

# COVID-19 MACROECONOMIC POLICY RESPONSES IN AFRICA

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## Macroeconomic Policy Development

Lessons Learnt from South Africa during COVID-19

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## About CoMPRA

The COVID-19 Macroeconomic Policy Response in Africa (CoMPRA) project was developed following a call for rapid response policy research into the COVID-19 pandemic by the IDRC. The project's overall goal is to inform macroeconomic policy development in response to the COVID-19 pandemic by low and middle-income countries (LMICs) and development partners that results in more inclusive, climate-resilient, effective and gender-responsive measures through evidence-based research. This will help to mitigate COVID-19's social and economic impact, promote recovery from the pandemic in the short term and position LMICs in the longer term for a more climate-resilient, sustainable and stable future. The CoMPRA project will focus broadly on African countries and specifically on six countries (Benin, Senegal, Tanzania, Uganda, Nigeria and South Africa). SAIIA and CSEA, as the lead implementing partners for this project, also work with think tank partners in these countries.

## Our Donor

This project is supported by the International Development Research Centre (IDRC). The IDRC is a Canadian federal Crown corporation. It is part of Canada's foreign affairs and development efforts and invests in knowledge, innovation, and solutions to improve the lives of people in the developing world.

## Executive summary

The depth and length of the economic downturn produced by COVID-19 is still unknown. COVID-19 hit South Africa on the back of a technical recession combined with growing public sector debt and a downgrade to junk status in March 2020. National Treasury was forced to borrow more to mitigate the impact of COVID-19 on businesses and households, which further weakened the country's fiscal position. The South African Reserve Bank (SARB) responded swiftly with the full use of its arsenal of tools to protect price and financial stability. The use of macroeconomic policy eases financial conditions and improves the resilience of households and

businesses in relation to the economic implications of COVID-19. However, these policies alone cannot improve the potential growth rate of the economy or reduce fiscal risks. These should be addressed by implementing prudent macroeconomic policies and structural reforms as stipulated in the country's economic reconstruction and recovery plan in an effort to lower costs, increase investment opportunities, and drive potential growth and job creation. If implemented successfully, these measures will further reduce existing constraints on macroeconomic policy and its transmission mechanism.

## Introduction

South Africa's journey of developing macroeconomic policy began in 1994 when the government launched its macroeconomic strategy called 'growth, employment and redistribution' (GEAR), which sought to achieve macroeconomic balance (that is, reduce the budget deficit and inflation, maintain consistent monetary policy to contain the latter and liberalise the capital account of the balance of payments) among other things. However, the performance of GEAR was dwarfed by the global economic crisis that spread to South Africa in 1998.<sup>1</sup> Over the years, reforms led to South Africa having sound macroeconomic fundamentals and a robust financial regulatory framework, although, it was affected by both the 2008 global financial crisis (GFC) and the COVID-19 pandemic. It was against this background that the country committed to a global financial regulatory reform agenda. This agenda aimed to achieve the following:

- develop a stronger regulatory framework to strengthen financial stability;
- effect supervision crisis resolution and address systemic challenges in institutions; and
- participate in international assessment and peer reviews.

In an effort to inform macroeconomic policy development in response to the coronavirus pandemic in low- and middle-income countries (LMICs) through evidence-based research, this policy brief will offer lessons learnt in developing macroeconomic policy in South Africa. Section two details the arsenal of tools used by the South African Reserve Bank (SARB) to mitigate the impact of COVID-19 in South Africa. Section three discusses the macroeconomic policy reforms and interventions that were embarked upon in South Africa to develop macroeconomic policy and/or strengthen the financial system. Section four evaluates whether South Africa's journey of developing macroeconomic policy can offer lessons for other developing countries (notably LMICs). The policy brief concludes with making brief policy recommendations in section five.

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1 Yohane Khamfula, "Macroeconomic Policies, Shocks and Economic Growth In South Africa", December 2004, <https://www.imf.org/external/np/res/seminars/2005/macro/pdf/khamfu.pdf>.

