

## CHAPTER 6.1: MACROECONOMIC IMPACT AND POLICY

### ABSTRACT

In the decade before the Covid-19 pandemic, the South African economy had already been bedevilled by sluggish growth, severe unemployment, extreme poverty and inequality, and low levels of saving and investment. The pandemic, and the lockdown measures that followed, amplified these challenges in an unprecedented manner, with real GDP per capita falling to levels last seen in 2005. The lockdown sharply reduced consumption and production in various sectors, especially during the initial hard lockdown phase in the second quarter of 2020. Overall, real gross domestic product fell by 7% in 2020 – the largest annual contraction in a century. Gross fixed capital formation fell by 17,5%, as investors predictably reduced their spending. The various restrictions on activity necessitated by the pandemic led to a significant loss of livelihoods and a loss of business and investor confidence, as reflected by the poor economic growth and jobs numbers for 2020. However, at a sectoral level, the impact of the pandemic was profoundly asymmetrical, with stark differences between relative ‘winners’ and ‘losers’. The fiscus, which had already been in a precarious position, experienced a sharp reduction in revenue because of lower levels of economic activity. This, combined with Covid-19 containment and stimulus spending demands, caused the budget deficit to widen even further. Monetary authorities responded by cutting interest rates to historic lows. The repo rate was rapidly reduced from 6,25% pre-lockdown to 3,5% in July 2020, where it has remained. Despite these and other policy interventions, the economic costs and fallout of the pandemic and lockdown restrictions will likely be felt for many years to come, as the government struggles with a heavily constrained budget and stubborn inefficiencies in the implementation of key policy reforms. Finally, it should be noted that any conclusions in this chapter on the Covid-19 response are still preliminary and will be refined based on stakeholder consultations and feedback from readers.

### DISCLAIMER

This Country Report on the measures implemented by the South African government to combat the impact of the Covid-19 pandemic in South Africa (including individual research reports that may be enclosed as annexures) were prepared by various professional experts in their personal capacity. The opinions expressed in these reports are those of the respective authors and do not necessarily reflect the view of their affiliated institutions or the official policy or position of the South African government.

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## ABBREVIATIONS AND ACRONYMS

CPI	consumer price index
EPWP	Expanded Public Works Programme
GDP	gross domestic product
MEC	Member of the Executive Council
MTBPS	Medium Term Budget Policy Statement
NIDS-CRAM	National Income Dynamics Study Coronavirus Rapid Mobile [survey]
PPE	personal protective equipment
SARB	South African Reserve Bank
SARS	South African Revenue Service
SME	small or medium enterprise
TERS	Temporary Employee/Employer Relief Scheme
UIF	Unemployment Insurance Fund

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## INTRODUCTION

In the decade before the Covid-19 pandemic, the South African economy had already been bedevilled by sluggish growth, severe unemployment, extreme poverty and inequality, and low levels of saving and investment. The pandemic, and the lockdown measures that followed, amplified these challenges dramatically. The various channels through which the health and economic fabric of the country were simultaneously affected placed policymakers in uncharted territory, having to manage the most unenviable of balancing acts. The economy was hard hit by supply and demand shocks that disrupted domestic production, international trade, and investor spending. The initial hard lockdown phase sharply reduced the consumption of many goods and services, while productive activities in sectors deemed non-essential ground to a halt. This led to a significant loss of livelihoods and a further loss of business and consumer confidence. The net result was the largest contraction in economic activity in over a century, with the real gross domestic product (GDP) falling by 7% in 2020. The fiscus, which had already been in a precarious position, experienced a sharp reduction in revenue because of the reduced economic activity. This, combined with Covid-19 containment and stimulus spending to mitigate the worst of the health and economic fallout, caused the budget deficit to widen even further.

It has been difficult to disentangle the costs of the pandemic itself from the disruption associated with behavioural responses and lockdown regulations, both nationally and internationally. At this stage, therefore, this analysis considers the overall impacts and trends. The quantum of the economic costs depends on the trajectory of infections, the effectiveness of response measures, the extent of the lockdown, and the exit strategy employed. Some of these costs were felt immediately; others are becoming clearer over time (Ajam, 2020).

The impact of government measures differed across sectors, depending on whether these sectors were deemed essential or non-essential, for example. The pandemic necessitated large, coordinated, targeted and timely fiscal and monetary measures in three main areas:

- Funding was needed for *public health and related interventions*, such as emergency care, mass-based testing, and processing; the procurement of personal protective equipment (PPE), medical equipment (e.g., ventilators), and supplies; surveillance, tracking and contact tracing; quarantine accommodation; and public communication. Related support functions, such as temporary field hospitals, public order policing, and the deployment of the defence force also required funding.
- Interventions were needed to *mitigate the economic fallout* of the lockdown and social distancing on companies and workers. Government provided bridging liquidity to sustain companies as going concerns to facilitate a fast post-lockdown recovery, prevent insolvencies and lay-offs, and provide wage support. Monetary authorities responded swiftly, with the South African Reserve Bank (SARB) reducing the repo rate from 6,25% before the pandemic to 3,5% by July 2020. Various banks and financial institutions granted distressed individuals and companies loan payment holidays and other forms of accommodation. The Presidency launched the Reconstruction and Recovery Plan to stimulate the economy and boost its ailing infrastructure.
- *Social safety nets* were provided to prevent hunger and ensure food security.

This chapter considers the impact of the pandemic on the overall economy, along with the fiscal and monetary policy responses. Its sectoral impact is discussed in Chapters 6.2 to 6.5. Any conclusions on the strengths and limitations of the Covid-19 response are still preliminary and will be refined based on stakeholder consultations and feedback from readers. Also, this report focuses on the first and second waves of the pandemic. Policy responses during the further progression of the pandemic will be discussed in the second edition of the Country Report.

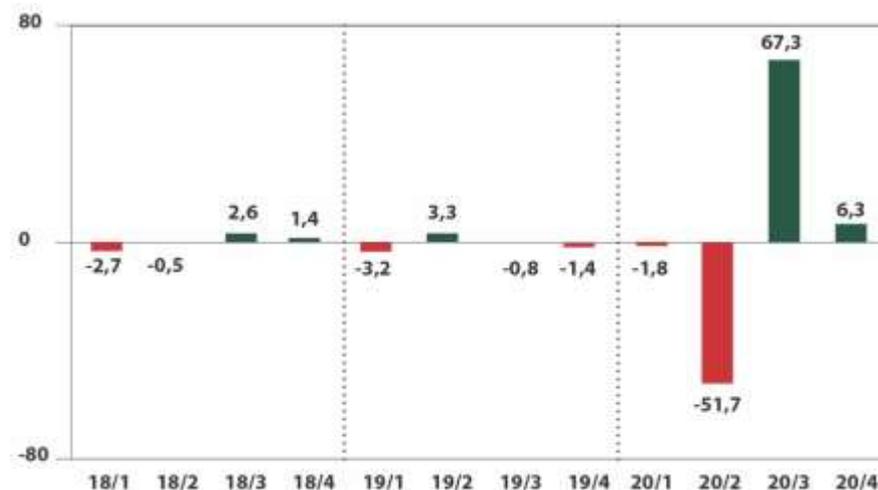
## MACROECONOMIC IMPACTS

This chapter draws on official secondary data sources, including the National Treasury, the SARB, and the Auditor-General of South Africa, up to the end of 2020.

### ECONOMIC GROWTH

South Africa’s economy had already been in technical recession before the pandemic (Figure 6.1.1) as real GDP contracted in three consecutive quarters (-0,8%, -1,4% and -1,8% respectively) until the first quarter of 2020 (National Treasury, 2020c). More worrying was that in per capita terms, real GDP had been declining since 2015, leaving little or no buffer for the working class to accommodate another economic shock.

Figure 6.1.1: Real economic growth per quarter, 2018 to 2020 (%)



Note: Quarter-on-quarter, seasonally adjusted and annualised figures

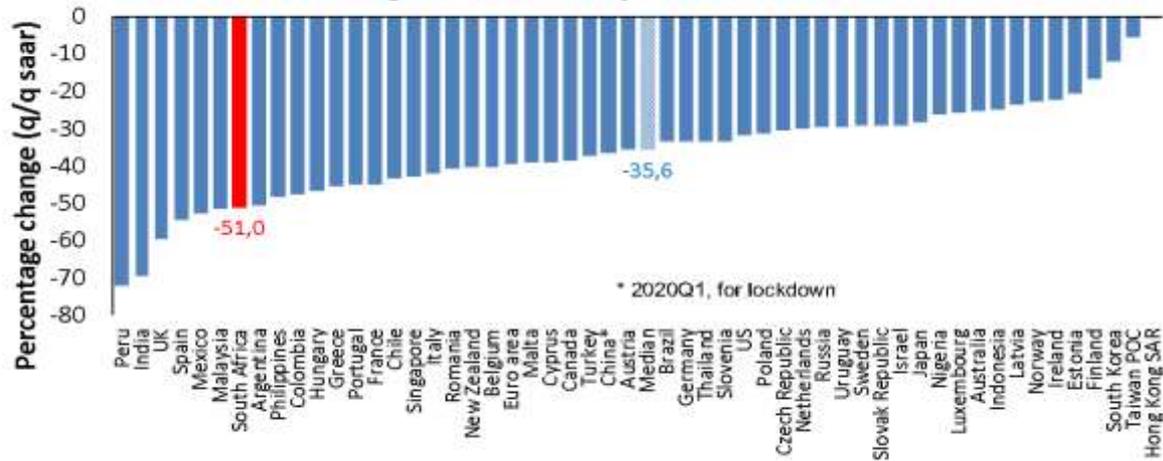
Source: National Treasury, 2021

After the hard lockdown started on 27 March 2020, real GDP in the second quarter plummeted by 17,1% quarter-on-quarter or 51% on a seasonally adjusted, annualised basis – the country’s largest-ever recorded decline in economic activity.<sup>1</sup> It dwarfed that of the global economic crisis, which saw annualised growth rates fall to -2,3% in the last quarter of 2008 and to -6,1% and -1,4% in the first two

<sup>1</sup> When an economy experiences large temporary shocks or rebounds, looking at annualised quarterly growth figures may well be misleading. For example, the annualised growth figures for the South African economy showed an exaggerated 51,7% drop in the second quarter of 2020, followed by a 67,3% recovery in the third. Statistics South Africa has since decided to place less emphasis on annualised figures for headline growth indicators.

quarters of 2009. Also, as Figure 6.1.2 shows, this quarterly contraction was among the most severe in the world, well above the median (-35,6%) and exceeded by only six other countries in the sample, such as Peru, India, the United Kingdom and Spain (SARB, 2020).

