Covid-19 Country Report Validation Workshop
Macroeconomic Impact and Policy

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This chapter documents the macroeconomic impact and policy response to Covid-19.

- Reports how key macroeconomic and sectoral variables were affected by Covid-19 events and how policy authorities responded to help mitigate against the economic fallout.

- Studying the macroeconomic impact helps us understand the broader currents that have or will directly or indirectly impact on businesses, households and government.

- Other chapters look at specific sectors (such as agriculture and tourism) and cross-cutting aspects of the response (such as IGR, social, institutional and legal frameworks) that indirectly impact on the economy in more detail.

- The documentation of government’s overall policy response, and subsequent human behavioural responses, will contain valuable lessons for dealing with the next pandemic.
Macroeconomic stories are often best told through a series of graphs and tables.

The Covid-19 shock impacted (and will continue to impact) the macroeconomy through various channels (hard lockdown, capital and labour productivity, consumer demand, investor confidence, uncertainty, government finances, etc.).

Basic policy response from SARB (lower interest rates) and National Treasury (TERS and other stimulus spending) was textbook from a purely economic point of view – concerns about the magnitude, speed and efficiency of the response was mainly due to ‘outside’ factors.

Decision making process in dealing with lockdown policy involved inputs from many stakeholders – lives (health) versus livelihoods (economy) debate.

Important to remember the fragile state of the macroeconomy (falling GDP per capita, high unemployment) and impact of weakened institutions prior to the pandemic.
Various organisations who rank the quality of institutions, ease of doing business and overall competitiveness had all long identified several important issues constraining growth and development in South Africa.

Poor economic performance due to various factors – many of which are highlighted in these rankings – left the economy and fiscus in an extremely fragile state prior to the pandemic which negatively affected SA’s ability to respond in greater economic force.

Relevant political economy and governance issues discussed elsewhere in the report.
Covid-19 caused the largest contraction in real GDP in a century, GFCF and exports heavily affected by restrictions.

Real GDP per capita back to 2005 levels, slow and uncertain recovery projected, negative momentum prior to Covid-19.
UNEVEN GDP IMPACT ACROSS SECTORS

Deviation in GDP by sector in 2020 Q4 relative to 2019

Sources: Stats SA and SARB
QES data shows nearly 600k less people employed in non-agricultural formal sector jobs at the end of 2020 compared to the end of 2019; the total loss of jobs due to Covid-19, relative to a BAU baseline growth path in employment, would therefore be even bigger!

Following GDP, the biggest sectoral job losses came in Construction (down 15.2% with 88k jobs lost), Transport and Accommodation (down 9.8% with 49k jobs lost), Manufacturing (down 8.8% with 106k jobs lost) and Business Services (down 7.6% with 178k jobs lost)
The hard lockdown during 2020 Q2 caused a jobs crisis with more than 2 million jobs (most in the informal sector) and subsequent wage income lost during the quarter.

The recovery has been slow but encouraging, however, given the state of the labour market prior to the pandemic a sense of urgency and smart strategies are needed to create sustainable jobs – policymakers probably need to find clarity on what and how they want to achieve certain outcomes in the labour market.
FISCAL POLICY RESPONSE & DEBT CONCERNS

UIF/TERS, other grants, various tax and loan support schemes

Combination of loss in revenue and new Covid-19 spending has increased the debt-to-GDP ratio for government significantly

The economic and debt outlook has improved somewhat though since the 2020 MTBPS, but still very poor compared to pre-Covid

Debt service costs will be high in the medium term; difficult balance between maintaining fiscal consolidation path and providing targeted support as part of the Covid-19 response
Interest rates as set by SARB have fallen to historic lows to help assist with the economic recovery.

The low inflation outlook and stronger exchange rate suggests rates will remain low for the foreseeable future.
Don’t let a crisis go to waste!

Plan involves a massive rollout of much-needed infrastructure

Much of the plan is a classic stimulus programme many countries would have implemented in some form or another to complement direct grant payments

The plan notes “a ruthless focus on implementation” as being central to its success – failed implementation due to various reasons has been the achilles heel for too long in South Africa

Key reforms that were required prior to Covid-19 are still crucial
Conclusions

Most significant economic downturn in a century, GDP per capita fell to 2005 levels, many jobs lost, investment stifled

Lower interest rates, fiscal stimulus, reconstruction and recovery plan launched (textbook economic response, but...)

Slow, uncertain recovery will cause increasing budgetary and socio-economic pressure

Unique health and political economy event, lessons more related to IGR, oversight, legal, implementation issues, smarter lockdowns, etc.