

INDLULAMITHI DAY 2021

WELCOME
15 JULY 2021



Indlulamithi Scenarios & South Africa

SOUTH AFRICA'S POST COVID-19 ECONOMIC RECOVERY CHOICES (2021-2030)

PRESENTED BY
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Applied Development Research Solutions

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SOUTH AFRICA CHRONIC CRISIS, WORSENERD BY COVID-19

Low
economic
growth

High
unemployment
rate

High
poverty

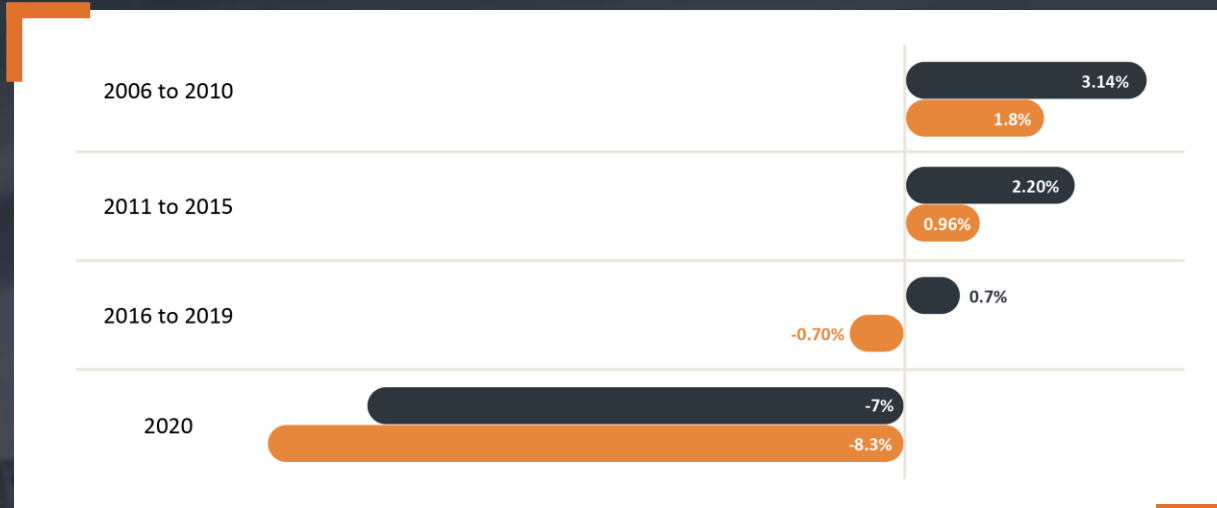
High
inequality

ECONOMIC GROWTH (%)

Chronic Low Economic Growth

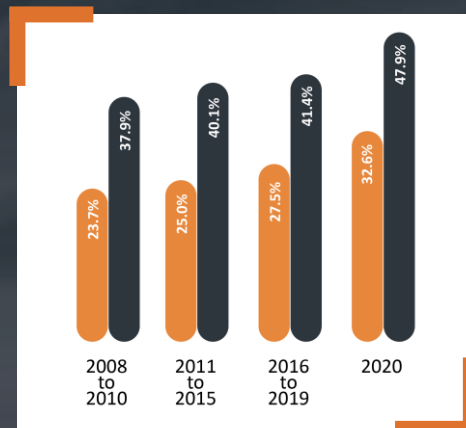
 GDP Growth

 Per-capita
GDP Growth



UNEMPLOYMENT RATE (%)

Persistent High Unemployment Rate

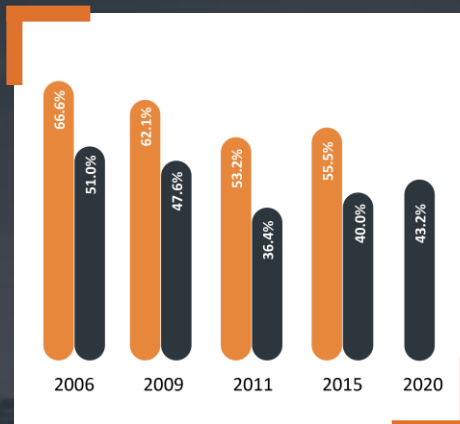


Official Definition Expanded Definition

POVERTY HEADCOUNT

Extremely High Poverty Rate

Source: Statistics SA (2017)



UBPL poor LBPL poor

INCOME INEQUALITY

Extremely High Income Inequality

Gini Coefficient



Income per capita Expenditure per capita

AS THE COUNTRY PLANS FOR THE POST-COVID-19 ERA,
THE MOST PRESSING QUESTION ON EVERYONE'S MIND IS:
WHAT WILL THAT RECOVERY LOOK LIKE AND MEAN TO SOUTH AFRICANS?

- Will the post COVID-19 recovery keep the economy on the current Gwara Gwara path?

- Will the recovery mean return to weak economic performance of pre-COVID-19 with the benefit of growth mainly going to the top layer of the population, and a relatively small amount trickled down to the rest?

- Will the recovery mean recovering from the country's chronic crisis and realising pro-poor Nayi-le-Walk outcomes?



THE REAL QUESTION IS...