Figure 6.1.2: International comparison of annualised economic growth, Quarter 2 2020

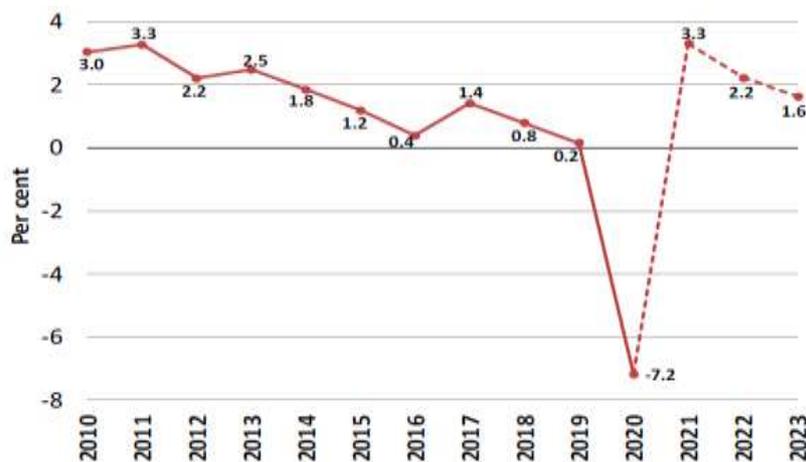


Source: SARB, 2020

As expected, economic growth bounced back strongly in the third quarter of 2020 when lockdown restrictions were eased. However, the recovery in the third and fourth quarters of the year did not fully offset the initial decline. In March 2021, it was revealed that the economy had contracted by 7% in real terms in 2020. Gross fixed capital formation and exports had been particularly hard hit, falling by 17,5% and 10,3%, respectively (Stats SA, 2021a; SARB, 2021a).

By March 2021, lockdown restrictions had largely been lifted, but the travel and hospitality industries remained severely affected by international travel restrictions and a loss of traveller confidence (Chapter 6.3). The National Treasury currently expects economic growth of 3,3% for 2021 and 2,2% for 2022 (Figure 6.1.3 and Table 6.1.1). Whilst growth above 3% would be the highest South Africa has achieved since 2011, it would not be nearly enough to repair the damage of 2020 in a reasonable time.

Figure 6.1.3: Real economic growth and projections, 2010 to 2023 (%)



Source: National Treasury, 2021

Table 6.1.1: Impact on key macroeconomic variables and projections, 2017 to 2023 (%)

	2017	2018	2019	2020	2021	2022	2023
Percentage change:	Actual			Estimate	Forecast		
Final household consumption	-2.1	1.8	1.0	-5.9	2.9	-2.4	2.0
Final government consumption	0.2	1.9	1.5	1.2	-0.1	-1.6	-1.7
Gross fixed-capital formation	1.0	-1.4	-0.9	-18.4	-2.4	3.9	3.9
Gross domestic expenditure	1.9	1.0	0.7	-8.9	3.5	2.7	1.6
Exports	-0.7	2.6	-2.5	-10.9	5.7	3.0	2.8
Imports	1.0	3.3	-0.5	-16.5	6.3	4.6	2.5
<b>Real GDP growth</b>	<b>1.4</b>	<b>0.8</b>	<b>0.2</b>	<b>-7.2</b>	<b>3.3</b>	<b>2.2</b>	<b>1.6</b>
GDP inflation	5.3	3.9	4.0	4.6	3.5	3.7	4.1
<b>GDP at current prices (R billion)</b>	<b>4 654</b>	<b>4 874</b>	<b>5 078</b>	<b>4 935</b>	<b>5 273</b>	<b>5 590</b>	<b>5 915</b>
CPI inflation	5.3	4.6	4.1	3.3	3.9	4.2	4.4
Current account balance (% of GDP)	-2.5	-3.5	-3.0	1.7	-0.1	-1.0	-1.4

Source: National Treasury, 2021

Sectoral growth figures for 2020, shown in Figure 6.1.4 provide additional insight into the asymmetric economic effects of the pandemic. Only the agricultural sector emerged a relative winner in 2020 on the back of a good rainfall season and the comparatively minor restrictions during lockdown (Chapter 6.2). The slight growth in the government sector was accompanied by a large increase in debt. Future government spending will now have to strike a careful balance between supporting the recovery effort (especially in heavily affected sectors such as construction, transport, and tourism) and the general socio-economic and development needs of the country that existed before the pandemic. Apart from the agriculture and government sectors, all other sectors declined in real terms; the construction, transport (Chapter 6.4), and hospitality industries (Chapter 6.3) performed worst because of their unique exposure to the lockdown regulations and subsequent economic fallout.

Figure 6.1.4: Sectoral growth, 2020 (%)



Source: National Treasury, 2021

At present, conservatively projected growth will only see South Africa return to pre-pandemic levels of real GDP by the end of 2023 – one of the slowest anticipated recoveries among the G20 group of

countries. This is mainly due to the negative momentum in the economy that predated the pandemic. With real GDP per capita sinking to 2005 levels by the end of 2020, average South African income levels have effectively been set back more than a decade.

As with investment, international trade was heavily affected in the first and second waves of the pandemic. Both imports and exports fell significantly in 2020, by 16,6% and 10,3% respectively (SARB, 2021). The impact peaked during the second quarter of 2020, when most of the global economy faced lockdown restrictions that either directly limited trade or caused significant disruption to the supply chain. South Africa reported its first current annual account surplus since 2002 on the back of strong export commodity price growth and depressed import demand. Interestingly, despite the large increase in the government borrowing requirement, for the first time in nearly 20 years domestic savings was sufficient to meet the investment financing demand.

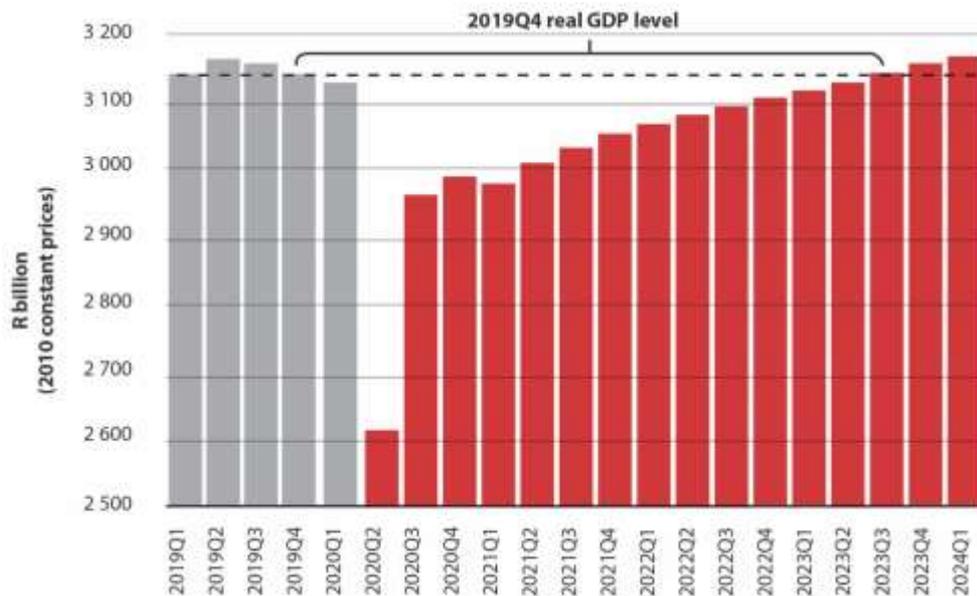
Inflation, as measured by the consumer price index (CPI), was predictably subdued during 2020, coming in at 3,3% for the year, as a result of lockdown restrictions and limited demand-side pressure. Inflation is projected remain muted and below the SARB's mid-range target of 4,5% over the medium term, suggesting that low interest rates should be sustainable over this time horizon.

The effects of the lockdown were exacerbated by extensive load shedding that persisted into 2021, despite the easing of demand-side pressure; worse, there is little hope of improvement in the near term (Chapter 6.6). However, other conditions are conducive to a recovery: production will be boosted in 2021 by a reversal of the steep destocking that occurred in 2020, a recovery in business investment, and the apparent buoyancy of the global recovery. Also, prices for export commodities have risen, and relief from drought in many areas has increased agricultural exports (Chapter 6.2). At the end of 2020, South Africa's terms of trade was quite favourable (SARB, 2020).