# The South African Reserve Bank's response to COVID-19

The Basel framework that banking regulations are structured around has ensured that there are built-in buffers on both the capital and liquidity elements for banks to draw on during times of financial stress. South Africa has a robust and resilient banking system with adequate levels of capital and liquidity buffers to withstand stress – a key part of the country's shock absorbers during uncertain economic times. During the national lockdown in March 2020 following the global coronavirus pandemic, there was evidence of stress at both the household and business levels, in particular, small businesses. This prompted the government to respond with various COVID-19 relief programmes. In the financial sector, the SARB committed to ensuring that the financial sector continues to operate during the lockdown and also responded by deploying monetary policy tools to alleviate the impact of COVID-19, while also pointing out that South Africa's banking system is robust and well-capitalised. The SARB responded speedily and implemented a cumulative reduction in the repo rate, which was cut by 300 basis points and remained at 3.5% – the lowest in the history of South Africa and below zero in real terms.<sup>2</sup> The cut in the repo rate, which is the rate at which the SARB lends to commercial banks, means that the banks will, in turn, cut their lending rates to consumers. This policy rate cut can be described as aggressive compared to the response of the central bank to other emerging markets that have a median of about 100 basis points. The SARB relied only on conventional monetary policy instead of quantitative easing-type<sup>3</sup> measures because the inflation target was maintained, and banking liquidity was facilitated using other measures. The SARB is not at the zero-lower bound of its policy interest rates and as such it has been able to use its balance sheet as a crisis management tool, instead of stimulating the economy, which is in line with its financial stability mandate. The SARB considers quantitative easing as a second-best alternative to stimulating an economy such as South Africa's.<sup>4</sup> The first option is the large reduction in the policy rate. Combined, these actions have improved market functioning, and are supporting economic activity.

The banking system and the Johannesburg Stock Exchange remained open and continued to function during the lockdown. In March 2020, the SARB announced that it would be purchasing government bonds on the secondary market instead of the primary market. This was an attempt to inject some liquidity into the bond market considering the large-scale sell-off of government bonds that took place. This increased the SARB's bond portfolio to about 0.6% of gross domestic

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2 Eyewitness News, "Kganyago Hails SARB's Speedy Response to Covid-19 Crisis", August 19, 2020, <https://ewn.co.za/2020/08/19/kganyago-hails-sarb-s-speedy-response-to-covid-19-crisis>.

3 Quantitative easing is defined as the purchasing of longer-term financial assets by central banks – this monetary policy tool is used to ease financial conditions and provide economic stimulus.

4 SARB, "Lessons from the crisis and the post-COVID-19 outlook for monetary policy", keynote address by Dr Rashad Cassim, Deputy Governor, at the 3<sup>rd</sup> Annual HSBC Africa Conference, November 30, 2020. <https://www.bis.org/review/r201204j.pdf>.

product (GDP) from pre-crisis levels. The SARB also had a weekly repo auction with its take-up peaking at ZAR 83 billion in March 2020.<sup>5</sup>

Secondly, the SARB availed a small and medium enterprise funding facility that is backstopped by a National Treasury guarantee starting from R100 billion with an option to scale up to R200 billion over time, or about 4% of GDP.<sup>6</sup>

Thirdly, the Prudential Authority (PA) complemented the steps taken by the SARB to support the banking system by providing regulatory relief to the various measures taken by the banks to assist their customers.

- There is capital relief on restructured loans that were in good standing before the COVID-19 crisis. The PA temporarily amended Directive 7 of 2015 on restructured exposures allowing loans (to households, small and medium businesses, corporates and for specialised lending) restructured as a result of the impact of COVID-19 to not attract a higher capital charge.<sup>7</sup>
- There is a lower liquidity coverage ratio from 100% to 80% for the duration of the crisis. The liquidity coverage ratio is a ratio setting out the liquid assets a bank has to maintain in relation to its anticipated outflows.<sup>8</sup>
- There are now lower capital requirements. The Pillar 2A capital buffer, which was set at 1% of risk-weighted assets before the COVID-19 pandemic, was reduced to zero. The PA also set clear criteria providing for banks to dip into their capital conservation buffer that is set at 2.5% of risk-weighted assets.<sup>9</sup> These measures enable banks to dip into their own regulatory capital and liquidity reserves to assist their clients who were 'in good standing'.<sup>10</sup>

These measures have ensured that there is adequate liquidity in the market and freed capital for on-lending by financial institutions (to households and businesses).

