



destea

department of
economic, small business development,
tourism and environmental affairs
FREE STATE PROVINCE

RESEARCH PLATFORM: PROVINCIAL RESEARCH ADVISORY COMMITTEE (PRAC) MEETING

QUARTER 3: 2020/2021 REPORT

**ANALYSING THE INITIAL IMPACT OF THE COVID-19
NATIONAL LOCKDOWN ON THE ECONOMIC
PERFORMANCE OF FREE STATE**

INTEGRATED ECONOMIC DEVELOPMENT CHIEF DIRECTORATE
ECONOMIC RESEARCH DIRECTORATE

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1. Introduction

The Economic Research Directorate convened a virtual Provincial Research Advisory Committee (PRAC) meeting on 26 November 2020. The PRAC meeting for Quarter 3 2020/2021 focused on uncovering the Free State province's economic performance during the Covid-19 national lockdown. The meeting's purpose was to identify lessons learned and craft a way forward towards economic recovery and growth.

In adherence to covid-19 regulations, the meeting was convened virtually using Microsoft Teams as the meeting platform. Knowledgeable speakers with expertise in issues pertaining to the economy were invited to make presentations. These speakers included representatives from institutions such as Statistics South Africa (StatsSA), IHS Markit, the North West University's Business School (NWU) and the Department of Economic, Small Business Development, Tourism and Environmental Affairs (Destea).¹

Destea's Acting Chief Director for Integrated Economic Development (ACD: IED) gave welcoming remarks to the audience. In his welcoming the ACD explained that prior to the pandemic the Free State province had already been faced with various economic challenges. Most notably the Province had been confronted with high levels of unemployment as well as an untransformed economy. These economic woes have been further exacerbated by the effects of covid-19, which have trickled down to society. Destea has taken a pro-active stance, facing these challenges head on by introducing various incentive schemes to assist affected businesses. The Department also recognises the importance of research in its raw and unfiltered state to further inform evidence-based decision making. Research platforms such as PRAC encourage informed and robust engagements which will assist the Province in attaining inclusive economic growth.

2. Presentations² and Discussions

Ms T. Fourie and Mr E. Burger from IHS Markit gave a presentation titled *South Africa: post-lockdown stagnation or recovery*. The first half of the presentation focussed on

¹ The complete attendance register is appended hereto as "Annexure A"

² The presentations are accessible on the Destea website by following the link: http://www.destea.gov.za/?page_id=1920

the economic effects of covid-19 on the National economy. As explained, South Africa's economy has not seen significant growth since the global recession of the early 2000s. This is evident as the country has recorded negative growth in GDP per Capita since 2010. Furthermore, it is predicted that within the next 12 months the country will continue to face escalating unemployment, massive fiscal challenges and the risk of mounting social unrest. Some of the initial effects of covid-19 on the economy have included a decline in annualized GDP, a loss in fiscal revenue, exacerbated portfolios outflows and a

Image 1: GDP Growth Rate (constant 20210), Free State



Image Source: IHS Markit, 2020. Destea FRAC presentation.

credit rating downgrade into sub-investment status. The second half of IHS's presentation focused on the Free State's economic outlook. The data agency shared that as a result of the pandemic GDP growth forecasts for the province have been revised downward as reflected in Image 1. Despite the bleak outlook for 2020, certain sectors including mining, manufacturing and electricity are expected to rebound in 2021. Growth in the mining sector is expected to be propelled by a coal production peak in 2021 along with a growth in the platinum group metals (PGMs) driven by automotive demand.

