

# 2

## Economic outlook

### In brief

- The National Treasury projects real economic growth of 3.3 per cent in 2021, from a low base of -7.2 per cent in 2020. Growth is forecast to moderate to 2.2 per cent in 2022.
- Global growth prospects have been boosted by additional policy stimulus and expectations that the rollout of COVID-19 vaccines will turn the tide against the pandemic and allow for greater economic activity.
- A successful vaccine rollout is likely to boost domestic economic growth, enabling renewed trade and releasing pent-up demand. Conversely, a slow, stuttering rollout poses the most significant threat to economic recovery.
- Operation Vulindlela is supporting the implementation of key structural reforms, but faster progress is required to generate an economic recovery.

### Overview

The South African economy contracted by an estimated 7.2 per cent in 2020 compared with the 7.8 per cent contraction projected in the 2020 *Medium Term Budget Policy Statement (MTBPS)*. The revised estimate is the result of the easing of lockdown restrictions in the third quarter and a faster-than-expected resumption of global growth, especially in China. Although economic recovery is expected to continue, output and employment will remain well below pre-pandemic levels until 2023, with considerable uncertainty surrounding the outlook.

The global economic effects of the COVID-19 pandemic are far-reaching and will likely be long-lasting. In South Africa, the large increase in unemployment and income losses has entrenched existing inequalities. Although government will conduct a mass vaccination campaign, the threat of resurgent waves of infection lingers, and the rollout is only expected to gather pace in the second half of 2021.

In the context of elevated uncertainty, the 2021 *Budget Review* supports economic recovery through immediate fiscal support and medium-term fiscal reforms. Government continues to provide relief to households and





businesses. The composition of spending shifts from consumption towards capital investment. And over time, the stabilisation of debt will reduce borrowing costs and the cost of capital, providing greater incentive for investment that can support the economy.

Apart from the direct health benefits, a successful vaccination programme will allow for the economy to fully reopen. Yet a faster recovery, characterised by growing investment and job creation, requires broader structural reforms to reverse the pattern of the last decade. Government’s economic reforms are designed to remove barriers to growth, lower the cost of doing business, bolster confidence and boost investment. A central reform is to restructure the electricity sector and ensure that sufficient electricity is generated to supply businesses and households. Unreliable electricity supply continues to throttle economic activity.

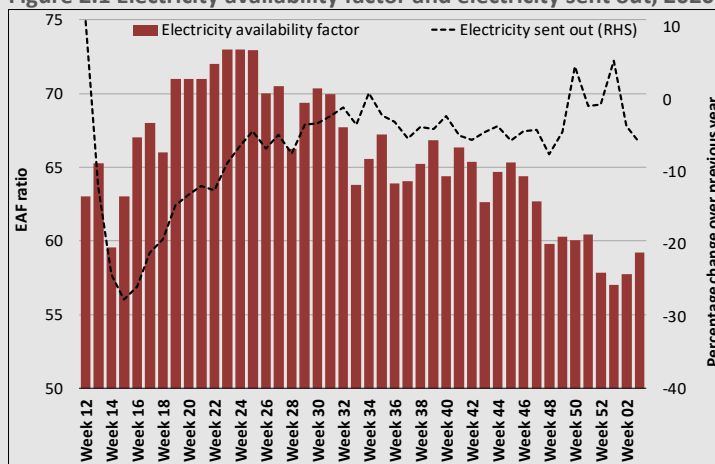
**Accelerating electricity reform to ensure sufficient power supply**

Comparing the difference in energy sent out<sup>1</sup> between 2020 and 2019 provides some indication of lower levels of electricity use in 2020 as a result of the lockdown, since businesses that consume a high percentage of electricity were not operating. Despite reduced economic activity, Eskom has been unable to meet demand. In 2020, load-shedding reached the highest levels since 2015, with a cumulative 52 days of Eskom power cuts (relative to 103 in 2015). The electricity availability factor (EAF), which measures plant availability, mostly remained below 2019 levels to average 65, relative to 67 in 2019, reflecting a deterioration in plant performance. Eskom is implementing a maintenance programme to improve generation performance, but significant improvements are only expected by September 2021.

As economic activity resumes, unreliable electricity supply is constraining recovery. Urgent reforms are required to alleviate this constraint. Operation Vulindlela is working to accelerate the following interventions:

- Reducing the administrative burden for generation projects under 50 megawatts (MW) while ensuring they meet the necessary environmental approvals and do not pose risks to the stability of the grid.
- Fast-tracking the procurement of additional electricity in line with the Integrated Resource Plan 2019.
- Improving municipal distribution infrastructure through private-sector investment and implementing a national programme to support electricity planning and procurement.

**Figure 2.1 Electricity availability factor and electricity sent out, 2020**



Source: Eskom

<sup>1</sup> Electricity sent out measures the percentage difference of energy sent out by Eskom – in this case between 2020 and 2019. A negative percentage indicates that energy sent out in 2020 was below energy sent out in the same period in 2019.

## ■ Structural reforms to promote economic recovery

Government's economic recovery plan, announced in October 2020, includes a comprehensive health response to save lives and curb the spread of the pandemic; interventions to restore economic activity while controlling the health risks; and reforms to support a sustainable, resilient and inclusive economy.



In the short term, the plan focuses on high-impact reforms: speeding up the expansion of electricity generation; creating jobs to sustain livelihoods; rolling out infrastructure aligned with the National Development Plan; and supporting manufacturing, localisation and beneficiation. Operation Vulindlela, a joint initiative of the Presidency and the National Treasury, is accelerating implementation of a key subset of these reforms.