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5 University of the Witwatersrand, "Monetary Policy and the Coronavirus", June 18, 2020, <https://www.wits.ac.za/news/sources/wsg-news/2020/monetary-policy-and-the-coronavirus.html>. ZAR is the currency code for South African rand.

6 Parliamentary Monitoring Group, "COVID-19 Loan Guarantee Scheme: Treasury, BASA and SARB Input", August 26, 2020, <https://pmg.org.za/committee-meeting/30954/>.

7 South African Reserve Bank, "Matters Related to the Treatment of Restructured Credit Exposures Due to Covid-19", April 6, 2020, [https://juta.co.za/documents/644/D3\\_of\\_2020\\_-\\_restructured\\_credit\\_exposures.pdf](https://juta.co.za/documents/644/D3_of_2020_-_restructured_credit_exposures.pdf).

8 South African Reserve Bank, "Directive D1/2020 Issued in Terms of Section 6(6) of the Banks Act 94 of 1990", March 31, 2020, [https://juta.co.za/documents/641/D1\\_of\\_2020\\_-\\_LCR\\_Directive\\_issued\\_31\\_March\\_2020\\_hoLst82.pdf](https://juta.co.za/documents/641/D1_of_2020_-_LCR_Directive_issued_31_March_2020_hoLst82.pdf).

9 South African Reserve Bank, "D2/2020 – Matters Related to Temporary Capital Relief to Alleviate Risks Posed by Covid-19", April 6, 2020, <https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-deposit-takers/banks-directives/2020/9843/D2-of-2020---Matters-related-to-temporary-capital-relief-in-light-of-COVID-19.pdf>.

10 Alastair Dixon and Olivia Radford, Norton Rose Fulbright, "SARB's Responses to COVID-19 and Its Recommendation to South African Banks on the Payment of Dividends and Executive Bonuses in 2020", April 21, 2020, <https://www.financialinstitutionslegalsnapshot.com/2020/04/sarbs-responses-to-covid-19-and-its-recommendation-to-south-african-banks-on-the-payment-of-dividends-and-executive-bonuses-in-2020/>.

Such monetary policy measures alone cannot improve the potential growth rate of the economy or reduce fiscal risks. These risks should be addressed by implementing prudent macroeconomic policies and structural reforms that lower costs, increase investment opportunities, and drive potential growth and job creation. If implemented successfully, these measures will further reduce existing constraints on monetary policy and its transmission to lending.<sup>11</sup> The monetary policy transmission mechanism was preserved by liquidity operations that ensured a stable financial system, as well as the provision of a sufficient and stable source of refinancing. Thus, banks' financial intermediation role, which is critical to everyday economic activity, was not impaired.<sup>12</sup> The PA is currently working on a timetable according to which banks can restore these buffers once the COVID-19 crisis has abated. The timetable will consider the need to balance the rebuilding of buffers to ensure a resilient banking system while also being sensitive to the negative effect that such measures could have on credit extension and economic growth.<sup>13</sup>

Fourth, even though the PA is not the accounting standards regulator, it supported the banking system by providing regulatory guidance. In particular, it has provided guidance to the banking industry on how the International Financial Reporting Standard (IFRS) 9 could be implemented during this period of financial volatility and stress. The IFRS 9 is an important accounting standard applicable to expected credit losses in the banking sector and calculates expected credit losses over a business cycle. When COVID-19 hit, there was a high probability of heightened stress in the banking system, and as such, the PA has issued a guidance note advising banks not to distribute discretionary ordinary dividends and bonuses for senior executives during this period.<sup>14</sup> The guidance was merely a recommendation to banks to consider the economic impact of COVID-19 and to preserve their capital – it was not binding. The guidance, however, considered Section 46(2) of the Companies Act (of 2008), which authorises a distribution that has already been properly adopted by a bank's board to still be fully carried out while also acknowledging that the solvency and liquidity test will be satisfied after completing the proposed distribution. The guidance note did not override this position and it did not apply to dividends that had already been declared. Thus, the purpose of the directive was to enable banks to assist their clients while maintaining healthy capital positions, but not to provide banks with the opportunity to distribute capital resources through the declaration of dividends or the payment of bonuses to executive officers.<sup>15</sup> It is worth noting that many major banks went ahead with the payment

