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Table of Contents

Introduction......1-2
Global outlook and the impact of Covid-19......2-3
A year of Covid-19 in South Africa......3-5
Overview of South Africa's economic performance......5-7
Gross Domestic Product......7-8
Expenditure on GDP......8-9
Investment......9
Employment......11
Current Account......11
Inflation and monetary policy......12
Sovereign risk and debt......12-13

Boxes

1. **A snapshot of key household development indicators from the latest General Household Survey**......10
2. **Rethinking Fiscal policy and Fiscal rules**......13

The Parliamentary Budget Office (PBO) was established in terms of the Money Bills Amendment Procedure and Related Matters Act (Act no. 9 of 2009). The PBO provides independent, objective and professional advice and analysis to Parliament on matters related to the budget and other money Bills. The PBO supports the implementation of the Act by undertaking research and analysis for the finance and appropriations committees.
The PBO provides quarterly analysis of economic developments for Members of Parliament following the release of quarterly economic data by Stats SA, the South African Reserve Bank and the National Treasury.

Director: Dr Dumisani Jantjies
Authors: Rashaad Amra, Fatsani Banda, Dr. Seeraj Mohamed, and Siphethelo Simelane
Editor: Fatsani Banda
Approved and edited by: Dr. Seeraj Mohamed
Enquiries: fbanda@parliament.gov.za
https://www.parliament.gov.za/parliamentary-budget-office

Introduction

This Parliamentary Budget Office's (PBO) Quarterly Economic Bulletin (QEB) provides an update on the performance of the South African economy for the fourth quarter of 2020. The QEBs usually provide economic updates, particularly with regard to macroeconomic performance, based on the most recent quarterly and monthly data releases from organisations such as Statistics South Africa (StatsSA) and the South African Reserve Bank (SARB). This QEB provides not only updates from the third to fourth quarters of 2020 but also provide updates that use full year 2020 data to examine and compare some key economic trends in the years before the pandemic with economic performance in 2020. The QEB also looks back on one year of the pandemic in South Africa.

South Africa has had more than 12 months' worth of experience with the Covid-19 pandemic, and yet the prospects for an improvement in the current economic situation remains heavily reliant on how governments deal with the adverse effects of the pandemic on the health of their citizens and economic activity as a whole. Much hope has been placed on the roll-out of vaccination programmes globally. It is expected that adequate vaccinations to stop the spread of the virus would set countries on the path towards increased economic activity and recovery.

As we compile this QEB while in national lock down Adjusted Risk Strategy Level 1, we know that no-one can reliably predict the future severity of the pandemic and the human and socio-economic impact it will have in the long-run. There is uncertainty about when the successful rollout of vaccination programmes will be achieved across most of the world. There is also uncertainty about how much the virus will change and the effectiveness of current vaccines on possible future variants. In the short-term and possibly medium-term, medical experts expect more waves of increased infections and further need for lockdowns and disruption to economic activity. Therefore, the potential impact over the next few years of the pandemic on economic growth, the organisation of work, communities and even political stability appears to not only be unsettling but persistent.

Covid-19 continues to present itself as a health crisis, exacerbating a host of pre-existing inequalities and creating an economic crisis in South Africa. As a result of the level of inequality in South Africa, the public health and economic responses to the pandemic are likely to have differentiated outcomes for different groups in society,

Greater government effort and resources should be invested in mitigating the impact of the virus on South African society. These resources include but by necessity should be much more than just the allocation of state resources to a vaccination programme. Investments to lower the strain of the pandemic on the poorest communities will more than likely result in higher socio-economic returns and a better recovery for society as a whole.

Global outlook and the impact of the Covid-19 pandemic

International agencies report that the global economic recovery in the second half of 2020 was stronger than some had expected. They also point to the possibility of better than expected global economic growth for 2021. However, it should be kept firmly in mind that they caution that growth in 2021 at a global level will hardly offset the losses due to the Covid-19 pandemic. It is equally important to keep in mind that there are widespread concerns that the damage caused by the pandemic will have a long-term detrimental impact on societies. Therefore, the role of governments and states in shaping, implementing and leading recoveries is going to be vital for the future.

The expectations of stronger recovery arise because of the high levels of additional fiscal stimulus in 2021, particularly in the United States. The UN agencies and the IMF agree that the best policies for recovery are those that address the structural social, economic and environmental concerns that existed before the pandemic. Their emphases are first that measures to stop the pandemic should be prioritised and second to support recoveries that build resilience within societies. There are concerns about growing public debt but agreement that these concerns should not get in the way of spending on vaccinations and stopping the spread of the pandemic and interventions to support recovery and build resilience. Measures to reduce debt levels should not be rushed because they would impede recoveries.

The scale of the damage caused by the pandemic has increased inequality and will have generational consequences across the globe. The United Nations Department of Economic and Social Affairs (UNDESA) and the International Labour Organisation say that the pandemic unleashed a severe employment crisis worldwide. UNDESA's February 2021 Monthly Briefing on the World Economic and Social Prospects says that by April 2020, full or partial lockdown measures had affected almost 2.7 billion workers (81 per cent of the global workforce). They say that there have been improvements in unemployment but that rates of unemployment in most countries remain above pre-crisis levels. UNDESA reports that "… job and income losses have pushed an estimated 131 million additional people into poverty in 2020, many of them women, children and people from marginalised communities." Health and social impacts of this global increase in poverty will affect individuals, families, communities and economies for many years to come.

The World Bank's Global Monthly (which provides updates on their Global Economic Prospects (GEP) flagship publication) for February 2021 said that the January 2021 GEP shows that global investment had been declining in the years before the pandemic and dropped even more during 2020. It further shows that the drop in investment was more severe in emerging markets and developing economies during 2020. The monthly publication also expects any rebound in investment in 2021 to be subdued and cautions that "… history suggests that the adverse effects of the pandemic on investment will linger…" and that "…weak investment is likely to dampen potential growth during the medium to long term."

According to Geoffrey Okamoto, [First Deputy Managing Director of the International Monetary Fund (IMF,)] the IMF in January 2021 predicted 5.5 per cent global economic growth for 2021 but now saw prospects for stronger economic growth. The reason they expect stronger economic growth is because of additional fiscal stimulus across the globe, particularly the large stimulus in the United States. He said that the likelihood that vaccination rollouts will increase has also positively affected the IMF's expectation of stronger global growth in 2021.

He cautioned that the expectation of stronger economic growth does not mean that the global economy is back to where it was before the pandemic and said that governments should still act to improve domestic and economic conditions. He explained that stronger than expected global recovery during the second half of 2020 was incomplete and unequal. It was incomplete due to different paths to recovery across countries and incomplete because GDP of most countries remain lower than before the pandemic. Similar to UNDESA, the IMF also warned of growing inequality, large

losses in income and millions of people falling into extreme poverty globally.

Okamoto said that the IMF saw the first line of action against the continued hardship caused by the pandemic to be, to quickly end the pandemic. The IMF called on developed and better-off countries to support vaccine production and provide finance to developing countries. The second step suggested by the IMF would be for countries to continue economic support to their populations and to calibrate this support to their progress towards dealing with the pandemic and economic recovery. Okamoto expressed the IMF's view that "Where the pandemic continues, the priority is to protect lives and livelihoods. As it wanes, support should become more targeted, focusing on mitigating scarring, supporting the reallocation of resources, and ensuring that the post-pandemic economy is an inclusive and sustainable one." He added that their view is that "The best policies will be those that support the recovery, help strengthen resilience, and tackle long-standing challenges." According to Okamoto, fostering the transition to green energy and digitalisation are two examples of such "best policies".