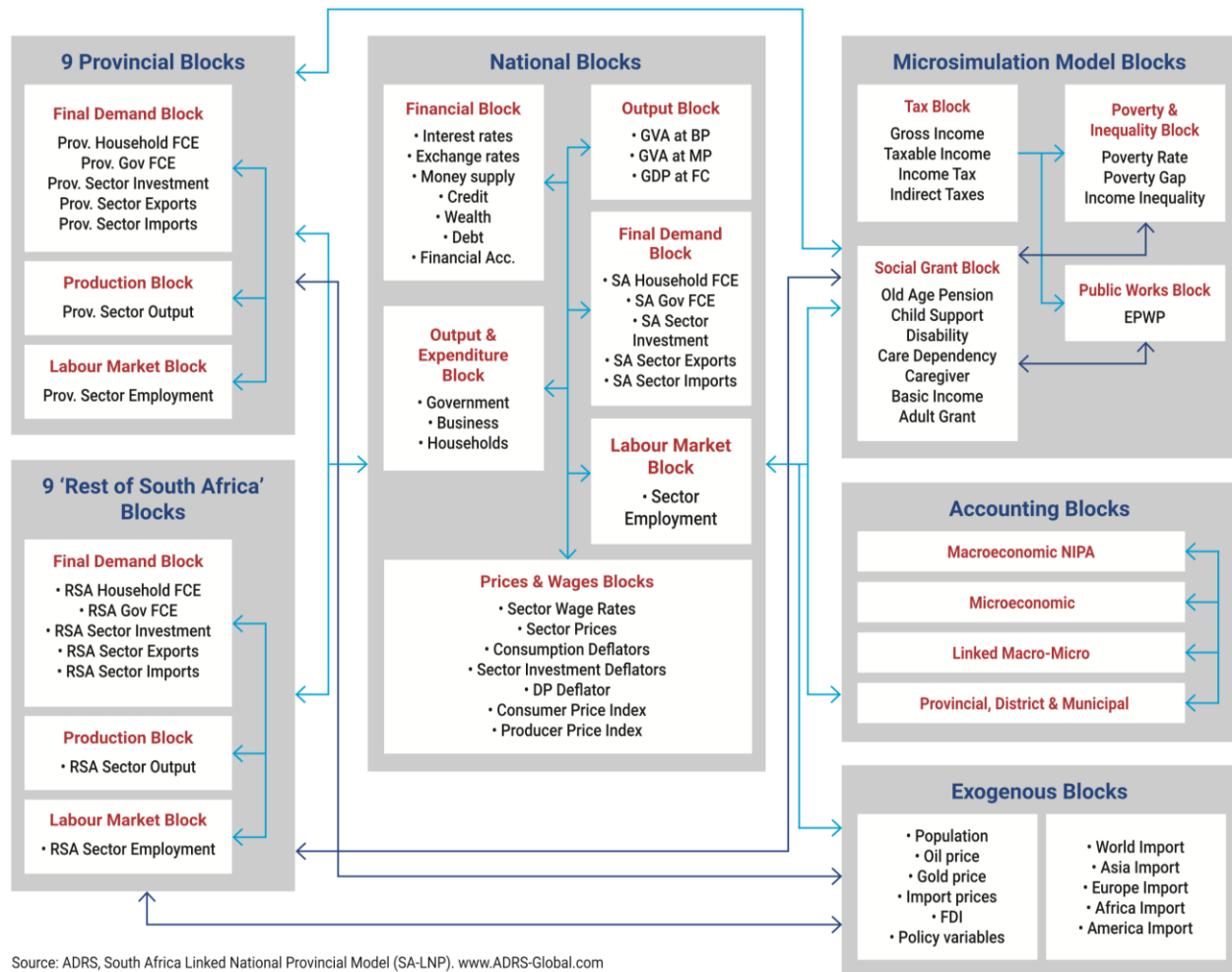
WHICH INDLULAMITHI SCENARIO
WILL SOUTH AFRICA FOLLOW
DURING THE NEXT 10 YEARS?

ADRS Linked National-Provincial Model of SA (SA-LNP™)

Replicating the economy

Identifying policy choices and
future possibilities

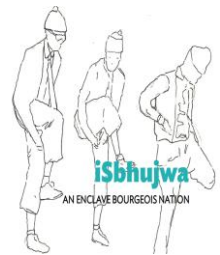
Forecasting likely future
outcomes



SCENARIO QUESTION 1

What if...

the recovery plan continues with the post 1996 economic policy framework? What will be the likely economic outlook?



What if...

... the general government

**annual spending
on goods and
services
increases by 7.5%**

and

**continues to
weakly support
industrial policy**

... The general
government

**economic &
social
infrastructure
investment
annually
increases by 6%**

and

**Investment
by Public
Corporations
annually
increases by 6%**

...the Reserve Bank
continues with

**inflation
targeting**

and

**credit extension
to private sector
continues to
grow by 6%
annually**

... the government
continues with
the current

Public Works

and

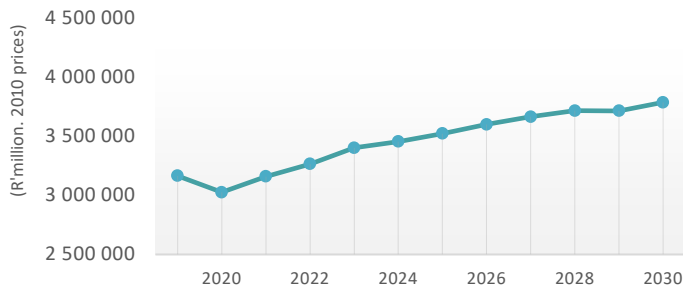
**Social Grant
Programmes**



SCENARIO QUESTION 1

ISBHUIJWA (BUSINESS AS USUAL) POLICY SCENARIO: TEN YEAR OUTLOOK

GDP (2019-2030)



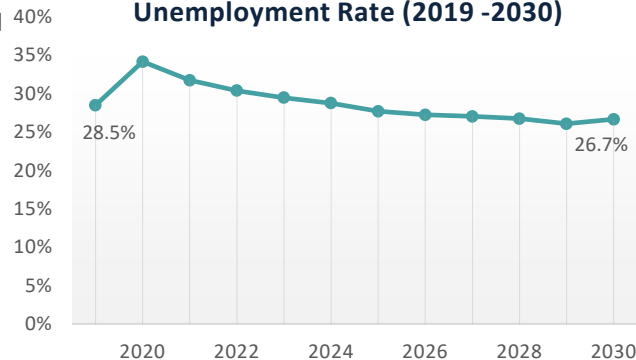
ECONOMIC GROWTH

Produces average
GDP growth of 2.2%

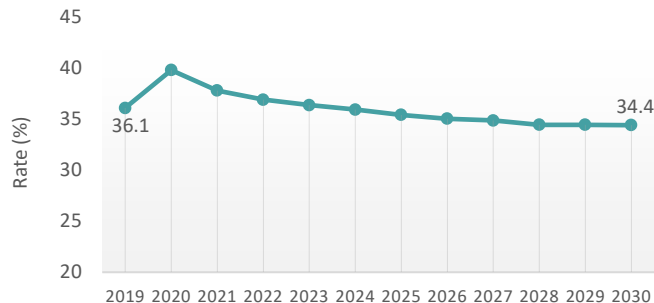
UNEMPLOYMENT

Rate will be about
27% by 2030

Unemployment Rate (2019 -2030)



