RichardCluverPredicts

In our 33rd year of service to the investing public

Volume: 33
Issue: 41

16 October 2020

If the bad news about President Ramaphosa's Parliamentary address yesterday was that he offered us nothing about how the Government would address the most pressing problems facing our economy – items like the public sector wage bill and little about red tape issues which prevent the private sector taking on new employees – data elsewhere this week that the private sector is bouncing back in a vigorous fashion was a welcome surprise.

The BankservAfrica Economic Transaction Index (BETI), a measurement of economic transactions between South Africa's banks, improved for the fourth consecutive month in September. According to Economists.co.za which calculates the index, this is another indication that South Africa's third-quarter GDP reading "will be the strongest on record".

"The unexpected improvement of 0.4% − the first since March 2020 and a significant shift from -4.3% in August 2020 − is welcome news," it said.

So much for the good news. Finance Minister Tito Mboweni's medium-term budget was reportedly being prepared on the expectation that the government would win its battle with trade unions (Read Claire Bissiker's well-argued analysis attached to this column) allowing it to renege on part of their wage agreement and strip R160bn out of the wage bill over the medium term.

That the Finance Minister has obtained permission to delay the medium-term budget announcement, together with the President's silence on the matter, has obviously raised fears both here and, critically, among overseas investors that the President has funked doing the thing that made Maggie Thatcher one of Britain's most famous premiers; to face down the trades unions! Not surprisingly the Rand weakened immediately following the President's speech though not as much as might have been expected.

The budget guidelines sent out to all Government departments ahead of the mid-term budget also instructed them to implement "stringent" compensation containment measures, such as offering early retirement without penalties and actively managing performance bonuses, overtime and progression payments.

Finally, State-owned entities were singled out for special attention, with the Treasury stressing that "there are no additional funds available for allocation". Those that receive more than 20% of their revenue from the government must motivate why they remain relevant and shouldn't be closed, absorbed back into government departments or merged with similar entities.

Mboweni has added that "If these [spending] reductions are not achieved and fiscal consolidation is unsuccessful, government debt will exceed 100% of GDP in the medium term."

This is the kind of fiscal prudence that international lenders, and in particular the International Monetary Fund, are hoping to see from South Africa. Since Government's borrowing needs now nearly entirely equate with the sum of all domestic savings being generated by pension funds and the like, our position is stark: either we satisfy international lenders or recognize that little or no foreign funding can be hoped for which will in turn force us to go cap in hand to the IMF for distressed borrowing.

Informed South Africans are, after all, acutely aware that foreign investors have been deserting South Africa's bond market in droves since we were "junked" by the international ratings agencies. In July, with their share of government debt fell to the lowest level in more than eight years with non-resident bond holdings falling to 30.1% as of 31 July, from 30.6% the previous month and as high as 37.3% in January, according to National Treasury data. Meanwhile, JSE data shows that foreigners have sold a net R54 billion of the debt this year.

South Africa lost its last investment-grade credit rating in March, when Moody's Investors Service cut its assessment to Ba1 from Baa3 while S&P Global Ratings and Fitch Ratings downgraded the country deeper into junk. The bonds exited indexes tracking investment-rated debt, sparking forced sales by funds benchmarked against those.

Meanwhile, the frustration of SA investors with president Ramaphosa's "Glacial" rate of reform has seldom been better expressed than this week by ANC "royal" and AngloGold Ashanti chair Sipho Pityana who spoke at this week's Financial Times Africa summit. The Financial Mail has reported that, "Pityana sounded thwarted and disillusioned by the inertia, not to mention bewildered at the unadulterated self-interest of the ANC elite."

Pityana, the FM noted, is one of SA's great idealists. A member of the ANC since 1979, he was one of SA's most effective directors-general — first in the Department of Labour under Nelson Mandela's administration — until he joined the private sector in 2002. As the head of Save SA, he was instrumental in organising business to speak up in protest during the final months of Jacob Zuma's administration.

Pityana, who is now head of Business Unity SA, has spent months begging Ramaphosa to "just implement the existing economic plans, before the country tips over the fiscal cliff."

"We're a long way from restoring public confidence that we're serious about fighting corruption," he said. "As business, we're disappointed that our request … [for] a clear policy that proscribes government and public office bearers of various political parties from doing business with government directly, or through their relatives, [is being ignored]. We're surprised that there's a strong pushback."