The PBO's 2020 pre-Budget presentation stated: *"As we start 2020 it is clear that there are many risks to economic activity and growth in an increasingly integrated global economy."* We listed the following risks:

- Global debt accumulation and growing risks of financial instability and crises;
- Increasing climate change events, e.g. flooding and fires;
- Global Epidemics, such as the Covid-19 coronavirus;
- Poor performance of key economies – China, India, Europe etc.;
- High & rising levels of unemployment, inequality & instability; and
- War and conflict events increasing.

A few weeks after the PBO's presentation on the 2020 Budget, the Covid-19 outbreak was declared a pandemic. Since then the world has been pre-occupied with the pandemic but the other risks remain very real. Risks related to high and rising unemployment, inequality and instability have been exacerbated by the pandemic. The risks associated with growing global debt accumulation and increasing vulnerability to financial instability and crises have become particularly severe. Climate change events across the globe, such as flooding, fires and droughts continue to increase. We expect based on scientific evidence that these increasing climate change events will worsen poverty, inequality and instability. Levels of war and conflict around the globe that were increasing may very likely worsen due to rising socio-economic and political tensions as a result of the pandemic and the ravages associated with climate change.

There are global initiatives to address growing poverty and inequality, as well as to reduce global warming, but much more remains to be done to improve the coordination and implementation of these initiatives. There is also a great need for a campaign for debt write-offs and other forms of relief to developing and less developed countries. Widespread contagion and crises will exacerbate current social ills and increase political instability. Without a global solution to increased debt levels, there will be continued insecurity and instability within countries.

Fundamentally, the role of governments and states in individual countries remain important to build greater resilience in their economies to reduce tensions and reduce unemployment, poverty and inequality. The private sector, both business corporations and households, cannot be expected to take the lead in driving economic recoveries and resilience. States will be needed to play key roles in national efforts to mitigate the risks associated with climate change and the possibility of future outbreaks of disease and pandemics. This role of the state will have to be part of its developmental role in society and the economy that catalyses private sector action. The resources used in these efforts should be seen as investments that promote developmental goals as well as resilience even if they increase budget deficits and government debt to GDP levels in the short-run.

A year of Covid-19 in South Africa

The 5th of March 2021 marked one year since the first case of a Covid-19 infection was reported in South Africa. The Covid-19 pandemic has been one of the biggest disruptions in modern times. Indeed, no country has been spared the brunt of its health and socioeconomic harm. Most health systems have had their limits tested as they faced a scale of illness very few were designed to match. Even the wealthiest countries have severely suffered the economic consequences of the rapid spread and multiple waves of the virus.

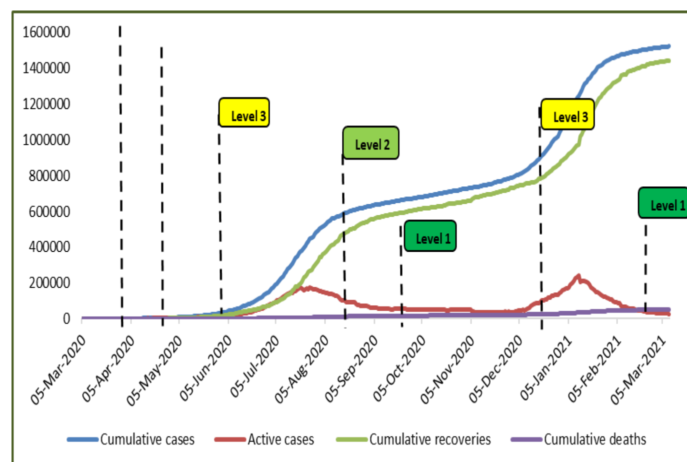
One of the key forms of prevention of the spread of the virus is to isolate and "stay at home", which has meant that during periods when infection rates surged governments have required non-essential workers to stay home. Places where people gather, such as places of education and worship, sports venues, bars and restaurants, amongst other places where the risk of infection spreading faster is higher, have been ordered to close or faced relatively severe restrictions, including limits on the number of people that could gather. The social, cultural and economic impact of these necessary measures have been really hard and in some cases have led to tensions within communities and even political resistance. It is important to note that the pandemic and its significant impact on health and welfare have led to large-scale behavioural changes. Even in countries such as Sweden, that did not impose limitations on gatherings and stay at home rules, the negative economic impact was equally severe and death toll higher.

Millions of people globally have lost their jobs and incomes. The impact on businesses, particularly service industries such as wholesale and retail services and food and accommodation services, including restaurants and tourism, have been severe. According to the International Labour Organisation (ILO), these are sectors where women are overrepresented and women have generally felt the consequences of the pandemic the most. The impact has also been particularly tough on small, micro and medium enterprises (SMMEs). The ILO reported in 2020 that small and micro enterprises across the globe, which employ over 95 per cent of the world's estimated 1.6 billion informal workers, have been most severely affected by the pandemic. Overall, lower paid workers were more negatively affected by the pandemic.

The ILO estimated that during the second quarter of 2020, the global average for the percentage of working hours lost was 17.3 per cent and for Africa it was 15.6 per cent. They say that by April 2020, 59 countries had implemented teleworking for non-essential public workers and many private firms followed suit. They point out that for a large proportion of workers in services and manufacturing, teleworking was not possible, particularly those in the informal sector. Low wage workers and workers in smaller firms were less likely to be able to work from home. Younger people, people with non-standard employment contracts, and those without tertiary education were also less likely to be able to work from home.

The first Covid-19 case in South Africa was reported in early March 2020 in Kwazulu-Natal. The first Covid-19 related death, was on 27 March 2020 one day after the start of the national lockdown. At the time, little was known about how the pandemic would impact the country. The experience of China and the emerging crisis in Europe informed approaches on how to manage this national disaster in South Africa. Cases peaked in late July 2020, during the first wave in South Africa. Rates of infection and related deaths steadily slowed but then started increasing again in October 2020 in the Eastern Cape and Western Cape Provinces. In early November, infection rates surged in the KwaZulu-Natal Province and it became clear that a second wave had hit the country. By the end of November 2020 there was a rapid rise in Covid-19 infections across all provinces.

Figure 1: One-year trend in the spread of the Coronavirus in South Africa



Source: Department of Health, South Africa

The second wave of the Covid-19 pandemic had arrived with greater intensity than the first, and may have been driven by a new strain of the Coronavirus that appears to be even more infectious. In the metros of Nelson Mandela Bay, City of Cape Town and eThekwini, weekly Covid-19 cases, admissions and in-hospital deaths in the second wave had exceeded the numbers in the first wave. There had also been a rise in the weekly probability of risk of admission due to Covid-19 in its second wave. As a result, President Ramaphosa announced that the country should go back to a stricter level of lockdown (level 3) just before the 2020 festive season. At that stage, the president labelled super-spreader events such as end-of-year functions, family and social gatherings, as well as music and cultural events, as the main cause of the rapid rise in infections.

Since the end of February 2021, new COVID-19 cases have fallen, admissions to hospital and deaths have

declined significantly. The Cabinet, therefore, decided to move the country from Coronavirus Alert Level 3 to Alert Level 1, effective from 1 March 2021.

Overall, businesses are still struggling and thousands of people that were retrenched remain unemployed. Many South Africans still do not have their jobs back and many households will be feeling the effect of having lost much of their income beyond the medium term. Therefore, questions have been raised about whether government's relief and support to workers and businesses in 2020 has been adequate and whether there should be more relief in 2021 given the risk of future waves of the pandemic and uncertainty about the timing of the vaccination rollout. There also remains concern about whether medium term provisions for public infrastructure investment and support of other infrastructure investment programmes are enough to support recovery.