### Progress on the economic recovery plan

#### Generating electricity

- Government will relieve the short-term electricity constraint by amending schedule 2 of the Electricity Regulation Act (2006) to ease embedded generation regulations for firms and municipalities. This will be done within three months.
- The Independent Power Producer Office will announce successful bids received for emergency power to compensate for Eskom's capacity shortfall in the coming few weeks. Projects are expected to generate power from July 2022.
- Divisional managers and boards of directors have been appointed to support the restructuring of Eskom.
- Government will initiate the procurement of 11 813 MW of new electricity capacity from independent power producers (IPPs) in the coming weeks, including 6 800 MW to be generated from renewable energy sources. In October 2020, electricity regulations were amended to enable municipalities to procure power from IPPs.

#### Creating employment

- By the end of January 2021, over 430 000 jobs of varying duration had been supported through the public employment initiative and an additional 180 000 jobs are in the recruitment process. Placements are in education, in programmes to reduce landfill waste, in the creative and cultural sector, and in business services.

#### Supporting industrial growth

- Investments have been made to support production in the poultry sector (R800 million); in clothing, textiles, footwear and leather (R500 million); and in the automotive sector (R16 billion). In addition, large users of sugar have agreed to procure at least 80 per cent of their supply from local growers.
- The Small Enterprise Finance Agency has provided R233 million in support to 26 small-scale local manufacturers and non-financial support to 66 local enterprises.

#### Infrastructure rollout

- An infrastructure investment project pipeline worth R340 billion in network industries such as energy, water, transport and telecommunications has been developed. The blended finance Infrastructure Fund is preparing investments in student housing, digital communications, and water and sanitation.

#### Creating an enabling business environment

- In the past year, 125 000 new companies have been registered through the BizPortal platform, which makes it easier to register a business online.
- Transnet is taking steps to ease congestion at the Port of Durban and reposition it as a southern hemisphere hub. It has begun improving port access roads, increased skills and capacity, and expanded operating hours.

### Decisive action on reforms will inspire confidence

While some progress has been made, decisive action on structural reforms is critical to strengthen the economic recovery, inspire investor and public confidence, and improve South Africa's growth trajectory. In addition to electricity reforms, Operation Vulindlela currently focuses on the following reforms:

- Ensuring that households using analogue televisions switch to digital signals by March 2022 so that there is sufficient spectrum to meet demand. Additional spectrum will reduce the cost and improve the quality of digital communications.
- Finalising policy to enable the rapid rollout of 5G infrastructure.
- Expanding the electronic visa system and waivers to support tourism.
- Reviewing the regulatory framework and processes that make it difficult to import scarce skills, including finalising the critical skills list.
- Finalising the draft White Paper on National Rail Policy to improve freight and commuter rail services.
- Corporatising the National Ports Authority and taking other measures to increase the efficiency and competitiveness of the ports.
- Reviving the Green Drop and Blue Drop programmes to strengthen water quality monitoring.

Operation Vulindlela will provide periodic progress reports on these reforms.

## Global outlook



The International Monetary Fund (IMF) expects global economic growth to rebound to 5.5 per cent in 2021 and 4.2 per cent in 2022, buoyed by additional policy stimulus and the expected rollout of COVID-19 vaccines. While these growth rates appear robust, they are largely a recovery following a 3.5 per cent contraction in 2020, and the recovery is expected to remain fragile and uneven across countries and regions.

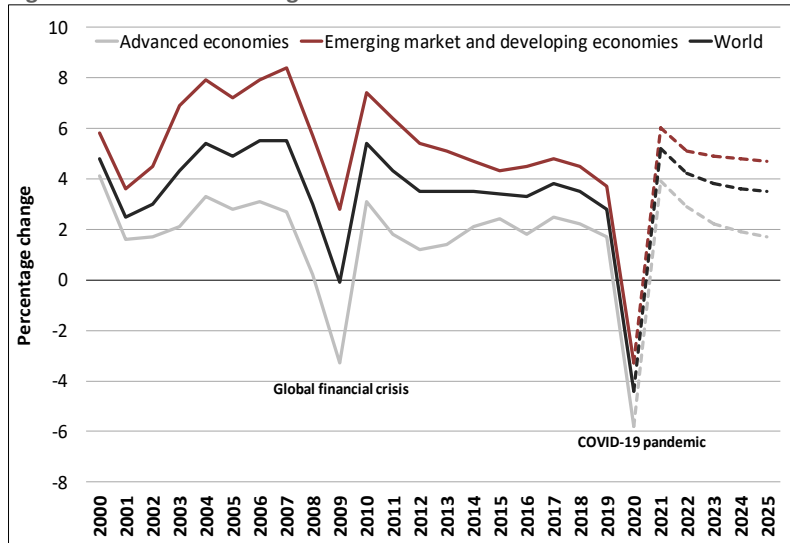
Resurgent spikes in infection rates have either halted or threaten the momentum from stronger-than-expected growth in the second half of 2020. Some countries have had to reimpose COVID-19 containment measures and several large economies – including the United States, the European Union, Japan and India – have recently announced additional stimulus measures.

Economic growth is expected to gain momentum during the second half of this year, but much depends on the efficacy of the vaccine rollout and the impact of stimulus measures.



