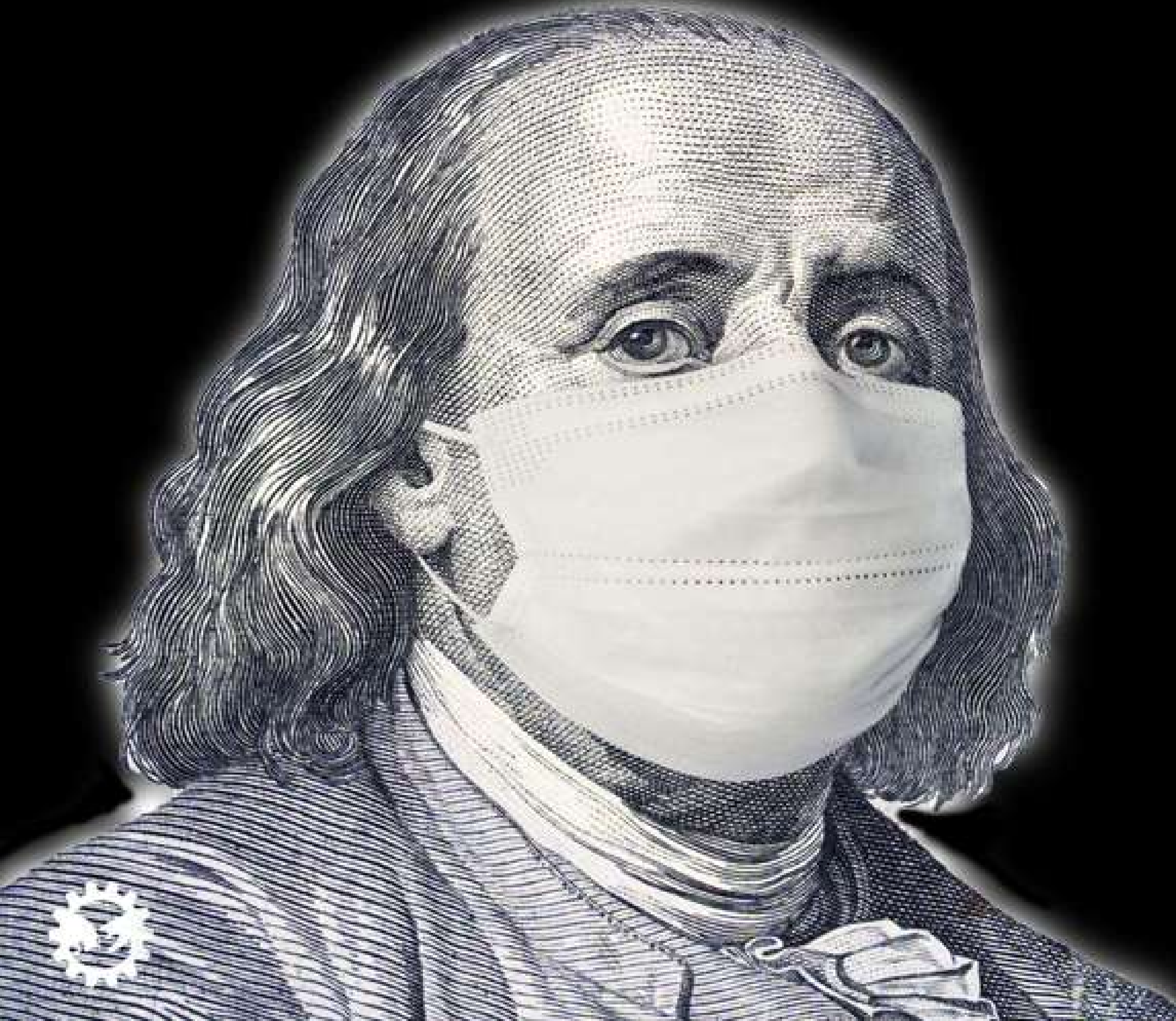
GLOBAL REPORT

SPECIAL EDITION: COVID-19



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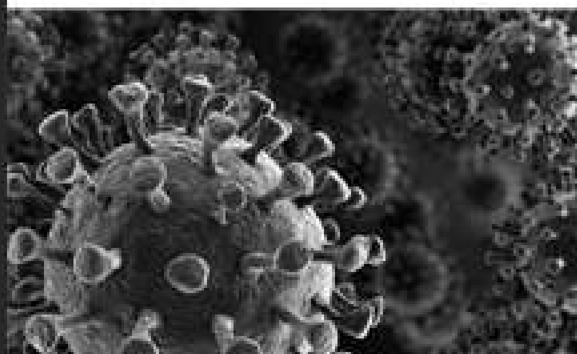

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Introduction

The Global Report is an international macroeconomics project that aims to share an economic vision written exclusively by students from various finance and business student associations from the world's leading universities. It is a unique opportunity to connect students and readers from a multitude of backgrounds, but who share the same passion in economics and finance.

The project's greatest ambition is to establish a periodic exchange of information between as many financial clubs as possible, connecting continents in a single document and providing a broad view of the economies of many countries, from their perspective, with reliable information and easy language to all readers.

After eight successful editions, in this special semester the Global Report's main objective is to discuss the economic impacts in the countries in the participating finance associations during one of the largest and most atypical catastrophes of the 21st century, the pandemic popularly known as the coronavirus.

The Global Report was idealized by the Brazilian Liga de Investimentos UFRJ in 2016 and, since then, several participants around the world have participated in the project, such as finance associations from Sweden, United Kingdom, Switzerland, France, Russia, South Africa, Portugal and Kenya.

The Global Report Special Edition: Covid-19 was written by the Liga de Investimentos of the Federal University of Rio de Janeiro in Brazil; International Finance Student Association (IFSA) of Erasmus University Rotterdam in the Netherlands; International Finance Student Association (IFSA) India of the University of New Delhi; FICO - Colombia Finance Club Network; and InvestSoc of the University of Cape Town in South Africa.

Enjoy the reading!

Liga de Investimentos

Liga de Investimentos of Polytechnic School/UFRJ is the first organization at the Federal University of Rio de Janeiro with the objective of making the connection between the students and the financial market. Our mission is to build strong relationships with the industry and fight to bridge the gap between students, big investments companies and management consulting firms serving as a primary contact point on campus by recruiting programs, case studies, informative events and workshops.

The fall of the brazilian economy before it's takeoff

Overview Covid-19

2020 will forever be remembered as the year of the Sars-CoV-2 pandemic. It was responsible for creating one of the largest modern health crisis, perhaps the largest one since the Spanish Flu, which killed about 50 million people in the earlies 1900's. The virus began it's contamination on November, 2019 in China and it fastly spread around the globe, due to a world that becomes even more globalized over the years. In official reports by the World Health Organization, the virus Covid-19, as it was commonly known, had confirmed cases in 188 countries and infected over 13 million people, of which 600.000 lost their lives. Albeit, both the numbers of confirmed cases and deaths are expected to be higher, due to the lack of testing in some locations.

The severity of the situation increased as the hospital beds became more scarce each day, due to the lack of physical resources, like breathers, and also the lack of efficient treatments, given it was an unknown disease that would make patients stay hospitalized for a long period of time. These awful circumstances made the authorities declare quarantine as an attempt to suppress the ongoing outbreak. Because of that, millions of people had to stay locked inside their homes for months, which lead to a crisis within a crisis. With the economy on hold, many businesses and jobs were threatened. On this matter, the governments had to create policies to minimize both the health crisis and economic crisis.

Brazil was one the most affected countries by the pandemic. It's the country with the second highest number of confirmed cases, over than 1,9 millions, and with over than over 74.000 deaths. While many countries show a decrease in the daily death curve, Brazil keeps stagnant, as the charts shows bellow.

As well as the rest of the world, the brazilian government launched a set of measures to combat both the health and the economic crisis. The congress authorized the state of public calamity, measure that allows the governments to not pursue the fiscal target, that was a deficit of R$ 124 billions for 2020. The main expense during the pandemic was an emergency aid of R$ 600 paid to autonomous and unemployed people, which is set to be paid for 5 months and should cost around R$ 250 billions to the public coffers. Another measure was an aid of R$ 90 billions for the states and cities, from wich R$ 8 billions would be directed to health expenses. Besides that, other measures were: flexibilization of the labour laws in order to keep employments rate normal, postpone the payments of taxes and the income tax returns and support to small and medium businesses with credit to pay wages by the BNDES and public banks. Lastly, the central bank decided to drop the national intest rate, the Selic rate, to a historic minimum of 2,25%, in order to increase the liquidity of the market and estimulate the economy.

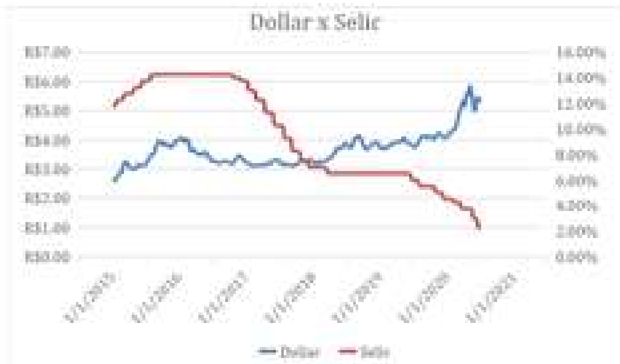
Nevertheless, the situation just didn't get worse due to the increase of expenses by the governments, and also because of the drop of income taxes, which happened with the decrease of the economic activity and the postponement of tax payments. In that way, the National Treasure estimates that the fiscal impact with the pandemic it's over than R$500 billion, that would lead the public debt to increase from corresponding to 75,8% of GDP by the end of 2019, to 98,2% by the end of 2020.

International Trade & Currency

Exports play a fundamental role in the Brazilian economic scenario, totalizing US$ 224.01 billion in 2019, which corresponds to 9.5% of the total GDP in the period. Imports are also quite significant, US$ 177.34 billion were imported in 2019, resulting in a positive balance of US$ 46.67 billion. According to these data, it is noticeable that the Brazilian economy is extremely linked to international trade and, consequently, to the US dollar. Therefore, it is essential to understand the American currency and international trade dynamics in the context of the pandemic and its past and future impacts on Brazilian macroeconomics.

After the Second World War, the US Dollar has become the main international exchange currency, directly influencing trade between nations. Although it is quite complicated to predict the dollar in the short term, in the medium to long term the value of the currency aligns with its fundamentals. In comparison to the BRL, the fundamentals are based on three main variables: the Brazil-US interest rate differential, country risk and economic activity.

First of all, the minimum historical interest rates in Brazil is 2.25% per year, due to a historical reduction that had been occurring since 2017 and the expansionist policy caused by the crisis of COVID-19. Then the country has a small difference in historical standards in relation to the American interest rate (bands between 0% and 0.25%). In consequence, with Brazilian bonds paying small premiums in comparison with the USA, capital flights to quality and flows to the emerging country are reduced, promoting a depreciation of the BRL. In 2019, when the rate reached 4.5%, there was a net outflow of foreign exchange flow of 44.8 billion dollars and the price of the American currency reached R$ 4.03 throughout the Brazilian´s 2016 crisis level. The chart below shows the negative correlation between the US$ and the Brazilian interest rate (Selic), when the Selic drops the Ame rican Currency tends to go up in the long run.



In currency analysis, it is also important to account the country's risk as measured by the 5-year CDS. This title can be useful as an insurance on a country's debt. With the impacts of the pandemic in the country, the government expanded its spending on high-impact social assistance programs. Therefore Brazilian public debt will rise to 98% of GDP by the end of 2020, according to the Ministry of Economy, which led to an increase in the country's credit risk. This added to the fiscal situation, which was already deteriorated by the last governments, made the CDS rate reach 270 during the pandemic.In comparison, in the beginning of 2020 the rate was 90. Nowadays it is at the level of 261, and all this rate increase was responsible for the appreciation of the USD against the BRL as well.

Finally, it is essential to analyze the country's economic activity. The greater this is the greater foreign investment and supply of foreign currency, appreciating the national currency. Since 2015, Brazil has been facing growth problems affected by both economic and political crises. Although 2019 was the third consecutive year of GDP growth, the growth rate did not exceed 1.3%, which led the country to the same economic level of 2013. For 2020, the International Monetary Fund (IMF) estimated a 9% drop due to the impacts of the coronavirus. As a result unfavorable conditions in monetary fundamentals led to a historic rise in the dollar, with a peak at R$ 5,86. This, allied to the the global fall in economic activity, has affected Brazilian international trade dynamics.

The coronavirus pandemic has led to social isolation measures such as lockdowns and quarantines, which has resulted in a decrease in available labor and breaks in global production chains. This scenario was no different in Brazil, where there was a substantial drop in production that led to consequences for the nation's foreign trade. Then it is necessary to understand the changes in the dynamics of foreign trade and elucidate how this will affect the Brazilian economy in the coming years.

In the context of exports, Brazil has historically stood out for the sale of commodities - corresponding to 70% of the total exported - mainly soy, oil, cellulose, iron ore, corn, beef, chicken and coffee, in addition to other manufactured products. In the current scenario of the pandemic, we observed an increase in exports linked to the agro sector, such as soy, sugar and meat, the least were influenced by the swine flu wave in Chinese cattle. On the other hand, at the beginning of the crisis, there was an abrupt fall in exports of products related to industry, such as corn and iron ore. With the initial recovery of China, the export levels of these articles began to recover, with emphasis on oil, whose daily average in June increased 50% in relation to previous months and exceeded the tons exported until the same moment in 2019.

