

BRIEFING BY NATIONAL TREASURY ON FINANCIAL IMPLICATIONS OF COVID-19 ON BOTH THE ECONOMY AND BUDGET

JT STANDING COMMITTEE AND SELECT COMMITTEE
ON FINANCE AND APPROPRIATIONS

30 APRIL 2020



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



IMPLICATIONS OF COVID-19 ON THE ECONOMY

Likely worst recession since the Great Depression

- Most economies expected to fall
- SA growth 6.6% lower by IMF forecasts vs *January WEO*
- Partial recovery projected for 2021, with above trend growth rates, but the level of GDP will remain below the pre-virus trend
- V-shaped recovery could prove optimistic if second-round infection rates
- Assuming EM lockdown measures less intense than advanced economies
- High levels of uncertainty in terms of duration and intensity due to the pandemic itself, its macroeconomic fallout, and the associated stresses in financial and commodity markets.
- This crisis will need to be dealt with in three phases: i) containment and stabilization and ii) the recovery phase with swift action from policy makers and iii) a pivot to faster economic growth

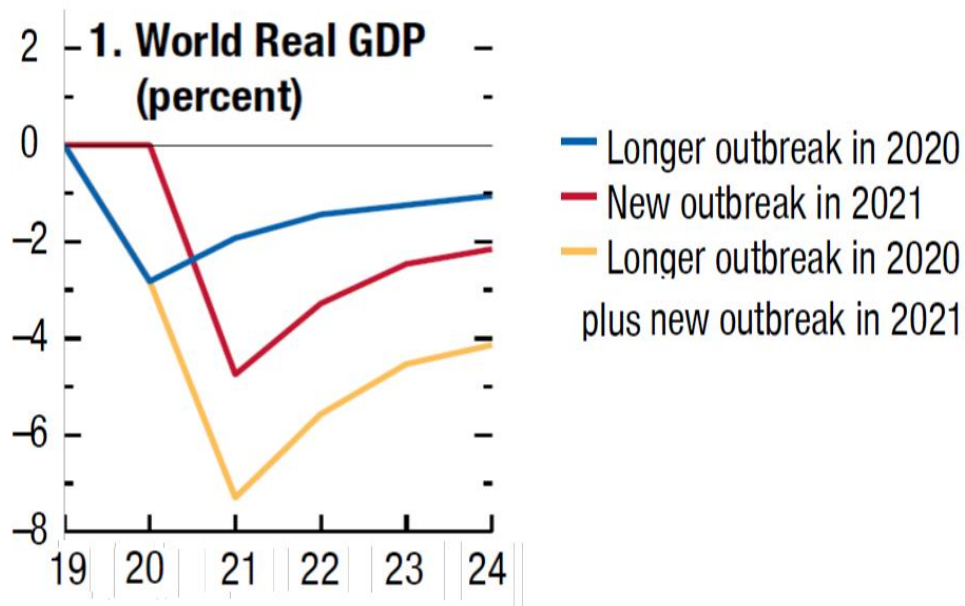
Table 1: Economic growth in selected countries

Region/country Percentage	Actual	Forecast		
	2010-2018	2019	2020 ¹	2021 ¹
World	3.8	2.9	-3.0	5.8
Advanced Economies	2.0	1.7	-6.1	4.5
United States	2.3	2.3	5.9	4.7
Euro area	1.4	1.2	7.5	4.7
United Kingdom	1.9	1.4	6.5	4.0
Japan	1.4	0.7	5.2	3.0
Developing Countries	5.2	3.7	-1.0	6.6
Brazil	1.4	1.1	5.3	2.9
Russia	1.4	1.3	5.5	3.5
India	1.4	4.2	1.9	7.4
China	7.8	6.1	1.2	9.2
Sub-Saharan Africa	4.2	3.1	-1.6	4.1
South Africa (SARB)	1.8	0.2	-6.1	2.2
South Africa (IMF)	1.8	0.2	-5.8	4.0
Nigeria	3.9	2.2	-3.4	2.4
Kenya	5.9	5.6	1.0	6.1

1. Forecast

Source: IMF World Economic Outlook, April 2020, South African Reserve Bank

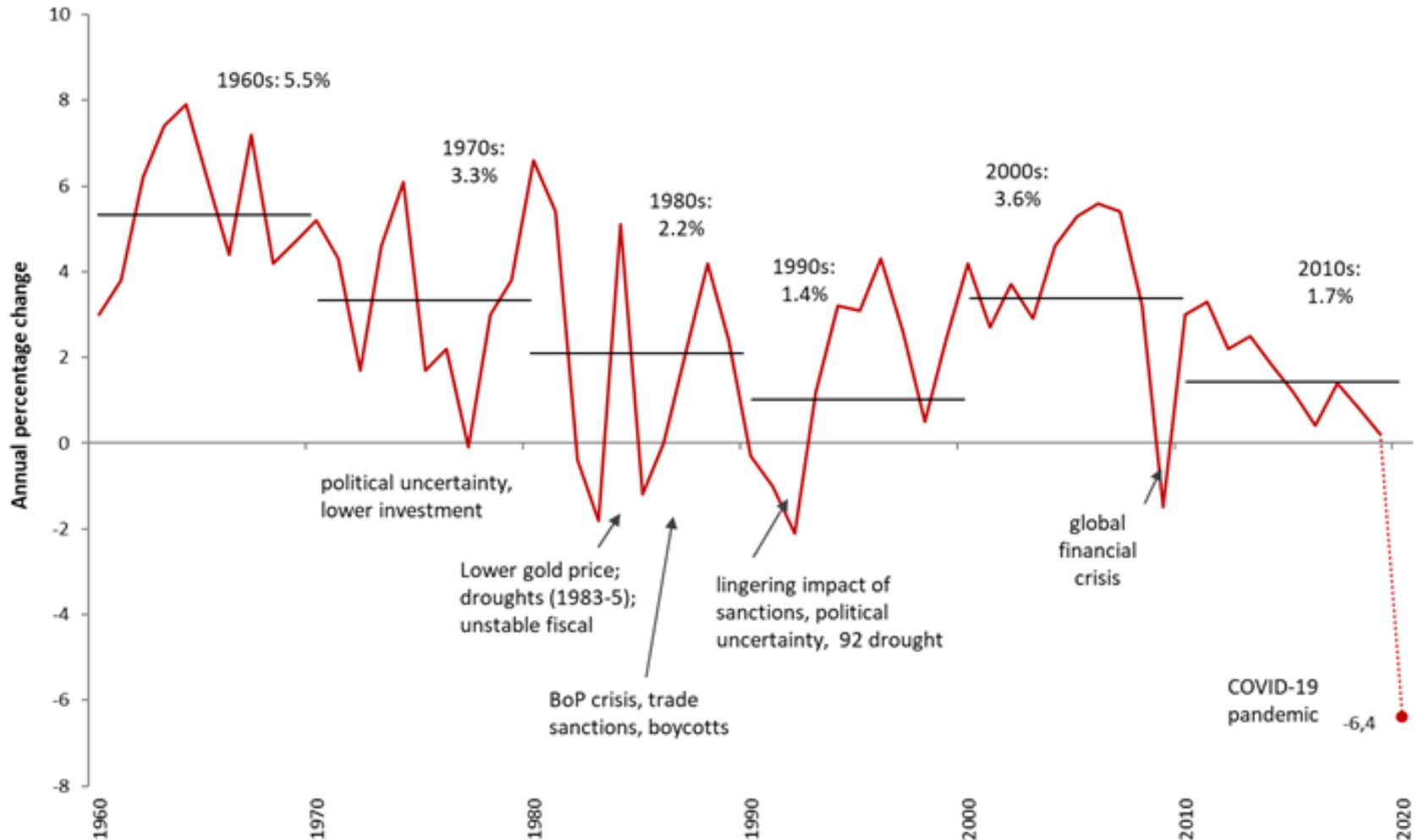
THERE ARE SERIOUS DOWNSIDE RISKS



All three scenarios contain four common elements:

- the direct impact of measures to contain the spread of the virus
- tightening in financial conditions
- discretionary policy measures to support incomes and ease financial conditions
- scarring resulting from the economic dislocation that policy measures are unable to fully offset

HOW HAS SOUTH AFRICA PERFORMED?



