IDC’s response to COVID-19

Joint Meetings of Portfolio & Select Committees of Trade, Industry and Competition

Industrial Development Corporation

13 May 2020

Introduction

IDC is proactively assessing Covid-19 developments, identifying and contributing to initiatives to combat the spread of the virus and to minimise the impact on the economy.

The impacts of the pandemic are likely to be severe and wide-ranging and are difficult to predict at this point in time.

Economic recovery and growth of sectors will require close collaboration of stakeholders.

IDC has adapted its transaction assessment & approval processes to improve turnaround times. We have also digitised disbursement of funds & payments to suppliers.

IDC UPDATE

IDC's response considers short, medium and long-term interventions with a focus on the economic recovery of South Africa, including potential opportunities that may arise from the restructuring of global value chains and localisation opportunities.

IDC's financial capacity has also been impacted by developments and needs to be complemented by fiscal and private sector funding.

IDC has had to review its strategy to respond to short-term demands and its medium- and long-term strategic direction

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Impact on the global economy

Impact on Sub-Saharan Africa

Impact on South African economy

Impact on specific sectors

Impact on existing IDC clients

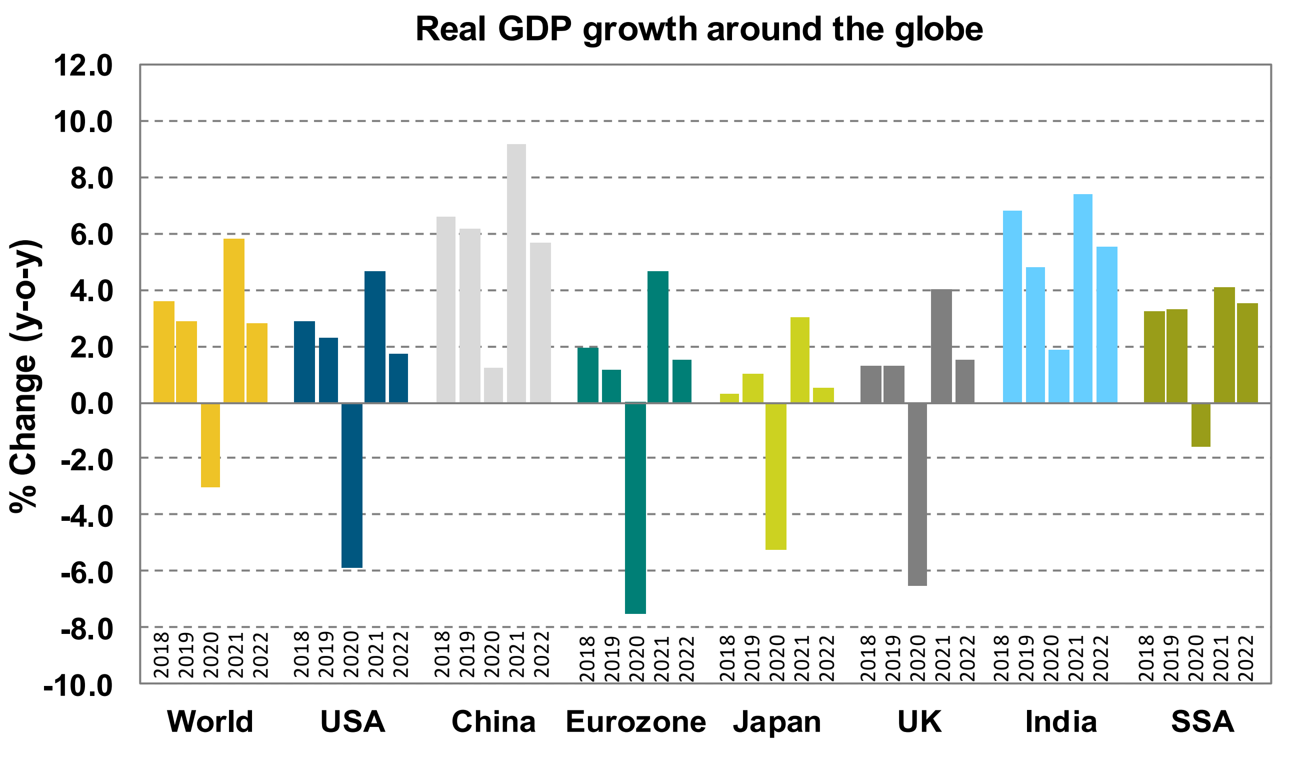
Impact on IDC's Long-Term Sustainability Plan

- **Development Effectiveness**
- **Financial Sustainability**
- **Client Centricity**
- **People Centricity**

- The fast-evolving Covid-19 pandemic is causing havoc in the world economy, disrupting social and economic systems.
- The full or partial lockdown of national economies around the globe is unprecedented in world history.
- The full extent of the social, economic and financial consequences of the pandemic, and of government actions to contain it both globally and domestically, are impossible to project at this stage.

- The world economy is projected by the IMF to contract sharply (by -3%) in 2020 – a far worse economic recession than during the global financial crisis in 2009.
- The pandemic is adding to the woes of an already weak South African economy, taking it into a deep recession.
- Unavoidably, this is also impacting on IDC's finances and operations calling for urgent and considered IDC responses and interventions.

Economic activity around the globe has been disrupted as containing the Covid-19 pandemic has been centre stage



Source: IDC, compiled using IMF, Morgan Stanley data; IDC forecasts for 2022

- Substantial downward revisions are being made to growth projections across the world economy, with deep recession in many parts of the globe.
- As economic activity is halted and spending falls dramatically under partial/full shutdowns of world economies, GDP growth in 2020 is being affected in an extraordinary manner:
  - During Q1, largely in East Asia; during Q2, largely in Europe, North America, South Asia and parts of Africa; while Q3 remains an unknown.
  - The **IMF forecasts world GDP growth at -3.0% for 2020** and +5.8% in 2021.
- The **USA, Eurozone, UK, Japan and South African economies, among others, will fall into recession this year.** Should virus containment efforts succeed, strong rebounds from very low bases may ensue in 2021.

SA macroeconomic forecasts

Comparisons of real GDP growth (% change year-on-year) forecasts by select institutions (listed by date of release)

Institution	*Forecast date*	2019 actual	2020 fore-cast	2021 forecast	2022 forecast	2023 forecast	2024 forecast
South African institutions							
RMB / Morgan Stanley	*7 May 2020*	0,2	**-7,2**	-	-	-	-
NKC African Economics	*6 May 2020*	0,2	**-7,2**	-	-	-	-
Standard Bank	*6 May 2020*	0,2	**-8,5**	-	-	-	-
Econometrix	*30 April 2020*	0,2	**-6.4**	-	-	-	-
Intellidex	*28 April 2020*	0,2	**-10,6**	-	-	-	-
IDC	*15 April 2020*	0,2	**-6,3**	2,0	1,9	2,1	2,2
SA Reserve Bank	*14 April 2020*	0,2	**-6,1**	2.2	2.7	-	-
Bureau for Economic Research	*14 April 2020*	0.2	**-7.0**	-	-	-	-
Absa	*14 April 2020*	0.2	**-3.1**	-	-	-	-
Nedbank	*8 April 2020*	0,2	**-4,2**	1,3	1,3	-	-
Stanlib	*1 April 2020*	0,2	**-4.9**	-	-	-	-
International institutions							
Standard & Poor's	*30 April 2020*	0,2	**-4.5**	-	-	-	-
Moody's Investors Service	*24 April 2020*	0,2	**-6,5**	4,5	-	-	-
International Monetary Fund	*April 2020*	0,2	**-5,8**	4,0	-	-	-
Fitch Ratings	*3 April 2020*	0.2	**-3,8**	1.7	-	-	-