So, yesterday's Parliamentary session was a watershed moment for Ramaphosa that the nation has longbeen waiting for. It was long on words and sounded impressive but offered little new about the most critical issues facing this country. Most important it lacked critical timelines in many vital initiatives though Ramaphosa promised one which has eluded the Government for years; to complete digital migration by next Match and, another, to unlock 2 000 mw of emergency electricity within 12 months.

Most optimistic of all, however was a promise to massively add to power generation by 2022: ""We are accelerating the implementation of the Integrated Resource Plan to provide a substantial increase in the contribution of renewable energy sources, battery storage and gas technology.

"This should bring about 11,800MW of new generation capacity into the system by 2022. More than half of this energy will be generated from renewable sources," Ramaphosa said.

Public patience with Ramaphosa and the ANC is now likely exhausted and an accelerated exodus of entrepreneurs and their money might now be expected if he is unable to deliver on these promises within an effective timeline!

Do enjoy your weekend!

The months ahead:

New York's SP500: I correctly predicted the beginning of a decline this week and I expect it to continue on down until January.

London's Footsie: I correctly predicted a continuation of the long-term declining trend which I expect it to continue until late January when a three to four-month recovery is likely.

Germany's Dax: I correctly called the peak of this market and expect a volatile decline until the end of November when a four-month recovery seems likely.

France's Cac 40: I correctly predicted a down-hill phase which I still expect to last to the end of November when a long recovery trend is likely to begin.

Hong Kong's Hangsen: Within an overall declining trend which began in January 2018, Asian markets have been staging a medium-term recovery which I have so far correctly predicted will last until the end of this year. I expect it to be followed by a steep January decline and a February recovery.

Japan's Nikkei: I correctly predicted the recovery had peaked ahead of a volatile declining trend until mid-December ahead of gains until mid-March. Within this I expect another week of declines until an interim recovery around the 22nd.

Australia's All Ordinaries: I correctly predicted an extremely volatile recovery phase had set in likely lasting until mid-May. However, I expect the continuation of the recovery to be more modest from this point with increasing volatility along the way.

J**SE Industrial Index:** I correctly predicted the index had peaked ahead of an extremely volatile declining phase until mid-January. Within this trend the index is currently staging a short-term recovery that should last until the end of this month ahead of a steep November decline to mid-month.

JSE Top 40 Index: I correctly predicted a brief recovery which I now expect to continue until the 21st followed by a decline until mid-November when another upsurge is likely marking the beginning of a volatile recovery trend until mid-December ahead of the next down-trend until early-January and another recovery to mid-February all within a rising long-term trend lasting until May.

ShareFinder JSE Blue Chip Index: As I correctly predicted, Blue Chips have enjoyed a two-month recovery within an overall declining trend that is likely to last until mid-March. But now that is over and it is likely to be downhill until late January when the next brief up-tick is likely.

JSE Gold shares: I correctly predicted the decline that is now under way but failed to anticipate the current brief interim recovery which should last until the end of the month ahead of the next interim decline until mid-December.

Gold Bullion: I correctly predicted the recovery would continue well into 2021 and continue to hold that view.

The Rand/US Dollar: I correctly predicted we were now entering a weakening phase which I still expect should last until early February. Within it, however, I see an interim month-long strengthening phase until + - November 12 before volatile weakness returns.

The Rand/Euro: I correctly predicted several weeks of weakness before a new protracted strengthening trend begins in mid-December which can be expected to last for the first half of 2021. I still hold to an overall weakening trend until late December but within that I see volatile gains possibly until mid-November.

The Predicts accuracy rate on a running average basis since January 2002 has been 85.95%. For the past 12 months it has been 94.86%.

SA's fiscal credibility gap widens

The difference between what the National Treasury needs and what the rest of government does is increasing. At this rate, further slippage is inevitable

BL PREMIUM

CLAIRE BISSEKER

In July, finance minister Tito Mboweni undertook to reveal the precise budget cuts and economic reforms required to get SA's debt ratio to stabilise at below 90% when he unveils the medium-term budget, scheduled for late October.