The vaccination programme is a key intervention to mitigate the public health and economic impact of the COVID-19 pandemic. South Africa has begun rolling out its national COVID-19 vaccine programme which aims to vaccinate 40 million South Africans. The programme entails elements of procurement, distribution, vaccination, monitoring, communication and mobilisation. The 2021 National Budget has allocated R10 billion for the purchase and delivery of vaccines to fight the spread of COVID-19. The bulk of the money – R6.5 billion – will be allocated to the Department of Health to buy and distribute vaccines while R2.4 billion will be allocated to provinces to help them distribute and administer the vaccines. The Medical Research Council received R100 million for vaccine research and the Government Communication and Information System (GCIS) will preside over a R50 million allocation to run mass communication campaigns around the vaccine rollout. The National Treasury has also allocated R9 billion to the country's contingency reserve that could be drawn on for emergency allocations to support the vaccination programme.

As of 25 March 2021, the cumulative number of COVID-19 cases for South Africa was 1 541 563.

Table *1: Latest numbers in the cases of Covid-19 infections by 25 March 2021*

Province	Total cases for 25 March 2021	Percentage total
Eastern Cape	195 114	12,7
Free State	82 581	5,4
Gauteng	412 539	26,8
KwaZulu-Natal	333 357	21,6
Limpopo	62 999	4,1
Mpumalanga	74 172	4,8
North West	63 196	4,1
Northern Cape	35 783	2,3
Western Cape	281 822	18,3
Total	**1 541 563**	**100,0**

Source: Department of Health, South Africa

Overview of South Africa's economic performance

The context for understanding the quarterly changes to GDP and its expenditure components during 2020 relates to both the large negative impact of the pandemic, including measures to curb the health impact of the pandemic on the country, and several years of poor economic performance before the pandemic. Average real GDP growth for the five-year period 2015 to 2019 was 0.8 per cent and the average GDP per capita for the period was negative (-0.6 per cent). The real GDP level in 2019 was almost R3.2 trillion. In 2020 this real GDP dropped to R2.9 trillion. If one assumes that the South African economy will grow as forecasted in the 2021 Budget Review, then it will take almost 4 years for South Africa to get back to the real level of GDP in 2019 before the pandemic.

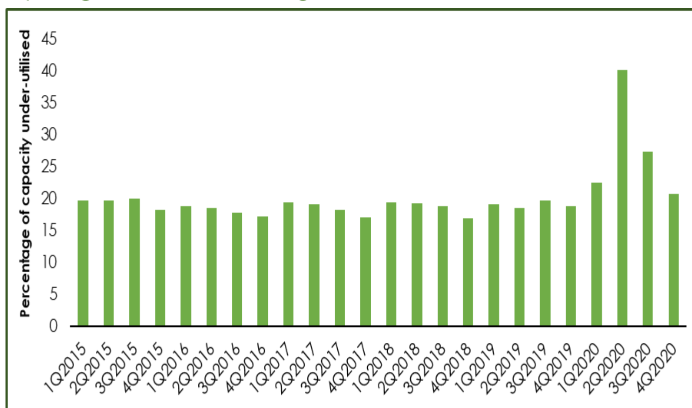
Household consumption remains the main driver of economic growth in the South African economy. Household consumption was 60.4 per cent of GDP in 2015 and its contribution to GDP grew to 62.2 per cent in 2019. During that period, government consumption had very little growth in its contribution, which was 20 per cent in 2015 and 20.7 per cent in 2019. The contribution of expenditure on investment by the private and public sectors to GDP declined from 20.7 per cent in 2015 to 19.2 per cent in 2019. The impact of household demand on South Africa's GDP growth rate is, therefore, very important.

During the pandemic the real decline in household consumption from 2019 to 2020 was 5.4 per cent. The overwhelming importance of household demand for South Africa's economic growth was magnified during the pandemic where, even though there was a real decline in the amount that South African households spent on consumption, the contribution of household consumption to GDP increased from 62.2 per cent in 2019 to 63.3 per cent of GDP in 2020.

Government did spend somewhat more in real terms due to the pandemic, but the real growth in total government consumption was only 0.5 per cent from 2019 to 2020. This growth meant that government consumption's contribution to GDP rose from 20.7 per cent in 2019 to 22.4 per cent in 2020. A negative rate of investment exacerbated the decline in in GDP. Real investment declined by R105 billion (in 2010 rands) or 17.5 per cent from 2019 to 2020 and its contribution to GDP dropped from 19.2 per cent to 17.0 per cent from 2019 to 2020.

The poor performance of the global economy also affected South Africa's economic and investment growth rates. Real earnings from exports were basically flat from 2015 to 2019. However, the main cause of the decline in investment levels over the past few years and the large drop during the pandemic was overwhelmingly attributable to insufficient household demand, which was associated with the extraordinarily high levels of unemployment and related poverty levels in South Africa. The relatively low levels of real growth in government consumption, which was associated with fiscal consolidation, contributed to poor investment and growth performance of the economy. Real government consumption growth did not help to improve aggregate demand levels in the economy over the past few years and during the first year of the pandemic. Government consumption growth was on average only 1.0 per cent per annum from 2015 to 2019 when average real GDP per capita declined on average by 0.6 per cent and real investment spending declined on average by 0.5 per cent.

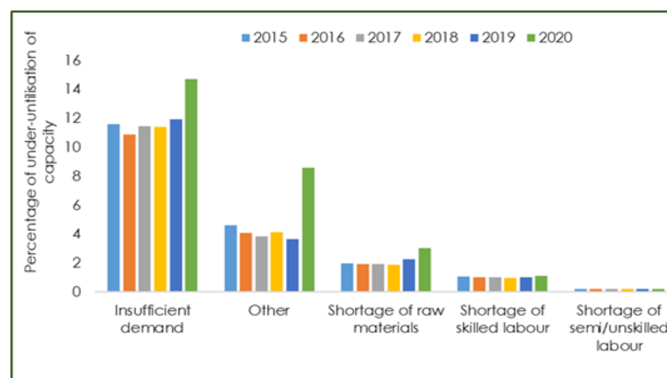
Figure 2: Reporting of under-untilisation of capacity by large manufacturing firms



Source: StatsSA

Two variables that give an indication of the strain on South Africa's businesses during the past few years, and how it intensified during the pandemic, are capacity utilisation and inventory. Underutilisation of production capacity reported by large manufacturing firms to Statistics South Africa peaked at close to 20 per cent during 2015 to 2019. During the second quarter of 2020, underutilisation rapidly doubled to 40 per cent. The main reason reported for underutilisation of capacity by large manufacturing firms is insufficient demand, which became much more severe as a result of the pandemic during 2020.