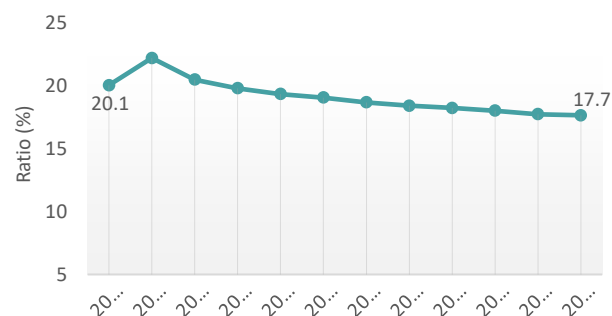
Poverty Rate (2019-2030)



POVERTY RATE
returns to pre-COVID
trend, reaching 34%
by 2030

DEPTH OF POVERTY
will remain high at
18% in 2030

Poverty Gap (2019-2030)



Source: ADRS SA Linked National-Provin
Model (SA-LNP).



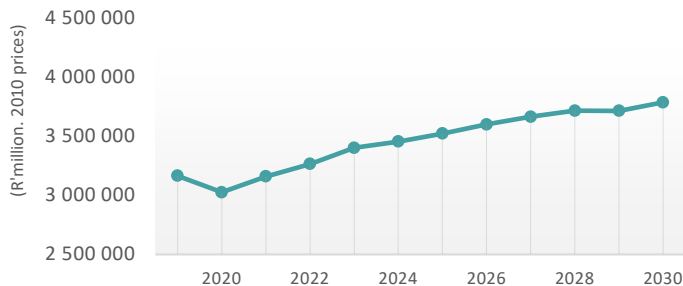
SCENARIO QUESTION 1

ISBHUIJWA (BUSINESS AS USUAL) POLICY SCENARIO: TEN YEAR OUTLOOK

Isbhujwa Overall Outlook:

Over the next 10 years, economic indicators tend to gravitate towards the low growth, and high unemployment and poverty trends established by the policy status quo.

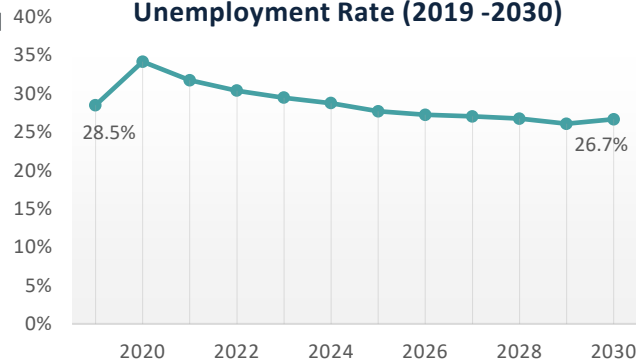
GDP (2019-2030)



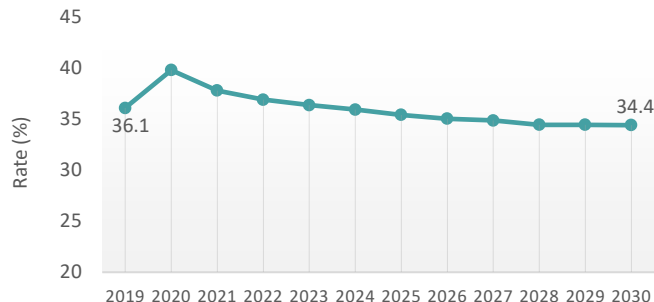
ECONOMIC GROWTH
Produces average
GDP growth of 2.2%

UNEMPLOYMENT
Rate will be about
27% by 2030.

Unemployment Rate (2019 -2030)



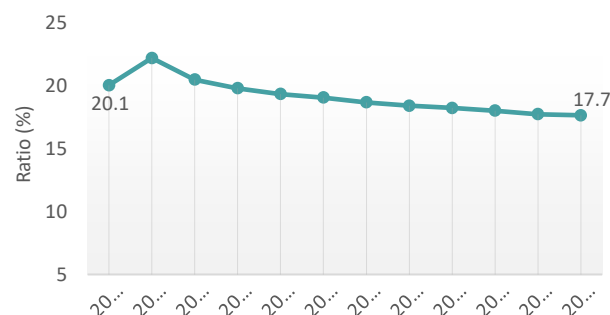
Poverty Rate (2019-2030)



POVERTY RATE
returns to pre-COVID
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by 2030

DEPTH OF POVERTY
will remain high at
18% in 2030

Poverty Gap (2019-2030)



Source: ADRS SA Linked National-Provin
Model (SA-LNP).



SCENARIO QUESTION 2

What if...

the recovery plan
augments the post
1996 economic policy
framework with
contractionary
measures?

What will be the likely
economic outlook?



What if...

