

**strategy&**

The background of the slide is a night-time photograph of a city skyline. A large, dark, stylized letter 'P' is superimposed on the right side of the image. The city lights are visible through the 'P' and in the background. The skyline includes various buildings, with one prominent skyscraper on the right that has a brightly lit top section. The overall color palette is dark with warm city lights and a cool blue/purple hue from the 'P' logo.

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# South Africa's economic outlook

**What can Budget 2021 do  
to help?**

16 February 2021



## Government as an enabler for growth: Fiscal policy support for private sector job creation

In his State of the Nation Address (SONA) on 11 February 2021, President Cyril Ramaphosa commented that the largest number of jobs created in the 2021 economic recovery will come from the private sector. He added that Government continues to work with the private sector to create a more conducive business environment as an enabler of job creation.

The president indicated that the social compact between the public and private sectors is underpinned by a clear commitment to grow the economy and to create jobs. President Ramaphosa also noted that the public sector has to stimulate private sector job creation through its policies. It is these policies — specifically fiscal policies announced in Budget 2021 — that can support business and consumer confidence and boost the economic recovery this year.

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The forecasts provided in this report are based on PwC South Africa Economics' house views for February 2021. These projections are updated on a monthly basis.

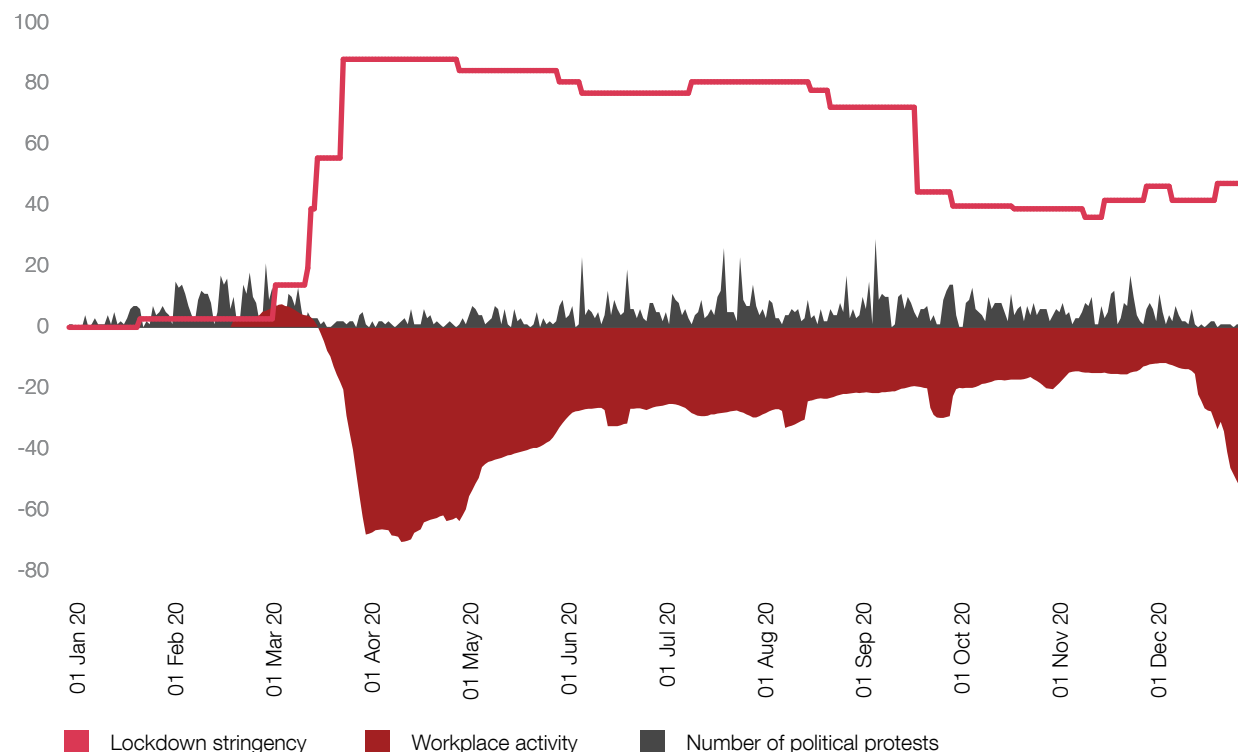
# How did we get here?

What happened to the  
economy in 2020?



## A strict pandemic lockdown sharply reduced workplace activity and cost South Africa 1.3m jobs

**Figure 1:** Daily lockdown indicators



Sources: Google Community Mobility, Armed Conflict Location & Event Data Project (ACLED), Oxford COVID-19 Government Response Tracker

**Notes:**

*Lockdown stringency* — an index from 0 to 100 (100 = most strict) calculated from nine indicators, including workplace closures, closures of public transport, stay-at-home requirements, and restrictions on internal movements, amongst others.

*Workplace activity* — the percentage change (7-day moving average) in activity and duration of stay at places of work compared to a reference period of January 3–February 6, based on location tracking by Android mobile phones.

*Number of political protests* — reported incidents of political violence and protest events.

In response to the health threats posed by rising COVID-19 infections, both locally and abroad, South Africa instituted a strict lockdown late in March. Data from the University of Oxford's Blavatnik School of Government indicates that over the period 27 March to 30 May 30 — encompassing Lockdown Alert Levels 5 and 4 — the country's lockdown rules were among the strictest 25% of countries in the world.