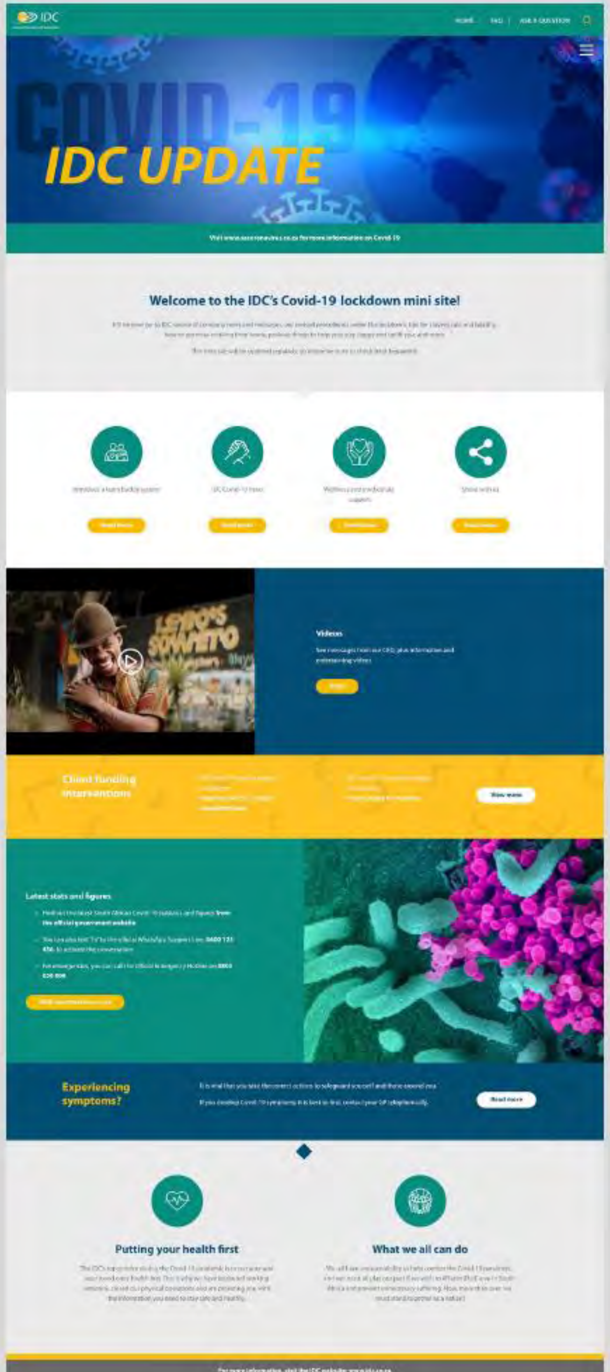
- **Household spending set to plummet** especially on durable and semi-durable items.
- **Fixed investment activity expected to fall sharply** with expected capital outlays expected to be the lowest in a decade in real terms.
- **Fiscal metrics will worsen substantially** as Government will have to raise additional debt at a much higher cost.
- **Exports set to drop considerably** for commodities, agricultural products, and manufactured goods.
- **Imports will decline substantially** due to weaker domestic demand.
- **Substantial job losses expected** which could **see the** unemployment rate rising to 36.5% by Q4 2020.
- **Rand under immense pressure** but should strengthen towards its long-term trend line over the 5-year outlook period.
- **Moderate inflation** should permit growth-supportive interest rates.
- **SA economy will fall into a deep recession in 2020**, with GDP growth projected at -6.3%.

IDC’s Response to the Covid-19 crisis

First, we acted to protect our staff while ensuring the least impact on service delivery

IDC did not cease activity and has remained open for business.

- While we have responded to our President's call to work from home we have increased business activity in response to the crisis and aligned to our role as a Development Finance Institution
- Only critical staff members work from our offices and the rest of the employees were required to work remotely, in alignment with Government's Risk Adjusted Strategy for Economic Activity.
- Covid-19 prevention procedures are followed in accordance with the Covid-19 Occupational Health and Safety Measures in Workplaces and include the sanitisation of offices, temperature checking of staff prior to entering the premises, supply of protective gear including gloves and masks and following social distancing protocol, amongst others.



IDC has developed a structured approach for resumption of working from the office. The IDC work plan for alert level 4 encourages those employees to conduct their work from home, while at the same time the management team will be systematically phasing in the return to the office over the coming weeks and months. In this process, IDC management is guided by gazetted regulations.

We have reached out and are aware of the needs of our clients

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COVID-19
IDC DISTRESSED FUNDING

RELIEF FUNDING FOR DISTRESSED BUSINESSES

The IDC is offering assistance for companies that are in distress resulting from the Covid-19 pandemic.

WHO MAY APPLY?

IDC clients and other businesses operating in sectors within the IDC's mandate that, as a direct or indirect result of the Covid-19 pandemic, are:

- Reasonably unlikely to be able to pay all their debt as it becomes due and payable
- Unable to fund their operating activities

SECTORS COVERED

- Agro-processing and agriculture
- Chemical products and pharmaceuticals
- Basic and speciality chemicals
- Clothing and textiles
- Heavy manufacturing
- Light manufacturing
- Media and audiovisuals
- New industries
- Tourism
- Automotive transport and equipment
- Industrial infrastructure
- Basic metals and mining

QUALIFYING CRITERIA

- Existing IDC clients and new clients in distress as a result of Covid-19. These should operate in sectors within the IDC's mandate
- Companies in distress because of the Covid-19 pandemic, not because of mismanagement
- Companies should demonstrate strong business fundamentals and be considered viable
- Relief is only for clients impacted by Covid-19 with a sustainable business plan
- Intervention plans must show the business case recovering within 18 to 24 months
- There must be evidence that concessionary finance will enable the business to trade out of any short- to medium-term financial crisis
- Limited to South African companies and clients
- Risk must be shared with other funders, not just the IDC
- Distressed funding cannot be used to fund bonuses or dividends
- The company's financial needs must be in excess of assistance from the Unemployment Insurance Fund, the Compensation Fund, the IDC's funding and any other support schemes, and the IDC's funding should only be used to fund any shortfall

EXCLUSIONS

- Normal expansions
- Refinancing of existing facilities
- Share buy-backs
- Payment of non-operational expenditure, e.g bonuses

TERMS OF FACILITY

- Debt and guarantees only (equity on a case-by-case basis)
- Scheme-related concessionary pricing

TOGETHER, LET'S FIGHT COVID-19 TO SAVE LIVES – AND JOBS.

For more information, visit the IDC website: www.idc.co.za
Email: covid@idc.co.za • Telephone: 0860 693 888

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AN EXTENSIVE SURVEY ASSESSED THE IMPACT ON OUR CLIENTS & SECTORS

- ✓ Most clients expected turnover to reduce or business closure - exceptions being sectors such as Agro-processing and Agriculture, Industrial Infrastructure, and Chemicals.
- ✓ Clients across all industries cite lower domestic sales and labour challenges (such as ability to pay salaries) to be the main drivers that will affect their businesses. Logistics for final products and declining exports also a concern for some sectors.
- ✓ most of our clients indicated they had already enacted some measures to protect employees.
- ✓ Many of our clients are already coming forward for working capital, deferments of payments and/or restructuring of facilities.
- ✓ Some clients that do see opportunities largely see domestic opportunities directly related to the crisis. This relates to the food, automotive, chemicals, clothing, media, infrastructure and some other manufacturing industries.

