INCLUSIVE SOCIETY INSTITUTE

MEDIA RELEASE

COVID-19: SEVERE BLOW TO LONG-TERM EMPLOYMENT PROSPECTS
Consider public-private mechanisms to rejig NDP and fast-track decisions

The Inclusive Society Institute (ISI) did economic modelling towards the end of 2020 which considered the direct link between the growths in population and GDP. Based on the 2019 population and GDP statistics it found that anything less than a sustained GDP growth of 2 percent per annum over the next ten years, will result in a continued growth in unemployment. The COVID-19 restrictions of 2020 has deepened the unemployment crisis.

Statistics SA GDP statistics reflect a 7 percent GDP contraction for 2020[1], with Treasury projecting sluggish GDP growth of 3,3 percent in 2021, 2,2 percent in 2022 and 1,6 percent in 2023[2]. The aforementioned Treasury projections therefore suggest that South Africa's GDP will only recover to pre-Covid-19 levels by the end of 2023, beginning 2024.

Based on the 2019 statistics, the institute, in its previous modelling, suggested that at 2 percent sustained GDP growth, unemployment (expanded definition) would have been reduced to approximately 38 percent by 2023. The reworked unemployment projections of the institute, based on the impact of the Covid-19 lockdown on economic growth, suggests that unemployment will now deepen by 2023. This is due to the lost jobs only being recovered beyond 2023, whilst the labour force continues to expand. In the absence of extraordinary turnaround strategies, it will continue to hover above the 40 percent mark, ending 2023. Depending on the economy's ability to recoup jobs lost during the Covid-19 lockdown, it could be within the 43 - 47 percent range (expanded definition). Statistics South Africa calculate the current unemployment at 42,6% (expanded definition)[3]. Given the institute's own survey results, it is of the opinion that at least two-thirds of the jobs lost during the lockdown will be recouped. Thus, it suggest that 2023 unemployment will come in at the lower end of the range.

Whilst prior to the 2020 Covid-19 pandemic an unemployment rate of 37,06 percent could be achieved by 2029 through a sustained 2 percent GDP growth rate, this has been set back considerably. After accounting for the job losses in 2020, a 2 percent sustained GDP growth from 2021 to 2029, will now see unemployment to continue to linger at around 42 to 43 percent (expanded definition). That is some 4 to 5 percent higher than that initially anticipated. And whereas the previous calculations suggested that a sustained 3 percent GDP growth rate would reduce unemployment to 32 percent by 2029, it is now estimated at 37 percent (expanded definition). At 4 percent GDP growth the previously indicated 26 percent unemployment is revised to 32 percent (expanded definition).

Against the backdrop of the GDP growth rate averaging 0,8 percent for the three-year period prior to the Covid-19 lockdown year (2017-2019)[4] and projected to average 2,36 percent for

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the three years post-Covid-19 lockdown (2021-2023)[2], it would suggest that, in terms of unemployment in South Africa, the country is in trouble. It will require a Herculean effort by all in society to reverse the declining trend.

Fewer people in work, means more people to be funded via the fiscus by an ever-narrowing tax base. Given the limited scope to expand social services, the ISI cautions that the country is edging ever closer to the fiscal cliff with its concomitant threat of social volatility. It is now an imperative for all economic role-players to refrain from being unrealistic in their aspirations and demands.

The current level of policy uncertainty, coupled with the dire straits the economy finds itself in, suggests, now more than ever, that a public-private partnership be forged to tackle the crisis - which it now is - head on. The National Development Plan (NDP)[5] needs to be rejigged so as to accommodate the new realities, such as, for example, its employment targets. The NDP missed its 2020 unemployment target of 14 percent by the widest of margins, and the 2030 target of 6 percent seems, given the modelling undertaken by the institute, nothing more than an illusion.

To this end the ISI calls for a public-private joint initiative to update and revise the NDP targets, to attach implementation plans to each of the targets, and to consider processes *similar to the* 2010 FIFA World Cup *South Africa Special Measures* Act, aimed at fast-tracking and easing decision-making and implementation. A social compact so to speak.

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Source:

1. Stats SA: https://mg.co.za/business/2021-03-09-south-african-economy-contracts-7-in-2020-amid-covid-19-slump/
2. Treasury: http://www.treasury.gov.za/documents/national%20budget/2021/review/FullBR.pdf
3. Trading Economics: https://tradingeconomics.com/south-africa/unemployment-rate
4. Centre for Risk Analysis: https://cra-sa.com/products/socio-economic-survey/2021/files/2-the-economy-2021.pdf
5. National Planning Commission: https://www.gov.za/sites/default/files/Executive%20Summary-NDP%202030%20-%20Our%20future%20-%20make%20it%20work.pdf