The restrictions on human movement and business activity resulted in a significant drop in workplace activity. Google Community Mobility data shows that during the second quarter, workplace activity was 45% lower compared to the pre-pandemic reference period. In addition to the millions of jobless in the country at the start of the year, an additional 2.2m people were without work during the April–June period. PwC estimates that only 900,000 of them returned to a job by year-end — a net loss of 1.3m jobs.

During the second half of 2020, the significant increase in unemployment as well as fewer restrictions on human movement fuelled a rise in societal discontent and associated protest action. While the Armed Conflict Location & Event Data Project (ACLED) classified most of these events as peaceful, the increase in protests underscored the severe economic damage of the pandemic.

## The economy deteriorated sharply from April, with some green shoots only appearing late in the year

**Figure 2:** Key monthly economic data (percentage change y-o-y)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
<b>Lockdown level</b>				5	4	3			2		1	
<b>Economy</b>												
Whole-economy PMI	-2.6	-3.6	-8.8	-30.2	-34.1	-14.5	-9.7	-8.9	0.4	3.2	3.5	5.5
Exports	13.5	10.8	11.1	-50.0	-9.4	9.3	9.8	9.4	22.4	20.5	17.6	21.9
Imports	2.1	0.8	-6.3	-18.1	-22.1	-32.6	-26.9	-20.8	-3.2	-5.8	-7.7	5.7
Transactions volume index	3.2	4.9	3.3	-12.9	-9.1	6.5	0.5	-2.8	3.2	8.8	-2.1	
Average transactions value index	3.5	2.3	4.5	-15.6	-15.2	-10.7	-5.5	-1.1	2.7	-5.4	5.0	
New vehicle sales	-5.0	0.2	-29.7	-98.4	-68.0	-30.7	-29.6	-26.3	-23.9	-25.4	-12.0	-10.1
Coincident business cycle indicator	-2.1	-2.8	-13.0	-33.9	-36.2	-30.3	-23.5	-16.5	-15.5	-14.7		
Leading business cycle indicator	-0.7	-2.1	-3.1	-10.2	-9.6	-4.7	-1.6	3.2	6.5	9.2	9.8	
<b>Industry</b>												
Mining production	7.4	6.3	-18.1	-50.3	-24.8	-25.2	-6.2	-3.4	-2.4	-5.9	-9.4	0.1
Mining sales	24.4	18.1	12.6	-30.1	-12.7	-13.4	10.4	19.7	26.8	31.2	15.6	23.8
Manufacturing production	-1.9	-2.1	-5.1	-48.9	-32.3	-13.2	-9.6	-10.4	-2.2	-3.9	-4.1	1.8
Manufacturing sales	-0.7	2.7	-5.2	-50.7	-30.6	-15.8	-11.4	-11.9	-1.7	-0.9	1.5	5.8
Freight transportation	-7.2	-4.9	-5.3	-39.7	-22.5	-18.6	-10.5	-11.9	-6.0	-8.7	-4.6	
<b>Consumer</b>												
Wholesale sales	2.6	1.4	-3.3	-42.0	-19.9	-2.9	-5.0	-3.8	0.0	-4.6	-2.2	
Retail sales	1.3	1.9	2.9	-49.9	-11.9	-7.2	-8.6	-4.1	-2.4	-2.3	-4.0	
Restaurants, coffee shops and catering sales	2.6	0.4	-31.4	-95.5	-86.6	-59.3	-50.9	-44.1	-39.0	-30.9	-36.3	
Tourist accommodation	4.9	6.4	-33.6	-98.6	-97.9	-95.0	-88.6	-80.6	-72.0	-66.3	-65.5	
Nominal take-home pay	12.6	9.8	4.3	2.6	3.4	7.9	5.6	4.3	1.7	6.3	3.8	5.4
Real take-home pay	8.3	5.2	-0.3	-1.4	0.3	5.3	3.1	1.5	-1.3	3.0	0.6	2.1
<b>Government</b>												
Total government revenues	15.1	6.7	4.6	-14.5	-29.7	-26.3	-14.8	-13.6	-10.2	-0.7	3.9	10.0
VAT revenues	33.7	28.4	6.5	-1.6	-38.6	-36.3	-13.5	2.2	-1.1	17.4	20.2	0.4
Electricity distribution	-2.5	1.0	-4.0	-22.8	-13.2	-5.8	-4.5	-2.4	-3.1	-2.8	-2.4	1.1

