

The SA economy in 2021 - Looking into the crystal ball

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Most South Africans are now understandably keen to see the end of 2020 and are hoping for better times in 2021, after what has been a rollercoaster year for SA's political economy. 'Good riddance' is how one leading commentator put it. Yet this is also a time to look forward. What is likely to be the lay of the land in 2021 and what should be done about it?



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It is evident that as the year draws to a close, both the world and SA continue to grapple with the seismic impact on lives and livelihoods of renewed surges in Covid-19. Travel links and supply chains have again been placed under severe strain. Many economies have already been severely damaged this year and global economic links badly disrupted. In addition, social tensions have spiked as countries have tried to manage an unprecedented pandemic, its patent risks and inexorable socioeconomic consequences.

Throughout this process, some countries have done better than others, and there have been winners and losers. Yet serious mistakes have inevitably been made and painful lessons have been learned about a virus that has created enormous challenges for policymakers all over the world. It is clear that, in the face of the recent renewed surges in the pandemic, Covid-19 exit strategies are, more than ever, a complex process of balancing trade-offs, handling fears and maintaining trust – all on the basis of shifting evidence and imperfect information, but with profound economic implications.

As the world moves into year two of the pandemic, there are many unknowns about the future trajectory of the virus. But despite the spike in cases in many parts of the world, how well countries fare post-Covid-19 will still eventually be determined by how quickly their economies and societies recover from their respective lockdowns and by the success or otherwise of the policies they have followed so far. A healthy society and a healthy economy are ultimately interdependent.

Above all, the ability to move beyond Covid-19 depends on how soon vaccines will become generally available. It is indeed a race against time to get effective vaccines distributed throughout the world as rapidly as possible and on an equitable basis.



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SA in 2021 – a time for strong nerves

And what have been the implications of Covid-19 for a country like SA? What are the country-specific factors that have influenced the economic outcomes?

In a nutshell, whereas for many other countries the original shock of Covid-19 early in 2020 interrupted a positive growth cycle, the SA economy was already extremely vulnerable when the pandemic hit. SA fell into the small group of emerging economies in particular whose weak economic pre-conditions would be severely tested in exceptional circumstances. "When the tide goes out," prominent financier Warren Buffet once said, "you see who has been swimming naked."

An initial drastic and prolonged lockdown therefore aggravated the very troubling pre conditions, such as recession, unemployment, low business confidence, delivery problems, junk status and corruption, which had been prevalent in SA even before the advent of Covid-19. The economic devastation showed up vividly in high-frequency data and in very negative growth and employment trends as the year progressed. The existing fault lines of unemployment, poverty and inequality in SA were, therefore, simply reinforced by the subsequent developments triggered by Covid-19.

Against this backdrop, the government was not supine on the economic front. Nor was the SARB slow initially in cutting interest rates and avoiding a liquidity crunch. On the public finances side, available fiscal space was already extremely constrained amidst escalating public debt and serious warnings of a looming sovereign debt crisis. Welcome temporary economic support measures (spread over an April economic 'package', a June supplementary budget and the October MTBPS) could in any event only partially offset the overall contractionary impact of Covid-19 on the economy.

Economic damage has still been widespread, some of it irreversible. Small businesses have been particularly vulnerable, while business liquidations are now 24% higher than a year ago and about two million jobs were lost earlier this year. In effect, just as SA was running out of time (and money), Covid-19 burst onto the scene and, unsurprisingly, economic uncertainty rose, confidence plummeted and the country's economic performance deteriorated further as the year unfolded.

However, as the lockdown in SA was progressively eased, high-frequency data in the second half of the year confirmed that, as the economy slowly reopened, a recovery was under way. Business activity steadily clawed its way back to a level of 'normality'. Both business and consumer confidence gradually recovered. Yet it is likely that GDP growth for 2020 as a whole will still be about -7% to -8% as the negative factors play out and the consolidation of the better economic trends has not yet occurred.



Factors that will aid small business recovery over the next year

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What lies ahead?

The economic news is not all bad. On the strengths of some positive assumptions about the economic outlook, SA could still expect to see the GDP growth rate rebound to about 3% in 2021. With subdued inflation, interest rates are likely to remain lower for longer.

Among the other bright spots on South Africa's economic horizon next year are the strong performance of the agricultural sector and certain commodity exports, both of which will help to push growth into positive territory in 2021. The SARB's latest *Quarterly Bulletin* also predicts a recovery in personal disposable income and consumer spending in Q2 2021, which could underpin an economic revival next year.

However, the SA economy is by no means out of the woods yet. An economic rebound is still only a 'rebound' and the general outlook remains distinctly uncertain. Most of the existing economic support measures expire at the end of 2020. The reversion (without warning) to an adjusted Level 3 set of restrictions in response to the second wave of infections will lead to new sectoral losses, at a time when previous relief measures no longer apply. It now all hinges on the confidence with which the current forecasts are being made and on how the likelihood of the best forecasts turning out to be quite wrong will be judged. Thus, 2021 will be a year for strong nerves.

In any case, the economy will not return to its pre-pandemic output levels for some time and a full economic recovery may not materialise until 2022/2023, even with the most confident growth projections. The pace at which this will occur will depend not only on SA's basic economic resilience, but also on what policy steps are taken in 2021 to translate the anticipated economic rebound into sustained growth in the years ahead. This year, SA faced a double challenge: to contain and manage Covid-19 outbreaks while simultaneously implementing policies and projects to promote inclusive growth.