IDC's response includes immediate and strategic interventions

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We have adopted a **multipronged strategy** in response to the challenges the environment is presenting - catering for **immediate needs** and a **forward-looking approach** to support economic recovery and growth and take advantage of opportunities arising out of the current crisis.

Immediate interventions	Short-term (3 months)	Medium to long-term (> 3 months)
• Funding for companies including trade facilities to support sourcing of critical supplies for combatting of Covid-19 to limit the spread and immediate impact of the virus – ***R800 million* allocated*** • Support supply chains critical for society to function especially during lockdown periods • Short term facilities to support extended working capital requirements	• Liquidity support, client support measures (e.g. deferments) • Working capital to take advantage of demand spikes • Working capital for maintenance of newly reopened plants	• Distressed Funding – ***R3 billion allocated*** • Emerging industries • Facilitate liquidity support and distressed funding • Modernisation of equipment • Relaunching of industries • Restructure facilities for distressed clients • Drive consolidation opportunities for industry competitiveness through export development, localisation, import replacement

*** Includes R500 million (IDC own balance sheet trade facility & R300 million from MCEP**

We have developed specific funding products to support enterprises respond to Covid-19

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COVID-19
ESSENTIAL SUPPLIES INTERVENTION

HOW TO APPLY FOR FUNDING

1. The IDC Covid-19 Essential Supplies Intervention is designed to provide funding to companies that have capacity to acquire and/ or manufacture products needed to treat, curtail and combat the spread of the Covid-19 pandemic.

2. ESSENTIAL MEDICAL SUPPLIES INCLUDE:

- Bulk supplies of disinfectants and sanitisers
- Accredited masks
- Accredited test kits
- Medical gloves
- Packaging (bottles, bottle caps, pumps, sachets)
- Sanitiser units (hand or industrial)
- Toilet paper, wipes, tissue paper, sanitary pads
- Cleaning materials
- Chemicals
- Approved drugs
- Ventilators and filters
- Nebulisers and nebulising agents
- Hospital beds
- Oxygen tanks and products
- Aprons
- Safety visors
- Raw materials to manufacture essential products
- Urgent regulatory and compliance testing of products or treatments

Note: Please refer to the Treasury's comprehensive list of products

3. YOU MAY QUALIFY FOR FUNDING IF:

- You have a track record of manufacturing similar products
- In the case of imports, you are able to import at the required scale (and there is insufficient local manufacturing capacity)
- You are an accredited supplier (in either the public or private sector)
- You have a contract or purchase order with either the South African government or a similar large customer for essential supplies
- You can demonstrate historical profitability
- Your mark-up is reasonable to prevent profiteering and price-gouging, and
- Your geographic focus area is South Africa and the Southern African Customs Union

Note: Other considerations may be taken into account

4. THE FOLLOWING FINANCIAL INSTRUMENTS ARE AVAILABLE:

- Short-term loan for once-off contract or import funding
- Revolving credit facility
- Guarantees to banks for banking facilities, imports and ordering requirements

5. TERMS OF FACILITIES:

- IDC loan and trade finance facilities: P+1% p.a.
- MCEP loan facilities: 2.5% p.a.
- Guarantees: 2% p.a.

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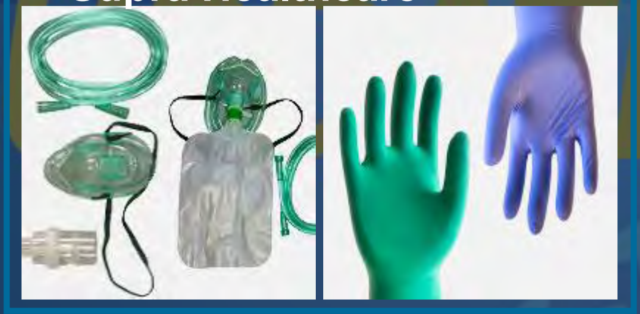
IDC Your partner in development finance

IDC funding for Covid-19 emergency supplies

Alternative Living and Technical Solutions for Africa (ALTSA)

AMKA

Supra Healthcare



Pharmapac

Enquiries	>200
Rejected	27
Undergoing assessment	13
Approved	6

Our Essential Supplies interventions are preparing South Africa to combat the spread of Covid-19

- There is a global and local shortage of items essential for combatting and managing Covid-19
- These items are critical for us to be able to manage the crisis
- IDC is participating in initiatives to play its role – making funding available to secure essential supplies
- Key items include N95 masks for hospital staff, sanitizer, protective clothing, medical equipment and pharmaceuticals to treat Covid-19
- Companies we are funding are supplying both government and private sector responses
- **<u>IDC has reviewed its processes and approach to enable a quicker response focused on short term funding whilst retaining assessment rigour</u>**

IDC funding to date

- 6 transactions approved:
  - including two Black Industrialists, two women empowered companies and one youth empowered
  - GP (3), KZN (2) & WC (1)
- R379 million (R298 million IDC funding and R81 million MCEP funding managed on behalf of the DTIC)
- 15 applications being assessed – R198 million

IDC is also prioritising funding for other opportunities that are emerging from the crisis

- The crisis has exposed weaknesses in global value chains and is allowing SA companies to fill these gaps
- Global lockdowns have also increased demand for entertainment
    - IDC is also prioritising funding opportunities for local companies to increase production and supply domestic demand
    - Companies that are benefiting from this include:
        - Automotive glass manufacturer
        - Manufacturer of toilet paper and other tissue products (Black Industrialist)
        - Cotton yarn producer
        - Production of an animated film (Black Industrialist)

IDC funding to date

4 transactions approved

R569 million

Where companies can demonstrate a temporary negative impact of Covid-19 we are ready to support

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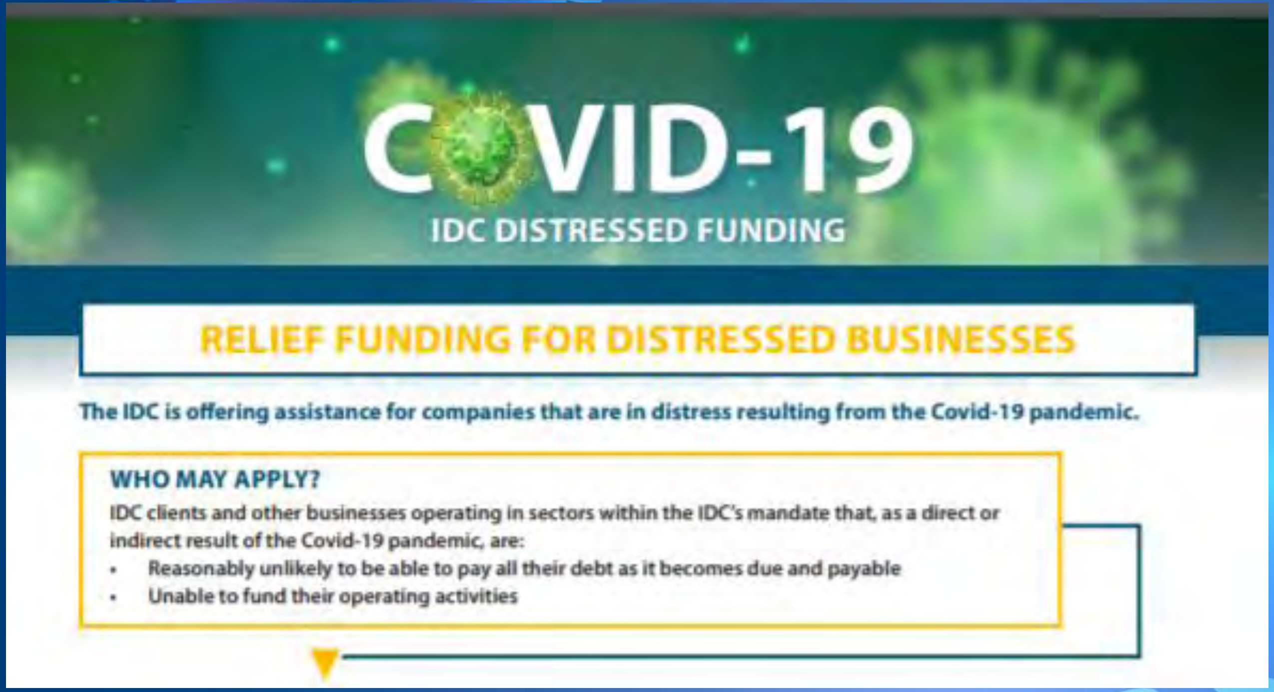
A special Covid-19 scheme (R3 billion) for supporting distressed company has been created.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- Of this, R300 million set aside for small industrial enterprises support
- Support to clients unable to meet capital and interest commitments – we are already reviewing requests of R185 million
- We are also identifying sector specific support packages (e.g. tourism & small industrial enterprises) to proactively support clients

