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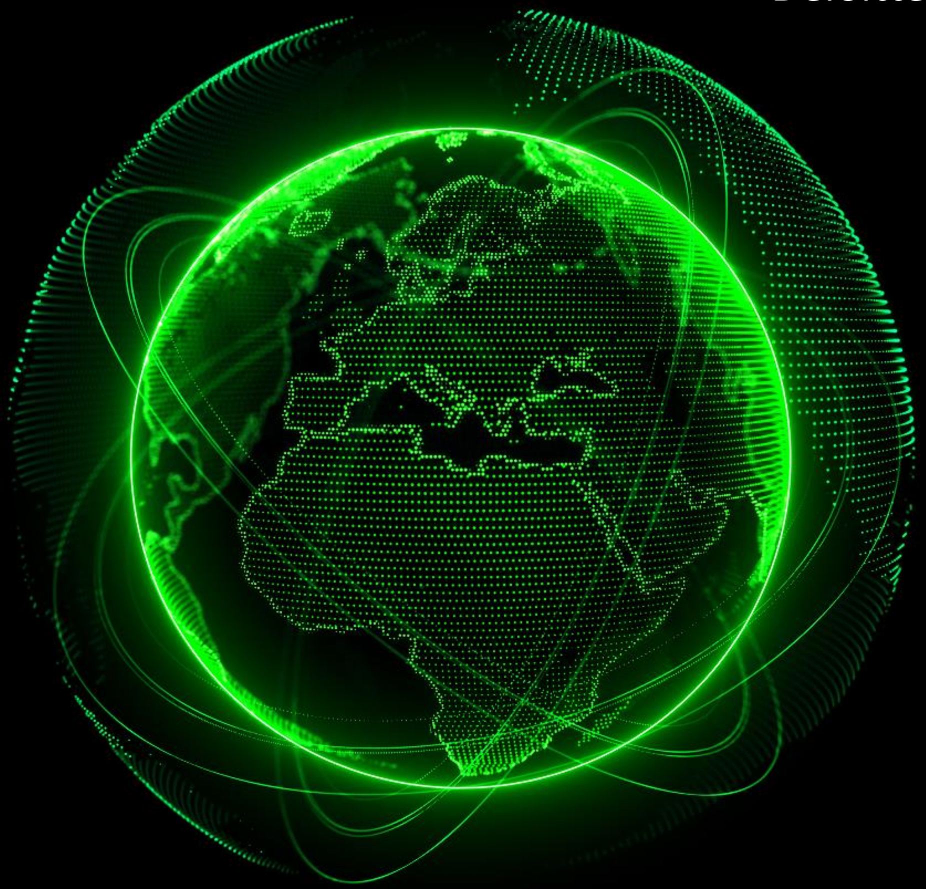
Rebooting emerging markets post COVID-19

Deloitte Digital Dialogue - April 2020



This insights summary is based on a Deloitte's Digital Dialogue on ***Rebooting emerging markets post COVID-19*** which was held with business leaders and professionals across the globe including **Aarti Takoordeen,** Chief Financial Officer, JSE; **Sabine Dall'Omo,** CEO: Southern & Eastern Africa, Siemens; **Junior Ngulube,** Vice-Chairman, Sanlam Pan Africa; **Montfort Mlachila,** Senior Resident Representative in South Africa, IMF; **Leslie Maasdorp,** Vice President and Chief Financial Officer, New Development Bank. Moderated by **Dr Martyn Davies,** Managing Director, Emerging Markets & Africa, Deloitte Africa.

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Rebooting emerging markets post COVID-19

On behalf of our clients, Deloitte is hosting a series of digital dialogues to provide insights aimed to inform and assist decision-makers both within business and government to navigate through the changing world post COVID-19.

“The negatives figures result from supply and demand shocks, exacerbated by serious tightening of global financial conditions and unpredictable behavioural changes amongst consumers during global economic shutdowns.” –

Montfort Mlachila, Senior Resident Representative in South Africa of the IMF

The world is facing the worst economic downturn since the great depression. The global economy is projected to decline sharply by -3% in 2020 owing to the downside effects of COVID-19. The biggest decline will be experienced by advanced economies, which are expected to see GDP contract by -6% in 2020.