DRIVERS OF THE DECLINING GROWTH TREND

- Structural faults in the South African economy
 - Poor educational outcomes that perpetuate inherited disadvantage
 - Low levels of labour intensive growth
 - Economy is severely skills constrained
 - Spatial fragmentation of the urban landscape and travel costs
 - Highly concentrated industrial structures, limited competition and high barriers to entry
 - Inefficient public monopolies imposing high cost structure for network infrastructure
- Long swings in commodity prices; now in a downward phase
- Collapse in consumer and business confidence leading to a contraction in private investment and consumption demand
- The current conjuncture is defined by the interaction of these elements, which can create a vicious cycle reinforcing the structural faults in the SA economy.
 - Employment, household consumption, investment will continue to be constrained
 - GDP per capita will fall further exacerbating social pressures and fragmentation
 - Rising debt and risks lead to higher cost of borrowing associated with even slower growth

MUCH NEEDED REFORMS WHICH REMAIN RELEVANT

Telecommunications:

- finalising digital migration
- releasing spectrum through an auction process
- leveraging the private sector for rolling out broadband to reduce the cost of doing business in telecommunications

Transport:

- Introducing competition between port terminal operators to bring the performance of the major ports in line with international standards
- Corporatisation of the TNPA in line with the National Ports Act of 2005
- Efforts to improve the operation of public transport
- Non-discriminatory pricing and access to the core rail network

Tourism:

- further expansion of visa-free access
- increased destination marketing
- introduction of tourism safety police

MUCH NEEDED REFORMS WHICH REMAIN RELEVANT

Agriculture:

- Effective leveraging of public–private partnerships to boost market access
- Issuing of water licenses within 120 days

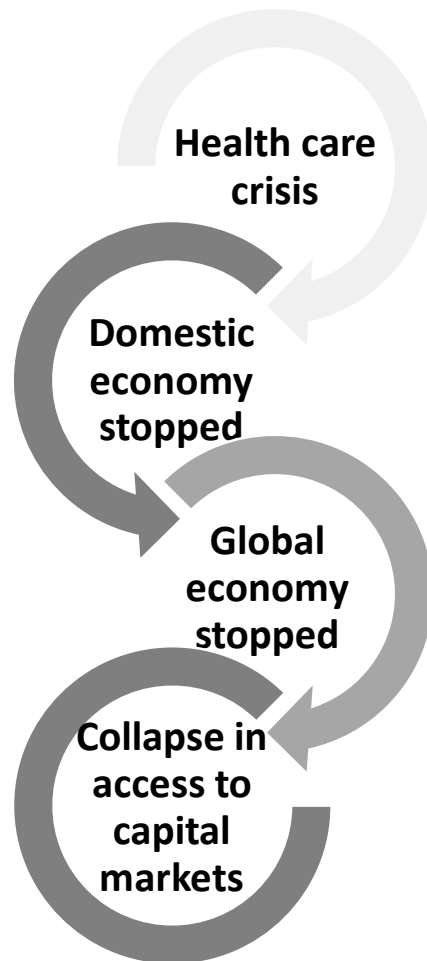
Trade:

- measures to facilitate regional trade (i.e. improved border-crossing arrangements and JOCs that expedite the movement of goods and people)

Barriers to entry:

- Implementation of the recommendations of the Retail Inquiry (i.e. address issues relating to
 - long-term exclusive lease agreements
 - ensuring fair transparent rental rates
 - buyer power concerns
 - competitiveness support for spaza shops and small independent retailers
- Reducing red tape and improving access to development finance for SMMEs.

FOUR SIMULTANEOUS SHOCKS OF COVID-19



Health of South Africans must come first – an out-of-control pandemic would hit the economy extremely hard [**'health shock'**]

.. Early lockdown was the right decision but has serious domestic economic implications [**'supply shock'**] and mitigating measures are urgently required: short-term, medium-term and long-term

The collapse in the global economy [**'demand shock'**] will reduce foreign income – exports and tourism are particularly affected. Economic response should focus on affected industries.

At the same time, global financial markets have frozen [**'financial market shock'**] and there has been record outflows from South Africa and peer countries. Measures to support capital markets are required.

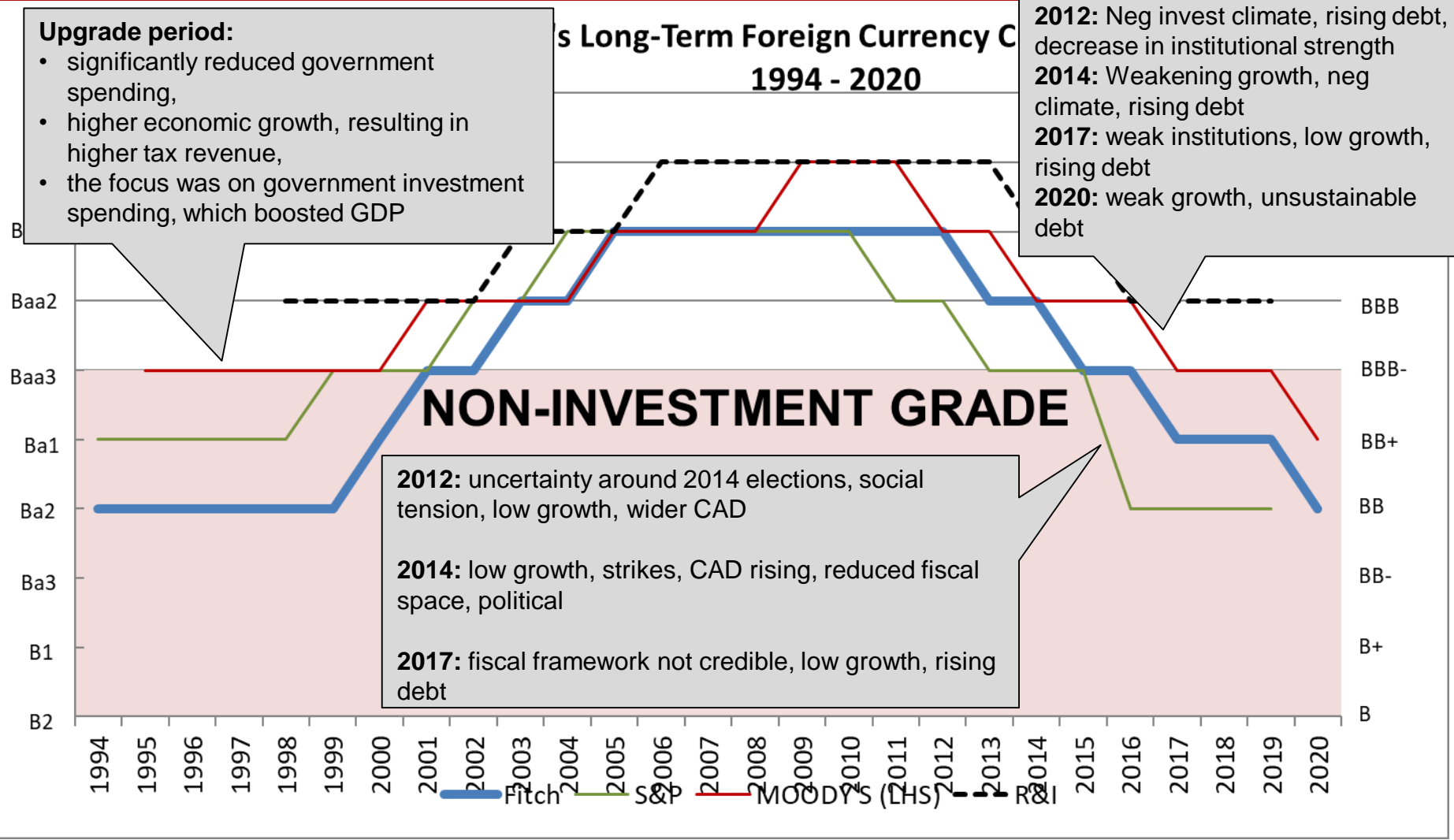
CHANNELS THROUGH WHICH SA WILL BE AFFECTED BY COVID-19

- Market sentiment, compounded by slowing economic recovery and new ‘oil war’,
- Substantial disruption to international travel and tourism,
- Slowing consumer spending due to lockdowns, fear of exposure to virus at large gatherings, social and recreational activities,
- Changes to consumer spending patterns e.g. rising expenditures on medical services and lower spending on durable and semi-durables,
- Disruptions to global supply chains,
- Increased disruption of domestic production due to illness or lockdowns,
- Increased risk of workers being put on short-time or retrenched due to lack of demand, and
- Rising liquidations.

