

QUARTERLY ECONOMIC CHRONICLES

2021/Q2

South Africa's unemployment rate jumps to new record high amid extended restrictions to economic activity

01

The informal sector remains the hardest hit by the Covid19 pandemic, contracting by 14.3% in the first quarter of 2021

02

ABOUT THIS PUBLICATION

The Quarterly Economic Chronicles is Vindilac Analytics' economic flagship, highlighting a series of economic events taking place at the national, regional and global levels. It is highly driven by the need for economic literacy and financial journalism on the African continent. By providing an economic report that is clear to a non-economist, we unintentionally create an enabling environment for citizens to make informed economic decisions. Our report is unique for it is now compiled and published in several official languages spoken in South Africa. This enables readers to understand economic chronicles in their mother tongues. It is worth noting that this report aims to complement existing economic reports in South Africa.

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All queries should be addressed to info@vindilac-analytics.co.za

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Team Leader

Mr Baneng Naape

Full-time Writer

Mr Marius Masoga

Seasonal Writer

Ms Mulalo Sehlako

Full-time Writer

Ms Tumelo Matlhako

Full-time Writer

Mr Bekithemba Qeqe

Full-time Writer

Mr Thabang Kumalo

Seasonal Writer

Ms Mkrola Chwayita

Seasonal Writer

Mr Thabang Serobe

Seasonal Writer

Ms Zenande Sangoni

Seasonal Writer

Ms Katlego Mphahlele

Seasonal Writer

Ms Zaziwe Maluleke

Seasonal Writer

Mr Mongi Tshaka

Seasonal Writer

Mr Caleb Qoyo

Sepedi Translator

Ms Catherine Muhava

isiXhosa Translator

Ms Sinesipho Ndlovu

Setswana Translator

Ms Tebogo Tau

Tshivenda Translator

Ms Mosibudi Munyadziwa

Editor

Mr Ndivhuwo Doctor Sundani

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1. EXECUTIVE SUMMARY

COVID-19 infections continue to surge as the country grapples with a third wave that is set to be worse than the previous two waves, spurred on by the presence of the more transmissible delta variant and the lacklustre vaccination rollout. At the time of writing this report, the country has been put on an adjusted level 4 lockdown that has seen the reintroduction of restrictions on gatherings, travel and sale of alcohol for 14 days, but this is likely to be extended. This might reverse the positive business sentiments that existed. This will be a further setback for businesses that were looking to recover in 2021. It is clear that businesses need to find a way to adapt to extraordinary challenges in order to continue with business operations while battling to stay afloat.

The current unemployment rate of 32.6% (43.2% when using expanded definition) is the highest since the Quarterly Labour Force Survey's (QLFS) inception (Statistics South Africa, 2021). The youth (59.5% of unemployed), and particularly previously disadvantaged groups such as females and blacks, account for most of the unemployed. Consistent with our previous predictions, QLFS data shows that the informal sector was hardest hit, contracting by 14.3%, while the formal sector contracted by 6.3% in 2021Q1. The effect of COVID-19 on salaries and wages varied with educational attainment. A larger share of people with higher levels of education continued to receive full salaries and wages compared to those with lower levels of education, who accounted for a larger share of those who received reduced salaries and wages in the last quarter of 2020 and first quarter of 2021. This suggests income among the less educated is not only smaller but also relatively more vulnerable to market shocks.

Following the success of vaccines roll-out projects in advanced economies, (such as United States, United Kingdom, China etc.) and emerging market economies (e.g., South Africa, Brazil, Russia etc.), the economic prospects have gained some momentum. The latter economies have reportedly shown relatively mild progress in vaccine roll-out, compared with advanced economies. Nevertheless, the growth in gross domestic product (GDP) globally is expected to reach new peaks in the second quarter of 2021. Annually, the GDP is projected (based on second-quarter projections) to grow by more than 5%. In South Africa, increased RMB/BER Business confidence (to 50 points in Q2) signalled an optimistic outlook for the economy.

Amid the COVID-19 pandemic, most central banks have reduced interest rates, and that has led to an increase in aggregate demand, which ultimately had a major impact on the general price level (i.e. inflation). The SARB have kept the repo rate at its lowest level of 3.5%. This may be a better explanation for a sudden rising trajectory of consumer price index inflation in 2021 from 3.2% in March, to 4.4 and 5.2 in April and May respectively. Internationally, lower interest rates may have also triggered an increase in inflation. For instance, the US consumer price index in April and May have surged to 4.2% and 5.0% respectively (Bureau of Labour Statistics, 2021). Similarly, the Office for National Statistics (2021) in the United Kingdom have reported an increase in the consumer price index from 1.3% in March to 1.4% and 1.5% in April and May respectively.

As efforts to combat the COVID-19 pandemic continue, South Africa's gross borrowing requirement increased from R432 billion to R670.3 billion in 2020/21, equivalent to 13.6% of

GDP. The government was able to finance essential healthcare and measures to mitigate the coronavirus outbreak through borrowed funds. However, the rapidly growing public debt and a higher budget deficit in history continue to further weaken the economy. As of 31 March 2021, gross loan debt increased by 20.7% year on year to R3 936 billion, almost reaching the 2021/22 fiscal projection of R4 383 billion (SARB, 2021). The high rising debt fuelled by the COVID-19 economic effect have degraded South Africa's credit worthiness. During 2020, Moody's and Fitch (rating agencies) had the country on a negative outlook amid increased borrowing costs.

In the first quarter of 2021, the value of global trade in goods and services increased by 4 per cent quarter-over-quarter and by around 10 per cent year-over-year. Importantly, global trade in Q1 2021 was higher than pre-crisis levels, with an increase of around 3 per cent relative to Q1 2019 (Stoddard, 2021). The trade rebound of Q1 2021 was mainly driven by the strong export performance of East Asian economies. In line with the global trade picture, South Africa's terms of trade (TOT) improved significantly in the first quarter of 2021. The TOT increase from 119.7 in the fourth quarter of 2020 to 126.7 in the first quarter of 2021 indicating that the country is accumulating more capital from exports than it is spending on imports.

It is generally accepted that the pandemic has only exacerbated the structural issues that already existed pre-pandemic. Current evidence points to its impact on the livelihoods of the most disadvantaged in the country lasting well beyond the pandemic. Given how long it took to secure the progress made in fighting poverty and inequality (racial and gender-based) before the pandemic, it may take several years just to get the country back on the path it was on.

2. COMMUNITIES AND LIVELIHOODS

- Caleb Qoyo

2.1. Introduction

COVID-19 infections continue to surge as the country grapples with a third wave that is set to be worse than the previous two, spurred on by the presence of the more transmissible delta variant and the lacklustre vaccination rollout. At the time of writing this report, the country has been put on an adjusted level 4 lockdown that has seen the reintroduction of restrictions on gatherings, travel and sale of alcohol for 14 days, but this is likely to be extended. Given the slow vaccination rollout and the prospects of periodic strict lockdowns through to 2022, how will those in low-income communities of whom the majority are employed in the informal sector be impacted? Thanks to the data gathered in 2020 through to end of 2022Q1, we can better understand how different demographics and sectors are likely to be affected and can propose interventions that are better targeted, more efficient, and equitable than possible this time last year.

2.2. Employment trends - Informal Sector Hardest hit and Slowest to recover

The economy contracted by 7% in 2020 and while we have seen the growth of 1.1% in Q1 (and further recovery is expected in 2021), some scarring will likely linger well into the next few years. The current unemployment rate of 32.6% (43.2% when using expanded definition) is the highest since the Quarterly Labour Force Survey's (QLFS) inception (Statistics South Africa, 2021). The youth (59.5% of unemployed), and particularly previously disadvantaged groups such as females and blacks, account for most of the unemployed. Consistent with our previous predictions, QLFS data shows that the informal sector was hardest hit, contracting by 14.3%, while the formal sector contracted by 6.3% in 2021Q1.

