Moses Kotane Institute

INNOVATION. THE FUTURE

COMMENTARY

Economic Recovery Plan, October 2020

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MKI Economics Commentary is a brief note intended to provide MKI's interpretation of key economic events such as the Budget, MTBPS, Monetary and Fiscal Policy, Employment, data releases and other topical economic events.

BACKGROUND

The President of South Africa presented a plan for the reconstruction and recovery of the country's economy on the 15th of October 2020. This was occasioned by the current economic landscape of the country. After the devastation of the economy by the novel coronavirus in recent months, the government had already instituted health, social and economic interventions to mitigate the adverse effects of the virus. It was logical to follow that up with an economic recovery plan.

The economic recovery plan notes that with the advent of COVID-19, poverty and inequality in South Africa have deepened and the economy has contracted sharply. Amid the pandemic, the government has instituted the largest fiscal relief package on the continent, a R500bn package or 10% of the country's GDP. The South African Reserve Bank has additionally acted decisively and reduced interest rates to record 50-year lows.

ECONOMIC RECOVERY INTERVENTIONS

The government has thus opted to focus on few, high impact interventions and execute these with speed and effectiveness for economic recovery.

- The economic recovery will be anchored by a massive roll-out of infrastructure, both economic and social, to stimulate investment and growth.
- The state will intervene to expand energy generation capacity to bring about 11 800 MW of generation capacity into the system by 2022. Eskom will be unbundled to form three entities responsible for generation, transmission and distribution.
- There will be employment stimulus in various forms to create jobs and support livelihoods. These include new and escalated

public employment programmes and support to small, medium and micro enterprises.

- A drive for industrial growth will be pursued to reverse the recent de-industrialisation and stalling of the manufacturing sector.

COMMENTS AND CONCLUDING REMARKS

The government has taken the short and long views towards economic recovery which is laudable. We expect short-term public employment programmes and announced direct transfers to boost aggregate demand and grow the economy. Investments in bulk and social infrastructure will, meanwhile, leverage private sector investments. Only if other requirements for private investment are addressed with the same zeal.

It appears fiscal consolidation, reprioritization and tackling of sovereign debt will be with us for a while and these have set the tone for what we should expect in the MTBPS.

The energy targets for 2022 seem to be unrealistic considering the nation's historic problems emanating from 2008. However, the structural reform taking shape in the energy sector is encouraging.

The intended gender mainstreaming is progressive for parity within the economy, while the government's announcement of its clear commitment to provide enabling conditions for business will resonate with a broad spectrum of on-lookers; rating agencies, investors, business and other stakeholders.