Volume.2 | Issue No.1 ISSN: 2706-896X

QUARTERLY ECONOMIC CHRONICLES

2020/Q1

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 in 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 ten (10) 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.

ISSN: 2706-896X

All queries should be addressed to: info@vindilac-analytics.co.za

For more information on Vindilac Analytics' services, please visit the website below:

www.vindilac-analytics.co.za

Table of Contents

ACKNOWLEDGEMENTS

We would like to acknowledge and give special thanks to our team members who contributed significantly to this project. The contributors for this project are as follows:

Writers

Team Leader
Mr Baneng Naape

Full-time Writer
Mr Marius Masoga

Full-time Writer
Ms Thando Mkhombo

Full-time Writer
Ms Tumelo Matlhako

Seasonal Writer
Mr Bekithemba Qeqe

Full-time Writer
Mr Thabang Kumalo

Seasonal Writer
Ms Olwethu Shedi

Seasonal Writer
Ms Zaziwe Maluleke

Seasonal Writer
Ms Mkrola Chwayita

Seasonal Writer
Mr Caleb Qoyo

Translators

isiXhosa
Ms Sinesipho Ndlovu

Sepedi
Mr Thapelo Broon Selahle

Xitsonga
Ms Angel Ntsakisi

Tshivenḓa
Ms Mosibudi Munyadziwa
Ms Mphidi Muneiwa

Setswana
Ms Tebogo Tau

Editors

Mr Ndivhuwo Doctor Sundani
Mr Pfumelani Mayimele

The whole team would like to give thanks to the Almighty God, for the strength and guidance throughout this work.

1. EXECUTIVE SUMMARY

The outbreak of Coronavirus decease (COVID 19) and its subsequent declaration as a global emergency by the World Health Organisation (WHO) has inflicted high social and economic cost for countries around the world. In response to the virus, governments around the world embarked on a series of measures to prevent the spread, including national lock downs, social distancing and travel restrictions. Although necessary, these measures led to serious disruptions in global demand and supply of goods and services, thus the global economy is expected to contrast by -3% in 2020 (International Monetary Fund (IMF), 2020). Due to weak global demand amongst other things, commodity prices have fallen sharply since the beginning of the year 2020.

It has become apparent that the burden of the effects of this pandemic are disproportionately borne by disadvantaged communities. Roughly, 68.18% of the South African population lives in rural areas, townships and informal settlements. A majority of poor and unemployed citizens of South Africa are most likely found in the above-mentioned areas. Approximately, 18% which is equivalent to 3 million of the total workforce are in the informal sector which is based in these communities (Stats SA, 2019). Income from activities in this sector together with the social wage (i.e. government grants) usually make up what these families survive on. The restrictions to trade during lockdown have had unintended negative consequences for the informal sector and the aid packages aimed at bringing relief to the economy have largely missed this sector.

Policy responses by governments across the globe have entailed substantial economic relief programmes targeted at business, health care and safety nets. In particular, governments have provided relief in the form of cash payments and food aid to the most vulnerable households, financial support to small and large businesses, payment holidays and zero interest loans to indebted citizens as well as tax relief measures. As the COVID 19 pandemic intensified, the South African government responded accordingly with an economic recovery package to the amount of R500 billion (Roodt, 2020). Of this R500 billion, R130 billion was reprioritised from the 2019/20 budget and R370 billion from the Unemployment Insurance Fund (UIF) and international lenders. In terms of allocations, R50 billion was allocated to child grants, R100 billion towards the creation and protection of jobs, R2 billion to support Small, Medium and Micro Enterprises (SMMEs) and spaza shops and the remaining R200 billion to serve as loan to struggling businesses. Providing sufficient liquidity to affected businesses is necessary to avoid business bankruptcy and staff retrenchments.

While governments are playing a role in providing financial support to businesses, many businesses have lost revenue from everyday operations due to closures and reduced work time. The International Labour Organisation (ILO) predicts that global working hours could be reduced by 10.5% in quarter 2 of 2020 which is equivalent to 305 million full time jobs (ILO, 2020). The reduced worktime may be caused by rotational work shifts and the lack of effectiveness of working remotely. However, on the other hand this pandemic has played a crucial role in accelerating digitalisation. For some industries that have adopted digitalisation, it is a new business opportunity for them. Monetary policy has also played a considerable role. Globally, most central banks have implemented policy measures to remedy the impact of COVID 19 pandemic. For instance, policy interest rates were adjusted to primarily reduce the cost of borrowing. The Federal Reserve Bank cut its interest rate during their first meeting. Additional policy measures were also implemented to further increase liquidity in most economies. The South African Reserve Bank (SARB) also applied similar interventions, whereby interest rate was cut by 200 basis points within two months (March – April). In addition to cutting interest (Repo) rate to 4.25%, the SARB announced its complementary policy measures of buying government bonds to inject liquidity into the financial markets. This can be attributed to government's limited capacity to raise revenue from tax and borrowing.

Of great concern, is the 2020 academic year. Approximately, 80% of all students across the globe youth are not attending school because of closures mandated by governments in an attempt to slow the spread of COVID 19. On the other hand, the COVID 19 pandemic has accelerated the transition to remote-learning since online learning serves as the best alternative to deliver education during the lock-down (Saavedra, 2020). However, this means that students need to have internet bundles, smart devices among other things to access online lessons from their homes. Compared to the rest of the world, Africa has the less percentage of households with computer and internet access. In this regard, International Telecommunications Union (2019) revealed that only 17.8% of African households have internet access and only 10.7% of households have a computer at home.

On the business side, the number of meetings conducted through Zoom have increased rapidly since the outbreak of COVID 19, from 10 million users in December 2019 to 300 million users in April 2020. Zoom usage has grown by 67% since the outbreak of the COVID 19 pandemic, which implies that Zoom is a great aid to both government and business. Zoom enables government officials and businesspersons to conduct meetings and presentations remotely.

2. COMMUNITIES AND LIVELIHOODS

- **Caleb Qoyo**

2.1. How the COVID 19 pandemic affected communities

Since its emergence in December 2019, the COVID 19 has virtually brought the world to a standstill. This culminated in President Ramaphosa's announcement of the national lockdown that was effective from midnight on Thursday, March 26, 2020.

Effectively, all economic activities deemed non-essential and all travel ceased. This decision further aggravating an already ailing economy and was universally praised as a quick and decisive action in the best interest of the country. South African government feared that national health system is not equipped to handle an influx of infected patients and the virus would devastate some citizens living in densely populated areas where there is little access to improved sanitation and quality health care. As we moved into level 4 of the lockdown with less restrictions, it is worth discussing how poor communities have been affected so far.

It has become apparent that the burden of the effects of this pandemic are disproportionately borne by poor communities. Roughly 68.18% of the population lives in rural arears, townships and informal settlements[1]. The above-mentioned areas are constituted of a large number of unemployed citizens dwelling in South Africa. Approximately 18% (3 million) of the total workforce are in the informal sector which is based in these communities (Stats SA, 2019). Income from activities in this sector together with social wages (i.e. government grants) usually make up what these families survive on.

2.2. The importance of the informal sector

The restrictions to trade during lockdown have had unintended negative consequences for the informal trade sector and the aid packages aimed at bringing relief to the economy have largely missed this sector. Interventions such a tax rebates, Temporary Employee/Employer Relief Scheme (TERS) among others only benefit those formally employed (Trenton, 2020). An independent survey conducted on 233 small businesses based in 6 provinces across 17 industries showed that 86% of entrepreneurs do not know how to access the emergency funding available (Phaphama SEDI, 2020). Even if information was available, only 40% would qualify for funding (Phaphama SEDI, 2020). The rest are excluded due to not meeting requirements such as being formally registered, having bank records, tax compliancy and so forth. Statistics for the whole informal sector would probably be even worse.