Economic disruption from the pandemic is evident in the near 10 per cent decline in global trade volumes estimated for 2020 – the largest drop since the 2008 global financial crisis. Trade volumes are forecast to grow by 8.1 per cent this year before growth settles around 6 per cent in 2022. Subdued cross-border tourism and business travel means that a recovery in services trade will lag behind that of goods trade until virus transmission rates sustainably decline. Oil prices will be supported by rising demand as growth recovers, but remain below 2019 levels, while gold prices will moderate as safe-haven demand eases.

Figure 2.2 Global real GDP growth



Note: Dotted lines refer to forecasts

Source: IMF

Among major economies:

- The US is expected to approach 2019 levels of activity this year, due to expansive fiscal stimulus and accommodative monetary policy.
- The Euro area and Japan are only expected to reach 2019 levels of economic activity by 2023 – despite large stimulus – owing to differing responses to COVID-19 infections, low adaptability to a low-mobility economy and other structural rigidities.
- China is expected to spearhead a recovery among developing economies, with 8.1 per cent GDP growth forecast in 2021, premised on its significant state-led investment drive, central bank liquidity support and effective COVID-19 containment measures.
- India's economy has recovered more quickly than anticipated, and is expected to post growth of 11.5 per cent in 2021.

Public debt, which was already at elevated levels before the pandemic, rose sharply in 2020 as a result of large fiscal stimulus measures and falling tax revenues. Global public debt grew from 83.5 per cent of GDP in 2019 to 97.6 per cent of GDP in 2020. Many developing countries are vulnerable to debt distress and capital flight, particularly if risk aversion grows in global markets. Governments confront the challenge of balancing the risks from large and growing debt burdens with those from prematurely withdrawing fiscal support.



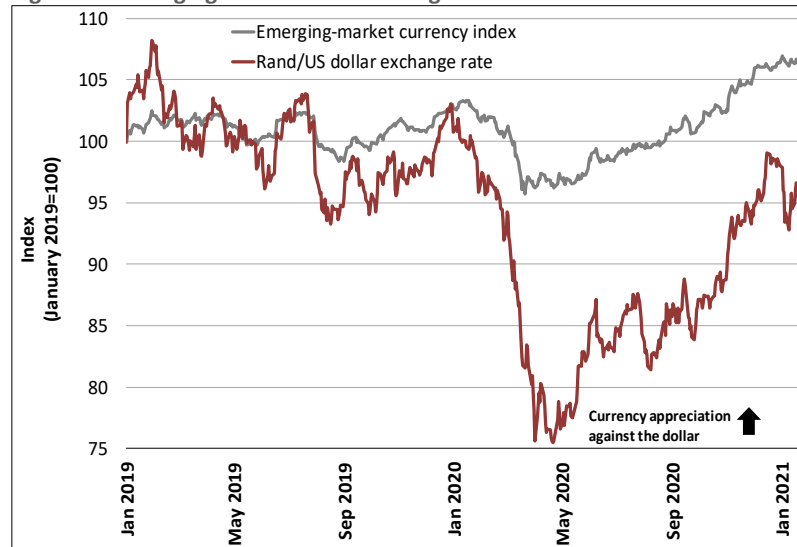
**Table 2.1 Economic growth in selected countries**

Region/country	2018	2019	2020	2021	2022
Percentage			Estimate	Forecast	
<b>World</b>	<b>3.5</b>	<b>2.8</b>	<b>-3.5</b>	<b>5.5</b>	<b>4.2</b>
<b>Advanced economies</b>	<b>2.2</b>	<b>1.6</b>	<b>-4.9</b>	<b>4.3</b>	<b>3.1</b>
United States	3.0	2.2	-3.4	5.1	2.5
Euro area	1.8	1.3	-7.2	4.2	3.6
United Kingdom	1.3	1.4	-10.0	4.5	5.0
Japan	0.3	0.3	-5.1	3.1	2.4
<b>Emerging and developing countries</b>	<b>4.5</b>	<b>3.6</b>	<b>-2.4</b>	<b>6.3</b>	<b>5.0</b>
Brazil	1.3	1.4	-4.5	3.6	2.6
Russia	2.5	1.3	-3.6	3.0	3.9
India	6.1	4.2	-8.0	11.5	6.8
China	6.8	6.0	2.3	8.1	5.6
<b>Sub-Saharan Africa</b>	<b>3.3</b>	<b>3.2</b>	<b>-2.6</b>	<b>3.2</b>	<b>3.9</b>
Nigeria	1.9	2.2	-3.2	1.5	2.5
South Africa <sup>1</sup>	0.8	0.2	-7.2	3.3	2.2
<b>World trade volumes</b>	<b>3.9</b>	<b>1.0</b>	<b>-9.6</b>	<b>8.1</b>	<b>6.3</b>

1. National Treasury forecast

Source: IMF World Economic Outlook, January 2021

Developing-country currencies have broadly recovered from the depreciation at the onset of the pandemic, supported by elevated global liquidity, but the rand is a notable exception. Country-specific risks, including weak pre-pandemic growth and fiscal sustainability concerns, have contributed to the rand's comparative underperformance.