In emerging markets, growth is forecast to decline by -1% in 2020 while Sub-Saharan Africa is projected to contract by -1.6% in 2020.[1]

“The negatives figures result from supply and demand shocks, exacerbated by serious tightening of global financial conditions and unpredictable behavioural changes amongst consumers during global economic shutdowns“, said the IMF’s Senior Resident Representative in South Africa, ***Montfort Mlachila***.

These outlooks are subject to extreme uncertainty due to the COVID-19 crisis and other various unpredictable factors that may arise. Economic recovery will therefore depend on when global consumption and production restarts.

Key oil exporting countries in emerging markets which rely highly on oil export earnings will experience deep economic distress stemming from plummeting oil prices and dynamics in the oil commodity market.

These are likely to lead to geopolitical changes resulting from possible social unrests in some countries.

All other categorised economies such as resource dependent economies and diverse economies, to name a few, have been impacted differently by the various effects of COVID-19 and disruptions in global supply chains. Many countries cannot produce certain goods now because they cannot access the inputs. Because of these factors, countries have responded differently.

The variance in response to the pandemic from one country to the other will indeed result in different outcomes, which will also depend on how much stimulus (fiscal and/or monetary) is granted in their respective countries.

Several emerging markets have had pre-existing structural weaknesses that exacerbate the overall economic impact of the current crisis, such as policy uncertainty and increased debt-to-GDP levels.

Emerging countries therefore need to ensure they are able to manage the risk of incurring additional debt in a slow growth or even recessionary environment.

[1] IMF, 2020. WEO: The Great Lockdown. Available [Online]. https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/World-Economic-Outlook-April-2020-The-Great-Lockdown-49306

> *"There is a natural impulse for countries right now to look at the medium term and to take a view on what they should do differently to protect business and people's livelihoods." –*
>
> Leslie Maasdorp, Vice President and CFO of the New Development Bank

Financial aid response in times of crisis

Several development banks have set up emergency support to combat the negative economic and social consequences of COVID-19. As companies seize production and as some slowly slide into bankruptcy, economies are expected to face financial distress. ***Sabine Dall'Omo***, CEO for Southern & Eastern Africa at Siemens mentioned that the recovery of emerging markets would largely depend on how much stimulus is given to start consumption within countries.

Multilateral institutions play a significant role in fighting financial catastrophes resulting from the crisis. This is seen through the provision of financial packages to support struggling and impacted economies. For example, the IMF has put in place financing packages such as the Rapid Credit Facility package to low-income countries, repayable over 10 years at zero interest[2] as well as the Rapid Financing Instrument for emerging markets and advanced economies – available to all member countries facing an urgent balance of payments crisis – repayable over a period of up to five years.[3]

The New Development Bank has set up emergency support funds towards public health expenditure, including funding for medical equipment such as surgical masks, respirators, and testing supplies. This funding is directed to all of its member countries (Brazil, Russia, India, China and South Africa).

Policy responses post COVID-19

Vice President and Chief Financial Officer of the New Development Bank, ***Leslie Maasdorp*** emphasised that there is a natural impulse for countries right now to look at the medium term and to take a view on what they should do differently to protect businesses and people's livelihoods. It is expected that some emerging economies may start considering traditional economic policies, even those that have failed in the past such as imposing capital controls to prevent financial catastrophes.

Numerous emerging economies are expected to take an inward-looking protectionist approach post COVID-19 – the same approach used by some advanced economies. Several economies have already started with this approach. For example, Russia has halted exportation of grain and wheat until 1 July.[4]

Emerging markets need to think about implementing structural reforms now more than ever in order to unleash productivity, kick-start growth and follow a positive growth trajectory going forward.