These conducive conditions notwithstanding, the negative impact of the pandemic is expected to persist, as noted. Figure 6.1.3 and Table 6.1.1 above, which show the short-term economic forecasts produced by the National Treasury in the February 2021 Budget Review, indicate that although output should rebound somewhat, it may only return to pre-pandemic levels in 2023. Figure 6.1.5 shows these projections on a quarterly basis. Whilst great uncertainty dominates these forecasts, the slow and protracted nature of the recovery projected in these estimates highlights the cautious approach authorities are currently forced to adopt (National Treasury, 2021).

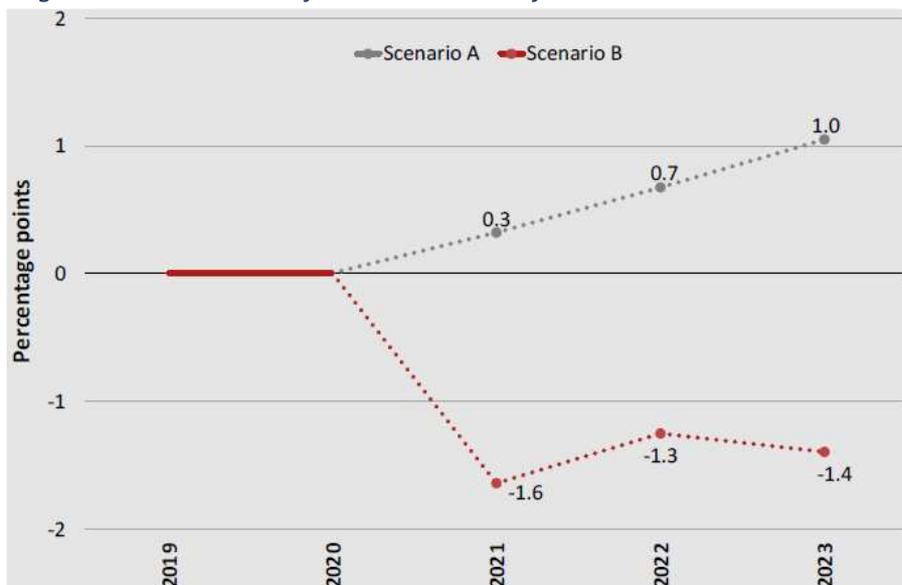
The Treasury also published a sensitivity analysis to these projections, as per Figure 6.1.6. Scenario A assumes better than anticipated implementation and pace of fiscal and essential economic reforms, while Scenario B reflects the impact of another wave of Covid-19 infections, with a weaker vaccine response failing to stem further infections. As can be seen in this analysis, downside risks weigh heavily on the already poor outlook. The deviations shown in Figure 6.1.6 should be interpreted relative to the projected baseline growth shown in Figure 6.1.3 of 3,3%, 2,2% and 1,6% for 2021, 2022 and 2023, respectively.

Figure 6.1.5: Anticipated recovery in real GDP



Source: National Treasury, 2021

Figure 6.1.6: Deviations from baseline GDP forecast



Source: National Treasury, 2021

A final note on economic growth relates to the Presidency’s Reconstruction and Recovery Plan announced at the end of 2020. Whilst this is discussed in more detail later, it is worth noting the potential contribution of this plan to a recovery in investment. South Africa’s ailing infrastructure is set to receive a huge boost, with particular emphasis on energy and green economy ventures. The combination of short-term spending stimulus and long-term productivity benefits is ideal for improving the economic growth prospects of the country in the wake of Covid-19.

## LABOUR MARKET

Figure 6.1.7 shows the impact of the lockdown on the labour force in terms of employment. This data from the Quarterly Labour Force Survey indicates that over 2 million jobs were lost during the second quarter of 2020, when strict lockdown measures were in place. The majority of people who lost their jobs were informal sector workers and those in sectors hit hardest by the restrictions, such as construction and tourism. By the end of 2020, total employment was still down nearly 1,4 million (8,5%) relative to levels at the end of 2019.

Figure 6.1.7: Impact on employment, 2014 to 2020



Source: Stats SA, 2021b

As did the annualised GDP growth figures, unemployment figures initially caused confusion because of the way the official 'narrow' definition of unemployment is calculated. With unemployed workers unable to actively look for work – a requirement to be considered part of the labour force – during the second quarter of 2020 because of lockdown restrictions, official unemployment actually fell, despite the massive number of jobs lost. This anomaly was reversed once lockdown restrictions had been eased. The official unemployment rate reached a record high of 32,5% during the fourth quarter of 2020. In terms of the expanded definition, which adds discouraged work seekers, unemployment was an even more depressing 42,6% (Stats SA, 2021b).

The National Income Dynamics Study (NIDS) ran the first Coronavirus Rapid Mobile (CRAM) survey in June 2020, asking questions about February and April 2020. Wave 2 asked questions about the experience of the 6000 adult respondents during June 2020. It found that employment may have fallen by up to 3 million people (-18%) from 17 million in February 2020 to only 14 million in April 2020 (Figure 6.1.8). Also, the jobs lost between February and April had not returned by June. In addition to the people who lost their jobs, 1,4 million were furloughed – they did not work or receive salaries but could return to their jobs at a later stage. By June 2020, the number of furloughed workers had returned to pre-Covid levels, with half being 're-employed' and about 40% being retrenched.

Figure 6.1.8: NIDS-CRAM Survey Wave 1



Source: Spaull, Ardington et al., 2020

For many people, childcare was a significant problem during lockdown. About 3,4 million female and 1,7 million male respondents reported that looking after children in June 2020 either prevented them from going to work or made work very difficult. Similar numbers said they struggled to work their usual hours or search for jobs for this reason.

Vulnerable employees (especially women, young, rural, unskilled manual and less-educated workers) bore the brunt of the job losses. The poorest 50% of workers saw a net decline of 31% in employment, whereas the figure for the richest 25% was only 3%. Informal workers experienced a net 14% decline, twice that of workers in the formal sector (Spaull, Oyenubi et al., 2020).

About 30% of newly retrenched or furloughed people had no access to social grants (Chapter 5.3). About 47% of respondents said they had run out of money to buy food in a single month (April), up from 21% of households before the pandemic. By end-June, a UNDP (2020) study concluded that the stimulus package might be insufficient, given that households would lose at least 40% of their income even if they qualified for the special Temporary Employee/Employer Relief Scheme (TERS).

The third wave of the NIDS-CRAM survey (Wave 3) was conducted in October 2020. It showed evidence of a strong labour market recovery as lockdown restrictions were progressively eased. These findings were supported by the results of Statistics South Africa’s Quarterly Labour Force Survey for the period. Although the survey did not show quite as strong a recovery as did NIDS-CRAM, this might be due to timing and coverage effects. As Figure 6.1.9 shows, in Wave 3 the percentage of people employed was much closer to its pre-pandemic level in February 2020, albeit still fractionally lower.

Figure 6.1.9: Labour market transitions, February to October 2020



Source: Spaull, Daniels et al., 2021

## GOVERNMENT'S COVID-19 ECONOMIC RESPONSE

Before the lockdown, government announced a raft of initiatives to cushion the impact of the pandemic (Table 6.1.2). It aimed to contain the virus, extend a social safety net, reduce job losses, and prevent a collapse in wage payments. The fiscal and monetary measures, however, amounted to only R3,7 billion (0,1% of 2018 GDP or US\$4 per capita) if the costs of direct health interventions were excluded. In April 2020, President Ramaphosa announced a more substantial package of R500 billion. The first R310 billion comprised tax relief, a credit guarantee scheme, and wage protection. The Covid-19 Supplementary Budget, tabled on 24 June 2020, set out another R145 billion, financed mainly from reprioritised spending (e.g., delaying infrastructure projects) and loans from the International Monetary Fund, the New Development Bank, and the African Development Bank. By the end of 2020, the Presidency published the basic details of its formal Reconstruction and Recovery Plan, which aims to stimulate the economy. The plan promises large-scale investment in basic infrastructure, with an emphasis on promoting energy security and the green economy. The February 2021 Budget prioritised significant resources and funding in this regard, although final details are still being worked out.