Since then the minister has sent out tough technical guidelines to all national departments and public entities. In these he exhorts them to have "no holy cows" and offer no automatic protection to any spending items to achieve the R230bn in cuts required over the next two fiscal years to stabilise public debt.

In an attempt to strip fat out of the system and determine what and where to cut, the National Treasury is undertaking spending reviews (using zero-based budgeting) that clarify the unit costs and cost drivers of individual programmes.

In addition, each department and public institution must submit a narrative report to the Treasury that identifies where expenditure can be cut and explains the potential effect on service delivery, as well as how it intends to keep its wage bill in check.

The medium-term budget has been prepared on the basis that the government will win its battle with trade unions, allowing it to renege on part of an agreement with them — the final year of a three-year wage settlement — and strip R160bn out of the wage bill over the medium term.

The guidelines instruct all departments to implement "stringent" compensation containment measures, such as offering early retirement without penalties and actively managing performance bonuses, overtime and progression payments.

State-owned entities (SOEs) are singled out for special attention, with the Treasury stressing that "there are no additional funds available for allocation". Those that receive more than 20% of their revenue from the government must motivate why they remain relevant and shouldn't be closed, absorbed back into government departments or merged with similar entities.

"If these [spending] reductions are not achieved and fiscal consolidation is unsuccessful, government debt will exceed 100% of GDP in the medium term," the Treasury warns in its guideline document.

"This will signal the emergence of debt distress episodes as a vicious cycle of high borrowing rates and low growth, leading to ever deeper debt spirals, lower investment and lower economic output."

It's fighting talk — but it's not at all clear whether Mboweni's cabinet colleagues realise that to find R230bn in savings will require a major reduction of services to the population and in the state's involvement in the economy.

If there is unprecedented action on energy reform or the state pulls the plug on SAA, it will signal that the cabinet appreciates the scale of the problem and is prepared to do things differently. But there is no evidence yet that the pandemic and looming fiscal crisis are causing a fundamental rethink or a change in the "soul" of the government.

On the contrary, the Treasury has been instructed, over its loud protests, to find another R10.4bn to prevent the demise of SAA — a hopelessly bankrupt entity whose survival is in no way linked to reviving the economy.

Given that one of the leading reasons for SA's steep debt trajectory and repeated sovereign downgrades is that the government has been unable to deny repeated bailouts to delinquent SOEs, the latest SAA lifeline will severely dent what's left of SA's fiscal credibility.

It's a political decision that takes no consideration of the negative financial consequences, and shows that "we fail at sticking to our word", says independent economist Thabi Leoka.

To save face, Mboweni will likely stress that the bailout will be funded in a fiscally neutral way to prevent the 2020/2021 consolidated budget deficit shooting above the 15.7% of GDP already pencilled in.

However, in the absence of asset sales, this just means that even deeper cuts will be required across the rest of the government. And with debt service costs, wages and social grants largely immovable, the fear is that funding for infrastructure and maintenance, and possibly some of the R19.6bn earmarked in the Covid-19 relief package for job creation and protection, will be sacrificed to keep a lid on the deficit.

It's also probable that SAA will remain "a never-ending drain" on state resources, says Intellidex's Peter Attard Montalto. He points out that there is already R16.4bn in the medium-term budget for the grounded national carrier to repay guaranteed creditors.

In addition, he estimates that the airline will need about R2.3bn more for the recapitalisation of its subsidiaries and about R14bn to cover losses in the first three years as a new business — more if it fails to turn a profit thereafter.

Leoka says: "SA's fiscal credibility has been in question for some years. Reappropriating funds from critical areas such as health, education [and] infrastructure to fund SAA is nonsensical. More so at a time when global aviation has declined due to restricted travelling. SA cannot afford to support SAA, and it shouldn't [do so]."

Sanlam Investment Management's Arthur Kamp points out that selling assets to pay for SOE bailouts would merely be a stopgap measure; it would weaken the state's balance sheet further.

Far more important than accommodating SAA in a fiscally neutral way, he says, is to demonstrate that SA has credible plans to return ailing SOEs to financial health. "Bailouts in excess of previous projections merely confirm that we have not yet turned the corner."

