MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT BY MINISTER OF FINANCE, MR TITO MBOWENI
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Good afternoon.

We are holding this briefing to provide some detail on the measures announced by the President of the Republic on Sunday to support the recovery of the economy and provide relief to the poor in the wake of the spate of violent unrests and the ongoing Covid-19 pandemic. Recent events have had a serious impact on South Africans as well as the economy. Nevertheless, the country continues to show remarkable resilience. The implementation of both level three and level four lockdowns will have an impact on economic output, but the underlying factors that allowed us to project a recovery in GDP this year remain largely in place. This is helped by a more supportive global environment and continuing accommodative monetary policy.

In the short-term, because of the lockdowns, we can expect to see the impact of weaker consumer sentiment, business confidence and demand for certain products filtering through into weaker manufacturing production and wholesale trade sales. Based on high frequency data from Stats SA, in the current lockdown, retail sales and transport activity were the most negatively impacted by the restrictions imposed during the third wave, while most other economic activity continued to recover.

Over the medium-term, the National Treasury still projects that the South African economy will only return to pre-Covid levels (4Q2019) in 2023, reflecting the significant and negative impacts of the pandemic and associated lockdowns on the economy.

IMPACT OF THE UNREST IN KWAZULU-NATAL AND GAUTENG

In both the short and long term, social unrest will dampen business confidence, reducing private investment and future GDP growth. This will constrain economic recovery at a time when business confidence is already weak and at levels last seen in the fourth quarter of

2014. If riots persist – even at smaller magnitudes and in pockets of the country – they will have a lasting negative impact on confidence, private investment and growth. As stated by the President, government is working to ensure that peace and stability is maintained throughout the country, and that those attempting to subvert our democracy are held to account.

Infrastructure damage is widespread, mainly in KwaZulu-Natal and Gauteng, where numerous buildings were set alight or property purposefully damaged. The current estimated cost of damage to property and equipment in eThekwini alone is R15 billion. There is widespread damage to shops and malls, network towers, Post Offices, factories, roads and freight trains. Hundreds of ATMs have been destroyed, making access to cash harder.

While the vast majority of the damage may be covered through insurance, the real knock to the economy is the damage to business and investor confidence. Measures taken immediately after the unrest sought to quickly restore normal operations. The N3 highway linking KwaZulu-Natal and Gauteng has fully re-opened after being closed for almost a week.

THE IMPORTANCE OF ECONOMIC REFORMS FOR GROWTH AND THE FISCAL FRAMEWORK

Swift implementation of economic reforms is critical and would be an inexpensive and rapid way to simultaneously improve South Africa's growth trajectory, improve confidence and create fiscal space. In the short term, the credibility gains from well-executed reforms can be reflected in a lower risk premium and reduced borrowing costs, which frees up fiscal space.

In the medium term, the improved confidence levels spur greater investment, lead to faster growth and a flatter debt trajectory. This creates a positive feedback loop from lower debt and greater fiscal credibility, lower risk premium and lower borrowing costs across the economy. At the same time, the improved investor and consumer confidence translate into higher levels of investment and consumption which also feed into higher growth (lower debt, risk premium etc.).

PRELIMINARY MACRO-FISCAL ASSESSMENT AND THE PACKAGE

The macro-fiscal context will remain constrained as a consequence of the unrest and the lockdown. In this environment, Government will strive to provide continued support to the economy and public health services in the short term. As presented in the 2021 Budget, the main budget deficit and debt-service costs over the medium term are projected to remain higher than the pre-crisis levels. The Government will need to finance a gross borrowing requirement (consisting of the budget deficit and maturing loans) of R550 billion or 9.7 percent of GDP on average for each year of the MTEF. Debt-service costs will take up 21 per cent of all revenue collected by the government over the period.

COVID-19 PANDEMIC AND UNREST SUPPORT PACKAGE

On Sunday evening the President announced a fiscal support package to respond to the recent developments in the Covid-19 pandemic and unrest, mainly in KwaZulu-Natal and Gauteng. It is important to emphasise that the consideration of the final details will be done in line with the budget process, including consideration by the Ministers' Committee on the Budget (MINCOMBUD) and Cabinet. All proposals are already being subjected to a rigorous technical and economic assessment.

As I outline the measures that government is implementing, it is important to reflect on our fiscal challenges. South Africa's fiscal situation remains serious and should not be conflated with the capacity of advanced economies, as some commentators mistakenly do. Government finances remain at substantial risk, including due to the debt burden of over 80 per cent of GDP and the rising debt service costs, which now consume more than R1 out of every R5 raised in taxes. South Africa is not an advanced economy, and it is untrue that a government which prints its own currency cannot experience a debt crisis. Fiscal adventurism is not the solution to South Africa's problems. We will continue our strategy of restoring the health of public finances. Against this backdrop, a package of measures is proposed which will be carefully financed to avoid further damage to the public finances. It should also be underpinned by greater urgency in the implementation of growth-enhancing reforms.

The package is also underpinned by an acceleration of the vaccination programme. At the time of the February Budget, we estimated that the cost of the vaccination programme would be around R19.3 billion. We have committed to make whatever resources are required to ensure its success. R4.3 billion was already allocated to the Department of Health. We are now augmenting this allocation by making an additional R5.3 billion to the Department of Health from the contingency reserve for more vaccine purchases and logistical arrangements.

