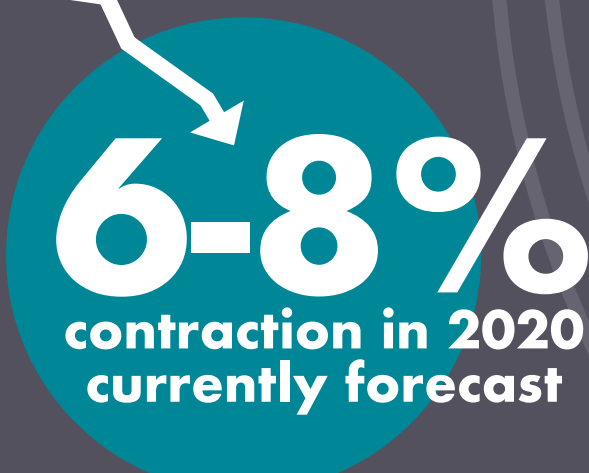


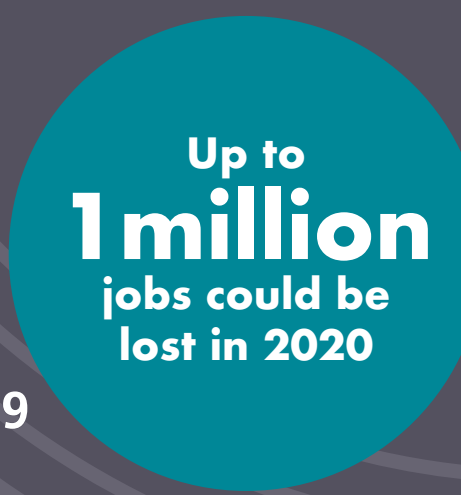
AN EMERGENCY RESCUE PACKAGE FOR SOUTH AFRICA IN RESPONSE TO COVID-19



6-8%
contraction in 2020
currently forecast

The economic fallout from the COVID-19 pandemic will be devastating to the local and global economy.

This is the case even with the current economic rescue package proposed by government. With millions of people seeing reduced incomes, poverty, unemployment, and hunger will rise. The country's development could potentially be set back by years.



Up to
1 million
jobs could be
lost in 2020





R310 BILLION
REALISTIC RESCUE PACKAGE

+R100 BILLION IN
SHORT-TERM FINANCING

R41 BILLION
CURRENT RESCUE PACKAGE

HOW MUCH DO WE NEED TO SPEND?



Government spending in a moment like this is able to provide income support and guarantee wages, feeding and clothing millions. It can also prop up businesses, securing jobs and long-term economic survival.

Governments around the world are taking dramatic actions to keep their people and economies alive.

South African's rescue package of R41 billion is way below other countries, despite the severity of our lockdown.

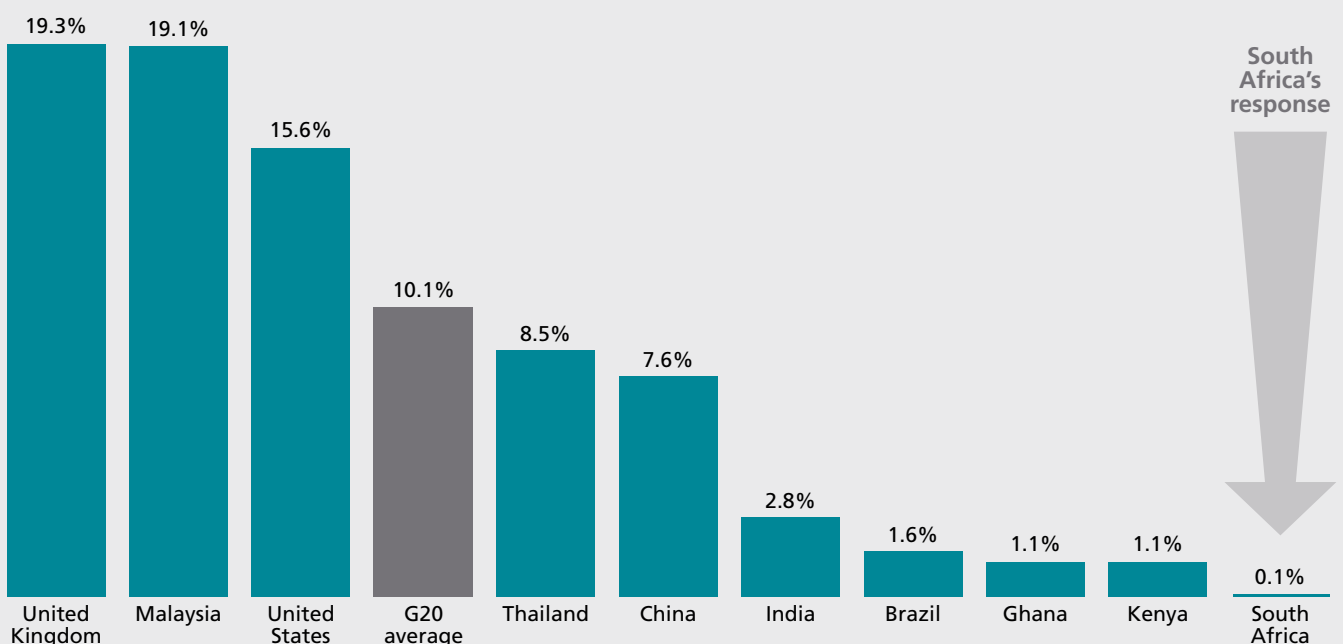
Based on global estimates and projections about the local economy, an initial injection of at least R310 billion is required.