In the imports view, the country's main products purchased are fuel oils, chemical fertilizers, telecommunications and vehicle equipment, in addition to products from the manufacturing industry. Due to the international crisis, the volume of imports fell by up to 27% in July 2019. This caused a peculiar event: the Brazilian trade balance reported the largest historical surplus of US$ 7.46 billion in the month, however the year-to-today balance of 2020 was 10.3% lower than the numbers in the same period of the previous year. The highlights were the reduction of purchases in the extractive industry (-22.3%) and in the manufacturing industry (-28.1%)

In the chart below the dynamics of the trade balance can be observed. Between 2015 and 2017 it is observed a huge growth in the trade balance levels mainly caused by an imports drop, which shows the consumption decline. In 2018 both of exports and imports reach greater levels and remained almost constant in 2019. For 2020 it is estimated an huge decrease in discuss below. On the left side the exports and imports data are shown, and on the right side the there is the trade balance data.

All in all, the Institute for Applied Economic Research (IPEA) predicts an annual drop between 11% and 20% in exports and 20% in imports, directly affecting the national economy. Because of the global effect of the pandemic, China increased its participation as Brazil's main trading partner, while Argentina fell from third to fifth position. It is obvious that the year 2020 will be marked as one of the worst years for the Brazilian economy and this will certainly be seen in the statistics of foreign trade. However, the diversified basket of exported products has partially mitigated the effect of the pandemic and allowed acceptable levels of exports. It is important to state that foreign trade is one of the Brazilian economy pillars and that is why the analysis of this sector provides an overview of the country's macroeconomic situation.

Local Consumption

Brazil has suffered one of its most frightening months on the investors' point of view. After Ibovespa hit its historical mark of 118 thousand points, it got struck by the coronavirus pandemic, which led the index to a Circuit Break six times higher in only a month, getting overthrown to 66 thousand points. Different sectors and industries were kept for a while, causing significant loss to the economy and consequentially, to the population.

To keep itself alive during this incident, the country has adopted various political and economical strategies, while the government and the Central Bank were pursuing new mesures, such as: injecting liquidity into the market in order to ease access to credit, postponing the tax charges to companies and offering assistance to families and workers (the Emergency Aid program for exemple).

Emergency Aid

One of the measures taken was the governmental aid, a program managed by the federal government with Caixa Bank, with a sum of 600 Reais to each individual within the affected societal portion. For being a quota with such needs, the aid ends up being reverted directly into consumption, which helps to heat the economy, generating more income to the State, and also assists in maintaining the services and foods sectors production.

Therefore, the program immediately affects the GDP. That happens because this moneys' cost turns out on being in sectors linked to the country's inside market.

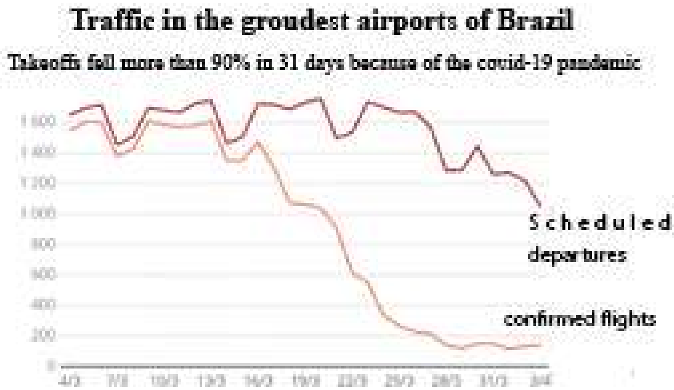
Sectors' Demand

With the COVID-19's first wave, many sectors of the Brazilian economy have been damaged. That said, there is a general consensus that the country will find itself in recession in 2020, together with a worry and caution with the fear of a probable virus second wave and its economical effects. In this way, an analysis of the sectors that are being damaged and of the ones that are renewing themselves and growing while the crisis is in order.

Damaged Sectors:

The most damaged sectors by the crisis are, without a doubt, entertainment, recreation, tourism and outside foods. These sectors usually have a slower recovery because they aren't essential services and people remain afraid of getting back on using them. Given the sales decrease, some of them have been trying to renew and adapt themselves, for example: different artists have been performing live online concerts to keep in touch with their fans - some of them being paid; and restaurants are more and more often offering delivery and pick up services.

In the global landscape, the aviation sector was one of the most damaged, with most of its flights cancelled. The weekly domestic flight in Brazil, for example, drastically decreased from 14,781 to only 1,241 since the end of March.



Grafic: G1 . Source: FlightRadar24

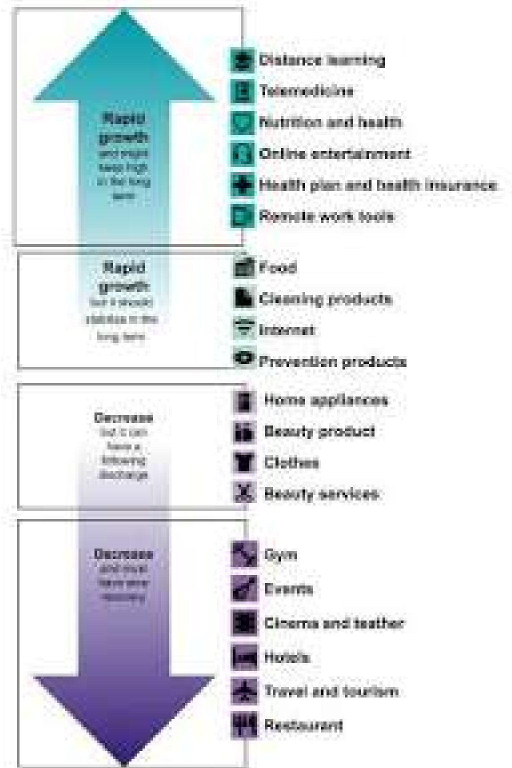
To minimize the negative impacts, the companies got into deals with syndicates, avoiding major firings in the short term, reducing wages and the work hours. Another factor that assists the sector right now are the resources negotiated with the National Bank of Social Development (BNDES) and the Economy Ministry - such as the Provisional Decree 925/202 which cut down short term floating capital needs.

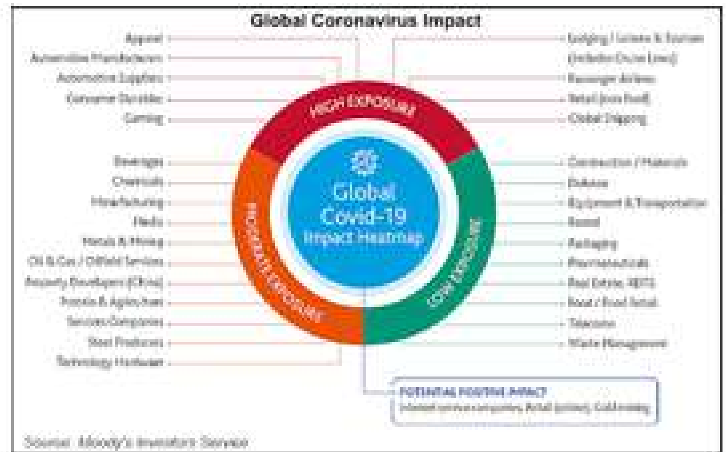
Strengthened and/or Immune Sectors:

While some segments are being drastically affected, some are keeping themselves immune or even stronger currently. An example of an immune segment with just a little struggle is the agribusiness - which represents 25% of the GDP. But besides the agribusiness, there is another segment that showed strengthened companies: technology.

In this way, many companies that were able to accomplish distanced services have been highlighting themselves. It is possible to notice a great increase of distance learning, delivery apps and specially the implementation of home office by many companies, just like XP Investimentos, that has already shown interest in permanently implementing this system in the majority of its activities.

Attention is worth on areas such as the internet, cleaning products, hygiene and personal health protection; these are segments that are being highlighted now, but its peak has a due date, stabilizing after the pandemic.





Source: Moody's Investors Service

Psychological aspects

Noticing the consumers' behavior during the pandemic, in a first moment it is noticed a natural tendency of humans to get cautious, without taking risks nor unnecessary expenses - which symbolizes a defensive behavior. Another factor is that with social isolation, consumers end up not phy-

sically going to stores and malls, reducing a great part of impulse consumption, which represents a large scale of many stores' incomes.

Yet, in the long term, with an uncertain and unpredictable scenery, people adopt a different behavior focusing on living to the fullest and not paying so much about the future. That turns out to create the FOMO (fear of missing out), causing a bigger consumption. Such fact explains a great increase that can be observed in online retail shopping, app shopping and delivery platforms usage, for example. That said, expenses with online establishments had a 60% growth and a the expenses with supermarkets increased 40%.

In general, the Brazilian families intention of consumption drastically dropped in June, and the main reason for that is the society's insecurity with its income and professional stability; caused by the crisis and the consequent heightened number of unemployment.

Credit Market

The data of Brazilians unemployed haven't become something as alarming yet, since because of the social isolation these numbers can be covered up. In other words, many unemployed people (because of the pandemic) are isolated in their homes and end up not searching for new jobs, and consequently covering them up. Nevertheless, unemployed people came out from 11.6% to 12.9% of the population, a growth of over 368 thousand new people in line of employment compared to last trimestre.

The crisis caused bank credit to surpass market funding in the first trimester. The Brazilian Central Bank's (BC) measures aiming to mitigate the pandemy's effects in the economy were extremely robust, generating a significative expansion of credit to companies. It has injected over R$ 1 trillion in liquidity in the banking system. Big companies, many with pre-approved loans, rushed to access financial institutions, making the net fundraising through free bank credit to overcome the volume raised by the emission of shares and debt securities in the first quarter of this year, imposing a pause to the advance of funding in the capital market observed in the last two years.

According to the Capital Market Research Center (Cemec-Fipe), in the first trimester of 2020 the net bank loans (less maturities) with free resources totaled R$ 74.8 billion, presenting an increase of 32% in comparison compared to last year's last three months - in the first trimester of 2019, the balance between payments and new banking operations was negative adding up to R$ 6.1 billion.

In addition to the demand for cash to meet commitments at a time of falling sales due to the interruption of activities, it is likely that in March big companies made the effort to anticipate resources to increase liquidity, foreseeing the deepening of the crisis in the following months.

Bank credit operations did not continue to grow in April and May with the same rate as in March. The slowdown is even spontaneous, since, as companies expand funding, they also increase their indebtedness, raising the perception of risk before banks. As well as the recent improvement in the capital market, this is also why the "rush" of companies to bank credit is punctual.

The larger companies which raised funds from the BNDES are the ones that, mainly, placed themselves in the capital market and, now, have been able to access resources from financial institutions. The balance of bank credit operation's evolution between February, the month before the BC measures, and April shows growth of 11% for large companies and only 2.1% for small companies, according to the study.

There was an external shock, causing a drop in demand and in the company's cash, leading to an increase in non-payments and credit risk. To shield themselves, banks tighten concession standards, but the additional restriction could also make companies that previously would have better conditions to suffer. All this mo-

vement highlights the importance of measures by the BC to strengthen guarantees. The pandemic was a totally unforeseen event, but it’s impacts would have been much slighter if the programs had already came out so that they could have been more efficient by now.

Earlier in April, the National Monetary Council (CMN) also authorized the BC to enter into a swap contract with the Federal Reserve, the central bank of the United States. The BC and the Federal Reserve announced the establishment of a US$ 60 billion liquidity swap line, expanding the potential dollar supply in the domestic market. The swap agreement between the Central Bank of Brazil and the Federal Reserve will remain in effect for at least six months. The liquidity line joins the BC's set of instruments available to deal with the high volatility of the markets due to the covid-19 pandemic.

RED ESTUDIANTIL DE
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Colombia

FICO - Colombia Finance Club Network

FICO is an organization that pursues the social and economic transformation based on financial education. It's composed of students from different disciplines and universities that run their own Finance Clubs. The network serves as a space for debate, career opportunities, joint conferences and social impact projects.

Impact of the covid - 19 in the Latin American capital markets

Global Report: introduction

The virus causing coronavirus disease 2019 (COVID- 19) has now become pandemic. This virus spread will push Latin America into a deep recession. Prospects amid the paralysis are in domestic activity, and some consequences will cause a precipitous crash in exportation commodity prices. In addition, there will be collateral effects leading to the implementation of an aggressive monetary policy that is driving interest rates near to 0%, massive job losses, the rising of fiscal debt, and inflation that is in retreat across Latin America, making space for policymakers to provide a stimulus for their economies.

