet the demand. IPPs contribute about 5% to the electricity generated in the country (Power Futures South Africa, 2020). The REIPPPP is a vehicle launched to manage the tender process and to facilitate private sector investment in renewable energy to the national grid (Eberhard & Naube, 2016). “South Africa continues to pursue a diversified energy mix that reduces reliance on a single or a few primary energy sources” (IRP, 2019). There is an opportunity for IPPs to enter the electricity generation market to capitalize on Eskom's weaknesses in the energy crisis. To offer an opportunity to IPPs and to acquire assistance with electricity generation, Eskom has set up the Grid Access Unit (GAU) for Independent Power Producers (IPPs) and generators.

The main objective of GAU is to create an entry for IPPs and generators to connect with Eskom's grid. This offers Eskom a sustainable solution to the energy crisis (Eskom, 2020). In light of this, the Department of Energy offered mining companies permission to self-generate electricity for their operations (South African Government News Agency, 2020). This move comes to alleviate the disruptions caused by load shedding on mining companies. The country needs an elevated response to the crisis with renewable energy sources and Independent Power Producers offer that. At the beginning of 2020, the South African power sector had an installed generation capacity of 56,392 MW and installed an IPP capacity of 5,492 MW with a peak load of 34,256 MW (African Energy Reports, 2020).

Figure 8.1: Renewables vs Non-renewable

(MW)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Hybrid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-renewable	43,116	43,116	43,116	43,116	42,816	43,945	44,615	47,003	47,003	48,591	51,785	52,585	54,285	54,285	54,285
Renewable	2,268	2,268	2,271	2,353	3,835	4,444	6,338	7,542	7,661	7,801	9,290	10,065	10,165	10,165	10,165

(%)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Hybrid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-renewable	95.0	95.0	95.0	94.8	91.8	90.8	87.6	86.2	86.0	86.2	84.8	83.9	84.2	84.2	84.2
Renewable	5.0	5.0	5.0	5.2	8.2	9.2	12.4	13.8	14.0	13.8	15.2	16.1	15.8	15.8	15.8



Source: (African Energy report, 2020)

Shown above is data reflecting off-grid capacity between 2010-2024. In detail, the above reflects on the capacity of renewable and nonrenewable energy on the national grid. There is a steady increase in renewable energy from 5,0% in 2010 to 15,8% in 2024. Translated as 2,268 MW in 2010 and 10,165 MW in 2024. Whereas there is a decline in nonrenewable energy from 95,0% in 2010 to 84,2% in 2024. This comes in light of the growing demand for renewable energy as a solution to the country’s energy crisis.

Investment in renewable energy is a long-lasting solution to the energy crisis in South Africa. Current methods of production are not sustainable and power cuts cost the economy billions of rands. To mitigate these issues, there should be a working relationship between the private sector and government to scale the generation capacity of Independent Power Producers to increase their impact on the national power grid. Licensing and funding of these producers should be at the top of the agenda when addressing the energy crisis.

8.2.Tech (focus on Banking)

The need to digitalize the economy has offered vast opportunities to financial institutions. Banking is one of the rapidly growing sectors in innovation and digitization. Lockdowns offered banks and other financial institutions the opportunity to scale their digital platforms. In a like manner, remote working and social distancing protocols have evoked new heights of innovation. South African banks (i.e. Nedbank, Standard Bank, Absa and FirstRand) pursued transformation in their remote banking services to adopt transformation programs that seek to improve customer experience digital transformation and enterprise-wide cost reduction (PwC, 2020).

“The future of banking in South Africa is dynamic and exciting. Agile new entrants with a differentiated value proposition in a business model focused on the monetization of customer insights will compete for head-on with universal banks reinvigorated by innovation strategies” (PwC, 2020). New entrants offer a competitive edge and unlock new levels of innovation consequently prompting large banks to scale their operations and introduce new sophisticated banking services. Max Chuard from the World Economic Forum alludes that the Covid-19 pandemic has accelerated demands for new banking technologies and cost-cutting efficiencies (World Economic Forum, 2020). Fourth Industrial Revolution, Covid-19 crisis and introduction of the 5G network offer endless possibilities for business in the digital space to scale to newer heights.

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