POTENTIAL IMPACT ON THE SA ECONOMY

- **Labour** – short-time, retrenchment, no work available, especially low and medium skilled workers, and those in informal employment.
- **Business** – fall in demand for durables and semi-durables, personal services, retail, recreation and restaurants.
- **Business** – lost production time due to sick leave and quarantines.
- **Business** – public transport losses as individuals avoid taxis, buses and trains
- **Communities** where public health is already at full capacity, likely to find difficult to access medical services, potentially leading to higher mortality rates exacerbated by underlying disease burden.
- **The poor** may find it more difficult to recover from the outbreak due to lower accumulated savings, the impact of funeral costs and loss of breadwinner income.
- **Government** – unsustainable public finances, increased need to reprioritise towards health while reducing spending in other priority areas.

SOUTH AFRICA WAS DOWNGRADED BY BOTH MOODY'S AND FITCH



ASSESSMENT OF SOUTH AFRICA : RATING AGENCIES

Rating strengths	Rating weaknesses
<ul style="list-style-type: none"> •Independent monetary policy •Well capitalised banking sector •Flexible exchange rate •Government’s low reliance of foreign-currency financing •Deep local capital markets •Sustained strength of core institutions such as the judiciary and the SARB •Strong and transparent macroeconomic policy institutions •Favourable government debt structure 	<ul style="list-style-type: none"> •Low, per capita income, savings and investment rates •Low GDP growth rates •Deteriorating government finances •Social and political divisions that hamper reform progress - generate policy uncertainty •Structural economic bottlenecks that limit growth potential and employment •The weak balance sheets of SOCs and its impact on the fiscus •Rising contingent liabilities and their default risks •Rising social tensions due to extremely high inequality & unemployment
Factors that could lead to upgrades and stable outlooks	Factors that could lead to downgrades
<ul style="list-style-type: none"> •Formulation of a clear and credible path towards stabilising the government debt/GDP ratio over the medium-term •If the government were to deliver on its commitments to implement reforms •If there is substantial improvement in the economic growth outlook •Reduction of the SOC guarantee exposure 	<ul style="list-style-type: none"> •Failure to stabilise the debt/GDP ratio over the medium term •Failure to implement reforms •A further deterioration in South Africa's trend GDP growth rate •If the rise in debt was to threaten the country’s ability to access funding at manageable costs •Increased vulnerability resulting from the current account deficit and external financing needs

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS



- The National Treasury, in collaboration with the SARB and IFPRI conducted an impact assessment of COVID-19 on the South African economy. The analysis was conducted as part of the SA-TIED initiative.
- The analysis was conducted using an input-output multiplier model, which captures the direct and indirect impacts of shocks to the domestic economy through scenarios.
- The full analysis can be found on the SA-TIED website at: <https://sa-tied.wider.unu.edu/article/impact-covid-19-south-african-economy-initial-analysis>

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

Three shock scenarios are implemented using the SAM multiplier framework:

- **LOCKDOWN:** A lockdown demand/supply shock at the sectoral level: the bottom-up recession.
- **LOCKDOWN PLUS:** The lockdown scenario plus a macro shock reducing aggregate investment, cutting demand for investment goods (e.g., construction and machinery).
- **FULL:** The lockdown scenario plus the investment shock plus reduced aggregate demand for exports, cutting sectoral exports.

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

The analysis estimates that **the full impact of lockdown will shave 7.3 percentage points off of baseline growth in 2020**. This is based on the following assumptions:

- South Africa manages to slow down the growth in new infections by the end of Q2.
- The complete lockdown is limited to 21 days but social distancing and partial lockdowns continue to affect economic activity well beyond the 21 days. This is in line with results from current epidemiological models.
- By the end of Q2, the economy is operating at 70 per cent of its pre-crisis levels.
- In the third quarter, higher domestic liquidity and the low policy rate support household consumption and investment.
- Tourism demand remains low (50 per cent of the pre-crisis level).
- The global economy is accelerating due to large stimulus packages and the Northern hemisphere summer, which has helped to resolve the COVID-19 crisis.
- By the end of the third quarter the economy is at 90 per cent of its pre-crisis level.

This scenario analysis is **not a replacement of the budget process but serves as an illustrative assessment of the economic impact**– the normal fiscal planning process will be followed including the production of a new macroeconomic forecast, revenue forecast and an updated fiscal framework.

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

Severity of sector impacts during lockdown



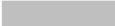
	Mild decline (0 to -10%)	Moderate decline (-10% to -30%)	Large decline (-30% to -60%)	Severe decline (Larger than -60%)
	Agriculture, forestry, fishing			
			Mining and quarrying	
MANUFACTURING		Food and non-alcoholic beverages		Alcoholic beverages and tobacco
			Textiles, clothing, leather and footwear	
			Paper, paper products	Wood, wood products
	Pharmaceuticals, hygiene and cleaning	Petroleum	Basic chemicals, fertiliser, paint, other	
		Plastic, glass		Tyres, rubber products
				Non-metallic minerals and products (cement, concrete, etc.)
				Iron, steel, metal products
				Machinery and equipment
	Electricity, gas, water			
				Construction
		Wholesale, retail trade	Accommodation, catering	
Communication		Transport and storage		
Finance and insurance, computing services	Real estate, legal and accounting, other support services	Rentals, research, manufacturing services, other business services		
Health services		Education services	Recreation, other community services	

Source: Arndt et al., 2020

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

Sectoral impacts

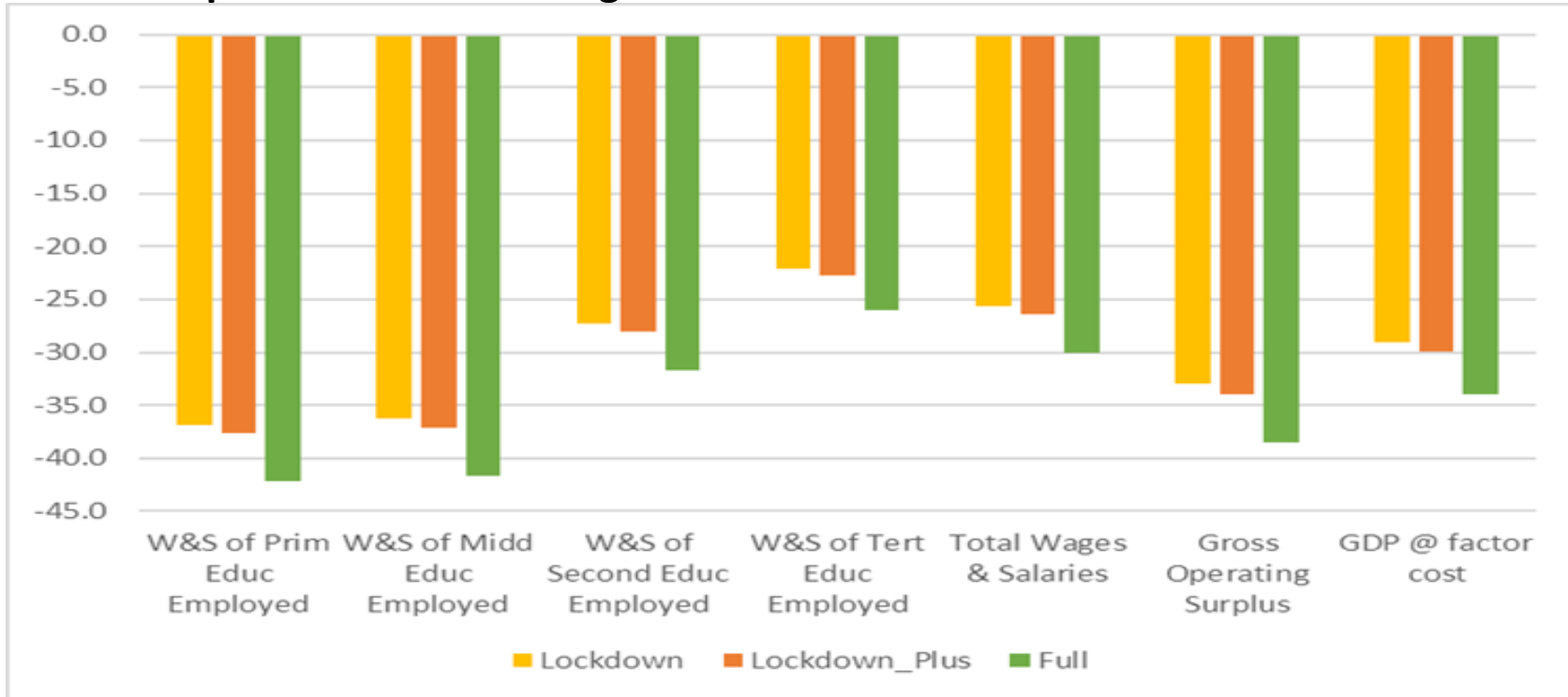
	direct	total	direct	total
Agriculture, forestry and fishing	-0.4	-3.9	Small contraction	Large contraction
Mining and quarrying	-5.2	-4.6	Large contraction	Large contraction
Manufacturing	-5.1	-7.3	Large contraction	Severe contraction
Electricity, gas and water	-0.2	-4.2	Small contraction	Large contraction
Construction	-11.9	-14.2	Severe contraction	Severe contraction
Trade, catering and accommodation	-1.1	-4.9	Small contraction	Large contraction
Transport, storage and communication	-3.2	-4.5	Large contraction	Large contraction
Finance, real estate and business services	-2.0	-6.6	Large contraction	Severe contraction
General government services	-0.3	-1.4	Small contraction	Small contraction
Personal services	-6.0	-3.7	Severe contraction	Large contraction