StatsSA's presentation focused on the implications of covid-19 on employment indicators. The second quarter Quarterly Labour Force Survey (QLFS) published by StatsSA showed that the immediate impact of the national lockdown was a decrease in the official unemployment rate, both nationally and provincially, as well as a significant increase in the number of people characterised as not economically active. The results of the QLFS for the second quarter of 2020 indicate a significant decrease of 6.8

Image 2: Free State Demographics

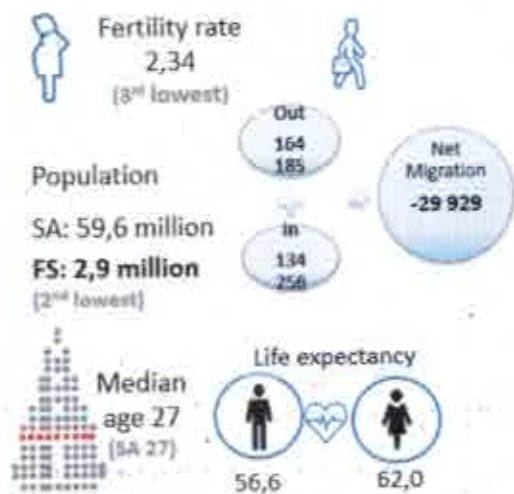


Image Source: StatsSA, 2020. Destea PRAC presentation.

percentage points in the official unemployment rate for South Africa; from 30.1% in Q1:2020 to 23.3% in Q2:2020. This is the lowest rate recorded since Q3:2009. Provincially, the official unemployment rate dropped from 38.4% to 25.3% between the first two quarters of 2020. This sharp decline in the official unemployment rate however is not a reflection of an improvement in the labour market but rather an effect of the national lockdown. This as the official definition of unemployment requires that people look for work and are available for work, a process that was hindered by the severe restrictions imposed by the level 5 national lockdown. As lockdown restrictions began to ease in the third quarter and more people were unable to seek employment, the size of the labour force increased. This subsequently resulted in a quarterly increase of the official unemployment rate. The Free State province's official unemployment rate increased by 10.2 percentage points quarter to quarter, up to 35.5% in Q3:2020. The initial impact of national lockdown as reflected in the results of the QLFS Q2:2020 was employment losses in all four major sectors provincially, namely; the formal sector, the informal sector, private households and the agriculture sector. In Q3:2020 all of the major sectors recorded increases in employment with the exception of agriculture.

The presentation made by Mr. Fouche from the NWU's Business school showed the impact of the covid-19 pandemic on trade. According to the presentation the volume of merchandise traded globally dropped significantly as a result of the restrictions placed worldwide. Despite the general decline in global trade, the trade of certain

placed measures to assist SMMEs introducing a number of incentives for this purpose. These include: the Covid-19 Risk Sharing Incentive; the Enterprise Support Incentive; the Spaza Shops and General Dealers Incentive; and the Informal Business Support Incentive. Along with this, the provincial department continues to work with Small

Image 5: Côte-à-côte Handmade Tiles, a beneficiary of Destea's Economic Recovery Incentive



Image Source: Official Destea. 2020

Enterprise Development Agency (Seda) and the national Department of Small Business Development (DSBD) in providing SMMEs with additional non-financial assistance. To date, Destea has provided financial assistance to an estimated 469 businesses and will continue in its efforts to provide even more assistance.

3. Conclusion and Recommendations

Although the mortality rate of the pandemic has been relatively low on the African continent, the economic impact is expected to be dire with reports signalling the continent's first recession in over 25 years.³ There now exists ample opportunity to make use of the AfCFTA and increase intra-Africa trade to ease the burden created by the pandemic. Through its various protocols the AfCFTA is expected to facilitate the movement of persons and labour, competition, investment and intellectual property. The agreement is made up of 54 African countries merging into a single market of approximately 1.3 billion people. This resource could create an economic bloc with a combined GDP of \$3.4 trillion. It is estimated that if implemented correctly the agreement will help intra-African trade grow by 33%. The agreement will also reduce tariffs and benefit entrepreneurs, including medium-to-small businesses. The continent should use the AfCFTA innovatively by focusing on the critical issues required to fight covid-19. Due to global shortages, many factories in Africa have

³ The International Monetary Fund has revised its GDP growth forecast for the continent from 5.1% before the pandemic to -1.6%. Similarly, the World Bank has forecasted a similar decline from 2.4% in 2019 to between -2.1 and -5.1% in 2020.

already retooled to produce basic protective equipment.⁴ South Africa is likely to largely benefit in the AfCFTA, given that it is the only African economy that is a significant destination market and also a source country for agricultural products. To a great extent, South Africa is the leading exporter of processed agricultural products and other African countries largely trade in primary and intermediate agricultural products which South Africa can process into higher value products, presenting an opportunity for the country.