... relative to the BAU scenario,
the government

**Cuts by 10%
spending on
goods &
services,**

including
wages & salaries,
Social Benefits
Transfers and
Subsidies

... relative to the BAU
Scenario,

**Capital
spending by the
General
Government is
reduced by 5%**

**Investment
by Public
Corporations is
cut by 5% and
FDI gradually
declines**

...the Reserve Bank

**tightens
monetary
policy by
lowering the
current 6%
upper bound
for inflation
to 4%**

... the government

**abandons
localisation
policy**

and

**cut subsidies
on products
and
production
by 5%**

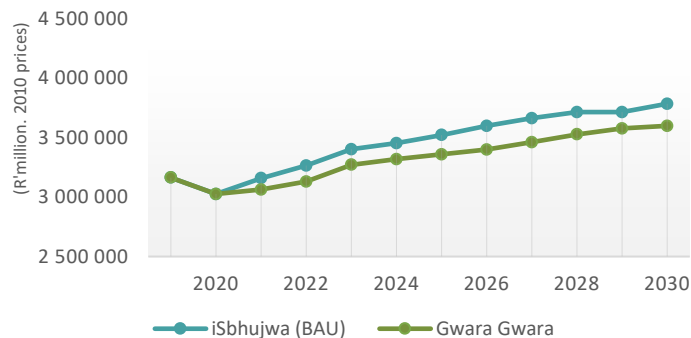


SCENARIO QUESTION 2

Gwara Gwara Scenario: Ten Year Outlook

Source: ADRS SA Linked
National-Provincial
Model (SA-LNP).

GDP (2019-2030)

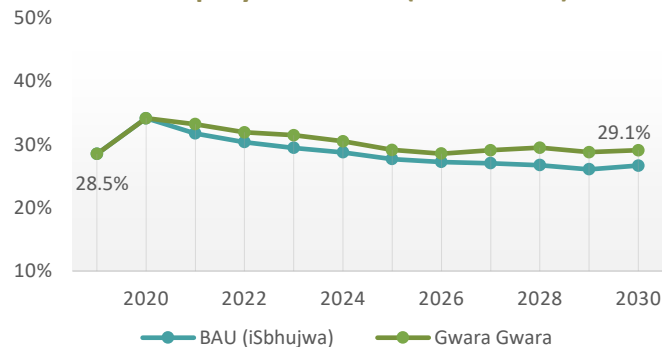


ECONOMIC GROWTH

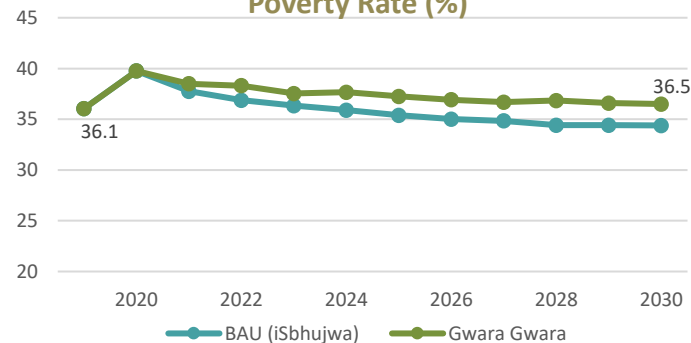
Produces average
GDP growth of 1.8%

UNEMPLOYMENT
Unemployment rate
stays high. In 2030 it
will be 29%

Unemployment Rate (2019-2030)



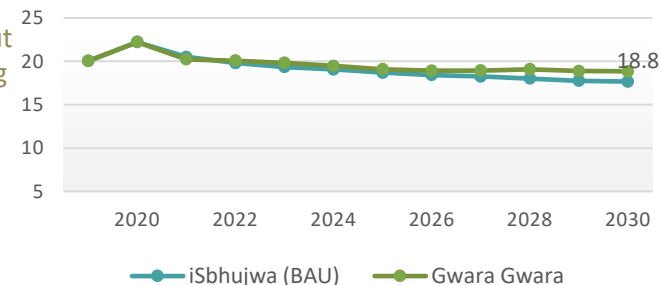
Poverty Rate (%)



POVERTY RATE

Initially declines, but
stays high, reaching
36.5% by 2030

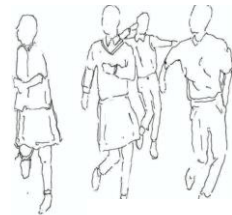
Poverty Gap (2019-2030)



SCENARIO QUESTION 3

What if...

the state reconsiders
the post 1996
economic policy
framework?
What policy roadmap
is likely to put the
economy on an
inclusive Nayi-le-Walk
path?



Nayi le Walk
A NATION IN STEP WITH ITSELF

1

Macro-Economic
Policy Reform

2

Social Policy Reform

3

Micro-Economic
Policy Reform

4

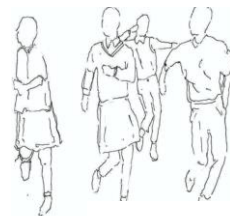
Trade & Industry
Policy Reform

5

Private Sector
International Support

6

Provincial Growth &
Development Plans



Nayi le Walk
A NATION IN STEP WITH ITSELF

What if...

...the government and public corporations systematically

increase their investment

in:

ECONOMIC
INFRASTRUCTURE

SOCIAL
INFRASTRUCTURE

ECONOMIC SERVICES

by 10% annually over the next 10 years,

which is 4% above the BAU scenario.

...the Reserve Bank's current solitary mandate of

targeting inflation

is upgraded to a dual
mandate of

**targeting inflation and
6% economic growth**

...the government

spending on goods and services

(i.e., government final consumption expenditure)

annually increases by 10.5%

to provide necessary funding to expand the delivery of individual and collective social services.

...monetary authorities

adopt necessary measures

to raise the annual growth of credit extension to the private sector to 15%.

What if...

...the government begins to

make Public Works the employer of last resort for the unskilled-unemployed

and increase the daily pay rate to R160.

Initially, EPWP expands to cover about 75% of the unskilled unemployed, and the coverage will grow by an additional 3% every year after 2021.

...the government immediately

introduces an unemployment grant for skilled unemployed

and for all who have become unemployed in 2020 due to COVID-19.

The eligible unemployed workers will be entitled to receive R1000 a month, which increases by 6% annually.

...given COVID-19, the government immediately

introduces a caregiver grant

of R500 per month for the family member that takes care of a child who receives either a child support grant or a care dependency grant.