Legend	
	Sector hit by severe contraction
	Sector hit by large contraction
	Sector hit by small contraction

Data Source: Arndt et al., 2020

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

Impacts on wage earnings and income GDP components, as percentage deviations from their pre-crisis levels during lockdown



Source: Arndt et al., 2020

- This figure indicates the reduction in units of labour demanded (hours worked) by educational attainment, as the analysis assumes the wage rate to be fixed.
- E.g.: a 40 per cent reduction in wage earnings in the lowest two education categories implies roughly a 40 per cent reduction in hours worked in those labour categories.

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

Impacts on Tax Revenues for all Scenarios, as percentage change from Pre-crisis

	Share in base	Lockdown	Lockdown Plus	Full
Production tax	6.5	-27.9	-29.9	-33.8
Import tax	4.0	-44.5	-45.8	-55.6
Domestic sales tax	34.5	-34.1	-34.8	-41.8
Direct tax on households and enterprises	55.0	-21.1	-21.8	-24.8
Total Tax	100.0	-27.0	-27.8	-32.5

Source: Arndt et al., 2020

These revenue estimates are deviations from pre-crisis levels **during the lockdown**.

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

Impact of possible recovery options following the lock down looking forward over the next three quarters to the end of 2020

- **Quick:** the pandemic is contained quickly and the economy bounces back;
- **Slow:** the pandemic takes longer to contain and the economy is slower to recover;
- **Long:** the pandemic endures even longer, and the recovery thereafter is spread over a longer period than in the Slow Scenario (although in this study we cut off considering it at the end of 2020).
- A more detailed description of the recovery scenarios can be found in the full analysis: <https://sa-tied.wider.unu.edu/sites/default/files/pdf/SA-TIED-WP-111.pdf>

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

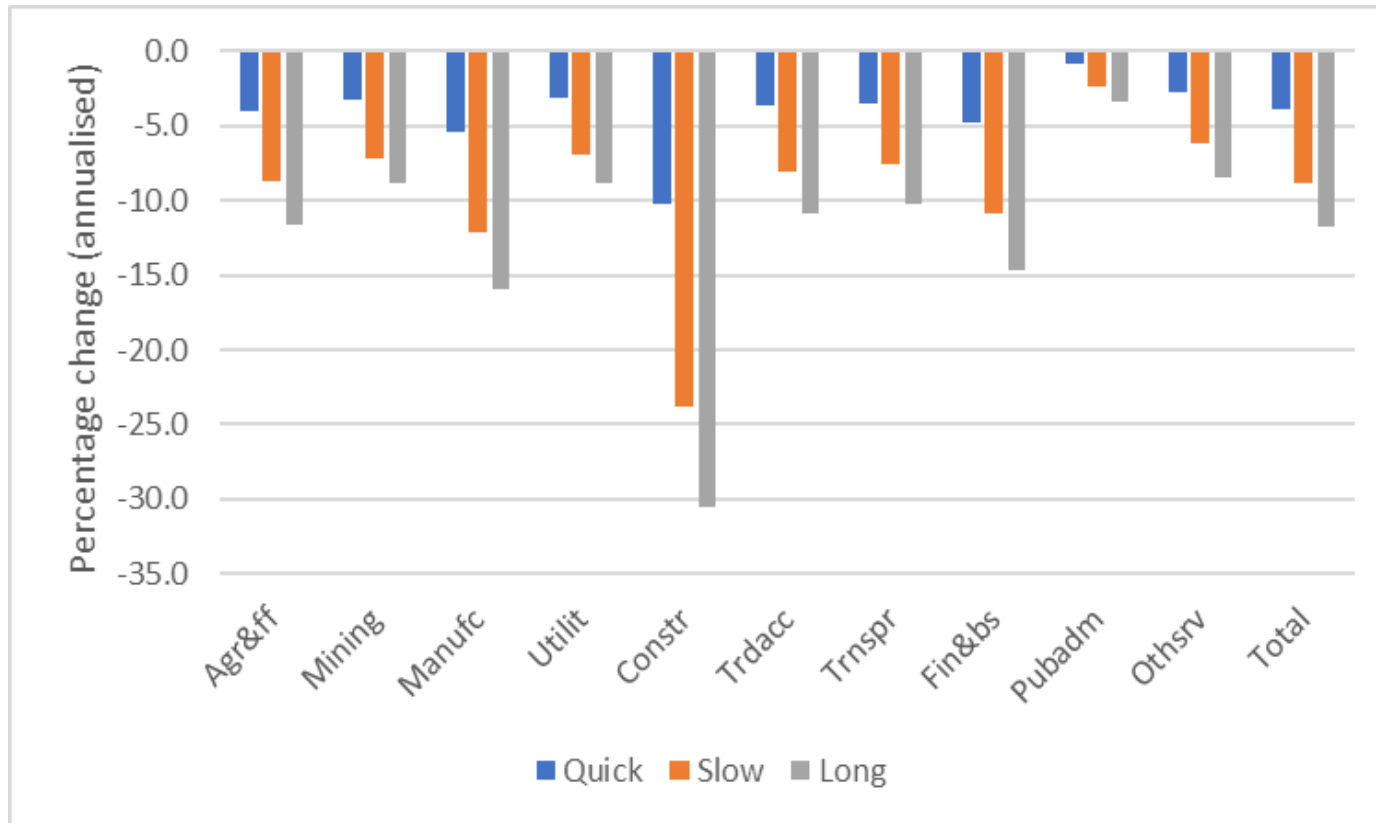
Average Annual Growth Rates for 2020 in each Scenario: GDP expenditure components at market prices:

	Quick	Slow	Long
Household consumption	-5.1	-11.4	-16.8
Government consumption	0.0	0.0	0.0
Investment	-11.4	-26.6	-33.8
Exports	-8.1	-17.6	-20.8
Imports	-7.7	-17.3	-22.7
GDP	-5.4	-12.1	-16.1