Sources: IHS Markit, Quantec, BankservAfrica, Naamsa, SARB, StatsSA

Notes: Updated 11 February 2021

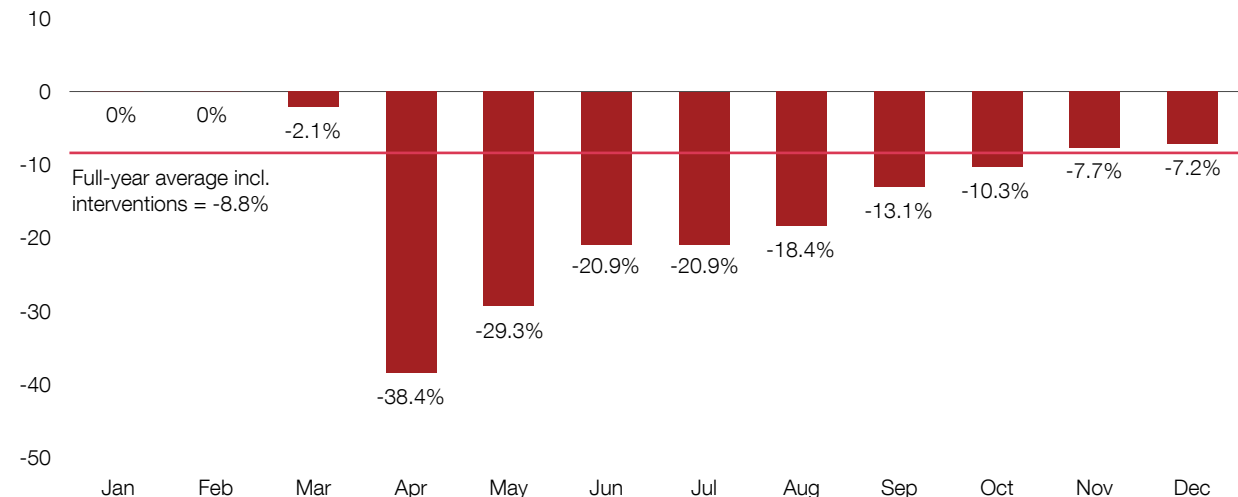
Monthly economic data reflect a sharp deterioration in economic conditions from April, with most indicators declining significantly during the second and third quarters compared to the same period in 2019. For example, new vehicle sales dropped by 98.4% y-o-y during April as dealerships were closed. Overall, new vehicle sales declined by 29.1% in 2020 to 380,449 units, which was similar to the volume sold during 2009 — i.e. during the global financial crisis.

There were some green shoots during the fourth quarter, in particular an increase in export revenues and mineral sales due to favourable international metal prices and exchange rate movements. The South African Revenue Service (SARS) also reported growth in value-added tax (VAT) revenue from October, reflecting improvement in the consumer economy.



## PwC estimates that the South African economy contracted by 8.8% in 2020

**Figure 3:** Monthly declines in real GDP (excluding interventions like TERS and interest rate cuts)



Source: PwC analysis

### Notes:

PwC used a Social Accounting Matrix (SAM) approach to model the South African economy on a monthly basis during 2020. Based on lockdown levels and the restrictions that these placed on different industries, as well as the impact thereof on business and consumer confidence and supply chains, each lockdown level had a different adverse impact on GDP.

South Africa was in some form of lockdown for 279 days in 2020. During Lockdown Alert Level 5, gross domestic product (GDP) declined by an estimated 38.4% due to the lockdown-induced closure of the economy. As such, for the month of April, our modelling shows that the South African economy was 38.4% smaller than the corresponding month in 2019, before accounting for fiscal and monetary interventions. The negative impact eased over time as lockdown restrictions were reduced.

Our estimates show that South Africa's real GDP would have contracted by an estimated 14.0% during 2020 due to the adverse impacts of local and international lockdowns on the South African economy as well as the effect of electricity load-shedding. However, fiscal and monetary policy interventions — including the Temporary Employee Relief Scheme (TERS) worth R50bn and a three percentage points cut in the South African Reserve Bank (SARB) repo rate — reduced the size of the recession to an estimated 8.8%.

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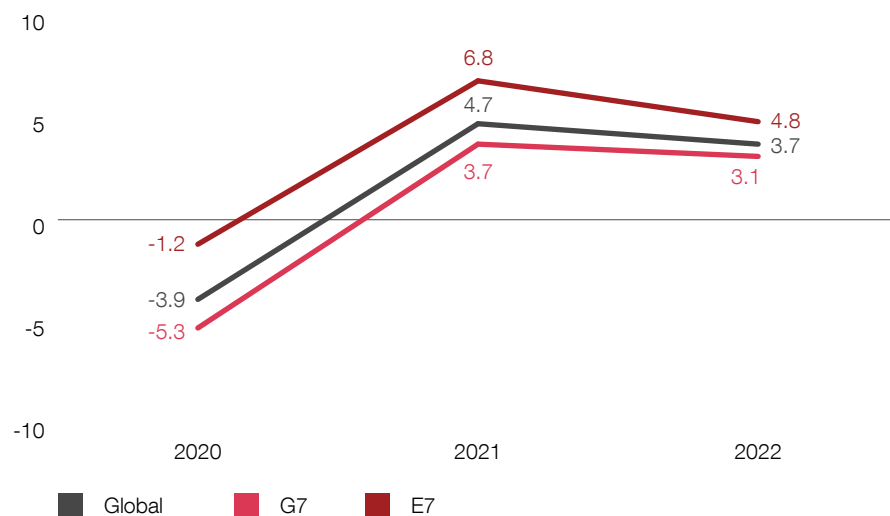
# Looking ahead at 2021

How far can the economy recover?



## Uneven economic recovery expected among South Africa's key trading partners

**Figure 4:** Aggregate real GDP growth (%)



Source: PwC analysis

**Notes:**

Forecast date: 25 January 2021

G7 = Canada, France, Germany, Italy, Japan, United Kingdom, United States of America

E7 = China, India, Brazil, Russia, Indonesia, Mexico, Turkey

Following the 2020 recession, PwC expects the global economy to expand by 4.7% in 2021. This projection is conditional on a successful deployment and spread of effective COVID-19 vaccines and continued accommodative fiscal, financial and monetary conditions. By the end of 2021, or early in 2022, we expect the global economy to revert to its pre-pandemic level of output.

However, this picture masks an uneven recovery pattern among South Africa's key trading partners. At one end of the spectrum is the Chinese economy, which is already larger than its pre-pandemic size. On the other end are mostly advanced (G7) economies that are either service based (e.g. the United Kingdom and France) or more focused on exporting capital goods (e.g. Germany and Japan), which are unlikely to recover to their pre-crisis levels by the end of 2021.