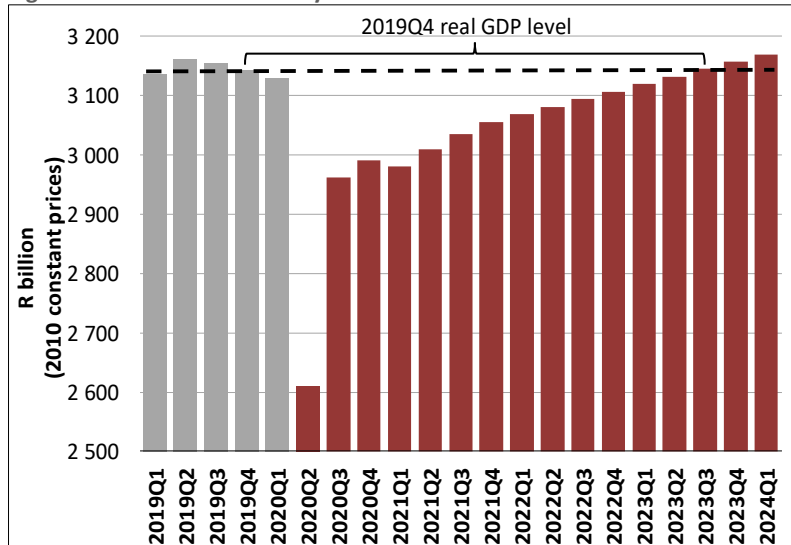
**Figure 2.3 Emerging market currencies against the US dollar**

Source: Bloomberg

## Domestic outlook

Owing to the combined effect of the sharp contraction in 2020 and lingering structural constraints to growth, South Africa's real GDP is not expected to return to pre-pandemic levels before the latter part of 2023.

Figure 2.4 Protracted recovery in GDP



Source: National Treasury calculations

The National Treasury projects real economic growth of 3.3 per cent this year, from a low base of -7.2 per cent in 2020. Household consumption is expected to return to moderate growth. Gross fixed-capital formation continues to decline, albeit to a lesser degree.

Table 2.2 Macroeconomic performance and projections

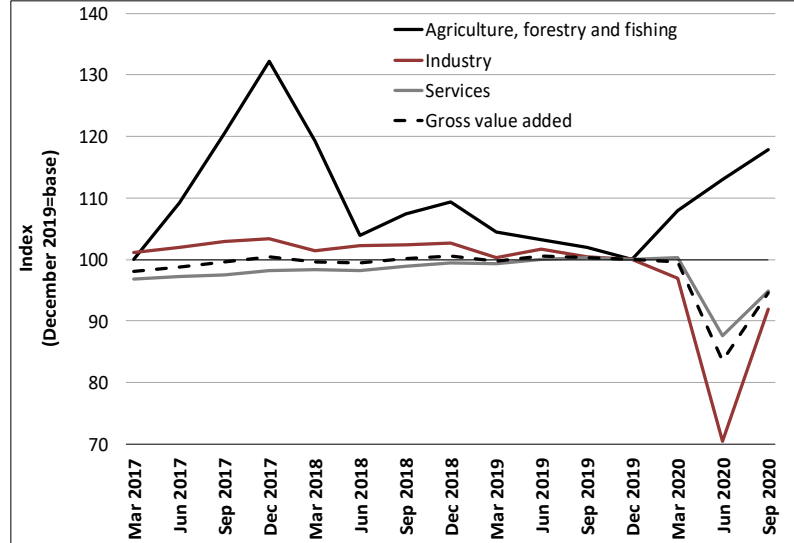
	2017	2018	2019	2020	2021	2022	2023
Percentage change		Actual		Estimate		Forecast	
Final household consumption	2.1	1.8	1.0	-5.9	2.9	2.4	2.0
Final government consumption	0.2	1.9	1.5	1.2	-0.1	-1.6	-1.7
Gross fixed-capital formation	1.0	-1.4	-0.9	-18.4	-2.4	3.9	3.9
Gross domestic expenditure	1.9	1.0	0.7	-8.9	3.5	2.7	1.6
Exports	-0.7	2.6	-2.5	-10.9	5.7	3.0	2.8
Imports	1.0	3.3	-0.5	-16.5	6.3	4.6	2.5
<b>Real GDP growth</b>	<b>1.4</b>	<b>0.8</b>	<b>0.2</b>	<b>-7.2</b>	<b>3.3</b>	<b>2.2</b>	<b>1.6</b>
GDP inflation	5.3	3.9	4.0	4.6	3.5	3.7	4.1
<b>GDP at current prices (R billion)</b>	<b>4 654</b>	<b>4 874</b>	<b>5 078</b>	<b>4 935</b>	<b>5 273</b>	<b>5 590</b>	<b>5 915</b>
CPI inflation	5.3	4.6	4.1	3.3	3.9	4.2	4.4
Current account balance (% of GDP)	-2.5	-3.5	-3.0	1.7	-0.1	-1.0	-1.4

Sources: National Treasury, Reserve Bank and Statistics South Africa

After a steep drop in the second quarter of 2020 due to lockdown restrictions, economic activity resumed in the third quarter. While GDP growth was higher than expected, output has yet to return to pre-pandemic levels. Industrial sectors (which include mining, manufacturing, construction and utilities) lagged substantially, undermined by structural constraints – including unreliable electricity supply and weak public investment – that preceded the pandemic.

Lingering economic constraints, such as the weak labour market, financially distressed public corporations, and fragile business and consumer confidence will contribute to domestic growth moderating to 2.2 per cent in 2022 and 1.6 per cent in 2023.

Figure 2.5 South African gross value added



Note: Industry includes mining, manufacturing, construction and utilities sectors. Services includes trade, transport, finance, general government and personal services sectors  
 Source: Statistics South Africa, National Treasury calculations

**Macroeconomic assumptions**

Table 2.3 outlines the macroeconomic assumptions underlying the forecast. The upturn in global activity is expected to spur global oil prices, raising South Africa’s import bill and weakening the terms of trade. Higher nominal investment by public corporations is anticipated in line with government’s stated intent to shift the composition of expenditure.

