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We must get out of this economic rut

Covid has made SA's economic morass even worse but the government response has been woeful – it's time to exploit our under-used resources

By **NTHABISENG MOLEKO**

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● The crippling effects of Covid-19 on most economies have seen governments employing countercyclical measures, adopting unprecedented levels of fiscal stimulus to boost economic activity. A McKinsey & Co report, "The $10-trillion rescue: How governments can deliver impact", ranked the level of relief as a percentage of GDP: Japan 21%, Germany 33%, US 12.1%, Brazil 5.5%, India 10% and France 14.6%.

Offsetting the contractions emanating from exogenous shocks requires the employment of tools and policy instruments that stimulate aggregate demand, such as cash transfers to households, debt restructuring for small, medium and micro enterprises and liquidity support for companies. Monetary policy action – relaxing adequacy requirements, aggressively reducing interest rates and providing quantitative easing – have been rapidly executed in an effort to quickly recover from the economic crisis.

SA's purported R500bn economic stimulus, as a proportion of GDP, shows disinvestment and real contraction on an annual basis. The stimulus was limited, an example being the credit guarantee scheme that was supposed to make up 40% of it – only R21bn was used in capital markets. This quite clearly points to no stimulus for capital markets and to the need for assessment and review of policy tools if we are serious about improving our economic trajectory.

In 2019 SA hit a new growth low of below 1% and the contraction last year was -7%; there has been nothing like it since World War 2. Covid-19 had an impact, but deeper analysis points to an economy that was already in crisis, worsened by lockdowns that halted economic activity and caused economic contraction and seismic job losses. Unemployment levels of 42.6% warrant a review of the adequacy of economic policy interventions and their implications on job creation.

It is surprising that despite the fall in national output, the worst unemployment levels since the start of the labour force survey and per capita GDP at levels last seen in 2005, we have still not recognised the urgent need for an alternative economic approach. This would include changes in planning and more decisive monitoring, coupled with new strategies for co-ordination.

Where is the National Command Council to aid co-ordination and improve responses from all levels of government on the ailing economy and its recovery? Where are the statistics that would allow the impact of economic interventions to be monitored at district, provincial and national level? Where are the economic interventions for provinces that require assistance and technical support? In the Eastern Cape, Mpumalanga, KwaZulu-Natal, Free State, Northern Cape and Limpopo unemployment has soared above 40%.

Covid-19 has shown us how the government responds to a crisis. The question is, do we believe that our interventions in an economic crisis will change the path we are on? Quite clearly the answer is no, because we have changed little, continuing on the same road we have travelled all along.

The scale of interventions is inadequate to respond to the level of crisis we are facing. It is time for the massification of good. A growth plan that will not yield a 6% rate or better should not be accepted; similarly, a target of halving poverty and reaching unemployment levels of less than 15% should be a non-negotiable.

Sophisticated, well-developed capital markets like those we have in SA do not necessarily imply economic growth. It can be argued that causality in SA has not yielded good enough growth gains. SA's capitalisation-to-GDP ratio, at more than 300%, is similar to those of developed capital markets. For Rwanda the ratio is 31%, for Nigeria 10%, for Kenya 26% and for Tunisia 22%; yet their economic growth and inequality levels are nowhere near as bad as SA's.

This points to under-utilisation of capital markets in developing the economy and inadequate use of domestic investment capital, which is both cheaper and denominated in local currency. Why are we not aggressively directing local capital to fund both infrastructure and productive investments that will enhance local growth, and in the long run trigger economic output?

There are several reasons to switch to different sources of finance, the first being that SA has reached junk status with negative outlooks from credit rating agencies – this will result in less willingness by international funds to invest in public debt issuance. Investors will seek other emerging markets whose risk premiums are within their appetite.

Second, the cost of servicing dollar-denominated debt is one of the reasons borrowing costs in SA remain high. Continuing to use multilateral agencies to finance the gap is a costly exercise.

The *Budget Review* estimates a borrowing requirement of R547.9bn in 2021, which will be funded from both domestic and foreign markets in the short and long term. This is an unnecessary burden on the fiscus. It means we are spending less on goods and services to help the poor while paying interest to the International Monetary Fund and the World Bank on the $4.3bn (about R65bn) we borrowed at the peak of the Covid pandemic.

The projections of improved debt-to-GDP ratios in the outer years are not based on expectations of improved productivity and economic output, but rather on a reduction in the budget deficit that will result from drastic cuts in public expenditure.

The increase in cash balances and revenue collection will not offset SA's constrained growth path, which is the primary reason for the deterioration in public finances. Inclusive growth should not just be a byword but the result of a new growth path.

What if the government were to implement industrial financing incentives, directed at both existing and new entrants, that increased annual investment in the manufacturing sector by R10bn per annum in the next decade? What if the Public Investment Corp, using Government Employee Pension Fund allocations, aggressively supported national development goals by channelling a significant proportion to an infrastructure asset class?

What if policy support focused on provincial strategies to build economic sectors that promote trade (not consumption), industrial development and the expansion of productive investments? What if the South African Reserve Bank targeted a dual mandate of full employment and inflation targeting to help the nation achieve the desired 6% growth rate?

One can only hope that we reach into our jar, as we have all the policy tools and capital market surpluses we need. It is up to us whether we do so, or remain in famine.

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