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# Briefing Note: The pandemic and the economy in Southern Africa

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Like most of the world outside of China, Southern Africa endured an economic depression in 2020 as a result of the COVID-19 pandemic. The economic outcomes varied significantly over the course of the year, however. A sharp downturn linked to regional and international lockdowns in the second quarter was followed by a rebound in the remainder of the year. Still, for 2020 as a whole, the regional GDP was around 6% below 2019; excluding South Africa, the decline was 5%. For comparison, in the 2008/9 financial crisis the regional GDP shrank less than 2%. As of April 2021, the IMF expected the region as a whole to return to 2019 GDP levels by 2022, but it forecast that South Africa and Zimbabwe would lag behind.

The available evidence indicates that the pandemic depression aggravated inequalities in Southern Africa, which were already among the worst in the world. Less-skilled workers saw disproportionate loss of livelihoods; small businesses were more likely to close down than larger ones; and government cuts to services in response to falling revenues had the sharpest impact on low-income households and communities.

Global trends largely shaped the recovery in Southern Africa. Most metals saw higher prices while petroleum costs dipped, strengthening the regional balance of trade except for Angola and, since diamond prices fell, for Botswana. Capital flows dipped in the first quarter of 2020, but then recovered fairly strongly, although they varied by country and financial mechanism. The massive stimulus packages in the US and much of Europe bolstered demand internationally, partially offsetting the limitations on domestic spending. In contrast, international tourism, especially where it required long-haul flights, remained at a fraction of pre-pandemic levels due mostly to reduced demand, which was further aggravated by limits on cross-border travel. In the longer run, high-income countries' monopsony on vaccines seem likely to delay the recovery in Southern Africa.

In Southern Africa, as internationally, policy responses to the economic fallout of the pandemic covered four areas.

- *Efforts to minimise the economic impact of public-health restrictions:* The initial response in April of a full lockdown affected almost all formal producers. By mid-2020, it had evolved to allow most economic activities to resume outside of high-risk entertainment venues and international travel. Efforts to roll out vaccines remained hesitant at best, however.
- *Macroeconomic measures to stimulate the economy*: Across the region, the fiscal stimulus was far smaller than in the global North. In 2020, it generally took the form of maintaining spending despite a sharp decline in revenues rather than a substantial increase in expenditure. The result was a sharp rise in budget deficits relative to the GDP, although public spending barely increased. In 2021, most countries initiated austerity measures in order to rein in deficits, despite continued slow GDP growth. In effect, the limited power of Southern African countries relative to global and domestic creditors constrained their scope for increasing state spending or mobilising off-budget resources.

- *Relief spending to cushion the impact of the pandemic depression on small businesses and on poor households:* Several countries announced cash transfers to businesses and households in 2020, but these programmes generally did not reach the majority of intended recipients. Moreover, most of these programmes dried up long before the GDP and employment recovered.
- *Microeconomic policies to boost economic growth and diversification:* Most countries adapted long-standing policies to pandemic conditions, rather than initiating significant new strategies. Their efforts generally centred on improving infrastructure as well as limited measures to promote diversification, especially through import-substitution; to provide loan guarantees for business; and to support tourism, as the hardest hit industry. The scale of these efforts remained limited, however, and many were poorly defined. There was little visible effort at regional alignment, including around local-procurement initiatives, regional infrastructure and interlinking value chains.

A review of these policy responses in South Africa, Zimbabwe, Zambia, Namibia and Botswana points to several cross-cutting learnings.

First, the pandemic underscored both the long-term costs of continued mining dependency and the difficulty of disrupting it. After the commodity boom that started in the early 2000s ended in 2011, growth slowed substantially across the region, especially from 2015. Most governments had responded to the downturn by seeking to facilitate increased investment in mining rather than promoting diversification into other sectors. Stronger metals prices in the second half of 2020 were critical for the region's recovery, but would also further entrench mining dependency. As usual, the visible and often considerable economic benefits of mining dependency during upswings made it harder to justify disrupting it even when the commodity cycle turned down.

Second, the countries in the region all had limited space for conventional counter-cyclical fiscal and monetary stimulus measures. In contrast to countries in the global North, they were in a weak position relative to creditors, making it harder (and much more expensive) to increase debt when their revenues declined. Their ability to mobilise resources was aggravated by transfer pricing by mines across the region, which reduced public revenues overall. The unusually deep inequalities between households in most of the region also limited the tax base. Taxpayers were often well-resourced business and individuals who could mobilise effectively to oppose or avoid increases.

Fiscal and monetary stimulus measures also faced supply-side constraints in much of the region. These measures assume that if government can increase demand, local business will satisfy it. Yet most of the countries in the region did not have a manufacturing base that could easily retool to meet new needs. In these circumstances, unless supported by industrial policy measures to improve capacity, standard stimulus measures risked increasing inflation or imports rather than promoting domestic production and employment.

Third, the pandemic highlighted both the commitment of most governments in Southern Africa to promoting industrialisation, and the weakness of their industrial policy initiatives. Efforts to promote recovery were generally too modest to bring about substantial change, and often centred on promoting existing agriculture and mining.

Fourth, the limited response to the pandemic across all policy dimensions, from economic policy to public health measures to relief programmes and industrial policy, underscored the impact of inequality on policymaking. The combination of mining dependency and the economic divisions

entrenched under colonialism and apartheid meant that much of the region ranked among the most unequal in the world. In these circumstances, both business and policymakers were able largely to protect themselves from the impacts of the pandemic, which made them less likely to act urgently or decisively to address the fallout on less privileged groups. The result was that it proved difficult to sustain either public-health restrictions on business, or large-scale relief programmes for low-income households. Moreover, in several countries state agencies enforced public-health measures in a highly repressive manner rather than through public communication and community mobilisation.

*TIPS has contributed a larger paper on COVID-19 and the economy in Southern Africa for publication this year by UNU-WIDER. TIPS held a* ***Development Dialogue*** *on it in May, and the draft report is available on request.*