And, "What if" the initial amount of the **grant to increase by 6% annually**

What if...

...the government sector support policies
help exports from the agriculture sector

to grow by an additional 1% in 2021 and by an additional half a per cent every year thereafter.

Thus, by 2030, exports from the agriculture sector are expected to be 6% higher than would be the case without the measures.

...the government microeconomic measures were to succeed in
lowering the price of the Transport, Storage and Communication sector

over the next 10 years by 5% to 10% initially (between 2021 and 2023) and then by an additional 5% annually.

...the government microeconomic measures were to
directly boost labour productivity in the following sectors:

TRANSPORT
STORAGE & COMMUNICATION
AGRICULTURE
FOOD
BASIC CHEMICALS
IRON & STEEL
TRADE
CATERING & ACCOMMODATION

We therefore allowed for an annual positive shock of 1% to the labour productivities of the above sectors.

...microeconomic policy reforms were to succeed in

improving competitiveness in the following sectors:

TRADE,
CATERING & ACCOMMODATION
TRANSPORT
STORAGE & COMMUNICATION
FINANCIAL INTERMEDIATION
INSURANCE
REAL ESTATE
BUSINESS SERVICES

thereby led to the gradual lowering of their mark-up by 2% points initially and an additional one percentage point each subsequent year.

What if...

...the industrial policy measures, such as various industrial financing incentives, were to succeed in directly and indirectly

increasing total annual investment in the manufacturing sector

by R10 billion (in 2010 prices) during the next 10 years (2021-2030).

...trade and industrial policy measures, such as the SEZ and African integration programmes, were to succeed in

increasing total exports

by an additional 1.5% after 2021.

...the government's Proudly SA and localisation policies succeed in gradually

reducing import dependency ratios

of some sectors by 20% over the next 10 years.

...the Trade and Industrial policy uses a range of policy measures, including the public sector and public-private sector investment practices, to gradually

increase the employment intensity

of economic growth in South Africa.

What if...

...the **Public-Private Growth Initiative (PPGI)** were to

increase investment in the South African economy

by R500 billion over the next 10 years.

...**Public Investment Corporation (PIC)** were to

increase its investment in the South African manufacturing sector

by R100 billion between 2021 and 2025 (5 years).

...the level of

foreign direct investment

in South Africa gradually **increased** from 1% to 2.5% of GDP between 2021 and 2030.

...after COVID-19, the

nominal value of total world imports grows

annually by 8%.

What if...

...GGT2030 industrial measures succeed in

**increasing
Gauteng's total
real output**

by 0.5% in 2021 and by an additional half a percent each year thereafter.

...provincial measures to promote African regional trade succeed in

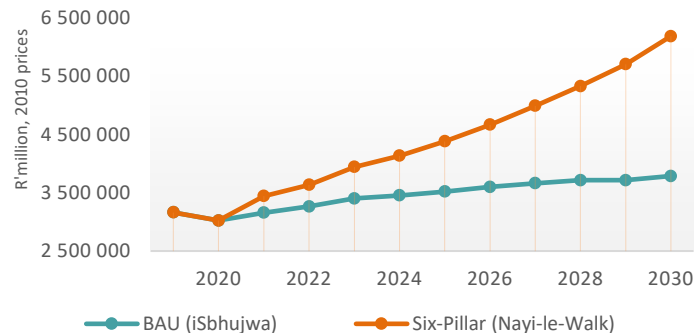
**increasing
Gauteng
exports to
Africa**

by an extra 0.5% annually.

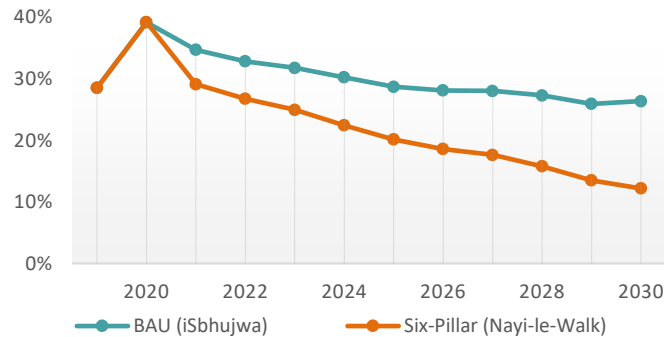
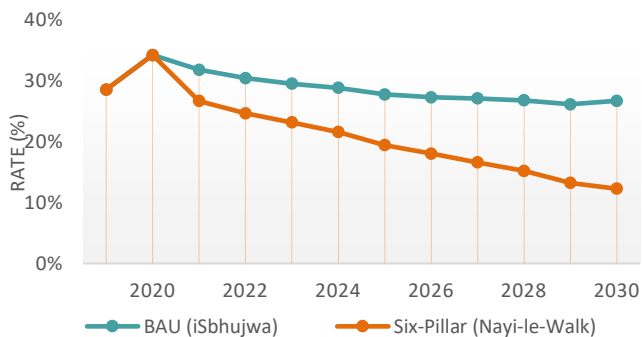
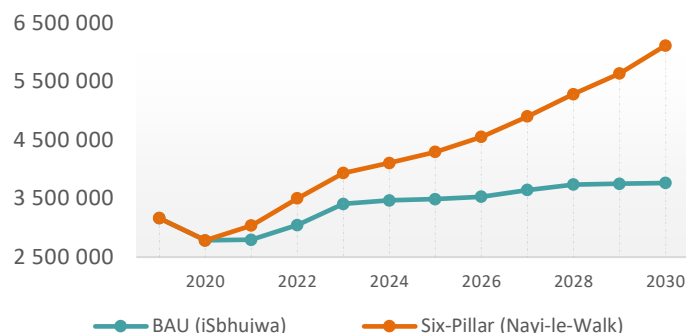
...extensive provincial sector strategies and support measures successfully lead to an additional 0.5% annual investment

