

Covid-19 pandemic raises the urgency of structural reforms

South Africa responded swiftly to the Covid-19 pandemic, but the sharp drop in activity adds to long-standing challenges and raises the urgency of structural reforms, according to a new report.



Alvaro Pereira, OECD Economics Department Country Studies director

In the latest [Economic Survey of South Africa](#), the Organisation for Economic Co-operation and Development (OECD) indicates that the nationwide lockdown enacted in March 2020 reduced activity in mining and industry while bringing the tourism, entertainment and passenger transport sectors to a near-standstill. Growth has collapsed, unemployment is rising and more will need to be done to strengthen responses to the crisis and ensure that the recovery brings about sustainable and more inclusive development.

The survey recommends a wide range of measures to improve the quality of and access to healthcare and support businesses and people. This includes lowering interest rates; providing temporary financial support to households and businesses; and extending financial relief in sectors hard hit by the crisis, particularly if there is a renewed virus outbreak later in the year.

Double-hit scenario

The pandemic adds to South Africa's long-standing challenges, the survey says. Under a so-called double-hit scenario, a new outbreak affecting South Africa and its trading partner countries will curtail exports, deepening the recession to -8.2% in 2020, and limiting the recovery in 2021 to GDP growth of just 0.6%. In the single-hit scenario, where a second wave of the virus is avoided, economic activity will still fall by 7.5% in 2020 before picking up progressively to growth of 2.5% in 2021.

"South Africa cannot afford to delay reforms. It is essential to undertake reforms to restore long-run fiscal sustainability and growth, while continuing to support the economy in the short run," Alvaro Pereira, OECD Economics Department Country Studies director.

Macroeconomic and structural policies are needed to put growth on a sound footing going forward. Bold fiscal measures are needed to curb spending pressures and restore fiscal sustainability, including taking steps to reduce the government wage bill and transfers to state-owned enterprises. Structural policy reforms to boost competition, restructure state-owned enterprises, improve the regulatory framework and improve public investment in transport infrastructure, skills and education are also called for.

Social protection system

The pandemic has demonstrated that further action is needed to build an inclusive social protection system. The survey suggests South Africa consider additional means-tested support for households below the food poverty line, better coverage for informal workers and a gradual increase to the public financing of health care, through a form of public insurance.

The tourism sector was hit hard by the pandemic and resulting containment measures, yet it has good potential to contribute to the economy and future employment growth, the survey said. Implementation of electronic visa programmes for emerging target markets and increasing the number of countries falling under the visa-waiver agreement will boost arrivals, while a reduction of red tape and regulatory burden for entrepreneurs and small enterprises will improve market access. Investments in transport and tourism infrastructure have to be aligned to connect tourists to places.

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