

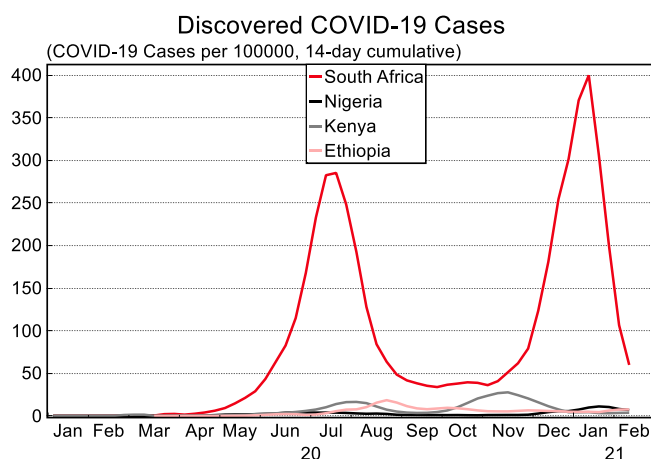
South Africa: COVID-19 second wave will further delay real GDP recovery, risks remain to downside

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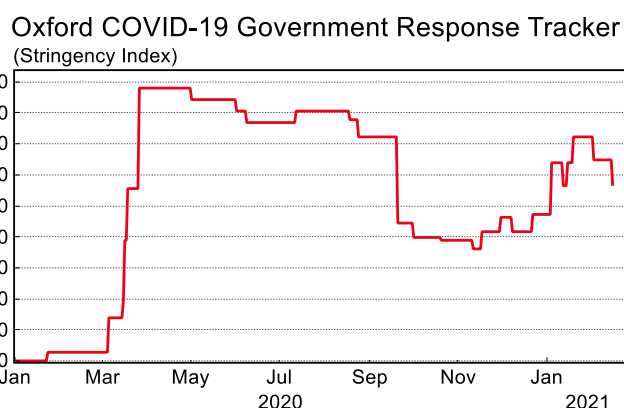
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After suffering one of the largest COVID-19 outbreaks globally, coronavirus cases in South Africa yet again surged to 400 cases per 100,000 over January 2021, before stricter lockdown measures led to a dramatic fall. Lockdown measures are likely to remain elevated for some time to come, given the ease with which COVID-19 cases surged at the end of last year. Meanwhile, risks are likely to remain to the downside. More infectious strains of COVID-19 have been discovered in both South Africa and Brazil. Elevated levels of lockdown measures will suppress economic activity in Q1 2021, and lead to a further decline of real GDP. There are also added economic headwinds due to power shortages as a result of difficulties at Eskom, the state's power generation utility. Consequently, the level of real GDP will be weak over 2021, even if the economy remains more resilient this time around.



Source: ECDP&C, Macrobond, MUFG Bank Economic Research Office



Source: Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government. Data use policy: Creative Commons Attribution CC BY standard. Macrobond, MUFG Bank Economic Research Office

COVID-19 Downside Risks to Dominate Outlook

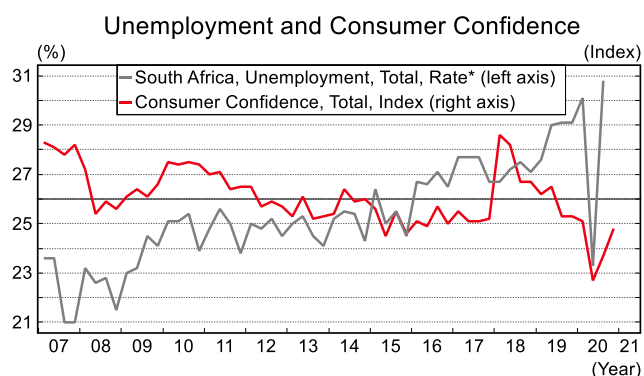
The economic outlook will be dependent on the roll-out of COVID-19 vaccinations and the extent to which lockdown restrictions can be eased over coming months. On this count, South Africa has managed to secure 29 million vaccination doses so far. That said, there are concerns over the efficacy of any potential vaccines against more infectious strains of COVID-19, which represents a further downside risk. The government is planning to vaccinate 67% of

the population (58.6 million) by end-2021; however it is only just receiving its first batches of the vaccine. An improvement in vaccine supply will be required for the 67% target to be met.

