



Economic Digest 12

May 26th 2020

Responding to the Pandemic's Economic Effects

While the rate of COVID-19 infections, the number of deaths from the virus, and the adjustments to lockdown levels are of the greatest immediate importance, the country also needs to be looking ahead to the time when we begin to emerge from the crisis. The government needs to borrow a lot of money to make up for tax losses and to pay for anti-COVID measures; mass unemployment must be tackled; and trade and food security issues must be addressed.

This time, the IMF is not to be feared

There are four fundraising possibilities: raise debt through government bond auctions; approach international financial institutions (IFIs) such as the IMF and World Bank; approach individual countries for bilateral loans; or sell government debt to the Reserve Bank (quantitative easing, QE). The treasury has clarified that it is seeking R95-billion in credit from international financial institutions. The government must choose the cheapest way to fund this debt, and the IMF is offering loans at a zero interest rate. Despite the strong aversion of some members of the tripartite alliance to dealing with the IMF, this offer is too good to refuse.

<https://tinyurl.com/yctek7mo>

How worried should we be about South Africa's ability to recover from COVID-19?

No-one knows what the long-term economic effects of the COVID-19 epidemic will be. The massive disruption attendant on a global lockdown has thrown supply chains into turmoil, pushed tens of millions of workers into (at least) temporary unemployment, and caused financial markets to gyrate wildly. What is certain is that South Africa's economy will shrink this year relative to last year.

<https://tinyurl.com/yaqlk9hp>

Risks of delaying Africa's free trade deal

The African Continental Free Trade Agreement (AfCFTA), launched in 2018, was supposed to be an exciting example of multilateral co-operation against a growing tide of nationalism and protectionist policies. Africa was meant to buck the trend of retreating globalism and integration by creating the largest free trade zone in the world. However the 1 July start of free trade has been pushed out to at

least 2021 as countries battle the effects of COVID-19. With the onset of the pandemic, policymakers were faced with a dilemma: push ahead or postpone? Both options have merits and pitfalls, creating a dilemma for policymakers. <https://tinyurl.com/ya54dz95>

COVID-19 is a looming food catastrophe

What makes the COVID-19 pandemic unique is that it is primarily a health crisis that has also fundamentally affected both the supply and demand side of the global economy. Wealthier countries have implemented financial relief programmes to support small and large businesses, including farmers, to help buffer the harsh impacts of the pandemic. In South Africa, the Department of Agriculture, Land Reform and Rural Development has ring-fenced R1.2-billion for financially distressed small-scale farmers. <https://tinyurl.com/ybjxnem7>

SA's COVID-19 stimulus package falls far short

The government's stimulus package should at least equal the expected shock to the South African economy. But at 4.1% of GDP, against the 17% benchmark, it is regarded by some as hopelessly inadequate. <https://tinyurl.com/ycok6epr>

Kenny Pasensie
Project Co-ordinator