Table 6.1.2: Economic response measures

1	The Unemployment Insurance Fund (UIF) provided a <i>Temporary Employee/Employer Relief Scheme</i> (TERS) of over R30 billion to enable companies to pay employees directly and avoid retrenchment.
2	The <i>Employment Tax Incentive</i> was expanded to provide a subsidy of up to R500 per month for four months for private sector employees earning less than R6 500. Also, the payment of employment tax incentive reimbursements was to be accelerated.
3	From 1 April, <i>social grants</i> for older persons and disability grants increased to R1 860 and those for war veterans and persons older than 75 years to R1 880. Foster child grants rose to R1 040 per child, care dependency grants to R1 860, and child support grants to R440 per child.
4	R500 million was allocated to assist distressed <i>small and medium enterprises</i> (SMEs), using a simplified application process.
5	R3 billion was allocated to <i>industrial funding</i> for vulnerable firms and fast-track financing for companies.
6	R200 million was allocated for SMEs in the <i>tourism</i> and hospitality sector.
7	The Industrial Development Corporation allocated R3 billion in funding to allow firms that produce <i>essential goods</i> to scale up operations.
8	Tax-compliant businesses with a turnover of less than R50 million were permitted to delay 20% of their <i>pay-as-you-earn</i> liabilities between April and July 2020, along with a portion of provisional corporate income tax payments, without penalties or interest over the next 6 months.
9	The South African Future Trust was established to provide a further R1 billion in <i>zero-interest funding to distressed SMEs</i> . Government provided seed funding – R100 million from the National Treasury and R50 million from the National Lottery.
10	Employer contributions to the <i>Skills Development Fund</i> were suspended for four months.
11	The <i>Compensation Fund</i> was to pay employees who fell ill through exposure at their workplace.
12	All major banks announced options for <i>payment holidays</i> and debt restructuring for SMEs and individuals unable to meet their obligations.
13	Commercial banks were exempted from provisions of the Competition Act to enable them to develop <i>common approaches to debt relief</i> and other necessary measures.
14	The Presidency's <i>Reconstruction and Recovery Plan</i> was announced at the end of 2020, promising large-scale infrastructure and energy investments to help stimulate economic growth and job creation.

## MONETARY MEASURES AND COSTS

The Reserve Bank is the monetary authority, the macro- and micro-prudential regulatory authority for the financial system, and the banker to the central government. Table 6.1.3 outlines the SARB's Covid-19 response, which includes more accommodative monetary policy, a temporary relaxation of macro-prudential requirements, and a loan guarantee scheme, among other measures.

*Table 6.1.3: SARB monetary response measures*

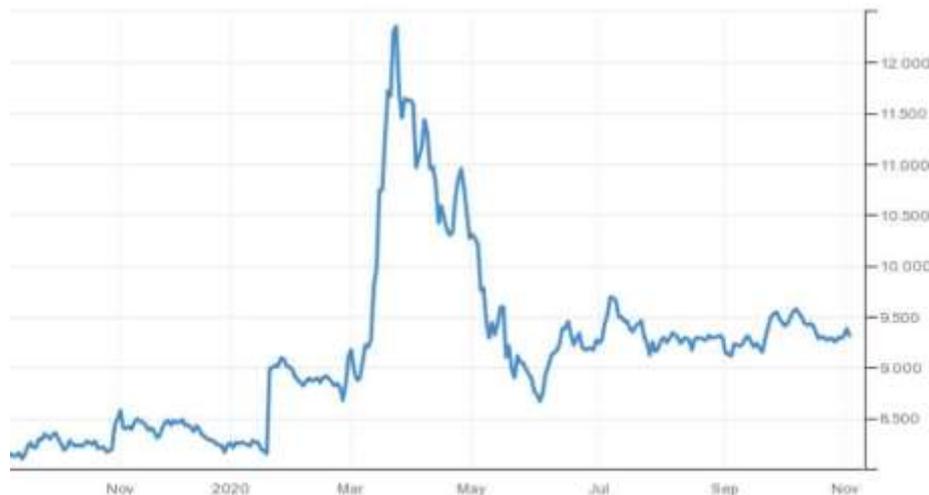
1	Cut the <i>repurchase</i> ('repo') policy rate by 100 basis points to 5,25% on 20 March 2020, and again to 3,5% in July 2020, thereby injecting much-needed liquidity.
2	Signalled a more <i>accommodative monetary policy</i> stance, thereby influencing expectations.
3	Protected the functioning of financial markets, particularly the bond market, by <i>purchasing government bonds</i> across the entire yield curve on illiquid secondary markets. This supported liquidity, bolstered confidence in the bond market, and lowered long-term interest rates by reducing the bond supply.
4	Enabled temporary debt service relief to firms and individuals by temporarily amending Directive 7 of 2015 to lower the <i>minimum capital requirements</i> for banks relating to credit risk.
5	Helped sustain access to term credit by <i>temporarily relaxing macro-prudential regulatory requirements</i> : lowering the liquidity coverage ratio from 100% to 80%; temporarily reducing the systemic risk buffer (Pillar 2A) requirement to zero; and allowing banks to draw down on their capital conservation buffer of 2,5% as per regulation 38(8)(e)(iv)(D). This aimed to facilitate the extension of bank credit to sectors in need of liquidity, particularly households and small businesses.
6	Initiated a <i>debt relief programme</i> by issuing guidelines on 25 March 2020 for debt relief to bank customers. By 28 September 2020, commercial banks had extended R33,61 billion in payment breaks on credit agreements as voluntary relief (BASA, 2020).
7	Launched a <i>loan guarantee scheme</i> to incentivise banks, through a risk-sharing arrangement, to extend guaranteed loans at preferential rates (prime) to distressed businesses with an annual turnover of less than R300 million for operational expenses (e.g., salaries and rents). Firms should have been in good standing before the pandemic, be registered for taxes, have insufficient borrowing capacity to fund monthly operating expenses, and have been adversely affected by the lockdown. Banks get funds from the SARB at the repo rate plus 0,5% and on-lend to firms at the repo rate plus 3,5%, with 5 years for repayment and a 6-month payment holiday (National Treasury, 2020a). Any losses from loan defaults are first offset against margins earned on the portfolio of Covid-19 loans. Subsequent losses are offset against a guarantee fee payable to the National Treasury by banks, set at 0,5% of the loan. Any further losses are shared, with the first 6% absorbed by the banks and the rest by the National Treasury. See Chapter 6.5 for a more detailed discussion of this scheme.

Figure 6.1.10 shows that the day after the lockdown was announced on 23 March 2020, yields on long-term bonds shot up from 9% to 13%. The SARB took the unprecedented decision to inject liquidity into secondary bond markets by buying government bonds (as per Table 6.1.3). The bond markets stabilised, with yields dropping to around 11,4% in nominal terms and 8% in real terms. However, yields remained much higher than those for risk-free assets in comparable emerging markets; this potentially undermined the sustainability of debt servicing. Nominal yields continued to decline, reaching 9,5% by November 2020, although rates remained fairly stable in real terms.

By adhering to prudent monetary policy and maintaining a flexible exchange rate, the SARB has helped maintain macroeconomic stability. It kept the repo rate at 3,5% from July 2020, where it remains in

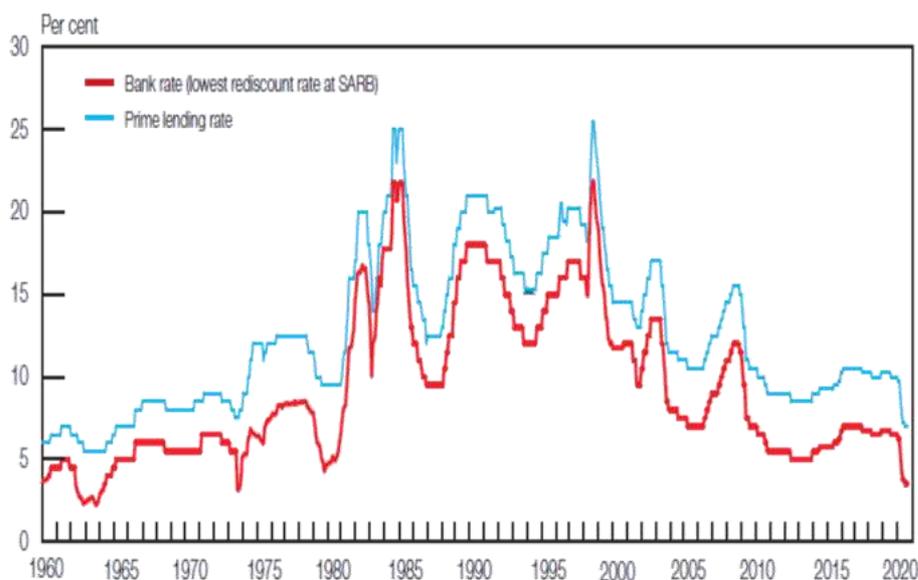
May 2021 – the lowest since its inception in 1998. This was appropriate given that inflation had also been well below the SARB’s mid-range inflation target since 2020 (Figure 6.1.11).

Figure 6.1.10: Ten-year government bond yield, September 2019 to November 2020



Source: Trading Economics, 2020

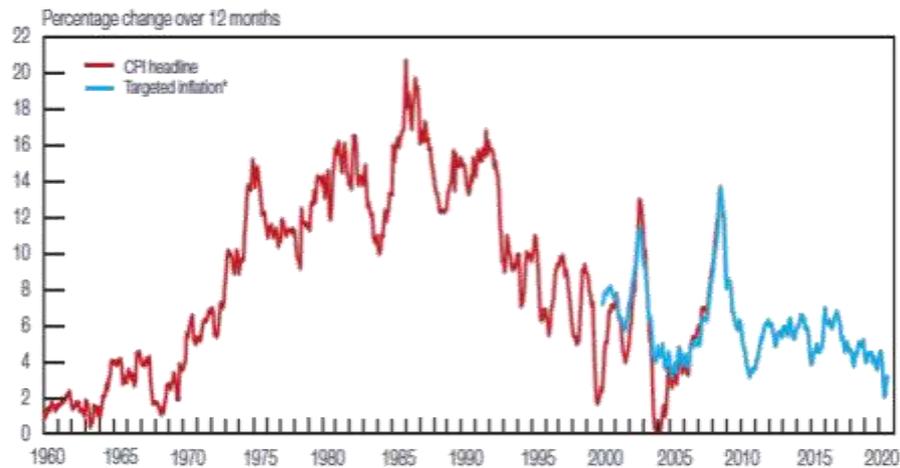
Figure 6.1.11: Interest rates, 1960 to 2020 (%)



