MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEAKING NOTES: THE GLOBAL ECONOMIC OUTLOOK AND AFRICA: 2021 AND BEYOND

MINISTER'S Speaking notes • 25 April 2021

Global Outlook

1. **Key message:** the global recovery is stronger than previously expected, but not all countries are recovering at the same rate. Some are forging ahead, while others are being left behind. Like many African countries, South Africa has a significant opportunity to benefit from the combined effect of a faster global recovery, high commodity prices, and easy monetary conditions. But taking this opportunity will depend on our ability to implement domestic reforms. At the same, there are many risks to the outlook, including the ongoing Covid-19 pandemic, and uncertainty about the sustainability of emerging market debt in a period of rising global interest rates.
2. **Latest global figures support a more optimistic outlook:**
   - 2.1. IMF Apr World Economic Outlook (WEO): global growth of 6.0% for 2021, reflecting surprisingly rapid recoveries in advanced economies (AEs) and China
   - 2.2. Advanced Economies (AE) 2021 growth revised up to 5.1% on stimulus and vaccine rollout
   - 2.3. In the US pre-pandemic output levels are expected this year, as sizeable fiscal stimulus drives faster-than-expected recovery.
   - 2.4. China will continue to expand (forecast at 8.4% in 2021) off the back of state-sponsored investment drive and pent-up demand.
3. **Some countries that were forecast to bounce back strongly however, have seen significant Covid-related setbacks**
   - 3.1. Japanese recovery was seen to be gaining momentum, with manufacturing expanding moderately and the decline in services easing, but are now considering implementing states of emergency in several regions.
   - 3.2. India forecast to grow at 12.5% in the April IMF WEO, has subsequently seen a surge in both Covid-19 infections and deaths, currently faces a severe shortage of medical oxygen and has imposed several regional lockdowns
4. **In Africa, this same divergence of outcomes is evident. The Covid-19 induced economic contraction did not impact all countries equally.**
   - 4.1. Some African countries incl. SA, Zimbabwe, Lesotho and Algeria fall into the "severely affected" category (i.e. contractions of more than 4% of GDP in 2020), while others incl. Ghana, Kenya, Angola, Egypt and Eswatini suffered only "moderate" or no effects (i.e less than 4%)
   - 4.2. Without faster growth, South Africa is unlikely to reach 2019 output levels before 2023

Continental Outlook

5. **The IMF April WEO forecasts growth for Sub-Saharan Africa of 3.4% and 4% in 2021 and 2022 respectively, below the global forecasts of 6.0% and 4.4% and the emerging and developing markets figures of 6.7% and 5.0%.**
   5.1. Among the major regional economies:
      5.1.1. Nigeria only saw a decline of 1.8% in 2020, but is expected to grow at a modest 2.5% and 2.3% in the following 2 years supported by higher oil prices.
      5.1.2. South Africa was harder hit, contracting 7% in 2020, and is forecast by the IMF to see growth of 3.1% and 2.0% in the coming years.
   5.2. Even within Africa, there is significant disparity between those forging ahead and those being left behind.
      5.2.1. Kenya remains one of the fastest-growing economies in Africa, and is expected to bounce back to almost 8% growth in 2021. The expected rebound is premised on the normalisation of economic activity due to a full reopening of the economy - driven by recovery through key sectors with mining, construction and agriculture already showing strong improvements; the successful implementation of its Economic Recovery Strategy; and the country capitalizing on an expected improvement in external liquidity and benefiting from initiatives to meet its external financing needs.
      5.2.2. Zambia expects growth of only 0.6% in 2021, reflecting falling demand for copper, high inflation, wide fiscal deficits, unsustainable debt levels

Domestic Outlook

6. **South African recovery lagging other comparable countries**
   6.1. Sectoral recovery underway with agriculture only sector to grow for 4 consecutive quarters
   6.2. But economy remains smaller than in 2019
   6.3. Growth prospects are significantly hampered by ongoing energy constraints
   6.4. **South Africa's real GDP per capita stopped growing in 2007 and has fallen to its 2005 level. By contrast, other emerging markets have more than doubled per capita income over the past two decades.**
   6.5. **SA's decline reflects low economic growth combined with relatively fast population growth.**
   6.6. **Covid-19 and the impact on economic growth has further worsened these trends.**
   6.7. **Enabling embedded generation projects within the next 12 months is urgent to drastically reduce load shedding over the short to medium term – and is therefore the only way to enable an economic recovery.**
7. **Inflation remains benign, with pressure from food prices and administered prices (electricity)**
   7.1. **Some emerging market central banks have begun raising interest rates due to higher international food prices and energy prices, and possible inflationary pressures from the US**

7.2. **South Africa has left rates unchanged from the 2020 lows while other countries central banks have raised rates.** SA monetary policy continues to support growth

7.3. **Relatively attractive interest rates saw the rand recover to near pre-pandemic levels by the end of 2020 – approaching the EM currency index**

7.4. **Since the beginning of the year emerging market currency appreciation has slowed as a result of rising inflation expectations and yields in advanced economies. This has resulted in a fair degree of rand volatility since the beginning of the year.**