Latin America Economic Forecasts

Country	**Inflation rate, end of period consumer prices, Annual percent change		*Real GDP growth Annual percent change	
	2020	2021	2020	2021
Mexico	2,4	3,0	-10,5	3,3
Argentina	n/a	n/a	-9,9	3,9
Colombia	3,2	3,0	-7,8	4,0
Chile	2,5	3,0	-7,5	5,0
Venezuela	15.000,0	15.000,0	-20,0	-5,0
Peru	1,6	2,0	-13,9	6,5
Latin America and the Caribbean	5,6	5,7	-9,4	3,7

Source: Own preparation with IMF data

* Source World Economic Outlook Update, June 2020

** Source World Economic Outlook, April 2020: The Great Lockdown

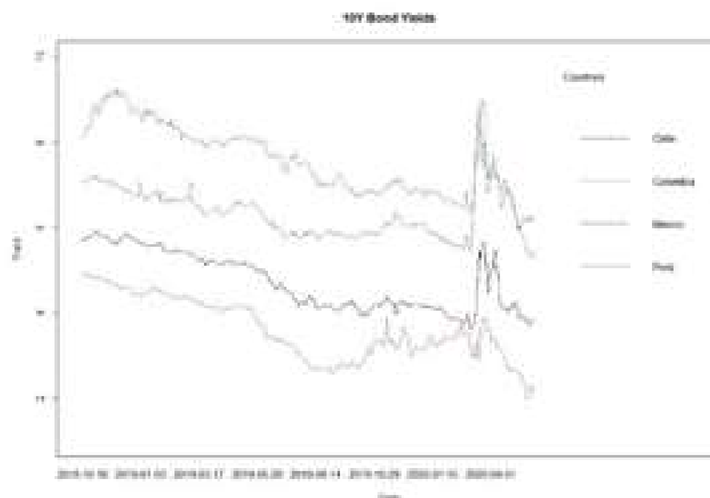
The international monetary fund (IMF) has projected a decrease in the Latin American and the Caribbean GDP of 9,4% for 2020. Some of the countries that seem most affected are Peru and Venezuela with a projection of -13,9%, and -20% respectively. On the other hand, Chile, and Colombia seem to decrease in less magnitude with -7,5%, and -7,8% respectively.

In order to face the impact of the COVID 19 pandemic, Latin American countries are implementing an aggressive monetary policy through constant reduction of interest rates. For instance, Mexico, Colombia, Chile and Peru have reduced their interest rates to 5,50%, 2,75, 0,50%, 0,25% until June (Datosmacro, 2020). At the same time, inflation rates are dropping and have even turned negative in some countries.

Fiscal deficits will leave governments with little capacity to deal with an economic crisis, especially if this crisis is expanding as fast as the contagion rates and fatalities. The region has to deal with another problem, the massive job losses and the imminent increase of the informal labor market, which according to some forecasts, it is estimated that the region could lose between 5.4 and 18 million employees. (Arboleda, et al., 2020).

Fixed Income

In regards to the current Fixed Income in the region, the statistical movements that the 10 Year Bond Yield have had in the past months could be distinguished on how LATAM has responded to the conjunctural events in 2020 from the point of view of the government's debt management. Also, the 10-year Bond rates are mostly known to be one of the most secure assets on the long term for investors aiming to put their capital on Government debt, making them very liquid on the bond market. It is key to highlight that the world's interest rate situation has been at the down side, since most of the governments in developed countries are issuing debt at mostly zero to negative percent. This means that there is a current necessity for increasing liquidity across the markets and several industries are aiming to surpass the economic impact that the quarantine and cessation of some economic activities have had in the economic world.



A downward trend could be highlighted since the beginning of 2019, as it is shown in figure 1, a. The peak in mid-March 2020 could be a response the markets had in regards of the oil crisis, as most of the economies in the analyzed countries, hardly respond on oil related events. It could be seen that Colombia was the most affected country. In addition to the oil crisis, the economic implications of COVID 19 also play an important role, since there´s a negative prevision on how these countries would address the situation. By June 3 2020, all countries have been downgraded by Fitch, as for their Long-Term Foreign Currency Issuer Default Rating (IDR). Furthermore, the interest rates by June 10th 2020 for Colombia is 2.75%, for Mexico 5,50%, for Perú 2,25% and for Chile 0,5%.

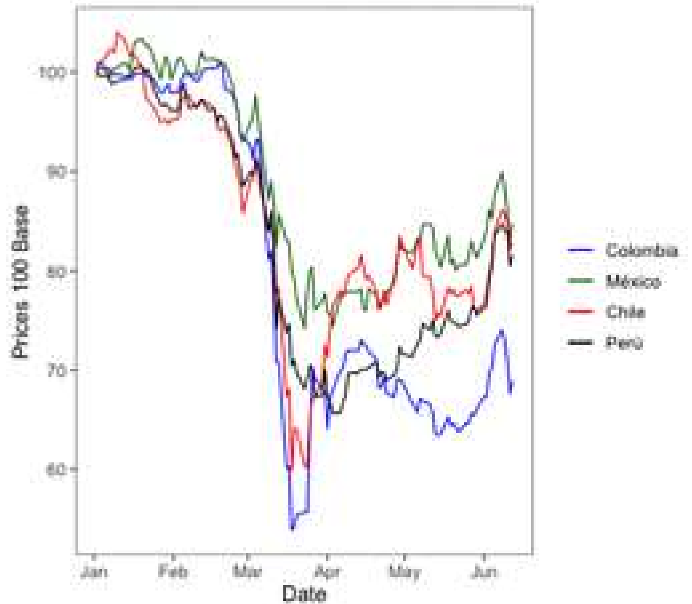
Variable Income Analysis

In 2019, Peru developed an extension of tariff exonerations which helped to boost stocks and market makers revenues in this country. Meanwhile, the Chilean market presented a decline of 8,53% due to social issues regarding pe**n**sions and changes in Laws. Colombia experienced a significant recovery in equity returns during 2019 mirroring the behavior of other developed markets, and reversing the annual losses registered in 2018. This behavior was encouraged by stable oil prices and the end of the trade war between China and the US that boosted risk appetite among international investor, especially in emerging economies.

At the beginning of 2020, Latin American markets promised to have the highest relative value not only vis-à-vis to developed markets but also against the rest of the emerging world. Now, the strong adjustment in the economic contraction figures for 2020 (close to -7% for the region), the low capacity to contain the spread of COVID-19 and the rapid increase in the level of debt as a percentage of GDP in the region, has generated an expectation of slower recovery, which has not allowed for a full retrieve of local equities as in the magnitude observed in other emerging and developed countries. This despite strong economic stimulus measures implemented not only by central banks but also by local governments. Within the region, the Colombian market was not only the most punished since the beginning of the crisis, accumulating a drop of 43% compared to 27% on average of its peers, but it is also the market that has shown a greater lag in this recovery phase trading 36% below from its Pre-crisis level compared to 8% on average for Mexico, Chile and Peru.

However, the current macroeconomic environment has led many equity markets in LatAm to stand at very attractive valuation levels. Colombia and Chile are the cheapest markets in the MILA, followed by Peru and Mexico. Since data is available, the Colcap Index has been trading at 19X and 1.53X P/E and P/BV, respectively. If we compare those figures with current valuation levels (9X and 0.87X), then we could argue Colombian equities are around 50% and 40% cheaper than historical standards. Although other equity markets in MILA do not look as cheap as in Colombia, still they exhibit attractive valuation levels for a long-term investor.

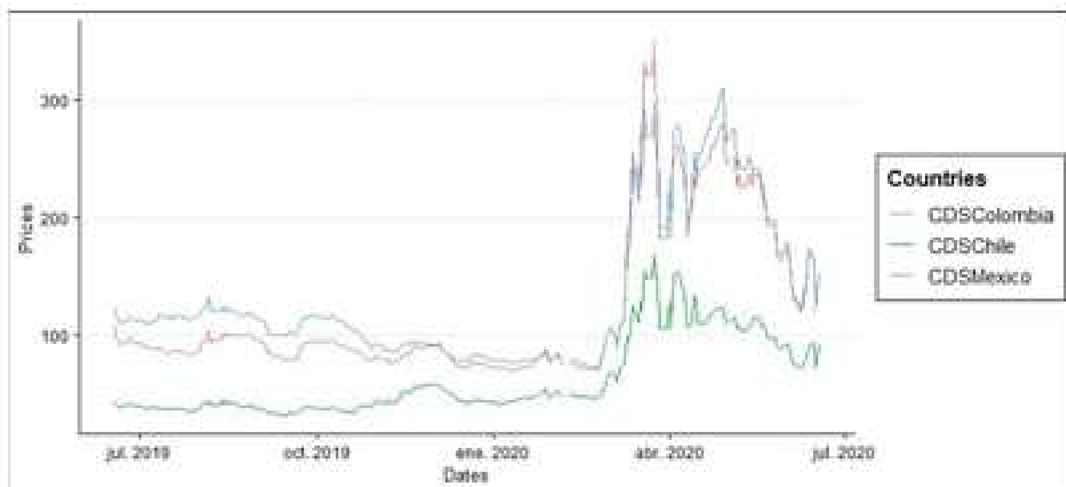
Therefore, there are great opportunities to invest in these equity markets right now.



Derivatives Markets in MILA

Capital Markets associated with MILA are stock markets from Colombia, Mexico, Chile and Peru. Information about derivatives markets in Peru is limited. Credit Default Swaps (CDS) is the instrument that has been more negotiated during the COVID-19 crisis. The measures to contain the virus affects directly the economies of MILA countries. This situation can stimulate the CDS demand from hedge fund managers around the world.

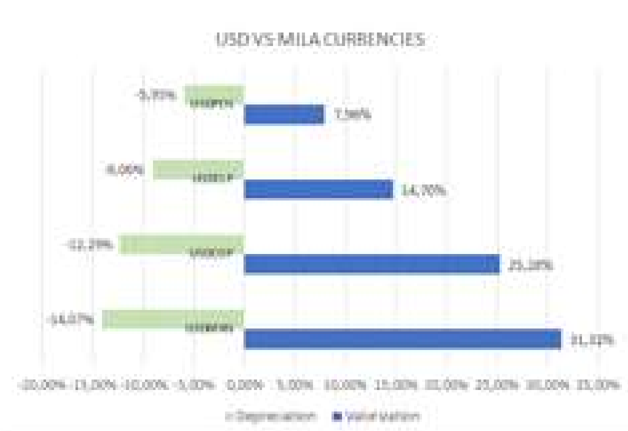
The graph below illustrates this reality:



The bull tendency is from March 2020, a date when the majority of COVID--19 outbreaks in Latin America were reported. This affected the CDS demand due to concerns in increasing defaults from MILA government bonds.

Analysis of Latin American currencies first semester of 2020

The analysis of the currencies focused on the countries that are members of MILA. During the first half of 2020, COVID-19's collateral damage on the economy, strongly affected exports and imports worldwide. It also reduced the demand for commodities, which are the main export products of emerging economies leading many investors to take refuge mainly in US dollars



Two of the most affected countries by this situation are Colombia and Mexico. This because of their dependence on products related to the exploitation of oil, which had a depreciation in their currency of 25.28% and 31.32% respectively. In the case of Peru, the impact was minimum because its largest trading partner is China and its main export product is copper.

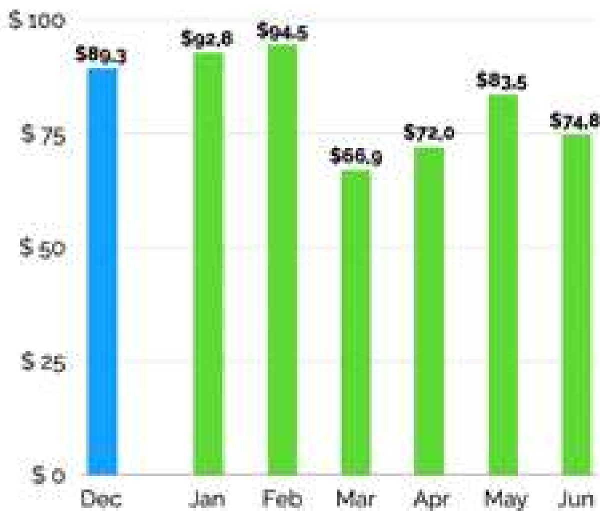
The international economy has achieved a considerable recovery in the price of its local currencies, thanks to the joint intervention between the state and the central banks in monetary and fiscal policies. The Peruvian sol has achieved the best recovery, being 5.95% equivalent to approximately the 75% of its maximum depreciation point and in the case of the Colombian peso, 12.29% has been recovered, approximately equivalent to 48% of its maximum depreciation point.

Mutual Funds Analysis

Colombia's mutual fund industry has grown significantly in the last decade. Using mutual fund research instruments provided by Carteras Colectivas, by the 1st of June 2020, the total market size for mutual funds was $88,2 Billion COP ($23.7 Billion USD). An increase of $62,8 Billion COP ($16.8 Billion USD) compared to 2009's which was $25,4 Billion COP ($11.7 Billion USD) (Asobancaria & Corficolombiana, 2016). Utilizing COP as the value of the funds, the APGR is 24.7%. Colombia's strong devaluation began in 2014, when the growth rate is analyzed in terms of USD, using 2009's average exchange rate of $2.153 and $3.718 for the 1st of June 2020, the APGR is 10%.

The three main categories with the largest AUM (Assets Under Management) in Colombia as of the 1st of June 2020 are Liquid Fixed Income Colombia, Mutual Funds categorized under decree 1525 of 2009, and Short Term Fixed Income Colombia. Respectively, these funds have AUM of $25,4 Billion COP, $14,8 Billion COP, and $14,7 Billion COP. In terms of USD for the 1st of June 2020, the AUM in these categories are $6.8 Billion USD, $3.97 Billion USD, and $3.95 Billion USD, respectively.

The three categories with the least AUM as of the 1st of June 2020, as defined by "Carteras Colectivas", are Mixed Income with $0,812 Billion COP ($218 Million USD), Global Funds with $0,808 Billion COP ($217 Million USD) and Variable Income Concentrated in Colombia with $0,159 Billion COP ($42 Million USD).



The economic crisis caused by COVID-19 had a great impact on the quantity of AUM in Colombian Mutual Funds, December 2019 had AUM of $89,3 Billion COP ($24 Billion USD). As of the 18th of June 2020, there are $74,8 Billion COP ($20.1 Billion USD) in AUM, a 16% downfall caused by the pandemic. March 2020 saw the worst decrease in AUM compared with December 2020 and compared MoM. AUM for the end of March 2020 was $66,9 Billion COP ($18 Billion USD), a fall of $27,5 Billion COP ($7.4 Billion USD) with regards to February 2020. In relative terms, March 2020's AUM fell 29% MoM and fell 25% compared to December 2020.