Like South Africa, E7 countries such as India, Brazil and Russia will see their economic fortunes strongly determined by the speed at which vaccine programmes are rolled out. Achieving herd immunity is not only essential for fully exiting from respective domestic lockdowns, but also the full reopening of international travel.



## The COVID-19 vaccination roll-out journey: Five critical considerations



South Africa set an ambitious target at the start of 2021 to vaccinate two-thirds of the adult population by year end. However, regardless of the level of vaccine roll-out started in the short term, it is unlikely to stop a third wave of COVID-19 infections occurring during the winter of 2021. The ultimate success of the vaccination programme — i.e. the speed at which herd immunity is obtained — will be determined by Government implementing all the elements of an effective vaccine delivery programme.

No matter the strength of their health infrastructure, every country in the world will need to navigate significant challenges on the road to COVID-19 vaccination. Government leadership and support will be critical to accelerate progress toward achieving the vaccination rates required for community protection. Jessica Shannon, PwC's Global Government & Public Services Leader, suggests five principles be considered in achieving this:

- **Combine global standards with a local approach**  
A careful balance needs to be struck between global standards required for vaccine efficacy and localised distribution approaches to maximise adoption. Governments have a key role to play in defining and driving each.
- **Develop a strategic communications plan**  
Pharmaceutical companies and regulatory bodies have been working to develop and approve vaccines to address the COVID-19 pandemic in record time. The pace of progress has created some scepticism among people in many countries and significant concerns exist around the safety and efficacy of the vaccines. However, without sufficient levels of trust, the likelihood of achieving herd immunity necessary for eradication is low.
- **Consider the possibilities for a digital infrastructure**  
Governments have an opportunity to support a coordinated, digital records management approach for the COVID-19 vaccination effort. The development of a consistent approach to capture, store, and safeguard data will aid in the efforts to aggregate information at the national and global levels, a critical requirement to track progress.
- **Develop a deployment plan considering priorities, capacity and resources**  
Vaccines will not be available for entire populations all at the same time. With this in mind, public and private sector providers, along with civil society, will need to collaborate to determine the optimal approach to maximise coverage, manage risk and ensure continuity of stock.
- **Remove barriers to access for all citizens**  
Recognising that these barriers exist, and taking action to remove them, will help. Common impediments, in addition to those described above, include cost (direct and secondary such as transportation), time, childcare requirements and logistical requirements to reach isolated facilities.

## The third wave of infections and lockdown restrictions will strongly influence the local economic recovery

**Figure 5:** Lockdown alert level outlook for 2021

	Upside	Baseline	Downside
January	3	3	3
February	3 lite	3 lite	3 lite
March	2	2	2
April	2	2	3
May	2	3	3
June	2	3	5
July	3	4	4
August	2	3	3
		2	2
September	1	1	1
October		1	1
November		1	1
December		1	1

Sources: PwC analysis

### Notes:

PwC assigned lockdown alert levels on a calendar month basis. In the case of August, the baseline and downside scenarios divide the month into two lockdown levels based on mid-month adjustments.

While South Africa is currently still in Level 3 lockdown, regulations are at present notably less restrictive than the original Level 3 rules imposed in mid-2020 and again in December/January 2021. The current (less restrictive) lockdown is referred to in this document as 'Level 3 lite'.

Forecast date: 3 February 2021



PwC's economic scenarios for 2021 are based on different perspectives on a third wave of COVID-19 infections. Despite the roll-out of a vaccine programme, medical experts agree that the pace of vaccinations will not enable us to avoid a third wave. The severity of this mid-year wave, and the accompanying strictness of associated lockdowns, will directly determine the nature of the economic recovery.

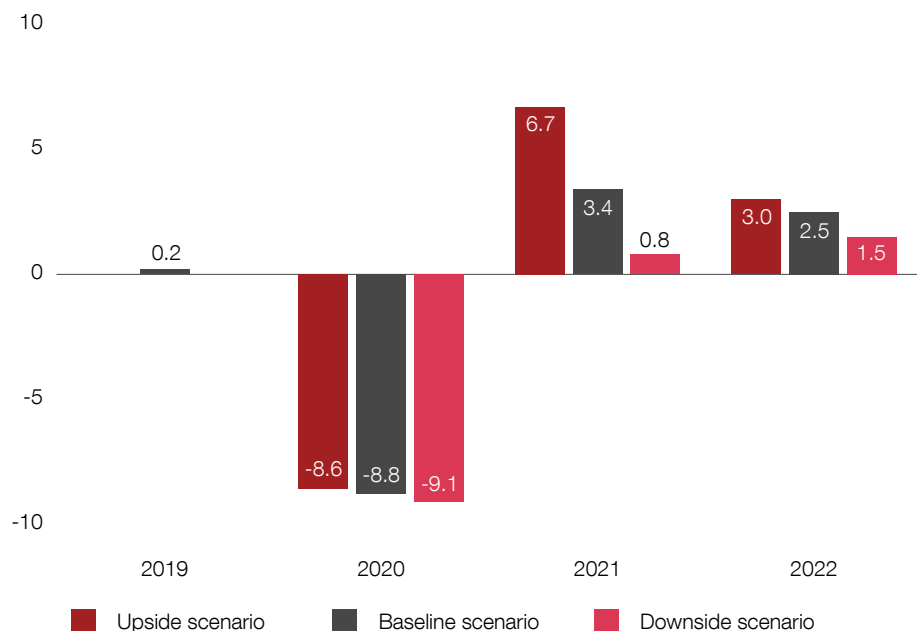
The baseline scenario sees lockdown restrictions ease further in March (to Level 2) followed by a return to the stricter full Level 3 in May to combat a third wave of COVID-19 infections, peaking at Level 4 in July. While a subsequent easing in restrictions is expected as the winter thaws in August and September, South Africa is anticipated to remain in Level 1 lockdown from September towards year end.

