



## ECONOMIC COMMENTARY - By Francois Stofberg

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### SOME STORIES FROM AROUND THE WORLD

In South Africa, President Cyril Ramaphosa announced that the lockdown will be extended for another two weeks, a decision we support completely. South Africa is not in a position like some countries, the United States included, who can afford herd-immunity through exposure, we simply don't have the necessary medical infrastructure. Our strategy must be to delay the process until immunity can be achieved by vaccination. Currently, the benefit of preserving life in the short-term outweighs the cost of extending the lockdown. We doubt the extension will change our prediction about economic growth. South Africa's economy should still contract between 3% and 6% in 2020. However, it will necessitate a strong economic recovery plan, one that is still lacking. In terms of addressing the health-implications of this virus, South Africa's government has done a commendable job, especially if one considers the number of tests that have now been conducted (around 80,000) compared to those countries who have a similar number of coronavirus cases. Unfortunately, there is still no clear economic recovery plan. Until we implement a plan that addresses the same old structural reform (we should have addressed these more than two decades ago) markets will remain under pressure and confidence levels will remain at all-time lows.

President Ramaphosa also announced that he and his cabinet members, as well as executives of State-Owned Enterprises, will be taking a 33% salary cut over the next 3 months. The proceeds from these salary cuts will be added to the Solidarity Fund to support the fight against COVID-19. The president also urged executives at large firms to follow their examples; many of whom have already agreed.

South Africa is adopting a clever initiative, allowing small businesses to issue a discount voucher during lockdown periods that can be redeemed for the associated goods or services after lockdown. The voucher works like a bond in that it is bought at a discount and is redeemable within three years of its issuance (to comply with South Africa's Consumer Protection Act). By offering vouchers, small businesses can ease their cash flow constraints during lockdown.

After an initial fight between Saudi-Arabia and Russia, over global oil production and prices, the two countries were able to court other large oil producers, most notably the United States, into their coalition, commonly referred to as OPEC+. This new global coalition will reduce global oil production by about 10% to induce a price recovery, after oil prices slumped more than 40% year-to-date. The new OPEC+, which collectively produce more than 78% of global crude oil, will be able to stabilize prices to protect revenues in oil-exporting countries. Fortunately for oil-importers, like South Africa, the news did little to increase prices above \$30 a barrel; global demand is simply too low. We expect oil prices will remain subdued over the medium term (12-18 months).

After a 16-hour meeting, finance ministers of the various countries counted among the European Union were unable to agree on an appropriate fiscal policy initiative to support their various economies. Three main initiatives were tabled:

- + using the European Stability Mechanism (a fund worth roughly 2% of the European Union's GDP),
- + a Guarantee Fund that can distribute €200 bn in liquidity to companies across the European Union, or
- + the Employment Reinsurance Scheme worth about €100 bn.

France tabled a fourth option: joint-debt issuance. This initiative could raise as much as 3% of the European Union's GDP and greatly reduce the cost of debt. However, the initiative was shot down by fiscally prudent countries like the Netherlands, who once again complained about eventually having to pay for the mishaps of others; undoubtedly taking a jab at Greece and Italy.