Forecast

According to the World Bank's World Economic Outlook report for June 2020, the GDP of the countries that make up the MILA would drop to -4.9%, -4.3%, -7.5%, and –12% for Colombia, Chile, Mexico, and Peru respectively. On the other hand, the International Labor Organization in a report about 'COVID-19 y el mundo del trabajo' on April 7, 2020, indicated that 43% of jobs in Latin America are in high--risk sectors (increases in layoffs). Colombia, according to 'nota Macroeconómica No. 20' May 18, 2020, from the 'Observatorio de coyuntura económica y social de la Universidad de los Andes', showed a delay of 2 decades in terms of poverty and equality due to the pandemic. Interest rates and inflation are expected to continue downward while the economy stabilizes.

Under the current situation of MILA's countries 10-year Bond Yield, The Central Bank seeks to generate liquidity through an expansive monetary policy, lowering interest rates in the short term, causing the prices of these existing bonds to rise and perceive an increasingly lower yield, making them less attractive.

Investing in 10-year bonds is not expected to be attractive in the short term, as their returns will be lower and lower. In the medium and long term, when countries overcome the COVID-19 situation, it could be optimal to invest in these bonds, once the respective rates of each of these countries are normalized.

Likewise, in the Colombian equity market, the range of devaluation and recovery differs considerably from the other MILA countries. This represents a great opportunity for medium and long-term investors who based on historical background will find very low prices on investments in Colombia.

Shares, especially those related to the oil sector, will be affected in their dividends. Therefore, the returns for investors will be mainly given based on the valuation of their shares. In addition, oil has reached historic lows in its price since 2001, as this is the main export product of Colombia, the country's income has been affected. Even though these prices have recovered 40% this year, it is a minor recovery compared to historical prices. As markets open and economies are reactivated, global oil demand is expected to increase, stabilizing prices upward.

Furthermore, the worst-hit currencies were specifically those of the most oil-dependent countries, as it is the case of Colombia, where it is expected that as international oil prices and the economy recover, the Colombian peso will be strengthened against the dollar. On the other hand, the collective funds in Colombia have been greatly affected by the fear and the need for liquidity that the COVID-19 crisis implies. In this way it is expected that affectation will continue under the risk of a second wave of infected people.

Conclusions

The economic paralysis caused by COVID-19 together with the crisis in the oil market, have threatened the growth of both, Colombia and the MILA GDP. Their stock markets plunge and foreign exchange rose to new historical levels. Despite the efforts of the central banks to uplift the economy, the spread rate and debt as a percentage of GDP increased, and there is not a scenario for a proper recovery.

The analysis of derivative markets leads to the conclusion that since March 2020, during the majority of COVID-19 outbreaks in member countries of MILA, the Credit Defaults Swaps (CDS) has been the most negotiated instrument throughout the crisis, in response to the increasing concerns of the investors regarding government bonds.

As the governments have been increasing its spending and deficit, and central banks have been generating incentives through reduction of interest rates and QE, investing in 10-year bonds is not expected to be attractive in the short term. However, when countries overcome COVID-19 it is expected that investors find it attractive to invest in these bonds, as the respective rates should return to pre-crisis levels.

After the first wave of COVID-19 hit Latin America, there has been a sharp decline of the Colombian AUM mutual fund. This sharp drop was the result of the devaluation of the portfolio components, mainly in fixed-rate and variable-rate securities.

COVID-19: the trigger for the fintech revolution in Latin America

Fintech is defined as the use of technology at the disposal of financial services aiming to improve and make it more efficient. Cloud Computing, Blockchain, APIs, Big Data, Machine Learning and AI are some of the most used technologies in the industry. At first it was used only by financial institutions, through the years the focus shifted to consumers, finding its way into retail, banking, investments, and even cryptocurrencies.

The COVID-19 crisis has had a positive impact on the industry, moving the target group from the "millennials" to everyone encouraging the questioning of the traditional banking model and qualifying it as obsolete. Fintech's structure can adapt easier than traditional banking, leading them to have a comparative advantage particularly when changes need to be done fast. But for fintech to work within the status quo, there are two keys: the ability to digitize financial services and the possibility to connect as many people as possible to those services. For that purpose, it's necessary to take a look at the digital divide in Latin American emerging economies, especially Mexico, Brazil and Colombia.

One of the challenges Brazil has surpassed was the internet penetration gap, the current LATAM fintech leader has internet inclusion over Brazilian population that goes above 75%. As said by FitBank's CEO, facilitates the consumers the satisfaction of the demand of financial services.

São Paulo ranks on the fifth place on the global ranking and first in Latin America. They have two big events to promote the growth of this powerful industry, Fintech Conference and the International Congress & Exhibition of IT for Financial Institutions. Also, they count on the AB Associa-

tion and support by University of Campinas and University of São Paulo, where the interest in the area is increasing and skills are being cultivated.

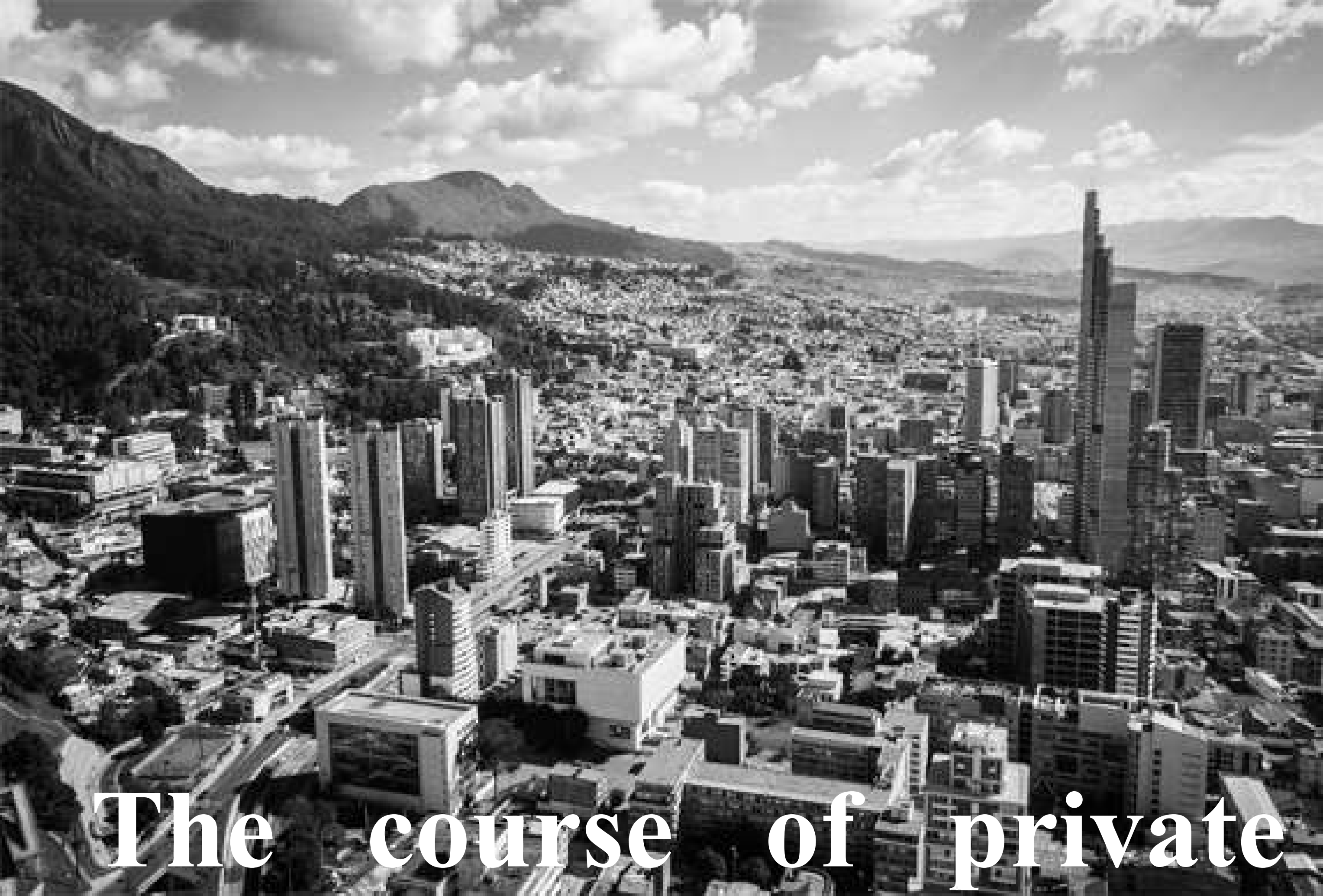
Mexico City is the second largest fintech ecosystem in Latin America. On average the fintech industry has an annualized growth rate of 23%. According to the Fintech Radar Mexico, as of 2020 there are 441 startups registered, with a mortality rate of 5%. This is an important rate reduction considering that last year was at 11%. The majority of the fintech (45%) focus on payments and remittances and lending segments.

Taking into account the prior data, Mexico is expecting to position itself as the most important fintech country in Latin America. With a high internet inclusion rate in Mexico (71%) 17% of users employ it to access financial services of any kind and 22% for e-commerce.

Similarly, Colombia has made efforts on bringing internet access to 60% of their inhabitants. Nevertheless, COVID-19 situation is having a negative impact over low income consumers which represents nearly 26% of Colombian families. The virus crisis has changed the traditional consumption channels, Colombia Fintech reports that in Q1 of 2020, 28 new fintech enterprises have been created in Colombia, mainly attributed to the growth of e-commerce, payments and insurance that between April 5th and May 9th raised 73% (compared to the same period in 2019) due to the quarantine restriction still going on.

Bogotá is third place on the LATAM list, holding 43% of the fintech market. With the introduction of three important events Finnosummit, Bogota Fintech City and Latam Fintech Market, platforms for networking and collaborations has been created for the industry to keep improving.

Although COVID-19 crisis has led to misfortunate social and economic events, new consumption channels have expanded. Latin America has been preparing a good environment for fintech developing, aligning their policies and taking into account incentives to the investors, a growing middle class demanding financial tech services and levels of easy access banking with a legislation differentiated with traditional banking and focused on encouraging entrepreneurship and establishing a course to keep exploring the synergy between financial services and technology, leading to a true revolution in the finance field.



The course of private equity in Colombia

Private Equity & Venture Capital

The Private Equity industry in Colombia begun with the implementation of the first standard norm for the industry and the creation of the first two private equity funds in 2005. Since then, it has been increasing in the different sectors and regions of the country. The following report illustrates the current of Private Equity (PE) in Colombia which we have evaluated it throughout the different periods, specifically between 2015 and 2019. The purpose of this report is to evidence any existing pattern in the different sectors, regions and types of participation throughout the years.

The report was done using the annual report of The Colombian Association of Private Capital Funds (ColCapital), whose mission is to promote and develop the Private Equity funds industry in Colombia, as well as the participation of the local and international investment community in its funds. This association has 132 members, of whom 57 are professional managers and 75 are industry service providers.

As we could see from the report, analyzing different sectors, the most considerable one was real estate with 25,64% followed by the financial services with 14,26% and the least representatives being the media entertainment and the transportation sectors. After the sector analysis was completed, we analyzed different regions. Analysis which the result was that the most considerable region with 55,83% was Colombia, followed by Mexico, Peru and Brazil. As a conclusion of all these analyses that considered the different types of participation, the most common type applied is majority participation which means that the capital contribution is directed to growing or already consolidated companies.

Challenges and changes in investment banking

Investment banking firms have the task of fulfilling the role of intermediaries between investors and people seeking to obtain these funds. Historically, in Colombia, investment banking has presented an exponential growth that has caused the entry of different international entities to the country (Bank of America, Itaú, JP Morgan, etc.).

Thanks to this growth, the interest of new investors and the evolution of some national companies accompanied by the entry of international companies caused an activity increase and a reorganization in the industry.

Previously, most investment banking firms focused on the issuance of debt or equity securities, whereas now, due to the increase of activity in the sector, firms are more diverse in the services offered and provided. Most investment banking firms are increasing their activity in sectors such as private equity or venture capital, which have undergone significant evolution.

Interest in the country increased due to the evolution of the Startup environment in Colombia, where Rappi is a benchmark, but behind it is a great variety of companies such as Frubana, ADDI, Truora and others. Evince of this is the investment made by Softbank in 2019, where it invested $ 3.2 trillion in Rappi.

On the other hand, currently different companies in Colombia and the region entered in special situations as a result of the coronavirus. Avianca stands out for the aforementioned fact, being one of the companies that employs the most people in the region and is the leading airline with domi nance and access to a large number of routes in Latin America.

Taking into account that these companies are going to change and structure

their business model, investment banking will be in charge of the understanding of these markets as complex and expensive as commercial aviation is., so that companies such as Avianca have a future projection to continue supplying the demand for commercial aviation in Colombia and the region.

Therefore, we can see in the future how technology has and will have a high relevance degree in all kinds of industries, it has marked milestones in humanity, and the financial sector is not exempt from it.

However, investment banking in its daily activities may be partially affected, as investment banking analysts comment, despite the fact that there are operational processes that can be automated with Artificial Intelligence or computer programs, investment banking has an important human relations component, without which it is very difficult to generate lasting economic activities and the connection of clients with important companies and investors in the industry.