The upside scenario sees a less strict lockdown during winter 2021 — due to vaccination successes — and also a complete lockdown exit at the start of the fourth quarter. In turn, the downside scenario assumes a more severe infection level during the third wave and no exit from the lockdown until 2022.

The exact lockdown alert level per month will vary over time and the outlook for future lockdown levels will be adjusted with any announced changes. The overall message from this outlook is that lockdown levels have returned to an easing cycle but will tighten again as the seasons change and a third wave of infections arrives.

## The South African economy is expected to grow by 3.4% this year — but could expand by 6.7% in an upside scenario

**Figure 6:** South Africa real GDP growth (%)



Source: PwC analysis

### Notes:

PwC used a Social Accounting Matrix (SAM) approach to model the South African economy on a monthly basis during 2021. Based on lockdown levels and the restrictions that these placed on different industries, as well as the impact thereof on business confidence and supply chains, each lockdown level has a different adverse impact on GDP.

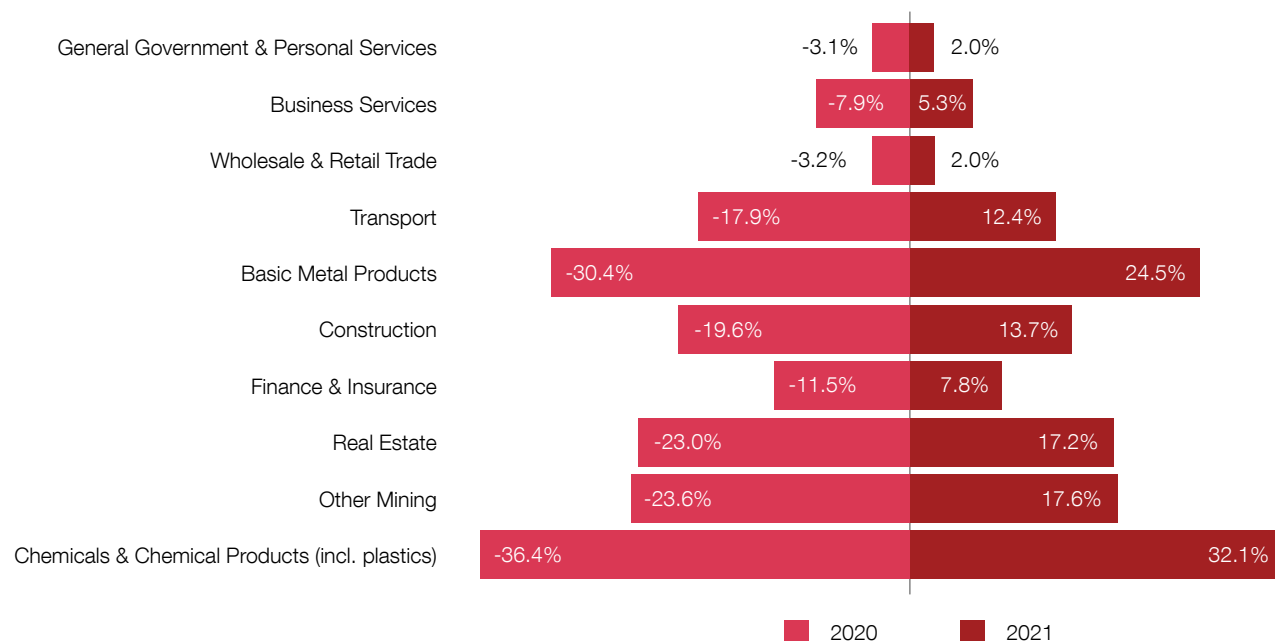
Forecast date: 3 February 2021.

Following the 2020 recession, the South African economy is expected to see positive GDP growth in 2021. However, much of this growth will be due to the base effects arising from the large contraction in economic activity last year, especially in the second quarter. PwC's baseline forecast is for GDP growth of 3.4% in 2021. In addition to lockdown levels, this outlook also assumes the negative impact of continued electricity load-shedding, albeit not as serious as that seen in 2020.

The upside scenario assumes less restrictive lockdowns, reduced pressure from electricity supply challenges, as well as greater fiscal stimulus on the back of better-than-expected tax collections. The upside scenario would see South African GDP return to 2019 levels by 2022. In turn, the downside scenario sees these factors turn out worse than currently expected, with the economy remaining in lockdown for the rest of the year and heading into 2022.

## South Africa's largest industries will recover some lost ground this year, but fixed investment is under pressure

**Figure 7:** Change in gross value added for the largest 10 sectors (excluding interventions)



Source: PwC analysis

### Notes:

PwC used a social accounting matrix (SAM) approach to model the South African economy on a monthly basis during 2021. Based on lockdown levels and the restrictions that these placed on different industries, as well as the impact thereof on business and consumer confidence and supply chains, each lockdown level had a different adverse impact on the gross value added (GVA) by different industries. These calculations reflect the change in GVA before fiscal, monetary and other interventions.

The ten sectors in the graph accounted for 75% of South Africa's GDP in 2020.

Forecast date: 3 February 2020.

Fixed investment (a key component of current and future GDP growth) will be under severe pressure this year due to negative business sentiment and weak government finances. The FNB/BER Building Confidence Index for the fourth quarter of 2020 commented that, heading into 2021, large-scale investment projects needed to drive the recovery in the construction sector 'remain elusive and could be for some time'.