Table 1: Key Labour Market Indicators (Statistics South Africa, 2021)

	Jan-Mar 2020	Oct-Dec 2020	Jan-Mar 2021	Qtr-to-qtr change	Year-on-year change	Qtr-to-qtr change	Year-on-year change
	Thousand					Per cent	
Population 15–64 yrs	38 874	39 311	39 455	144	581	0,4	1,5
Labour force	23 452	22 257	22 237	-20	-1 215	-0,1	-5,2
Employed	16 383	15 024	14 995	-28	-1 387	-0,2	-8,5
Formal sector (non-agricultural)	11 282	10 495	10 574	79	-707	0,8	-6,3
Informal sector (non-agricultural)	2 921	2 521	2 502	-19	-419	-0,8	-14,3
Agriculture	865	810	792	-18	-72	-2,2	-8,4
Private households	1 316	1 197	1 127	-70	-189	-5,8	-14,4
Unemployed	7 070	7 233	7 242	8	172	0,1	2,4
Not economically active	15 422	17 054	17 218	164	1 796	1,0	11,6
Discouraged work-seekers	2 918	2 930	3 131	201	213	6,9	7,3
Other (not economically active)	12 504	14 124	14 086	-38	1 582	-0,3	12,7
Rates (%)							
Unemployment rate	30,1	32,5	32,6	0,1	2,5		
Employed/population ratio (absorption)	42,1	38,2	38,0	-0,2	-4,1		
Labour force participation rate	60,3	56,6	56,4	-0,2	-3,9		

This uneven distribution of the fallout of the pandemic is undoing the progress made in tackling the racial and gender inequities in South Africa. The reintroduction of stricter restrictions in the current third wave threatens the livelihoods of informal workers once again. Together with

targeted relief measures, vaccination of workers in this sector needs to be a serious consideration (Institute for Economic Justice, 2021).

In 2020, several business support measures were instituted such as tax relief, debt relief, emergency funding and sector-specific programs. In the [2021Q1](#) report, we pointed out how these measures were structured in ways that exclude many businesses in the informal sector from benefiting from them. We also pointed out how certain tax requirements, lack of access to information and complicated application processes all acted as barriers to businesses that qualified. As predicted, these interventions have largely proved ineffective. For example, loans granted by banks under the Loan Guarantee Scheme only amounted to 10% of the planned value of the scheme (The Banking Association South Africa, 2021). Some key support measures introduced in 2020 have been discontinued. The Temporary Employer/Employee Relief Scheme (TERS) that supported employers whose businesses had closed operations ended in March 2021 and tax relief measures such as PAYE relief ended in 2020. As the country faces the third wave this is concerning because small businesses are particularly vulnerable. They often lack emergency funds, are not designated as essential and are disproportionately hindered by COVID-19 restrictions.

2.3.Food Insecurity and Hunger- Higher Levels that will Persist Post Pandemic.

Despite eased restrictions earlier this year, many were still living under immense hardship as lockdowns are only part of the broader negative economic impact of the pandemic (Kohler, et al., 2021). In February/March 2021 (when restrictions were relaxed) 39% of households reported having ran out of money to purchase food, 17% of them reported experiencing weekly hunger (Van der Berg, et al., 2021). Van der Berg, et al. (2021) notes that, while food insecurity and hunger declined significantly back in June 2020, subsequently levels have remained largely unchanged through to March 2021. This suggests a permanently higher equilibrium of food insecurity due to the pandemic and its resulting effects (ibid). Without structural reforms and a re-evaluated approach to the previous support measures these effects are likely to outlast the current pandemic.

Measures initially implemented such as the Social Relief of Distress (SRD) grant proved to be perhaps the most effective of all the relief measures in the 2020 R500bn stimulus package. As pointed out in the [2021Q1](#) QEC, the SDR together with other social grants was especially adept at providing relief to households who were the most in need. This grant however came to an end in April 2021 and all top-ups to the other social grants ceased back in October 2020.

2.4.COVID-19: A Story of Exacerbated Inequalities

Developments in the informal sector and trends in food security currently are mainly driven by developments in the unfolding battle against the COVID-19 pandemic. Simply put, the current and future wellbeing of many communities and livelihoods depends on the progress the country makes in containing and eliminating COVID-19 and the effectiveness of relief measures implemented in the meantime. To emphasize the dynamics between socio-economic conditions and COVID-19 it is a worthwhile point to the South African COVID-19 Vulnerability Index

dashboard created by Stas SA. According to the Index the key social determinants in assessing the most vulnerable include, but are not limited to:

- Being employed while not owning a private car
- Living in a crowded household
- Living in a multigenerational household
- Not having access to piped water within the home

All the above are disproportionately characteristic of poor households.

2.5.Scenarios Analysis

Below is a brief description of 3 scenarios of what could occur in the near term and their implications.

Worst case:

- Vaccine rollout delays further (only achieve mass vaccination in 2023Q1) due to (i) procurements issues, (ii) poor administrative planning leading to a slowdown in the current vaccination rollout and (iii) vaccine shortages. New, more infections strains, emerge and spread.
- The recurrent waves result in periodic lockdowns, stifling economic growth and disproportionately impacting the livelihoods of those in the informal sector.
- Fiscal constraints limit the scale of relief measures that can be implemented. Failure to learn from past mistakes means the few measures that are taken remain as ineffective as those taken in 2020.

Base case:

- Despite the initial setbacks, vaccination of key groups is completed by end of 2022Q1 and mass inoculation is achieved by the end 2022Q3. The state of emergency is lifted by 2022Q1.
- After the third wave lockdown, level one restrictions are reinstated and maintained for most of the rest of 2021. Economic activity resumes, bringing some relief to the informal sector.
- The current sector-specific support measures (e.g. Tourism Relief Fund, the various IDC funds etc) remain in place and provide some support.

Best case:

- The G7 and other multilateral institution's commitments towards a more equitable vaccine distribution materialise at a faster than currently expected rate and, together with better in-country administration, lead to a speeding up of the vaccine rollout.
- Mass inoculation is achieved by end of 2022Q1, no serious new strains emerge.
- The domestic and global economy recovers as more countries come out of lockdowns. This generates more fiscal space to implement targeted, well-planned measures to undo the long-term damage (scaring) caused by the pandemic.

2.6. Conclusion and Recommendations

It is generally accepted that the pandemic has only exacerbated the structural issues that already existed pre-pandemic. Current evidence points to its impact on the livelihoods of the most disadvantaged in the country lasting well beyond the pandemic. Given how long it took to secure the progress made in fighting poverty and inequality (racial and gender-based) before the pandemic, it may take several years just to get the country back on the path it was on. However, there is much that can even now be done to start repairing and preventing further damage. Suggestions include but are not limited to:

- The ongoing monitoring of food security and its use as a proxy for assessing effectiveness of government responses to the crisis.
- Consider reinstating the SRD grant for the remainder of 2021.
- Further support labour-intensive industries like mining, construction, and manufacturing

3. EDUCATION AND HEALTH

- Chwayita Mkrola

3.1. Introduction

Health can increase participation in the labour market by providing individuals with the physical ability to effectively perform economic activities while education can contribute to an individual's competitiveness in the labour market by providing them with skills and knowledge necessary to efficiently perform the job. Good health combined with good education yield human capital contributing to factor productivity. Therefore, investment in health and education seem worthwhile at both individual and national levels.

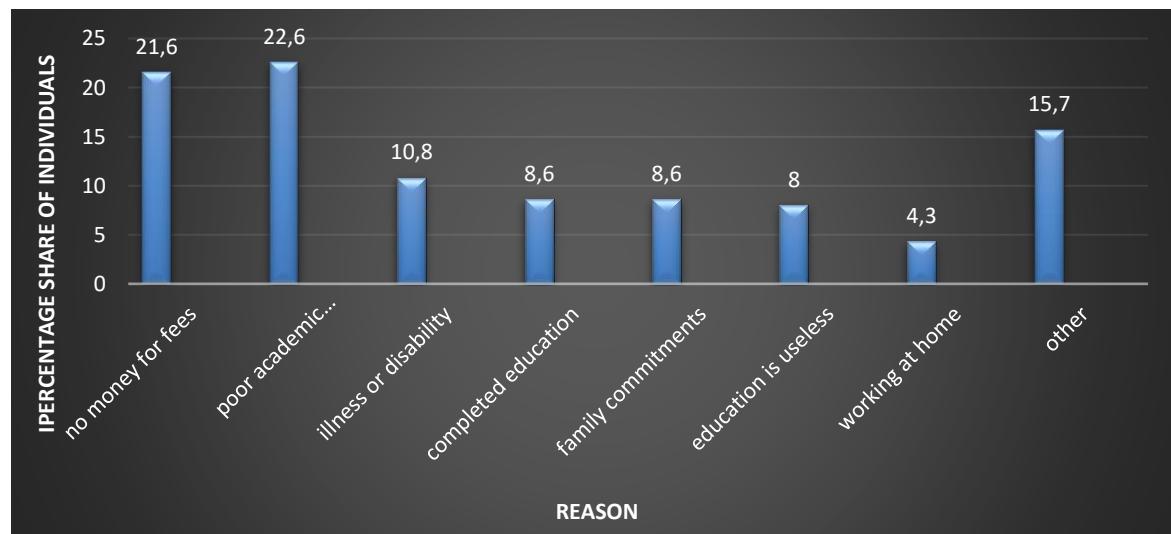
It is, however, important to acknowledge that no investment is free from risk and opportunity cost. South Africa is characterised by high unemployment rates (28.5%) versus the world (5.7%) and declining investment (-31.3) versus the world (-3.6) (World Bank, 2021). These have implications for both individuals and the country. The rising costs of health and education as per the upward trend in prices increase the risk whilst the economic climate raises concerns over returns. The following sections assess some market outcomes as a result of health and education investment at individual/household level.