Source: SARB, 2020

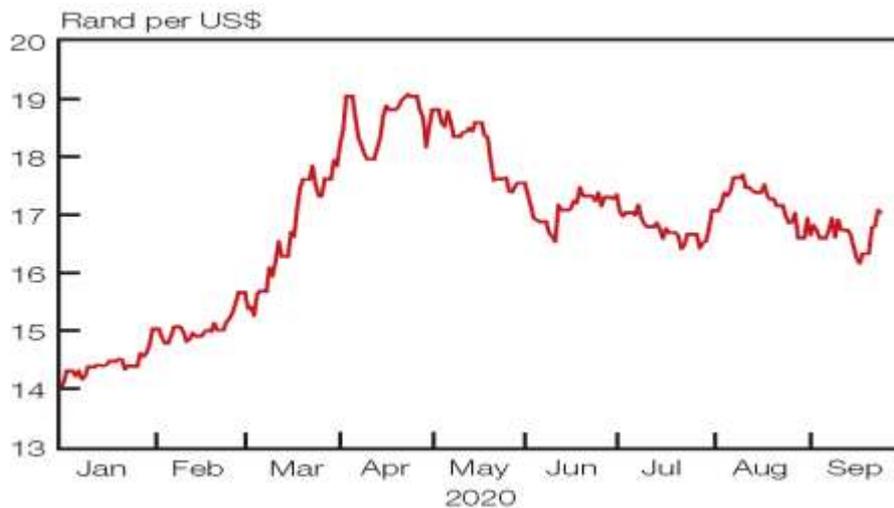
The inflation rate is shown in Figure 6.1.12 and the exchange rate in Figure 6.1.13: March to May 2020 saw rapid depreciation of the nominal rand-US dollar exchange rate, which dropped to a record low of R19,36 to the US dollar on 6 April. Although the currency has since appreciated, it remains slightly weaker than pre-pandemic levels, fluctuating between R14,50 and R15,50 to the US dollar during 2021. The strong recovery of the rand since the second half of 2020 is illustrated in Figure 6.1.14, which shows the effective exchange rate. The South African currency outperformed all other emerging market currencies during this period up to the end of the first quarter of 2021, further damaging the country’s beleaguered manufacturing sector (Chapter 6.5).

Figure 6.1.12: Inflation rate, 1960 to 2020 (% change over 12 months)



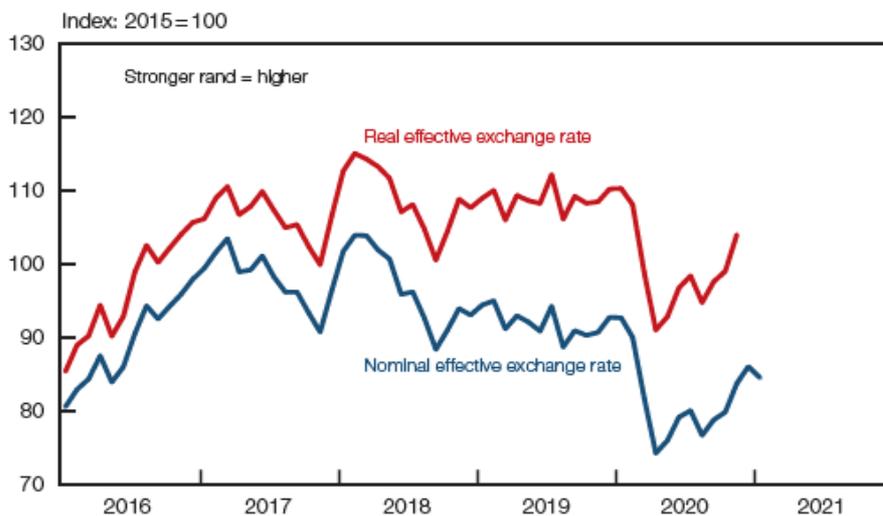
Source: SARB, 2020

Figure 6.1.13: Rand-US\$ exchange rate, January to September 2020



Source: SARB, 2020

Figure 6.1.14: Rand effective exchange rate, 2016 to 2021



Source: SARB, 2021

## FISCAL MEASURES AND COSTS

The next section provides a broad timeline of fiscal measures during the Covid-19 pandemic, from the February 2020 Budget to that of 2021. Some specific relief measures are discussed – the UIF’s TERS and the Covid-19 social relief of distress grant; this is followed by a brief look at some of the non-financial constraints in the provision of fiscal support.

### FEBRUARY 2020 BUDGET

Despite government’s stated commitment to fiscal consolidation for the better part of the last decade, the fiscus faced significant sustainability challenges even before the pandemic. The February 2020 Budget anticipated a budget deficit of 6,8% of GDP for the 2020/21 fiscal year even before the effects of Covid-19 started to unfold, up from an already precarious 5,7% the previous year. With economic growth stagnating, and falling in per capita terms since 2015, tax revenues had already been under pressure. Notwithstanding the structural deterioration in the economy, significant fiscal consolidation has long been deferred to fund, for example, transfers to state-owned enterprises (e.g., Eskom), new entitlements (e.g., free university education), and the escalating costs of the public service wage bill.

### JUNE 2020 COVID-19 SUPPLEMENTARY BUDGET

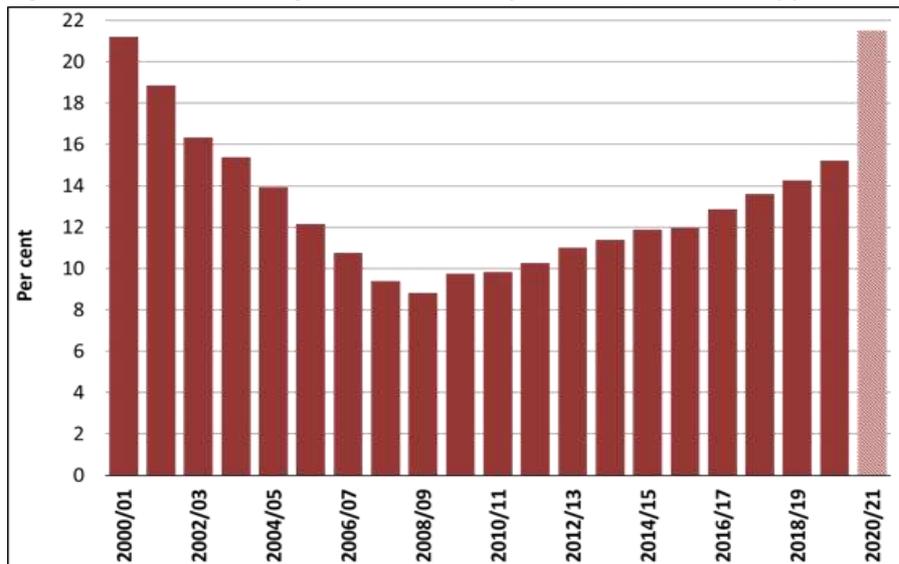
By June 2020, the fiscal situation had deteriorated significantly. The Covid-19 Supplementary Budget anticipated a main budget deficit of 14,6% for 2020/21 (Table 6.1.4) and a consolidated deficit (including municipalities, state-owned entities, and social security funds) of 15,7% of GDP. It envisaged a sharp rise in debt service costs to nearly 22% of main budget revenue (Figure 6.1.15) and 11,6% of consolidated expenditure in 2020/21. The debt-to-GDP ratio was expected to increase from 64% in 2019 to 82% in 2020/21. If a passive approach were followed, the debt ratio could spiral to 141% by 2028/29. To mitigate this risk, the minister of finance proposed an ‘active’ debt stabilisation trajectory which aimed to cap the debt-to-GDP ratio at a peak of 87% in 2023/24 before reducing it to under 74% by 2028/29 (Figure 6.1.16).

Table 6.1.4: Covid-19 Supplementary Budget, main budget framework, 2020/21

R billion/percentage of GDP	2019/20	2020/21	
	Preliminary	Budget 2020	Revised
<b>Main budget revenue</b>	<b>1 345.3</b>	<b>1 398.0</b>	<b>1 099.5</b>
	26.2%	25.8%	22.6%
<b>Main budget expenditure</b>	<b>1 690.6</b>	<b>1 766.0</b>	<b>1 809.2</b>
	32.9%	32.5%	37.2%
Non-interest expenditure	1 485.8	1 536.7	1 572.7
	28.9%	28.3%	32.4%
Debt-service costs	204.8	229.3	236.4
	4.0%	4.2%	4.9%
<b>Main budget balance</b>	<b>-345.3</b>	<b>-368.0</b>	<b>-709.7</b>
	-6.7%	-6.8%	-14.6%
<b>Primary balance</b>	<b>-140.5</b>	<b>-138.7</b>	<b>-473.2</b>
	-2.7%	-2.6%	-9.7%

