NATIONAL COUNCIL OF PROVINCES

QUESTION FOR ORAL REPLY

QUESTION NUMBER: 66 [NO193E]

★66. Mr E Z Njadu (Western Cape State: ANC) to ask the Minister of Finance:

Why is the South African economy not projected to rebound as strongly as those of other developing countries such as China, India and some in the Southern African Development Community region?

CO193E

REPLY:

1. The strength of the recovery is expected to differ significantly across emerging markets and developing economies. These differences in recovery depend on access to medical interventions (e.g. COVID-19 vaccinations), effectiveness of policy support, linkages to regions where growth is rebounding at a quicker pace, dependence on services and tourism, exposure to commodity prices, and structural characteristics entering the crisis. Pre-pandemic structural impediments to growth are expected to slow South Africa’s recovery compared to other leading emerging markets and developing economies.

2. The recovery in emerging markets is expected to be mainly driven by China and India, which both entered the crisis on a higher level of potential output growth, while more subdued recoveries are expected in other leading emerging markets.

    a. The strong projected rebound in China is driven by effective measures to contain the pandemic, a public investment-led stimulus, central bank liquidity support, and a release of pent-up demand.
    b. India's GDP growth rebound in mainly driven by supportive base effects, returning confidence, and the carryover momentum from a stronger-than-expected recovery in the second half of 2020 after lockdown restrictions were eased.
    c. Meanwhile, Russia's economic recovery is expected to accelerate in 2021 as the second wave of the pandemic recedes, vaccinations become more widely available, and oil supply cuts are narrowed.
    d. The risks to Brazil's 2021 growth outlook are tilted to the downside due to a severe second wave coupled with the emergence of a new variant of the virus in the first quarter of 2021. Fiscal vulnerabilities, which have been exacerbated by the

policy response to the pandemic, and a lack of progress on structural reforms could constrain investment and future growth further.

3. The hardest hit countries in Sub-Saharan Africa have been those with large domestic outbreaks of the virus, those heavily dependent on travel and tourism, as well as commodity exporters, particularly oil (i.e. Angola, Botswana, Mauritius, Nigeria, Seychelles, South Africa, Zambia).

4. Projected growth in Sub-Saharan Africa will be mainly driven by increased exports, a recovery in commodity prices and a rebound in consumption and investment. However, persistent outbreaks in several countries, the expectation for the vaccine rollout to lag that of advanced and major emerging markets and developing economies due to logistical and procurement constraints, and scarring effects on potential output growth is expected to dampen growth in 2021 and over the longer term. This is particularly true for Nigeria and South Africa, the region's two largest economies.

5. Elsewhere in the region, the rebound is forecast to be somewhat more pronounced as the headwinds related to the pandemic gradually fade,

oil prices and external demand recovers, while higher international food prices are exported to support countries more reliant on agricultural commodity exports.

6. South Africa's recovery path to pre-crisis GDP levels is expected to be slow and arduous when compared to many other countries due to challenges in containing further waves of the pandemic, pre-existing structural constraints (i.e. persistent power-supply disruptions), slow implementation of structural reforms, weak consumer and business confidence, and constrained public finances.

7. The electricity reforms are the most urgent priority for economic recovery in the short to medium term. However, the implementation of economic reforms beyond the electricity and existing fiscal reforms will improve overall confidence levels in the economy and improve the country's growth outcomes. Collectively, these will support a substantial easing of sovereign risk sentiment and lowering of overall borrowing costs. In addition, the successful rollout of government's vaccination programme will boost confidence and growth over the outlook.