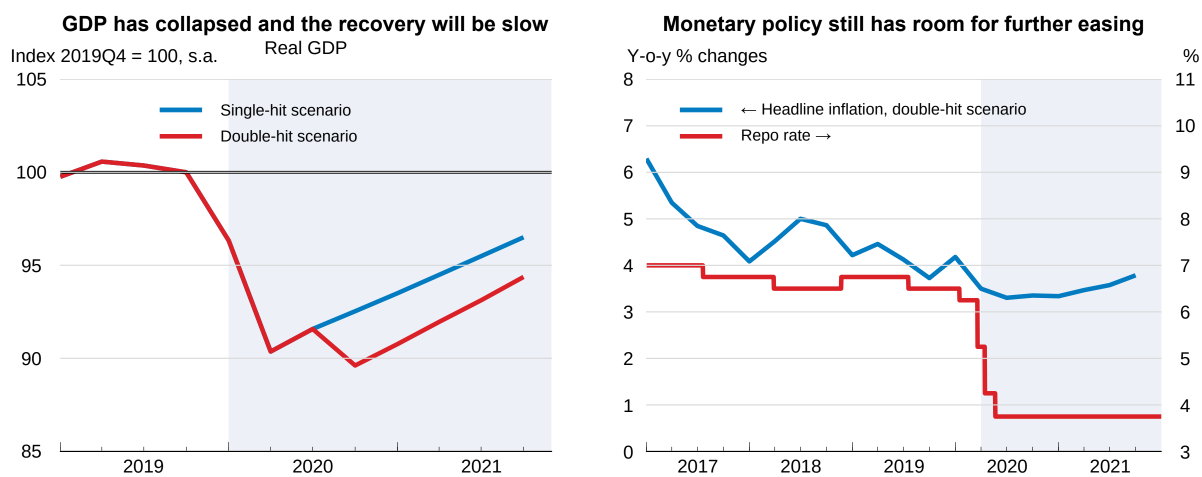
South Africa

The COVID-19 outbreak adds to South Africa's already severe economic challenges, with depressed growth, large fiscal deficits, increasing debt and high social vulnerabilities. Strict containment measures have cut production in key sectors and led to a slump in demand. In the double-hit scenario, a new virus outbreak affecting South Africa and its trading partner countries will curtail exports, deepening the reduction in GDP to 8.2% in 2020 and limiting the recovery in 2021, with GDP growth at 0.6%. Persistent electricity shortages, rising government debt and policy uncertainty will continue to hold back investment and production. In the single-hit scenario, economic activity will fall by 7½ per cent in 2020 before picking up progressively with GDP growth of 2½ per cent in 2021.

The government has put in place an extensive support programme for low-income earners and social grant beneficiaries as well as firms, in particular SMEs, affected by the crisis. Efforts to broaden support to informal workers should continue. Pressing structural issues, including restructuring state-owned enterprises, should be addressed in order to lift economic potential and enhance the fiscal room to continue to support the economy. Targeted sectoral measures of the government rescue plan should be prolonged. For instance, the Tourism Relief Fund should be increased and extended up to mid-2021, particularly if there is a renewed virus outbreak later in the year. Furthermore, with muted inflation throughout the projection period, room remains for further monetary policy easing.

South Africa



Source: OECD Economic Outlook 107 database; and SARB.

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South Africa: Demand, output and prices (double-hit scenario)

South Africa: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices ZAR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	4 348.8	1.4	0.8	0.2	-8.2	0.6
Private consumption	2 584.4	2.1	1.8	1.0	-6.5	0.8
Government consumption	906.3	0.2	1.9	1.5	2.5	2.3
Gross fixed capital formation	846.6	1.0	-1.4	-0.9	-15.1	-1.0
Final domestic demand	4 337.3	1.5	1.2	0.8	-6.1	0.8
Stockbuilding[1]	- 11.3	0.4	-0.2	0.0	-1.1	0.0
Total domestic demand	4 325.9	1.9	1.0	0.7	-7.5	0.8
Exports of goods and services	1 333.0	-0.7	2.6	-2.5	-12.5	1.5
Imports of goods and services	1 310.2	1.0	3.3	-0.5	-10.0	2.0
Net exports[1]	22.8	-0.5	-0.2	-0.6	-0.5	-0.2
Memorandum items						
GDP deflator	_	5.6	3.3	4.2	2.7	3.3
Consumer price index	_	5.3	4.6	4.1	3.4	3.3
Core inflation index[2]	_	4.6	4.2	4.1	3.5	3.5
General government financial balance (% of GDP)	_	-3.8	-3.4	-6.5	-10.0	-8.2
Current account balance (% of GDP)	_	-2.5	-3.6	-3.0	-3.1	-3.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

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Early measures helped to slow the spread of the pandemic

The first confirmed case of COVID-19 was registered on 5 March. Since then, the pandemic has spread, affecting most strongly the capital-province Gauteng and the Western Cape. South Africa has a dual health system with significant inefficiencies and inequality of access to high-quality healthcare. The private sector, accounting for a half of national spending, covers only 17% of the population. Most of the critical care beds and intensive care beds (around 3000) are in the private health-care sector. However, in response to the COVID-19 crisis, closer co-operation and pooling of available resources between the public and private sectors has been initiated. More than a third of the population is suffering from hypertension, around 4.5 million people have diabetes and over 70% of women and 40% of men are overweight or obese, three factors that accentuate morbidity risks with COVID-19.