3.2. Household/Individual Level

3.2.1. Education

Decision to invest in education is associated with certain opportunity costs, such forgone earnings through employment and business had one chose to engage in such activities instead attending school. Various other factors play a role. Figure 1 below shows 2019 statistics on school non-attendance by reason for the South African population with age 17-18.

Figure 1. Reasons for not Attending School by Youth (7-18 of age)

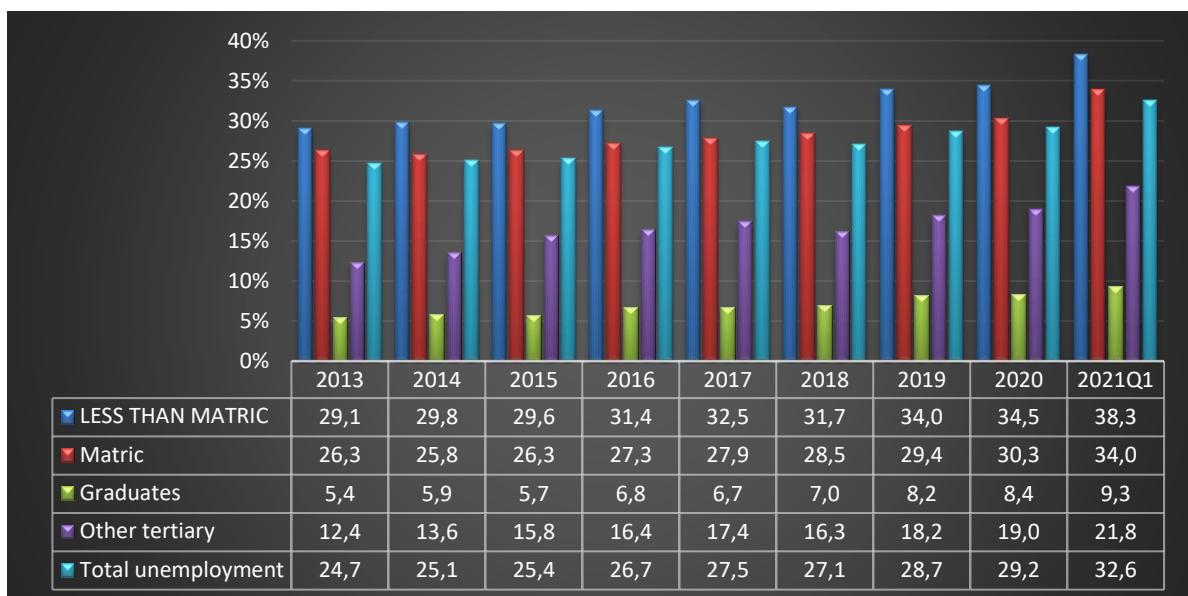


Source: (Stats SA, 2019). **cumulative percentage exceeds 100% due to rounding off.

As shown in figure 1, 21.6% of the individuals aged between 7 and 18 are not attending school due to having no money for fees. This indicates efforts by government and private businesses to provide financial aid are insufficient or fail to reach all the deprived. Illness or disability accounts for 10.8%, revealing the importance of the provision of and access to health care, and inclusive education for the disabled. 8% find education useless, negative sentiments towards

education may be a result of observed unemployment among people with education, lack of knowledge about opportunities available for the educated, or questions over the relevance of education to the labour market and economic market. Despite claims that education is useless, statistics show that some economic and living conditions vary according to level of education. Figure 2 below shows the annual average unemployment rate by educational attainment for the years 2013 to 2020, and the first quarter of 2021.

Figure 2. Unemployment by Educational Attainment



Source: Author's Calculations Using Quarterly Data from Stats SA, 2021

As shown in the graph, unemployment remains the highest for those with the lowest level of education and lowest for those with the highest level of education. The annual unemployment rate ranged between 29.1% and 34.4% for those with less than matric, with 38.3 for the first quarter of 2021. For those with matric, unemployment was between 26.3% -30.3% and total unemployment ranged was 24.725% -29.175%. The unemployment rate for those with matric only and those with below matric was higher than the aggregate unemployment rate through the observation period whereas graduates and those with other tertiary education faced relatively lower unemployment ranging between 5.4% -8.35% and 12.35%-18.94% respectively.

According to the graph above, unemployment declines with an increasing level of education, those with the least level of education account for a significant share in unemployment. This may be due to digitalisation and automation of work which moves firms from labour intensiveness to capital intensiveness, and mostly displace unskilled labour in the process. For example, Dachs (2017) found innovative technologies are skill-biased and more likely to affect unskilled labour. Meanwhile, Henderson (2020) reports that banks in South Africa are moving to digital service, which will likely decrease employment for front desk bank tellers and increase employment for those with IT/Computer/ Software development qualification/skills.

Furthermore, people with a lower level of education tend to be discouraged to find work and are less economically active, stay unemployed for longer periods and have less job tenure

compared to those with a higher level of education (Stats SA, 2019). In addition to unemployment, income levels vary by educational attainment. For example, statistics show a significant difference in average household income among individuals with different levels of education. Table 2 below is an extract from the 2015 Earnings and Spending Survey in South Africa and shows average household income in (Rands) by educational attainment of household head (this is the most recent data the author could find).

Table 2. Earnings and Spending Survey (2015)

	No formal schooling	Some primary education	Primary education	Some secondary education	Matric education	Higher education
■ 2006	34 924	37 193	44 024	69 713	156 372	348 729
■ 2009	38 349	40 971	44 322	69 744	159 938	307 245
■ 2011	41 967	47 505	52 158	79 930	158 835	342 443

Source: StatsSA (2015)

Similar to trends in unemployment, Table 2. shows income increase with increasing level of education. In 2011, the average household income for households headed by people with higher education was R342 443, R158 835 for matric, and R79 930. Income for households headed by people with primary education and those with no schooling stood at R52 158 and R41 967 respectively. This could be a result of higher unemployment and therefore lesser/no income for those with lower educational attainment. For example, StatsSA (2015) showed that households headed by individuals with lower levels of education accounted less for a share of income from business, salaries and wages and more for income from social wages whereas those with higher education earn mostly from salaries and business and rely less on social wages.

Furthermore, the effect of COVID-19 on salaries and wages varied with educational attainment. A larger share of people with higher levels of education continued to receive full salaries and wages compared to those with lower levels of education, who accounted for a larger share of those who received reduced salaries and wages in the last quarter of 2020 and first quarter of 2021 (Stats SA, 2021). This suggests income among the less educated is not only smaller but also relatively more vulnerable to market shocks.