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11 Polity, "SARB cuts rates in latest response to Covid-19", April 14, 2020, <https://www.polity.org.za/article/sarb-cuts-rates-in-latest-response-to-covid-19-2020-04-14>.

12 SARB, "Lessons from the Crisis and the Post-COVID-19 Outlook for Monetary Policy".

13 CNBC Africa, "Prudential Authority Offers Relief Measures, Guidance to South African Banks Amid COVID-19 Crisis", April 7, 2020, <https://www.cnbc.com/2020/04/07/prudential-authority-offers-relief-measures-guidance-to-south-african-banks-amid-covid-19-crisis/>.

14 SARB, "Recommendations on the Distribution of Dividends on Ordinary Shares and Payment of Cash Bonuses to Executive Officers and Material Risk Takers", April 6, 2020, [https://juta.co.za/documents/645/GN4\\_of\\_2020\\_-\\_Dividends\\_and\\_bonus\\_payments\\_in\\_response\\_to\\_Covid19.pdf](https://juta.co.za/documents/645/GN4_of_2020_-_Dividends_and_bonus_payments_in_response_to_Covid19.pdf).

15 Moody's Analytics, "SARB Announces Regulatory Relief Measures Amid COVID-19 Outbreak", April 7, 2020, <https://www.moodyanalytics.com/regulatory-news/Apr-07-20-SARB-Announces-Regulatory-Relief-Measures-Amid-COVID-19-Outbreak>.

of their 2019 final dividends to shareholders.<sup>16</sup> There are clear Basel framework rules on when discretionary dividend and bonus payments can be limited, and these constraints generally kick in when a bank breaches, or is about to breach, its capital buffer, which could become progressively tighter, leading it to dip into its capital buffers.<sup>17</sup>

## The journey: Developing macroeconomic policy in South Africa

After realising that a stable and efficient financial system is instrumental in attaining and maintaining balanced and sustainable economic growth, South Africa embarked on a journey to develop macroeconomic policy, and also committed itself to international best-practice. A formal review of the South African financial regulatory system was launched in 2007 by National Treasury and the scope of the review was expanded in 2008 after the GFC. The reforms in the financial sector considered both the GFC lessons and the broader domestic policy objectives of maintaining financial stability, consumer protection and ensuring that efficient, effective and inexpensive financial services are more accessible in South Africa. The SARB began implementing Basel II, the Basel Committee's revised capital framework, in January 2008. This primarily incorporated Basel II into the domestic regulatory framework while also developing, implementing and embedding the following elements of Basel II:<sup>18</sup>

- Pillar 1, which relates to the determination of the minimum required regulatory capital in respect of credit, market and operational risk;
- Pillar 2, which relates to capital management, including the initial internal capital adequacy assessment process and the updating of the supervisory review and evaluation process; and
- Pillar 3, which relates to market discipline.

The aim of the reform package was to adopt the Basel requirements to improve the banking sector's ability to absorb shocks arising from financial and economic stress, regardless of the source, with the ultimate aim of reducing the risk of spill-overs from the financial sector to the real economy.<sup>19</sup>

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16 Dixon and Radford, "SARB's Responses to COVID-19 and Its Recommendation to South African Banks on the Payment of Dividends and Executive Bonuses in 2020".

17 CNBC Africa, "Prudential Authority Offers Relief Measures, Guidance to South African Banks Amid COVID-19 Crisis", April 7, 2020, <https://www.cnbcafrica.com/2020/04/07/prudential-authority-offers-relief-measures-guidance-to-south-african-banks-amid-covid-19-crisis/>.