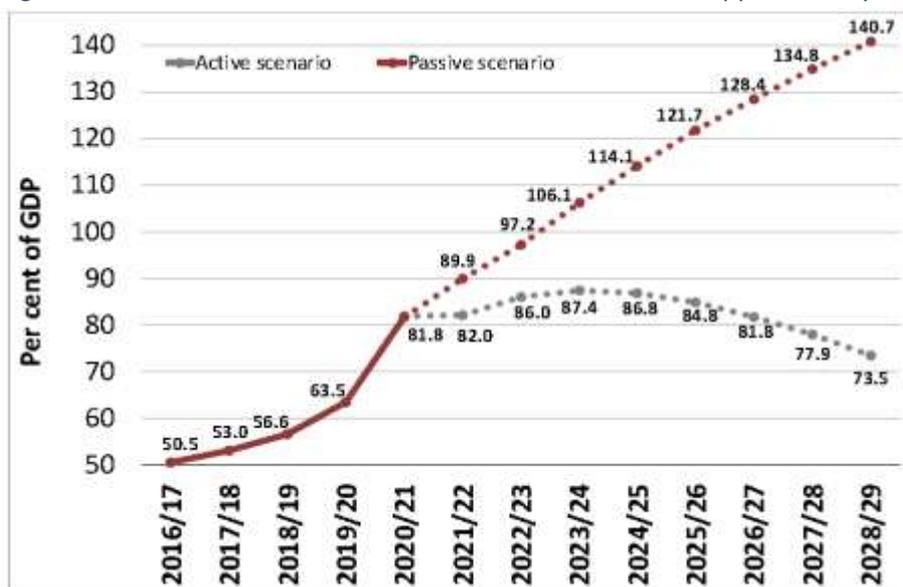
Source: National Treasury, 2020b

Figure 6.1.15: Main budget interest as % of revenue, Covid-19 Supplementary Budget



Source: National Treasury, 2020b

Figure 6.1.16: Debt outlook scenarios, June 2020 Covid-19 Supplementary Budget

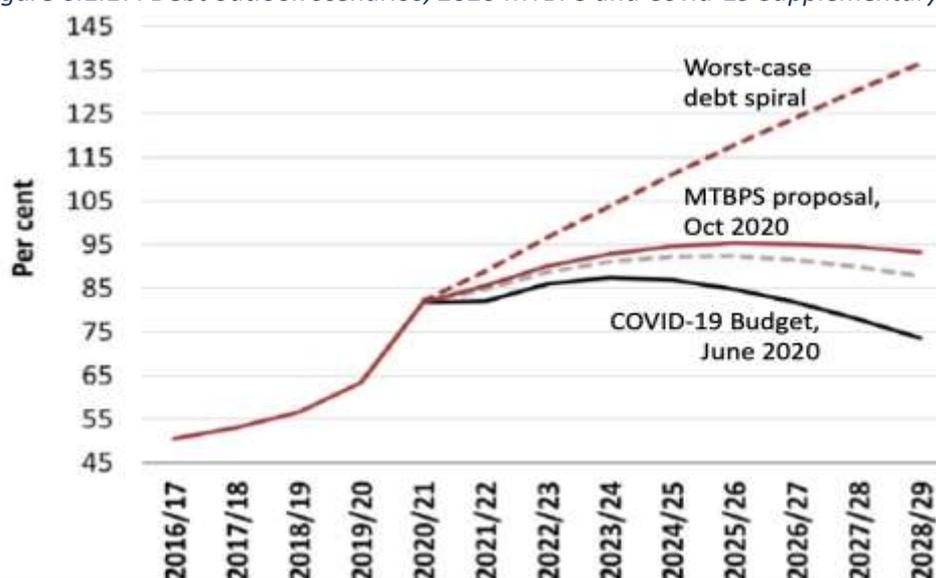


Source: National Treasury, 2020b

## OCTOBER 2020 MEDIUM TERM BUDGET POLICY STATEMENT

By October 2020's Medium Term Budget Policy Statement (MTBPS), the outlook for economic growth had been reduced from -7,2% to -7,8% in 2020/21. Instead of the three-year fiscal consolidation proposed in June 2020, the consolidation period was extended to five years, with a debt-to-GDP ratio of 81,8%, as against the 87% anticipated in June 2020 (Figure 6.1.17). Whereas the revised 2020/21 outcome in the MTBPS was largely the same as in the Covid-19 Supplementary Budget (Table 6.1.4 above), the main budget deficits over the medium term were projected at -10,1%, -8,6% and -7,3% of GDP in the next three years.

Figure 6.1.17: Debt outlook scenarios, 2020 MTBPS and Covid-19 Supplementary Budget



Source: National Treasury, 2020c

Table 6.1.5 shows medium-term expenditure priorities from the 2020 MTBPS. Learning and culture (19,5%), social development (15,5%) and health (11,1%) are the largest expenditure items in 2020/21, accounting for almost half of consolidated spending (including the June 2020 adjustments). Next largest are the national debt service obligations. Debt is the fastest-growing expenditure item, escalating by about 16,1% a year between 2021/22 and 2023/24.

Table 6.1.5: Consolidated expenditure by function, 2020 MTBPS

	2019/20	2020/21	2021/22	2022/23	2023/24	Average
	Outcome	Revised <sup>2</sup>	Medium-term estimates			annual growth 2020/21 – 2023/24
<b>R billion</b>						
Learning and culture	383.4	398.3	399.0	406.7	411.3	1.1%
Health	223.2	226.2	235.3	242.0	246.3	2.9%
Peace and security	212.8	216.8	210.7	213.3	214.5	-0.4%
Community development	197.0	208.2	221.1	232.2	236.4	4.3%
Economic development	196.7	211.3	224.7	236.3	242.0	4.6%
General public services	66.2	69.8	71.0	70.4	71.2	0.6%
Social development	298.7	315.4	312.2	329.9	335.7	2.1%
Payments for financial assets	66.0	86.5	42.9	26.2	23.7	–
<b>Allocated by function</b>	<b>1 644.0</b>	<b>1 732.6</b>	<b>1 716.7</b>	<b>1 757.0</b>	<b>1 781.0</b>	<b>0.9%</b>
Debt-service costs	204.8	225.9	271.8	317.6	353.1	16.1%
Contingency reserve	–	–	5.0	5.0	5.0	–
<b>Consolidated expenditure</b>	<b>1 848.8</b>	<b>1 958.4</b>	<b>1 993.5</b>	<b>2 079.6</b>	<b>2 139.2</b>	<b>3.0%</b>
<b>Consolidated expenditure including June 2020 budget adjustments</b>	<b>1 848.8</b>	<b>2 037.8</b>	<b>1 993.5</b>	<b>2 079.6</b>	<b>2 139.2</b>	<b>1.6%</b>

Source: National Treasury, 2020c

Given that total consolidated spending over the medium term is expected to grow by only 1,6% per year, the increasing interest costs will crowd out other expenditure. The next-fastest growth is in economic development (4,6%) and community development (4,3%), mainly because of above-inflation growth in spending on road infrastructure and access to basic services, in line with the economic recovery plan. Spending on health, learning and culture, and social development is expected to decline in real terms over the medium term (National Treasury, 2020c).

## FEBRUARY 2021 BUDGET

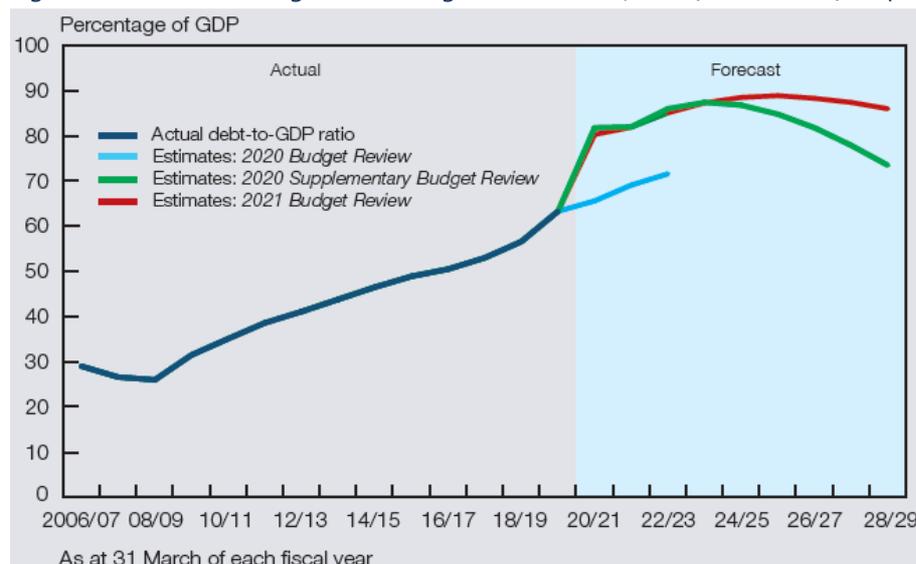
By February 2021's Budget Review, more certainty was provided about the projected budget balances in the wake of the pandemic (Table 6.1.6). The National Treasury's latest projections saw the main budget deficit revised to 12,3% for 2020/21 and recovering somewhat to 6,5% by 2023/24, largely in line with estimates from the MTBPS. The Budget Review also confirmed the dire debt projections discussed above, with the debt-to-GDP ratio expected to stabilise at 88,9% in 2025/26. Figure 6.1.18 shows the recent increases in the debt-to-GDP and projections as of March 2021. Table 6.1.7 in Annex 6.1.1 shows the latest available expenditure priorities from the 2021 Budget Review. The structure of expenditure in the 2021 Budget was largely similar to that presented in the 2020 MTBPS (National Treasury, 2021).