Accordingly, it was widely agreed earlier this year that it was essential for SA to start looking beyond the pandemic. Growth rates had been too low for too long and the country had already fallen far short of its National Development Plan targets. Policy reform and essential infrastructural projects needed to be kick-started, even before the pandemic was over – hence the formulation of various growth and fiscal plans during 2020 to enable the country to move forward.

These familiar issues are still urgent and require renewed focus, even more so with the return to adjusted Level 3 Covid-19 restrictions. So far, SA has been long on negotiation but short on implementation. 2021 will therefore inherit many of the socioeconomic challenges of 2020 in the form of a substantial 'unfinished business' agenda. In other words, the interrelated factors of recession, recovery and reform in SA will need to be much more coherently addressed in order to lay a more solid foundation for the improved economic performance that is envisaged.

8-point 'action this year' agenda for 2021

To strengthen the links between the anticipated short-term economic recovery and the longer term sustainable growth, and to generally expedite matters, an urgent eight-point 'action this year' agenda is proposed.

So, what are the priorities?

1. Coordinating the twin policy pillars of sustainable economic growth in SA

The twin policy pillars on which hopes of sustainable future growth now rest are the urgent implementation of the Economic Reconstruction and Recovery Plan (the growth plan) and the Medium-Term Budget Statement (the fiscal plan). These two plans must 'speak to each other' in 2021 and embody a coherent overall strategy providing balanced outcomes for the economy. Efficiency, stability and consistency must be more visible in SA's macroeconomic framework if the country is to successfully break out of its low-growth trap without falling into a debt trap.

2. SONA and the main Budget in February must build credibility

Two upcoming events in February that have the potential to reduce policy uncertainty and generally boost confidence in the country's future economic direction are the State of the Nation Address (SONA) and the main Budget. These platforms must be actively and creatively used to build confidence in the government's ability and willingness to implement the growth and fiscal plans to which the country is now committed. There is a serious 'credibility gap' to be overcome in 2021 and these key policy statements (given their early time slot in 2021) should be used to help fill this gap, particularly in the interests of warding off further credit rating downgrades. Consistency in following through on fiscal commitments creates confidence among lenders, which includes restoring integrity to municipal government fiscal frameworks.

3. An 'implementation-led' economic recovery needed

President Cyril Ramaphosa's recent reference to 'implementation, implementation, implementation' as the dominant mantra for SA must start to take shape soon. SA is in urgent need of a strong, 'implementation-led' economic recovery. This will require extraordinary discipline and persistence in 2021. Setting realistic targets, enforcing strict timelines and strengthening accountability are the tools of delivery that need to be fully mobilised to achieve better outcomes, especially at local government level. Moreover, the concept of productivity gains must be extended and deepened in official decision-making. A capable state is essential if the often-quoted goals of inclusive growth, economic transformation and competitiveness are to be realised in the years ahead.

4. Tough decisions required in 2021

Tough decisions, such as what to do about the inflated public-sector wage bill, need to be taken soon. Troubled and costly state-owned enterprises must be decisively restructured and the country's energy supply secured. The longer remedial action or reform is delayed, the more difficult the problems will be to resolve. And the longer SA remains on its present path, the longer it will take to recover. While some of the key structural solutions needed may seem unpalatable at present, they will surely become much more so as time passes. Drift and procrastination are the enemies of delivery. The ever-present implementation risks must therefore be reduced in 2021.

5. Collaboration with the private sector

Collaboration with the private sector must be enhanced in ways that strengthen investor confidence, boost economic performance, and maximise job creation efforts and results. Less than 2% of investment in public infrastructure has been the result of public-private sector partnerships. Higher fixed capital formation by both the private and public sectors is essential to drive job-rich growth. Recent IMF data shows that total investment as a percentage of GDP in SA has declined since 2016 and in 2020 could be as low as 13%. It needs to reach 25-30% of GDP between now and 2030 if the economy is to see much stronger growth rates.

6. Tackling corruption more effectively

Widespread corruption continues to divert resources away from other key socioeconomic goals and priorities. In 2021, there must be tangible evidence of progress in combatting corruption at all levels in SA through enforcement of the 'rule of law', without fear or favour.

7. Foreign trade priorities in 2021

On the external front, SA must remain alert to possible unintended trade or supply-chain consequences arising from the belated, 2000-page UK-EU ('Canada-style') Brexit free trade deal, which has finally been agreed to. In 2021, SA should also throw its weight behind moves to reignite the stalled negotiations on the African Continental Free Trade Area (AfCFTA).

8. Access to vaccines

SA's access to one or more of the Covid-19 vaccines must be rapidly expedited and a blueprint prepared for their distribution once they become available in this country. The uncertainty around the arrival of vaccines in SA must be

addressed. Timelines for the delivery of vaccines would, for example, build confidence. It may also be necessary to increase the present allocation of funds for the purchase of vaccines in SA.

Final thoughts

SA has inevitably ended the year on a very sour economic note. But 2020 has also demonstrated the remarkable capacity of the SA economy so far to take heavy punishment, which is a tribute to many of its core institutions. It is still within SA's power to rebuild the economy and start clearing the obstacles in the way of desperately needed, job-rich growth. Yet the margin for error has shrunk considerably. Time is not on SA's side as Covid-19 continues to exact a heavy toll on lives and livelihoods, while the latest tightening of restrictions will complicate economic recovery efforts.

The country's growth potential has been seriously impaired and needs to be restored through the strengthening of economic fundamentals. Firmer political leadership and a much clearer economic narrative are needed to make more things possible next year. 2021 must demonstrate that SA's 'unfinished business' agenda can be decisively implemented and that a bigger, stronger and better economy is feasible. Next year needs to be the game-changer, when crisis is turned into hope, and words and promises are turned into action.

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