8. **Global conditions support SA's bond issuance strategy, despite rising yields in the US**
9. Tax revenue was above target for 2020/21, mainly due to higher commodity prices and smaller shortfalls on personal income tax
10. Significant progress for Operation Vulindlela (Open the Way), but greater urgency is needed on reforms
11. **Areas of progress under Operation:**
    Revised Critical Skills List published for public comment in February 2021 (DHA)

    Successful bidders announced for RMIPPP and RFP released for Bid Window 5 of the REIPPPP (DMRE)

    Switch-off dates established for analogue transmission towers to enable the completion of digital migration (DCDT)

    Intensive engagements underway with DPE, DOT and Transnet to enable the corporatization of the National Ports Authority

    Eskom making good progress on maintenance programme and restructuring (DPE)

    Substantial work on streamlining water use license applications and preparing draft legislation and business case for the Water Resources Infrastructure Agency (DWS)

Key Risks

12. **Global financial conditions have been supportive for emerging markets**
    12.1. Specifically, extremely accommodative monetary policy in AEs has provided excess global liquidity and a resultant "search-for-yield" that has supported capital flows to EMs.
13. **However, early 2021 saw rising inflation expectations and therefore yields in some AEs, particularly the US.**
14. **The Federal Reserve has repeatedly re-affirmed its commitment to accommodative policy in the short term (forecasting no rate increases until the end of 2023), but the possibility of rising AE yields poses a significant threat to EMs, particularly those such as SA that are already under extreme fiscal pressure.**
    14.1. Some emerging market central banks have begun raising interest rates due to higher international food and energy prices, and possible inflationary pressures from the US, notably Russia, Brazil and Turkey.

14.2. South Africa has left rates unchanged from the 2020 lows which provides additional monetary policy support for the recovery.

14.3. A “taper tantrum” as experienced in the years after the GFC could put significant strain on our public finances.

15. Countries such as South Africa that rely to a large degree on commodity exports have benefited from the commodity cycle.

15.1. Specifically, the rebound in particularly Chinese manufacturing has resulted in strong demand for mineral exports.

15.2. In combination with low import prices (particularly oil), this resulted in significant terms-of-trade gains in 2020.

16. With oil prices returning to pre-pandemic levels, and continued OPEC+ supply cuts, these gains are likely to be eroded.

16.1. This has also played a large roll in South Africa’s gross tax revenue collections which were R38 billion above 2021 Budget Review expectations.

16.2. Positive revenue performance may end if commodity prices soften in the near future.

17. The pace of the Covid-19 vaccine rollout

17.1. Recent surges in Covid-19 infections and deaths in many countries including Japan and India, are a stark reminder that globally the pandemic is not yet under control.

17.2. South Africa has not yet experienced a third wave, but the risk remains.

How technological change impacts on the economy

18. Tomorrow’s economies will be driven by digital transformation across various sectors.

18.1. Increasingly, technology is at the centre of our daily lives. We all rely on computers, smart phones, tablets and other devices for many of our daily activities.

18.2. We use these to read and write, buy and sell, communicate and pay - this reflects a widespread wave of disruption across traditional sectors in the global economy that is upending conventional business models and industries.

18.3. For example, in South Africa, and elsewhere, traditional banking models are being overtaken by online and mobile banking, retail shopping is being displaced by e-commerce, education is being challenged by massive open online courses, also known as MOOCs.

18.4. Technology is redefining how economic activities occur across countries, and paving the way towards digital economies, at national, regional, and global levels.

19. A well-functioning digital economy can help accelerate achievement of shared prosperity and reduced poverty in South Africa and the rest of the continent.

19.1. With a well-functioning digital economy, African countries can achieve faster economic growth, offer innovative products and services, and create jobs and export revenue.

19.2. The digitisation of tasks and information can enhance the productivity of labour and capital, and reduce transaction costs because many the benefits of the digital economy are captured by companies in traditional industries.

19.3. Digital economies can also help accelerate poverty reduction. For example, the World Bank's Global Findex survey demonstrates that digital financial services can have a critical role in achieving financial inclusion.

19.4. In Sub-Saharan Africa, 43 percent of adults had an account at a bank or with a mobile money service provider in 2019, up from 34 percent in 2014.

19.5. Shifting cash into digital accounts for government payments, remittances and payments to small business can enable broad-based participation in the digital economy.

19.6. As we make digital financial services more accessible for lower-income segments of the population, and for women and smallholder farmers, we allow these individuals that are generally underserved by traditional financial services to benefit from digital transformation.

19.7. Digital payments can be safer, cheaper and more convenient, and potentially help households to build up savings balances.

20. Some points on leadership:

- As Minister of Finance of the Republic of South Africa, as with any leadership position, you are required to decide on the fundamentals and stick to them.
- Being a leader means being able to make difficult choices and negotiate tradeoffs, particularly in these difficult times.
- Innovative thinking and forging partnerships helps to move things along that would otherwise be stuck.
- Certain things are non-negotiable. This includes non-racialism and non-sexism. In South Africa and many other parts of our continent, economic transformation is essential for the advancement of society.
- Youth development should underline all that we do.
- Eliminating corruption in government and the private sector means we should all eschew the shameless pursuit of wealth at the expense of the poor.
- The Covid-19 pandemic has shown how interdependent we are on one another as a global community. Therefore narrow nationalism and xenophobia must be shunned.