SWITZERLAND GLOBAL ENTERPRISE

South Africa, 26.05.2020

Country	Gov measures for Swiss subsidiaries in country	Economic Outlook 2020	Movement of goods	Movement of people
South Africa	✓			

Red = critical situation / expected GDP decline bigger than 5% compared to previous year
Yellow = difficult situation / expected GDP decline up to 5% compared to previous year
Green = normal or almost normal situation / remaining GDP growth compared to previous year

1. General Situation

DESCRIPTION OF THE CURRENT SITUATION

South Africa is hit hardest on the African continent in the current COVID-19 pandemic and has recorded close to 23'000 cases and 429 deaths (as of 25 May). After South Africa reported its first COVID-19 case at the beginning of March 2020, the South African Government implied one of the strictest lockdowns worldwide, with a five-level alert system. Currently only businesses considered as 'essential' business can keep open, an overnight curfew has been introduced and wearing of face masks in public is mandatory. As of June 1st, some of the restrictions will be lifted and more industries will reopen.

Companies are heavily involved in management of their business continuity and re-strategizing their companies to minimize cash outflows and stabilize the financial structure in order to simply survive the consequences of the pandemic.

The relatively low-recorded infection rates in the beginning of the crises have greatly increased, and, despite the relatively low rate of severe cases or even fatal cases, the peak on the curve is expected only in August or even September 2020.

In the political sphere, the two major political parties' dispute over the consequences of the health-related lockdown and its economic impact on the society. Seeking to rise above these disputes, President Cyril Ramaphosa has emphasised the dangers - already seen in other countries - of a "second wave" of infections.

On the economical side, as a worst-case scenario gross domestic product could shrink by over 16%, and up to four million jobs could be threatened; this in a country where the unemployment rate is already putting stress on the system.

It seems that the economic crises is surpassing the health related crises and has the potential to lead in a social crisis. This situation has forced many businesses too think outside the box, reinventing their business model, pushing digitalization and repurposing their production lines.

For updated numbers on COVID-19 numbers in South Africa see: https://www.gov.za/Coronavirus

GOVERNMENT MEASURES

- Isolation measures in form of a Lockdown. Currently (under level 4) relative activity is allowed, subject to extreme precautions to limit further spread of the virus. As of 1 June South Africa will move from lockdown level 4 to level 3 which will see more industries reopening.
- Strong restrictions on movement of people and goods including an overnight curfew. The curfew will be lifted under level 3. Domestic business air travel will be phased in, but international travels stay banned except in special circumstances.
- Social and Economic Support package in form a rescue and stimulus plan
- Financial support for companies and workers, including tax reliefs (mainly postponement of due payments) and a R200 billion loan guarantee scheme.

  For further information: http://www.thedtic.gov.za/covid-19/

The health crisis has a devastating effect on the South African economy. South Africa imposed a strict lockdown has put a **five-level risk system** in place. From **1 May 2020 it saw the phased and partial re-opening of the economy** with certain industries being allowed to resume their activities partially or in full. This re-opening of the economy is expected to span over six to eight months as it is forecasted that the curve will peak in September 2020.

The National Coronavirus Command Council is determining the alert level. In future there might even be varied levels pertaining to each province and district.

On 25 April 2020 the Draft Framework outlining the **"Schedule of Services- Framework for Sectors"** with the full industry classification, has been published for public consultation. This is the framework to bring back different sectors of the economy, which are classified according the Standard Industrial Classification (SIC), back to work.

- **Level 5**, means that drastic measures and almost a complete lockdown are implemented to contain the spread of the virus to save lives.
- **Level 4,** under this level relative activity is allowed, subject to extreme precautions to limit further spread of the virus
- **Level 3**, foresees the easing of some restrictions, including on work and social activities
- **Level 2** foresees easing of restrictions, but the maintenance of physical distancing and restrictions on some leisure and social activities to prevent a resurgence of the virus.

  Level 1 under this level most normal activity can resume, provided precautions and health protocols are followed

ECONOMIC OUTLOOK (ECONOMIC DEVELOPMENT, EFFECTS ON INDUSTRIES)

- No economic growth, rising fiscal deficit and debt levels
- Many industries were hit hard by the COVID-19 crisis, such as the automotive industry,; construction, manufacturing, aviation, tourism hospitality
- South Africa has a sophisticated and strong financial system
- South Africa's terms of trade remain robust
- As global demand and prices for commodities recover, South Africa as an exporter of diverse commodity products could see positive growth spill-overs

The growth of South Africa's economy has been sluggish prior to COVID-19 and as a consequence a long-feared downgrade by the rating agencies Moody's as well as a further downgrading by Fitch was introduced. The reaction of the South African reserve bank in order to stabilize the ongoing cash outflow of the country will be closely monitored in order to keep the inflation in the pre-defined bracket of 3 to 6 %. Ailing state-owned enterprises including the state-owned power utility Eskom, lack of much needed structural reforms, an inflated public sector wage bill, labour market interventions, a shortage of skilled workers in South Africa, and visa restrictions are just a few of the challenges South Africa is facing.