The other big problem area is that the court battle with labour over the government's failure to honour its three-year wage settlement is unlikely to be concluded by the time the medium-term budget is tabled. (The Treasury has been unable to confirm the exact date.)
Attard Montalto argues that the government's capitulation on the SAA bailout may have compromised its legal argument that it can't afford the three-year wage settlement, given the need to prioritise essential areas such as health, education and infrastructure.

He has now shifted his view from thinking that the government could win the case to the possibility that it may well lose it.

If the resultant back pay due to public sector workers is split over two years, he estimates that the state would have to find an additional R60bn next year, creating a funding hole that could hasten SA's need for International Monetary Fund (IMF) assistance.

Only, the state's ongoing willingness to fund SAA, against the wishes of the Treasury and at a time when its public finances are dangerously overstretched, sends "a worrying signal" to the IMF and other international lenders as to SA's fiscal credibility.

"More profoundly," says Attard Montalto, "this shows how decisions can be taken by the presidency without appropriate advice or understanding of the [fiscal] consequences."

He fears that the decision leaves Mboweni in an untenable position and may cause his resignation before the February budget next year.

With these two factors — the SAA bailout and wage bill uncertainty — leaving a cloud over the medium-term budget, the markets are likely to set the bar quite high on the day.

To avoid disappointing them, Mboweni is going to want to show that SA can keep to his "active scenario", which has the debt burden peaking at 87.4% in 2023/2024. And he will have to do this while revising down his 2020 growth forecast, which at –7.2% looks too optimistic relative to the consensus of about –8%.

"A disappointing medium-term budget policy statement will result in higher bond yields, a weaker currency as foreign investors exit, and a loss of confidence from the market," says Leoka. "All [of this] will make the economic recovery even more challenging … We could face a credit crisis if we continue on this path."

On the other hand, it's possible that with so much bad news priced in, the markets could look at whatever hard budget cuts Mboweni manages to achieve, combined with the likelihood that by then the cabinet will have endorsed the Nedlac economic recovery plan, and conclude that the bar has been cleared.

Like many economists, Kamp expects that the spending cuts will likely fall a bit short, and the debt ratio will exceed the Treasury's medium-term projections, but that the budget will still amount to "a good attempt at correcting the listing ship".

However, he is the first to concede that it will take more than a good-enough budget to change the narrative on SA.

"There has been a lack of progress in fixing SOEs, insufficient progress in establishing SA as a desirable investment destination, and [an] ongoing pursuit of diverse interests," he says. "If sustained, these factors can be expected to undermine the Treasury's best efforts."

They already have. Until now, the Treasury has mostly managed to use its authority to bridge the credibility gap between what the government says and what it does. But its ability to keep playing this role has been damaged, perhaps fatally, by the government's continued failure to implement pro-growth reforms and its latest decision on SAA.

This means that whatever undertakings Mboweni gives on budget day will be taken with more than the usual pinch of salt.

It's no way to run a country.

The argument for a South African wealth tax

By Aroop Chatterjee, Amory Gethin and Léo Czajka*

The consequences of the Covid-19 lockdown are yet to be fully determined and understood. But one thing we can be fairly certain of – in South Africa its impact will be shaped by the country's inequalities.

Our study reveals that half of the adult population survives with near-zero savings, while 3,500 individuals own 15% of the country's wealth. The response to the crisis must take this into account to help the most vulnerable while still safeguarding fiscal sustainability. Based on our new study on wealth inequality in South Africa, we propose a progressive solidarity wealth tax. This would allocate the fiscal burden of current interventions on those most capable of paying. It is in line with the recommendations recently made by the International Monetary Fund to equitably attain fiscal sustainability and better position the economy for post-COVID recovery.

We show that a wealth tax on the richest 354,000 individuals could raise at least R143 billion. That equates to 29% of the announced R500bn fiscal cost of the relief package.

A lot of studies show how extreme income inequality is in South Africa, but little has been documented about wealth. Net wealth is the sum of all assets less any debts. Assets include cash, bank deposits, pensions, life insurance, property, bonds and stocks. Debt includes mortgages and other loans such as retail store credit accounts or loans from friends, family and money lenders.
In our new paper, we combine national accounts statistics, household surveys and exhaustive tax microdata to assess the reliability of available data sources. We also provide the most comprehensive possible picture of the distribution of wealth. This is the first time this has been done in South Africa.