We have stepped up social investment to the most vulnerable

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- R25 million to the Solidarity Response Fund
- Establishing an in-house IDC Covid-19 Solidarity fund for staff to donate money to the Solidarity Fund until end August
- R5 million donation to the Gift of the Givers
- Supporting recovery plans for Grade 12 learners at IDC-adopted schools
- Development of an App to enable contact tracing for Covid-19
- Further funding set aside from IDC's CSI budget to support organisations working with vulnerable groups.

Medium to long term interventions

- As lockdowns start to be lifted, companies will need to reconsider where they source inputs and may start to diversify production to different areas across the globe.

- This provides opportunities for South African suppliers to integrate into global supply chains and to replace imports by supplying local demand.

- This is dependent on lifting/softening of lockdown so companies can start operating again albeit under a very controlled environment.

- Fast-tracking the development and implementation of industry Masterplans will also reinvigorate industrial development.

- Focus on green and resilient supply chains will also leverage on available global funds to support the country's growth.

- The weaker rand should also improve local producers' cost-competitiveness facilitating exports as well as import replacement.

We are pursuing industrial opportunities arising from restructuring of global value chains and localisation

Sector	Comments
Meat production	Weaker consumer finances could result in shifts from beef to cheaper pork and chicken products. Support from **IDC to increase expansion of these sectors** to meet demand for increased exports and local market.
Gold	Gold is a safe haven in terms of crisis and uncertainty. SA supply is unable to readily adapt to the increases in demand. If production can be maintained once lock-down conditions are lifted, the local sector should be more profitable in the short to medium term.
Textiles, clothing, leather & footwear	Disruptions to international production e.g. China and Italy should result in domestic supply chain shortages. This could lead **to increased sourcing from local producers over the short-term to supplement imported supplies.** Local producers' competitiveness will also be improved by the impact of the weakened currency. South Africa has a weak synthetic fabric supply chain. Import challenges could result in increased substitution from synthetic fabrics to cotton where SA does have a strong supply chain.
Pharmaceuticals and medical devices	Possible opportunities to **increase local production of pharmaceutical products and medical devices** to increase security of supply. This should include the entire value chain from research, raw material, logistics, production and distribution, including opportunities to satisfy the growing needs of SADC
Basic metals, metal products	Opportunities for SA steel mills to fill up the market gap in Sub-Saharan Africa region.
Motor vehicles, parts & accessories	The need for OEM diversification of global suppliers could **position SA component manufacturers to enter these global supply chains** over time.
Other transport equipment	Anticipated impetus for global production diversification could lead to greater local investment over the medium-term.
Electricity supply	Opportunities for electricity storage (batteries, battery minerals), mini-grids and rural distribution networks.
Telecommunications	Extended working from home arrangements will **increase demand for telecommunications, not only data but also voice services.** Different levels of broadband connectivity between the rich and the poor will need to be addressed.
Business services	Increased demand for IT platforms. This can include online platforms and other tech-related services and products including remote monitoring of manufacturing processes, machine learning etc.
Health services	Health infrastructure, including mobile clinics and labs, health tourism (health &hotels).
Other infrastructure	Need to ensure sufficient water and sanitation infrastructure for poorer communities. **Demand for water/ temporary water and sanitation infrastructure expected to increase in informal / rural areas** as water is required for sanitation and drinking during lockdown as preventative measures against COVID-19.

Concluding remarks

We are managing and mitigating emerging risks this period poses on the broader IDC operations

IDC's Balance Sheet

- Financial impacts on our clients has a ripple effect on IDC's financial position as our funding model is largely driven by interest payments, capital growth and dividends from our clients.

Transformation Objectives

- Transformation objectives we have supported over the years are at risk as most are dependent on financial returns of investee companies.

Pressure from our clients for support

- It will be imperative to balance support for distressed clients with sustainability of the business.

Strength of SA DFI System

The DFI funding space is generally challenged and limits ability to respond to the environment in support of economic growth.

IDC is committed to continue assisting Government's response to Covid-19 and facilitate industrial recovery

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1. We remained open for business, whilst also ensuring safety of our staff and clients.

2. Continued engagement with our Business Partners has enabled us to be proactive in our support.

3. We have also activated levers beyond our core funding to support vulnerable communities through our CSI programme.

4. Immediate interventions – IDC level of activity indicates the benefit of reviewed processes to enable a quicker response focused on short term funding. Distressed funding and opportunities for industrial growth into the future.

5. We are also leveraging partnerships/collaborations to support access to funds and partner on investment opportunities.

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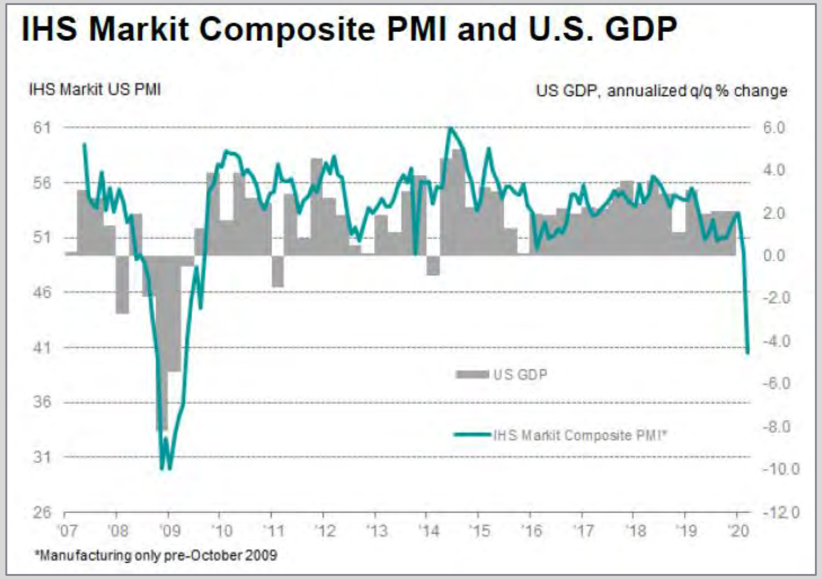
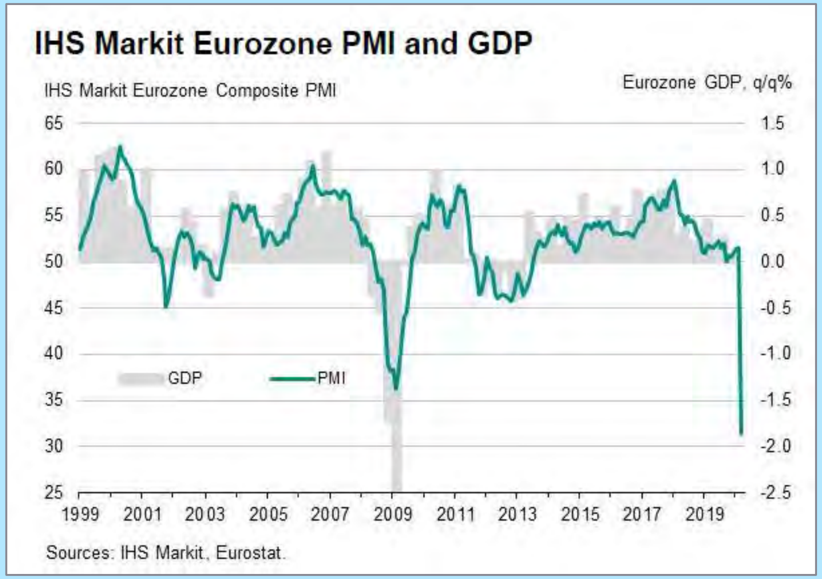
Thank you

