

ECONOMIC COMMENTARY

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Newsletter

28 April 2020

SAVING LIVES IN SOUTH AFRICA, ALBEIT WITHOUT LONGEVITY.

It's been another eventful week for South Africans. As we enter our final week of lockdown, we had a high increase in COVID-19 cases, bringing our total number of cases to just shy of 4 800. The World Health Organisation (WHO) also commended South Africa on how we've reacted to the crisis, and it's no doubt that the extreme measures our government has introduced has saved lives in the short-term. During this week we were addressed by President Cyril Ramaphosa, on two occasions. Unfortunately, in neither of these two addresses did the president provide much needed information about the economic recovery plan. Although extreme health measures save lives in the short term, economic reforms are needed to protect the livelihoods of South Africans in the long term.

During his first address the President explained that government would be spending R500 billion (roughly 10% of GDP) in 2020 to support businesses and consumers, most notably the poor and impoverished. To this extent the government has initiated measures ranging from tax relief initiatives to grants, food stamps and even access to living annuities (individuals can increase or decrease the proportion they receive as annuity income to a maximum of 20% and a minimum of 0.5%). Healthcare took centre stage, funnelling resources to prepare the system for the expected increase in COVID-19 cases, which is still expected to peak in September. To fund this expenditure government will repatriate R130 billion from other budgeted expenditures and withdraw from R100 billion from the unemployment insurance fund (UIF). In doing so government will have to borrow the remaining R270 billion (roughly 5.5% of our GDP) from markets, the IMF, World Bank, Development bank, and so on. As a result, our debt levels will most likely increase from the expected 62%, expressed as a percentage of GDP, to something closer to 78%. Even before the crisis, interest payments on government debt was the fastest growing expenditure item and was quickly surpassing 11% of the total expenditure. Once again, we emphasise our call for economic restructuring. And this restructuring needs to address not only issues related to fiscal mismanagement and inefficient resource allocation but also those labour regulations and policies that are not conducive for economic growth. Politically, now might just be the perfect time for this restructuring.

During the president's second address he introduced the phased recovery plan. This plan detailed how we will emerge from the Level 5 lockdown we are currently in, including an extended lockdown and almost no economic activity till Friday's (1 May) Level 4. It seems Level 4 means some activity, under a controlled environment. We will be allowed to exercise outside again (although you will be expected to wear a mask), and some industries will be allowed to operate, albeit under specific health and safety protocols. No travel is allowed across provinces (except for the transportation of goods), and we're only allowed to gather for work and funerals: no bars, shebeens, concerts, cinemas, religious gatherings, or social and cultural activities will be allowed. Our borders will also remain closed for travel, but open for trade and repatriation. Public transport will also be limited by capacity, and passengers must wear masks.