For example, rising vacancy rates in retail shopping malls will put the brakes on floor space expansion in this category of real estate. According to Google Community Mobility data, the number and duration of visits to retail centres and other entertainment locations declined by more than 30% y-o-y in January 2021.

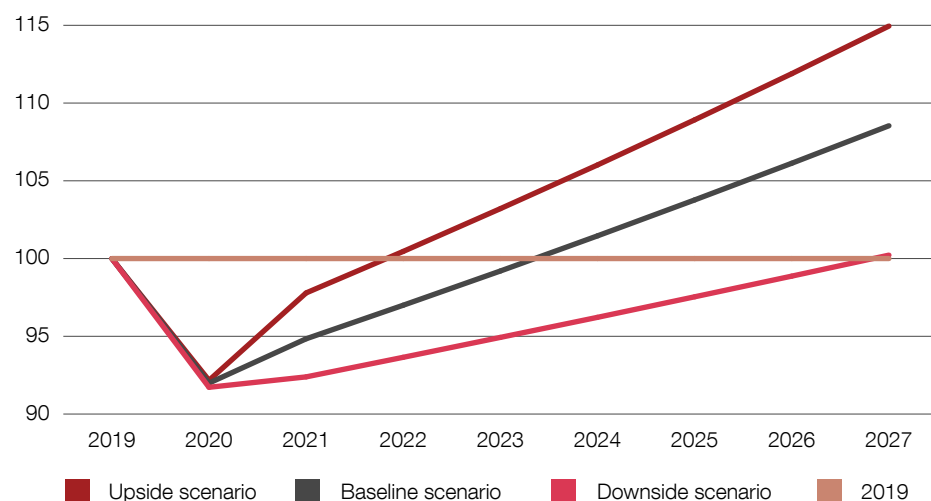
Factories producing metals and chemicals are operating below capacity and are unlikely to expand their facilities anytime soon. A Bureau for Economic Research (BER) survey found that, in the fourth quarter of 2020, the manufacturing sector overall operated at just 67% of capacity, compared to a level of 79% in the same period of 2019.

Government spending on transport infrastructure is being reprioritised towards healthcare and social spending needs. If previously planned expenditure is to be realised, it will be necessary to involve more private sector investment in public infrastructure.



## Fewer than 500,000 jobs will be recovered this year, with a long road ahead to reduce the unemployment rate

**Figure 8:** Index of formal and informal employment



Source: PwC analysis

**Notes:**

Index of formal and informal employment. 2019 =100. Forecasts are based on the historical relationship between GDP and employment growth.

Forecast date: 3 February 2021

Different economic growth scenarios have a significant impact on the trajectory of the employment recovery. For example, PwC's modelling shows that under the baseline scenario, South Africa's economy will add only 467,000 jobs in 2021. However, achieving the upside scenario would lift this number to more than 900,000. Conversely, the downside scenario sees just 109,000 jobs recovered this year.

The baseline scenario sees employment returning to 2019 levels (i.e. pre-pandemic) by 2024. However, by then, a large number of new workers will have been added to the labour force. As such, PwC expects the narrowly defined unemployment rate to decline only slowly, from an estimated 35.1% in 2020 to 33.6% in 2024. However, if the recovery is closer to the downside scenario, the unemployment rate will continue to rise after last year's increase, approaching 40.0% by the end of the decade.

South Africa already faced significant challenges with poverty, inequality and unemployment prior to the COVID-19 pandemic with an unemployment rate among the highest in the world. To avoid further exacerbation of these challenges, South Africa's economic recovery needs to be robust. Budget Speech 2021 could establish a foundation to support this economic recovery.



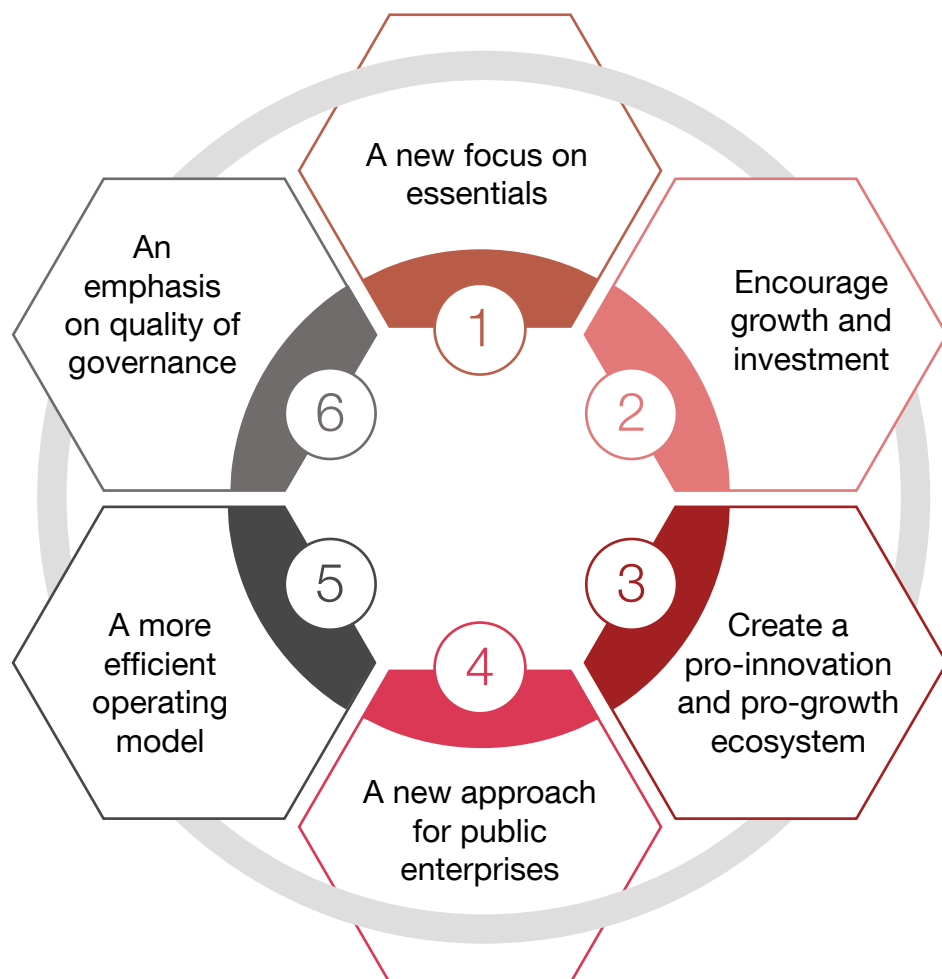
# Budget 2021 can help the economic recovery