**Table 2.3 Assumptions informing the economic forecast**

Percentage change	2018	2019	2020	2021	2022	2023
	Actual		Estimate	Forecast		
Global demand <sup>1</sup>	4.6	3.2	-2.4	6.3	4.5	4.4
International commodity prices <sup>2</sup>						
Oil	71.0	64.3	44.3	58.1	56.4	55.3
Gold	1 269.3	1 392.5	1 778.5	1 893.8	1 909.7	1 926.7
Platinum	880.7	863.8	914.1	1 086.2	1 100.2	1 115.8
Coal	95.0	69.2	67.2	76.3	74.0	73.5
Iron ore	65.1	94.6	116.6	148.6	123.7	108.7
Food and non-alcoholic beverages	3.6	3.4	4.5	4.8	4.5	4.7
Sovereign risk premium	3.1	3.2	4.9	4.2	3.9	3.6
Public corporation investment	-9.1	1.3	-25.6	5.5	8.8	6.5

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, October 2020)

2. Bloomberg futures prices as at 21 January 2021

Source: National Treasury, Bloomberg and Statistics South Africa



### Economic scenarios

The National Treasury has modelled two scenarios in addition to the baseline forecast:

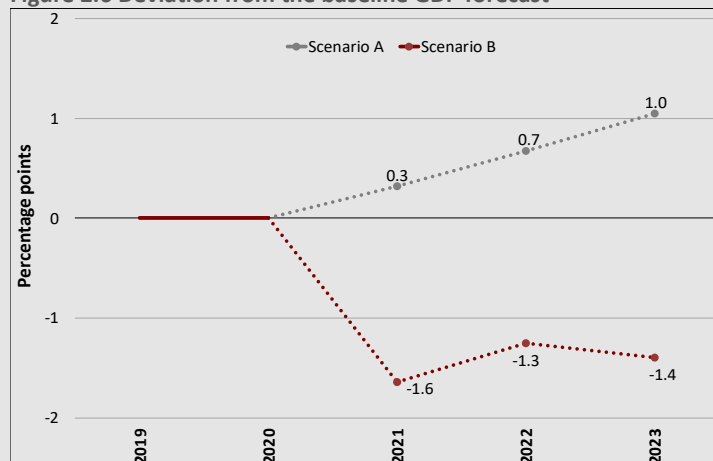
#### Rapid increases in electricity supply and faster reform implementation boost growth

In *Scenario A*, fiscal reforms discussed in Chapter 3 are complemented by essential economic reforms. Rapid regulatory adjustments, including raising licensing thresholds, could ease the impact of load-shedding on firms and households. Implementation of economic reforms improves confidence and the sovereign risk premium, lowering overall borrowing costs. Private-sector investment and consumption increase, reflecting more durable and sustained growth levels. Real GDP growth reaches 3.6 per cent in 2021. The long-run gains accumulate over time as the reforms are entrenched.

#### Additional COVID-19 waves and associated mitigation measures throttle the economy

*Scenario B* reflects the effects of two more waves of COVID-19 infections, assuming the vaccine rollout has a limited effect on stemming the spread of infections. This requires stricter mitigation measures that depress economic activity. In this scenario, vaccine rollout only gains traction in 2022. Economic recovery is delayed and the momentum from late 2020 is reversed, leading to long-lasting effects and further reducing growth potential. The hospitality and tourism, entertainment, trade, services and transport sectors are particularly negatively affected. The economy grows by only 1.6 per cent in 2021, with a base effect into 2022. Production levels remain lower than currently forecast over the long run.

Figure 2.6 Deviation from the baseline GDP forecast



Source: National Treasury calculations

### Household consumption

Household consumption grew by 69.5 per cent in the third quarter compared with the previous quarter, but remains below pre-pandemic levels. Consumer confidence has partially recovered, but consumers remain apprehensive about making large, discretionary purchases. Despite the lowest nominal interest rates in decades, households appear reluctant to take up credit amid threats of job losses, dwindling future incomes and a reduced ability to service debts. Household credit growth in 2020 slowed to less than half of its 2019 rate. In addition, increases in nominal incomes were not fully spent, with household savings as a share of disposable income reaching a 15-year high.

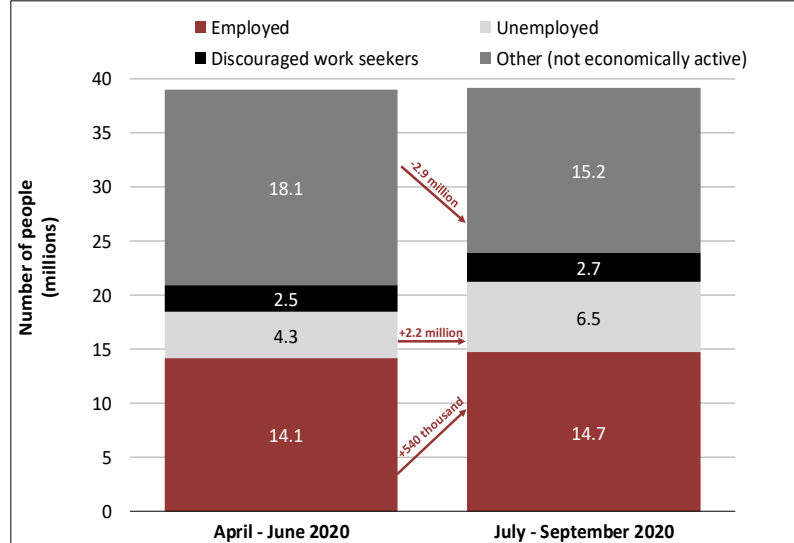


A durable recovery in household consumption depends on a sustained improvement in employment and incomes.