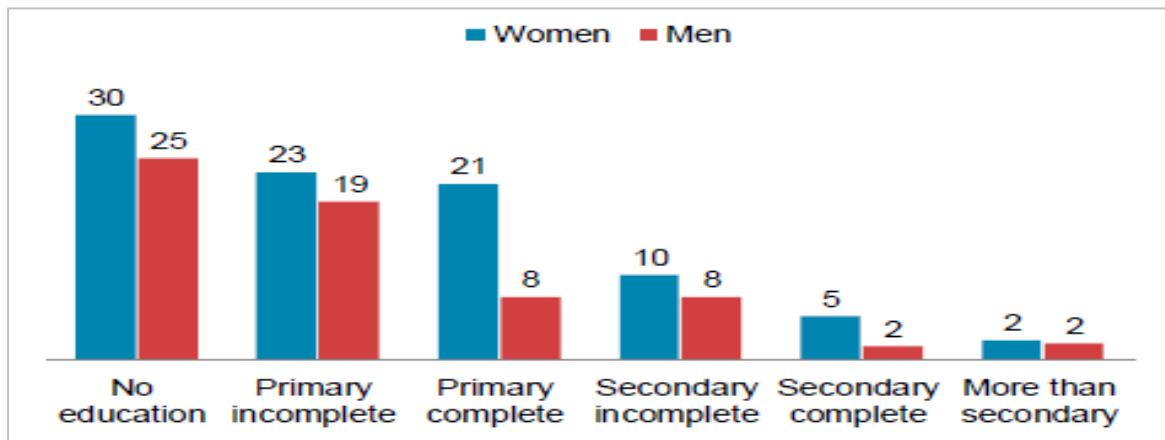
Labour market conditions are more favourable for those with higher educational attainment. It is therefore advised that individuals commit to furthering their studies to remain competitive in the market. The benefits of being in a relatively favourable position in the labour market are not limited to individual level but extend to household level. For example, Stats SA (2018) revealed that children (between age 0-17) from households headed by individuals with low levels of education were more likely to live in poverty compared to children in households headed by people with higher levels of education.

3.2.2. Health-Related Outcomes

Similar to labour market conditions, disparities in health conditions among groups of differing levels of education were found. Figure 3 below is a chart from (National Department of Health (NDoH), Statistics South Africa (Stats SA), South African Medical Research Council

(SAMRC), and ICF., 2019)(2016), it indicates that the probability of poor health declines with increasing level of education. This may be due to higher employment and income earned by those with higher education, making health affordable and accessible to them.

Figure 3. Percentage of Adults Age +15 with Self-Reported Poor Health Status



Source: (National Department of Health (NDoH), Statistics South Africa (Stats SA), South African Medical Research Council (SAMRC), and ICF., 2019)

Nwosu(2015), Goodman (2015), and Mlatsheni & Ingle (2017) document that labour force participation and finding work is higher and easier for those with good/excellent health conditions compared to those with fair/poor health conditions. Health conditions brought by educational attainment have implications for labour market outcomes.

3.3. Conclusion

Individuals can reduce the risk of unfavourable market conditions by furthering their education. However, attention must be paid to skills on demand to avoid risk of falling victim to technological or digital disruptions in the labour market or having to enjoy the benefits of education in a foreign country. At national level, complementary factors to human capital are necessary to ensure higher returns. Government and private sectors must focus on funding degrees that are on-demand domestically. And make the economic environment conducive for investment to attract investors and avoid brain drain.

4. FISCAL POLICY AND GOVERNANCE

- Katlego Mphahlele

4.1. Introduction

The COVID-19 pandemic is nowhere near over in South Africa, the recent surge in the COVID-19 positive cases, driven by the Delta variant, increased the infection rate from 9% to 19%. As a result, a third wave of infections was officially declared and confirmed by the National Institute for Communicable Diseases (NICD). Gauteng is the driver of this surge, accounting for 61% of the nation total infections. South Africa has become the African continent's worst hit country, accounting for 40% of COVID-19 related deaths in Africa. Meanwhile, the vaccination roll-out pace has not been helpful but rather proven to be slow, and this puts South Africa at a risk of increased deaths from the virus.

As efforts to combat the COVID-19 pandemic continue, South Africa's gross borrowing requirement increased from R432 billion to R670.3 billion in 2020/21, equivalent to 13.6% of GDP. The government was able to finance essential healthcare and measures to mitigate the coronavirus outbreak through borrowed funds. However, the rapidly growing public debt and a higher budget deficit in history continue to further weaken the economy. As of 31 March 2021, gross loan debt increased by 20.7% year on year to R3 936 billion, almost reaching the 2021/22 fiscal projection of R4 383 billion (SARB, 2021). The high rising debt fuelled by the COVID-19 economic effect have degraded South Africa's credit worthiness. During 2020, Moody's and Fitch (rating agencies) had the country on a negative outlook amid increased borrowing costs.

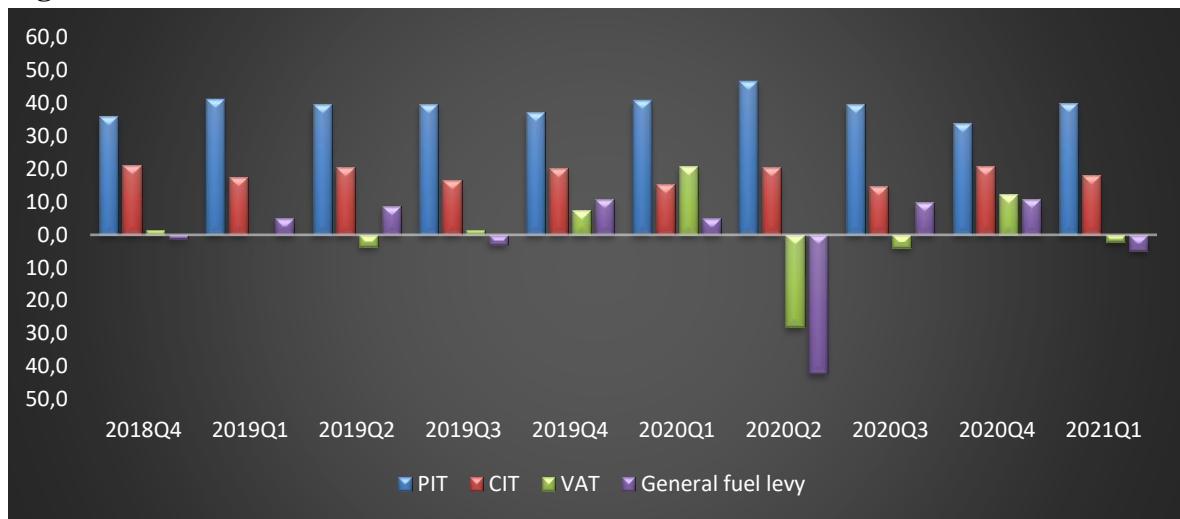
The lockdown restrictions on domestic economic activity as a result of the COVID-19 pandemic had unfavourable repercussions on the national government revenue. For example, government revenue decreased by 8.0% in the 2020/21 fiscal year. The section below highlights South Africa's composition of government revenue and furthermore points out what contributed to the decline in government revenue.

South Africa's major sources of government revenue, namely, Personal Income Tax (PIT), Company Income Tax (CIT), Value Added Tax (VAT) and General fuel levy were over projected and had to be significantly revised in the 2020 MTBPS. Revenue from income taxes, capital gains and profits of R718 Billion in the 2020/21 fiscal year was 7.1% less than in the 2019/20 fiscal year.

PIT as a percentage of GDP slightly increased from 34% to 40% in the first quarter of 2021, while CIT contracted from 20.9% to 18.1% during the same period. PIT performed quite well considering that there were a lot of job losses due to lay-offs by employers, pay cuts, lower pay-as-you-earn (PAYE) collections, many businesses closing down or downsizing as a result of the COVID-19 lockdown restrictions. The 2.8% contraction in CIT in the first quarter of 2021 can be explained by the drastic measures taken to combat the COVID-19, coupled with the pre-existing electricity load shedding issue in South Africa, company profits were severely affected by these. Revenue from goods and services contracted by 7.4% year on year to R456 billion in the 2020/21 fiscal year. The drastic decrease was driven by VAT decreasing from 12.30% as a percentage of GDP to -2.2% in the first quarter of 2021 and general fuel levy as a

percentage of GDP decreasing from 11.20 in the fourth quarter of 2020 to - 4.8% in the first quarter of 2021 because lesser excise duties were collected.