What can Minister  
Mboweni say to boost  
confidence?



## Now, more than ever, Government need to be an enabler of economic growth

**Figure 9:** Six priorities for Government to drive growth and restore the economy



Source: PwC analysis

In our October 2020 publication 'Where Next for Government in South Africa? An opportunity for change', PwC identified six priorities that could assist Government to drive growth and restore the pandemic-hit economy.<sup>1</sup> These priorities paint Government as an enabler (not controller) of economic growth and, in particular, the 2021 economic recovery. Specifically, these six points highlight the role that Government needs to play in enabling the private sector to recover and grow.

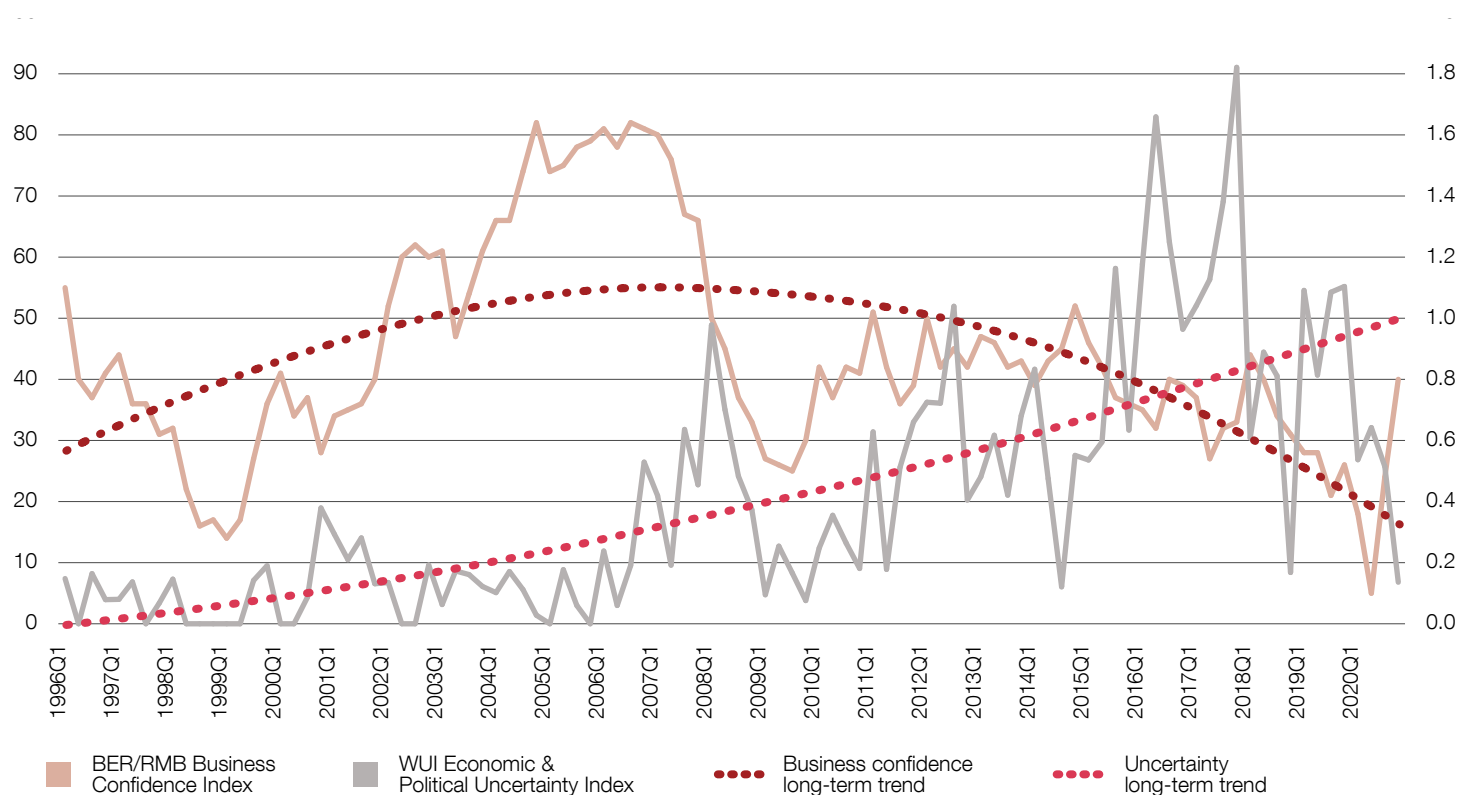
Apart from assumptions about lockdown levels and electricity load-shedding, our modelling of the South African economy also considers key factors that require an enabling environment to allow for the private sector to drive an economic and jobs recovery. These include business and consumer uncertainty, supply chain disruptions, and disruption to the tourism and leisure sectors. Budget Speech 2021 provides an opportunity to deliver key messages on a range of topics in order to boost confidence and certainty in these key areas — in particular business and consumer confidence.