As of 15 March, while there were only few confirmed cases, the government declared a national state of disaster, imposing a travel ban from highly infected countries, testing and, if needed, isolating individuals returning from infected countries. Within a week, a national lockdown was established, and kept in place for a total of 35 days. Schools and universities were closed, transport shut down and any form of gathering prohibited.

South Africa: Demand, output and prices (single-hit scenario)

South Africa: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices ZAR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	4 348.8	1.4	0.8	0.2	-7.5	2.5
Private consumption	2 584.4	2.1	1.8	1.0	-5.8	2.3
Government consumption	906.3	0.2	1.9	1.5	2.4	1.6
Gross fixed capital formation	846.6	1.0	-1.4	-0.9	-13.9	2.4
Final domestic demand	4 337.3	1.5	1.2	0.8	-5.5	2.1
Stockbuilding[1]	- 11.3	0.4	-0.2	0.0	-1.1	0.0
Total domestic demand	4 325.9	1.9	1.0	0.7	-6.8	2.2
Exports of goods and services	1 333.0	-0.7	2.6	-2.5	-10.8	5.6
Imports of goods and services	1 310.2	1.0	3.3	-0.5	-8.6	4.5
Net exports[1]	22.8	-0.5	-0.2	-0.6	-0.5	0.2
Memorandum items						
GDP deflator	_	5.6	3.3	4.2	2.9	3.8
Consumer price index	_	5.3	4.6	4.1	3.5	3.7
Core inflation index[2]	_	4.6	4.2	4.1	3.5	3.9
General government financial balance (% of GDP)	_	-3.8	-3.4	-6.5	-9.0	-7.6
Current account balance (% of GDP)	_	-2.5	-3.6	-3.0	-3.0	-2.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138720

Economic activity has collapsed

Since early April, the large majority of businesses (85%) have reported turnover below the normal range and 46% have reported temporary closure or paused trading activity, according to a survey by the statistical office. Construction, transport, real estate and manufacturing are among the hardest hit sectors along with tourism. In the mining sector (8% of GDP) some firms have had to operate at reduced capacity. Across sectors, fewer than 20% of firms were able to continue to trade at full capacity, except for forestry and fishing (30%). These indicators corroborate estimates of around a 20% loss of GDP due to the lockdown. Over the last two weeks of April, the Unemployment Insurance Fund paid benefits to more than one million workers under the Temporary Employer/Employee Relief Scheme, which assists employers with continuing to pay salaries.

Swift monetary and fiscal policy responses are mitigating the impact of the crisis

In addition to reducing the repurchasing rate to 3.75% from 6.25%, the Reserve Bank has increased the provision of liquidity to the banking sector. The Prudential Authority dropped minimum capital requirements and compulsory reserve funds for lenders, reduced the liquidity coverage ratio to 80% from 100% and relaxed accounting standards for losses in the financial sector. On the fiscal side, the government put in place a rescue/stimulus plan amounting to 10% of GDP to support households and businesses. In particular, all social grants were augmented by R500 for 6 months and different sectoral or size-related schemes were established to provide loans, guarantees, subsidies, tax deferral and relief, and wage subsidies.

Structural bottlenecks will weigh on the recovery

After four weeks of lockdown, the authorities have started to ease containment measures progressively. This prolonged period of very low activity led to a collapse of production both in the service sector and in manufacturing and mining. In the double-hit scenario, this is then followed by a renewed fall in activity and exports in the fourth quarter of 2020. The government rescue plan will mitigate the fall in household consumption but investment, which has been declining over the past two years, will decline to a record low level. In the single-hit scenario, the depreciation of the Rand that has already taken place, driven by deteriorating fiscal accounts, will not boost exports as commodity demand remains weak, though prices of some commodities (gold, platinum) are high. High production costs will continue to weigh on economic activity. Load shedding (rolling blackouts) by power utilities remains a key domestic risk. On the other hand, a faster recovery in China would have growth spillovers for South Africa, including through higher demand and prices for commodity exports.

Pressing structural reforms are needed to respond to the crisis and foster more inclusive growth

Measures targeting vulnerable households should continue if needed after the initial six months, in particular if there is a further virus outbreak. Supporting informal workers will require better identification and targeting. In the sectors hardest hit (tourism, restaurants, etc.), support to firms should be prolonged until their activity recovers. Financing this rescue plan can be afforded by partnering with international financial institutions and borrowing in the domestic financial market while the Reserve Bank supports liquidity in the debt market. However, the paramount reform needed to unlock the potential of the economy and bring back confidence is to tackle the challenges of key state-owned enterprises, particularly Eskom, the monopolistic national electricity company. Such reforms are urgently needed to create conditions for the return of investment and growth and to restore fiscal sustainability.

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