

COVID-19: The Stimulus Plan

Economics | South Africa

President Ramaphosa announced a R500 billion social relief and economic support package

- **The broad policy response:** Government's response to the pandemic consists of three phases:
- The **first phase** started in mid-March when the pandemic was declared a national disaster and when government introduced a range of support measures including tax relief, the release of the disaster relief funds, emergency procurement, wage support through the Unemployment Insurance Fund (UIF) and funding for small businesses in distress.
- The **second, or current phase**, is aimed at stabilising the economy and countering the sharp falloff in supply and demand. It essentially consists of a R500 billion, or about 10% of GDP, social relief and economic support package.
- The **third phase**, which is still to come, will be aimed at facilitating the economy's recovery from the COVID-19 shock. In this phase government will attempt to stimulate demand and supply through infrastructure investment, the speedy implementation of economic reforms and 'other' measures to promote transformation and inclusive growth.
- **The focus of phase 2:** The funds will be used to ramp-up health care, provide relief to the hungry and those in social distress, support companies and workers and finally the phased re-opening of the economy (See details in Table 1).
- **Financing the package:** R130 billion will be obtained from the reprioritisation of the current budget, the remaining R370 billion will be financed through both local and global sources. The President did not provide any specifics other than indicating that some of the funding will come from the UIF and the rest from international finance institutions. Government has approached the World Bank, the International Monetary Fund, the New Development Bank (the BRICS bank) and the African Development Bank for support. National Treasury is evaluating the various options.
- **Budget & debt implications:** The package will increase government spending and reduce government revenue through the tax deferrals and other concessions made. Our rough calculations and understanding of the nature of the inventions suggest that government will not need to carry the burden of the full R370 billion left after the reprioritisation of the existing budget. The R200 billion loan guarantee scheme will be financed by the major banks and will therefore not immediately affect government expenditure as the state and the SARB will only be called on to deliver on guarantees if the supported companies fail to recover from the COVID-19 crisis after the lockdown is lifted. On the expenditure side, the immediate impact on government expenditure will be through much increased allocations to health care, social grants, special distress relief grant, other direct support measures and perhaps for some of the UIF payments if there are shortfalls. On the revenue side, the President indicated that the concessions amount to about R70 billion. It therefore appears as if only around R130 billion will be added to the budget deficit from the second phase of support measures. Finance Minister Tito Mboweni is expected to announce new, adjusted budget estimates soon, which should provide a better indication of the impact on government's bottom line. Of course, if the lockdown is extended or the economy fails to recover as the lockdown is lifted, the burden on government will increase exponentially. **Current market estimates of the likely impact on the budget deficit range around 10% of GDP for 2020/21, from the initially budgeted 6.8%.**
- **Economic impact:** The support package is necessary to alleviate human suffering and mitigate the economic costs of the COVID-19 crisis. The increases to social welfare payments and unemployment benefits will provide additional resources to existing beneficiaries and partially replenish the loss of income to the unemployed. Together these measures will ensure that there is at least some, albeit a very modest, level of underlying demand in the economy. It will provide relief, but it is unlikely to provide any boost to the economy for as long as the lockdown is in place. Food, beverages and pharmaceutical retailers and producers will be the main beneficiaries of these specific support measures. The loan guarantee fund is a major positive development. It is soundly targeted and strategic assistance, which will reduce the long-term damage to the economy and government finances by helping to ensure that smaller firms and the jobs they sustain survive this crisis. The details on the re-opening of the economy are expected on Thursday. This plan will have the most significant economic impact. The longer the complete lockdown prevails, the more severe and prolonged the damage will be. At this stage, we still expect the economy to contract by around 7% in 2020.

Group Economic Unit

Table 1: SOCIAL RELIEF & ECONOMIC SUPPORT PACKAGE

Key focus areas	Support details	R billion
Health Response		20
Hunger & social distress relief		50
	Additional support for child support grant beneficiaries:	
	• Additional R300 p.m. in May	
	• Additional R500 p.m. over June–October	
	• Other grant beneficiaries receive an additional R250 p.m for 6 months	
	COVID-19 Social Relief for Distress Grant:	
	• Currently unemployed will receive R350 p.m. for 6 months	
	Accelerated food distribution:	
	• SA Social Security Agency (SASSA) to provide vouchers & cash transfers	
	• Department of Social Development, Solidarity Fund, NGOs & others to distribute 250 000 food parcels	
Municipalities		20
Job protection & creation		140
	Income support for workers whose employers are unable to pay their wages	
	Additional support funding for SMMEs	
	Support to date:	
	• UIF special COVID-19 benefit has paid R1.6 billion to over 37 000 companies & 600 000 workers	
	• Funding for SMMEs to date of R100 million	
Loan guarantee scheme		200
	Partnership between major banks, National Treasury & SARB	
	• Bridging finance for operational costs: salaries, rent & supplier payments	
	• Eligible for firms with turnover of less than R300 million per annum	
	• Scheme estimated to support 700 000 firms & 3 million employees	
	• Banks are ready to roll-out before end-April	
Additional tax relief		70
	• 4-month holiday on the skills development levy contributions	
	• Fast-tracking VAT refunds	
	• 3-month delay for filing & first payment of carbon tax	
	• Threshold of tax deferrals increased to R100 million per annum	
	• Proportion of PAYE payments that can be deferred increased to 35%	
	• Firms with turnover of R100 million p.a. can apply directly to SARS for deferrals	
	• No penalties for late payment to those who can prove material COVID-19 impact	
TOTAL SUPPORT		500

Source: President Ramaphosa's National Address 21 April 2020

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