In April International Monetary Fund (IMF) projected South Africa's GDP to contract by 5.8% in 2020 from growth of 0.2%, other scenarios project a contraction by over 16%. An area of concern are the rising fiscal deficit and debt levels of South Africa which are expected to be in excess of -10% of GDP for 2020, respectively 75% of GDP by the end of 2020.

It is feared that many South African SME may not have the necessary reserves to absorb the effects of the COVID19 economic shock. South Africans will have to brace themselves for significant job losses. Unemployment before the outbreak of the COVID19 pandemic in South Africa stood already at 29% (Q4/2019).

According to the IMF, net capital outflows (bonds and equities) since the beginning of February 2020 have amounted to USD 6.3 billion. The recent Moody's and Fitch downgrades and the exclusion of South Africa of the FTSE Worlds Government Bond Index will also lead to capital outflows. The South African Rand has weakened by more than 22% Q1/2020 and due to the COVID19 pandemic, there have been fluctuations in the Rand. The South African Reserve Bank (SARB) announced it will continue its longstanding practice of not intervening in the foreign exchange market. These currency fluctuations may have value added tax (VAT) implications which need to be considered.

In response to COVID19 the central bank SARB cut the repo rate, last on May 21 decided to cut the repo rate by 50 basis points, taking to 3.75% per annum, with effect from 22 May 2020 and is expected to slash it further in the future. Other measures included quantitative easing to inject liquidity into the market by purchasing government securities in the secondary market. It is expected that inflation will remain well contained within the SARB 3-6% target range.

South Africa has a strong and healthy banking system which gave the SARB leeway to support COVID19 related relief initiatives such as payment holidays by banks by not insisting on higher capital requirements, all within the requirements of the Basel Framework.

For further information: www.resbank.co.za

2. Movement of goods

- In a first response to the COVID19 outbreak, South Africa closed more than half of its land ports and borders, but commercial sea ports remained open.
- South Africa's is deeply integrated into Southern Africa and plays a crucial role keeping vital supply chains across this region moving.
- Goods (essential and non-essential) may be delivered to consignees performing an essential service, subject to the usual customs clearance procedures and any required approval from relevant authorities. Where possible, essential goods should receive preferential treatment over non-essential goods." Stringent restrictions apply to the movement of alcohol and tobacco products.
- South Africa has put in place COVID19 import and export measures and regulations .

For further information:
All COVD19 regulations, directives, guidelines and notices can be found at:
https://www.gov.za/coronavirus/guidelines
http://www.itac.org.za/pages/about-itac/covid-19-news-and-regulat
https://www.gov.za/sites/default/files/gcis_document/202003/43177rg11070gon424.pdf
https://www.sars.gov.za/Media/Pages/CoronaVirus.aspx

3. Movement of people

RESTRICTIONS ON ENTRY FROM SWITZERLAND

- In a first response to the COVID19 outbreak, South Africa closed more than half of its land ports and borders to all citizens from high-risk countries.
- Visa exemptions have been withdrawn for the following countries:
  - Switzerland
  - Germany
  - Italy
  - South Korea
  - Spain
  - United Kingdom
  - United States of America
  - France
- No foreign national departing from these countries are allowed to enter the Republic of South Africa.
- International air and sea travels are banned. As of 1 June domestic business air travel will be phased in

See for further information: http://www.dha.gov.za/index.php/corona-virus-information

OUTLOOK

For the private sector and the support of Swiss SME's some changes in how to do business can be expected in the aftermath of absorbing the first shock of COVID-19. Some see **more tendencies to protectionism** - global supply chains may be affected and in the short term pharmaceutical supplies and medical equipment - **other believe the crisis** will **strengthen the trade integration of Africa, also in the light of the African Continental Free Trade Agreement**. In any case, it might also result in **opportunities** for various sectors of business

- **Health-tech** a driving force in the market at the moment to satisfy the need for protective gear and also mid-term. There are opportunities for Swiss companies to share technology and/or know-how.
- Shift to **digitalization and e-commerce**: The pandemic has forced the 4IR and Switzerland is well positioned with its Swiss high-tech companies and partnerships
- Market consolidation due to massive insolvency of SME's and startups in SA.