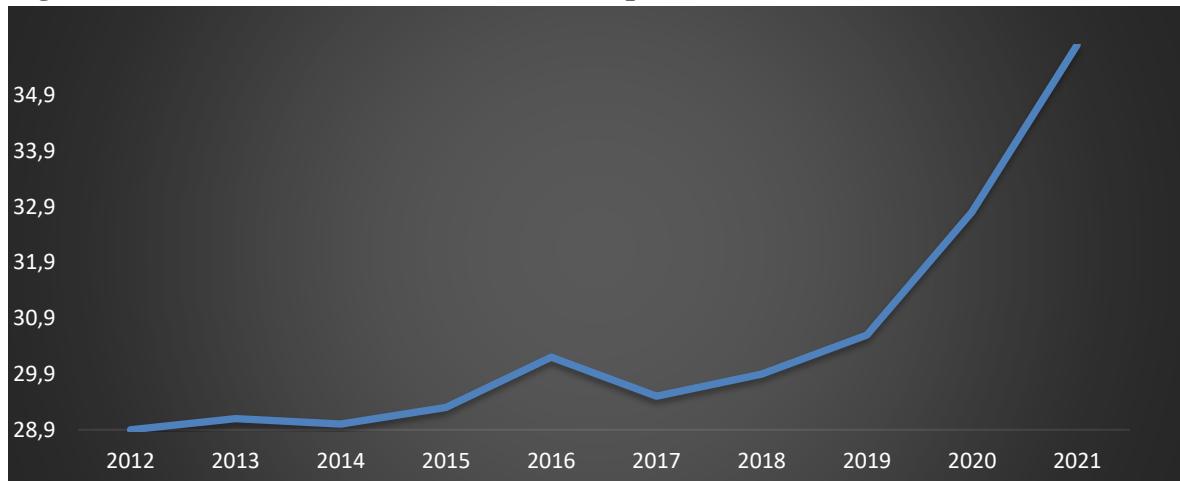
Figure 4: Trends in National Government Revenue



Source: SARB (2021)

National government expenditure stood at R1 788 billion in the 2020/21 fiscal year, which is 5.8% higher than in the previous fiscal year. As a share of GDP, government expenditure stood at 35.8% in the 2020/21 fiscal year, which is higher than the 32.8% in the previous fiscal year. This increase in government expenditure is explained by additional allocations to state-owned corporations, current payments, transfers, and subsidies. Total voted expenditure, consisting of transfers and subsidies, current payments, and payments for capital and financial assets increased by 6.4% year on year to R1 004 billion in the 2020/21 fiscal year. Payments to the New Development Bank (R5.1 billion) and payments to some SOCs in financial distress, such as Eskom (R62.8 billion), South African Airways (R11.5 billion), and the Land and Agricultural Development Bank of South Africa (R3.0 billion) resulted in the increase to the financial assets, thus increasing the national government expenditure. Nonetheless, current payments and payments for capital assets decreased slightly in the period under review.

Figure 5: Trends in National Government Expenditure



Source: SARB

The COVID-19 pandemic uncertainty in South Africa is rather crippling and makes it even harder to achieve fiscal consolidation. Economic reforms are crucial for the South African economy as it recovers from the COVID-19 pandemic. On the positive side, amidst the struggles with the COVID-19 pandemic, the exchange value of the Rand appreciated against South Africa's major trading partners currencies during the 2020/21 fiscal year.

4.2. Economic Scenarios

Positive scenario - Considering the uncertainty with the COVID-19 virus, if an efficient balance in fighting the virus as well as economic support is found, efforts to reduce the budget deficit and the gross debt-to- GDP in South Africa will be met.

Negative scenario – As efforts to combat the COVID-19 virus continues, with possible new mutations that could outsmart the currently produced vaccines, South Africa's recovery plan will be delayed, economic activity will slow down and spending on measures to support the economy such as public health services and subsidies will add to the country's long term spending pressures.

Worst case scenario - If the vaccine roll-out pace is disturbed, this will lead to even more waves of the COVID-19 virus and possibly other mutations of the virus making it even harder to achieve herd immunity and increased deaths. South Africa's pre-existing conditions coupled with the COVID-19 pandemic will be disastrous, stabilising public debt and narrowing the budget deficit will be near impossible, and there will be capital investment losses and increased interest rates.

5. BUSINESS AND FINANCE

- Zaziwe Maluleke

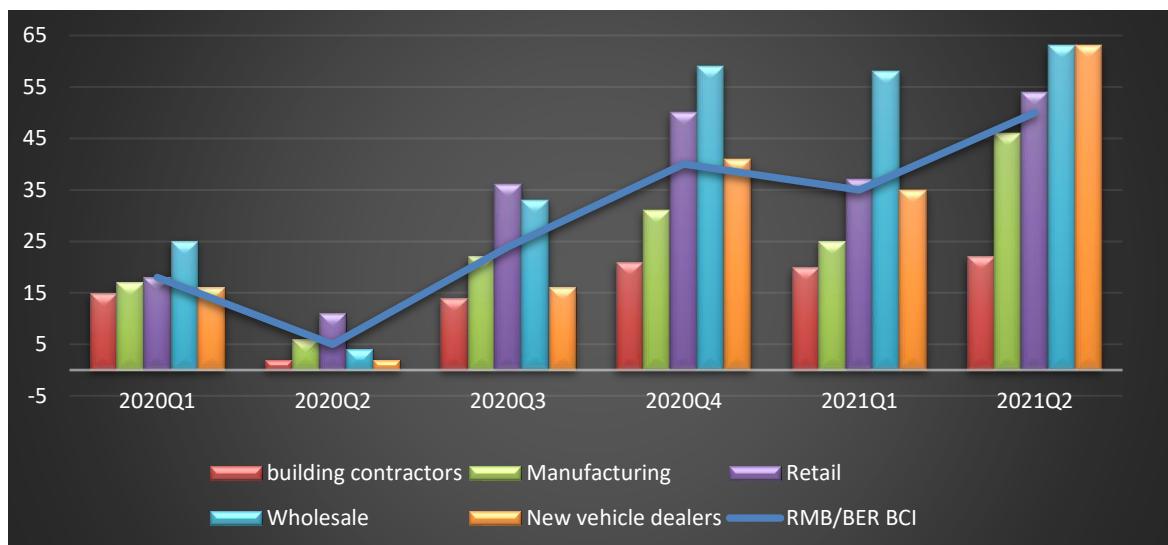
5.1. Introduction

Five months into the vaccination drive and only 0.8 per cent of the population has been fully vaccinated, while only 5.2 per cent has received at least one dose. South Africa is currently in the third wave of COVID-19 which has led to a stricter lockdown restriction, with the country moving to extended level 4. This might reverse the positive business sentiments that existed. This will be a further setback for businesses that were looking to recover in 2021. It is clear that businesses need to find a way to adapt to extraordinary challenges in order to continue with business operations while battling to stay afloat.

5.2. Business Confidence Index (BCI)

The RMB/BER BCI has reached the neutral point of 50 following a record low of 5 when the COVID-19 crisis began as illustrated on the figure 6 below. This is the first time since 2014 the BCI reaches 50. The BCI was driven by increased confidence in wholesale and new vehicle dealers, which rose to 63 from 58 and 35 respectively, given the low-interest rate environment. While manufacturing confidence accelerated to 46 from 25 and was driven by a stronger currency (lowering input costs) and improved economic conditions(stronger than expected Q1 economic growth). This is an indication that most South African businesses are confident that the current business climate is conducive for growth.

Figure 6: RMB/BER BCI¹



Source: BER, 2021

5.3. A Move Towards Digitalisation, Are South African Businesses Ready?

Thousands of businesses crumbled under the weight of the economic slump brought on by the 2020 COVID-19 recession, many of them went digital to survive. Working from home and online collaborations have been the new norm and most businesses have adopted a hybrid structure. According to a survey conducted by Xero (in 2020), only 33 per cent of businesses

¹ An index less than 50 is said to indicate a loss of confidence, while an index more than 50 shows increased confidence

indicated that the pace of technological development was too fast, while 45 per cent of small businesses indicated that technological tools were needed to adopt to change (Small Business Institute, 2021). Not all small businesses have the ability to incorporate digital resources that can enable them to compete. The South African government has been making developments towards digitalisation through expanding the number of e-government services and the Presidential Commission Fourth Industrial Revolution (4IR), which will help in coordinating development and how to deal with 4IR. The IMF estimates that if the government can introduce digitalised systems, emerging economies could save between \$220 billion and \$300 billion (approximately 3-4 trillion rands) annually, which is equivalent to 0.9 to 1.1% of GDP. The opening up of online portals for licensing and other compliance purposes for SMEs can reduce red tape faced by these firms (Small Business Institute, 2021).