This is equal to the minimum predicted fall in GDP. It can potentially offset the initial hit to the economy in 2020.

Government should also have a further 2% of GDP available, approximately R100 billion, to facilitate the various tax and payment deferrals outlined here.

After this initial rescue, we will need to invest more in economic activity that is able to regrow the economy.

Sample of country stimulus packages in response to COVID-19 (percentage of GDP)



Source: Overseas Development Institute (ODI) Country Fiscal and Monetary Policy Response Tracker. As on 2 April 2020.



WHAT DO WE NEED TO SPEND MONEY ON?

1. Health funding



The only way to halt the spread of the virus is through aggressive testing, tracing, treatment, and isolation/quarantine. The lockdown is an opportunity to get the necessary measures in place, but further emergency funds are needed to support the public health response.

Costs include preventative equipment; testing; treatment; isolation/quarantine accommodation; expanding public facilities and using private ones.

R20 billion

2. Income support



Incomes for the poorest must be protected. Hunger is on the rise and rates of extreme poverty could more than double. Shift workers, atypically employed workers, informal-sector workers, and the self-employed will be hardest hit.

- Give an emergency mid-month amount of R500 to all social grant beneficiaries in April 2020.
- Increase all grants by R500 for three months. A substantial share of the population is seeing a dramatic fall in income. 34 million people benefit, directly or indirectly, from social grants.
- Extend the child support grant to pregnant women.
- Provide adults in the country with a once-off "universal basic income" of R4,500 in May 2020 (the wealthy are taxed to repay what they receive).
- Distribute two million food parcels a month, for 3 months.
- Budget for increased unemployment benefit claims due to jobs lost.
- Automatically renew disability grants, which normally last for 12-months, during the lockdown. This won't cost more because new grantees are not being enrolled during lockdown.
- Put certain household payments and taxes on hold, such as municipal rates, rents, and mortgage payments. Banks and municipalities must be supported by the South African Reserve Bank to make this possible. These will be paid back by households in the future.

R9.2 billion

R27.5 billion

R1.9 billion

R150 billion

R4.5 billion

R18.4 billion

Total R211.5 billion

3. Wage guarantees



Some businesses cannot pay wages because they cannot generate any income. Governments around the world have stepped in to give businesses the money needed to pay workers.

South Africa has allocated approximately R30 billion for this. However, this is only enough for 2.4 million workers; doesn't even pay the national minimum wage; and is inefficient and difficult to access.

R30 billion originally allocated

- The level of wage support should be increased, to at least the national minimum wage (now R4,045 per month) and should cover up to 80% of the normal wage of workers.
- This facility should be moved from the Unemployment Insurance Fund to SARS and be easier to access and more efficient.
- Support should be available for all businesses during this period, not just those that can prove a "direct impact" from COVID-19, or are locally owned.

R30 billion addition

Total R60 billion

4. Business support



Businesses require additional support to keep their doors open. If they go bust now, the economy will be damaged for decades. It is much cheaper to maintain existing businesses than to try and get new ones up and running.