**increase in
Gauteng's
agriculture, food,
electricity, water,
construction,
transportation and
communication
sectors**

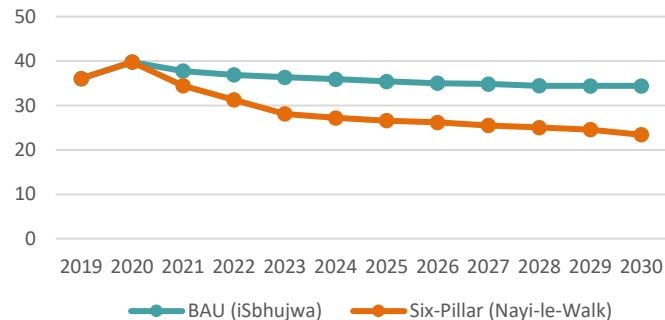
MILD SCENARIO



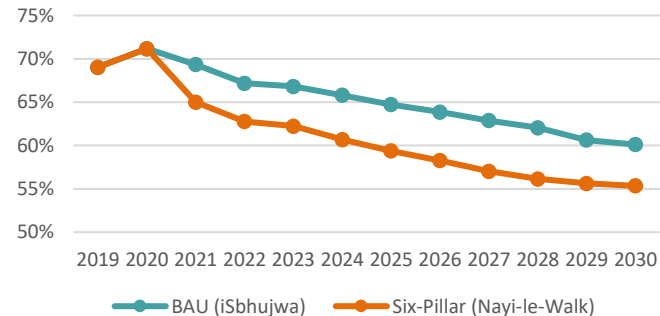
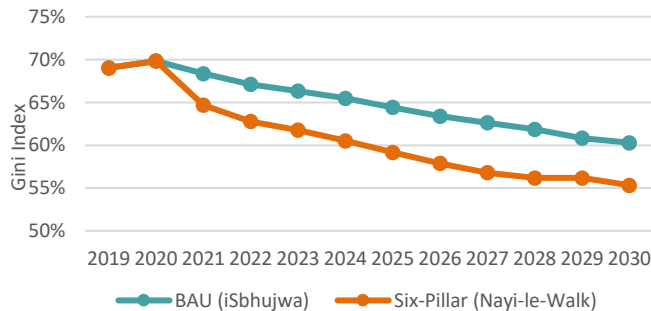
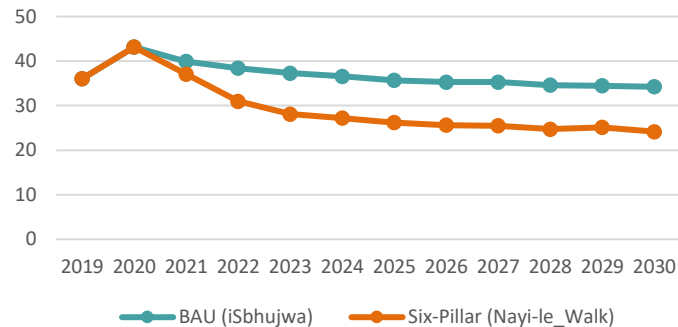
SEVERE SCENARIO



MILD SCENARIO

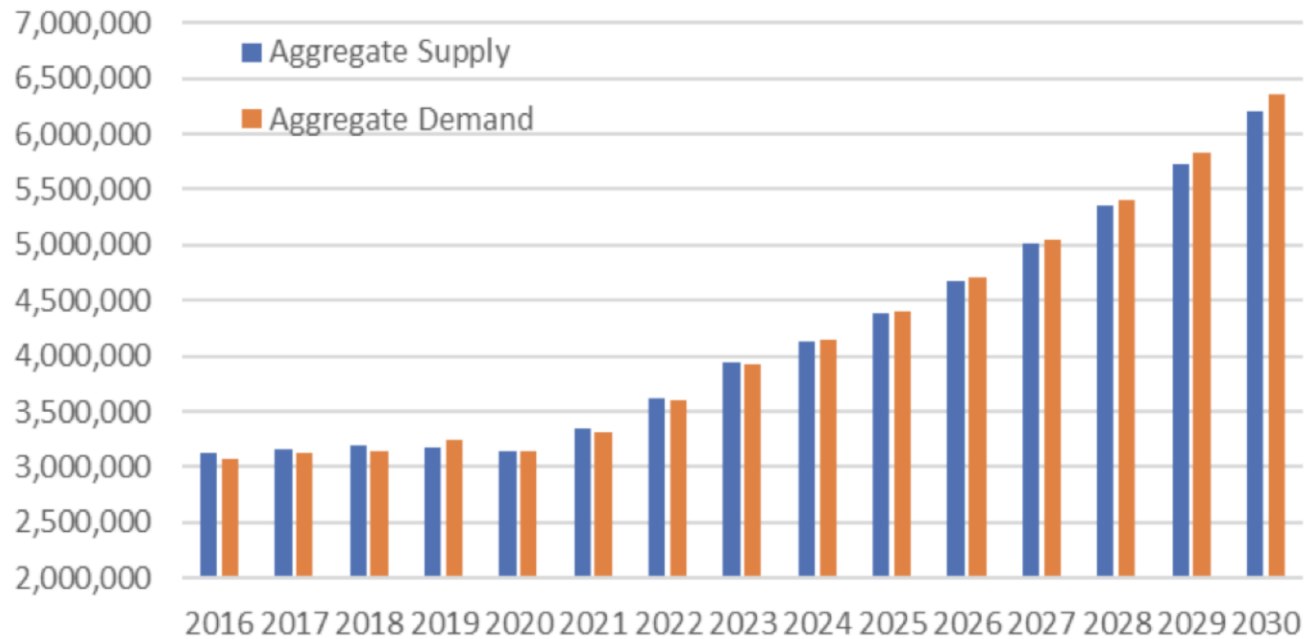


SEVERE SCENARIO



BALANCED GROWTH

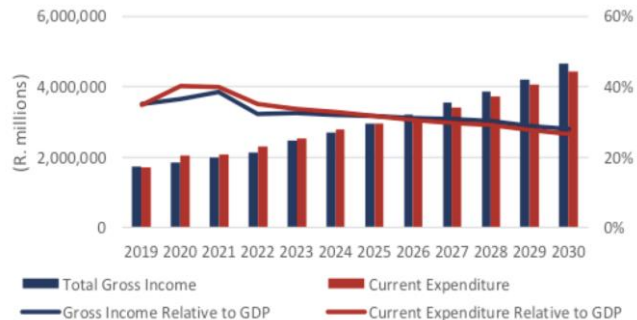
The 6-pillar policy option
produces simultaneous expansion of both
aggregate demand and aggregate supply
over the next 10 years



