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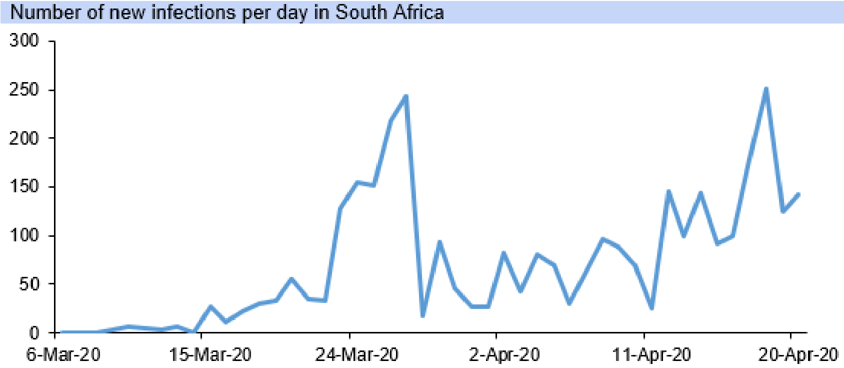
SA Economics

Covid-19 note

Wednesday 22 April 2020

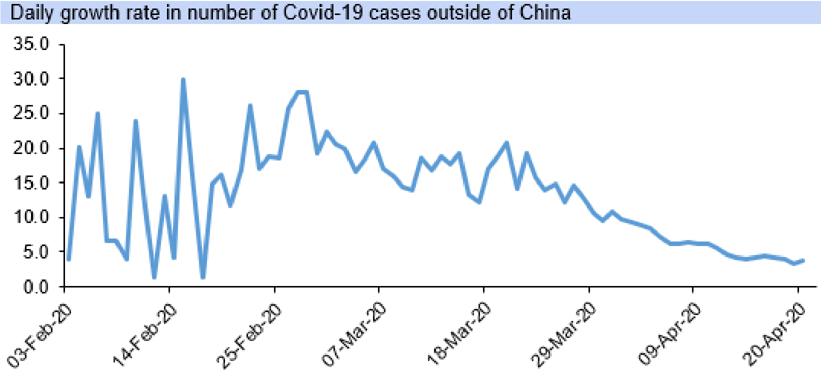
The R500bn stimulus package for South Africa's economy (close to one tenth of GDP) announced last night is well targeted – but efficient, effective implementation will determine how successful it will be

Number of new infections per day in South Africa



Source: ECDC

Daily growth rate in number of Covid-19 cases outside of China



Source: World Health Organisation

- With the impact of Covid-19 rapidly developing, the global recession is increasingly expected to be worse than previously thought, with a deep, lengthy downturn exceeding 2008-09s. South Africa is also seeing forecasts for its GDP revised significantly lower, with many tending towards the -5% y/y to -10% y/y range, up from smaller contractions initially forecast.

- President Cyril Ramaphosa's announcement of a R500bn fiscal stimulus plan for South Africa last night is near 10% of GDP, and was not chosen lightly. The R500bn support package is well targeted, with a high focus on providing bridging finance for corporates (R200bn), as well increasing healthcare and providing some measures of alleviation of poverty.

- Specifically, the package is broken down into a) an extra-ordinary health budget, with R20bn for healthcare for in the face of Covid-19 Relief, b) relief from hunger and social distress, including R50bn for temporary 6 month Covid-19 grants, increasing existing grants, food assistance through vouchers and cash transfers and R20bn for emergency water supply.

- Furthermore, c) support for companies and workers of R100bn for protection and creation of jobs, and a R200bn loan guarantee scheme for SMMEs (in partnership with SARB, banking sector and National Treasury), and d) a phased reopening of the economy that is risk adjusted, balancing the need to get back to work with the health risks.

- The "R200 billion loan guarantee scheme … (is) in partnership with the major banks, the National Treasury and the South African Reserve Bank. This will assist enterprises with operational costs, such as salaries, rent and the payment of suppliers. In the initial phase, companies with a turnover of less than R300 million a year will be eligible."

- The R500bn support package is part of the second phase of government's "economic response to stabilise the economy, address the extreme decline in supply and demand and protect jobs". "The third phase is the economic strategy we will implement to drive the recovery of our economy as the country emerges from this pandemic."

- The President also highlighted other measures that occurred in the first phase, including R70bn tax relief measures, R40bn income support for firms unable to pay staff wages, release of disaster funds, while the 2% repo rate cuts have unlocked R80bn for the economy. These three phases make up government's economic recovery strategy.

- "Central to the economic recovery strategy will be the measures we will embark upon to stimulate demand and supply through interventions such as a substantial infrastructure build programme, the speedy implementation of economic reforms, the transformation of our economy and embarking on all other steps that will ignite inclusive economic growth."

- The President's announcements last night also stated the need for structural reforms and inclusive economic growth. However, South Africa is expected to have been in a three quarter recession before April this year as, the ease of doing business has been deteriorating in SA in the past decade, dragging economic growth down.

- The President has said government will outline the measures to be taken to stimulate economic growth in the coming days, and part of this will include a further phased reopening of the economy, with announcements planned for tomorrow outlining “the measures that will be taken beyond the nationwide lockdown to re-open the economy.”

- The President further promised an “accelerat(ion) …i(n) structural reforms required to reduce the cost of doing business, to promote localisation and industrialisation, to overhaul state owned enterprises and to strengthen the informal sector" … "and that makes our cities, towns, villages and rural areas vibrant centres of economic activity."

- SA has lacked meaningful growth enhancing reforms in the past decade that result in a substantial, sustained turn around in economic activity and business confidence. Instead, the regulatory burden has become increasingly onerous (reduced the ease of doing business) by growing extensively and becoming extremely complex, suppressing production and growth.

- A high ease of doing business means the regulatory environment is more conducive to the starting and operation of a local firm (including a stable electricity supply) versus other countries in the world, and a low ranking means the regulatory environment is comparatively more obstructive (the ease of doing business in a country is ranked by the World Bank).

- There needs to be an enormous reduction in the regulatory burden in SA to spark growth, red tape needs to be cut by over a third as per National Treasury's growth plan. Increasing the ease of doing business has been unsuccessful, despite the new regime in place for over two years, as various political obstacles in a number of quarters have still been in place.

- Unified political will for the structural reforms of National Treasury's growth plan is needed. Government/regulatory efficiency needs to improve substantially to lift the ease of doing business, with government departments quickening delivery time in issuing compliance certificates, clearing their backlogs and activity aiding businesses in compliance.

- The private sector is the true driver of economic growth and job creation in any economy, as the World Bank finds in its Growth Report (Strategies for Sustained Economic Growth and Inclusive Development) where it "reviewed 13 economies that have sustained high economic growth, government is not the proximate cause of growth".

- The funding of the R500bn support plan includes "the reprioritisation of around R130 billion within the current budget", and local sources such as the UIF as well as 'from global partners and international finance institutions", including "the World Bank, International Monetary Fund, BRICS New Development Bank and the African Development Bank."

- Finance Minister Mboweni has recently stated the aim to stabilise the public debt. Instead, the widening of government debt projections substantially further would increase the likelihood of additional credit rating downgrades, making SA's growth objectives more difficult to achieve. The special Budget will detail the reprioritisation of R130bn in expenditure.