Better data is needed – about direct ownership, capital income and assets held through trusts. Nevertheless, our results give a good sense of the magnitude of the disparities. Three key results are worth mentioning.

Firstly, in 2017, the 10% richest South Africans (all adults with a net worth over R496,000) owned 86% of wealth, with an average of R2.8 million per adult. In contrast, about 18 million (the poorest 50%) were either in debt or had near-zero savings. With an average net worth of R486 million, the richest 3,500 owned 15% of wealth. This was more than the 32 million poorest altogether.

Secondly, these extreme inequalities extended to all forms of assets. The richest 10% owned 99.8% of bonds and stock – which accounted for 35% of wealth. The top decile also owned 60% of housing wealth and 64% of pension assets. Housing wealth amounted to 29% of wealth and pension assets to 33%.

Thirdly, we show that wealth concentration has remained broadly stable since 1993, and may even have increased within top wealth groups. Wealth inequality remains significantly higher than what could be estimated in Russia, China, India, the US or France.

Why wealth inequality matters now more than ever

Our findings are particularly relevant to the current crisis. South Africans are unequally armed to survive the contraction of the economy produced by the lockdown. Our paper helps get a sense of the size of the population likely to be under intense stress in the very short term.

Before the lockdown, about half of the population was already in debt, or had near-zero net wealth. Therefore, this crisis will at best sink millions of people further into indebtedness or force them to beg, loot or starve. Conversely, our paper shows that a minority of individuals are in a much less vulnerable situation.

The policy solutions needed to absorb the shock and recover fast must be carefully designed to take these factors into account. Principally, they need to reallocate resources to give everybody equal chances to survive the shock.

In this unprecedented crisis, the government announced a relief package with a R500 billion fiscal cost. One key remaining question is how such a plan will be funded? The possibility of collecting additional tax revenue from those most able to contribute has not yet been brought to the table. We believe it should be considered. Our estimation suggests it would raise significant revenues. And it would allow the country to allocate the cost of the national response on the least vulnerable.

In the spirit of solidarity, a wealth tax could be part of the solution to safeguard long-run fiscal sustainability and inclusive growth.

How much could a wealth tax raise?

We propose a progressive wealth tax, which would apply only to South Africans with a net wealth currently superior to R3.6 million, that is the richest 354,000 (1% of the adult population).

The first bracket – all wealth between R3.6 million and R27 million – would be taxed at a 3% rate, the second bracket (R27 million to R119 million) at 5%, and all wealth above R119 million at 7%. Individuals with less than R3.6 million would be exempt. A billionaire would face a 6.7% tax rate: she would pay 3% on the fraction of her wealth higher than R3.6 million but lower than R27 million; 5% on wealth higher than R27 million but lower than R119 million; and 7% of the R821 million she owns above R119 million. This would leave her with post-tax wealth of R933 million.

Other tax schedules could of course be designed. The objective here is to give an order of magnitude of the expected revenues.

Taking into account the recent Johannesburg Stock Exchange All Share Index drop in value and assuming a 30% evasion rate (as available evidence suggests), we simulate that such tax would raise R143 billion.
It would still leave rich individuals with very high levels of wealth: for each of the brackets, post-tax wealth would on average be R9.3 million, R50 million and R376 million respectively.

A realistic policy

Critics of a wealth tax argue that it would be too costly and complex to implement. But South Africa is well positioned to administer this tax cost-effectively.

Firstly, the tax base we consider covers very few individuals, reducing the administration required.

Secondly, South Africa already has in place third-party reporting by financial intermediaries straight into the South African Revenue Service, providing information on capital income and ownership. Existing municipal valuations could be used to value property assets. This would cover the major components of asset holdings, especially stocks and bonds.

Capital flight, through offshoring or migration, is a potential risk. We account for this by making conservative assumptions about avoidance and evasion, and still project sizeable revenues. There is also markedly more cooperation between tax authorities to clamp down on undeclared incomes and assets in foreign jurisdictions, including tax havens. The premise is not a given. Capital flight implies forfeiting opportunities that considerably enriched them for the sake of avoiding a tax that barely makes an impact on their total wealth. Importantly, the wealthy themselves have said now is the time for solidarity.