A pitiful example of the negative impact on the informal sector could be seen in the informal food trade industry. The street food industry alone accounts for 40% of the informal township economy and supports 500 000 people (Petersen & Charman, 2018). The initial lockdown restrictions did not allow street vendors to operate, putting pressure on the livelihoods of poor households (Petersen & Charman, 2018). Shopping malls and supermarkets tend to be far from residential arears in townships and rural arears. In addition, storage and budget constraints often mean stockpiling food and other essentials are impossible for many poor households (PLASS, 2020). This has meant increased transport costs as they must travel more frequently to stores

[1] Author's *calculation using World Bank Data*

to purchase food. It has also made social distancing virtually impossible since they must rely on public transport to get there. The street food industry is a key player in the food supply chain to poor communities and the effects of its absence are already being felt. Recent survey results show a large decline in the amount of fresh fruits and vegetables consumed as well as the complete exclusion of meat and dairy products from diets (Pietermaritzburg Economic Justice & Deginity, 2020). Due to the increased distance, they must travel as well as increased food prices, making families opt for starchy staple foods and non-perishable items (Pietermaritzburg Economic Justice & Deginity, 2020). Previously, people could go shopping around the neighbourhood for the best deals but now are limited to few established stores (PLASS, 2020).

What makes food access difficult is the fact that local spaza shops have been hampered by the regulations. Currently, only licenced small retailers can operate. Attaining a license from municipalities has proved to be an unnecessary obstacle (Trenton, 2020). Enforcement of this rule has been uneven throughout the country. In many cases, this resulted in discrimination against businesses owned by foreigners. A large proportion of spaza shops tend to be owned by foreign nationals. All foreign owned businesses are excluded from accessing COVID 19 economic relief initiatives provided by the government, putting these businesses at risk during this period (Phaphama SEDI, 2020).

Small scale farmers and fishers who sell their products to street food venders and spazas are also victimised by knock-on effects of COVID 19. It is estimated that 60% of products sold in the Johannesburg Fresh Produce Market ends up traded in the informal township sector (PLASS, 2020). Entire niche supply chains that were once used by small scale farmers to make a living are now being completely cut of the economy in favour of big corporate supply chains (PLASS, 2020). Shebeens and liquor stores rank the third most common business type in township communities (Charman, 2017). The prolonged alcohol ban has also put this industry at risk (Ndaezo, 2020). The unintended effect of current regulations is an overall loss of jobs in the informal sector and a funnelling of revenue to formal sector businesses that are strategically positioned now.

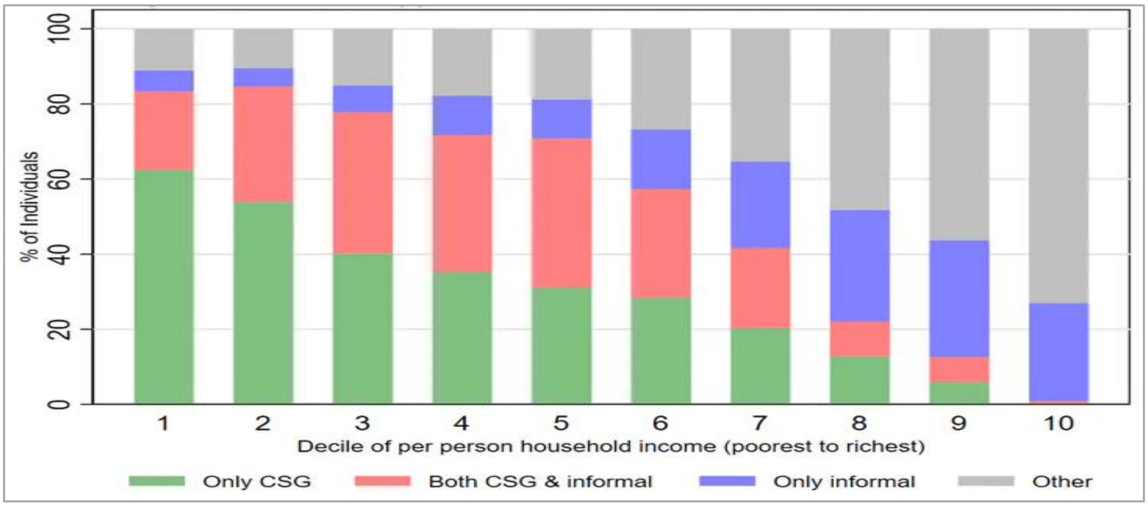
2.3. The social wage as solution

The most effective way to bring targeted relief to the vulnerable households during this time is the existing social wage programme. The increase in grants remain a powerful poverty alleviation tool because they reached the 45% of South African workers who don’t benefit at all from the other relief measures (Bassier, Budlender, Leibbrandt, Zizzamia, & Ranchhod, 2020). Figure 1 below shows that the child support grant reaches approximately 80% of the individual in the informal sector, each bar shows these percentages by income decile, with the poorest individuals on the left and the richest on the right (Bassier, Budlender, Leibbrandt, Zizzamia, & Ranchhod, 2020).

Government has announced that there will be increased expenditure on social grants by R50 billion and distribution would start as soon as May and end in October 2020 (Zulu, 2020). A parent grant of R300 in May and R500 from June 2020 onwards would be introduced as additional assistance to recipients of the child grant. Other social grants such as old age grant and disability grant would be increased by R250 (Zulu, 2020). A new unemployment grant of

R350 would be introduced for those who do not qualify for any of the other grants (Zulu, 2020). These increases have been praised as a step in the right direction. However, various civil society organisations and academics have pointed out that, given the way the grants are structured, just over 2 million people would still be left under the poverty line (Broughton, 2020). In response to this, South Africa's Minister of Social Development, Lindiwe Zulu cited fiscal constraints as the reason for this shortcoming and that her Department is in discussion with Treasury to see what additional measures could be taken (Broughton, 2020).

Figure 1: The child Support Grant reaches informal-worker households



Source: Calculated using NIDS 2017 by Bassier, Budlender, Leibbrandt, Ranchhod and Zizzamia