Economic activity around the globe has been disrupted as containing the Covid-19 pandemic took centre stage

- Business activity in the **United States** contracted markedly in March 2020.
  - The **composite PMI** (manufacturing & services) fell to its **lowest level in more than a decade**.
  - **Unemployment claims exceeded 16 million** in the first three weeks of the partial US shutdown**, with 6.6 million** people filing for unemployment benefits in the weeks ended 28 March 2020 and 4 April – close to 10 times the previous record of 695 000 claims recorded in October 1982.



- The **Eurozone** economy suffered an unprecedented collapse in business activity in March as the coronavirus outbreak and measures to contain it intensified, with the provisional composite PMI having fallen to an all-time low.
  - **Manufacturing PMI** dropped by more than 9 points to a reading of 39.5 in March, the **largest monthly decline since April 2009.**



- **China**'s **PMI tumbled in February** 2020 to 40.3 points (from 51.1 in January) – the steepest fall on record and also its lowest reading in more than 11 years - **but rebounded** to 50.1 **in March**.
- **Economic activity is resuming gradually**, with an estimated 80% of the Chinese economy allegedly back in production. With the normalisation of production activity, growth is likely to rebound.
- There is still the **risk of a 2nd wave of Covid-19** in China. Any re-emergence of the virus is likely to be met with disproportionate measures.

Despite massive stimulus packages many of the world's economies will be in recession in 2020

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International Monetary Fund
Set to double its lending to **USD2 trillion**.
80 countries have approached the IMF for assistance to deal with Covid-19 related impacts.

G20
The G20 leaders pledged to do "whatever it takes" to minimise the economic and social damage from the Covid-19 pandemic. Total stimulus package could reach **USD7 trillion** for targeted fiscal policy, economic measures, guarantee schemes, etc.

United States
USD2 trillion package providing USD500 billion for subsidies to business; USD350 billion in loans to small business; USD250 billion for direct payments to adult individuals (ca. USD1 000 each); USD250 billion for unemployment insurance payments, etc.

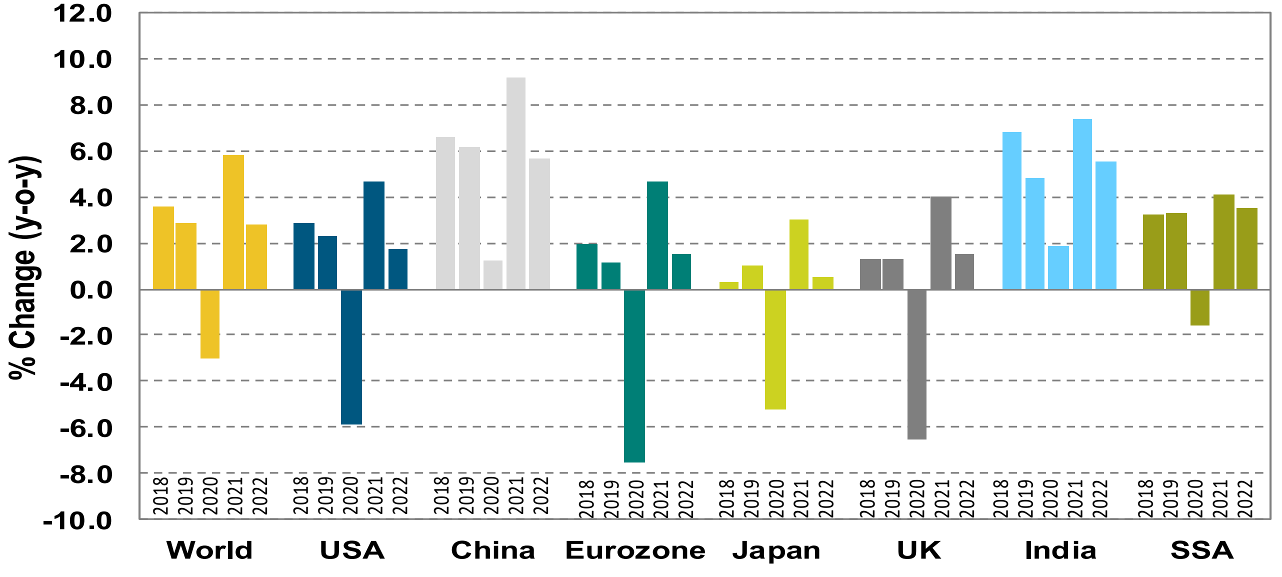
China
Its Foreign Ministry announced that fiscal/quasi-fiscal measures totalling **USD344 billion** have been implemented.

Germany
€750 billion package comprising a €600 billion stabilisation fund for loans to business and a €156 billion increase in government borrowing to raise direct spending. Supplementary budget provides €50 billion for small businesses and self-employed individuals.

United Kingdom
£330 billion package to provide loans and tax incentives to companies affected the Covid-19 pandemic.

- Substantial downward revisions are being made to growth projections across the world economy, with deep recession in many parts of the globe.
- As economic activity is halted and spending falls dramatically under partial/full shutdowns of world economies, GDP growth in 2020 is being affected in an extraordinary manner:
  - During Q1, largely in East Asia; during Q2, largely in Europe, North America, South Asia and parts of Africa; while Q3 remains an unknown.
  - The **IMF forecasts world GDP growth at -3.0% for 2020** and +5.8% in 2021.
- The **USA, Eurozone, UK, Japan and South African economies, among others, will fall into recession this year.** Should virus containment efforts succeed, strong rebounds from very low bases may ensue in 2021.
- Global trade is expected to drop by between 13% and 32% in 2020, according to the WTO.