IFSA Rotterdam

The IFSA Rotterdam delivers finance-related events and content to the students of Erasmus University Rotterdam. As a founding Chapter of the IFSA, it enjoys hosting both local and international audiences.

The Clockwork Orange afloat

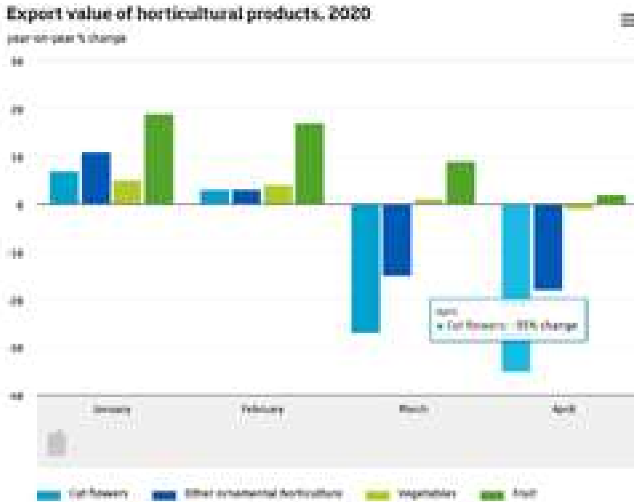
Basics:

The Dutch economy is renowned for its stability, and 2020 does not have much against it - pandemic aside. A relatively mild lockdown has contributed to the economy’s performance in face of its euro-zone peers. GDP is, nonetheless, predicted to decrease by 6% this year. This decrease is accompanied by a rapidly increasing unemployment rate from 3.4% (2019) to 5.0% (2020 predicted). Inflation, however, is predicted to decrease from 2.7% (2019) to 0.7% (2020p).

COVID-19:

The Netherlands much like the rest of the world has faced the full brunt of the COVID-19 pandemic and it has seen its economy come to a grinding halt. The most prominent of them is the Rotterdam Port the largest port in Europe.

Flower Exports: Since the spread of COVID-19 the Dutch flower industry has come to halt. With flower auctions in Aalsmeer where buyers stayed away en masse, resulting in 15M flowers unsold. The full totality the effect on the industry was seen in the April report where exports fell 11% from April 2019. With the worst estimates sitting at 35%. As expected, the flower exports are not the only effect export with the entire horticultural sectors is the effect. Represented by the chart below:



Royal FloraHolland CEO Steven van Schilfgaarde was forced to make a statement regarding the situation, "At the moment, a lot of high-quality flowers and plants are being lost because trade is largely halted due to the corona crisis. This is terrible to see".

Amsterdam Tourism:

The horticulture was not the only aspect of the Dutch economy that was severely damaged during this pandemic the tourism industry especially in Amsterdam has experienced a noticeable downturn. Businesses in the red-light district have reported revenue losses of up to 90%, while hotel occupancy rates decreased from 81% in March 2019, to 41.2% in March 2020. A shocking fall considering that estimated 19M travelers visit Amsterdam in 2019, a number that was expected to increase by 50% by 2030

However, the public response to this hasn't been as expected. With many citizens of the regions enjoying the brief moment of was, they would describe as tranquility. Where Amsterdam finally feels like a neighbor that belongs to its inhabitants and not a tourist destination overcrowded with foreigners. The government seems to back the people of Amsterdam with a series of tough tourist taxes and bans on holiday rentals already in place. This could potentially be an opportunity to restart tourism sustainably and encourage travel to other parts of the Netherlands such as Rotterdam and Eindhoven..

Rotterdam Port:

Despite being the largest port in Europe and one of the highest traffic naval terminals in the world these ports remain operational. With cargo handling and production remaining operations unabated. Largely due to the successful implementation of the hard-line quarantine procedure at the port. Resulting in less than one confirmed case per week. However, the ports handling of the pandemic hasn't been smooth. Visa restrictions have leftover 250,000 maritime workers stranded.

However, despite their strong handling of the situation the strength of their throughput is also dependent on their shipping and trading partners and as a result throughput of cargo is expected to fall anywhere between 10% to 20% compared to last year. With data from the last 3 months already reporting a 9.3% decrease.

Taxation in the Netherlands:

You may have heard the Netherlands being called a 'tax haven'. You may also know that many large multinationals (such as Nike, Ikea, Google, and others) have subsidiaries in the Netherlands through which many of their profits flow through. In fact, in 2017, the Netherlands received an estimated 4.2 Trillion USD inflow of 'foreign direct investment'. This amount is five times larger than the Dutch economy and only about 1/5 of that money stayed in the Netherlands, the rest was funneled out of the country immediately to 'real' 'tax havens' such as Bermuda, the Cayman Islands, and others. So, what is going on? Is the Netherlands a 'tax haven'?

Well, the Netherlands is not a tax haven in the traditional sense of the word. They have a corporate income tax rate of 25% and income tax rates of almost 50%. Saying that tax rates are low in the Netherlands would be wrong. What the Netherlands does offer though, is certain advantages that can and are used by multinationals to drastically reduce their tax rates. For starters, the Netherlands is a wealthy, developed country with very low levels of corruption. Not something that you can very easily find in an island micronation. What is more, because it's a large 'real' economy, and a member of the EU, they have multiple tax treaties and lax capital

transfer controls with other countries (especially other European countries). So, it's very easy to get money to flow in and out of the country. But why does any of this matter? The same can be said about other developed European nations.

Well what differentiates the Netherlands from its European peers, more than beautiful tulips and canal filled streets, is the very low (less than a percent and in some cases zero) tax rate on income from royalties pertaining to intellectual property. Therefore, multinationals often give ownership of their intellectual properties to their say Bermuda or British Virgin Islands based subsidiary who then 'leases' it to the Dutch subsidiary who in turn charge royalties to the multinational for their sales in other countries. Therefore, a company selling their product in say Germany or France, can claim royalty fee 'expenses' to transfer the earnings to their Dutch subsidiary where the taxes paid on the earnings will be very low or zero and then this money can be quickly transferred to another Irish subsidiary. This is because Ireland allows Irish companies owned by a foreign corporation to transfer all earnings free of taxes in Ireland to the parent company's tax home and pay taxes there, which is usually, you guessed it, Bermuda, the British Virgin Islands, Cayman Islands, etc. This is a gross oversimplification of the famously dubbed 'Double Irish with a Dutch Sandwich' scheme used by multinationals to shift profits and reduce or even avoid taxes on much of their profits.

It is this scheme along with several far more complicated other ones that has led to the Netherlands seeing an annual flow of trillions upon trillions of dollars going through their borders. Now this particular scheme is going to be thwarted as the Netherlands will very soon impose a tax on income from royalties, although the amount is still unclear. Now, whether you are in the 'taxation is theft' or 'pay your fair share' camp of the taxation debate, to be pragmatic and bipartisan. It is important to note that yes, multinationals have been (legally) avoiding taxes through these loopholes for many years and indeed, not much of the trillions that flow through the Netherlands actually stays in the country. However, to say that this hasn't vastly benefitted the Dutch economy is also incorrect. This scheme has meant that many multinationals set up their European headquarters in the Netherlands, what's more, it has also led to thousands of high skilled, high paying jobs for Dutch citizens at large accounting firms such as Deloitte, EY, KPMG and PWC. These people help companies devise these schemes for a living and they receive a large salary for their skills, large salaries which do pay income taxes in the Netherlands, and which are spent on the Netherlands by these people going shopping, going to restaurants, buying houses, and more. The benefit is very large and if the Netherlands is not facilitating these structures, someone else will.

Furthermore, it is very easy to vilify companies for engaging in these schemes. However, we must also note that it's very hard for them not to. At the end of the day, taxes are an expense to companies that take away money that they could use for reinvestment in the business for expansion and maintenance. If you don't engage in one of these schemes, your competitors most certainly will, and this means that they will have a much lower tax expense than you. Which means that your competitors would have a higher amount of free capital for expansion and reinvestment, putting your firm at a grave long-term disadvantage. This could, in the long-term lose your company market share, lower your stock price and maybe run you out of business. Is this fair to your shareholders or workers or other stakeholders? We are not advocating for (or against) these tax avoidance schemes, nor will we get into the morality of it. But to be pragmatic, it is important to point out many of the non-obvious benefits to the company, its workers, shareholders and the citizens of the country where the money flows through as well as the disadvantages of many governments missing out on billions of dollars of tax revenue.

A Word on Taxes and Brexit:

The Netherlands has long used their flexible tax policies and great business environment to attract many multinationals to set up in the country. However, pressure from the EU and the wider public means that many of these benefits for companies are being taken away. Asides from the aforementioned example, another fairly high-profile example would be the so-called Dividend Withholding Tax. A few years ago

Unilever, who had a dual Anglo-Dutch structure, was seriously considering consolidating their entire company in the Netherlands. The reason for the dual structure was so that the 15% Dividend Withholding tax in the Netherlands wouldn't impact the British shareholders of Unilever. The Dutch government had promised to scrap the tax precisely to get Unilever to unify in the Netherlands. That same promise to scrap the tax was also what prompted another massive Anglo-Dutch firm, Royal Dutch Shell, to move their headquarters to the Netherlands. Nevertheless, after Dutch prime minister Mark Rutte scrapped the plans to scrap the tax, Unilever has now left the Netherlands and consolidated in the UK instead. Royal Dutch Shell instead hinted that they were considering moving their headquarters out of the Netherlands and into the UK.

This means that for not scrapping the tax, the Netherlands has lost two of the largest companies in Europe and the world from setting their global base in the Netherlands and instead they have left for a UK that will soon leave the European Union. These two companies are worth noticing because they have market capitalizations that combined, are about the size of ¼ of the entire Dutch economy. As explained above, businesses, many times have to reduce their tax rates to stay competitive and expand, so lowering your corporate tax rates will attract significant capital, you can see this in Singapore, Hong Kong, Panama and Ireland. The UK is now planning on reducing their taxes even more after Brexit to Irish or Singaporean levels which, in an English-speaking large and advanced economy as is the UK, would amount to what is called an 'economic jumbo jet on Europe's doorstep' which would 'steal' a lot of investment and capital from Europe. This could have massive repercussions for the Netherlands, if they continue to go on the opposite direction with regards to taxation.

Innovation and entrepreneurship in the Netherlands:

The Netherlands has a history led by innovation and smart solutions, due to the challenges its geographic location poses, ever since the 14th century when the government started to cooperate with universities, to protect the country from flooding, and to secure its scarce resource in freshwater. This attitude is still present in the country as the Global Innovation Index ranks constantly ranks the Netherlands among the top five countries leading in innovation, research, and development. The report published by the INSEAD, Cornell Univer sity and the World Intellectual Property Organization uses many metrics, like political stability and support, infrastructure, education, and the sophistication of infrastructure. Moreover, the Netherlands scores outstandingly in the category of innovation outpu, which measures the number of ideas from innovative sectors that reach the market. Besides, the Netherlands excels in knowledge absorption, referring to the ability to understand the value of knowledge, being able to acquire and exploit it. IP payment, the intensity of local competition, and strong collaboration between industries and universities enhance the Netherlands ability to excel in innovation. Last but not the least, the Dutch environment has shown a rapid increase in the employment of women with advanced degrees, making the country a leader in R&D.

One source for this leading innovativeness is the strong presence of research universities, which enables the Netherlands to benefit from the high number and high--quality scientific publications, with excellent productivity. This is due to the stable stream of national funding going into these institutes, which founded the leading global presence of the Netherlands. As global firms, however, recognized the opportunity by this ecosystem, started to provide private funding to applied research institutions, therefore research outcomes became tied to top industries. The Dutch government welcomes the idea of this type of research commercialization, hence the link between universities and enterprises can flourish. However, this needs to be strongly supervised by the government to maintain the contributions of academic research to society, especially in areas where the findings diffuse across the economy.

The open data policy of the Netherlands also plays a crucial role in innovation as the government believes that it is a means to maintain an innovative environment and to promote competition and productivity, creating a better ecosystem enterprise. This can lead to mutual benefits of a sector that had not communicated before like insuran-

ce companies can make use of data from car producers and the police when calculating the insurance premium for its clients. Hence saving a vast amount of money, and highlighting new connections, which reduces the cost for, and enables the creation of more personalized insurance services.

Besides the Netherlands is also a leading player of entrepreneurship enhanced by a policy in 2010 called the ‘Valorization Program’, which aims for a stronger connection between a solid academic foundation and efficient practical implementation. Moreover, it established a government subsidized platform to push knowledge into the society, focus on funding and that SMEs can easily get in touch with academic pioneers in the field of their interest. Besides the strong presence of talent pool and excellent infrastructure the government provides support in a form of tax benefits, commonly referred to as the ‘Innovation Box’. This provides an effective 80% tax advantage on profit that originates from innovation since profits are taxed against only a 5% rate. There is a strong criterion, however, that profits need to be derived from self-developed intangibles like patents, R&D, or software. Furthermore, the Netherlands compels entrepreneurship as the population is diverse, having one in five parents who have been born outside the country. Regarding bureaucracy, the Dutch system provides one of the smoothest and fastest administration prosecco establishing a new legal entity aimed for innovation. And a special type of Start-up visa and the favorable geographic location accelerate the country’s appeal to many international investors and entrepreneurs.

Network India

IFSA India

IFSA Network India is the Indian leg of IFSA Network based out of Shaheed Sukhdev College of Business Studies, University of Delhi. We aim to empower, educate and connect future finance and business leaders while fostering a culture of personal development through international case competitions, corporate live projects and networking events. IFSA India over the years has redefined learning through beyond conventional initiatives such as a student led investment fund and global research collaborations.