### Employment

In the third quarter of 2020, the official unemployment rate rose to 30.8 per cent. The number of unemployed jumped from 4.3 million to 6.5 million, as many who were previously classified as “other not economically active” rejoined the labour force, but could not find work.

Figure 2.7 South African labour market dynamics



Source: Statistics South Africa



Despite easing lockdown restrictions, by the third quarter of 2020 there were 1.7 million fewer jobs than in the same period in 2019. Of the employed, 12 per cent of workers received no pay from their employers in the third quarter (from 17.6 per cent in the second quarter) of 2020. Furthermore, nearly one in five of the workers who did receive pay reported a reduced salary. The labour market effects stemming from COVID-19 are particularly severe for low-skilled workers in high-risk occupations, deepening existing inequalities across age, education, gender and race.

The third wave of the National Income Dynamics Study – Coronavirus Rapid Mobile survey showed large shifts in labour market participants during 2020. Half of the workers who lost jobs in April 2020 due to lockdown restrictions remained unemployed by October, while about a third of workers employed in October had been unemployed in February.

**Competition can improve productivity and employment outcomes**

Certain sectors have remained relatively concentrated since the end of apartheid, with newer and smaller firms unable to successfully compete against larger firms that benefit from scale and other advantages.

Recent research<sup>1</sup> suggests that larger companies, firms that export most of their products and those with a higher market share drove higher markups. These markups were associated with a significant, negative effect on productivity, employment and wage growth in manufacturing. These findings highlight the far-reaching effects that lack of competition has on economic outcomes and the importance of sound regulation.

To address these distortions, the Competition Commission is developing interventions such as eliminating exclusive leases, lowering data prices, monitoring prices of essential goods and investigating price gouging. The economic recovery plan, in line with these findings, recommends support for small and medium-sized enterprises, cooperatives and startups to facilitate inclusive growth. A more competitive economy will enable higher growth and job creation while providing consumers with lower prices and more product choice.

1. S. Dauda, S. Nyman and A. Cassim (National Treasury). 2019. Product Market Competition, Productivity, and Jobs: The Case of South Africa. Policy Research Working Paper, No. 9084. World Bank, Washington, DC.

A broad economic recovery remains a necessary – but not sufficient – condition for sustained improvement in labour market conditions. Without accelerating the implementation of growth- and employment-

enabling reforms, job growth will remain very low in line with modest average GDP growth over the medium term.

### Inflation

Lower fuel and services inflation have helped to contain inflation and inflation expectations well below the midpoint of the Reserve Bank's 3 to 6 per cent inflation target range, preserving household purchasing power. Headline inflation averaged 3.3 per cent in 2020, its lowest annual rate since 2005. Risks to the inflation outlook are relatively balanced. While food, electricity and administrative prices are forecast to rise, inflationary pressure will be contained by low levels of domestic demand.



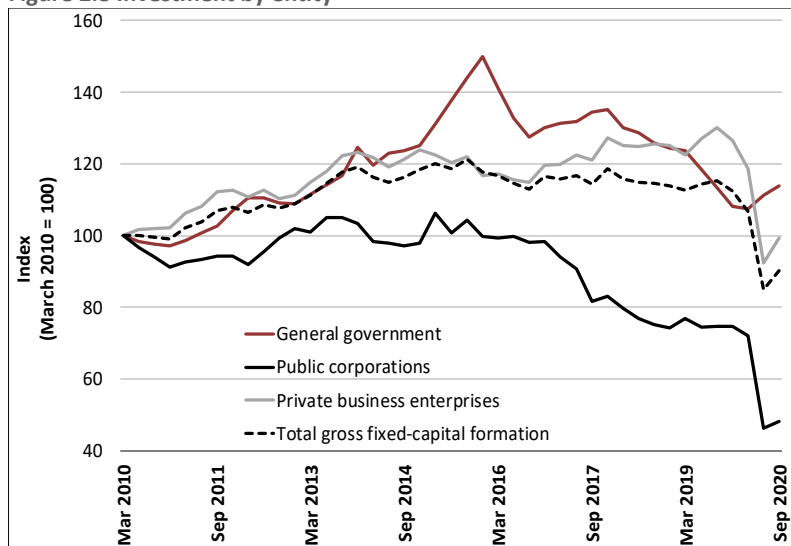
### Investment

After contracting by 59.8 per cent in the second quarter, gross fixed-capital formation rebounded by 26.5 per cent in the third quarter, spurred by the resumption of residential, non-residential and construction works. Nonetheless, investment spending remains below the levels that preceded the pandemic, and 2020 will mark the third consecutive year of decline.



Persistent electricity interruptions, low confidence and low capital spending from public corporations contribute to the expected decline in 2021. While state-owned companies have attributed recent contractions in investment to COVID-19-related restrictions in the construction sector, longstanding project delays and credit rating downgrades will significantly slow their capital expenditure programmes. The implementation of outstanding policy initiatives, energy investments and a gradual improvement in confidence will boost investment in 2022 and 2023.