3. EDUCATION AND HEALTH

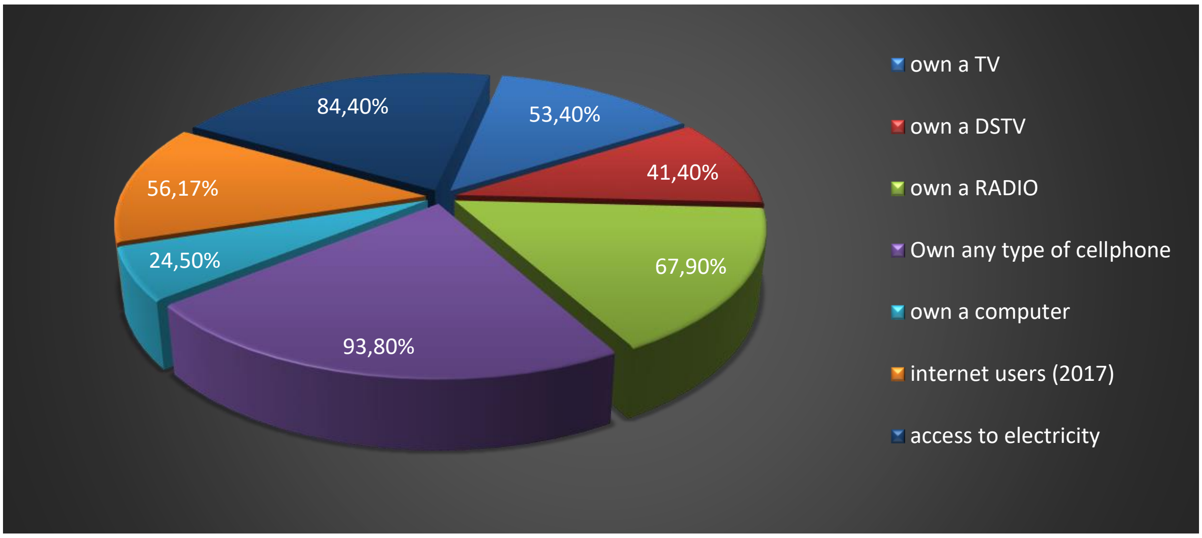
- Chwayita Mkrola

3.1. Learning during COVID 19 lockdown

Approximately 80% of all students enrolled in basic and higher education across the globe are prohibited from going to school due to the COVID 19 lockdown regulations. Interestingly, the COVID 19 pandemic has accelerated the transition to online learning since it is an obvious way to keep lessons going during lockdown (Saavedra, 2020). On the other hand, this means that learners need to have internet bundles and smart devices among other things to access education from home. When comparing to the rest of the world, Africa has the least percentage of households with internet access and a computer at home. Only 17.8% of African households have internet access and only 10.7% of households have a computer at home (International Telecommunications Union, 2019). Meanwhile, Europe, America, Asia, Pacific and Arab States sit at 85.5%, 71.8%, 50.9%, and 57.1% in terms of households with internet access while those with a computer at home amount to 78%, 67.5%, 43.5%, and 51.9%, respectively (International Telecommunications Union, 2019).

It is assumed that fewer students in Africa would have access to education during COVID 19 lockdown as evidenced by the statistics. In South Africa, education has prepared online and broadcast support resources. Students without internet access at home and computer can access lessons through radio and television channels. This means that students need to have access to electricity, television, radio, smartphone and computer to receive education. The following chart presents latest data on characteristics of South African households in terms of devices required to access education during COVID 19 lockdown.

Figure 2: South African households with access to electronic devices



Data source: World Bank, 2017; StatsSA 2016

In 2016, 24.5% of South African households owned a computer, 93.80 owned a Cell phone, 67.90% owned a radio; 41.40% had a DSTV and 53.40% owned a television set. By 2017, 84.4% of the South African population had access to electricity while only 56.17 percent of the population had access to the internet. Although the most recent statistics (i.e. 2020) on access to electricity and internet have not been released. Yet, it is reasonable to assume that majority of learners and tertiary students will be left out. This is further exacerbated by the inequalities that exist within South African provinces. In this regard, privileged students in provinces like Gauteng and Western Cape are exposed to remote education while those in disadvantaged provinces like Limpopo, Eastern Cape and North West still have to walk for kilometres just to receive basic education.

The Department of Higher Education and Training as well as the Department of Basic Education pledged to make sure that online learning is accessible to all. This will increase the expenditure on education per student. For the year 2018, the government spent $2 416 per learner in primary school, $2 878 per learner in secondary school and $6 460 per student in tertiary school (UNESCO, 2020). For the year 2020, government expenditure per student will increase significantly. Interestingly, successful provision of computer and data to learners may significantly reduce the COVID 19 induced inequality in access to education. Additionally, digital literacy plays a significant role.

4. FISCAL POLICY AND GOVERNANCE

- Baneng Naape

4.1. What role has South African government played during the COVID 19 Pandemic?

Policy responses by governments across the globe have entailed substantial economic relief programs targeted at business, health care and safety nets. Precisely, governments have provided relief in the form of cash payments and food aid to the most vulnerable households, financial support to small and large businesses, payment holidays and zero interest loans to indebted citizens as well as tax relief measures. Figures 3 and 4 illustrate various spending and tax measures implemented by governments across the globe in response to COVID 19.

Figure 3: Expenditure Measures

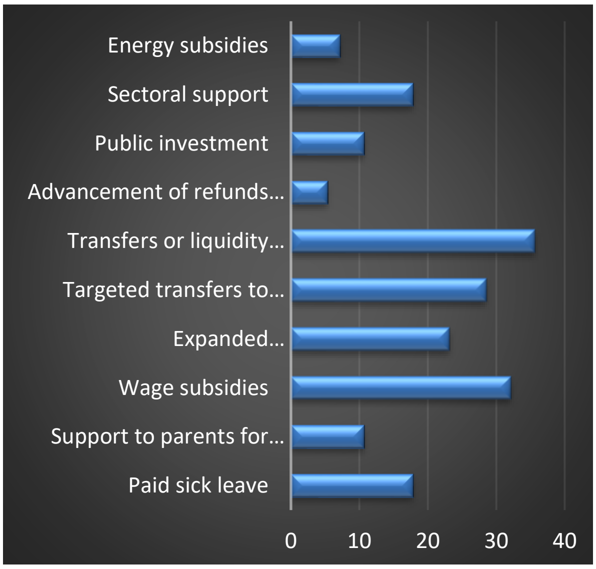
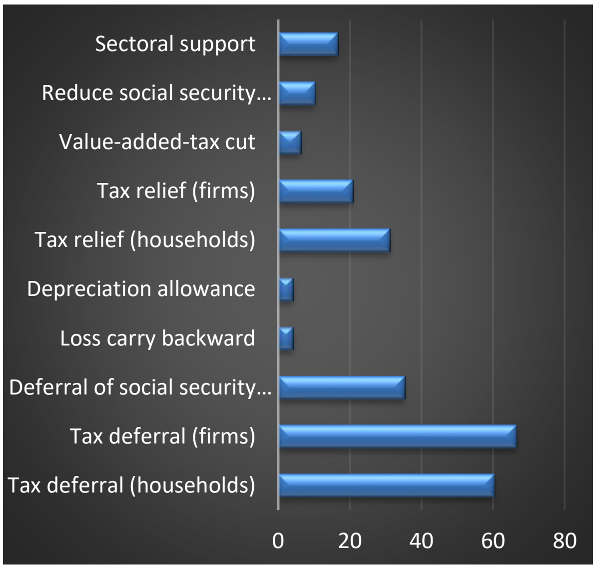


Figure 4: Revenue Measures



Source: IMF Tracker and Staff estimates (2020)

The South African government in particular, began by providing funding to numerous sectors of the economy that are heavily affected by the COVID 19 pandemic. This include hospitality and tourism (R200 million), agriculture and food (R1.2 billion), trade and industry (R700 million) and health care (R42 million) (White & Case, 2020). In this regard, the government has put in place a Debt Relief Fund and Business Resilience Facility for SMMEs (R700 million) while well-established businesses which are struggling to pay-off employee salaries have access to the UIF Support valued at R30 billion (Ramalepe, 2020). Through the UIF fund, each employee who has been placed on unpaid leave, laid-off temporarily or experienced a salary cut, is eligible for a minimum of R3500 and a maximum of R6730 per month. Other interventions include the Solidarity Response Fund, which aims to pull funds in fight against the economic and social pain caused by the global pandemic. To date, the fund has received more than R3 billion worth of donations.