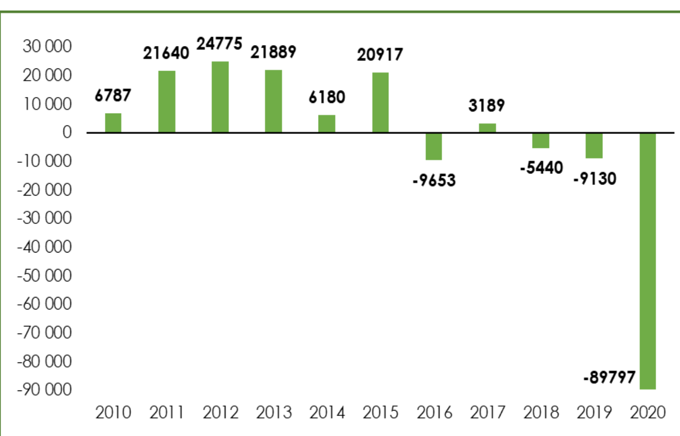
Figure 3: Reasons given by large manufacturing firms for underutilisation of capacity (percentages)



Source: StatsSA

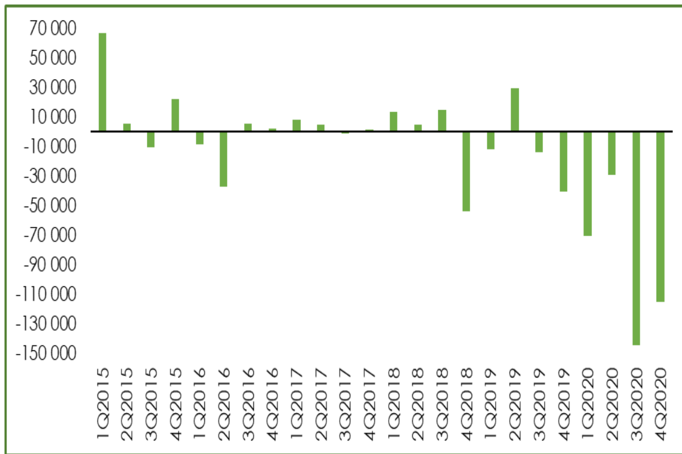
Changes to inventory across the country turned negative from 2016 to 2020 (except for 2017 when it was positive). The poor economic performance and insufficient demand was a problem even before the pandemic, but the impact of the pandemic worsened the situation. The real drop in inventory during 2020 was a massive R90 billion (compared to the drop of R9 billion in 2019, which was relatively large taking into consideration that until 2016 the change was positive). The large decline in inventory during 2020 reflects both the collapse in household demand and the associated cash flow problems that would have affected firms during periods of lockdown (see Figures 4 and 5).

Figure 4: Annual change in inventories (R'millions, constant 2010 prices)



Source: StatsSA

Figure 5: Quarterly change in inventories (R'million, 2010=100)

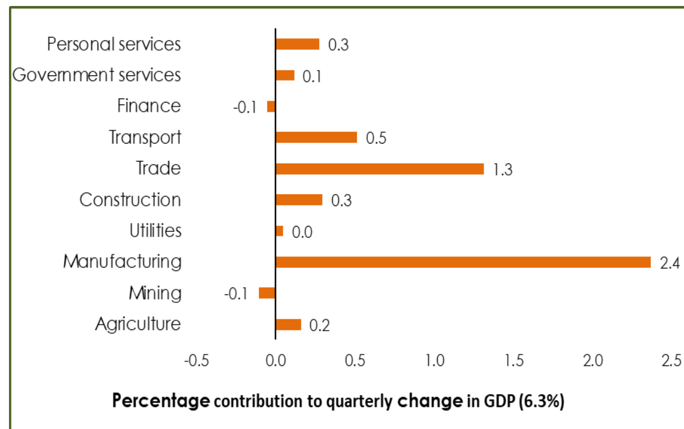


Source: StatsSA

Gross domestic product[1]

South Africa's gross domestic product (GDP) increased at an annualised rate of 6.3 per cent in the fourth quarter of 2020. Eight of the ten industry sector categories made positive value added contributions to GDP in the fourth quarter. The better performers were manufacturing (bolstered by increased production in food, beverages and motor vehicles) and trade (driven by retail, motor trade, catering and accommodation). Mining and finance, real estate and business services were the two industries that recorded a decline in economic activity.

Figure 6: Sector contribution to fourth quarter GDP in 2020

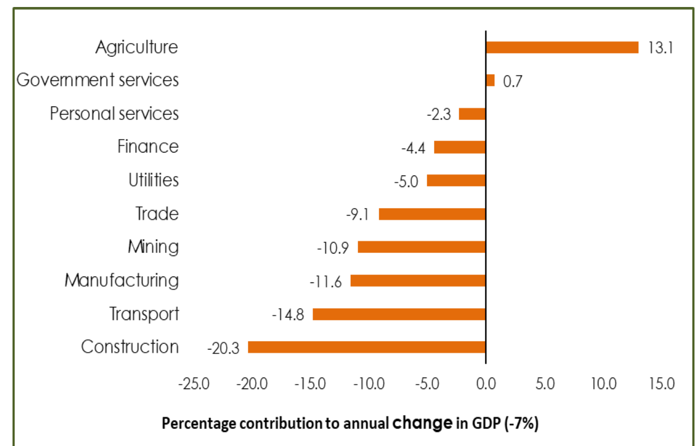


Source: StatsSA

According to the latest preliminary indicators, real GDP decreased by 7.1 per cent in 2020 after an increase of 0.2 per cent in 2019. The economy is now at about the same size as it was in 2012 (constant 2010 prices). The positive growth recorded in the third and fourth quarters of 2020 was not enough to offset the devastating impact of COVID-19 in the second quarter when lockdown restrictions were at their most stringent. Indeed, the South African economy was hard hit by the onset of the Coronavirus pandemic. Having shrunk by 1.5 per cent in 2009 due to the 2008/09 global financial crisis, real GDP growth at the end of 2019, ten years later, stood at just 0.2 per cent- a sign that economic recovery from the financial crisis has been slow and long. The pandemic has been a major setback to the possibility of a greater positive shift in economic growth.

Notwithstanding the pandemic, agriculture, categorised as an essential service, benefited from good weather and expanded its value-added by 13.1 per cent in 2020. The government sector's value-added also grew marginally in 2020, up by 0.7 per cent from 2019. Value added towards GDP from all other industries plummeted. A decline in air travel contributed to the contraction in the transport and communication industry. Rail and road freight operators were constrained by restrictions placed on the production and movement of various goods during the second quarter of 2020. Despite a strong performance in the fourth quarter of 2020, manufacturing value-added was down for the entire year, having declined by 11.6 per cent.

Figure 7: Sector contribution to the annual decline in GDP in 2020



Source: StatsSA

Factories specialising in metals and machinery were severely affected by work stoppages and lower demand for steel. The ban on alcohol sales had a large negative impact on the food and beverage division of manufacturing. The retail ban on alcohol sales and closure of tourist accommodation facilities were notable drags on trade activity. Finance and personal services, the two industries that have shown a great deal of resilience over the last decade, did not escape the economic effects of the pandemic. Nearly all industries experienced a massive drop in

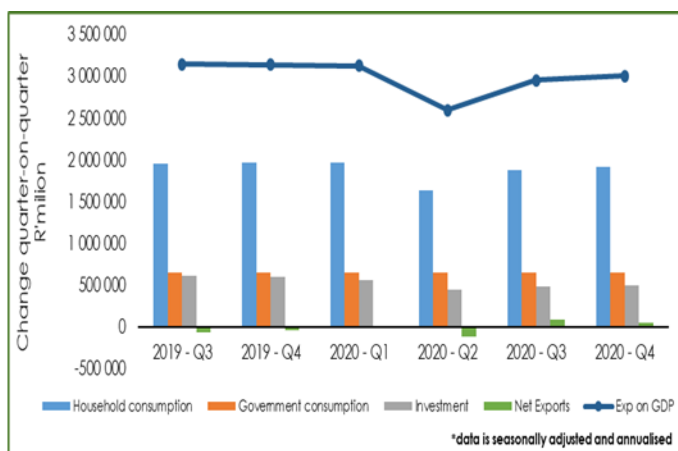
[1] All quarterly expenditure/growth data is seasonally adjusted and annualised unless otherwise stated

output in the second quarter of 2020.Value-added in the finance and personal services, which includes banking, insurance services, real estate and business services, dropped by 28.9 per cent. By the end of 2020 the value add of the finance sector to annual GDP growth was -4.4 per cent. Personal services recorded its first quarter of negative growth since 2009 in the second quarter of 2020, resulting in the sector contributing -2.3 per cent to the annual decline in GDP by the end of 2020. Businesses, such as gyms and hairdressers, closed their doors and hospitals halted scheduled operations deemed not urgent. Cancellations of sporting and recreation events were also a drag on the industry. The construction industry, already in trouble before the pandemic, contracted by 20.3 per cent by the end of the second quarter of 2020 This contraction marked the construction industry's eighth consecutive quarter of economic decline or fourth year of economic slowdown and thereby being the largest drag to GDP growth in 2020 by 20.3 per cent.