SASRIA

The South African Special Risks Insurance Association (SASRIA) will form a key part of the intervention to help insured businesses restore their operations. Together with reinsurers, SASRIA has already begun its claim administration process. Payouts will be honoured to all covered businesses. Crucially, government has decided to provide full financial backing to

SASRIA should it exceed its solvency limits. The National Treasury is putting in place the necessary arrangements to ensure that this commitment is met should it be needed.

Qualifying uninsured businesses will be supported by the state, partly through a reprioritisation of the existing support mechanisms for SMMEs. The Government is also engaging with relevant stakeholders (NEDLAC, banks, insurance companies, community organisations) to deal with the challenges facing uninsured businesses.

It is expected that the package will amount to R38.9 billion of on-budget items, including revenue measures of R5 billion and spending measures of R33.9 billion. As required by section 32 of the PFMA, the National Treasury will publish the quarterly revenue and spending position of the government at the end of this week. These fiscal indicators will show that government is sufficiently ahead of its revenue estimate to accommodate the fiscal relief measures. Therefore, the package can be accommodated without an increase in debt, especially borrowings from the market. As such, our fiscal strategy remains on track. The implementation of these relief measures will not result in a change in the debt trajectory and the fiscal deficit will not exceed the level presented in the February Budget. As a principle, government will avoid financing any measures from an increase in market lending, and we have different options in this regard.

The package will include R5 billion in revenue measures, specifically an expansion of the Employment Tax Incentive (ETI) for four months. Over and above this, we are announcing payment deferrals for three months on Pay As You Earn (PAYE) for qualifying industries, as well as deferrals of excise duties on alcohol. These measures will be implemented from 1 August and further details will be provided by National Treasury and SARS.

The Spending measures include:

1) A temporary re-introduction of the R350 Social Relief of Distress (SRD) grant until the end of the financial year, at a cost of R26.7 billion. The SRD grant will include support to child care-givers on an application basis. We want to make it clear that this is not a permanent social protection solution. Much work is still being done in this area, and additional borrowings to fund a consumption grant are not supported.
2) Financial backing of SASRIA, currently of R3.9 billion, pending a regular assessment of the insurance payouts. This amount is a provision for a required capital injection should SASRIA exceed its limits. It may be revised as events unfold.
3) Support to small businesses that are not covered by SASRIA will amount to R2.3 billion. These amounts are composed of reprioritisation of R1 billion and additions of R1.3 billion to the

baselines of the Department of Trade, Industry and Competition and the Department of Small Business Development. These two departments will work out the modalities for assessing applications and getting the money to the correct recipients.

4) R950 million of additional funds will be allocated to the Police (R250 million) and the South African National Defence Force (SANDF) (R700 million).

In addition to the above, the Unemployment Insurance Fund (UIF) has set aside R5.3 billion for the extension of the Covid-TERS coverage. This will mainly cover those who have lost their jobs due to the lockdowns. With regards to the people who lost their jobs due to the recent unrest, the UIF will provide income support, using different instruments that it has at its disposal to deal with such eventualities. Details in this regard will be given by the Minister of Labour and Employment.

The proposed spending measures will be implemented according to the budget process using several instruments:

1) Section 6 of the 2021 Appropriation Act – including by releasing remaining funds from the Contingency Reserve;
2) Section of 16 of the Public Finance Management Act to commence the payment of the R350 SRD grant;
3) The tabling of a Special Appropriation Bill in Parliament for the remainder of the package which is not covered by the legal limits of section 16 of the PFMA. I expect to table this Bill in Parliament at a date to be agreed with the President of the Republic and the Speaker of the National Assembly; and
4) The publication of drafts of the annual tax legislation (TLAB and TALAB) and further details on above tax measures.

Let me reiterate what I said earlier. We will maintain the fiscal path we announced in the February budget. In this regard, fiscal consolidation remains a key pillar of our strategy and we do not intend to deviate from it. We are keenly aware that the announcement of these relief measures comes in the context of existing pressures on the fiscus. The largest of these is the public sector wage bill. Government's latest offer has been accepted by a majority of labour unions. Work has been underway in the National Treasury to finalise the areas of reprioritisation for the public wage bill. Reprioritisation will have to be done to accommodate the payment of this settlement, and the details thereof will be announced at the time of the Medium-Term Budget Policy Statement (MTBPS).

OTHER MEASURES

Amendments proposed in the Taxation Laws Amendment Bill this year to adjust the conditions required to claim the 12I tax incentive and assist businesses to remain eligible to claim the incentive after the operational difficulties they have faced through the pandemic. Government continues to review the available tax incentives and plans to pivot towards a more efficient corporate tax system that has a broader tax base and a lower tax rate.

RETIREMENT FUND REFORM

National Treasury is in discussions with NEDLAC on a proposal for limited withdrawals from retirement funds, for those losing part of their income during the Covid pandemic. This is proving to be a complex problem to solve, if we are to ensure preservation of savings. Government continues to engage with trade unions, regulators and other stakeholders to discuss how to allow limited withdrawals linked to tightening preservation by closing current loopholes, and also to expand coverage so that all those employed or earning an income are required to put aside a small proportion for saving for their future.

Our country continues to sail through stormy seas and we are patently aware of the difficulties faced by many South Africans. We will perservere to keep the ship on course and to support those in dire need. We will release further information on support measures following further work and consultations with our social partners.

Thank you.