COVID-19 and the Indian Economy

India's real GDP decelerated to its lowest in over six years in Q3 2019-2020, and the outbreak of the COVID-19 posed fresh challenges. Steps taken to contain its spread, such as nationwide restrictions for 21 days and a complete lockdown of states, brought economic activity to a standstill and impacted both consumption and investment. While Indian businesses, barring a few sectors, insulated themselves from the global supply chain disruption caused by the outbreak due to relatively lower reliance on intermediate imports, their exports to COVID-19 infected nations took a hit. In sum, the three major contributors to GDP private consumption, investment, and external trade got affected. By April the unemployment rate had increased nearly 19% within a month, reaching 26% unemployment across India, according to the 'Centre for Monitoring Indian Economy'.

Worse, the government's finances are strained. Tax revenues are set to crash and India's hitherto relatively stable debt--to-GDP ratio may spike up toward 90%. Controlling the spread of the pandemic will bleed state resources, leaving little for the welfare measures that will be essential in the coming months.

According to sources, government spending increased by 12% last year, more than twice the growth rate of private consumption. As a consequence, the government last year — again, before the pandemic properly hit — had a fiscal deficit of 4.6% higher than the one it inherited six years ago.

Aviation

The COVID-19 pandemic has taken a huge toll on the airline industry as among all forms of operations International Airspace was the first sector to experience a lockdown and unfortunately, it would be the last sector to unlock. Considering the case of India, the Indian Government announced to cancel/stop any International flights coming to/ going from India since early March and reopening of international air travel seems to be impossible till mid-July.

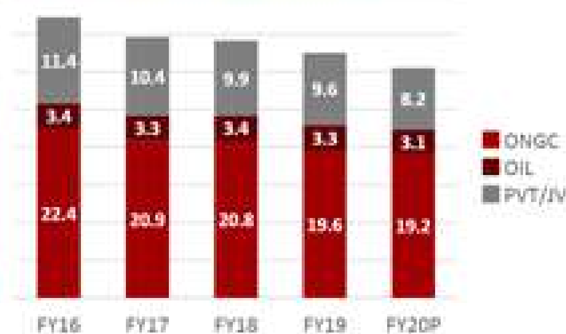
Credit rating agency CRISIL has estimated that the Indian aviation sector, including airlines and airports, will witness revenue losses of ₹24,000–25,000 crore, as air travel remains suspended because of the national lockdown. Airlines will be the worst-hit, contributing to over 70% of the losses, or about ₹17,000 crore, followed by airport operators with ₹5,000-5,500 crore, and airport retailers, including retail, food and beverages and duty-free, with ₹1,700--1,800 crore, the agency said in a report. These losses would reverse the growth shown by the Indian economy since the past decade. For the national lockdown, the aviation industry has already faced a 66.8% decline in the last one month and we estimate it this decline will rise to 85% before the end of August, a report by CAPA.

The fourth-quarter results of many Indian airlines reflect the international and the domestic situation faced by the aviation sector, which is only limited to the beginning of the lockdown.

Oil and Gas

The Indian O&G industry is among the top three highest energy consumers, contributing about 5.8% to global demand. Unfortunately, extensive demand for destruction because of lockdown and COVID, coupled with the USA-Russia price war created an unparalleled downward spiral of crude oil prices breaching the $0 mark. The key reason is the lack of fuel demand because of restricted goods and passenger movement, along with the closure of domestic and international travel.

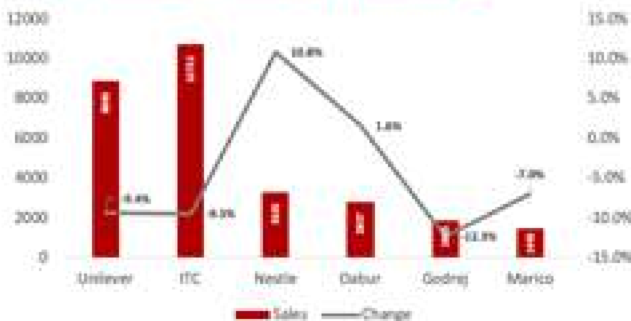
India's crude oil and natural gas production declined by 5.5% and 14.38% respectively in March 2020, compared to March 2019. As per PPAC (Petroleum Planning and Analysis Cell), 32.1 MMT of crude oil was produced in 2019-2020, 6.1% lower compared to the previous year. Big E&P companies like ONGC and Oil India could have to face hard times ahead, with the growing pressure to sell their products at cheaper rates. The yield of public-sector refineries during 2019-20 was about 144.71 million tones, which is 2.18% lower than the target for the year.



On the positive side, the import bill has reduced, and it's an excellent opportunity for Indian companies to buy and reserve oil for the future. Companies could see an improvement in profits in upcoming quarters when the demand picks up again.

FMCG

The spread of COVID-19 induced panic-buying tendencies within a large consumer base within India, like most markets, however, that surge in demand was temporary and could not save companies from a "four-years in the making" slump marked by implementing demonetization measures, the worst it has been in 15 years. The nation-wide lockdown has caused further deterioration as the supply chains broke down, increasing difficulty in raw material procurement and product distribution. One of the most striking problems is the shortage of labour as people practice quarantine or, in case of migratory labour, rush back home.



Even though sales of essentials suffered less, it severely affects discretionary product demand. FMCG producers are trying to ensure that they produce enough essential goods to prevent any shortages.

Pharma

The Indian pharma sector is one of the largest in the world. It produces almost 60 percent of the vaccines used globally, incorporating important ones, against diphtheria, tetanus, and pertussis required by the World Health Organization (WHO). The country meets 90 percent of the global demand for the vaccine against measles. The Indian pharma sector is an important piece of the global healthcare infrastructure and serves to save tons of lives every year. However, like all other sectors, it has been troubled by COVID–19 that has contributed to about numerous reforms.

Pharma is suffering from supply chains reaching to a grinding halt. Prices of raw materials have shot up amid limited supply, it has disrupted production sets; it has shut factories down and export costs are sky high in most states. The impact on the Indian pharma sector is typically simple, provided that it buys most raw ingredients from China, the hotbed of the epidemic. Cash flows from different generic drug launches have either been wiped out or delayed. The pandemic has forced generic drug producers, both contract and captive, to withhold their plans for fresh product launches. Operational plants are producing less because of manpower crunch amid lockdown and social distancing measures. In crisp, production timelines have changed drastically.

MSMEs

A study by the All India Manufacturer's Organization (AIMO) estimated that about a quarter of over 75 million MSMEs in India will face closure if the lockdown due to COVID- 19 isn't relaxed. The impact is high because these MSMEs provide employment to more than 114 million people and contribute around 30-35 percent to the GDP. The MSMEs are affected at several levels - with the national lockdown, the production facilities and retail has been hit the big time. Micro enterprises specifically in the services sector are considerably impacted.

MSMEs engaged in the hotel industry, the tourism sector and logistics have been witnessing a sharp drop in business for some time now. MSMEs engaged in essential services are still operational; however, it is unlikely to remain isolated from the slowdown owing to liquidity constraints, plunging general sentiments, and purchasing capacity. Moreover, the impact on businesses is likely to have a cascading effect across the value chain. RBI's announcement of a three-month moratorium on repayment of term loans and a reduction in the repo rate will provide some relief.

VC And PE Activies

In the first two months of 2020, VCs invested more in Indian startups as compared to the same period in 2019. On January 30, India registered its first case of coronavirus. But it wasn't till the second half of March that the government started going into overdrive to contain the virus. That was the time when start-ups in India got busy with measuring their 'runway'—the number of months they could survive without funding—and updating their pitch decks for more funding. The layoffs followed at Ola, Uber, Swiggy, Zomato, Paytm, and Paisa Bazaar, some of India's leading start-ups.

Source: Venture Intelligence

In fact, March onwards, each passing month has seen fewer and fewer VC deals and more so, with smaller amounts, as compared to the corresponding month of 2019. Many of these were 'in-rounds', or VCs pumping more money into companies already existing in their portfolio. May was especially brutal. The number of deals fell from an average of 50 a month between January and April to 20 in May. And the amount invested in May 2020 was about one-fourth of that invested in May 2019. June, though, has seen a slight pick-up. The E-commerce domain has been the big loser, with Fintech, EdTech and Health Tech leading VC activity in 2020.

Impetus to Agriculture and Indian Farmes

With over 70% of rural households depending on farming as a primary revenue activity, they were impacted by the supply disruptions and distress sale at indeterminate prices owing to the lockdown. The government has launched 'Operation Greens' as a pilot project to combat this situation that may be extended further. A subsidy of 50% will be provided on transportation and storage that is expected to yield better sales realisation and efficient markets.

A fund of 1 lakh crore has been setup for agriculture infrastructure projects and the development of harvest management systems. Rs 2 lakh crores will be provided as concessional credit to farmers through Kisan Credit Cards. An additional Rs 30,000 crore has been set aside by NABARD as credit support to small and marginal farmers.

PRADHAN MANTRI GARIB KALYAN YOJANA (PMGKY)

PMGKY was launched to mitigate the loss faced by the poor due to the coronavirus lockdown. Rs 1.7 lakh was infused via the PMGKY scheme. Around 80 crore poor people will receive 5 kg of rice or wheat along with 1 kg of pulses for free of charge besides the 5 kg that they already get. Wage earners below Rs 15,000 p.m. in businesses with less than 100 workers are guaranteed 24% of their monthly wages in the PF accounts for 3 months. Ex-gratia payments of Rs 500 and Rs 1000 p.m. will be provided to women, Jan Dhan account holders and senior citizens respectively that is expected to cover more than 20 crore individuals.

To improve flow of funds at the grassroot level, the collateral free limit for Self Help Groups has been doubled to Rs 20 crores to support over 6.85 crore households. An insurance cover of Rs 50 lakh per individual has been laid down for frontline workers in hospitals and wellness centres.

Migrants and Urban Poor

Some of the measures taken by the government of India to reduce the impact of the pandemic on the ones that are the hit the hardest, i.e. the migrant labour, are permitting State Governments to utilise State Disaster Response Fund (SDRF) for setting up shelter for migrants and providing them food and water etc. Central Government also released Rs 11002 Crore of its contribution in advance to all States on 3rd April, to augment funds in their SDRF. Under MGNREGS, work is offered to 2.33 Crore wage seekers in 1.87 Lac Gram Panchayats and average wage rate rose to Rs. 202 from Rs. 182 in last FY.

Schemes such as One Nation One Ration Card involving use of Technology Systems enabling migrants to access Public Distribution System (Ration) from any Fair Price Shop in India by March 2021 as well as Affordable Rental Housing Complexes

(ARHC) for Migrant Workers / Urban Poor are also in progress.

Liquidity Injection for Dis--coms

Revenues for Power Distribution Companies (DISCOMs) have plummeted. They have an unprecedented cash flow problem accentuated by demand reduction in the recent days. DISCOMs have a huge debt that towards to the Power Generation and Transmission Companies of Rs. 94,000 Crores, and to help the sector out of the turmoil, Power Finance Corporation and the Rural Electrification Company are infusing liquidity of Rs. 90,000 to DISCOMs against their receivables. Loans to be given against state guarantees for exclusive purpose of discharging liabilities of DISCOMs to GENCOs.

Reliefs Given to State Governments

Centre has faced a sharp fall in revenues but so have the states and the central government has extended support to the states in this need of the hour of need. A Devolution of taxes (Rs. 46,038 crores) in April was given fully as if budget estimates were valid, even though actual revenue shows unprecedented decline from budget estimates. At the same time Revenue Deficit Grants to states (Rs. 12,390 crores) given on time in April and May, despite centre's stressed resources. An advance release of State Disaster Relief Funds, worth Rs. 11,092 crores in the first week of April and along with this a release of 4,113 crores from Health Ministry for direct Anti--Covid activities.

At Centre's request, Reserve Bank of India (RBI) has increased Ways & Means Advance limits of states by 60% and number of days a state can be in continuously overdraft from 14 days to 21 days. At the special request of states, Centre has decided to accede to the request and increase borrowing limits of States from 3% to 5% of their Gross State Domestic Product (GDSP), for 2020-21 only and will give states extra resources of Rs. 4.28 lakh crores.

Relief For NBFCS/HFCS/MFIS

Owing to the existing crisis plaguing the NBFCs/HFCs/MFIs sector and the sheer difficulty in raising money in debt markets, GoI has launched a Rs. 30,000 crore Special Liquidity Scheme, under which investment shall be made both in primary and secondary market transactions in investment grade debt paper of NBFCs/HFCs/MFIs, and the securities shall be fully guaranteed by Government of India.

Rs. 45,000 crores have been sanctioned for the Partial Credit Guarantee Scheme for NBFCs, that has been extended to cover borrowings such as primary issuance of bonds/ CPs, of which the first 20% of loss shall be borne by the Guarantor i.e. Government of India.

Reforms in Healthcare

Initiatives under healthcare have majorly focused on increasing public expenditure and ramping up grass root health institutions in rural and urban areas. Integrated Public Health Labs, block level Labs, Public Health Units have been proposed in all districts, with an aim of preparing India for future pandemics. Besides this, a substantial focus has also been laid on enhancing the Indian capacities in research, academia and innovation in Health sector and having a National Institutional platform for One Health by the country's apex health research body ICMR.