As the COVID 19 pandemic intensified, the government responded accordingly with an economic recovery package to the amount of R500 billion (Roodt, 2020). Of this R500 billion, R130 billion was reprioritised from the 2019/20 budget and R370 billion from the UIF and international lenders such as the IMF, BRICS bank and Development Bank of Southern Africa

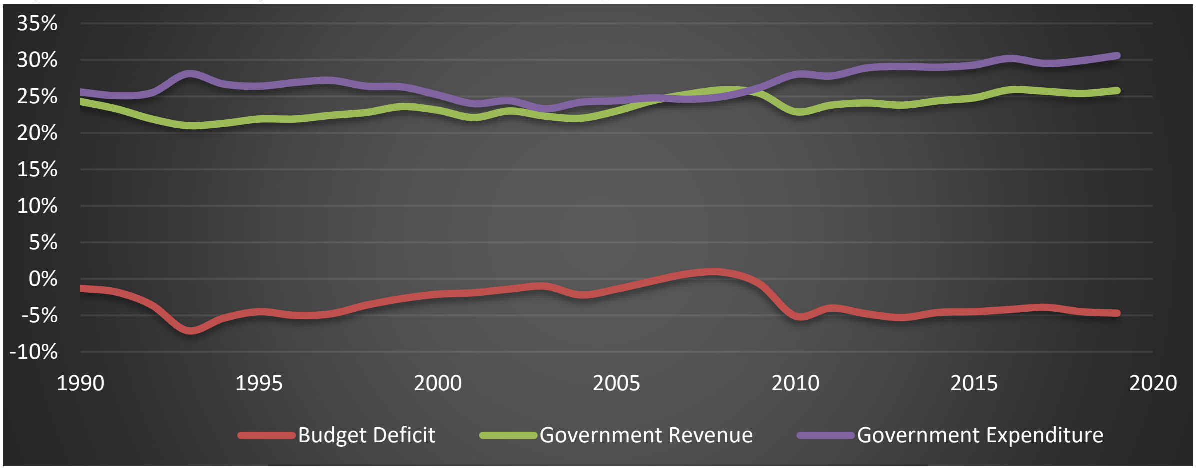
(DBSA). In terms of allocations, R50 billion was allocated to child grants, R100 billion towards the creation and protection of jobs, R2 billion to support SMMEs and spaza shops and the remaining R200 billion to serve a loan to struggling businesses. Providing sufficient liquidity to affected businesses is necessary to avoid business bankruptcy and staff retrenchments.

4.2. The aftermath of R500 Billion COVID 19 Relief Package: Will this result to more debt and future tax hikes?

The efforts taken by the government to combat the effects of COVID 19 have required the government to spend more money and acquire more debt. Roughly, 97.7% of government revenue is generated through taxes and the bulk of this tax revenue is made up of Company Income Tax (CIT), Personal Income Tax (PIT) and Value Added Tax (VAT). With the global pandemic and lockdown in place, companies are less profitable and thus forced to make tough decisions, including cutting salaries and in worst cases retrenching employees. As a result, the government would collect less tax revenue since the number of individuals paying PIT is reduced, so is the amount of taxes contributed by businesses (CIT).

Furthermore, since the majority of citizens have lost their incomes, the purchase of goods and services in the economy has decreased. This means the government will likewise collect less tax revenue from consumption taxes (VAT). Increased government spending and lower taxes collected will create a gap between government revenue and government spending. This gap is known as the budget deficit and has been widening rather than narrowing in recent years. The goal for every country is to have a narrow budget deficit and low debt. Figure 5 below shows trends in government revenue, expenditure and budget deficit as ratios of GDP. As can be seen in figure 5, the government has been spending beyond its means.

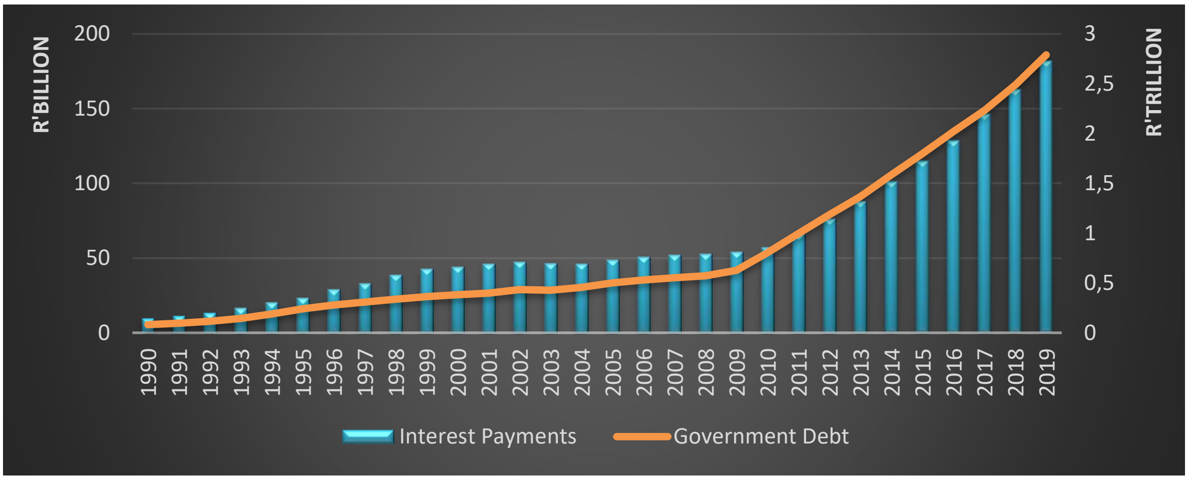
Figure 5: Trends in government revenue and expenditure (%GDP)



Source: South African Reserve Bank database (2020)

Currently, in South Africa, the budget deficit as a ratio of GDP amounts to -6.3% and is expected to widen further to -13.3% by 2020 as a result of COVID 19 relief packages (IMF, 2020). The widening budget deficit will increase the government's need to borrow money. With the current investment outlook, the government will borrow money at higher interest rates than usual due to a lack of creditworthiness (junk status). This might result in the bulk of future government revenue to be spent on interest payments costs and less on social and economic programmes. Less spending on economic and social programmes might have a negative impact on the livelihoods of poor citizens. Much worse, the government could shift the burden to taxpayers by increasing tax rates in future. It is sufficient to note that borrowing was the best option as compared to printing money. The effects of printing money as Marius has already indicated, far outweigh the effects of borrowing. Figure 6 below illustrates the amount of government loans and how much the government has been spending on interest payments over the years. Government borrowing increased rapidly in 2009 as a result of the global financial crisis and succeeding recession.

Figure 6: Trends in government debt and interest payments



Source: South African Reserve Bank database (2020)

To date, total government debt amounts to R4 trillion or 61% as a ratio of GDP and is expected to reach 70% (Treasury estimates) if not 90% (IMF estimates) as a ratio of GDP by 2023. It is worth noting however, that high levels of government debt are not a concern if the cost of servicing the debt (interest payments) is manageable. Unfortunately, this is not the case in South Africa since the government spends approximately R205 billion on interest payments a year, sacrificing other spending priorities such as social programmes, health, education, defence and justice. Social programmes include social grants and the provision of shelter such as RDP houses to vulnerable citizens.

5. BUSINESS AND FINANCE

- **Zaziwe Maluleke**

5.1. The impact of COVID 19 on businesses

The coronavirus pandemic has put the global economy to a standstill. This was caused by lockdowns in different countries wherein essential services were left to sustain the economy. Businesses that have more labour-intensive work have lost profits amid lockdowns and social distancing. The harsh reality or rather expectation is that businesses need to continue to pay their employees even though they have no revenue generated. However, market outcomes have been somewhat the opposite as several companies adopted the "no-work-no-pay" principle. Due to firm closures and reduced work time, many businesses have lost revenue from everyday operations. The International Labour Organisation (ILO) predicts that global work hours could be reduced by 10.5% in quarter 2 of 2020 which is equivalent to 305 million full time jobs (ILO, 2020). The reduced worktime may be caused by rotational work shifts and the lack of effectiveness of working remotely. On the other hand, this pandemic has played a crucial role in accelerating digitalisation[2]. For some industries that have moved towards digitalisation, it was a new business opportunity for them.

5.2. Does this mean opportunity for businesses to migrate into the digital world and upskill employees?

Some industries require less human interaction and could continue with business while employees are at the comfort of their own homes. Some of these businesses include, marketing, bookkeeping, tutoring and media among others. For some, that have the potential to operate remotely, it was an opportunity to invest in new Information Technology software systems and Virtual Private Networks (VPN)[3] that could allow them to work remotely. Virtual establishments have an added advantage of the low cost of doing business. This saves office rent which is always a major cost of doing business and other operational costs such as water and electricity.