Real GDP growth around the globe



Source: IDC, compiled using IMF, Morgan Stanley data; IDC forecasts for 2022

Covid-19 in Africa

- Following a relatively slow start to the spread of Covid-19 in Africa, **reported no. of confirmed cases has increased** but not to the same extent as seen in Europe and US. This could be because of lower rates of testing or the potential positive impact of the BCG Tuberculosis vaccine that is reported to provide increased resistance against the disease.
- Several **African countries remain highly vulnerable to the adverse economic effects of Covid-19** given their limited healthcare services, constrained fiscal space and structural vulnerability to developments in the external environment.
- Stringent measures have been imposed by several countries to contain and curb the spread of Covid-19.
- Considering Africa's strong linkages with the world economy, especially China and several European countries, the **Covid-19 pandemic is expected to induce significant demand- and supply-shocks** for African economies:
  - Demand for Africa's raw materials and commodities is likely to be dented by slower economic growth and investment activity in China (forced by shutdowns in many parts of the country in Q1 2020 and now gradually normalising) and by the adverse impacts of partial or full economic lockdowns elsewhere in the world.
  - Access to industrial components and manufactured goods from China, in particular, is likely to be constrained, notwithstanding the gradual resumption of industrial activity in China.
  - Border closures and travel restrictions will result in delays and bottlenecks at various African ports and inland border posts.
  - Africa's broad tourism sector (hospitality, catering, support services, etc.) is being highly affected due to downright collapse of global leisure and business travel; entry restrictions imposed by various African countries; sharply reduced or outright bans on air travel worldwide; cancellation of major events and conferences.
- The **impact on Africa's economies could be severe and protracted**. This will depend on the degree of success in containing/curtailing the virus within the region and developments in key trading partners.
- With a handful of African countries already facing severe shortages of hard currency, low foreign reserves buffers and external debt vulnerabilities, the impact of Covid-19 **may push some countries into sovereign debt distress**.
- Critical **FDI projects in the extractive and energy sectors may be delayed** in some countries (e.g. Mozambique).
- **IMF forecasts** Sub-Saharan Africa's **GDP growth at -1.6% in 2020**, as some of its larger economies - Nigeria (-3.4%), South Africa (-5.8%), Angola (-1.4%) - register negative growth, while sharp slowdowns are anticipated in Ethiopia (3.2%), Ghana (1.5%), Tanzania (2.0%) and Kenya (1.0%).

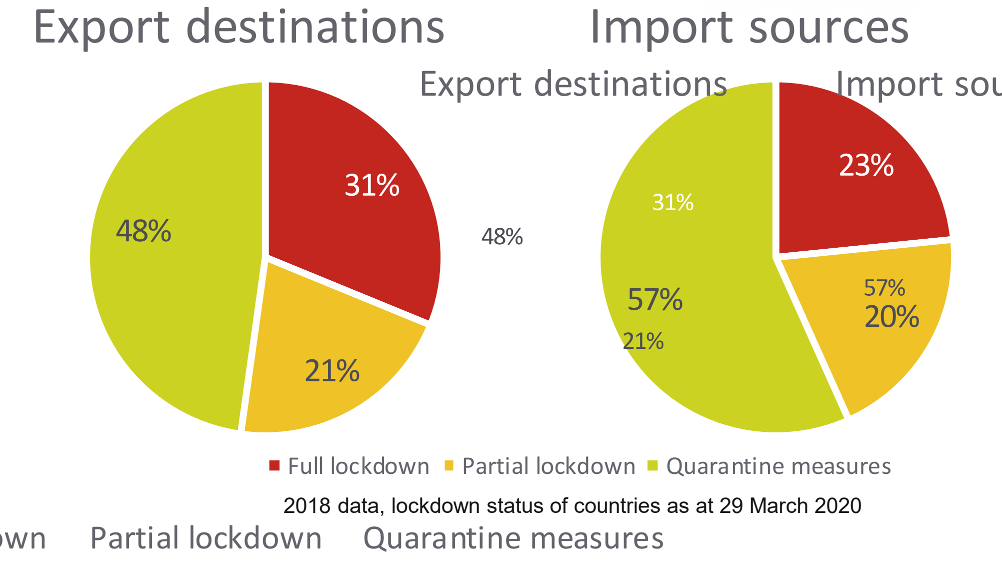
COVID-19 in Africa

- **53 countries affected**
  (46 in SSA, incl. SA)
- **Confirmed cases: 51, 549**
  (8 659 in SSA; 7 808 in SA)
- **Deaths: 2006**
  (196 in SSA; 153 in SA)

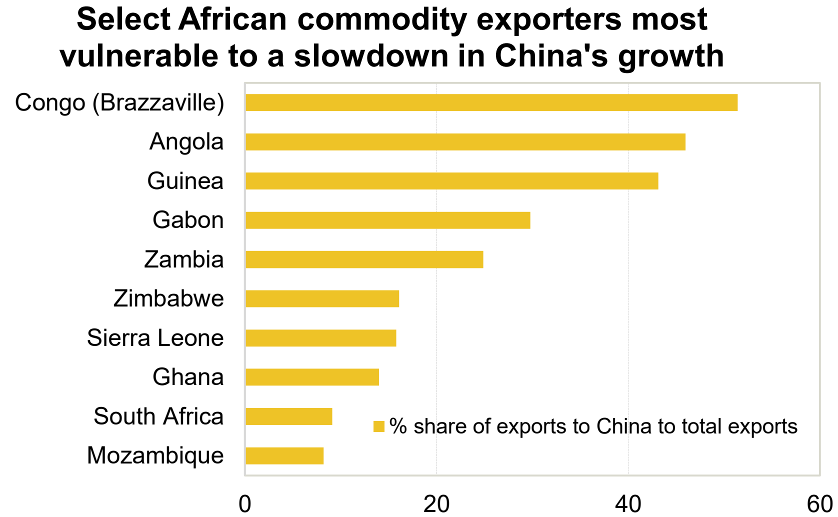
(as at 06 May 2020)

Africa’s trade flows will also see large disruptions

- Africa has a heavy reliance on primary commodity exports, predominantly to China. Its export basket to the world at large is dominated by mining and mineral products (esp. crude oil, copper, cobalt, iron ore, etc.). Commodity exporters may be hardest hit, as China’s growth slackens and global manufacturing production is adversely affected.
- About 70% of Africa’s exports (USD487.4 billion) to the world at large in 2018 were primary commodities and mineral fuels.
- Africa’s exports to China totalled USD54.4 billion (mainly fuels (62.3%) as well as ores and metals (24.2%)), with exports to India dominated by mineral fuels (66.4%) as well as pearls, precious stones and non-monetary gold (13.2%).
- Given this heavy weighting towards a commodity-based export basket, several economies in Africa stand to suffer from a reduction in external demand due to Covid-19 impacts.
- Weak manufacturing capacity, with strong dependence on imports for most critical input supplies (except for a few countries such as SA, Kenya, Ghana, as they have more varied sources of imports and relatively well-developed domestic manufacturing capacity).
- Africa’s merchandise imports from the world at large amounted to USD553.7 billion in 2018. Manufactured goods (64%) dominate Africa’s total imports from the world at large.
- Disruptions in global supply chains due to Covid-19 will have a negative impact on Africa’s ability to source manufactured goods, thus affecting their availability.
- Underdeveloped health systems and a high incidence of immune-compromised population segments who are likely to put a further burden on already constrained fiscal resources.