Efforts for Privatisation

Public Sector Enterprise Policy has been planned where all sectors shall remain open to the private sector while public sector enterprises shall co-exist. In strategic sectors, at least one public sector enterprise shall remain but private sector shall also be allowed, whereas in other sectors, Public Sector Enterprises shall be privatized. Boosting private participation in Space sector, Thareas like planetary exploration, outer space travel have been opened for private sector to operate in along with an opportunity to use ISRO facilities to improve their capacities. Initiatives for private sector's engagement in operating passenger

trains have also been incorporated involving an expenditure of Rs 30,000 crores, with the objective of introducing modern technology, reducing maintenance, boosting job creation and providing world-class travel experience.

Reforms for Micro, Small and Medium Enterprises

Micro Small and Medium Enterprises and Businesses have been badly hit due to Covid19 and need additional funding to meet operational requirements. The government decided an Emergency Credit Line to Businesses / MSMEs from Banks and NBFCs for up to 20% of entire outstanding credit with 100% credit guarantee cover to Banks and NBFCs on principal and interest. The same funds won't require any guarantee fee and no fresh collateral and loans will be of a tenure of 4 years with a mortarium of 12 months on principal repayment. For stressed MSMEs, Rs. 20000 crores will be granted as subordinate debt which will benefit 2 lakh MSMEs. The scheme will further provide partial credit guarantee support to Banks. Further a fund of funds will be established to infuse Rs. 50000 crore equity infusion for MSMEs with growth potential and

Change in MSME'S Definition

Low threshold in MSME definition has created a fear among MSMEs of graduating out of benefits, killing the urge to grow. The government decided to revise MSME's definition, revise upwards Investment limit, and add an additional criteria for turnover. This will fuel MSME growth as small enterprises can grow without losing the benefits.

Reform in Labour Laws

Definition of inter-state migrant worker was modified to include migrant workers employed directly by the employer, workers directly coming to destination state of their own besides migrant workers employed through a contractor. Further there was pan-India extension of ESIC to all districts and establishments employing 10 or more employees as against those notified. Social Security Scheme for Gig workers were introduced and a Re-skilling fund was introduced for retrenched employees. All occupations were opened for women and permitted to work at night with safeguards

Conclusion

The Indian Government in response to the biggest economic crisis since 1979 caused by Covid-19 and subsequent 54-day lockdown, released a Rs.20 lakh crores Atmanirbhar Bharat package which has been liquidity driven, with little burden on exchequer. The package's fiscal relief is touted to be around 1.1% of GDP and the rest being in the form of loans and guarantees.

With so much in the loop, the Indian finance minister said she is keeping her options of monetisation of fiscal deficit by RBI open. The Indian Fiscal Responsibility and Budget Management Act as amended in 2017 contains an escape clause which permits of the monetisation of fiscal deficit under special circumstances. On ground, several cases have been made that there aren't enough savings in the economy to finance government borrowings of a large size and bond yields would spike so high that financial stability would be threatened.

There is no reason to believe that we are near to that situation as through its OMOs, the RBI has injected an extraordinary amount of systematic liquidity that bond yields are relatively soft. Both monetisation and OMOs involve expansion of money supply which can potentially stoke inflation. If, in spite of all this, the government decides to go that route markets will fear that the constraints on fiscal policy are being abandoned and that the government is planning to solve its fiscal problems by inflating away its debt. If that occurs, yields on government bonds will shoot up, the opposite of what is sought to be achieved.

Monetary Measures

Reserve Bank of India is the apex body for setting the monetary policies in India and it required a special work on their behalf to make sure that the detrimental impact of Covid-19 could be contained. RBI came up with a flurry of announcements and tried to support the financial machi-

nery of the country which involved support in the form of liquidity and moratoriums. Here are some of the major announcements made by the RBI in a bid to secure the economy from Covid-19.

Rate Cuts and Liquidity Infusion

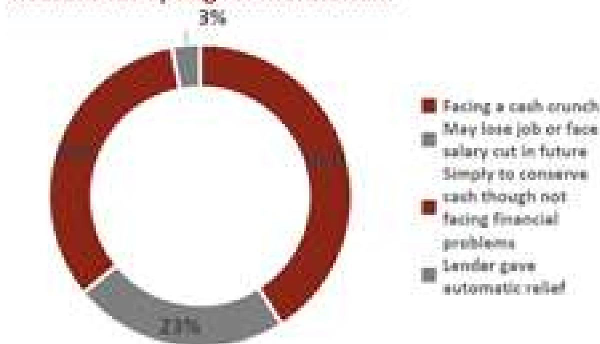
Repo Rate, Bank Rate and Reverse Repo Rate have been the most conventional tools for RBI to boost liquidity and instigate demand. It has been doing the necessary to instill investor confidence and stabilize output. To revive the economy from the ill-effects of the virus, the RBI has taken a series of steps. RBI cuts repo rate by 75 bps to 4.40% and further reduced it by 40 bps to 4% to mitigate COVID-19 impact. Even the Reverse Repo Rate has been reduced to 4 % from 4.90% under the liquidity adjustment facility. This allows banks to resolve the short term cash shortages due to lockdown. Current Reserve Ratio, another tool at dispersal is the percentage of deposits that banks have to mandatorily keep with the central bank. Considering the current scenario, RBI through a press release dated March 27, 2020, cut the CRR by 100 basis points to 3.0 per cent for a period of one year ending on March 26, 2021, unlocking 1.37 lakh crore primary liquidity in the banking system. RBI last reduced CRR on February 2013, by 25 basis points. The RBI believes that the Macroeconomic fundamentals are stronger than previous crisis and citizens wouldn't resort to panicked withdrawals.

Marginal Standing Facility is another major conventional used by RBI which is a window for banks to borrow from RBI in an emergency when inter-bank liquidity dries up completely, what is also known as overnight borrowing. RBI had increased MSF to 3% from 2% of SLR (Statutory Liquidity Ratio). This means an increase of 100 basis points until June 30, 2020. This would in turn help banks make more money available to meet the needs of people as this brings banks to a better position to make use of this facility.

Long Term Repo Operations (LTRO) is a tool that lets banks borrow one to three-year funds from the central bank at the repo rate, by providing government securities with similar or higher tenure as collateral. The RBI in the current scenario used Targeted LTRO as it wanted banks opting for funds under this option to be specifically invested in investment-grade corporate debt. During the lockdown period, RBI has been generous and has initiated two sets of TLTRO. The first lot TLTRO worth 1 trillion was accompanied by no restrictions except the necessity to deploy it within 30 days. The banks readily accepted it but instead of lending to retail/stressed organizations, the entire sum was invested in AAA rated bonds of large enterprises (who weren't in need of emergency liquidity support). The TLTRO 2.0 was aimed at injecting 50 Thousand Crore but came with a restriction that half of the amount was to be lent to small NBFCs. This condition discouraged the banks as they wanted to avoid any exposure to the risky NBFCs and therefore saw weak participation from the required institutes. Henceforth, the instrument failed to leave the impact it was supposed to.

Moratorium

Since the borrowers might face a lack of liquidity during the nationwide lockdown to suppress the spread of COVID-19, the RBI on March 27 allowed financial institutions and banks to offer a three-month (90 days) moratorium on term loans and credit card bills to ease the situation and avoid a financial crisis which was further extended till 31st August 2020. The interest during the moratorium period will be capitalized and depending on the customer’s option to increase the EMI or retain the EMI, the residual term will be increased or retained to amortize the principal together with the accrued interest. The EMI moratorium will not be free. It has costs attached to it. Since the RBI has allowed lenders to charge interest during the moratorium period, there will be an interest-on-interest effect. The end result is after the 6-month moratorium period, either the EMI will go up or the existing loan tenure will get longer.



In a report dated 4 June, ICRA estimated that the gross non-performing assets (NPA) of banks may rise to 11.3-11.6 per cent by March 2021 from around 8.6 per cent in March 2020. It highlighted that uncertainty on the asset quality front remains high with almost 30-40 per cent of loan book across various banks under moratorium. Even if 10-20 per cent of these borrowers were to default, the slippage rate for banks could rise to 3-8 per cent of advances.

Ways and Means Advances (WMA)

Ways and Means Advances (WMA) act as a loan facility to the central and state governments by RBI to meet their cash requirements. This facility is availed by the Government due to the temporary mismatches in their receipts and expenditure.

The loan taken by the government through WMA needs to be paid back in 90 days. The current interest rate for WMAs is the repo rate

The RBI has constituted an Advisory Committee under the chairmanship of Sudhir Shrivastava to review the WMA limits for State Governments and Union Territories (UTs). In the meantime, RBI has been decided to increase the WMA limit by 60 percent from the existing limit for all States/UTs. This has been done to help the states tide over the current prevalent situation. The revised WMA limits have come into force w.e.f April 1, 2020 and will be valid till September 30, 2020. This higher financial borrowing limit would aid the government in revving up its expenditure to stimulate the Indian economy.

Deposit Insurance

In India, the Deposit Insurance and Credit Guarantee Corporation (DICGC), a subsidiary of the RBI was set up under an Act of the Parliament for the purpose of insurance of deposits and guaranteeing of credit facilities. All types of deposits like savings deposits, term deposits and RDs are covered by DICGC. Considering the failure of a number of cooperative banks including PMC Bank (being the latest and the largest in the past year), the budget allowed the DICGC to hike deposit insurance coverage to Rs 5 lakh from Rs 1 lakh. The premium is something, which we consider, will increase from 10 paise to 12 paisa per Rs 100 for the time being. So, the impact on banks' balance sheets is not likely to be much," RBI Deputy Governor B P Kanungo .The raise in deposit insurance coverage has been a long pending demand from bank depositors and it recently came to fore after the crisis at PMC Bank.

It will mend bruised public confidence in banks, lift financial savings and level the unequal playing field between State-owned banks and their private counterparts in their access to CASA deposits. With the ₹1 lakh deposit insurance limit set way back in May 1993, the impact of infla tion and rising income levels had ensured that nearly 72% of bank deposits by value remained unprotected by end-March 2019. The five-fold rise in insurance limit now ensures that the lion’s share of retail deposits by value are shielded from bank failures.

Monetization

The Reserve bank of India in its concentrated efforts to support the government in its operations conducted various open market operations to shore up liquidity in the banks. But since the yield rates of the government bonds spiked to as high as 6.51% on April 9, 2020, the RBI decided to buy the securities directly from the market instead of the regular OMO operations since it helps in infusing the liquidity much faster as the OMO operations are elaborate involving auctions. The direct purchase of such bonds was also made necessary by the fact that the budget deficit for the fiscal year was approximated to more than 10% which necessitated such action even though many critics were wary of such a move.

“The RBI has to support the primary and secondary market," said Chakravarthy Rangarajan, a former RBI governor. “A large borrowing in a short time cannot be managed without monetizing. Raghuram Rajan, ex-governor of India came up with a research document to explain how monetization in extra-ordinary times is not a bad decision and maintained that monetization is not a game changer but at the same time is not a catastrophe and has been followed in India for a long time (see graph) since it doesn’t make a difference as long as banks are willing to reinvest the excess reserves that are generated through such measures. However the key is to measure the extent of it and make sure that government spending is judicious.

With just under 800 members from various faculties and a leadership team of 17, InvestSoc (Investment Society) UCT is the largest student executive society in South Africa. For over 17 years, the society has aimed to assist its members with bridging the gap between university and the world of work. With this goal in mind, InvestSoc has continual engagements with members throughout the year consisting of networking events, workshops, webinars, learning platforms and keynotes in order to give its talented pool of members the opportunity to grow professionally and form valuable relationships with leading corporates, entrepreneurs and professionals from various industries.

A Snapshot of South Africa's Economy amidst COVID-19

An Overview

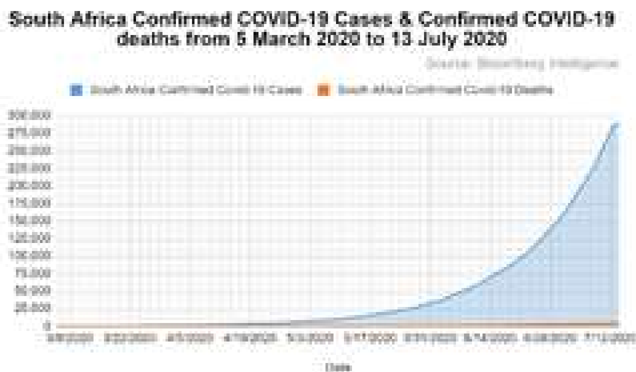
287,796 confirmed cases. 4,172 deaths (Bloomberg Intelligence, 2020). The day is 13 July 2020 and the predicted surge in COVID-19 cases in South Africa (SA) has arrived. New daily confirmed cases have averaged 11,725 for the previous week (Bloomberg Intelligence, 2020). In addition to the tragic health effects of the virus, real GDP had already declined 1% for the year-to-date ended 31 March (Bloomberg Intelligence, 2020), meaning that the economy was already in a technical recession prior to lockdown. The national lockdown began on 26 March, so the true economic effect will not have been reflected in this most recent figure. This report, thus, provides an outline of the South African COVID-19 situation and analyses its effect on one of South Africa's major industries: Mining.

Lockdown

The first COVID-19 case was reported on 5 March (Bloomberg Intelligence, 2020). As the situation worsened, President Cyril Ramaphosa acted swiftly and implemented a national lockdown starting on midnight of 26 March, initially planned to last 21 days, a day before total SA cases crossed the 1,000 mark. This lockdown – which would later become known as 'Level 5' lockdown – required all South Africans to stay at home, except for certain essential workers such as health workers and emergency personnel, inter alia. South Africans were only allowed to leave their homes to purchase food, medicine, for medical care or to collect a social grant (The Presidency, 2020a). The goals of this lockdown were not only to 'flatten the curve', but also to prepare and equip the South African health

care system to deal with future cases. This lockdown was extended to last another 17 days on 30 March (The Presidency, 2020d) and again until the end of April (The Presidency, 2020c). From May onwards, the government implemented a "risk adjusted strategy" and began to ease lockdown restrictions, with Level 4 being implemented from the start of the month (The Presidency, 2020c). Level 3 began on 1 June 2020 and resulted in significantly more businesses reopening and the lifting of several restrictions on movement.

