

The impact of Covid-19 on the South African Economic Outlook

OVERVIEW

Declared a pandemic by the World Health Organization (WHO) on 11 March 2020, COVID-19 has become a global emergency, given its impact on the entire world population and the economy. According to scenario simulations of the International Monetary Fund (IMF), global growth could fall by 0.5 for the year 2020. Several other sources are also predicting a fall in global growth due to the direct effects of the COVID-19 outbreak.

GDP	-1.4%
CPI	4.1%
Unemployment	26.7%

Latest World Economic Outlook Growth Projections

The COVID-19 pandemic will severely impact growth across all regions.

(real GDP, annual percent change)	PROJECTIONS		
	2019	2020	2021
World Output	2.9	-3.0	5.8
Advanced Economies	1.7	-6.1	4.5
United States	2.3	-5.9	4.7
Euro Area	1.2	-7.5	4.7
Germany	0.6	-7.0	5.2
France	1.3	-7.2	4.5
Italy	0.3	-9.1	4.8
Spain	2.0	-8.0	4.3
Japan	0.7	-5.2	3.0
United Kingdom	1.4	-6.5	4.0
Canada	1.6	-6.2	4.2
Other Advanced Economies	1.7	-4.6	4.5
Emerging Markets and Developing Economies	3.7	-1.0	6.6
Emerging and Developing Asia	5.5	1.0	8.5
China	6.1	1.2	9.2
India	4.2	1.9	7.4
ASEAN-5	4.8	-0.6	7.8
Emerging and Developing Europe	2.1	-5.2	4.2
Russia	1.3	-5.5	3.5
Latin America and the Caribbean	0.1	-5.2	3.4
Brazil	1.1	-5.3	2.9
Mexico	-0.1	-6.6	3.0
Middle East and Central Asia	1.2	-2.8	4.0
Saudi Arabia	0.3	-2.3	2.9
Sub-Saharan Africa	3.1	-1.6	4.1
Nigeria	2.2	-3.4	2.4
South Africa	0.2	-5.8	4.0
Low-Income Developing Countries	5.1	0.4	5.6



- As a result of the pandemic, the global economy is projected to contract sharply by -3% and SA by -5.8% in 2020, much worse than during the 2008-09 financial crisis which was by only -0.1% and -1.5% respectively
- In a baseline scenario, which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually eased, the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support
- The acute economic fallout in specific sectors will require policymakers to implement substantial targeted fiscal, monetary, and financial market measures to support affected households and businesses domestically

Fiscal policy and Monetary Policy

- Spending on healthcare and "other frontline services" to be increased by R20 billion
- A total of R50 billion will be made available to top up social grants and provide social relief for six months
- A total of R40 billion will be provided from the UIF
- A loan guarantee scheme (in partnership with commercial banks) made to assist businesses with a turnover of less than R300 million to meet their operational expenses
- Treasury has provided a guarantee of R100 billion to the scheme, initially, and there is an option to increase the guarantee of R200 billion to the scheme if impactful
- Government has also set aside R100 billion to support small businesses
- A total of R25 billion is set aside to support municipalities
- R70 billion tax relief measures

Table 3: Funding sources for the COVID-19 fiscal response package

	R million
Credit Guarantee Scheme	200 000
Baseline reprioritisation	130 000
Borrowings from multilateral finance institutions and development banks ¹ for business support, job creation and protection	95 000
Additional transfers and subsidies from the social security funds	60 000
Available funds in the Department of Social Development 2020/21 appropriation	15 000
Total	500 000

1. International Monetary Fund, World Bank and the New Development Bank
Source: National Treasury



Source: IMF, World Economic Outlook, April 2020

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