2018 data, lockdown status of countries as at 29 March 2020



Source: IDC compiled from UNCTAD data

Impact of the pandemic on the SA economy

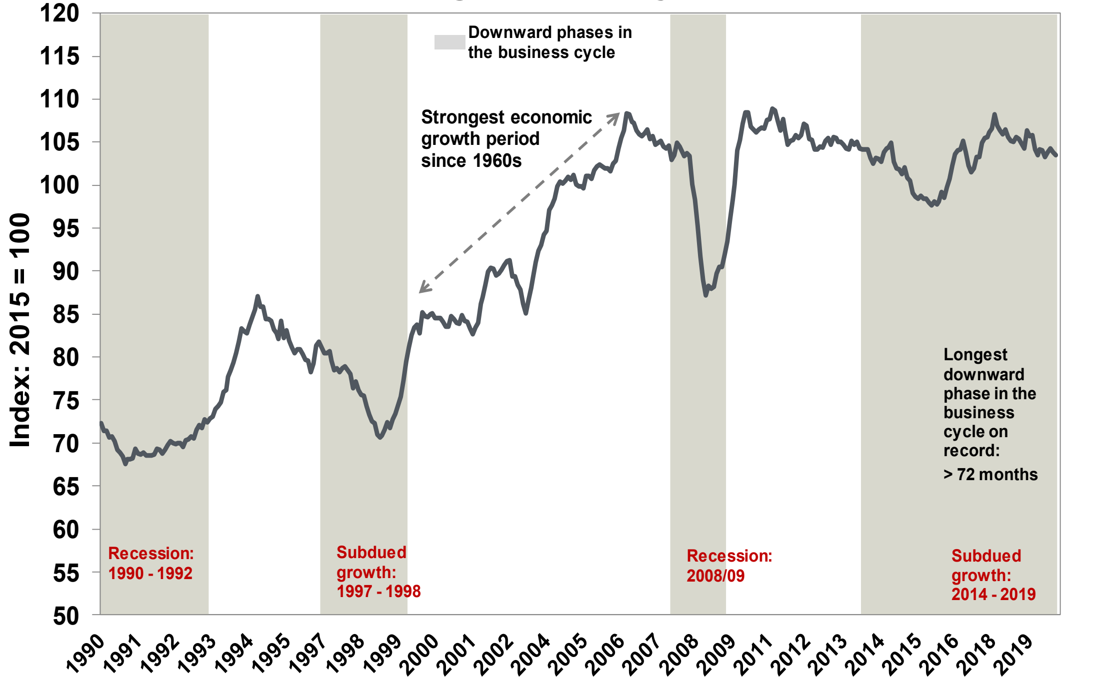
- The global coronavirus pandemic adding to the woes of an already weak South African economy.
- SA has the highest number of confirmed Covid-19 cases in Africa at this point in time and viral infections are still on the rise.
- SA government imposed a 21-day nationwide lockdown starting on 27 March 2020, which was extended by a further 14 days on 9 April. The lockdown was relaxed to level 4 from the 01st May 2020. The lockdown will have serious negative consequences for the economy, especially its small business segment.
- Business confidence, which has been at extremely low levels for a prolonged period, fell sharply in Q1 2020 to the lowest level in 21 years, with extended load-shedding by Eskom and adverse developments globally having played important roles in this regard, and is likely to drop much further in Q2.
- The 35-day lockdown, along with the impact of sharply reduced economic activity in key export markets, Moody's downgrade of SA's sovereign rating to sub-investment and Fitch Ratings further downgrade, all deal severe blows to an already fragile economy, further denting confidence levels among consumers, businesses and investors.
- Consumer sentiment has plummeted sharply and expectations are that it will fall much further in Q2 2020 as households react to the avalanche of negative developments, particularly the national lockdown, the downgrading of SA's sovereign ratings and the adverse wealth effects of sharply lower investment asset prices.

COVID-19 in South Africa

- **Confirmed cases: 7 808**
- **Recovered: 3 153**
- **Deaths: 153**

(06 May 2020)

The leading business cycle indicator



Source: IDC, compiled using SARB data

Sectoral growth outlook: 2020

(Performances based on anticipated output growth)

IDC
Industrial Development Corporation

- According to our estimates, ca. 61% of the economy is now open for business under Level 4, as opposed to only ca. 43% having been open for business under Level 5.
- Given the lower level of restrictions, an additional 1.75 million people are returning to work under Level 4 (estimated total of 6 596 k people) compared to Level 5 (estimated total of 4 847 k people).

Increasingly negative

0

Increasingly positive

Coke & refined petroleum products
Building construction
Catering and accommodation services

Motor vehicles, parts & accessories
Electricity, gas and steam
Business services
Civil engineering & other construction
Transport & storage
Basic iron & steel

Television, radio and communication equipment
Machinery and equipment
Community, social & personal services
Other mining (incl. iron ore)
Coal mining
Furniture
Other transport equipment
Wholesale and retail trade

Glass and glass products
Beverages
Medical, dental and other health and veterinary services
CTFL
Fabricated metal products
Non-metallic minerals
Finance and insurance
Paper and paper products

Agriculture, forestry & fishing
Basic chemicals
Basic non-ferrous metals
Electrical machinery
Water supply
Gold mining

Chemicals products (e.g. pharmaceuticals)
Telecommunications

Food processing

Source: IDC R&I

Sectoral growth outlook: 2021

(Performances based on anticipated output growth)

Industrial Development Corporation

Increasingly negative

- Basic iron and steel

- Textiles and clothing
- Paper and paper products
- TV, radio & communication equipment
- Building construction
- Gold mining
- Civil engineering & other construction
- Basic non-ferrous metals

0

Increasingly positive

- Glass and glass products
- Electricity, gas and steam
- Non-metallic minerals
- Chemical products
- Basic chemicals
- Electrical machinery
- Fabricated metal products
- Furniture

- Other mining
- Agriculture, forestry and fishing
- Machinery and equipment
- Medical, dental & veterinary services
- Leather and footwear
- Transport and storage
- Business services
- Telecommunications
- Other transport equipment
- Water supply
- Finance and insurance
- Food processing
- Coal mining

- Motor vehicles, parts & accessories
- Wholesale & retail trade
- Beverages

- Catering and accommodation services
- Coke & refined petroleum prods.

Source: IDC R&I

Impact of the pandemic on the SA economy (cont.)

- Rand the worst performing emerging market currency thus far in 2020 (-26.2%).
- On the positive side, inflation is well contained, providing room for growth-supportive monetary policy.
- Given the openness of the economy (contribution of trade to GDP), SA is highly vulnerable to conditions in external markets - the current turmoil globally will have a significant impact on trade flows, in in the process affecting domestic production, investment and consumption activity.

Collaborative public / private sector support package to the SA economy

Fiscal:

- Support to SMMEs in terms of debt relief (esp. tourism, small-scale farmers) and to respond to business growth opportunities.
- Workers earning incomes below a certain threshold will receive a small monthly payment during the next 4 months.
- Funding to SMEs in distress, primarily in the tourism and hospitality sectors.

Public sector:

- UIF employment retention assistance.
- IDC funding assistance and support programmes.
- sefa support to small business.
- Land Bank support to distressed farmers.
- NEF support to Black entrepreneurs manufacturing and supplying a range of medical products.