Expenditure on GDP: Fourth quarter update

The figure below shows actual values of South Africa's real gross domestic expenditure (GDE). The real GDE increased by R41 billion to R3.0 trillion in the fourth quarter, up from R2.96 trillion in the third quarter of 2020. An increase in household consumption of R34 billion accounted for much of the change in GDE during that period.

Figure 8: Quarterly sector performance of expenditure components of GDP – R'milion constant 2010 prices)



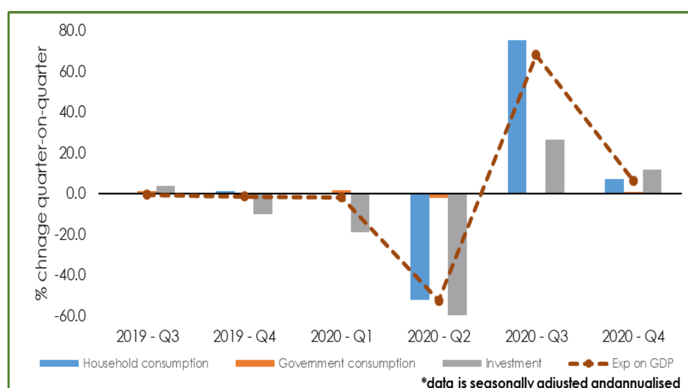
Source: StatsSA

South Africa's real gross domestic expenditure (GDE) percentage growth increased by 6.5 per cent between the third and the fourth quarter of 2020, after a 68.1 per cent increase from the second to third quarter of the same year. Overall, economic growth remained fairly muted. There still exist relatively large uncertainties about future GDE growth due to the possibility of more waves in the pandemic, uncertainty about the timeline for vaccination rollouts and the possibility of new variants of the Covid-19 virus.

The largest contributor to economic growth in the fourth quarter of 2020 was investment which grew by 12.1 per cent. The third quarter improvement in investment of 26.9 per cent came after a massive decline in investment of almost 60 per cent during the second quarter of 2020. Investment had not recovered to pre-pandemic levels by the end of 2020. The recovery in investment has only been partial because the growth in investment during the third and fourth quarters of 2020 were not large enough to offset the massive collapse during the second quarter of 2020.

The increase in investment during the fourth quarter of 2020 was due, largely, to greater investments in transport equipment (97.1 per cent), construction works (9.7 per cent), and machinery and other equipment (3.5 per cent). Household consumption expanded by 7.5 per cent from the third to fourth quarters of 2020 after a large increase in consumption (albeit from a very low base), of 75.3 per cent between the second and third quarter of 2020. The growth in household consumption was in line with positive retail trade sales and increased expenditure in the restaurant sector (217.9 per cent). Expenditure on government consumption increased by 1.1 per cent from the third to fourth quarters of 2020. Increased spending on goods and services and employment contributed to growth in government expenditure.

Figure 9: Quarterly sectoral performance – percentage contribution by expenditure components to GDP



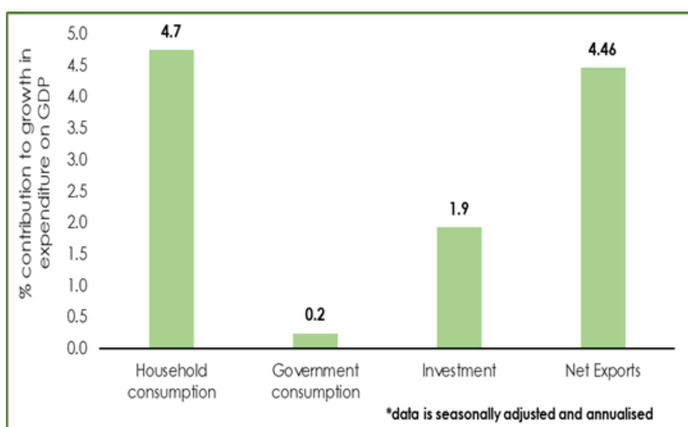
Source: StatsSA

Figure 9 shows the percentage contribution of different expenditure categories to the 6.5 per cent growth in expenditure on GDP in the fourth quarter of 2020. Gross domestic expenditure is calculated by adding household consumption, government consumption, investment and net exports (exports minus imports). The largest contributors to fourth quarter growth in expenditure on GDP were

household consumption (4.7 per cent) and net exports (4.7 per cent).

The largest contributors to the growth in household consumption in the fourth quarter of 2020 were the restaurant sector (1.8 per cent), food and non-alcohol beverages (1.3 per cent) and recreation and culture (1.0 per cent). The reported 4.7 per cent positive contribution of net exports was largely as result of the rise in exports of the subsectors vehicles and other transport equipment and pearls, precious and semi-precious stones. Imports also increased due to larger imports of vehicles and other transport equipment, machinery and equipment, as well as base metals.

Figure 10: Contributions of expenditure components to GDP growth in the fourth quarter of 2020

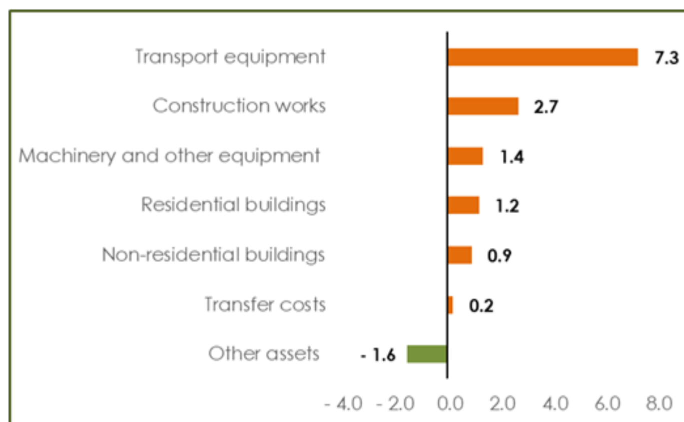


Source: StatsSA

Investment

Gross fixed capital formation increased at a rate of 12.1 per cent in the fourth quarter of 2020. The main contributors to the increase were transport equipment, construction works, machinery and other equipment and residential buildings. In the same quarter, there was a R115.1 billion drawdown of inventories. Large decreases in mining and trade contributed to the inventory drawdowns experienced in the fourth quarter of 2020.

