

2021 leaves SA economy limping

Battered by pandemic, load shedding and July's unprecedented civil unrest and looting

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AS THE CURTAIN draws to a close on the year 2021, a series of tsunamis has continued to pummel economic activity in South Africa, threatening to derail a very optimistic recovery from the devastation of the Covid-19 pandemic.

Economic indicators have strikingly pointed out that the government's pace of implementing structural reforms aimed at attracting new investment and create jobs was not equal to the challenge at hand.

The structural reforms punted by former finance minister Tito Mboweni in his 2019 "Towards an Economic Strategy for South Africa" paper remain mired in bureaucracy.

The government, business and labour hold divergent approaches in implementing a cohesive economic and industrialisation policy to help the country rebound to pre-Covid levels.

The International Monetary Fund (IMF) recently said that, "structural rigidities" were pushing down private investment and hampering inclusive growth and job creation.

The IMF believes that these "rigidities" must be addressed immediately to increase the economy's productivity and competitiveness, and reduce poverty and inequality.

The recent gross domestic products (GDP) and employment data showed that the economic recovery during 2021 had not been as strong as anticipated earlier this year.

GDP forecasts have kept shifting from anything above 5 percent to just below that, but that's still a long shot to have any meaningful impact considering the low base effects from 2020.

After recording four consecutive quarters of expansion since June 2020, the economy ground to a halt in the three months to September this year.

Activity in the critical sectors of agriculture, mining and manufacturing plummeted, with only the finance sector coming to the rescue.

Stringent Covid-19 lockdown restrictions at the end of May during the third wave were one of the main drawbacks to ramping up activity.

But the new Omicron variant put the final nail in the coffin on prospects of a serious rebound as the tourism and hospitality sector suffered catastrophic losses from numerous cancelled bookings.

The "stop-and-go" lockdown restrictions have left businesses gasping for air on shrinking consumer spending, as wave after wave of Covid-19 infections became more severe than the previous ones amidst low vaccination rates.

"Household finances weakened further in the third quarter with the economic recovery interrupted by tighter lockdown restrictions as the country battled with the third wave," said Nedbank senior economist Nicky Weimar.

Household finances are not the only ones in bad shape as the national government's gross loan debt increased by 11.9 percent year-on-year to R4.1 trillion, or 68.6 percent of GDP, as at September 30.

This is against an envisaged total gross loan debt of R4.3trln, or 69.9 percent of GDP, at the end of fiscal 2021/22.

Rotational power cuts were also deeper than ever this year, affecting production momentum, as Eskom's energy available factor deteriorated on unplanned breakdowns at the ageing coal-fired power stations.

The power utility continues to pose the most significant risk to the country's sovereign ratings, and fails in its bid to be an investment drawcard.

After 13 years of battling the same problem and not winning, Eskom has decided to lease the land at its soon-to-be decommissioned power stations to renewable energy producers.

This, including the corporatisation of Transnet, are some of the structural reforms that have made investors, financiers and ratings agencies a bit optimistic about the current trajectory.

But the government's policy direction seems to be failing when it comes to creating jobs.

The rate of unemployment reached record highs in two consecutive quarters this year following unprecedented civil unrest in July driven by political instability.

There are about 11 million people of working age out of work in South Africa, way more than the roughly 8 million employed people.

This inequality contributed partially to July's looting and gutting of businesses that left a R50 billion hole in the fiscus from the state-owned insurance company, Sasria.

Head of capital markets research at Intellidex, Peter Attard Montalto, said solving this crisis was the urgent task for 2022.

"Every decision, every choice of priority, must be passed through this lens," Montalto said.

"As unemployment rises further, 2022 will be a year for taking risks for everyone as we constantly peer over the edge into a repeat of July."

Meanwhile, inflation is now the biggest concern for investors in 2022.

Domestic inflationary pressures increased in recent months, with both headline consumer and final manufactured producer price inflation accelerating to above the midpoint of the inflation target range.

This largely reflected a surge in fuel and raw material prices as well as higher food and electricity prices, leaving consumers stranded in the absence of government intervention through Covid-19 relief support measures.

The record high petrol price has left household incomes squeezed to the last cent.

In January, motorists paid R14.69 per litre at the pumps for petrol, unleaded 93 and 95, but this had risen to R20.07 per litre in just 12 months by December.

According to Momentum Investments economist Sanisha Packirisamy, domestic fuel prices have been driven up by a weaker currency and higher international oil prices.

"The international surge in inflation was driven by a strong demand response as economies reopened and unleashed pent-up demand that was supported by generous government stimulus packages," Packirisamy said.

Rising global inflation has seen central banks across the world reverting to tightening their monetary policies following support measures, including bond buy-back programmes.

In its last meeting for the year in November, the SA Reserve Bank began raising interest rates from record lows as it had cut rates by more than 100 basis points last year to support spending.

In spite of all the doom and gloom, Fitch Ratings Agency pointed to a light at the end of the tunnel, last week revising the outlook on South Africa's long-term debt to stable from negative though still below investment grade.

Fitch said the revision reflected

the faster-than-expected economic recovery, the surprisingly strong fiscal performance this year and significant improvements to key GDP-based credit metrics following the re-basing of national accounts.

"A recovery is under way and GDP now seems on track to return to pre-pandemic levels during 2022, notwithstanding a 1.5 percent quarter-on-quarter contraction in the third quarter.

"We expect GDP to rise 4.7 percent in 2021, boosted by base effects following the 6.4 percent contraction in 2020."

After such a roller-coaster of a year, the government has vowed to change course and navigate its ship away from more tidal waves by ramping up Covid-19 vaccinations, and allowing more private sector participation in the economy in 2022.

A GROUP of men sit and read newspapers as they wait for piecemeal job offers in Mayfair, Joburg. Head of capital markets research at Intellidex, Peter Attard Montalto, says solving this crisis is the urgent task for 2022. | MOTSHWARI MOFOKENG African News Agency (ANA)