Private sector:

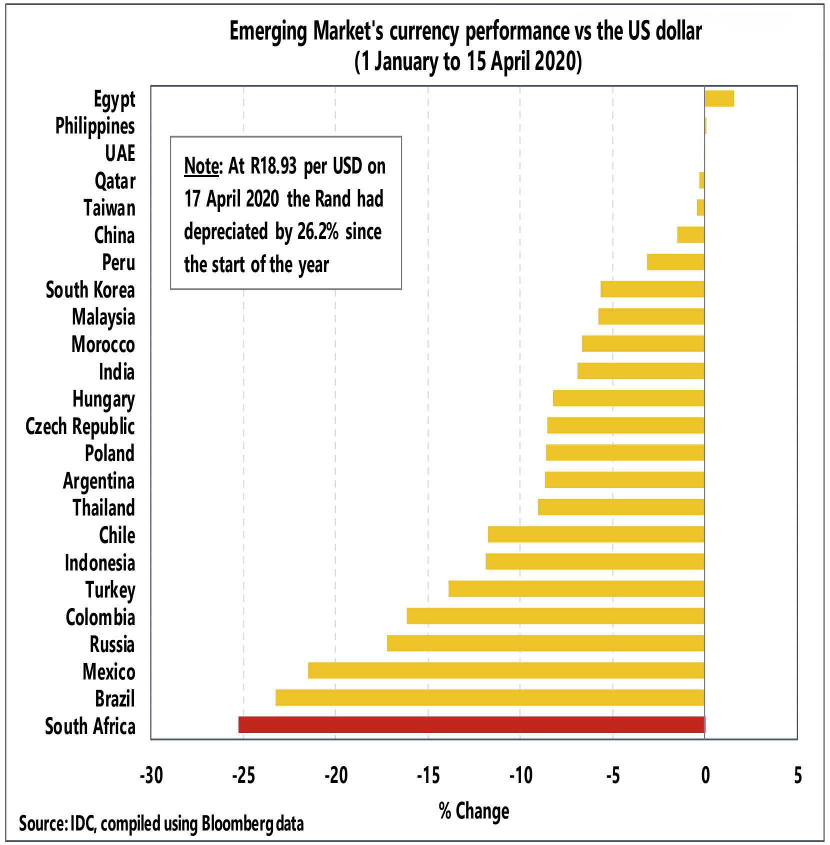
- Commercial bank moratoria on loan repayments over a specified period.
- Solidarity Fund, through business contributions, to help combat the spread of Covid-19.

Tax authorities:

- SARS will accelerate reimbursements and tax credits, support job retention through employment tax support, allow SMEs to defer certain tax liabilities.

Monetary policy:

- The SARB has cut the repo rate by 200 basis points to 4.25% since 19 March 2020 .
- Implementing measures to ease liquidity conditions.



- **Quantum of support estimated at ca. R120 billion (i.e. around 2.3% of GDP – higher than the equivalent ratios for EMs such as Turkey and Brazil).**
- **SA government working on additional support measures.**

SA macroeconomic forecasts: Summary of outcomes

Industrial Development Corporation

Comparisons of real GDP growth (% change year-on-year) forecasts by select institutions (listed by date of release)

Institution	*Forecast date*	2019 actual	**2020 fore-cast**	2021 forecast	2022 forecast	2023 forecast	2024 forecast
South African institutions							
RMB / Morgan Stanley	*7 May 2020*	0,2	**-7,2**	-	-	-	-
NKC African Economics	*6 May 2020*	0,2	**-7,2**	-	-	-	-
Standard Bank	*6 May 2020*	0,2	**-8,5**	-	-	-	-
Econometrix	*30 April 2020*	0,2	**-6.4**	-	-	-	-
Intellidex	*28 April 2020*	0,2	**-10,6**	-	-	-	-
IDC	*15 April 2020*	0,2	**-6,3**	2,0	1,9	2,1	2,2
SA Reserve Bank	*14 April 2020*	0,2	**-6,1**	2.2	2.7	-	-
Bureau for Economic Research	*14 April 2020*	0.2	**-7.0**	-	-	-	-
Absa	*14 April 2020*	0.2	**-3.1**	-	-	-	-
Nedbank	*8 April 2020*	0,2	**-4,2**	1,3	1,3	-	-
Stanlib	*1 April 2020*	0,2	**-4.9**	-	-	-	-
International institutions							
Standard & Poor's	*30 April 2020*	0,2	**-4.5**	-	-	-	-
Moody's Investors Service	*24 April 2020*	0,2	**-6,5**	4,5	-	-	-
International Monetary Fund	*April 2020*	0,2	**-5,8**	4,0	-	-	-
Fitch Ratings	*3 April 2020*	0.2	**-3,8**	1.7	-	-	-

- **Household spending set to plummet:** The 35-day nationwide lockdown is projected to result in a sharp -26.1% (q-o-q) drop in in consumer spending in Q2 2020, especially expenditure on durable and semi-durable items.
- **Fixed investment activity expected to fall sharply:** The anticipated 7.7% fall in gross fixed capital formation in 2020 will result in the level of capital outlays being the lowest in a decade in real terms.
- **Fiscal metrics will worsen substantially:** Government will have to raise additional debt at a much higher cost. The ratio of government debt to GDP is thus projected to be substantially higher than that projected in National Treasury's Budget 2020, potentially rising sharply towards 83.3% of GDP by 2024.
- **Exports set to drop considerably:** SA's export performance will be impacted very negatively in 2020 (-10.2%), whether in terms of commodity exports (particularly due to lower demand from China) or manufactured and agricultural exports to the US, Eurozone, UK, Japan and Sub-Saharan Africa.
- **Imports will decline substantially due to weaker domestic demand:** Imports are projected to fall sharply (-8.2%) in 2020, potentially followed by a steady uptick as the economy resumes a gradual recovery momentum in subsequent years.
- **Substantial job losses expected:** Over the 12 months to Q4 2020, around 1.2 million jobs could be lost in the economy. The unemployment rate is projected to rise from 29.1% in Q4 2019 to 36.5% by Q4 2020, and to remain at elevated levels for some time.
- **Rand under immense pressure:** Although the Rand is expected to trade at very weak levels for some time, the currency is anticipated to strengthen towards its long-term trend line over the 5-year outlook period.
- **Moderate inflation should permit growth-supportive interest rates:** Consumer inflation is expected to remain within the SARB's target band on the back of sharply lower oil prices. On 14 April the MPC lowered the repo rate by a further 100 bps, taking the repo rate to 4.25% - the lowest since 1973. A further 50 bps cut is projected in Q3 2020.
- **SA economy will fall into a deep recession in 2020, with GDP growth projected at -6.3%.**

Concluding remarks

- This is an extraordinary time in the economic history of the world - governments around the globe have been basically shutting down their economies in an effort to contain a very serious viral pandemic.
- Disconcertingly, the global system of governance has become so dysfunctional that the extent of collaboration required to confront the unfolding public health, humanitarian and economic crises is really hard to discern. Nationalism has replaced multilateralism, which proved most effective in dealing with the global financial crisis.
- While clearly negative, the impacts of Covid-19 induced shutdowns on the global and SA economies are still highly uncertain as the situation is evolving rapidly.
- The largest financial support packages in history are being released by some advanced economies and institutions.
- Richer economies may be able to compensate by means of massive stimulus packages (or rather safety nets), but poorer or weaker economies do not have such a luxury. Perhaps they can only realistically resort to the IMF and/or World Bank for assistance, which SA now appears inclined to do.
- Very large poor segments of society in a number of countries, such as India and SA, are being swiftly and unexpectedly forced into isolation with little preparation and support systems having been put place.

Concluding remarks (cont.)

- Nobody knows how long this crisis will last.
- The damage to economies around the globe, including South Africa's, will last long after lockdowns are lifted.
- An imperative is to ensure that as many hitherto sound business enterprises as possible – whether large, medium or small – do not disappear while Covid-19 containment measures are being implemented, that they remain alive until economic activity eventually resumes and gradually normalises.
- Amongst the positive aspects emanating from the ongoing global crisis are:
  - ✓ The manner in which digital technologies have been swiftly embraced, especially digital communication technology, during these extraordinary times. A huge acceleration in the uptake of the digital revolution may thus ensue as the world emerges from the current crisis.
  - ✓ The strategic imperative for corporations all over the world to diversify their sources of supply, for the crisis has highlighted the threats to global supply chains brought about by excessive concentrations of market power. This may open up numerous opportunities for:
    - SA business integration into global supply chains
    - Other export market development opportunities
    - Import replacement in the domestic market
    - Foreign direct investment to take advantage of such opportunities.