Source: Own calculations

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

Annual Impact on Employment

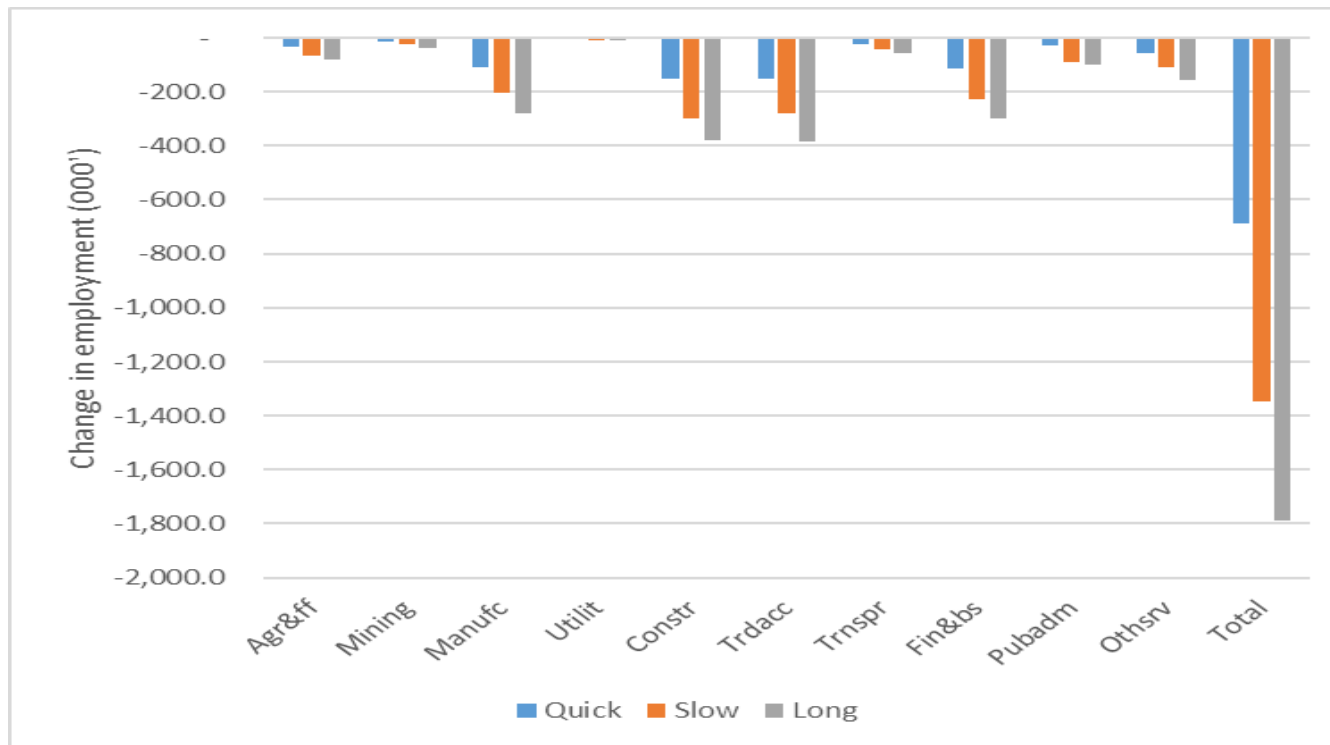


Source: Arndt et al., 2020

- This figure reflects the change in the **units of labour demanded** as described in slide 18.
- The most affected sectors are: manufacturing, construction, trade, catering and accommodation and financial and business services.

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

Annual impact on employment levels by broad sector



Source: Own calculations

- From a different perspective, the employment impacts that could be realised range between approx. 690 000 and 1.79 mn full-time equivalent (FTE) jobs across the scenarios.
- The full time equivalent measure is used because businesses could be employing furloughs, short-time etc. to mitigate job impacts.

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

Annual impacts on wages and salaries, % change annualised

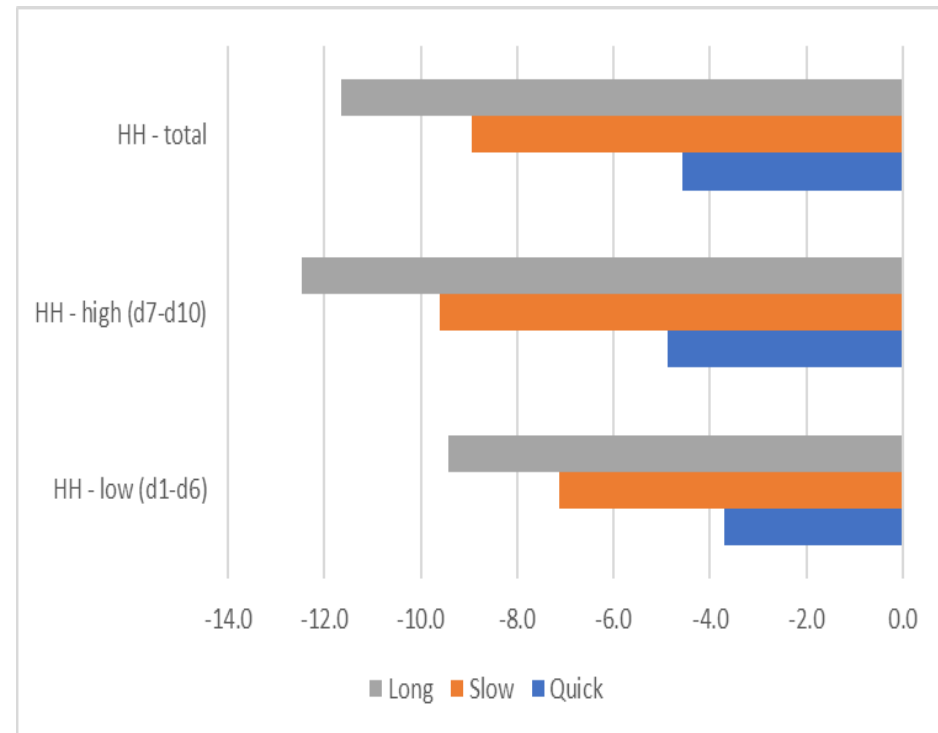
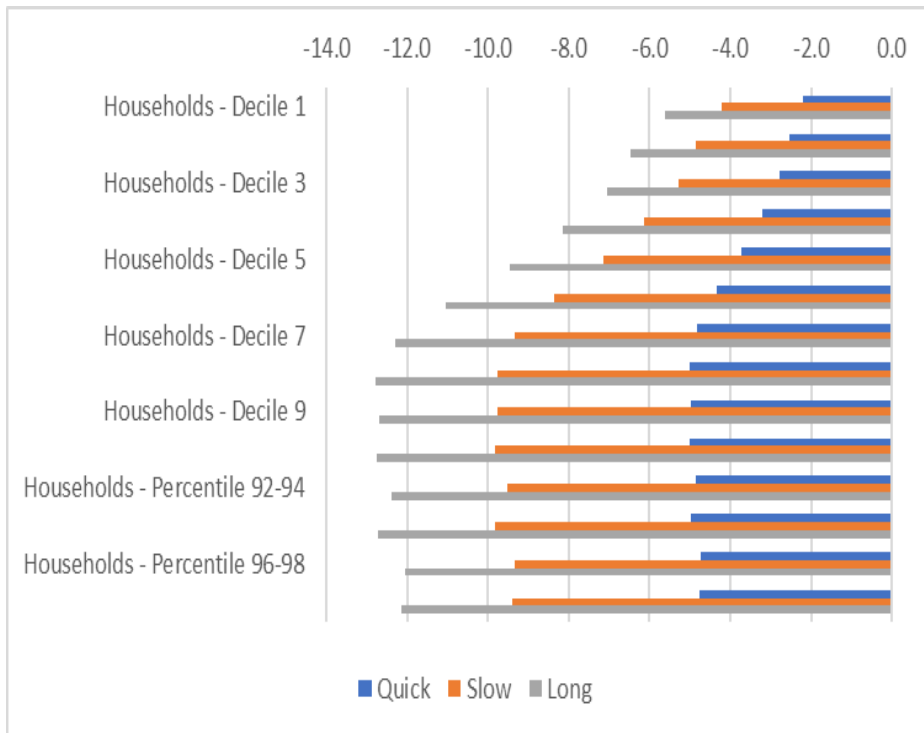


Source: Own calculations

- Annual impacts on employment by educational attainment:
 - The overall pattern suggests that the negative impact of the shocks are larger for workers with lower educational attainment.