Figure 2.8 Investment by entity



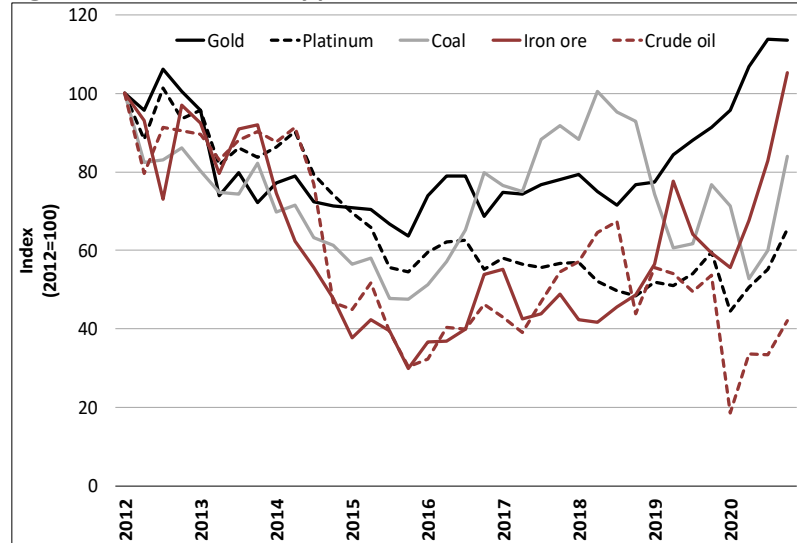
Source: Statistics South Africa, National Treasury calculations

### Current account

Exports were an economic bright spot in the third quarter, buoyed by higher demand and prices for key commodities – including gold, which benefited from safe-haven status (Figure 2.9). As global trade picked up, COVID-19 restrictions on domestic production were reduced and

economic activity started to recover among key trading partners. Coupled with reduced spending on imports, supported by softer oil prices, South Africa is projected to record a 2020 current account surplus of 1.7 per cent of GDP – the first surplus in nearly 20 years.

Figure 2.9 Global commodity prices



Source: Bloomberg, National Treasury calculations

A recovery in global growth bodes well for sustained improvements in exports. But the current account is projected to return to a small deficit in 2021: import prices are expected to increase faster than export prices due to higher oil and food import prices, which worsen the terms of trade.

### Strong export performance does not depend solely on the rand exchange rate

Export-led growth has been identified as a key driver for economic growth and employment. The real exchange rate has historically been an important factor in driving growth of exports and imports. A weaker real exchange rate is expected to boost the value of exports while reducing the value of imports, improving the trade balance. However, its effectiveness depends on the responsiveness of exports and imports to a depreciating domestic currency.

Using detailed transaction data based on customs records, research<sup>1</sup> finds evidence of a low export response among South African manufacturers to the sustained rand depreciation between 2010 and 2014. This demonstrates that the economy cannot rely solely on currency depreciation to boost export performance and competitiveness. In particular, a weaker export relationship is found for exporters of resource-based manufactured products and those that export outside Africa. Small firms and non-resource-based exporters tended to be more responsive to the exchange rate.

To promote exports, support should be provided by improving the quality of and access to infrastructure; implementing new and renegotiated agreements in key markets; increasing awareness of South African products abroad; and improving access to export credit and credit insurance. These recommendations are in line with the National Treasury's paper, *Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa*.

1. L. Edwards and A. Hlatshwayo (National Treasury). 2020. *Exchange Rates and Firm Export Performance in South Africa*. SA-TIED Working Paper 89. Helsinki: UNU-WIDER.

The recent launch of the African Continental Free Trade Area may improve the trade outlook. This milestone agreement is intended to boost comparatively low levels of intra-African trade by lowering tariff and non-tariff barriers, and improving infrastructure to reduce red tape and lower costs. The World Bank estimates that full implementation of the trade pact may raise real incomes on the continent by 7 per cent

(about US\$450 billion), with real income gains of about 4 per cent for South Africa specifically, by 2035.

### Risks to the growth outlook

The negative risks to the outlook continue to outweigh the positive, with new waves of COVID-19 infections and associated disruptions to economic activity posing the most serious risk to growth. Effective collaboration is required to ensure a fair and effective vaccine rollout. Conversely, a successful rollout will provide a significant boost to economic growth.



Without implementation of structural reforms, private investment and economic growth are likely to grow slowly. Additional risks stem from years of low growth and rising public debt. These trends have raised the cost of borrowing, and contributed to the rand's divergence from otherwise improving emerging market currencies against the US dollar.

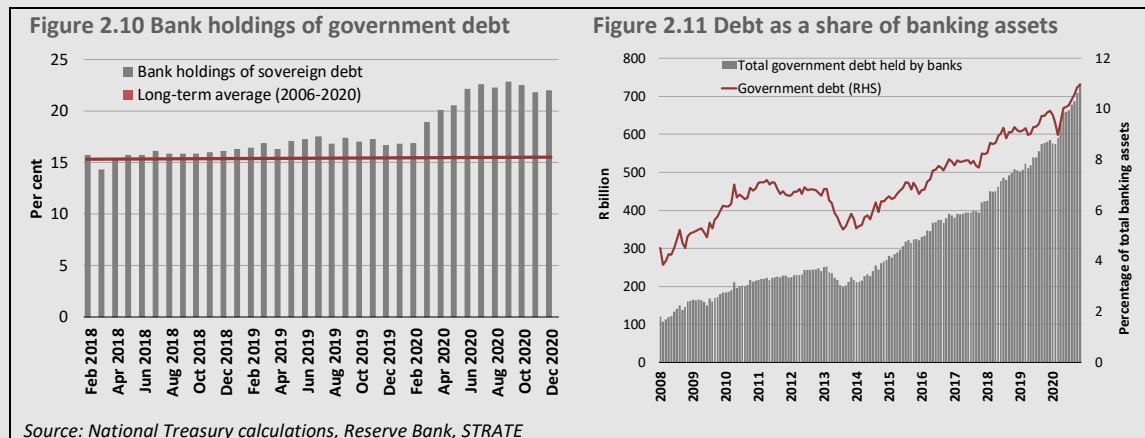
Further deterioration in the public finances would raise the risk of additional credit rating downgrades, which would increase borrowing costs and hamper government investment.