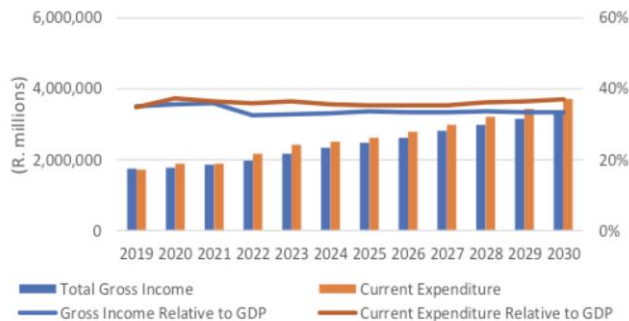
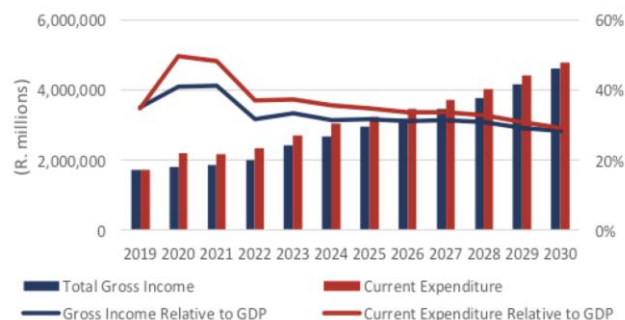
FISCAL & DEBT SUSTAINABILITY

Over the next decade, government revenue will grow concurrently with the projected GDP growth, thereby generating the funds needed to pay for the scenario's expected increase in government expenditure.

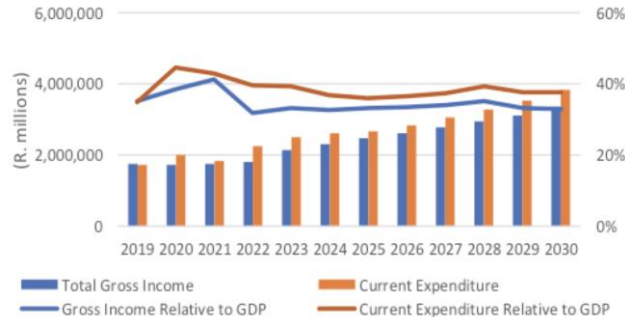
MILD SCENARIO



SIX PILLAR (Nayi-le-Walk) SCENARIO



BAU (iSbhujwa) SCENARIO

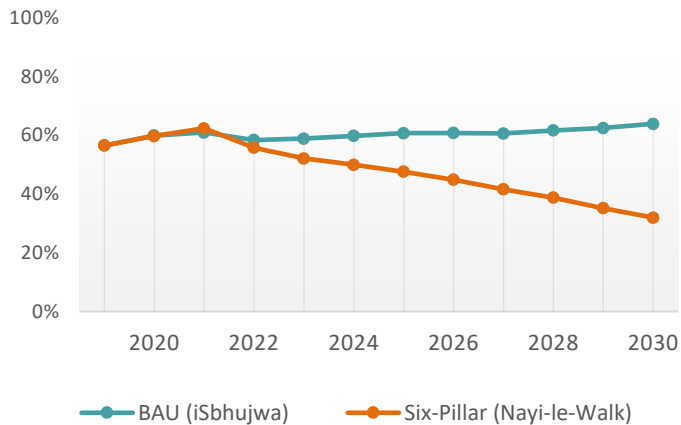


DEBT-GDP RATIO OUTLOOK (2019-2030)

Relative to the BAU scenario, the 6-Pillar scenario's
higher economic growth rates,
lower real interest rates and
better primary balance rates
produces lower annual debt-GDP ratios.

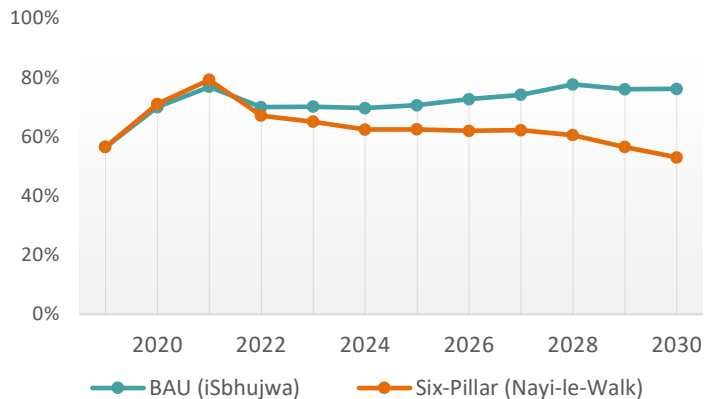
MILD SCENARIO

SEVERE SCENARIO



DEBT-GDP RATIO

Produces declining Debt-GDP ratio, reaching about 40% by 2030



INCLUSIVE GROWTH & SIX PILLAR POLICY FRAMEWORK

National poverty rate declines

by almost 50% to 23%
from 2020 to 2030.

Poverty level declines

during the next decade by 40%
(i.e., 10 million).

Significant improvement in the delivery of social services

(e.g., education, health, land reform, housing, etc.)

and economic infrastructure across the country

(e.g., roads, bridges, transportation, etc.)

particularly improves the living
conditions of poor families.