<sup>1</sup> <https://www.pwc.co.za/en/publications/where-next-for-government-in-south-africa.html>



## Private sector businesses needs to see progress and support to lift their (investment) spirits

**Figure 10:** Six priorities for Government to drive growth and restore the economy



Sources: Bureau for Economic Research (BER), World Uncertainty Index (WUI), PwC analysis

### Notes:

BER/RMB Business Confidence Index — the percentage of respondents who rate prevailing conditions as satisfactory in five sectoral indices: manufacturing, construction, retail, wholesale, and new vehicle dealers.

WUI Economic & Political Uncertainty Index — index of uncertainty using frequency counts of 'uncertainty' (and its variants) in the quarterly Economist Intelligence Unit (EIU) country reports.

The BER/RMB Business Confidence Index increased notably from a reading of 24 in the third quarter of 2020 to 40 in the fourth quarter. However, even at this level, a majority of South African businesses were still unsatisfied with prevailing business conditions. Business confidence has trended lower over the past decade and a half and hasn't been in positive territory since late 2014. One of the key factors behind this is an upward trend in economic and political uncertainty. Data from the World Uncertainty Index (WUI) indicates that uncertainty over local economic and political matters has trended higher over the past 15 years.

While business confidence improved in the second half of 2020 and uncertainty also declined, this is likely reflective of an easing in uncertainties compared to the first half of the year — rather than a structural improvement in the long-term business and policy outlook. Indeed, the BER report indicated that the improvement in business sentiment merely signals that the South African economy is out of intensive care — but not yet out of high care.

Most recently, the February 2021 edition of the IHS Markit South Africa Purchasing Managers' Index (PMI) noted that while the business outlook for 2021 improved in January on expectations of an easing of lockdown restrictions during the year, overall expectations remained below the long-term average.

For answers to their concerns about COVID-19, load-shedding and policy uncertainty, amongst other worries, many businesses will be looking towards Budget 2021 for guidance and inspiration about the Government's approach to supporting the economic recovery. The following information — as verification of successful Government efforts — could boost business confidence and subsequently, investment spending.

### **Update on structural reforms under Operation Vulindlela**

Government's promise of substantial structural reforms to boost the economic competitiveness of the country has still not materialised. Operation Vulindlela was launched in 2020 to implement urgent reforms and monitor progress on key priorities.

***What progress has been made?***

### **Cheap working capital loans for start-ups**

The Economic Reconstruction and Recovery Plan promises working capital loans at 0–2% interest to assist firms during their start-up phase. The aim of this endeavour is to introduce small, medium and micro enterprises (SMMEs) into the value chains of our economy.

***How will this initiative be funded and who will benefit from it?***

### **Progress in securing private investment for the state's Investment Fund**

The Government established this fund as a vehicle for attracting private sector investment into public sector infrastructure spending. However, little detail has been provided on the instruments available to attract investment and the value of commitments received so far.

***Has the private sector come to the table with investment?***

### **Report on the success in allocating 40% of public procurement for women**

The economic recovery needs to not only be sustainable and job-intensive, but also inclusive. The Economic Reconstruction and Recovery Plan re-committed to an earlier goal of setting aside 40% of public procurement spending to female-owned businesses.

***Has this been achieved?***

By reporting on these points, Budget 2020 would boost confidence in the private sector of Government's ability to address constraints on private sector business activity, specifically structural impediments to growth, access to finance, support for employment creation, as well as public-private cooperation.



## Consumers want certainty about their income prospects – including the minimum wage and personal income tax rates

The BER/FNB Consumer Confidence Index jumped from a reading of -23 in the third quarter of 2020 to -12 in the fourth quarter. However, this was still below the long-term average of -2, and the lowest festive season reading in five years. Overall consumer sentiment was net negative, indicating that consumers are concerned about the future.

The following information — as verification of Government efforts to support consumers — could boost consumer confidence and, subsequently, their approach to spending:

### Potential increases in personal income tax rates

The Medium-Term Budget Policy Statement (MTBPS) announced that tax increases will be implemented in the 2021/2022 fiscal year to raise an additional R5bn in revenue. Personal income tax rates are the likely target — including a so-called ‘wealth tax’ on high-net-worth individuals (HNWIs).

*Will a wealth tax be implemented or could the increase in personal taxes be more broad-based?*

### Comment on suggested basic income grant

The ruling African National Congress (ANC) resolved in January 2021 that the state should develop a policy framework to introduce a basic income grant.

*Will the Government act quickly, given the current economic climate and the recent end to temporary unemployment benefits?*

### Extension of R350 Special COVID-19 Grant

Payment of this grant has been suspended and restarted more than once — most recently, it was announced in SONA 2021 that it would be extended for another three months. While it has been a lifeline for millions of households, this short-term back-and-forth — will it continue, or won't it? — creates uncertainties.

*Is National Treasury budgeting for an extended roll-out of the R350 grant in the 2021/2022 fiscal year?*

By reporting on these points, Budget 2020 would substantiate the Government's ability to support their household finances, specifically income streams at a time of record-high unemployment.

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