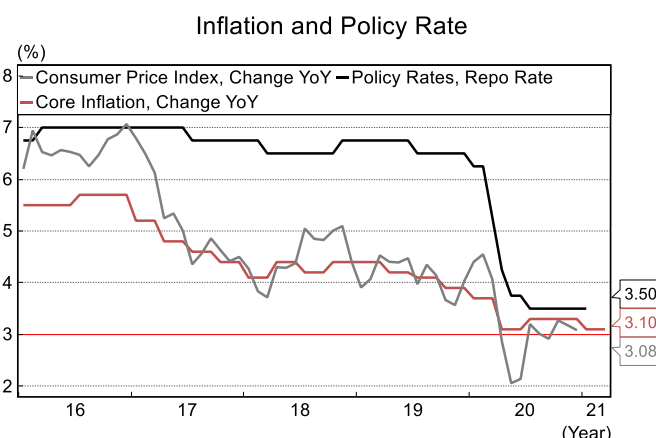
At any rate, population immunity is not likely to be achieved until 2022 at the earliest. In the interim, the prospect of mass vaccination will have no major near-term impact on real GDP in Q1 2021. Lockdown measures which comprised level 3 restrictions in January (which include a ban on alcohol sales, an extended curfew across the whole country from 21:00 to 06:00, and a ban on public events, among others) are likely to remain elevated for a while yet. This in turn will depress real GDP in Q1 and further weaken the trajectory over 2021. South Africa's historical real GDP growth rate has been weak, and COVID-19 will exacerbate this.

On the fiscal and monetary policy front, we expect no further major measures given fiscal relief measures to the tune of 10% of GDP last year and a cumulative cut to the main policy rate of 275bps, to 3.5%, in 2020. The government has limited fiscal leeway, and has had to borrow from a number of multilateral banks in order to fund its fiscal deficit last year, while the SARB is likely to remain concerned by a number of downside risks. Inflation is also likely to pick-up in 2H 2021 as economic momentum eventually improves. Other concerns will continue to include the fiscal situation and changing nature of government debt ownership, with foreign investors reducing their holdings over the course of 2020. Appetite for South African government debt is likely to remain muted over 2021. Accordingly, the IMF and other multilaterals now own a greater share of government debt. Meanwhile, the SARB's holdings of government debt increased fourfold in 2020, from ZAR 10 billion to ZAR 42 billion, due to its QE program, although we note this is just 1.1% of total government debt outstanding in 2020.

Consumer sentiment is likely to remain weak for some time to come, although there has been a limited rebound following the initial phase of the pandemic. Households will also be concerned over rising unemployment, which now stands above 30%, as government labour market support measures have been tapered. The IMF currently forecasts real GDP growth of 2.8% in 2021 from an estimated -7.5% in 2020. Regardless, it looks likely to be a long road back for the South African economy, with output set to remain below the pre-virus level for several years to come and downside pressures set to dominate over the forecast horizon.



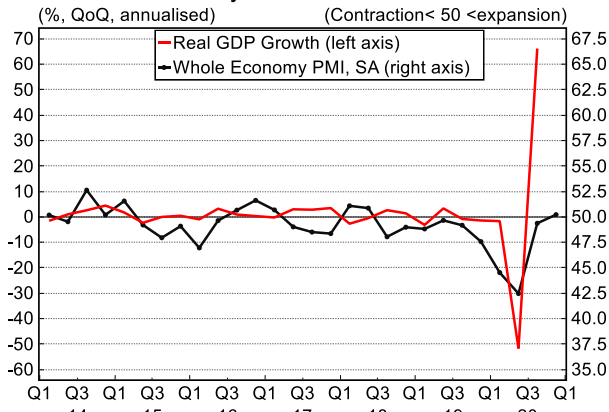
*Note: The sharp fall in the unemployment rate in Q2 is not a reflection of an improvement in the labour market but rather an effect of the national lockdown, the official definition of unemployment in South Africa requires that people look for work and are available for work.
Source: Stat SA, BER, Macrobond, MUFG Bank Economic Research Office



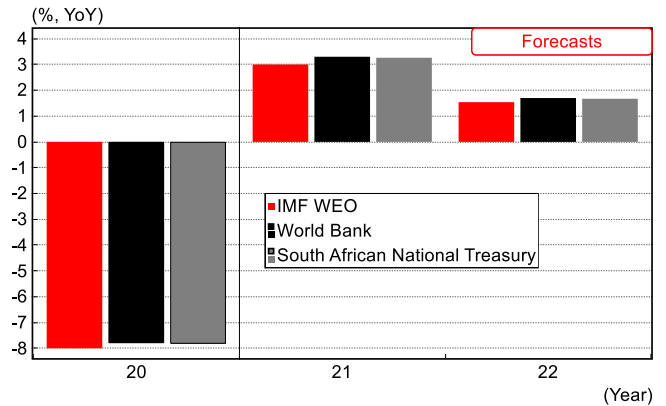
Note: The SARB targets inflation of between 3-6.0%, with a mid-point of 4.5%
Source: SARB, Macrobond, MUFG Bank Economic Research Office