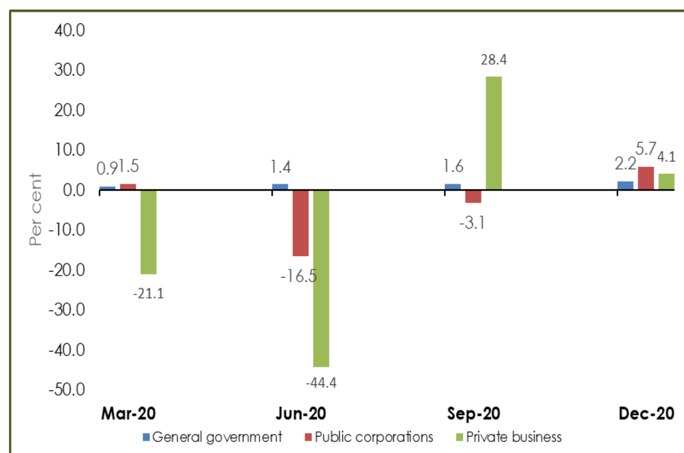
Figure 11: Quarterly contribution of different types of assets to the quarter four decline in investment



Source: StatsSA

Private investment flattened out in the fourth quarter of 2020 while public investment had strong growth. The overall investment rate (investment as a percentage of GDP) improved marginally from 15.1 per cent of GDP in the third quarter to 15.4 per cent in the fourth quarter – still far below pre-pandemic levels.

Figure 12: Contribution of different organisation types to the decline in investment in 2020



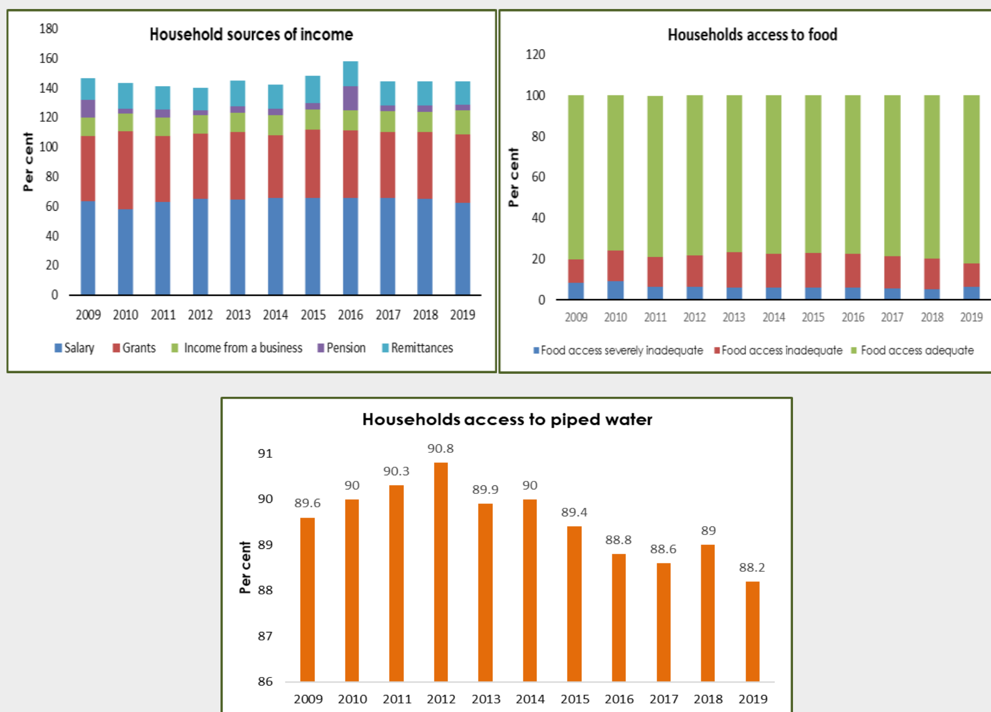
Source: StatsSA

Private investments fell by 22 per cent from the first to the second quarter of 2020. This level is 13 per cent lower than private investment had been prior to the pandemic. In contrast, investment by state-owned companies (SOCs) fell by a total of 39 per cent between the second and third quarters of 2020, but recovered by 12 per cent in the fourth quarter of 2020. Investment growth in the fourth quarter of 2020 however, remained at 32 per cent below the first quarter due to the sharp and prolonged slowdown in economic activity during the early stages of the lockdown. In contrast, investment by the government itself increased during 2020. By the fourth quarter of 2020 it was 8 per cent higher than it was at the beginning of the year.

Box: A snapshot of key household development indicators from the latest General Household Survey (2019)

The General Household Survey (GHS) compiled by Statistics South Africa (StatsSA), is aimed at tracking the progress of the socioeconomic well-being of households. Individuals rely on their families and households for their physical, social and economic well-being. Generally, families and households are considered important social institutions and social reference groups in modern society. Stats SA defines households as all individuals who live together under the same roof or in the same yard, and who share resources such as food or money to keep the household functioning. According to the GHS, the number of households increased from 11,2 million in 2002 to 17,2 million in 2017.

The GHS also serves to identify service delivery gaps as well as the general quality of services in a number of key sectors. Below we provide a snapshot of the latest trends in access to income, food, and piped water.



Source: General Household Survey, 2019

Nationally in 2019, 9.4 million households or 54.8 per cent, reported salaries/wages/commission as their main sources of income. Around 3.5 million households (20.4 per cent) rely on grants as the main source of income, while 11 per cent rely on remittances and 10.8 per cent on other sources of income. Sources of main income varies considerably across provinces. Western Cape and Gauteng were the only two provinces in which approximately two-thirds of households reported salaries as their main sources of income. A larger dependence on social grants is apparent in the Eastern Cape, Limpopo, Northern Cape, and KwaZulu-Natal.

Across the country, the percentage of households with access to tap water in their dwellings, off-site or on-site increased by 3.8 per cent by 2019 (654 000 households had more access to tap water). The percentage of households in Eastern Cape with access to water increased by 17.8 per cent and those in KwaZulu-Natal by 10 per cent. Despite these notable improvements, access to water actually declined in five provinces between 2002 and 2019. The largest declined was observed in Mpumalanga, Limpopo and the Free State province.

By the end of 2019, 82.2 per cent of South African households, considered their access to food to have been adequate. This was a small increase in the national access to food (1.8 per cent or 310 000 households). However, the rate of food inadequacy has remained largely unchanged over the last ten years. That is to say, 1.98 million households or 11.5 per cent of total households still have inadequate access to sufficient food. The percentage of households that consider their food access to be severely inadequate however, has dropped more than the national rate since 2009- from 8.1 per cent to 6.3 per cent (1.1 million households less households suffer from large food shortages).

The brief synopsis on key material indicators of the well-being of households, serves to highlight how much more needs to be done to improve well-being and ensure the health of South Africa's households. While there certainly has been progress made in the development of households between 2009-2019, it has been skewed towards households that are in well-developed, urbanised provinces such as Gauteng and the Western Cape, where larger cities exist. Service delivery still remains a big problem in relatively poorer and more rural provinces. In order to effectively tackle issues such as the country's persistent high unemployment, poverty and inequality, service delivery at provincial and municipal level must be implemented effectively. This service delivery would assist, to a large extent, in the achievement of South Africa's development goals currently stated in the National Development Plan.

Employment

According to the Quarterly Labour Force Survey, which measures formal and informal employment, the estimated official unemployment rate rose to a high of 32.5 per cent. That is to say 7.2 million South Africans were unemployed by the end of the fourth quarter of 2020. Quarter-on-quarter, the labour force grew by 4.9 per cent (1 033 717) in the fourth quarter of 2020 while the number of people employed also grew by 2.3 per cent (332 682). The result was a 10.7 percent (700 537) net increase in the number of unemployed people in the same period.

The year-on-year decline in the size of the labour force from the fourth quarter of 2019 to the fourth quarter of 2020 was 3.8 per cent (889 431) and the number of people employed in that period declined by 8.5 per cent (1 396 717).