18 SARB, "South Africa's Implementation of BASEL II and BASEL III", [https://www.resbank.co.za/en/home/what-we-do/Prudentialregulation/Sector\\_data/south-africa-s-implementation-of-basel-ii-and-basel-iii](https://www.resbank.co.za/en/home/what-we-do/Prudentialregulation/Sector_data/south-africa-s-implementation-of-basel-ii-and-basel-iii).

19 Francois van Dyk, Senior Lecturer at the Department of Finance, Risk Management and Banking, University of South Africa, "Basel III: An Overview of the safer 'safety net'", <http://financialmarketsjournal.co.za/oldsite/13thedition/basel3.htm>.

These reforms gained impetus in 2011 when Cabinet approved the 'Twin Peaks' model for financial sector regulation. In January 2013, South Africa implemented amended regulations to address both bank-specific and broader systematic risks in line with the Basel III framework by undertaking the following:<sup>20</sup>

- raising the quality of capital; enhancing the risk coverage of the regulatory framework; introducing capital buffers and a leverage ratio;
- raising standards for supervision and risk management (Pillar 2) and public disclosures (Pillar 3);
- introducing the monitoring of proposed minimum liquidity standards; and
- introducing additional capital buffers for the most systemically important institutions to curtail the issue of 'too big to fail'.

The 'Twin Peaks' model was instituted to reform the regulatory and supervisory system for financial institutions and market infrastructures, and this culminated with the signing into law of the Financial Sector Regulation (FSR) Act in August 2017. This marked an important milestone in the journey towards a safer and fairer financial system to serve all South Africans. The FSR Act gave effect to three important changes to the regulation of the financial sector, namely:<sup>21</sup>

- the SARB was given an explicit mandate to maintain and enhance financial stability; a PA was created to regulate banks, insurers, co-operative financial institutions, financial conglomerates and certain market infrastructures; and
- a market conduct regulator was created – the Financial Sector Conduct Authority.

The phased-in implementation of the Basel III requirements was completed in 2019 but there have been further requirements issued by the Basel Committee in respect of the current COVID-19 induced global financial shocks. This will lead to a wide range of matters that will require amendments to domestic regulations.

South Africa's resilient and globally connected financial system did well to pull through the GFC, largely due to its strong and effective regulation, which was further confirmed by the reports on standards and codes assessment financial sector regulation conducted jointly by the International Monetary Fund and the World Bank in 2010.<sup>22</sup> More recently, the strength of the financial system was yet again tested by COVID-19, and the SARB's policy response to COVID-19

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20 SARB, "South Africa's Implementation of BASEL II and BASEL III".

21 South African Reserve Bank, <https://www.resbank.co.za/en/home/what-we-do/Prudentialregulation>.

22 National Treasury, "A Safer Financial Sector To Serve South Africa Better", February 23, 2011, <http://www.treasury.gov.za/twinpeaks/20131211%20-%20Item%202%20A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf>.

has helped to stabilise financial markets and contain the risks of a financial crisis. However, there is no doubt that there is still room for improvement to ensure that South Africa continues to ensure that the financial system remains robust. More so, the impact of fiscal policy on the country's risk premium is a huge concern as evidenced by the ejection of South Africa's debt from the *Financial Times* Stock Exchange World Government Bond Index on April 30, 2020 after it was downgraded to a junk rating by Moody's Investors Services in March 2020.<sup>23</sup> South Africa is a small open economy with a strong dependence on external funding and its deteriorating fiscal metrics (ie., a strong rise in the debt-to-GDP ratio) raises sustainability concerns and, in turn, the premium that investors require on government bonds.<sup>24</sup>

South African macroeconomic policy has been firmly expansionary since the GFC, with public debt roughly tripled, while public spending has increased significantly as a percentage of GDP. In spite of this, the post-crisis expansionary macroeconomic policies failed to ignite growth because they did not address the underlying growth problems or the triple challenge of poverty, inequality and unemployment.<sup>25</sup> However, the country's budget process has improved tremendously as a result of the Public Finance Management Act, but recent widespread corruption and fiscal mismanagement have wiped out much of the previous gains made towards fiscal consolidation.<sup>26</sup>