This pandemic has increased the demand for digital skills. This is crucial to keep productivity going in businesses. Upskilling employees gives employees an opportunity to learn skills that could assist them to work efficiently. This can be in the form of learning skills online to enable employees doing activities such as coding and others in the near future. Companies can subsidise these online courses to ensure that their employees produce best results.

5.3. A view on heavily hit sectors

SMMEs[4] are in trouble as major relief programs targeted them, globally. This included debt payment holidays and funding relief from the government to at least be able to pay employees' salaries. In South Africa, there were over 2.5 million SMMEs in 2019 (SEDA, 2019). These businesses contribution is quite significant as it contributes over 30% of South Africa's GDP, if they close down or stop operations, a large part of the economy will be affected. The

[2] The move from the manual way of doing business to creative ways characterised by improved technologies that enable people to work remotely.

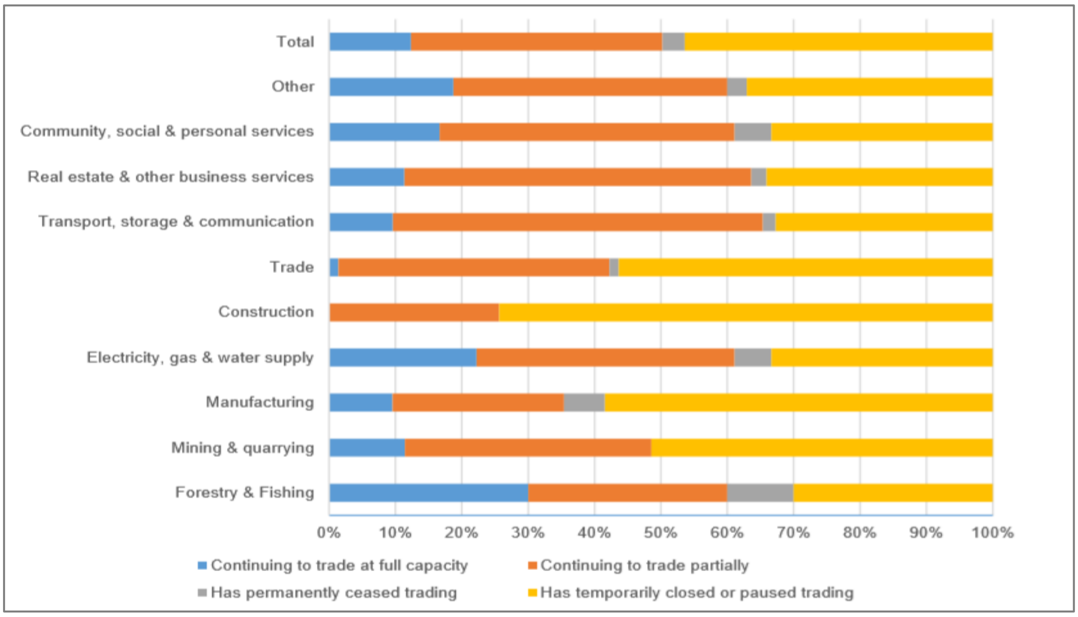
[3] This a server that allows you to browse the internet/ view files without being tracked.

[4] These are companies that employ a maximum of 10 employees (Micro) and up to 250 employees (Medium-sized) and have a turnover of between R5 million to R220 million.

country's "new gold" (tourism) industry has the potential to contribute towards inclusive economic growth and economic transformation (National Treasury, 2019). The sector's reliance on visitors had led to a drastic loss of income. An example is Simon's Town bed and breakfast business that has seen a 35% decrease in revenue just before the lockdown while some businesses based in Cape Town had to lay off 50% of their workforce (Daily Maverick, 2020). This was a sector that had the potential to generate 1 million jobs by 2026 (Statistics South Africa, 2019).

From the chart below, construction, manufacturing and trade sectors seem to be hard hit as they have majority of businesses that are temporarily closed or paused trading. These sectors are usually labour intensive and do not provide essential services during COVID 19 pandemic.

Figure 7: Trading status of businesses (cumulative % shown on horizontal axis)



Source: StatsSA (2020)

5.4.Impact on exports and imports

Due to closed boarders, ports and airports, trade between countries has been slowed down. This posed a threat for businesses that export products such as wool, wine and other precious metals. A recent survey by Stats SA revealed that 34.6% of businesses that contribute to exports were affected by the lockdown. While 40.5% of businesses that rely on imports could not be able to get goods to South Africa. This was due to closed borders and ports for trade. On an international level, lockdown in Peru also affected copper import to South Africa as it is the largest producer of copper (Business Day, 2020). This affected the production of most mining companies like Impala Platinum, Anglo American among others. Due to the uncertainty of how the coronavirus will continue to spread, the real impact on businesses remains unknown.

6. MONETARY FRAMEWORK

- **Marius Masoga**

6.1.Introduction

The transition from 2019 to 2020 has marked the ending and the beginning of a new decade. In the midst of such shift, the world is unfortunately being confronted with an outbreak of COVID 19 pandemic. South Africa is also amongst the countries hit by the virus thereof. As part of the measures aimed to assist people who are infected and impacted, especially the most vulnerable individuals, monetary policy has played a considerable role. Globally, most central banks have implemented policy measures to remedy the consequences of COVID 19 pandemic. In South Africa, for instance, the Monetary Policy Committee (MPC) of the SARB have cut its Repo rate three times in 2020 between January and April 2020. This has brought the interest rate to 4.25% in May 2020, with 200 basis points cut attributed to policy response to coronavirus pandemic.

Furthermore, the SARB has bought R1bn and R11.4bn worth of government bonds in March and April 2020, respectively. The aim was to increase liquidity in the market, following the tendency of market dysfunction that worsened during the first quarter of the year, amid COVID 19 pandemic. Internationally monetary policies have been mostly accommodative since January 2020, noting that major central banks such as the European Central Bank (ECB), Bank of Japan (BoJ), People's Bank of China (PBoC), Bank of England (BoE) and the Federal Reserve Bank (Fed) have kept their policy interest rates on hold to improve their economic conditions. Nevertheless, the intensified consequences of coronavirus pandemic prompted more policy intervention in those countries and across the world to enhance market liquidity and the financial system (see table 1 in annexure for the summary of monetary policy interventions).

Notably, the Fed cut its policy interest rates to zero after holding two emergency meetings in March. The purpose of additional policy measures ranges from the reduction in the cost of borrowing to injection of liquidity in the market. However, the Gross Domestic product (GDP) growth remains at risk of contraction at least in the first half of 2020. Meanwhile the SARB bought government bonds to stimulate the economy, Fed and ECB will be purchasing the financial assets as part of their Quantitative Easing (QE) policy measures. The Central Bank of Uruguay has also implemented policy measures to stimulate credit extension and inject liquidity in the financial system. It has therefore, authorised financial institutions to relax deadlines and loan payments. Other central banks around the world that reacted similarly to deal with COVID 19 including the Reserve Bank of Australia and Bank of Canada.

The evidence of monetary policy response across the world does not however, guarantee that global economic downturn can be avoided. Economic activity remains largely muted noting the existing restrictions, which hurt many industries, especially the tourism sector. In general, global demand has decreased as consumers limit their baskets to essential products. The economy is driven via consumer spending, as the major component of demand.

Inflation rates have registered low levels in most countries, observing the Organisation for Economic Co-operation and Development (OECD), which saw a fall from 2.3% to 1.7% in

February and March, respectively. The consumer price index (CPI) as the measure of inflation in South Africa has indicated the lowest level of 4.1% in March, down from 4.6% registered in February. However, this remains well within the SARB target of 3% to 6%. Thus, the risk of deflation is not yet severe. At this stage, SARB may not necessarily print money given a room for further monetary policy easing through interest rate cut and government bond purchases.