A wealth tax, contrary to popular opinion, would not necessarily discourage job-creating investments. Maintaining fiscal sustainability while sparing the most vulnerable is more important to ensure a quick recovery and attract investments. Moreover, inherited wealth has a significant role in South Africa: we find high levels of wealth concentration even among 20-year-olds. Diminishing the importance of inherited capital with a wealth tax may actually be a better collective strategy to improve social welfare, including growth.

In light of the lessons learned from the Zondo commission of inquiry into corruption, taxpayers would need guarantees that this special tax will be properly collected and spent. The national treasury already uses ringfencing mechanisms to make revenue and spending for specific projects accountable. To answer potential criticism, the government could build on such rules to generalise more transparent practices.
There may be theoretical implementation challenges of such a wealth tax. But we would argue that South Africa is well placed to overcome these.

When designing the radar for Britain during World War II, Robert Watson-Watt justified his choice of a non-optimal frequency as follows:

Give them the third best to go on with; the second best comes too late, the best never comes.
This radar was pivotal in allowing Britain to overcome a larger, more sophisticated German air force.

In our situation, we cannot let perfection be the enemy of progress, or in this case, survival.

 ©2020 Sharefinder International

Aroop Chatterjee, Research Manager: Wealth Inequality, Southern Centre for Inequality Studies, University of the Witwatersrand; Amory Gethin, Research Fellow – World Inequality Lab – Paris School of Economics, and Léo Czajka, Research fellow – World Inequality Lab – UCLouvain.

BUSINESS MAVERICK ANALYSIS

Doubling down on a K-shaped global economic recovery

By Sharon Wood•

The International Monetary Fund sees an uneven recovery ahead and a widening gap between countries. Private-sector economists concur, with many expecting a K-shaped recovery that will take years before most countries get back to pre-pandemic levels. Even then, there are likely to be permanent scars.

The weight of economic opinion has swung towards a K-shaped economic recovery that is characterised by increasing divergence between the performance of different countries and industries.

In its October World Economic Outlook, the International Monetary Fund (IMF) describes the global recovery as a long, uneven and uncertain ascent, predicting a -4.4% growth rate this year – a slight improvement on June's forecast – and a 5.2% rebound next year.

But that overall figure disguises the vast difference between different country growth rates, with Spain expected to deliver the worst economic performance this year, with negative growth of 10.8% and China the only country to deliver positive growth, of 1.9%. Gita Gopinath, IMF chief economist and director of the research department, says: "The divergence in income prospects between advanced economies and emerging and developing economies (excluding China) triggered by this pandemic is projected to worsen."

Still deep recession

While we still project a deep recession, this is an upward revision compared to our June update.

(year-on-year percent change)

Sources: IMF, and *World Economic Outlook*.

INTERNATIONAL MONETARY FUND

At another virtual conference held this week, by the Institute of International Finance, economists were largely of the same opinion: that the recovery will be uneven and the gap between countries and industries will widen.

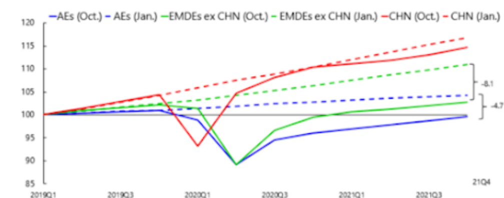
On a panel titled "Can we recover from Covid?", Alexandra Dimitrijevic, MD and global head of research at S&P Global Ratings, agreed that the recovery is uneven and that the gap is widening at both a country and industry level.

"The early exiters who have managed to contain the first wave are well advanced in their recovery, with China the only country likely to end the year in positive territory." In contrast, she expects a number of emerging economies, sadly, including South Africa, as well as India and Mexico, to incur "significant permanent losses" as a result of the crisis. The IMF expects South Africa to experience an 8% decline in GDP this year followed by 3% growth next year.

Partial recovery, growing divergence

Except for China, output in both advanced economies and emerging and developing economies will remain below 2019 levels even next year. By end-2021 the loss in output relative to the pre-pandemic projected level for emerging and developing economies excluding China is -8.1%, much larger than the loss for advanced economies of -4.7%.

(index; 2019Q1=100)



Sources: IMF, *World Economic Outlook*, and IMF staff calculations.

Note: AEs= Advanced Economies; EMDEs= Emerging Markets and Developing Economies; CHN= China.