Poor Families

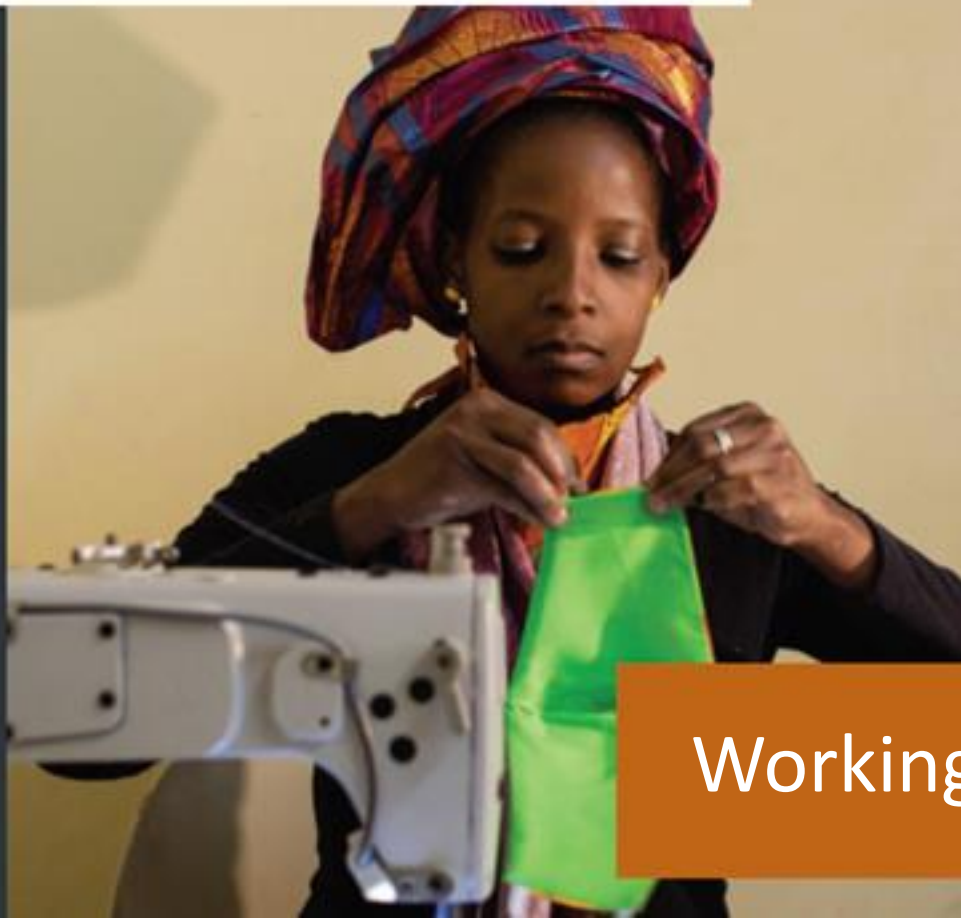
INCLUSIVE GROWTH & SIX PILLAR POLICY FRAMEWORK

The unemployment rate declines by almost 70% from 35% (Mild Scenario) and 40% (Severe Scenario) in 2020 to 12% in 2030.

The economy adds 8.7 to 10 million jobs to total employment between 2020 and 2030.

National income inequality, measured by Gini coefficient, **declines** by 16% points, 71% to 55%.

Significant improvement in the delivery of social services (e.g., education, health, land reform, housing, etc.) **and economic infrastructure across the country** (e.g., roads, bridges, transportation, etc.) improves the living conditions of millions of working class families.



Working Class

INCLUSIVE GROWTH & SIX PILLAR POLICY FRAMEWORK

Real GDP will almost double over the next decade, which implies a significant expansion of the domestic market.

Average profit rate remains above 16%

Improvements in the economy and overall well being of the population **improve average labour productivity growth**

Government debt-GDP ratio will gradually decline, due to the high average annual growth rate, to less than 50%.

Average **investment-GDP increases** to about 27%.

Increase in social cohesion which enables stable capital accumulation.



Business Class

CONCLUSIONS

OUR MODELLING WORK HIGHLIGHTS THREE POSSIBLE
POST COVID-19 OUTLOOKS FOR SOUTH AFRICA

iSbhujwa Trickle-down Outlook

If the recovery policy framework continues with the post-1996 policy status quo, i.e., the BAU scenario, the past trickle-down path will resume after the pandemic with the economy stuck in low growth and high rates of unemployment, poverty and inequality during the next decade.

Gwara Gwara Immiserizing Outlook

If the recovery policy framework augments the post-1996 policy status quo with contractionary measures, such as a more austere fiscal policy, the future outlook will trend more towards an immiserizing growth path of Gwara Gwara Scenario.

Nayi-le-Walk Pro-Poor Outlook

If the recovery policy framework reflects a shift from the post-1996 policy status quo and embraces a policy framework similar to the Six-Pillar scenario, the future outlook will trend more towards an inclusive pro-poor path of Nayi le Walk scenario, enabling South Africa to recover from its chronic economic crisis.



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Applied Development Research Solutions is an independent economic consultancy organization with extensive experience in economic model building, capacity building, policy research, and advisory services in Africa.

Our innovative web-based interface gives users the power to design policies and test their impact prior to embarking on implementation. ADRS was founded as South Africa's new democracy embarked on economic, political and government transformation based on a new set of inclusive ideals. It was a time of incredible excitement and energy, ripe with optimism for the new dispensation and many ideas about how to right the economic wrongs of the past. Yet, it quickly became apparent that many well-meaning ideas had negative unintended consequences.

ADRS was created to provide critical foresight through innovative economic modeling tools to better inform economic policymaking. We have always been driven by the belief that intelligent policy design is a prerequisite to better and more sustainable economic development. We share these tools throughout Africa and beyond, in order to contribute to the economic well-being of people throughout the continent and the developing world.

INDLULAMITHI
DAY 2021

THANK YOU