6.2.Criticisms concerning the Central Banks amid COVI19 across the world

Despite the policy measures implemented by several central banks to revive the economic conditions, there have been general sentiments suggesting that more could be done. In particular, it has come to attention that some central banks are expected to print money in addition to the existing policy interventions. For instance, the SARB has found itself on the spotlight in this regard, since some people believe that it would be ideal to print money as part of the policy measures to deal with an outbreak of coronavirus. It is apparent that government has limited capacity to raise revenue from tax and borrowing. However, it should also be noted that the responsibilities of the central bank should not overlap in whatever manner. In desperate times, people can panic to an extent that hasty decisions are made/prompted. From a policy perspective, the economy should be managed in a way that does not erode the purpose of existing policy mandates.

6.3.Other key highlights – Why should you care?

During these unprecedented and uncertain times of coronavirus outbreak, it remains unknown as to how long the suffering would last. As most countries experience that pain of lock down restrictions globally, an obvious impact on the economic activity cannot be avoided. Therefore, consumers would need to apply strict measures on their spending behaviour. Meanwhile companies retrench some of their employees, the UIF may find itself under pressure for a long time. This is a time to use emergency savings with careful treatment. For those who are less impacted, this may be a great opportunity to give back to the community by supporting the needy. As I reach the finish line, one should realise that the economic system might not be manipulated to serve everyone to the best of their expectations. When people care about their fellow citizens, there exist an automatic system of peace that serves everyone better.

7. TRADE & FINANCIAL MARKETS

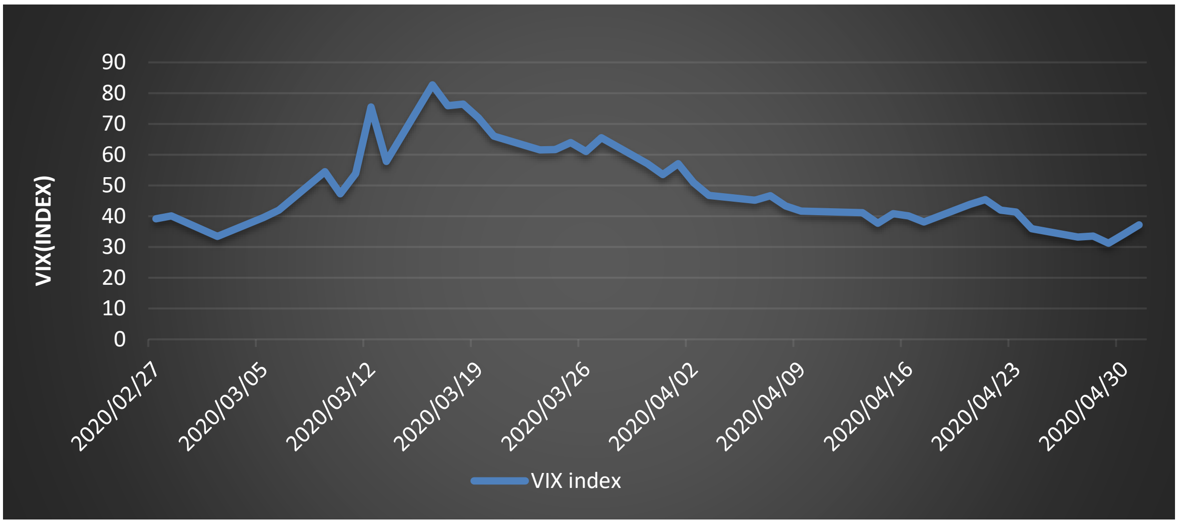
- **Bekithemba Qeqe**

The outbreak of COVID 19 and its subsequent declaration as a global emergency by the WHO has inflicted high social and economic cost for countries around the world. As a response to the COVID 19 pandemic, governments around the world embarked on a series of measures to prevent the spread including national lock downs, social distancing, travel restrictions, widespread closures. Although necessary, these measures led to serious disruptions in global demand and supply, thus the global economy is expected to contrast by -3% in 2020 (IMF, 2020). Growth in developed economies is expected to contract by a significant -6.1% in 2020 while the growth in emerging economies is expected to contract by -1.0% (IMF, 2020). Due to weak global demand amongst other things, commodity prices have fallen sharply since the beginning of the year.

Per the African Union (AU) 2020, crude oil prices have fallen by more than 50% since the start of 2020. On the 20th of April 2020, the West Texas Index (WTI) fell to a negative territory for the first time in history, trading at -$37.63/barrel (Sonnichsen, 2020). On the 21st of April 2020, the price of Brent traded at record lows of below $20/barrel (Sonnichsen, 2020). Non-oil commodity prices have also fallen since the start of the year, natural gas prices fell by 30% and metal price fell by 4% (AU, 2020). On the exchange rate front, the US dollar index remained strong during the past months since the start of the year as investors fled to the US currency due its perceived safe haven status, while other emerging market currencies including the South African rand recorded losses. The South African rand declined significantly from trading at around R14 against the US dollar in January 2020 to around R 17,98/$ by 31st of March 2020 (SARB, 2020). In the second week of April, the South African rand was down by 32% against the dollar since the begging of the year (Smith, 2020). The Mexican peso for example was down by 24% while the Brazilian real was down by 23% during the same period (Smith, 2020).

As a result of rising panic and uncertainty associated with the spread of the virus, a significant amount of volatility was observed in global stock markets over the three past months since the beginning of the year. By 18th of March 2020, some of the major stock market indices had lost value (Rudden, 2020). The CSI 300 in China lost about 12.1%, the FTSE in Italy fell by 27.3% while the S&P 500 lost around 11.98% in value during this period (Rudden, 2020). Figure 8 shows trends in the Central Bank of England (CBOE) VIX global stock volatility index, a measure of global stock market volatility and uncertainty. As seen on the diagram, the VIX volatility index started to increase significantly from late February 2020 to mid-March 2020 due to growing panic and fears caused by the virus. The increased volatility and uncertainty were further escalated by oil price volatility (Accountancy SA, 2020). As shown on the diagram, VIX volatility index towards the end of March indicating that market volatility was decreasing and that markets started to recover possibly due to improving conditions in China, as well as economic and financial measures taken by governments around the world to mitigate the economic and social impacts of the COVID 19 pandemic.

Figure 8: Trends in global stock market volatility index



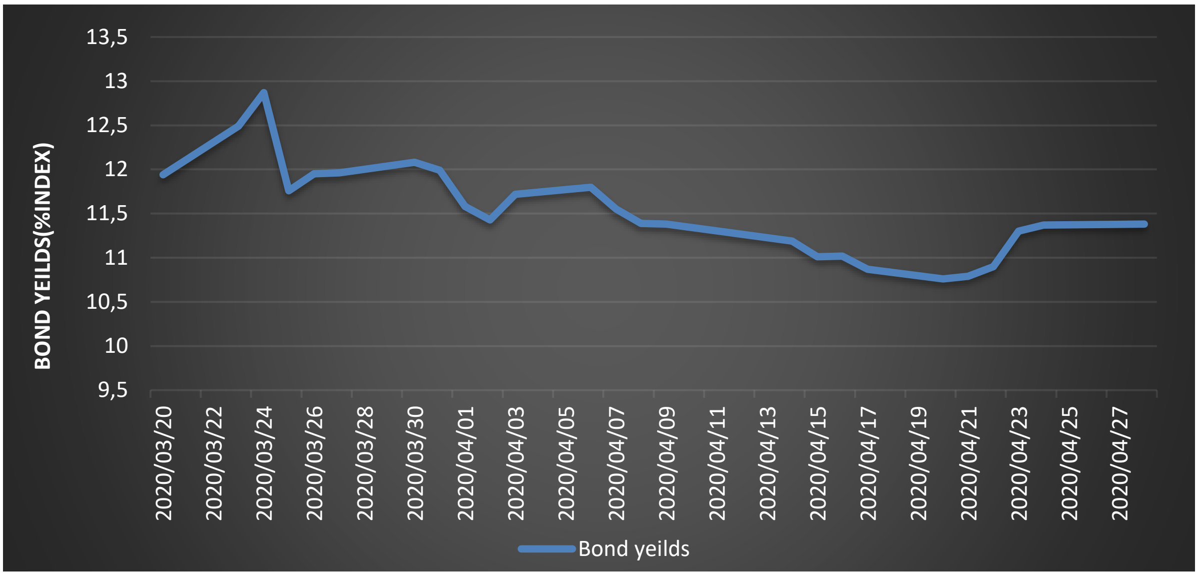
Source: author's computations using data from Central Bank of London (CBOE)