Table 2: Key labour statistics – Quarterly Labour Force Survey

	4Q 2019	3Q 2020	4Q 2020
Labour force ('000s)	**23 146**	**21 224**	**22 257**
Employed	**16 420**	**14 691**	**15 024**
Unemployed - official	**6 726**	**6 533**	**7 233**
Unemployed - broad*	**10 381**	**11 145**	**11 156**
Not economically active ('000s)	**15 581**	**17 944**	**17 054**
Discouraged job-seekers	2 855	2 696	2 930
Other (not economically active)	12 726	15 248	14 124
Unemployment rates			
Official unemployment rate (narrow)	29,1%	30,8%	32,5%
Broad unemployment rate*	38,7%	43,1%	42,6%
Unemployment Rates - Gender			
Male - official	27,2%	29,6%	31,0%
Female - official	31,3%	32,3%	34,3%
Unemployment Rates - Race			
Black African - official	32,4%	34,6%	36,5%
Coloured - official	24,9%	23,5%	25,7%
Indian/Asian - official	13,9%	18,4%	11,8%
White - official	7,6%	8,6%	8,8%
Youth**			
Unemployment rate - official	41,5%	43,2%	46,1%
Unemployment rate - broad*	52,4%	56,3%	56,6%

* The broad unemployment rate includes discouraged job see
** Youth is defined as age 15 - 34
Data: Quarterly Labour Force Survey, Stats SA

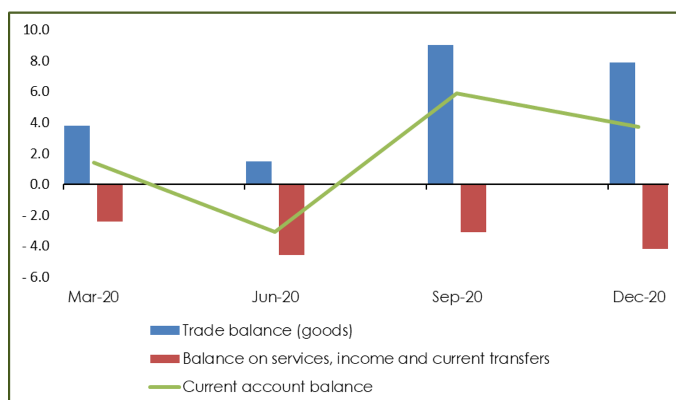
Source: StatsSA

The broad unemployment rate, which includes discouraged job-seekers, increased by 7.5 per cent (774 821) in the fourth quarter of 2020 year-on-year. However, it decreased by 0.5 per cent quarter-on-quarter, where it stood at 42.6 per cent. The unemployment rate for men (31.0 per cent) and women (34.3 per cent) increased in the fourth quarter of 2020 compared to the previous quarter. The long-term trend of the female unemployment rate continuing to remain higher than that of males.

Current Account

The balance on the current account of the balance of payments had a surplus of R197.8 billion in the fourth quarter of 2020 after recording a surplus of R294.4 billion in the third quarter. The surplus recorded in the fourth quarter of 2020 was the second largest surplus ever recorded. As a ratio of gross domestic product (GDP), the current account surplus narrowed to 3.7 per cent in the fourth quarter of 2020 from 5.9 per cent in the third quarter. By the end of last year, the ratio switched to a surplus of 2.2 per cent, having been in deficit at 3 per cent of GDP in 2019.

Figure 13: Change in the balance of the current account (as a percentage of GDP)



Source: SARB

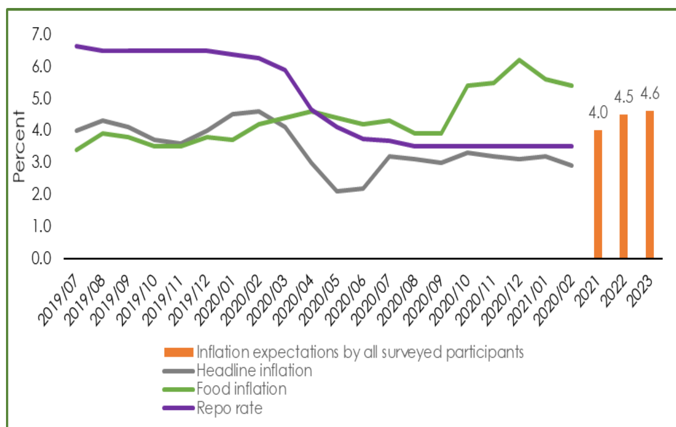
South Africa's imports and exports of goods increased further in the fourth quarter of 2020 as trade continued to recover from a COVID-19 induced low earlier in the year. South Africa's trade surplus narrowed somewhat, from R450.9 billion in the third quarter of 2020 to R425.2 billion in the fourth quarter. The smaller trade surplus resulted from the value of quarterly merchandise imports increasing more than the value of exports. The higher value of merchandise imports was primarily the result of higher volumes while merchandise exports reflected increases in both volumes and prices. The deficit on services, income and current transfer account widened to R227.4billion in the fourth quarter of 2020 from R156.4billion in the third quarter. The larger shortfall in the fourth quarter of 2020 can mainly be attributed to a significant shortfall on the income account, while the services deficit decreased slightly, along with a further increase in net current transfer payments. The deficit on the services, income and current transfer account as a ratio of GDP increased to 4.2 per cent in the fourth quarter of 2020, from 3.1 per cent in the third quarter.

Inflation and monetary policy

In its press statement released on 21 January 2021, the South African Reserve Bank's Monetary Policy Committee (MPC) highlighted recovery of key global economic indicators and the impact of the second wave of Covid-19. They also noted that disruption to economic activity is expected to continue until distribution of vaccines is widespread enough to support herd immunity. They said that they assessed the risks to the domestic growth outlook, and they appear to be balanced, and that low cost of capital, high commodity prices and vaccine distribution are expected to support growth. They warned that new waves of the Covid-19 virus pandemic are likely to periodically weigh on economic activity both globally and locally.

According to the SARB, the overall risks to the inflation outlook appear to be restrained in the short and medium term. Local food price inflation is high compared to average food global inflation, but it is expected to remain contained. They noted that the expected slow economic recovery will help keep inflation below the midpoint of the target range for this year and next year. They expect Inflation to remain within the lower bounds of the inflation target band of 3-6 per cent in 2021, before increasing to around the midpoint of the inflation target range in 2022 and 2023. The SARB said that this inflation outlook was the context for the MPC's decision to keep the repurchase rate unchanged at 3.5 per cent per annum.

Figure 14: Inflation remains relatively low



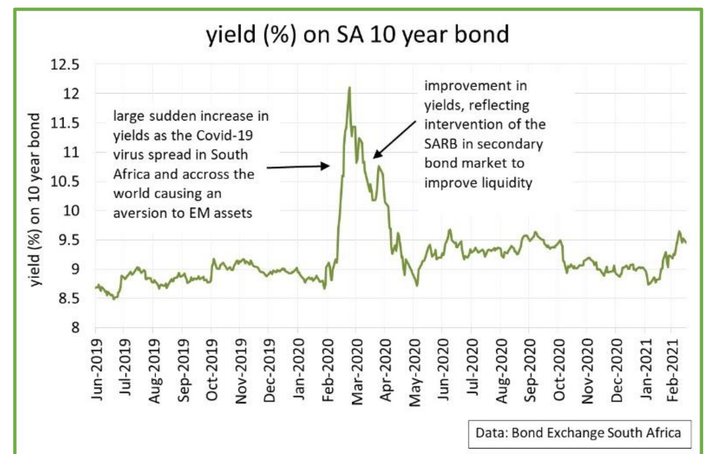
Source: SARB and StatsSA

Headline inflation slowed to 2.9 per cent in February from 3.2 per cent in January. Food inflation also slowed to 5.4 per cent in February from 5.6 per cent in January.