- Expand credit facilities to businesses – through private and development banks supported through loans by the South African Reserve Bank. As these are loans, funds are potentially unlimited.
- Tax and payment deferrals – such as a suspension of municipal rates, rents, and mortgage payments. These can be managed through SARS or private institutions. Government will need finances to cover itself while waiting for these payments.
- Grants and incentives – giving businesses money is needed when loans and deferrals aren't enough. If your business is about to crash and it's already up to its eyes in debt, more loans aren't going to work.

R100 billion short-term financing

R50 billion

Total R150 billion



HOW DO WE PAY FOR THIS?

Government can get the necessary money from a number of sources. We estimate that government could borrow up to 5% of GDP, or approximately R268 billion. It can also use money it already has in various funds. And it can tax people and businesses.

1. Short-term borrowing

Short-term borrowing from the private sector and South African Reserve Bank can raise enough money to cover households and businesses tax and payment deferrals.

Short-term borrowing is currently much cheaper than long-term borrowing. Borrowing should be in Rands, not in Dollars.

R100 billion

2. Social solidarity bonds

Special "COVID-19 social solidarity bonds" can be issued by government. This would mean government borrows at cheaper rates and on better terms than normal.

The Public Investment Corporation – which invests government employees' pensions – should purchase an initial R50 billion of these to support business rescues.

R50 billion

The private sector should also be required to purchase these bonds. If pension funds, insurance companies, unit trusts, and other large investors took 2% of their assets they could lend government approximately R140 billion. Initially R100 billion of this, together with taxation, can pay for the universal basic income of R150 billion.

R100 billion

3. Solidarity tax

A 5% solidarity tax on those earning above R1 million rand could raise R48 billion. Taxes to reclaim the universal basic income from better-off individuals would raise R11 billion. Together with the private sector COVID-19 special solidarity bonds, this would cover the universal basic income of R150 billion.

R59 billion

4. UIF

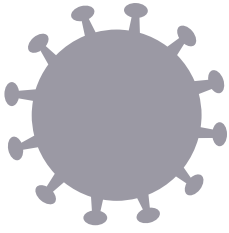
The Unemployment Insurance Fund currently has a big surplus. The government could free up this money. This would mean using workers' money to support working-class communities. This would be enough to cover all the other interventions – increases to social grants, food parcels, increased unemployment benefits, and wage guarantees.

R108 billion

5. IMF & World Bank

Despite understandable concerns about the role of these institutions, given their history, the government can consider approaching international financial institutions like the International Monetary Fund and World Bank for loans or grants, but only if anti-poor conditions aren't applied and if all social partners agree to the terms of these loans. The government should lobby for transfers from rich countries to poorer ones and for debt reductions.





WHAT ELSE DO WE NEED TO DO?

The economy will also need to be stabilised as other risks are present. These include: insufficient spending in the economy; rising borrowing costs; the Rand losing value (exchange rate depreciation); and a potential lack of access to US Dollars needed to trade internationally.

Necessary measures include:

- The South African Reserve Bank continuing to purchase government bonds in order to keep borrowing costs down.
- Imposing limits on borrowing costs for certain types of lending to households and businesses.
- Adopting targeted capital flow management measures to manage money trying to leave South Africa. Other measures to stabilise the exchange rate are also needed.
- Reducing the cost of borrowing through the South African Reserve Bank's interest rate and setting limits on the amount banks can charge above the Reserve Bank rate.
- Securing access to US Dollars through "swap lines" with the Federal Reserve.
- Coordinating monetary policy between the Reserve Bank and National Treasury.
- Agreeing on measures to support the rescue efforts in neighbouring economies.

Recovering from the social and economic impacts of this pandemic will be a slow and painful process, made more difficult by underlying problems in the South African economy. It requires boldness, determination, and joint action by all stakeholders, led by the government. These actions must begin immediately to mitigate against lasting harm to lives, livelihoods and the economy. It is an immediate imperative. But it is also an opportunity for us to make far-reaching change, to address the inherent vulnerabilities and inequities of our society and economy.

READ THE FULL RESCUE PLAN AT:
www.iej.org.za



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The IEJ's COVID-19 research and policy work is undertaken in partnership with the Friedrich Ebert Stiftung South Africa office.