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN ECONOMY – SCENARIO ANALYSIS

Annual changes in household income, % change annualised



Source: Own calculations

– Annual changes in household income for each scenario are shown above:

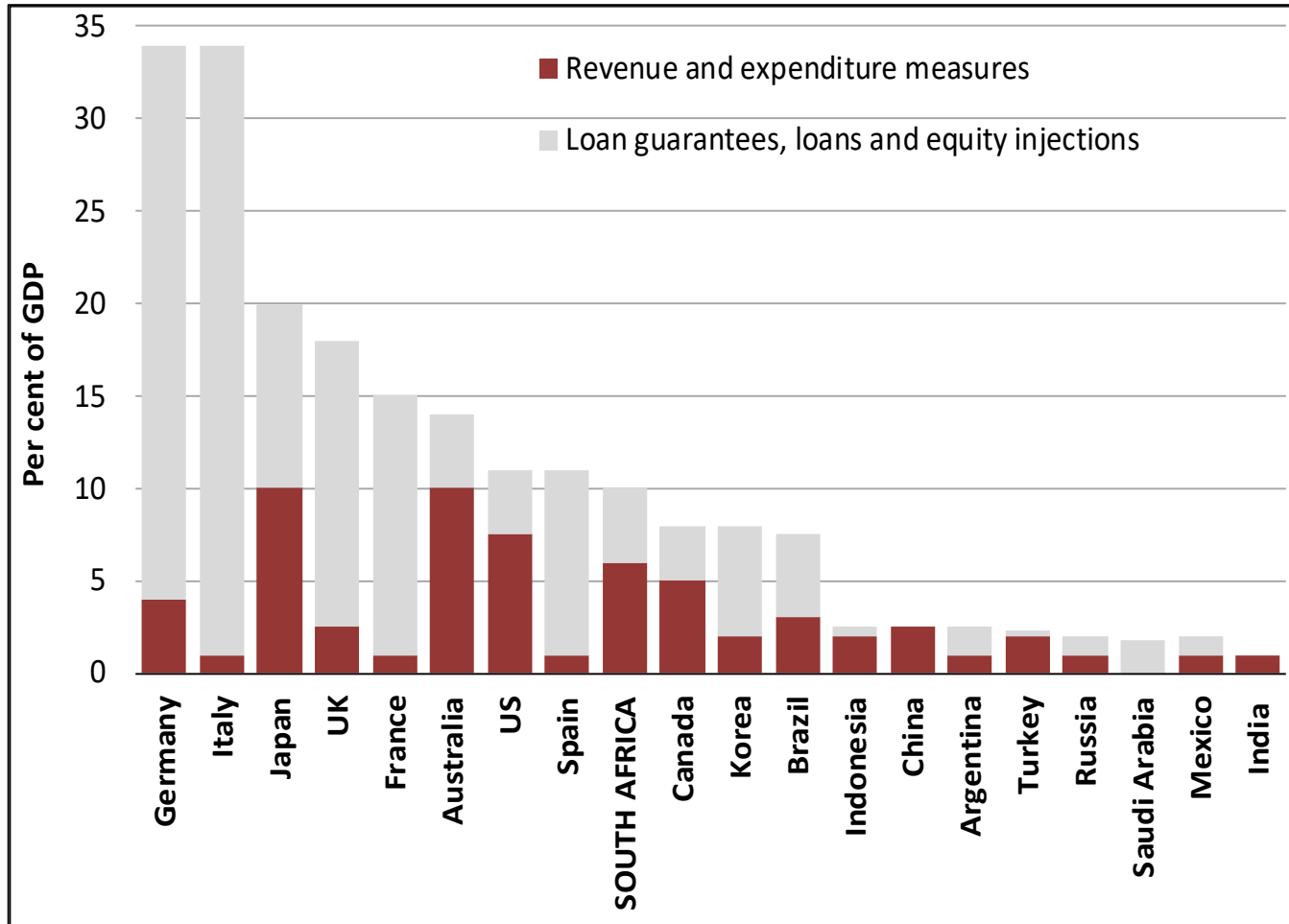
- The overall pattern suggests that lower income households are impacted less in relation to those on the upper end of the distribution scale.
- This is largely because low income households receive exogenous transfers from government which are assumed to be unaltered during the shocks.

OVERVIEW

- The COVID-19 pandemic is simultaneously a health crisis and a far-reaching global economic crisis. Government has acted decisively to prioritise the health and lives of all South Africans. Yet our economy, which was already weak before the emergence of the novel coronavirus, has been hit hard by interlocking shocks to supply and demand.
- The immediate priority is to support economic activity and alleviate hardship. Government has adopted a risk-adjusted approach to reopening the economy, with the initial easing of lockdown measures on 1 May. The economic interventions over the next 18 months – a period during which the most severe effects of the public health crisis are expected to be resolved are set out in this presentation.
- Government’s R500 billion support package will provide substantial support to the economy but will increase the budget deficit and contingent liabilities.
- In the next several months, a special adjustments budget will set out a range of economic reform proposals and measures to stabilise the public finances.
- Over the longer term, we cannot merely return the economy to where it was before the pandemic. Forging a new economy in a new global reality will require:
 - A social compact between business, labour, communities and government
 - Far-reaching structural reforms enabling millions of South Africans to participate in building a more productive and prosperous society and
 - Steps to promote industrialisation, and an overhaul of state-owned enterprises

ANNOUNCED FISCAL PACKAGE IS LARGER THAN IN OTHER DEVELOPING COUNTRIES IN THE GROUP OF 20

Comparison of economic support announced by G20 governments



- The R500 billion fiscal support package combines revenue and spending measures, as well as loan guarantees, equivalent to about 10 per cent of GDP.
- This is larger than equivalent support measures announced by other developing countries in the Group of 20

SUMMARY OF SHORT-TERM ECONOMIC SUPPORT MEASURES

Support healthcare

- Increase in healthcare spending, including support for increase in mass-testing and tracing
- Help with streamlining and centralising procurement

Relieve hunger and distress

- Expansion of grants, particularly those that target the vulnerable
- Social relief of distress targets those without access to UIF benefits, regular grant support

Support companies and workers

- Temporary employment relief scheme
- Tax deferral and postponement of major new taxes
- Loan guarantees for firms with turnover below R300 million

Reopen the economy in phases

- Appropriate steps to take into account both the health and economic considerations
- Support the easing of structural constraints

Intervene in monetary and financial markets

- Repo rate reduction
- Bank regulatory measures
- Financial sector support (e.g. interest and premium holidays)

DOMESTIC ECONOMIC OUTLOOK

- South Africa faces a confluence of economic difficulties that compound the impact of the public health emergency. By the first quarter of 2020, the country was already in a economic downturn. And at the end of March, South Africa’s sovereign credit rating was downgraded, which will raise the cost of government borrowing.
- Estimates from the IMF, the Reserve Bank and the Organisation for Economic Cooperation and Development suggest that economic growth in South Africa will contract by between 6 and 7 per cent in 2020
- The economy currently faces overlapping aggregate demand and supply shocks, which are occurring sequentially. These domestic shocks will be the most significant drag on growth.
- The National Treasury estimates that approximately one-third of the resources that were productive in February 2020 are have been idled, largely as a result of the domestic lockdown. Real-time economic data, such as average daily transaction values through the payment system have more than halved as economic activity has declined.
- South Africa’s phased approach to resuming normal economic activity is informed by international experience. The country has high levels of poverty and co-morbidity, and living conditions make social and physical distancing highly challenging.
- The longer that economic growth remains weak, however, the greater the risk that there will be permanent destruction of supply-side capacity with profoundly negative implications for household incomes and welfare.

A COORDINATED, THREE PHASED APPROACH TO SUPPORT EMPLOYMENT AND INVESTMENT, AND STRUCTURALLY HIGH GROWTH

PHASE	Timeline	Priorities
Phase I: Preserve	<ul style="list-style-type: none"> ▪ Immediate to next 6 months 	<ul style="list-style-type: none"> ▪ Health spending increases to contain the pandemic ▪ Support vulnerable households and firms to get through the crisis ▪ Provide fiscal support ▪ Begin phased conclusion of lockdown ▪ Accompanying monetary policy and financial regulatory measures
Phase II: Recover	<ul style="list-style-type: none"> ▪ 6 – 12 months 	<ul style="list-style-type: none"> ▪ Continue with health response ▪ Economic focus shifts towards spurring activity to bolster the recovery, as restrictions on domestic economic activity ease, global growth returns ▪ Implement significant fiscal reprioritisation
Phase III: Pivot	<ul style="list-style-type: none"> ▪ 12 – 18 months + 	<ul style="list-style-type: none"> ▪ Return the public finances to a path of fiscal sustainability ▪ Position the economy for structurally higher growth

COVID INTERVENTION PACKAGE

Table 2: COVID-19 fiscal response package

	R million
Credit Guarantee Scheme	200 000
Job creation and support for SME and informal business	100 000
Measures for income support (Further tax deferrals, SDL holiday and ETI extension)	70 000
Support to vulnerable households for 6 months	50 000
Wage protection (UIF)	40 000
Health and other frontline services	20 000
Support to municipalities	20 000
Total	500 000

Source: National Treasury

FUNDING SOURCES FOR THE PACKAGE

Table 3: Funding sources for the COVID-19 fiscal response package

	R million
Credit Guarantee Scheme	200 000
Baseline reprioritisation	130 000
Borrowings from multilateral finance institutions and development banks ¹ for business support, job creation and protection	95 000
Additional transfers and subsidies from the social security funds	60 000
Available funds in the Department of Social Development 2020/21 appropriation	15 000
Total	500 000

1. International Monetary Fund, World Bank and the New Development Bank

Source: National Treasury

DETAILED UNPACKING OF INTERNATIONAL FINANCIAL INSTITUTIONS SUPPORT

Non-Market Funding (Multilateral Development Banks-MDBs)

- The following is the summary of the initial responses from MDBs. The tenor is up to 35 years, includes grace periods. No conditionality post disbursements, reports to show how the funds were used.