Sovereign risk and debt outlook

Market perception of the riskiness of South African government debt has been particularly volatile over the past 14 months since the Covid-19 virus spread across South Africa and most of the world. The yield on South Africa's 10-year benchmark bond – an indicator of market sentiment about the riskiness of South African government bonds – worsened significantly during March 2020, and then moderated, trading at levels higher than the pre-Covid-19 period. Since the beginning of 2021, yields on South Africa's 10-year bond have been on an upward trajectory.

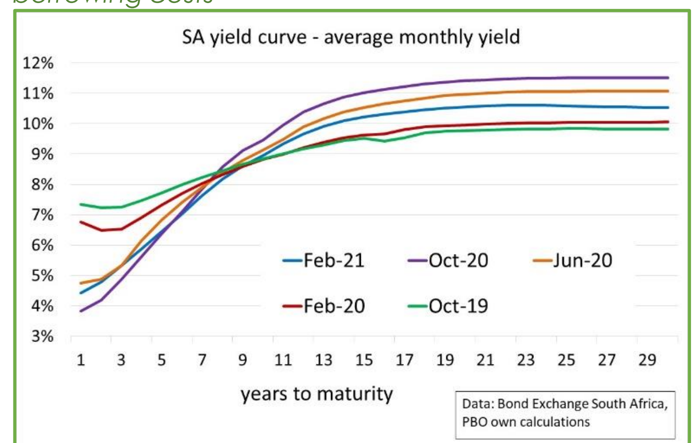
Figure 15: Yield on SA 10-year bond



The worsening (increasing) yield at the end of the first quarter of 2020 reflected, in part, the risk-aversion towards emerging market-assets brought about by the Covid-19 pandemic, as well as the effects of downgrades to demand for South Africa's debt by Moody's and Fitch. This contributed to a steepening of South Africa's "yield-curve".

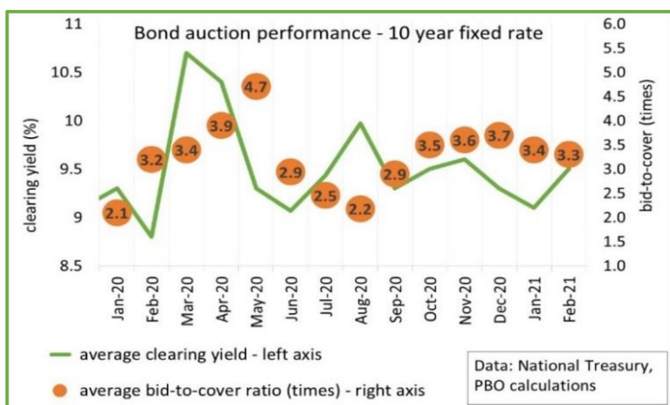
The introduction of large and aggressive monetary and fiscal support measures in response to the Covid–19 pandemic by major central banks, subsequent fiscal measures announced by many countries, and the South African Reserve Bank's program of secondary market bond purchases, supported a partial recovery in SA bond yields.

Figure 16: Steepening and elevated yield curve indicating perception of higher risk, implying higher borrowing costs



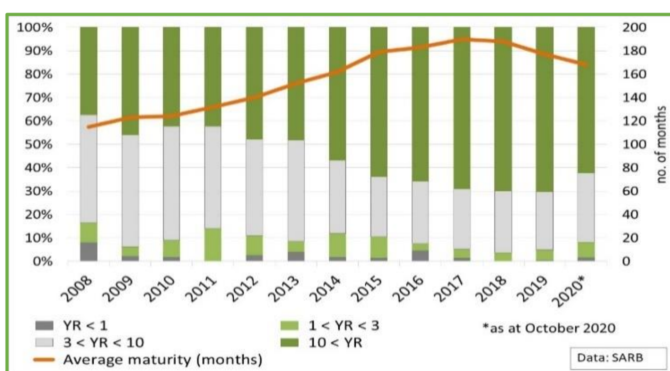
The yield curve for South African government debt – presenting borrowing costs at different maturities – steepened successively from the 2020 Budget to the Special Appropriations Budget, and to the 2020 MTBPS, reflecting the worsening fiscal outlook (a larger gross borrowing requirement) presented in the Special Appropriations Budget and 2020 MTBPS. Medium- to long- term yields fell closer to pre-Covid-19 levels since February 2021, reflecting the improvement in the economic and fiscal outlook presented in the 2021 Budget relative to the 2020 MTBPS, as well an increase in global demand for emerging-market assets.

Figure 17: Increasing cost of issuing government debt



Corresponding to the performance of South Africa's 10-year bond yields, the results from government bond auctions showed a sudden increase in borrowing costs during March 2020, a subsequent moderation through the rest of 2020, and a marked increase since the beginning of 2021. Demand for government debt has been generally buoyant given the high yields on offer.

Figure 18: Increasing short-term issuance implies high rollover risk



Responding to the steepening yield curve (higher medium-to-long-term borrowing costs and lower short-term borrowing costs), government increased its issuance of short-term debt instruments to make-up the increasing gross borrowing requirements. This has decreased the average maturity of South African government debt. Whilst this has reduced borrowing costs for 2020/21 compared with a continuation of more longer-dated debt issuance, it leaves the country exposed to the risk of higher borrowing costs

when the short-term debt issued needs to be re-financed (*rollover risk*). However, the long-term outlook for global levels of interest rates is low. Interest rates are a policy choice and developed country central banks have declared their commitment to support economic recovery and employment growth in their countries and regions.

Box: Rethinking Fiscal policy and Fiscal rules

There has been a serious rethinking of fiscal policy and fiscal instruments to take account of the high levels of uncertainty and implicit instability within economies. A January 2021 Policy Brief of the Petersen Institute for International Economics *"Fiscal Resiliency in a Deeply Uncertain World: The Role of Semiautonomous Discretion"* by prominent mainstream macroeconomists Peter Orzsag, Joseph Stiglitz and Robert Rubin, provides an indication of the large shift in the consensus on fiscal policy amongst mainstream economists. They assert that the state plays a hugely important role through fiscal policy, which can be enormously effective at correcting and stabilizing an economy not just for responding to crises. They further argue that fiscal rules and top down approaches that see the government and the state as something that the economy has to be protected against are incorrect. They argue:

'We have grown skeptical about the usefulness of basing fiscal policy on any top-down anchor. Such anchors are supposed to promote fiscal sustainability, but it is hard to know where any such sustainability threshold is. Even if we knew the critical threshold value, budget outcomes are subject to very wide confidence intervals even over a window as short as a few years. Even if we knew that there would be deep concerns if debt or deficits exceeded a given top-down anchor, that knowledge by itself would not provide much guidance about what we should do today.'

They warn that many events facing countries and the world, such as pandemics, wars and financial market bubbles, are unpredictable. They also say that systems that rely only on discretion could leave governments overwhelmed with regard to the correct fiscal policy in an environment of much uncertainty. They propose a new approach in which "… fiscal discretion is retained but exercised after making the budget adjust more automatically and rapidly in areas where there is broad consensus that doing so is consistent with achieving broader societal goals."

Orszag, Rubin and Stiglitz's approach should guide fiscal policy in South Africa. It raises serious concerns about fiscal policy that fixates on debt levels and guides us towards approaches where the state utilises fiscal policy to recover from crises and stabilises the economy in ways that promote increased well-being in a country.

This approach suggested by some of the world's most prominent mainstream macroeconomists marks a welcome beginning to the demise of an era where economists supported the use of top-down fiscal rules for the ideological reason that these rules can stop governments appearing spending too much when they are worried about increasing unemployment, poverty and inequality.