South Africa was already running crisis-level deficits of over 6% of GDP (in 2019) and the debt stock was on a rising trajectory when COVID-19 hit.<sup>27</sup> This meant that the country

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23 Palesa Shipalana and Alexander O'Riordan, “Impact of Covid-19 on Financial Stability in Africa”, SAIIA Occasional Paper 311, October 2020, <https://saiia.org.za/research/impact-of-covid-19-on-financial-stability-in-africa/>.

24 SARB, “Lessons from the Crisis and the Post-COVID-19 Outlook for Monetary Policy”.

25 Chris Loewald, David Faulkner and Konstantin Makrelou, “Macroeconomic Policy Options for a Savings Constrained Economy: The Case of South Africa”, Economic Research Southern Africa, ERSA Policy Bulletin, July 2020.

26 Estian Calitz, “Reflections on Aspects of Public Finance and Fiscal Policy in South Africa”, Economic Research Southern Africa, June 2020.

27 University of the Witwatersrand, “Monetary Policy and the Coronavirus”.

had to counter the effects of COVID-19 from a position of profound fiscal weakness, forcing the government to borrow more to mitigate the impact of the pandemic resulting in worsening fiscal deterioration.

## What can low-income countries learn from South Africa's journey?

International standard setting bodies such as the Financial Stability Board (FSB), the G20, the International Association of Insurance Supervisors, etc. have been setting new standards and requirements for the sector since the aftermath of the GFC, which revealed fundamental weaknesses in international financial markets. In order to keep abreast of and influence the latest developments pertaining to regulation and supervision within the financial sector, the PA participates in and contributes to various international forums and technical sub-working groups, such as the Basel Committee on Banking Supervision and the International Organization of Securities Commissions. By so doing, the PA aims to influence the formulation of global regulatory standards so that South Africa's distinct financial and social environment, which our financial sector operates under, is recognised in the rules set by the PA domestically. At a continental level, the objective is to strengthen banking regulatory and supervisory frameworks, as well as the harmonisation of prudential matters, among others. This is fulfilled by playing an active role in the Community of African Banking Supervisors; the Committee of Insurance, Securities and Non-banking Financial Authorities; Financial Action Task Force; Information Technology Supervisors Group; and the Eastern and Southern Africa Anti-Money Laundering Group. At a domestic level, the PA cooperates with other regulators such as the Financial Sector Conduct Authority, the Financial Intelligence Centre, the National Credit Regulator and the Council of

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Medical Schemes.<sup>28</sup> South Africa's participation in all these international institutions has been effective in helping to raise its profile in the now integrated global financial sector and also contributes to the country's global competitive ranking in terms of the SARB's financial regulations.

The SARB uses these platforms not only to make its voice heard about South African macroeconomic policy issues but also for the continent – thus, it uses these platforms as an opportunity to raise African concerns. For example, there was a decline in correspondent banking due to the BASEL III requirements for de-risking that affected low-income countries (specifically in Africa) by making it harder to remit with a knock-on effect on financial inclusion. Studies confirm that South African banks potentially stood to benefit from this situation as it led to greater concentration in the provision of remittance services, which are now being largely done by South African financial service providers.<sup>29</sup> This demonstrates the effectiveness of the SARB's participation in international platforms allowing it to raise African concerns regarding the unintended consequences of global reforms. These platforms also allow information sharing at a global level that informs South Africa's domestic policy reforms. Furthermore, the SARB's priority at these international forums is to ensure that the current global reforms do not have unintended consequences for developing countries.

The SARB has done well to cement South Africa's position and profile as a global player in financial regulation and in the advancement of African interests internationally. The most important comparative advantage is the country's participation in the G20, which affords it a seat at other institutions/forums. This provides it with strategic foresight in establishing international macroeconomic policy and financial sector benchmarks, which will drive and negotiate

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“The SARB has done well to cement South Africa's position and profile as a global player in financial regulation and in the advancement of African interests internationally”

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28 South African Reserve Bank, <https://www.resbank.co.za/en/home/what-we-do/Prudential-regulation>.