Two of the most contentious and uniquely South African lockdown regulations are prohibitions on the sale of alcohol (prohibited until Level 3 and then prohibited again from 12 July) and tobacco products (prohibited throughout the lockdown) (The Presidency, 2020b). Motivations behind the alcohol prohibition are to decrease irresponsible behaviour and, more recently, to decrease the number of alcohol-related incidents taking up much-needed hospital capacity. This is perhaps not that surprising given South Africa's high per capita alcohol consumption (WHO, 2018:81) and that trauma cases surged after the initial alcohol ban was lifted which resulted in significant strain on hospitals which were already battling to grapple with the influx of COVID-19-related cases.

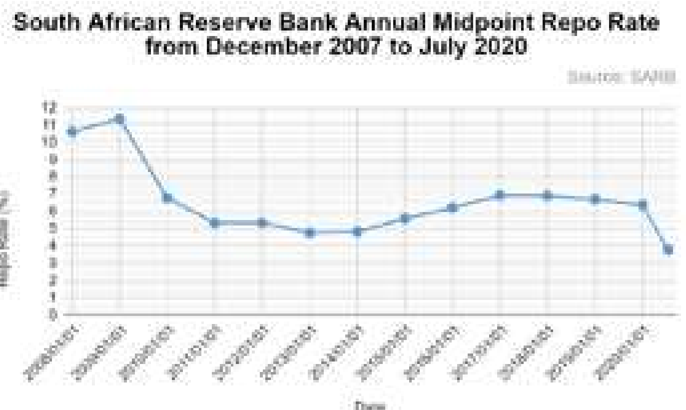


Unemployment

The unemployment rate for the quarter ending 31 March 2020 was a record 30.1% (under the narrow definition of unemployment), which is a YOY increase of 9% (Bloomberg Intelligence, 2020). Again, these figures are reflective of a South Africa pre-COVID-19 lockdown , and will undoubtedly surge for the remaining year. Unemployment in South Africa is largely structural - caused due to a mismatch of skills with the existing job opportunities available. According to a very recent mobile-phone survey, a third of respondents who earned an income in February did not in April. Further, half of those that did not earn an income in April were permanently laid off (The Economist, 2020). Figures for the quarter ended 30 June will undoubtedly reflect these increased levels of unemployment and lead to yet another unemployment high.

South African Reserve Bank Monetary Policy Responses and CPI Inflation

In an attempt at bettering South Africa's current dire economic conditions, which were only amplified by COVID-19 (Bloomberg Intelligence, 2020), the South African Reserve Bank (SARB) cut REPO rates by 275 basis points during the course of the current year. This brings the REPO rate to 3.75%, the lowest it has ever been. While COVID-19 has been the catalyst for the fast track of the numerous rate cuts this year, there is the constant backdrop of a high unemployment rate and years of muted economic growth. The central bank predicts the economy to contract by a massive 7% in 2020. The practical halt of the South African economy due to stringent lockdown regulations have caused this prediction to worsen from its initially-predicted 6% level (Reuters, 2020a).



The Reserve Bank has come under criticism from all angles. Many economists believe and predict that rates should be cut even lower than its current historical low. South Africa's inflation rate has reached the bottom of its 3-6% target range, with its latest reading of 2.1% on the 31st of May 2020 (Bloomberg Intelligence, 2020). This is the lowest inflation has been since 2010. South Africa's low inflation is another possible argument for further rate cuts in order to stimulate spending. Lesetja Kganyago, the governor of the SARB, has however voiced sentiment that monetary policy by itself is not enough to stimulate growth, providing a possible sign of the end of rate cuts for 2020. This sentiment is echoed by Bloomberg economists, who believe South Africa won't see further rate cuts due to uncertainty surrounding whether monetary policy is affecting growth at all. They believe this ineffectiveness of monetary policy may be owing to South Africa's deep rooted structural economic problems (2020a). While it is unlikely that South Africa will see more rate cuts, the SARB has announced it will embark on a government debt repurchase program in an attempt to inject liquidity into the market (Moneyweb, 2020).

Government Debt

Government debt as a form of leverage allows for enhanced growth by deploying outside capital into the local market. The issue with gearing lies in the country's ability to repay its debt. Countries such as the USA have debt levels well over 100% of GDP and yet are rated as prime by major ratings agencies. South Africa's government debt currently lies at just over 62% of GDP and is expected to breach 80% by the end of the fiscal year due to unexpected COVID-19 expenses (Bloomberg Intelligence, 2020). The South African economy ran a budget deficit well before COVID-19 and its interest payments accounted for 12% of expenditure alongside a government wage bill accounting for 47% of all expenditure (Stats SA, 2019). This has left South Africa in a precarious position with debt being required to finance debt and little room for direct investment.

Eskom

South Africa's national power supplier, Eskom, which is owned by the state and which accounts for 95% of South Africa's electricity supply, continues to be a pivotal factor in the country's economic success. The power utility remains debt-laden which significantly inflates national debt levels. Moreover, its continual failure to ensure a consistent and reliable power supply persists in dampening the county's growth prospects – knocking both productivity and business/investor confidence. The power supplier makes up approximately 77 percent of the state's contingent liabilities with R300bn of Eskom's debt guaranteed by the government, out of a total R454bn in Eskom debt (Business Tech, 2020).

As a result of the pandemic, four new forces are acting on the electricity sector in South Africa (Muzondo & Bridle, 2020):

Falling demand due to the enforced lockdown staggering production;
Broader economic shock;
The increasingly uncertain position of workers; and
The demands for stimulus across the economy including in the electricity sector.

These forces create the need for a fundamental rethink of the short- and medium-term electricity sector reform plans.

The decline in electricity demand has decreased Eskom's revenues by several billion rands which has consequently further exacerbated the debt burden of the national power utility. Eskom's rising debt will necessitate an increase in immediate

bailouts by the government to sustain the national electricity supply. On the other hand, despite failure to address long-term maintenance challenges, the lower electricity demand has allowed Eskom to undertake vital short-term maintenance on its power stations (Muzondo & Bridle, 2020).

Moody's Credit Rating Downgrade

The increased government debt, stagnating economic growth and lacklustre support for economic reform all provide explanatory reasons for South African government debt being downgraded to below investment grade. Output has further been constrained by electricity constraints due to Eskom's prolonged operational difficulties. South Africa's electricity supply problems have been a commonly stated reason by rating agencies for their outlooks on South Africa. Moody's, the last of the major investment rating agencies to hold South African debt at investment grade, downgraded South Africa on 27 March to Ba1, one level below investment grade. The reason specifically stated by Moody's was as follows: "continuing deterioration in fiscal strength and structurally very weak growth". All three major ratings agencies now have South Africa rated as "junk" with two ratings agencies having their outlook as negative. The downgrade was largely priced into bond yields prior to the announcement (Bloomberg Intelligence, 2020).

More recently, Fitch has voiced the possibility of further downgrades into the sub-investment grade. Fitch has stated that a failure to decrease South Africa's current high debt levels might result in further downgrades. South Africa's planned spending of R500 billion in stimulus in an attempt to bolster the economy against the effects of COVID-19 will see South Africa's debt to GDP rise significantly. Jan Friederich, Fitch's Head of Africa Sovereign Ratings, made the following statement: "A continued rise in the government debt/GDP ratio and failure to formulate a clear and credible path towards stabilising it could lead to a further downgrade in South Africa's 'BB' rating, which is on negative outlook" (Reuters, 2020b). South Africa will now be removed from the world government bond index and as such is uninvestable for many large investment houses and pension funds, contributing to the increase in Rand supply on the open market. In financing the South African COVID-19 response, the reserve bank will have to offer yields with an ailing economy providing little backing.

USD/ZAR Exchange Rate Movements

Being a highly traded risk on currency, the South African Rand has seen significant depreciation against the US Dollar in the first six months of 2020. The Rand opened the year at R14.01 to the Dollar and is at R16.68 to the Dollar at the time of writing, down from above R18.50 in March. Investors globally have sought to close out or reduce positions in emerging markets. This has seen Rand supply well outstripping demand, leading to Rand depreciation as investors move to relatively safer investments such as US T-bills. Whilst a depreciating Rand increases costs for importers, the South African export market will have seen increased yields on their exports, those whose export destination economies were still operating.

Government Responses to COVID-19 in Mines

Upon the commencement of the national lockdown in March, services pertaining to "Gold, gold refinery, coal and mining" were classified as essential services according to the Disaster Management Act: Regulations to address, prevent and combat the spread of Coronavirus COVID--19: Amendment (South African Government, 2020). There were, however, certain rules and conditions imposed on mining operations by the government to ensure the containment of the virus and the safety of workers involved in mining operations. The rules included the following (South African Government, 2020):

Mines had to operate at a reduced capacity of no more than 50% during the lockdown period.

Rigorous screening and testing of employees needed to be conducted regularly.

The mining industry had to provide quarantine facilities for employees who tested positive for COVID-19.

Data collected from screening and testing had to be submitted to the relevant authority.

Government then issued an amendment to the COVID-19 Regulations on 16 April for the partial reinstatement of mining operations, which stipulated that all collieries which supply Eskom had to operate at full capacity, as well as refineries. Mining operations would then operate at increasing capacity as determined by direction issued by the Minister of Mineral Resources and Energy (South African Government, 2020). Mines were subsequently allowed to return to a 100% workforce capacity on 1 June.

When operations resumed in the industry, the department had to shut down some mines which were not complying with COVID-19 prevention guidelines. As of 17 July, 45 mineworkers have reportedly died from COVID-19, with over 5,000 positive cases within the sector having been recorded so far across the country (Minerals Council South Africa, 2020).

A Deepdive into the Mining Sector

South African export growth declined 48.2% year to year from April 2019 to April 2020 with the entirety of the decline experienced in March/April 2020, the month of the local lockdown and the spike in European cases (Bloomberg Intelligence, 2020). Leading the mineral decline was gold with a decline of 84.9% (R3.15 billion), manganese ore declining 76.8% (R3.17 billion) and coal briquettes with a decrease of 36.3% (R2.08 billion) (The Observatory for Economic Complexity, n.d.).

With South African mines being largely labour-intensive, the onset of COVID-19 and the resultant 5 stage lockdown system implemented by the South African government resulted in many mines having to reduce or cease activity. This supply side shock saw production levels and share prices fall accordingly. Of interest, was that the impact of COVID-19 on the world's financial markets became apparent after a surge in demand for gold and other commodities seen as stores of wealth. This led to a rapid rise in the price of gold and largely counteracted the scaleback of production in gold mining equities.

Local heavyweight producers Gold Fields, AngloGold Ashanti and Harmony Gold are all trading at prices significantly above their pre COVID-19 levels. Mining companies usually trade at relatively low P/E ratios due to the stable nature of the industry and low growth scalability, It is thus of interest to note that many mining equities are currently trading at P/E ratios well above average; Gold Fields is trading at a P/E of 53.86 as of the 14th of July.

With South African mines exporting in US Dollars and largely paying costs in Rands, the local currency's depreciation has increased margins from a cost perspective with AISC (All-In Sustaining Costs) being reduced while the price of unhedged gold has increased revenues.

Hard commodities used in production have not had the safety net of gold and other store of wealth commodities. Global production slowdowns in South Africa's main export destinations (China, United Kingdom and the United States of America) over a staggered period resulted in significantly reduced demand for the raw materials that South Africa's vast mining networks provide. This, coupled with the shutdown of mines in the country, effectively froze revenues and are projected to result in job losses for miners; the majority of whose families are dependent on the remittances received from their mining work.

With over 5000 positive cases recorded in South African mines (Minerals Council South Africa, 2020), workers unions who command great power in South Africa are calling for a second shutdown whilst mine owners state that cases are at expected levels and that the rise is due to aggressive testing and the safety mechanisms implemented.

Macroeconomic Outlook

Consistency is the keyword in describing South Africa's macroeconomic state. It's no secret that there are few, if any, bright sparks in South Africa's consistently dark, contracting economy. South Africa has faced deteriorating macroeconomic health, measured by metrics like high unemployment of 30% currently and low, shrinking output for years due to deep roo-

ted structural challenges that the country faces. This is embodied by the further predicted 7% contraction in output for the year to come. The negative trends in these metrics were only amplified by the onset of COVID-19.

In addition to consistently deteriorating measures of economic health, South Africa faces a mountain of debt predicted to reach and even exceed the 100% level in years to come which will be a consistent weight on it's economic growth. The country faces a large electricity supply issue due to it's failing state-owned energy supplier, Eskom, whose rolling blackouts have further dampened production. These are only some of the reasons why South Africa has been downgraded to sub-investment credit ratings by all 3 major credit rating agencies.

The reserve bank has cut rates to a historical low of 3.75% and embarked on government debt instrument purchasing in a desperate attempt to stimulate the economy. It's uncertain if this monetary policy tourniquet is enough to make material improvements. Many economists share the opinion that South Africa needs more than just monetary stimulus to reform the economy. Rather, dramatic structural reform is needed. And it is needed sooner, rather than later.

GLOBAL REPORT

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