Economic Snapshot: Select Charts

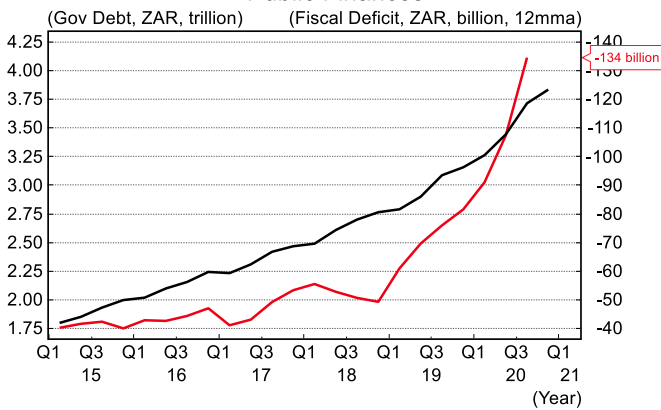
Quarterly Real GDP and PMIs



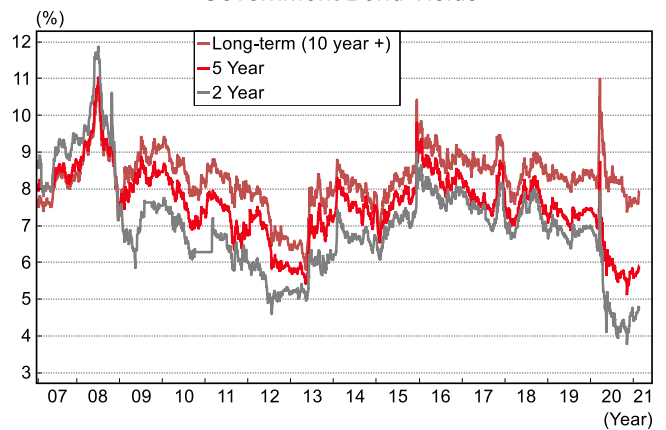
Real GDP Growth Forecasts



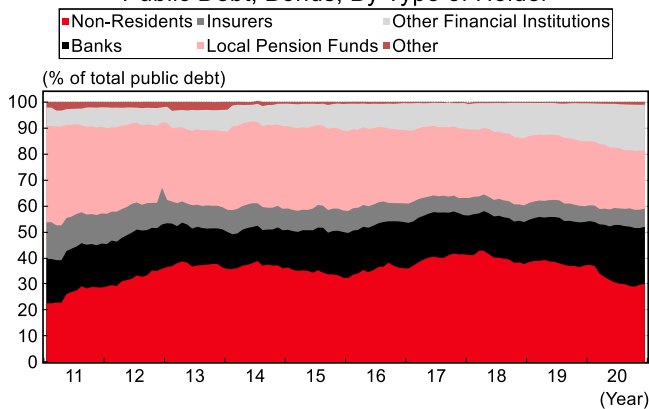
Public Finances



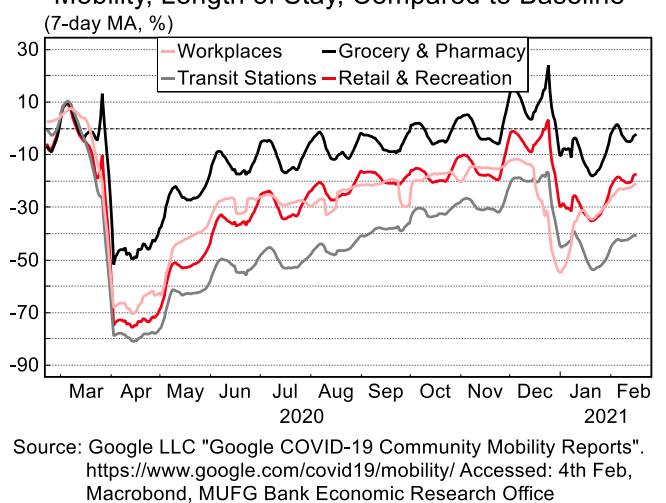
Government Bond Yields



Public Debt, Bonds, By Type of Holder



Mobility, Length of Stay, Compared to Baseline



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