Table 3: Examples of how South African SMEs are Making Use of Digital Platforms:

Company	Description
Quro	The company created biometric COVID-19 monitoring and predictive analytics for rapid response protocols to kick in.
Aerobotics	They introduced a product that has aerial imagery which is obtained from satellites and drones with its machine learning algorithms to ensure that problems in farms are detected early; helps farmers monitor their crops; provide warning of potential risks in advance; and ensure that optimal results are achieved.
Darth Kitchens	This is a virtual kitchen network that offers centralised production to several restaurants in Cape Town which fulfil only online orders. This helps chefs monitor busy times and dishes that do not sell, and whether their marketing strategy works or and which dishes should be replaced or kept.
Albri	This is a mapping services that use drones in townships to convert the footage into digital maps so people have easier access when in townships. This has helped tourists, emergency services and business travels. It has a feature for commuters to help them identify nearby taxi ranks getting directions to them.
Local	This was an e-hailing app that collapsed when the lockdown started and they launched a food and grocery delivery service called Food, which has over 100 stores to choose from. They also have a Her option, which targets woman drivers, riders and accommodates the LGBTQ+ community.

5.4. Economic Outlook

Positive scenario- If vaccination drives are accelerated, disruptions from COVID-19 regulations will be kept to a minimum. Businesses continue to be proactive in their strategy and making use of a well-built digital infrastructure.

Negative scenario – If load-shedding continues into the year, business activity will remain below potential. The uneven access to digital infrastructure will put small businesses at risk of closure.

A worst-case scenario- South Africa is currently in the third wave and vaccinations are slow. Some businesses will have a supply deficiency in production as they will have to reduce the capacity.

5.5. Conclusion

Given the above stated scenarios, the risks are more on the downside. Although the BCI has improved, there are possibilities that confidence may tail off as the country is experiencing the third wave. The Rand has also started to weaken after reaching levels below R13.40/\$, this will continue to make imports expensive for South Africa. It is evident from above that digitalisation must be at the forefront of businesses. The Small Business Institution (SBI) recommends that public-private partnerships must help in building govtech solutions to ensure that digitalisation is executed and invest in digital skills education in schools (SBI, 2021).

6. MONETARY FRAMEWORK

- Marius Masoga

6.1. Latest Domestic Stance

South Africa encountered the second winter season in 2021 since the coronavirus disease of 2019 has devastated the economy. Despite the various policy measures put in place to ease the burden induced by the pandemic thereof, the state of uncertainty demonstrates mild signs of vanishing. Meanwhile, the release of key macroeconomic economic data (reporting domestic and international economic activities) suggests that most economies have adjusted to the “new normal” (see the next paragraph). Meanwhile, the virus continues to spread severely and thus prompting further measures to contain it. Aggressive measures (which might be necessary at certain stages) would mean that economic recovery shall be somewhat reversed.

Following the success of vaccines roll-out projects in advanced economies, (such as United States, United Kingdom, China etc.) and emerging market economies (e.g., South Africa, Brazil, Russia etc.), the economic prospects have gained some momentum. The latter economies have reportedly shown relatively mild progress in vaccine roll-out, compared with advanced economies. Nevertheless, the growth in gross domestic product (GDP) globally is expected to reach new peaks in the second quarter of 2021. Annually, the GDP is projected (based on second-quarter projections) to grow by more than 5%. In South Africa, increased RMB/BER Business confidence (to 50 points in Q2) signalled an optimistic outlook for the economy. Furthermore, month-on-month mining production surged by 0.3% in April, while manufacturing production dropped by 1.2%.

The monetary policy committee (MPC) of the South African Reserve Bank (SARB) observes data on domestic and international economic activities to make decisions concerning policy implementation. There is a transmittable impact on the economy when SARB adjust policy interest rate (i.e., repo rate), which they kept unchanged during the MPC meeting held in May. The section below demonstrates how monetary policy can affect the economy.

6.2. Analysis of the Monetary Transmission Mechanism

The transmission mechanisms of the monetary policy reflect the way monetary policy affects the economy by influencing aggregate demand (Mishkin, 2013). For instance, through interest rate channels, where changes in real interest rates have an impact on business fixed investment, residential housing investment, inventory investment, and consumer durable expenditure. Therefore, impacting aggregate demand in the economy. Amid COVID-19 pandemic, most central banks have reduced interest rates, and that has led to an increase in aggregate demand, which ultimately had a major impact on the general price level (i.e. inflation). The SARB have kept the repo rate at its lowest level of 3.5%. This may be a better explanation for a sudden rising trajectory of consumer price index inflation in 2021 from 3.2% in March, to 4.4 and 5.2 in April and May respectively.

Internationally, lower interest rates may have also triggered an increase in inflation. For instance, the US consumer price index in April and May have surged to 4.2% and 5.0% respectively (Bureau of Labour Statistics, 2021). Similarly, the Office for National Statistics (2021) in the United Kingdom have reported an increase in the consumer price index from 1.3% in March to 1.4% and 1.5% in April and May respectively. Therefore, it seems that the

functioning of monetary transmission mechanisms has been vibrantly effective domestically and globally. Nevertheless, the base years cannot be ignored, since such can have a significant impact on the differences reflected in the reported figures thereof.

6.3. Forward-Looking Statement: Economic Outlook

Against the background pertaining to key economic data highlighted, the forward-looking statements are made to demonstrate the likely results, based on the current economic prospects.

Positive scenario – since the role of monetary policy has been to ensure that financial markets and consumers have access to liquidity, the positive side of such policy implementation can be apparent when the level of debt among consumers and businesses becomes manageable and reduced where possible. When consumers and businesses (which are considered the key economic participants) find it less burdening to manage their debt, they can confidently increase expenditure on goods and service, and ultimately fuel GDP growth.

Negative scenario – the multiple waves of Covid19 and zero indication of when the pandemic will end makes it impossible for the economy to sustain its recovery momentum.

Worst case scenario – since lower interest rates enhance consumers and businesses access to credit, uncertain economic environment may imply that some consumer/business would likely default on debt repayments. Depending on how much credit has been acquired, there might be a threat of minor if not major financial crisis during or in the dawn of post COVID-19 period. Also, the credit record score of most consumers will likely be on the “orange bar” as more credit is acquired. However, such a scenario may only apply if financial institutions are not strict in terms of the amount of credit granted.

6.4. Conclusion

The global economic recovery remains jeopardised amid multiple waves of COVID-19 without any signals on when the pandemic will come to an end. While the central banks adjust the policy tools to safeguard the economic prospects, there are limitations in terms of what the policies can achieve thereof. Therefore, it is important that the society acquire as much information as possible to inform their financial decisions. The last thing needed in any economy after the health crisis is the likelihood of a financial crisis that may be prompted by bad financial decisions, either at institutional or individual levels.

7. TRADE & FINANCIAL MARKETS

- Bekithemba Qeqe

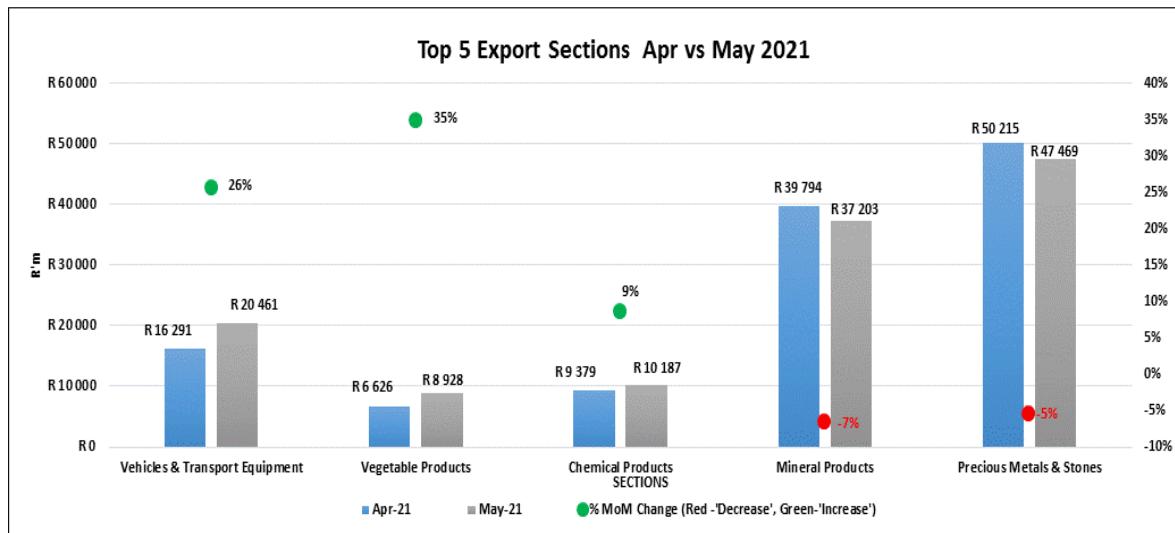
7.1. Introduction

Following last year's collapse, the global economy is experiencing an exceptionally strong but uneven recovery. While advanced economies are rebounding, many of the world's poorest countries are still lagging behind, and much remains to be done to reverse the pandemic's staggering human and economic costs. Moreover, the recovery is not assured as the resurgence of additional COVID-19 waves, further vaccination delays, mounting debt levels, and rising inflationary pressures could deliver setbacks (World Bank, 2021). Against this backdrop, it is important to review the trends in trade and financial markets during the second quarter (Q2) of 2021.