Table 6.1.6: Main budget framework, 2021 Budget Review

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
<b>R billion/percentage of GDP</b>				<b>Revised estimate</b>	<b>Medium-term estimates</b>		
<b>Revenue</b>							
Gross tax revenue after proposals	1 216.5	1 287.7	1 355.8	1 212.2	1 365.1	1 457.7	1 548.5
Non-tax revenue	19.2	23.9	27.6	26.4	27.7	28.6	30.4
SACU	-56.0	-48.3	-50.3	-63.4	-46.0	-33.4	-58.0
National Revenue Fund Receipts	16.6	12.0	12.8	25.6	4.9	0.8	1.1
<b>Main Budget Revenue</b>	<b>1 196.4</b>	<b>1 275.3</b>	<b>1 345.9</b>	<b>1 200.8</b>	<b>1 351.7</b>	<b>1 453.7</b>	<b>1 522.0</b>
	25.5%	25.9%	26.7%	24.4%	25.3%	25.7%	25.4%
<b>Expenditure</b>							
National departments	592.6	634.3	749.7	804.5	763.3	736.3	739.0
Provinces	538.6	572.0	613.4	628.3	639.5	643.3	646.8
Local government	111.1	118.5	123.0	138.1	138.1	146.1	148.4
Contingency reserve	-	-	-	-	12.0	5.0	5.0
Provisional allocation not assigned to votes	-	-	-	-	11.6	32.1	33.2
<b>Non-interested expenditure</b>	<b>1 242.3</b>	<b>1 324.8</b>	<b>1 486.2</b>	<b>1 571.4</b>	<b>1 564.5</b>	<b>1 562.8</b>	<b>1 572.5</b>
Debt-service cost	162.6	181.8	204.8	232.9	269.7	308.0	338.6
Main budget expenditure	1 404.0	1 506.6	1 690.9	1 804.2	1 834.3	1 870.8	1 911.0
	29.9%	30.6%	32.8%	36.7%	34.3%	33.0%	31.9%
<b>Main budget balance</b>	<b>-208.6</b>	<b>-231.3</b>	<b>-345.1</b>	<b>-603.4</b>	<b>-482.6</b>	<b>-417.2</b>	<b>-389.0</b>
	-4.4%	-4.7%	-6.7%	-12.3%	-9.0%	-7.4%	-6.5%
Primary balance	-45.9	-49.5	-140.3	-370.5	-212.8	-109.2	-50.4
	-1.0%	-1.0%	-2.7%	-7.5%	-4.0%	-1.9%	-0.8%

Source: National Treasury, 2021

Figure 6.1.18: National government gross loan debt, 2006/07 to 2028/29 (% of GDP)



Source: SARB, 2021

## TARGETED INTERVENTIONS

### Temporary Employee/Employer Relief Scheme

The UIF's TERS plan covered workers who tested positive for Covid-19, who needed to be quarantined because of exposure, or whose work time or benefits had been reduced (Chapter 5.3). The benefit was made available to employers who had registered with the UIF and made the required monthly UIF contributions. It was payable for the shorter of the national lockdown period or three months, with subsequent extensions announced in 2021. The minimum benefit was equal to either the national minimum wage of R3 500 per employee or the sectoral minimum wage, and the maximum was R6 370.

At the start of the scheme, only employers could claim for their employees, and employees were paid through either the employer or the relevant Bargaining Council. As of June 2020, employees, including workers not registered with the UIF, could claim the benefit directly. By February 2021, the scheme had disbursed R57 billion to over 4,5 million beneficiaries from over 931 000 employers (National Treasury, 2020c & 2021). Some elements of the stimulus that were due to expire were extended in the February 2021 Budget. However, it should be recognised that administrative difficulties and delays caused significant frustration for many beneficiaries. For example:

- Disbursements were made long after the months for which they were paid. A well-designed employee/employer relief scheme should be able to respond more quickly.
- There were long delays in government decisions on extensions during later lockdown periods.
- The various revisions to the directives contributed to disputes and differences of interpretation.
- There was a tension between the TERS and the National Treasury's wage incentive supplementary benefit – employers could not claim both, and the TERS payment had the effect of undermining the tax benefit.

This is a good example of poor policy coordination. This experience has served as a telling reminder of the need to modernise the social insurance system in South Africa. Possible integration of the administration of this system with the South African Revenue Service (SARS) should be investigated.

### **Covid-19 social relief of distress grant**

The June 2020 Supplementary Budget formally appropriated monthly increases to existing social grants for six months (many until October 2020). A special R350 social relief of distress grant was appropriated over the same period to help compensate for income lost because of lockdown restrictions on economic activity. Child support beneficiaries received an extra R500 between June and October, and other grant beneficiaries were given R250. The MTBPS noted that government would discontinue these payments but allocated R6,8 billion to the Department of Social Development to extend the Covid-19 social relief of distress grant until 31 January 2021. Another R500 million was earmarked for direct food relief and R589 million for social workers and early childhood development workers, given how badly the sector had been affected by the pandemic (National Treasury, 2020c).

By the end of 2020, the social relief of distress grants had reached around 7 million people. The UIF supported another 4 million beneficiaries (National Treasury, 2021) and existing social grants about 17,8 million (12,8 million child support grants; 3,6 million old-age pensions; 1 million disability grants; 340 000 foster care grants; and 155 000 care dependence grants) (National Treasury, 2021). Adding these three numbers suggests that over 35 million payments for social support were made in 2020 during the pandemic, supporting a critical mass of vulnerable people in the economy (Stats SA, 2020).

## **CONSTRAINTS**

### **State capacity**

Programmes that used existing infrastructure (e.g., child support and tax relief) were faster at rolling out relief, whereas new programmes (e.g., the social relief of distress grant) had ‘teething problems’ and took longer to become functional (National Treasury, 2020b). Social development services were also constrained by the lockdown and distancing requirements. Lines for support have been long, as have waiting lines for food parcels, with reports of older people dying in these queues. There have also been allegations of corruption in the distribution of food parcels, leading some to advocate the use of vouchers (WBG, 2020). This suggests that especially in the early part of the pandemic, state capacity and corruption were more of a constraint on social relief than were finances per se.

### **Grants to non-profit organisations**

Another constraint was the delay in or non-payment of grants by provincial social development departments to non-profit organisations for social welfare services. In a judgment handed down in October 2020 by Judge Nicolene Janse van Nieuwenhuizen of the Gauteng High Court, the minister of social development and provincial Members of the Executive Council (MECs) for social development (except the Western Cape) were ordered to pay all early childhood development centres 100% of the

intended subsidy regardless of whether they were operational. Previously, only operational centres were paid, leaving others both unable to operate without subsidies and unable to access subsidies because they were not operating.

## Procurement

After the national state of disaster was announced in March 2020, the National Treasury issued three instruction notes to regulate the emergency procurement of critical health supplies. The third note allowed more flexibility with suppliers to speed up delivery. Soon allegations of fraud and corruption in the procurement of PPE were widely reported in the media (National Treasury, 2020b; see also Chapter 3.2). On 19 August 2020 the Special Investigation Unit announced that it was probing 658 contracts worth R5,08 billion, or almost half the R10,4 billion PPE expenditure reported to the National Treasury.

The Auditor-General issued the first real-time audit report of R147,41 billion in Covid-19 expenditure up to 31 July 2020 (R135,92 billion of the R500 billion fiscal relief package and R11,49 billion in other funds). It noted that procurement controls had been compromised. Poor-quality PPE had been supplied at between double and five times the national prescribed prices, and to companies without tax clearance certificates or that were not registered on the central supplier database, for example. Via the Expanded Public Works Programme (EPWP), the Department of Public Works and Infrastructure (with the Independent Development Trust as implementing agent) was allocated R771 million to source 25 000 workers to help the Department of Health with screening, testing and educational campaigns. The Auditor-General found that by end-June, only 8229 workers had been recruited and R26 million spent on management, administration, and PPE for participants. Because the initiative had been delayed, no payments had yet been made to workers (AGSA, 2020). This does not augur well for scaling up the EPWP for the Covid-19 recovery phase.

Of the 139 companies awarded PPE tenders, the SARS is now investigating 22 tenders (R1,1 billion) that benefited 'politically exposed persons' (the term used in the Financial Intelligence Centre Act for politically connected individuals). Sixty-five of the 139 companies should have been disqualified because they were not tax compliant. Other offences include not being registered for value-added tax or having outstanding tax returns. Some were listed as pubs, car washes, property letting companies or bakeries but were still awarded tenders. The SARS Commission even found that a R60 million contract had been awarded verbally (Merten, 2020).

The National Treasury withdrew the emergency regulations and required all government bodies to revert to an open-tender system. It published the details of Covid-19-related procurement, including the names of companies awarded contracts, and law-enforcement agencies are investigating cases of criminal behaviour. The Treasury also collaborated with the Auditor-General to publish Preventative Control Guidelines, a toolkit to identify fraud, corruption, and misappropriation of funds.

## PRELIMINARY LESSONS LEARNT

There were significant problems in policy coordination and consistency in responding to the economic fallout of the pandemic across sectors, individual businesses, their workers, and households in general. This is highlighted by the number of stimulus and recovery plans announced since March 2020 that have not been implemented properly or failed to mitigate the economic effects of the pandemic as envisioned. Many small business and individuals were left frustrated as promised support either never materialised or was heavily delayed in a time of great distress.