Global stock market volatility remained above 30% towards late April 2020, indicating that there was still fear in the markets as VIX values greater than 30 are generally linked to a large volatility resulting from increased uncertainty, risk and psychologic panic. In line with the situation in the global equity markets, significant losses were also recorded in the Johannesburg Stock Exchange (JSE) All share index (ALSI). As at 31st of March 2020, the JSE ALSI was down by 24.5% since the beginning of the year (Cameron, 2020). The average stock in the index fell by 34.0 %, only 6.4% recorded positive returns while about 39.1% of the stock were down by over 40% (Cameron, 2020). JSE ALSI, however recovered towards the end of April due to gains in retailers' shares on the hopes that the easing restrictions will see the return of shoppers to stores that have been empty for some time (Toyana, 2020).

On top of a worsening economic crisis associated with the outbreak of COVID 19, South Africa has lost its last investment grade rating after rating agency Moody, cut the sovereign rating of the country to junk status. Combined with the previous cuts by both S&P and Fitch, this implies that all three major rating agencies consider South Africa bonds as very risky instruments. Consequently, the latest downgrade saw SA government bonds excluded from the World Government Bond Index (WGBI) (Kruger, 2020). In addition, South Africa losing its last investment grade means amongst other things that government may have to pay a higher interest on new debt that it issues and that fund managers will be more reluctant to include South African bonds in their pension and investment funds.

The yield on South African government bonds had increased to the highest levels in 20 years by the end of March 2020 mainly as a result of the credit down grade as well as growing fears over the social and economic impacts of the virus outbreak (Kruger, 2020). The yields on 10-year South African government bonds increased from 8.875% at the beginning of March to more than 12.5% by 24th of March 2020 when it became clear that Moody's had no other alternative but to lower the rating of the country to junk (Kruger, 2020). As can be seen on figure 9, 10-year SA government bonds had recovered slightly by 24th of April 2020 possibly as a response to SARB cutting the repo-rate by another 100 basis points making it 200 basis points cut in total between March and April 2020. The yields on 10-year SA government bonds as shown by the diagram was still comparatively higher (more than 10.5%) at 24 April as compared to 8.875% at the begging of March.

Figure 9: Trends in daily average yield on government bonds with an outstanding maturity of 10 years and longer



Source: author's computations using data from the South African Reserve Bank (SARB)

8. ENERGY & TECH

- **Tumelo Matlhako**

8.1.Energy

The South African economy started on a sour note amid electricity supply shortages and budget constraints. Fortunately, no cases of load shedding have been reported since the lockdown occurred as the demand for electricity gradually decreased by approximately 7,500 MW during the lockdown period (Winkler, 2020). More reliable electricity supply is expected as the year progresses. However, capacity of electricity production remains critically low but stable. This implies that post the COVID 19 pandemic, the supply of electricity will decrease and as a result, load shedding will occur.

South Africa needs green economy as an alternative for sustainable energy. Winkler (2020) suggests that leading development of wind and solar energy should be accelerated, and the approach needs to be applied correctly in order to revive the economy. This also supports the IRP 2019, which revealed that green energy is the cheapest form of new electricity. The plans to build 14 400 MW wind turbines and 4 000 MW of new distributed generation (preferably rooftop solar PV) should be put in to place by 2030. More comparisons of the energy sector will be discussed in the next issue.

8.2.Technology

Technology, during this pandemic, appears to be an investment and has the potential to play a major role in curbing the spread of COVID 19. It has the ability to distribute information regarding symptoms, self-testing feature, daily statistics on active cases and preventative measures to flatten the curve. Moreover, it has created a platform for individuals to work remotely, thereby securing their jobs. The government on the other hand, is under pressure to ensure that the citizens are well informed about the pandemic and that government infrastructure is sufficient and stable for civil servants to work remotely. Furthermore, the government is challenged to ensure that citizens adhered to the COVID 19 regulations and have access to social safety nets.

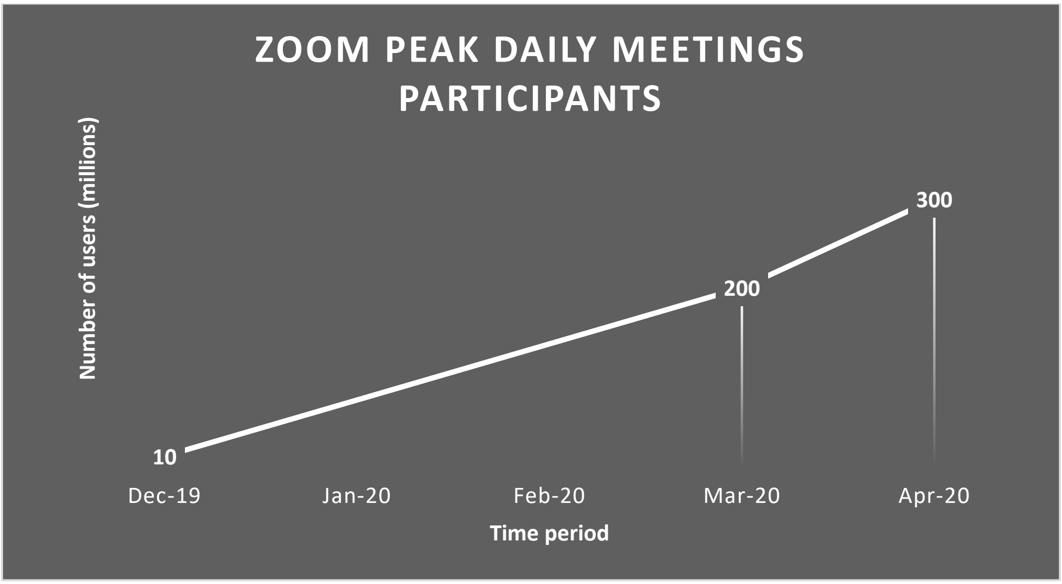
World Economic Forum (2020) reveals the role of government by facilitating interactive chat service about COVID 19 by means of WhatsApp. This information is accessible to WhatsApp users, which intends to shed light to those that need clarity or suspect any signs of coronavirus. Praekelt.org, a non-profit organisation that is based in Johannesburg assisted the Department of Health to build the bot and reported how WhatsApp has positively contributed to this, by reaching over 3.5million users in five different languages since March 2020.

This has not discredited the media from distributing information to listeners and or viewers, as information is always advertised in news reports or adverts. Other industries such as the telecommunications sector, banking sector, retail sector, just to name a few, have also shown awareness of the virus by making use of their websites and mobile apps. This has enabled the health sector to easily disseminate information much quicker and less costly.

One of the roles of government is to collaborate with tech business in identifying communities that are lacking access to information on testing, treatment and prevention. One of the entities that have stepped up to the game is OfferZen. This was after the government has drawn attention to the Vulnerability Map drawn by NICD; which aims to assist communities that lack protection of the virus financially, emotionally and physically.

OfferZen makes use of the Zoom App to host meetings, which is one of the communication channels to government, as well as other sectors to ensure communication amongst workers that work remotely. Zoom, as well as Microsoft Teams, Skype, WebeX and Togo, have played a pivotal role in enabling businesses to hold meetings and presentations. Since Zoom was introduced there is evidence of the global contributors during peak period from December 2019 – April 2020. The number of users is expressed in millions (see Figure 10 below).