7.2. Overview of Trends in International Trade

In Q1 2021, the value of global trade in goods and services increased by 4 per cent quarter-over-quarter and by around 10 per cent year-over-year. Importantly, global trade in Q1 2021 was higher than pre-crisis levels, with an increase of around 3 per cent relative to Q1 2019 (Stoddard, 2021). The trade rebound of Q1 2021 was mainly driven by the strong export performance of East Asian economies. In line with the global trade picture, South Africa's terms of trade (TOT) improved significantly in the first quarter of 2021. The TOT increase from 119.7 in the fourth quarter of 2020 to 126.7 in the first quarter of 2021 indicating that the country is accumulating more capital from exports than it is spending on imports. The balance on the current account increased to R267 billion in the first quarter from 198 billion in the preceding quarter (Stoddard, 2021). Furthermore, South Africa's trade surplus increased to R430 billion in the first quarter from R425 billion in the preceding quarter.

Figure 7: South African Export Performance between April and May 2021

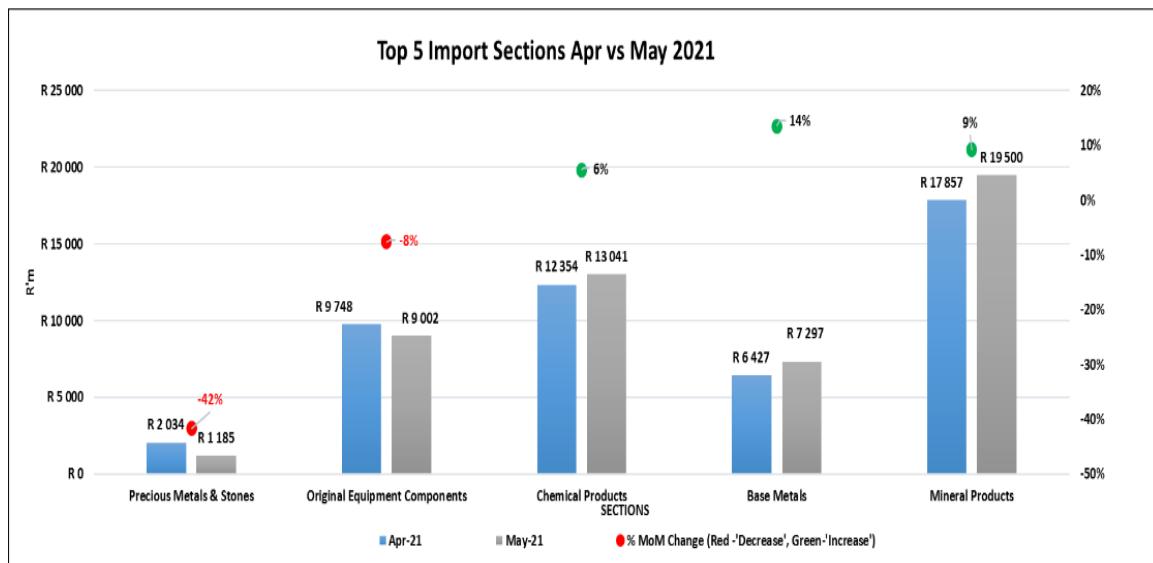


SOURCE: SARS (2021)

The positive terms of trade were maintained into the second quarter of 2021 with the country's monthly trade balance surplus increasing by further 6% between April (R51.25 billion) and May 2021 (R54 billion). Exports increased by 1.5% (R2.37 billion) between April and May

2021 while imports declined by 0.9% (R0.97 billion) (SARS, 2021). Figure 7 shows the month-on-month movements on exports between April and May 2021. As shown in the diagram the main contributors of export growth in the two months of the second quarter include vegetable products which increased by 35%, vehicles and transport equipment increased by 26% as well as chemical products which increased by 9% during the first two months of quarter two (SARS, 2021).

Figure 8: South African Imports between April and May 2021



SOURCE: SARS (2021)

The month-on-month movements in imports are shown in figure 8, as shown by the diagram the biggest contributors to the decline in imports between the first two months of 2021 include precious metals and stones which fell by 42% as well original equipment components which fell by 8% during the first two months of the second quarter of 2021 (SARS, 2021).

7.3. Global Financial Markets Trends

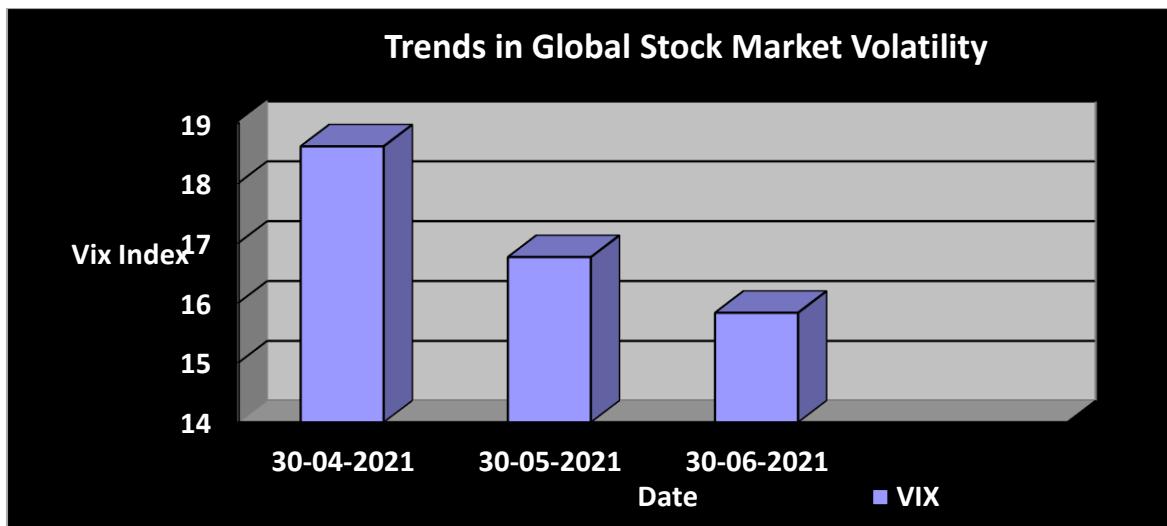
The global market picture displayed some positivity for most of the time during the second quarter of 2021. Amongst the best performing asset classes small cap and non-U.S. equities, global real estate investment trusts (REITs), commodities and the value factor.

7.3.1. Equity Markets

Global equities have advanced reasonably well thus far in 2021 supported by strong corporate earnings and the accelerating roll-out of Covid-19 vaccines in some parts of the world. Figure 3 shows the trends in the Chicago Board Options Exchange (CBOE) Volatility Index, a measure of global stock market volatility during the 2nd quarter of 2020. As shown by the diagram, the volatility across equity markets continued to fall to pre-pandemic levels with CBOE VIX closing at 15.83 % on 30 June 2021, continuing with a positive trend seen during the first quarter of the year. Although the more positive economic growth outlook manifested into corporate profit upgrades, it simultaneously ignited fears about a higher inflation path going forward and the potential policy response from central banks to this. As of 30 June 2021, the MSCI all-country world index, which tracks share performance across 50 countries, fell

0.23% with major indices such as Nasdaq Composite Index, London FTSE 100, and German DAX down by 0.17%, 0.71 % and 1.02% respectively (Reuters, 2021).