The design of these programmes has been flagged as the most common concern. As noted, in some cases, dubious allocation of resources and awarding of tenders have drained key resources. This is not completely surprising – the combined health and economic shock has been unlike anything the world has witnessed in about a century. There was, at least initially, much uncertainty about the pandemic and which course of action could simultaneously mitigate against the health and economic effects of the pandemic and the resulting lockdown restrictions. Typical oversight and procedural scrutiny were, understandably, partially set aside given the magnitude of the shock and the urgency of the required response. This inevitably led to weaknesses in planning and implementation, which could be exploited by bad actors. An in-depth and cross-cutting analysis into how to improve the coordination of complex emergency policy responses and to ensure officials are held accountable in the implementation of such policies should be conducted as a matter of urgency.

The lessons learnt about the policy response to the pandemic in the year since the start of the lockdown are difficult to disentangle from lessons about the general state of the economy. South Africa's macroeconomy entered the pandemic in an extremely fragile state. Institutions and state-owned enterprises were weakened by state capture, and confidence among both business and investors was generally low. GDP per capita had been falling since 2015, unemployment was already at near-record levels, and the fiscus was under severe pressure. These factors combined from the outset to hamstring the country's ability to respond effectively to the demands of the pandemic.

The initial hard lockdown regulations in March 2020, which aimed to give health facilities time to prepare and help flatten the curve of Covid infections, were met with general support from the public. However, this support soon turned to frustration as it became clear that many health facilities remained ill-equipped and ill-prepared to cope with successive waves of the pandemic despite the lockdown and the vast sums of money allocated to PPE and other equipment. The qualifying criteria for government support also left many disillusioned, especially small business owners. Other policies, such as the alcohol and cigarettes ban, were also questioned (Chapters 6.2 and 6.5). Apart from the fact that these policies cost the already constrained fiscus billions in excise revenue, their effectiveness in achieving their stated goals has not been proven; the costs may well have outweighed the benefits, at least from an economic point of view.

It is still truly difficult to know what has and has not worked in terms of South Africa's Covid-19 policy response. However, a few key lessons have emerged:

- Much better *coordination is needed both between authorities and with the private sector*. It seems clear that South African policymakers were not prepared for a shock of this magnitude. Using the well-established infrastructure of SARS to help administer grants should be strongly considered. The loan guarantee scheme was also less effective than envisioned, with only 10% of allocated funds distributed, partly because of a lack of coordination with private sector loan extensions (Chapter 6.5). All round, authorities must improve their planning and structures for future shocks. This pandemic has highlighted many weaknesses in implementation. Long-overdue administrative ‘modernisations’ (e.g., the UIF or collaboration between the health department and private health providers and hospital groups) need to be prioritised. Government should immediately identify and rectify problems that undermine the efficiency of its emergency policy response.
- *Lockdowns need to be smarter* and more targeted. Blanket bans and across-the-board lockdowns may not have struck the correct balance between protecting lives and protecting livelihoods. South Africans generally complied with mask-wearing mandates, and for the most part social distancing was well implemented in urban areas. Policymakers should learn from areas in which these basic mitigation measures were more successful, as this may allow for more a nuanced implementation of restrictions.
- *Stringent oversight of emergency spending* and tender processes must be maintained, and harsh penalties or sanctions must be imposed on corrupt officials. Despite promises in this regard, South Africans were left fuming when tenders were flagged as corrupt or irregular, especially for the distribution of PPE in the early days of the pandemic. Such issues ultimately erode trust in government, which in turn undermines the implementation of policy and other measures to address the health and the economic fallout of the pandemic.
- The need for the macroeconomy to be in a *general state of readiness* to deal with crises should not be underestimated. South Africans were woefully exposed to the effects of the pandemic because of the fragile state of the economy and the inability of the fiscus to provide greater support. This has also played a role in the slow rollout of vaccines, with significant delays in securing supplies and other infrastructure necessary for the most important step in overcoming the pandemic – a successful vaccination drive that will help South Africa achieve herd immunity and allow a return to a normally functioning health and economic system (Chapter 5.1). Ensuring that the macroeconomy is robust and better able to cope with large shocks will require stronger institutions, smart reforms and greater accountability.

## IMMEDIATE INTERVENTIONS

Policymakers are limited in their ability to add new stimulus interventions on top of existing policies because of the constraints on the fiscus. However, areas where *emergency response funds* have been misallocated or underused should be examined with a view to reallocating the funds. Bottlenecks in the application or payment process of support to businesses or individuals should also be addressed as a matter of urgency.

*Vaccine rollout* is, as of April 2021, the most pressing issue that needs to be resolved – only a fraction of healthcare workers and some politicians have received vaccines to date. South Africa’s response in this regard lags far behind most countries, including many in Africa. Greater cooperation between government agencies and the private sector in securing vaccines and organising their rollout, including clear communication, should be prioritised. Any delays in this process would cost both lives and livelihoods and further erode trust in government’s policy response.

Another area of immediate focus is improving and *strengthening institutions and coordination* around the country’s emergency policy response. The World Economic Forum’s Global Risk survey suggests extreme weather events, infectious diseases such as Covid-19, and other events that could trigger economic crises rank highly in terms of both likelihood and impact (WEF, 2021). It is not a question of if, but when, the next crisis comes along that would require government’s coordinated response to help mitigate its effects. The lessons from the Covid-19 experience should not be lost; rather, they should be used to drive a more efficient and capable policy response in future.

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## ANNEX 6.1.1: EXPENDITURE BY FUNCTION

Table 6.1.7: Consolidated expenditure by function, 2021 Budget Review

R million	2020/21 Revised estimate	2021/22 2022/23 2023/24 Medium-term estimates	Percentage of total MTEF allocation	Average annual MTEF growth	Average annual MTEF growth excluding COVID-19		
<b>Learning and culture</b>	<b>387 209</b>	<b>402 929</b>	<b>411 027</b>	<b>415 972</b>	<b>23.5%</b>	<b>2.4%</b>	<b>2.7%</b>
Basic education	266 341	272 340	276 982	279 520	15.9%	1.6%	2.3%
Post-school education and training	111 664	119 587	122 824	124 973	7.0%	3.8%	3.3%
Arts, culture, sport	9 204	11 001	11 221	11 479	0.6%	7.6%	6.5%
<b>Health</b>	<b>247 009</b>	<b>248 839</b>	<b>245 893</b>	<b>245 019</b>	<b>14.2%</b>	<b>-0.3%</b>	<b>2.5%</b>
<b>Social development</b>	<b>413 313</b>	<b>335 290</b>	<b>326 176</b>	<b>325 248</b>	<b>18.9%</b>	<b>-7.7%</b>	<b>2.4%</b>
Social protection	256 813	229 354	239 579	240 845	13.6%	-2.1%	3.1%
Social security funds	156 500	105 936	86 597	84 404	5.3%	-18.6%	0.6%
<b>Community development</b>	<b>211 473</b>	<b>218 795</b>	<b>233 966</b>	<b>240 671</b>	<b>13.3%</b>	<b>4.4%</b>	<b>5.6%</b>
<b>Economic development</b>	<b>191 931</b>	<b>207 529</b>	<b>210 871</b>	<b>217 187</b>	<b>12.2%</b>	<b>4.2%</b>	<b>5.0%</b>
Industrialisation and exports	33 089	36 176	36 780	37 148	2.1%	3.9%	1.3%
Agriculture and rural development	25 326	27 400	28 142	28 432	1.6%	3.9%	1.6%
Job creation and labour affairs	31 585	33 396	23 997	24 229	1.6%	-8.5%	3.5%
Economic regulation and infrastructure	86 499	93 144	103 963	109 513	5.9%	8.2%	8.3%
Innovation, science and technology	15 431	17 412	17 988	17 866	1.0%	5.0%	2.1%
<b>Peace and security</b>	<b>218 615</b>	<b>208 570</b>	<b>212 853</b>	<b>213 417</b>	<b>12.1%</b>	<b>-0.8%</b>	<b>-0.1%</b>
Defence and state security	53 968	46 656	47 811	48 132	2.7%	-3.7%	-2.6%
Police services	106 603	104 570	105 946	105 994	6.1%	-0.2%	1.0%
Law courts and prisons	48 263	48 482	49 632	49 919	2.8%	1.1%	0.8%
Home affairs	9 780	8 862	9 463	9 372	0.5%	-1.4%	-3.2%
<b>General public services</b>	<b>62 458</b>	<b>68 429</b>	<b>68 467</b>	<b>69 141</b>	<b>3.9%</b>	<b>3.4%</b>	<b>3.5%</b>
Executive and legislative organs	14 368	14 476	14 818	14 998	0.8%	1.4%	1.2%
Public administration and fiscal affairs	40 934	46 066	45 417	45 853	2.6%	3.9%	4.4%
External affairs	7 156	7 886	8 233	8 291	0.5%	5.0%	3.0%
<b>Payments for financial assets</b>	<b>87 594</b>	<b>48 240</b>	<b>27 221</b>	<b>24 900</b>			
<b>Allocated by function</b>	<b>1 819 600</b>	<b>1 738 619</b>	<b>1 736 474</b>	<b>1 751 555</b>	<b>100%</b>	<b>-1.3%</b>	<b>1.6%</b>
Debt-service costs	232 852	269 741	308 013	338 591		13.3%	
Contingency reserve	–	12 000	5 000	5 000			
<b>Consolidated expenditure</b>	<b>2 052 452</b>	<b>2 020 360</b>	<b>2 049 487</b>	<b>2 095 146</b>		<b>0.7%</b>	<b>3.3%</b>

Source: National Treasury, 2021