### Managing risk from higher bank holdings of government debt

Government borrows most of the financing it needs by issuing bonds. Purchasers of these bonds include foreign investors, banks, insurers and pension funds.

Foreign investors, the largest holders of government bonds, have lowered their relative share of South African sovereign debt following the onset of COVID-19 and the March 2020 credit rating downgrades that led to South Africa's exit from the World Government Bond Index. Domestic banks in turn have increased their share of government bond holdings from 16.8 per cent in January 2020 to 22 per cent in December 2020.

Any deterioration in the quality of this government debt would expose the banking sector to systemic risks. The fiscal consolidation measures (Chapter 3) and debt strategy (Chapter 7) proposed in the 2021 Budget will work to contain any such risks.



## Sector performance and outlook

### Agriculture

The agriculture sector recorded strong growth in 2020, with an annual gross value added of 11.3 per cent in the first three quarters of 2020 relative to the same period in 2019. Growth in each quarter was underpinned by production recoveries in horticulture, grain and livestock.



The outlook for 2021 is positive, although growth is not expected to match that of 2020. Favourable weather conditions and strong international demand for agricultural exports will continue to support production growth. Trade disruptions, for example through resumptions of global lockdowns, could threaten the sector's strong export performance. Over the medium term, policy uncertainty and non-tariff barriers such as quotas and quality standards pose challenges to the sector.



### **Mining**

Mining production contracted by 12.6 per cent in the first three quarters of 2020 compared to the same period in 2019. The sector posted a strong third-quarter recovery, following the easing of domestic and global lockdown restrictions. Higher commodity prices, particularly for gold and platinum group metals, and a weaker rand have improved profitability. Mining is likely to contract overall for a third consecutive year in 2020. Regulatory uncertainty, lack of investment and electricity shortages continue to hamper investment and output.



### **Manufacturing**

Manufacturing production contracted by 14 per cent in the first three quarters of 2020 compared with the same period a year earlier. Despite signs of recovery in the third quarter of 2020, weak demand continues to hamper performance, with year-on-year production declining for the eighteenth consecutive month in November 2020. Recurring load-shedding has limited output. The Bureau for Economic Research's manufacturing business confidence index rose between the third and fourth quarters of 2020, but remains below 50, indicating uncertainty around future business conditions.

### **Transport and telecommunications**

In the first three quarters of 2020, real value added in the transport and telecommunications sector contracted by 15.6 per cent compared to the same period in 2019. Lockdown restrictions on the movement of passengers and freight restricted transport activity and overall performance. The auction and licensing of high-demand spectrum is expected to support the sector, although load-shedding presents risks.



### **Construction**

Construction was hard hit by the lockdown regulations, with real value added falling by 20 per cent in the first three quarters of 2020. The outlook remains muted in the context of weak infrastructure investment and continued low confidence. The sector is expected to grow as government's initiatives to ramp up capital spending gather pace.

### **Finance**

Financial and business services contracted by 3.4 per cent in the first three quarters of 2020 compared with the same period in 2019. The sector's strong recovery in the third quarter of 2020 reflects easing financial conditions and reduced lockdown restrictions. While the sector is expected to remain resilient, worsening economic conditions could necessitate a reduction in the supply of credit to households and firms.

<b>Sector performance</b>						
<b>Percentage change</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020<sup>1</sup></b>
Agriculture, forestry and fishing	-5.9	-10.1	21.1	-4.8	-6.9	11.3
Mining and quarrying	3.3	-3.9	4.2	-1.7	-1.9	-13.8
Manufacturing	-0.4	0.8	-0.2	1.0	-0.8	-14.9
Electricity, gas and water	-1.9	-2.1	0.6	0.9	-2.0	-6.5
Construction	1.8	1.2	-0.6	-1.2	-3.3	-20.0
Trade, catering and accommodation	2.1	1.7	-0.3	0.6	–	-10.7
Transport, storage and communication	1.4	1.1	1.4	1.6	-0.4	-15.6
Finance, real estate and business services	2.1	1.9	2.1	1.8	2.3	-3.4
General government services	0.8	0.6	0.3	1.3	1.7	0.8
Personal services	0.9	1.8	1.3	1.0	1.0	-3.4
<b>Gross domestic product</b>	<b>1.2</b>	<b>0.4</b>	<b>1.4</b>	<b>0.8</b>	<b>0.2</b>	<b>-7.9</b>

*1. First three quarters*  
*Source: Statistics South Africa*

## Conclusion

The economic growth outlook remains highly uncertain. Short-term growth is highly dependent on the rollout of COVID-19 vaccines. Over the next several years, the country requires the implementation of long-standing structural reforms to sustainably move to a higher growth path.



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