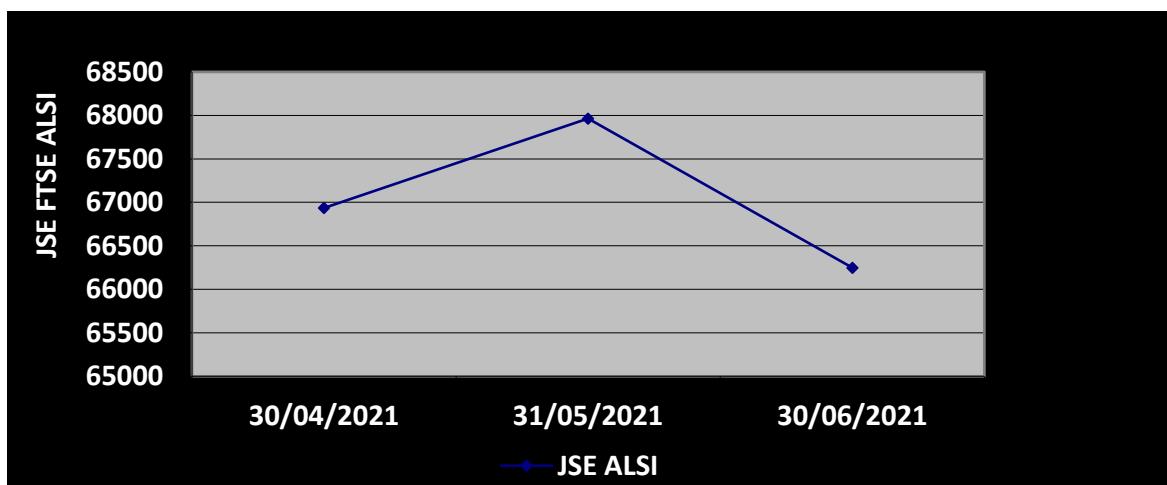
Figure 9: Trends in Global Stock Market Volatility during 2nd Quarter of 2021



SOURCE: OWN DIAGRAM MADE WITH DAT FROM CBOE 2021

The spread of the new, more contagious COVID-19 virus variants and the accumulating human toll also emerged as an additional factor of concern to investors towards end of the 2nd quarter of 2021, dulling the prospects for a swift global economic recovery. Locally, on the Johannesburg Stock Exchange (JSE) the All Share Index (ALSI) fell by around 0.5%, led by declines in leisure-related stocks, banks and retailers after President Cyril Ramaphosa announced that the country would move to adjusted level four of lockdown as from 28th June 2021 to curb the third wave of COVID-19 infections (Business Tech, 2021). The JSE ALSI closed slightly lower at 66548,7 points on 30 June 2021 when compared to the 67291,7 observed on the last day of the first quarter (Sanlam, 2021).

Figure 10: Movements in the JSE ALSI during the 2nd Quarter of 2021



SOURCE: OWN DIAGRAM MADE WITH DATA FROM JSE 2021

Notwithstanding the above, the JSE has been among the top performing stock markets in 2021, gaining more than 10% since the start of the year.

7.3.2. Currency Markets

The South African rand has outperformed most emerging market currencies thus far and has held up strength against some of the major currencies since the start of the year. As seen shown in the table below which displays the recent movements in the exchange rates of the rand against major currencies, the nominal effective exchange rate (NEER) increased by 5.5% between March 2021 and June 2021 as global sentiment towards emerging market currencies improved amid continued accommodative monetary policy in the US, which resulted in renewed US dollar weakness (SARB, 2021). From around R14.78/\$ at the end of the first quarter, the local currency further increased to a two year high of R13.42/\$ during the first week of June 2021. The Rand traded slightly lower at R14, 30/\$ during the last day of the second quarter but was still strong when compared to the R14.78/\$ observed during the last day of March 2021. Amongst other things, the local currency has benefited from improved global growth expectations which continued to underpin positive sentiment and the risk-on environment as well as higher prices of major commodities exported by the country such as gold and base metals.

TABLE 4: RECENT MOVEMENTS IN THE EXCHANGE RATES OF THE RAND

Currency	31 December 2020 -31 March 2021	31 March 2021-30 June 2021
Weighted Average	1.0%	5.5%
US Dollar	-1.4%	7.9%
Euro	3.3%	4.3%
British Pound	-2.2	5.3%
Chinese Yuan	-1.1	5.4%
Japanese Yen	5.8%	7.3%

SOURCE: SOUTH AFRICAN RESERVE BANK 2021

7.3.3. Commodity Markets

Continuing the market rebound that began in mid-2020, almost all commodity prices were on the rise in the first quarter of 2021. The IMF's primary commodity price index increased by 29% between August 2020 and February 2021. (International Monetary Fund (IMF), 2021). The increase was led by energy commodities, metals & and minerals as well as precious metals.

Commodity	Units	Q1 Average Prices	Q2 Average Prices
Energy Commodities			
➤ Crude oil, Brent	\$/barrel	60.6	68.6
➤ Crude oil, WTI	\$/barrel	57.8	66.1
➤ Natural gas Index	2010=100	78.7	83.0
Food commodities			
➤ Maize	\$/mt	241.6	288.5
➤ Soyabeans		580	623
➤ Wheat, USA	\$/mt	275.2	275.8
➤ Meat, beef	\$/kg	4.61	5.44
➤ Meat, chicken	\$/kg	1.83	2.34
Metals and Minerals			
➤ Aluminium	\$/mt	2 091	2 400
➤ Copper	\$/mt	8,477	9 706
➤ Iron ore	\$/mt	167.2	200.7
➤ Lead	\$/mt	2 014	2 128
➤ Nickel	\$/mt	17 618	17 359
Precious Metals			
➤ Gold	\$/toz	1 798	1 815
➤ Platinum	\$/toz	1 160	1 182
➤ Silver	\$/toz	26.30	26.70

Table 5: Movements in the Average Prices of Commodities between Q1 and Q2 of 2021

Table 5 shows the movements in the average price of these different commodities between the first and second quarters of 2021. As can be seen, the recovery in commodity prices which began late last year was maintained during the second of this year. Crude oil prices have seen one of the fastest recoveries, nearly reaching \$70/barrel in March before dropping to around \$63/barrel in the middle of April 2021 (World Bank, 2021). The recovery has occurred despite oil demand remaining around 5 per cent below its 2019 level and has been driven to a large extent by higher-than-expected agreed production cuts among OPEC and its partners (World Bank, 2021). Crude oil prices have risen by more than 40% in 2021 with the price of brent crude oil and West Texas Intermediate (WTI) oil increasing by 13,2% and 14,4% respectively between the first and second quarter of the year. Natural gas prices also rose by 5.5% between the first and second quarter, primarily in response to cold weather in large markets, including the United States, Europe, Asia, and especially Japan. Non-energy commodity prices which increased by 12 per cent in the first quarter of 2021 rose further in quarter two with the price of Copper prices have also been boosted by supply disruptions in Peru and Chile, while iron ore prices have been supported by supply disruptions in Australia (Word Bank, 2021). Most agricultural commodity prices, particularly for food commodities, saw substantial increases as

well. Increases were partly driven by strong demand for things like soybeans and maize from China, as well as supply shortfalls in South America and the United States.

7.4. Future Outlook

Commodity prices which have been one of the biggest contributors of South Africa's positive trade fortunes may continue increasing which can generate higher surplus and higher export earnings which will hopefully translate into new jobs for the South African economy, especially given the recently reported increase in the unemployment rate. However, while the commodity picture is looking good, the durability of the price rise is uncertain. A faster than expected withdrawal of stimulus by some major emerging market economies could put downward pressure on commodity prices leading to lower export revenues and growth for commodity-exporting countries.

In financial markets, some emerging market equities have been laggards so far this year mostly held back by the high weighting toward technology stocks in the emerging markets benchmark and concerns about slowing the slow rollout of COVID-19 vaccines. This should start to reverse later in the year assuming the pace of vaccine distribution improves and across emerging markets. A more delayed rollout of vaccines and increased resurgence of the virus and return of stricter lockdowns may strain confidence in the future. In South Africa for example, it is the liquor, hospitality industries that will be impacted the most if the current level four restrictions are extended which may in turn, cause downward pressure on leisure-related stocks on the JSE.

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