Institution	Budget support Covid-19	Budget support-Infrastructure Financing
AfDB	To be determined. Still assessing the requests from member countries	Not outlined in RFP response
World Bank	USD 50 million	Not outlined in RFP response
BRICS NDB	USD 1 billion	USD 1 billion
IMF	USD 4.2 billion	N/A
Total	USD 5.07 billion (approx. R95 billion)	

- The funding costs are favourable relative to the market as the pricing is not based on the country risk premium. NT expressed interest subject to successful negotiations and internal approvals.

Risks to the MDBs funding

- South Africa is competing for funding with other countries
- The loan covenants and general conditions of the MDBs needs to be interrogated

TAX POLICY MEASURES

Table 4: COVID-19 tax measures

R billion	Liquidity / support (delayed revenue)	Revenue foregone
Expansion of employment tax incentive	-	15
Deferral of 35 per cent of PAYE liability	19	2
Deferral of 35 per cent of provisional tax payments	12	3
Skills development levy holiday for four months	-	6
A 90-day deferral for alcohol and tobacco excise duty due to be paid in May and June	6	-
Two-month deferral for filing and payment date of carbon tax	2	-
Case-by-case application for deferral	5	-
Total	44	26
Grand total		70

SOUTH AFRICA'S FISCAL POSITION INCLUDING THE RESPONSE PACKAGE

- Going into this crisis, South Africa's fiscal position was weak, as outlined in the 2020 Budget Review. Gross government debt has continued to rise as a result of weak economic growth, high levels of expenditure and repeated funding support to state-owned companies.
- Rating downgrades and currency weakness since the crisis began have further increased the cost of government borrowing.
- Government's R500 billion support package will provide substantial support to the economy, but will increase the fiscal deficit as a result of increased spending and a decline in tax revenues.
- These measures are temporary and are targeted to provide support where it is most needed. The loan guarantee scheme does not require immediate funding fiscal support.
- Additional support will be secured by shifting resources from non-urgent and non-priority programmes, and drawing down surplus funds in institutions such as the Unemployment Insurance Fund. The National Treasury has also approached international financial institutions for loans at preferential lending rates.
- The consolidated budget deficit will worsen further due to drawing down surpluses from social security funds. Gross debt outlook would also worsen further
- Government is committed to implementing structural reforms to move South Africa onto a higher growth path. The specific measures to do so, and details on the fiscal position, will be set out in the forthcoming adjustments budget.

LOAN GUARANTEES

- The National Treasury and the Reserve Bank have been working with commercial banks to provide government-guaranteed loans to small and medium-sized businesses that may not be able to meet their financial obligations during the lockdown and when the economy reopens.
- The loan guarantee arrangement will make R200 billion in new loans available to existing customers, of which R100 billion will be available in the first phase. The key features are as follows:
 - Businesses with annual turnover of less than R300 million, which are in good standing with their commercial banks, will be eligible for bank loans.
 - Funds borrowed can be used for operational expenses including salaries, rent and lease agreements, and supplier contracts. Loans will cover up to three months of operational costs and will be drawn down monthly.
 - Banks are not obliged to extend COVID-19 loans, and those that do will use their normal risk-evaluation and credit-application processes. Business owners may be required to sign surety for the loan.
 - Each business may accept only one COVID-19 loan.
 - Loans will be offered at a single agreed lending rate, which tracks the repo rate, by all participating banks.
 - A six-month repayment holiday will commence from the first drawdown, although interest will accumulate from the date on which the first drawdown occurs.
 - Interest and capital repayments will start after six months, and businesses have a maximum of 60 months to repay the loans.

MONETARY POLICY AND FINANCIAL REGULATORY MEASURES

- The South African Reserve Bank estimates that the monetary and financial sector policy elements of the package of measures will inject more than R300 billion into the economy. This is in line with the international approach, which will help support global economic activity.
- The monetary policy and financial regulatory measures, introduced by the Reserve Bank, financial sector regulators and private-sector banks include:
 - Reducing interest rates
 - Relaxing regulatory requirements to support the flow of credit to households and business
 - Introducing temporary payment holidays and other measures to support debtors.
- Monetary policy is helping to support the cost of borrowing by providing liquidity in the bond market, helping to reduce bond yields.

DIVISION OF REVENUE CONSIDERATIONS

- Provincial treasuries, working with the National Treasury, are already identifying savings that can be used to fund the COVID-19 response.
- Provincial health departments are responding directly to the virus, conducting testing, overseeing quarantine facilities and providing care and treatment for those who need to be hospitalised. Health departments will receive additional funding as part of the R500 billion support package. Reducing interest rates
- Municipalities are providing additional services to communities during the lockdown, but local government revenue collection has been negatively affected by the sharp economic downturn.
- As announced by the President, additional funding of R20 billion will be made available to municipalities to provide emergency water supply, to sanitise public transport facilities and to support vulnerable communities.
- The National Treasury is working with the Department of Cooperative Governance and other key stakeholders to determine how to allocate and transfer these funds so that they reach the intended beneficiaries, while ensuring necessary oversight. The municipal financial year ends in June, and additional reprioritisations are in process.
- The National Council of Provinces Select Committee on Appropriations held its first hearing on the 2020 Division of Revenue Bill on 22 April 2020. The processing of this bill, tabled on Budget Day in February 2020, will outline spending of existing baseline allocations to provinces and municipalities while the special adjustments budget is being processed.

NEW TAX POLICY MEASURES

In line with the President's 21 April address, the following measures are expected to provide support of about R70 billion for businesses to continue operating, and to pay employees and suppliers:

- Increasing the expanded employment tax incentive amount from R500 to R750 per month
- Increase in the turnover threshold for businesses that can automatically defer a portion of their pay-as-you-earn (PAYE) and provisional tax liabilities
- Increase in the amount of PAYE that can be automatically deferred from 20 per cent to 35 per cent
- SARS to consider deferrals for tax for all businesses (including those with turnover above R100 million) on a case-by-case basis
- Four-month holiday of skills development levy contributions from 1 May 2020
- Fast-tracking of value-added tax (VAT) refunds
- Three-month deferral for filing and first payment of carbon tax liabilities
- Payment deferral for excise taxes on alcoholic beverages and tobacco products
- Increasing deductions allowed for donations to the Solidarity Fund
- Expanding access to living annuity funds

TO PROVIDE TAX RELIEF OF AROUND R70 BILLION

Table 4: COVID-19 tax measures

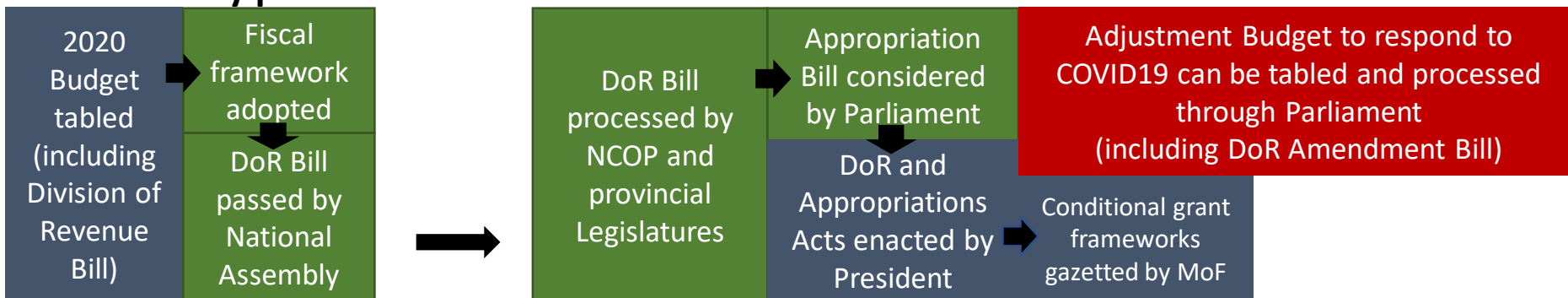
R billion	Liquidity / support (delayed revenue)	Revenue foregone
Expansion of employment tax incentive	-	15
Deferral of 35 per cent of PAYE liability	19	2
Deferral of 35 per cent of provisional tax payments	12	3
Skills development levy holiday for four months	-	6
A 90-day deferral for alcohol and tobacco excise duty due to be paid in May and June	6	-
Two-month deferral for filing and payment date of carbon tax	2	-
Case-by-case application for deferral	5	-
Total	44	26
Grand total		70