29 South African Institute of International Affairs, unpublished report titled “Analysis of South Africa's Interaction with Regional and International Economic Organisations/Fora”; telephonic interview with a SARB official on July 29, 2019.

the best possible outcomes for South Africa and Africa. While membership to some of these international forums is limited (e.g., the FSB), all countries can subscribe to regulatory frameworks such as Basel III.

Notwithstanding the difficulties encountered by the SARB in building consensus about advancing an African agenda on international platforms, in addition to the challenges coordinating political consensus on central bank issues given the diverse range of issues dealt with at the African Union (AU), the SARB leverages its participation in the AU, the SADC Committee of Central Bank Governors and its memberships to the Association of African Central Banks as an avenue to consult on African issues to be raised at both the G20 and the FSB.<sup>30</sup> Although this does often affect or limit its effectiveness in representing African issues, South Africa still boasts an advanced regulatory architecture that allows its financial system to comply with new global standards. The SARB's participation in various international platforms has helped to create a somewhat level playing field for South Africa and other developing countries.

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## Conclusion and recommendations

The most apparent lesson from the GFC is that an unstable financial system can have far-reaching negative consequences for the wider economy and, currently, COVID-19 has shown that sound macroeconomic policy is essential to underpinning sustainable economic growth. Also, a well-regulated financial system is vital for both financial stability and supporting sustainable economic growth. In the case of South Africa, the investments made in developing macroeconomic policy helped the country to mitigate the impact of COVID-19 from a monetary and macroprudential policy perspective. However, the COVID-19 driven spending

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30 South African Institute of International Affairs, Analysis of South Africa's.

raises to the fore the need for delivering clear and credible fiscal consolidation plans that also support long-run economic growth. Further public spending is required to implement the country's economic recovery plan that will further worsen its fiscal position. The COVID-19 pandemic has no doubt underscored the need for prudent macroeconomic policy to help developing countries to weather storms. LMICs across Africa should draw on this positive experience going forward.

Participating in international forums enables South Africa to be at the forefront of global policymaking and standard setting processes. This has also supported the SARB to respond swiftly and effectively to mitigate the impact of COVID-19. Most important, it ensures that the country's macroprudential and monetary policies, regulations and standards continuously develop on par with the rest of the world. This presents African LMICs with an opportunity to learn from South Africa in the development of macroeconomic policies.

COVID-19 presents South Africa with an opportunity to assess the effectiveness of its previous reforms. It is against this backdrop that this policy brief makes the following recommendations.

- The SARB should implement the additional measures and/or revised Basel III standards that are being issued to alleviate the impact of COVID-19 on the global financial system.
- In addition, it would be prudent for the SARB to continue taking a macroprudential approach towards supervision in domestic financial regulatory reforms.
- While membership to some of these international forums is limited (eg., the FSB), all countries can subscribe to regulatory frameworks such as Basel III.
- The COVID-19 pandemic has no doubt underscored the need for prudent macroeconomic policy in South Africa and other developing countries to help them weather storms. LMICs across Africa should draw on this positive experience going forward.

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# Author

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# About CSEA

The Centre for the Study of the Economies of Africa (CSEA) is an independent non-profit research organization established in April 2008. CSEA serves as a forum for quality research analyses, and policy dialogue by stakeholders from the private sector, government, national assembly, and civil society. The policy-oriented research carried out by the Centre, including the articulation of policy choices, tradeoffs and implications, is put forward to the general public and decision-makers to stimulate rigorous debates on the effects of government policies on economic growth and development in Nigeria and Africa. The Centre carries out applied research and presents policy options to enhance macroeconomic stability, fiscal transparency and accountability. Similarly, CSEA advocates for greater fiscal transparency and accountability, reduction in leakages of public funds and improvements in governments' delivery of social and public services.

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