



## ECONOMIC COMMENTARY - By Francois Stofberg

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### THE CURE TO A NATIONAL DISASTER: DECISIVE ACTION AND STRONG INTERVENTION

A good leader takes decisive action, and that's exactly what South African President, Cyril Ramaphosa, did on Sunday 15 March. Following an urgent Cabinet meeting the president declared the Covid-19 outbreak a national disaster. Some of the main interventions he announced:

- + Schools will be closed from Wednesday, 18 March until after Easter weekend. Schools will tentatively open 14 April.
- + A travel ban on foreign nationals from high-risk countries has been instituted and visas from these countries have been cancelled.
- + Land ports will be shut down.
- + Non-essential travel within the country is discouraged.
- + Gatherings of more than a 100 people are prohibited.

The Government will make funding available to support critical sectors and plans have been drafted to strengthen screening and testing. We believe these measures, amongst others, will help to slow, and eventually halt the spreading of the coronavirus.

In the United States (US), President Donald Trump also initiated various actions to prevent the spread of the virus. In his initial address, President Trump announced a trade restriction with Europe, but this was later clarified as to only include travel, and not trade. Goods and services will still flow between these regions. Other noteworthy actions include accessing \$42 billion to combat the virus, \$7 billion of which will aid qualifying small businesses, and the waiver of certain laws and regulations to give the Secretary of Health and Human Services the flexibility to act with more agility towards the threat. US markets reacted jovially to the news, increasing by more than 9% on Friday, 13 March, to recover the losses made on Thursday, which was the worst single day on the stock markets since 1987's "Black Monday" crash.

Although restricting the economic flow of people and products is detrimental to the real economy in the short-term, the impact of these actions will reduce hysteria by reducing fears associated with the virus. In the end, less fear bolsters confidence, which far outweighs the short-term cost, albeit only in the longer term.

To support the economy in the short-term central banks around the world (US, United Kingdom, Japan, and the European Union) joined forces to cut interest rates and implement asset purchasing programs simultaneously. The Federal Reserve (Fed) in the US cut interest rates by as much as 1%, to a low of 0% - 0.25%, over the last two weeks. This marks the largest emergency reduction in the Fed's more than 100-year history. In addition, the Fed also announced a \$700 billion quantitative easing (asset purchasing) program, forcing liquidity into the system to ease household and business lending. We expect the South African Reserve bank will introduce similar measures, by cutting the interest rate by 0.5% to 1.0% to support the local economy.

For these reasons, we still expect something between a V, and U-shaped recovery, where the global economy will stagnate during 2020, but recover in rapid succession in 2021.