TIMELINES FOR ADJUSTMENT BUDGET TO RESPOND TO COVID-19

February	March	April	May	June	July	August and beyond
2019/20		2020/21 national and provincial financial year				
2019/20 municipal financial year					2020/21 Municipal financial year	



Parliamentary process



Spending impact

for provinces and municipalities

2019/20 Disaster grant funds released: R466m to provinces for PPE	Reallocation of grants through s20(6) of DoRA: <ul style="list-style-type: none"> R306m for water tanks in RBIG R2 billion in USDG for informal settlements Amounts in MIG and PTNG being processed Reprioritisation within existing business plans: <ul style="list-style-type: none"> Health Facility, Education Infrastructure grants MIG, USDG, IUDG 	New conditions for COVID-19 in gazetted frameworks	Adjusted budget: Changes will include R20bn addition to health, R20bn to local govt and reductions to fund COVID spending
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Provinces and municipalities are also using their own funds to respond

ALLOCATIONS FOR PROVINCES AND MUNICIPALITIES

- NT is engaging with provinces, municipalities and sector departments on how best to adjust the Division of Revenue

Likely provincial impacts

- Provincial health departments will benefit from the R20 billion announced for health
- Provinces are expected to contribute around R30 billion towards the reprioritisations

Likely local government impacts

- R20 billion addition will include direct transfers to municipalities to support their increased operational costs (at a time when revenues have declined)
- Infrastructure investments will be made through conditional grants to ensure accountability
- Some conditional grants to provinces and local government will be reduced substantially as part of the reprioritisations

HOW THE 2019 DORA IS ALREADY BEING USED TO RESPOND TO COVID-19



- Disaster provisions in the 2019 Division of Revenue Act have been activated:
 - **Disaster Relief Grants:** R466 million transferred to provincial health departments for the purchase of personal protective equipment.
 - **Reallocations in terms of section 20(6)**, which allows existing grants to be reallocated for disaster alleviation:
 - R306 million in the indirect Regional Bulk Infrastructure Grant was reallocated for interim water supply measures (e.g. tanks and tankering)
 - 2019/20 Urban Settlements Development Grant funds not already contractually committed to projects have been reallocated to allow cities to fund increased services in informal settlements and vulnerable communities
 - **Adjustments to conditional grant business plans:** an estimated R1.5 billion in 2019/20 Municipal Infrastructure Grant funds are being redirected to urgent water supply projects. Education and health infrastructure grant business plans also being revised to prioritise COVID response
- Enacting the 2020 Division of Revenue Act will enable the use of similar provisions in 2020/21 to provide further assistance
- National Treasury is also proposing to make small changes to some conditional grant frameworks before they are gazetted in order to better respond to the scale of this unprecedented situation

STRENGTHENING ACCOUNTABILITY IN LOCAL GOVERNMENT

- Regular reporting is critical to strengthening accountability
 - Reporting template developed
- Clarification of responsibilities and setting rules to eliminate ambiguity
 - Issuing of Annexure to MFMA Circular 99
- Weekly meetings with cities to provide progress reports, share information, etc.
- Independent analysis by NT of the impact of COVID 19 on municipal revenue and expenditure

PURPOSE

GENERAL

- prescribe emergency procurement procedures to deal with the COVID-19 pandemic, which was declared a national state of disaster (the Disaster) on 15 March 2020;
- avoid the abuse of the supply chain management (SCM) system to deal with the Disaster;

SPECIFIC

- prescribe emergency procurement procedures of Covid-19 PPE items and cloth masks for ease of supply by small, medium and micro enterprises (SMMEs) and create an environment for stimulation of local supply and manufacturing; and
- set the maximum prices to be paid by institutions for selected COVID-19 PPE items and cloth masks.

GENERAL EMERGENCY PROCUREMENT INSTRUCTIONS

Accounting officers and accounting authorities must put in place the following additional procurement and expenditure measures:

- internal system for financial control, risk management and reporting in order to account for the funds used for the COVID-19 disaster;
- ensure that officials committing any expenditure are duly authorised or properly delegated;
- avail internal audit functions to conduct audit checks in order to pick up and prevent irregularities pro-actively;
- regular monitoring of expenditure and generate frequent expenditure reports (at least weekly) including monitoring any risks that may arise

GENERAL EMERGENCY PROCUREMENT INSTRUCTIONS

The Covid-19 pandemic is a situation that justifies the use of existing emergency procurement provisions.

- procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4 and record reasons
- accounting officers and accounting authorities to report within 10 working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4
- the thresholds to vary/expand contracts has been increased to 30% or R30 million for construction-related goods, works or services and 25% or R25 million of the original contract value if the variation is for goods, works or services to prevent an escalation of the Disaster or to alleviate, contain or minimise the effects of the Disaster.
- Any contract variation, extension and or expansion in excess of these revised thresholds will only be allowed in exceptional cases subject to prior written approval of the relevant treasury.

EMERGENCY PROCUREMENT INSTRUCTIONS OF PPE ITEMS AND CLOTH MASKS



- National Treasury has provided the specifications and maximum prices the institutions must use to procure the basic preventative PPE items and cloth masks to contain and manage the transmission of the COVID-19 virus. (Annex A)
- National Treasury has set the maximum prices for the identified PPE items and cloth masks to reflect realistic current market prices.
- During the duration of the national state of disaster, the supply of the PPE items will be open to all suppliers that conform to the COVID-19 item specifications as issued by the World Health Organisation (WHO) and the National Department of Health (NDOH).
- The specification for the cloth masks is determined by the Department of Trade, Industry and Competition (DTIC) and the National Department of Health (NDoH) (Annex B)

EMERGENCY PROCUREMENT INSTRUCTIONS OF PPE ITEMS AND CLOTH MASKS

- Institutions may approach any supplier to obtain quotes and may procure from such suppliers on condition that-
 - the items are to the specifications as determined by the WHO and NDOH;
 - the prices are equal or lower than the prices in Annexure A; and
 - the supplier is registered in the Central Supplier Database and any other database as may be approved by National Treasury.
 - For the cloth masks, only suppliers that are registered with the Department of Small Business Development and are registered on CSD will be considered. The details of these suppliers will be updated and published on the National Treasury Website on weekly basis.
- Institutions are encouraged to use small enterprises that fall under the designated group in terms of the Preferential Procurement Regulations, 2017.
- Provision has been made for where there is existing contracts in place on the proviso that institutions may not pay prices in excess of listed price with a 10% variance allowed
- Details provided to continue use of transversal contracts

IMPACT ON OTHER PROCUREMENT PROCESSES

Matters dealt with include

- Tender briefing sessions
- Public opening of tenders
- Report Requirement
 - Institutions must amend their procurement plans to reflect their planned COVID-19 related procurement and available budget.

PERCEIVED NON-COMPLIANCE WITH PROCUREMENT LAWS AND POLICIES, USING COVID-19 AS A REASON AS WELL AS DEVIATIONS



- The emergency procurement provisions allows accounting officers / authorities to approve emergency procurement transactions (These deviations do not require the approval of the relevant treasury).
- These transactions to be reported within 10 days to the relevant treasury and Auditor-General where goods and services above the value of R1 million (VAT inclusive) were procured.
- Instruction No.5 of 2020/2021 was issued on 28 April, hence no reports yet received.

THANK YOU



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