[2] IMF, 2020. IMF Rapid Credit Facility (RCF). Available [Online]. https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility
[3] IMF, 2020. The IMF's Rapid Financing Instrument (RFI). Available [Online]. https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/19/55/Rapid-Financing-Instrument
[4] Voice of America News, 2020. Russia Cuts Off Wheat, Other Grain Exports. Available [Online]. https://www.voanews.com/covid-19-pandemic/russia-cuts-wheat-other-grain-exports

"The recovery of emerging markets would largely depend on how much stimulus is given to start consumption within countries." –

Sabine Dall'Omo, CEO for Southern & Eastern Africa at Siemens

"A key feature of emerging markets is that they boast a very high yield proposition for investors." –

Aarti Takoordeen, CFO of the JSE

Investing in innovation

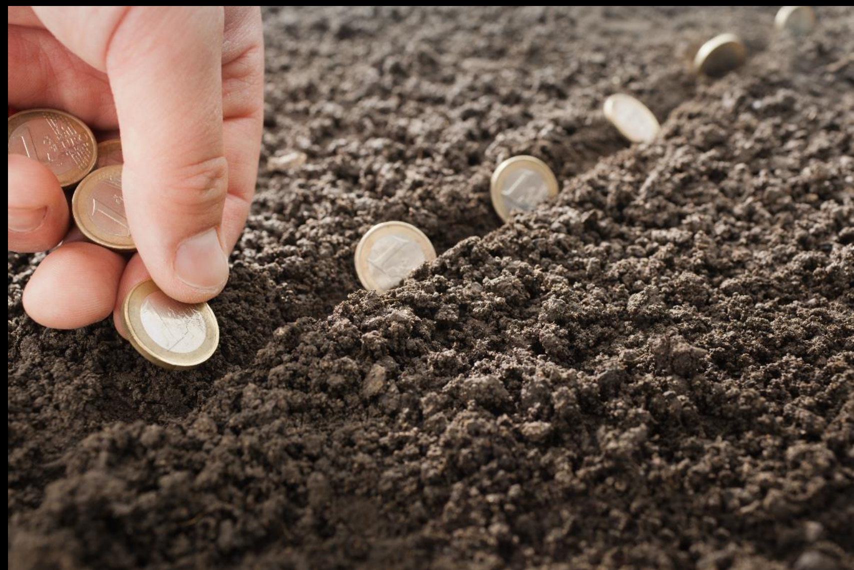
The combination of already weak economies and negative sentiment due to COVID-19 has exacerbated the poor performance of emerging markets. These economies require innovative ideas to help improve economic performance and ensure competitiveness in the global market.

Innovation is often born out of recession. However, the challenge lies in finding the most relevant innovations during a crisis. Bringing innovation to light requires a shift of focus towards the overall strength of local businesses in the market place and investing in these businesses. A key feature of emerging markets is proposing high returns for investors. As soon as the risk affecting investor sentiment at the moment subsides, investment capital will return to the host country, particularly if the focus is on opportunities for growth.

"A key feature of emerging markets is that they boast a very high yield proposition for investors" said ***Aarti Takoordeen***, CFO of the JSE. There is always a change of asset classes. Aarti further added that, "as soon as the risk of sentiment subsides the foreign flows that have left the country will return".

Emerging economies need to pay closer attention to how they can assist local businesses leverage available opportunities by investing in innovative ideas.

Emerging countries also need to consider a number of instruments in the debt capital market to help small innovative businesses stay in the market during critical times such as these.



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This insights summary is based on a webinar with the same title that was hosted by Deloitte Africa's **Dr Martyn Davies,** Managing Director of Emerging Markets and Dean of Deloitte Alchemy School of Management on 29 April 2020. Speakers included:

- **Aarti Takoordeen,** Chief Financial Officer, JSE
- **Sabine Dall'Omo,** Chief Executive Officer: Southern & Eastern Africa, Siemens
- **Junior Ngulube,** Vice-Chairman, Sanlam Pan Africa
- **Montfort Mlachila,** Senior Resident Representative in South Africa, IMF
- **Leslie Maasdorp,** Vice President and Chief Financial Officer, New Development Bank

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