Figure 10: Zoom peak daily meetings participants



Source: Zoom, graph complied by author

From the above figure, one can deduce that the number of meetings conducted through Zoom has increased rapidly since the outbreak of Covid-19, from 10 million users in December 2019 to 300 million users in April 2020. Zoom usage has grown by 67% during the COVID 19 pandemic, which implies that Zoom is a great aid to government departments, as well as other firms utilising the app. This could boost sales of Zoom, should the number of users continue to increase. In the light of the above graphical statistics, it is evident that government has played a role in working collaboratively with tech companies, as well as individuals to influence tech capabilities during the COVID 19 pandemic.

Sources

Accountancy SA, 2020. Covid Crash: What South Africa can learn from other market crashes. [Online]. Available at: https://www.accountancysa.org.za/covid-19-crash-what-south-africacan-learn-from-previous-market-crashes/ [Accessed 30 April 2020].

AU, 2020. Impact of Corona Virus on the African Economy. [Online] [Accessed 26 April 2020].

Bassier, I., Budlender, J., Leibbrandt, M., Zizzamia, R., & Ranchhod, V. (2020, March 31). South Africa can – and should – top up child support grants to avoid a humanitarian crisis. Retrieved from The Conversation: https://theconversation.com/south-africa-can-and-should-top-up-child-support-grants-to-avoid-a-humanitarian-crisis-135222

Cameron, J., 2020. Five reasons it's a good time to buy JSE stock. [Online]. Available at: https://www.biznews.com/sa-investing/2020/04/20/fivereasons-buy-jse-stocks-claude-van-cuyck [Accessed 30 April 2020].

Charman, A. (2017). Micro-enterprise predicament in township economic development: Evidence from Ivory Park and Tembisa. South African Journal of Economic and Management Sciences, 1-14.

CBOE, 2020. Vix Global Stock Market Volatility Index. [Online] [Accessed 30 April 2020].

IMF, 2020. World economic outlook. [Online]. Available at: https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020 [Accessed 26 April 2020].

Kruger, A., 2020. Our Uncertain future. [Online]. Available at: https://www.moneyweb.co.za/news/economy/our-uncertain-future/ [Accessed 30 April 2020].

Ndaezo, N. (2020, April 06). Township Liquor Stores Feel the Grating Effects of the Lockdown. Retrieved from Power987: https://www.power987.co.za/news/township-liquor-stores-feel-the-grating-effects-of-lockdown/

Petersen, L., & Charman, A. (2018). The scope and scale of the informal food economy of South African urban residential townships: Results of a small-area micro-enterprise census. Development Southern Africa, 1-23.

Phaphama SEDI. (2020, March 25). Retrieved from https://media-exp1.licdn.com/dms/document/C561FAQHCNF8Ne089yA/feedshare-document-pdf-analyzed/0?e=1588701600&v=beta&t=2DVY1ursXBJGuQcVcDkPu0tCb5fi4AFRwhKxNwhV8ao

Pietermaritzburg Economic Justice & Deginity. (2020). Food prices and public health messages in a time of Covid-19. Pietermaritzburg Economic Justice & Deginity.

PLASS. (2020, April 1). Food in the time of the coronavirus: Why we should be very, very afraid. Retrieved from PLAAS Institute for Poverty ,Land and Agrarian Studies : https://www.plaas.org.za/food-in-the-time-of-the-coronavirus-why-we-should-be-very-very-afraid/

Ramalepe, P. (2020). R30bn UIF lifeline for workers hit by coronavirus crackdown. Available at: https://m.fin24.com/Economy/South-Africa/r30bn-uif-lifeline-for-workers-hit-by-coronavirus-crackdown-20200324 [Accessed 15 April 2020]

Roodt, D. (2020). Ramaphosa's R500bn stimulus package: The good, the bad and the ugly. Available at: https://www.moneyweb.co.za/moneyweb-opinion/ramaphosas-r500bn-stimulus-package-the-good-the-bad-and-the-ugly/ [Accessed 25 April 2020]

Rudden, J., 2020. Change in global stock index values during coronavirus outbreak 2020. [Online] [Accessed 26 April 2020].

SARB, 2020. 10 years and longer daily average bond yields. [Online]. Available at: httpe://www.sarb.co.za [Accessed 1 May 2020].

SARB, 2020. Rand Per Us Dollar. [Online] [Accessed 26 April 2020].

Smith, E., 2020. Emerging market currencies have been hit by the coronavirus, but analysts say it's not all bad news. [Online]. Available at: https://www.cnbc.com/2020/04/14/emergingmarket-currencies-have-been-hammered-by-covid-19.html [Accessed 27 April 2020].

Sonnichsen, N., 2020. Weekly crude oil prices for Brent, OPEC basket, and WTI 2019-2020. [Online] Available at: https://www.statista.com/statistics/326017/weeklycrude-oil-prices/ [Accessed 26 April 2020].

Stats SA. (2019). Quarterly Labour Force Survey. Pretoria: Statistics South Africa.

Toyana, M., 2020. Rand, stocks rally as stimulus, easing lockdowns lift sentiment. [Online] [Accessed 26 April 2020].

Trenton, E. (2020, April 9). Unequal: The impact of the Covid-19 lockdown on the poor . Retrieved from Daily Maverick: https://www.dailymaverick.co.za/article/2020-04-09-unequal-the-impact-of-the-covid-19-lockdown-on-the-poor/

White & Case (2020). Relief packages and support to South Africans amid the COVID-19 pandemic. Available at: https://www.whitecase.com/publications/alert/relief-packages-and-support-south-africans-amid-covid-19-pandemic [Accessed 10 April 2020]

Zulu, L. (2020, April 29). South African Government. Retrieved from Minister Lindiwe Zulu: Coronavirus COVID-19 economic and social measures: https://www.gov.za/speeches/minister-lindiwe-zulu-coronavirus-covid-19-economic-and-social-measures-29-apr-2020-0000

Appendix

Table 1: Summary of Monetary Policy interventions in the midst of COVID 19 pandemic across the world				
Name of the country and/or central bank	**Intervention**	**Resulting figures**		**Period/pm**
		Rate	**Amount**	
South Africa - SARB	Interest rate (Repo) cut by 25 basis points from 6.5%	6.25%	R0	Jan-20
	Interest rate (Repo) cut by 25 basis points from 6.25%	5.25%	0	Mar-20
	Interest rate (Repo) cut by 25 basis points from 5.25%	4,25%	0	Apr-20
	Purchases of government bonds	0,00%	ZAR-R1bn	Mar-20
	Purchases of government bonds	0,00%	ZAR-R11bn	Apr-20
United States - Fed	Interest rate kept on hold at 1.5%	1.5%	0	Jan-20
	Interest rate cut to 1% from 1.5%	1,00%	0	Mar-20
	QE program - Asset purchases	0,00%	$700bn	Mar-20
	Interest rates cut to zero from 1%	0,00%	0	Mar-20
Europe - ECB	Interest rate kept on hold at 0%	0.00%	€ 0	Jan-20
	Introduced additional bond purchases	0,00%	€120bn	Mar-20
	Additional bond purchases	0,00%	€750bn	Mar-20
China - PBoC	Keeping interest rates on hold	4.15%	0	Jan-20
	Interest rate cut	2.4%	0	Feb-20
	Interest rate cut	2.2%	0	Mar-20
United Kingdom - BoE	Interest rate kept on hold at 0.75%	0.75%	0	Feb-20
	Interest rate cut	0.25%	0	Mar-20
	Interest rate cut	0.1%	0	Mar-20
	Interest rate cut	0.1%	0	Mar-20
Uruguay - Central Bank of Uruguay	Reduced reserve requirement to inject liquidity	0,00%	$300m	May-20
	Loan guarantees for SMMEs	0,00%	$2.5bn	May-20