INTERNATIONAL MONETARY FUND

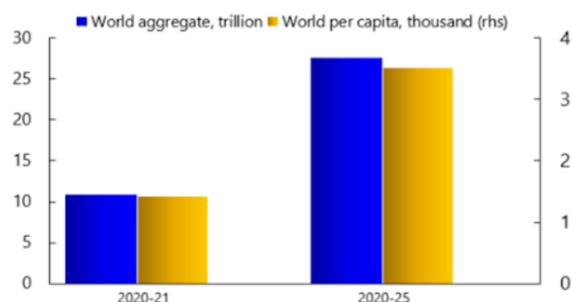
Dimitrijevic believes the world is going to experience a K-shaped recovery as a result of the divergence in performance underway. "After the sharp mechanical rebound the next leg of the recovery is going to be long and difficult," she adds. She notes that the US has recovered half of the jobs it lost as a result of the pandemic but that it is likely to take at least until 2023 to recover the other half.

OCBC Bank chief economist Selena Ling also expects a K-shaped recovery, with manufacturers, pharmaceutical and financial companies doing well, and the aviation, hospitality and entertainment industries struggling to recover.

Amundi's deputy chief investment officer, Vincent Mortier, had a different view, expecting a W-shaped recovery, with economic activity coming back and then retreating before recovering again. He says some sectors are experiencing L-shaped recoveries, while others have U-shaped rebounds. He says China is back on track to achieve pre-Covid levels of economic growth in 2021, but that other countries will take longer and are only likely to get there in 2022. Dimitrijevic believes it may take longer, while the IMF agrees China will recoup its lost ground by 2021. On the other countries, Gopinath says: "Output in both advanced economies and emerging market and developing economies is projected to remain below 2019 levels even next year."

Gopinath says the crisis is likely to leave scars well into the medium term, "as labour markets take time to heal, investment is held back by uncertainty and balance sheet problems, and lost schooling impairs human capital". Financially, the IMF estimates this could amount to a cumulative loss in output of $28-trillion between 2020 and 2025, (see graph below), which, she says, will have a severe impact on average living standards globally.

Large output losses and a severe setback to the improvement in living standards
The cumulative output losses relative to the pre-pandemic projected path for the global economy will grow from $11 trillion over 2020-21 to $28 trillion over 2020-2025.
(US dollars)



Sources: IMF, *World Economic Outlook*, and IMF staff calculations.

INTERNATIONAL MONETARY FUND

Mortier has various concerns about the road ahead. These include unemployment exacerbating inequalities, zombie companies undermining the health of the corporate sector and the sustainability of debt incurred during this crisis. He says: "Jobs won't come back in the same shape or form as before Covid."

Mortier notes that a crisis usually stems from debt and adds that he is doubtful about the sustainability of current debt levels and governments' ability to absorb the massive levels of debt racked up during the pandemic.

Dimitrijevic estimates that global debt to GDP will increase by 60 percentage points in 2020 and level off thereafter. Any improvement in the ratio will be as a result of GDP coming back rather than debt declining, she adds.

Mortier also says markets have become totally addicted to monetary policy and fiscal policy, to the point where, he says, "it is not very healthy and has led to inflation of asset prices for sure". He adds that the outcome of the stimulus programmes and central bank interventions in the financial markets is that we don't have a free market anymore because it is "totally under control". He warns that this could lead to complacency.

All economists concurred that it would be ill-advised to withdraw stimulus support prematurely – a view shared by the IMF. Dimitrijevic says it is critical that we avoid the risk of premature austerity, saying that stimulus programmes have been necessary to avoid more substantial economic costs and that these will be sustainable as long as the baseline is a shock that is deep, but temporary.

The IMF stresses that more action is needed. Dimitrijevic says: "Policies must aggressively focus on limiting persistent economic damage from this crisis." These should include income support through well-targeted cash transfers, wage subsidies, unemployment insurance tax deferrals, moratoria on debt services and equity-like injections into viable firms.

As the recovery strengthens, says Gopinath, policies should shift to supporting sustainable reallocation of works to growing sectors and public green infrastructure investments.

There is no doubt that there is a long road ahead, littered with uncertainty, because these predictions come with significant health warnings about the many downside risks that could materially change the global growth picture of the coming years.