The covid-19 pandemic has resulted in major disruptions for the national economy. Although it is predicted that the pandemic's effects will span over the long term, the initial effects have been made evident through declining GDP and increased unemployment. The impact of lockdown measures is expected to pull South Africa's GDP contraction to a historical low. Earnings of companies that are the largest job providers in South Africa have fallen under pressure since the start of 2020. As a result, additional job losses are anticipated along with salary cuts and low salary increases for the next 12 months at least. With the added burden of fiscal spending on wages, interest and social benefits and grants, the country should take action to prevent falling of the fiscal cliff. Government has been advised to contain the public sector wage bill.⁵ Efforts are already in place as the Finance Minister announced that the public sector wage bill would be reduced by R36.5 billion. Senior public sector salary increases have been frozen for the next three years to support fiscal consolidation and economic recovery plans.⁶ A move towards a sustainable investment program that focusses on "green" projects is recommended. Such investments could be geared towards areas such as the Xhariep District Municipality which, based on environmental assessments, is said to have some of the highest solar potential.⁷

Skills development and a move towards digitisation remain key in the effort to create employment. As indicated by McKinsey and Company, advancement of technologies such as machine learning, artificial intelligence, and advanced robotics will have a far-

⁴ African Centre for Economic Transformation. 2020. How Africa's Free Trade Agreement Would Reduce Covid-19's Impact

⁵ IHS Markit. 2020. Destea PRAC presentation.

⁶ IOL. 2020. MTBPS: Public sector wage bill to be reduced by R36.5bn

⁷ IHS Markit. 2020. Destea PRAC presentation.

reaching impact on South Africa's workplaces. Digitisation has the potential to increase productivity and operational efficiency across various sectors and create millions of high-quality jobs.⁸ The shock and disruption caused by the covid-19 related lockdown has forced this realisation upon businesses. It has accelerated digital transformation across every industry as firms invest heavily in remote working capabilities.

While assisting SMMEs, a number of lessons have been learned by Destea on the ground. The department recommends that SMMEs pursue new opportunities which will help drive the necessary change in the business. Small business owners must find ways to adapt to the ever changing environment while still remaining competitive. Investments must be made in skills development and infrastructure in order survive and remain profitable. The department will continue to empower small business by conducting training on financial management, customer care and understating the operational environment especially for the informal sector.

⁸ McKinsey and Company. 2019. The future of work in South Africa

4. Annexure A

	Name
1.	Beaula Kruger
2.	Tshepi Sepenyane
3.	Jonas Mosia
4.	Collen Maseko
5.	Silindisipho Belot
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7.	Thea Fourie
8.	Hattingh Johannes
9.	Tello T. Tebesi
10.	Abram Jansen
11.	Teboho T. Maine
12.	Evan Burger
13.	Palesa Kgwale
14.	Tiisetso Makhele
15.	Zanele Madadasana
16.	Mbuli, Thuli
17.	Themba Guma
18.	Mpolokeng Mokalobe
19.	Seore Mosala
20.	Modise Sehularo
21.	Akhona Phitsane
22.	Manana Kgabanyane
23.	Tefo Lekutle
24.	Lizzy Moses
25.	Teboho Mohlapo
26.	Pilot Nchabeleng
27.	Matee Mokhethi
28.	Uwah Zeida
29.	Mpolokeng Mokalobe
30.	Boitumelo Dithebe