



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

REMARKS BY MINISTER OF FINANCE, MR, TITO MBOWENI, DURING THE MEDIA BRIEFING TO OUTLINE R500BN ECONOMIC SUPPORT PACKAGE

24 APRIL 2020

Introduction

We are, as a nation, facing extraordinary times and enormous economic challenges.

We have, however, got the human and other resources, and the resilience as a nation to overcome this challenge.

Led by the President, and together with my cluster colleagues, we have developed a set of fiscal and monetary policy interventions. These interventions draw together the skills and expertise of people in private and public sector.

At this time of great need, our macroeconomic response must not only be about the high-level fiscal and monetary variables. Those are very important. Our intervention must also be about our people, particularly the poor, the infirm and the vulnerable. It must also be about the businesses – large and small – that drive our economy, and create work for our people. It must be about our banking and financial system, to make sure money continues to flow through the veins of the economy.

A co-ordinated fiscal and monetary policy response

Our focus has on how to use the levers of macroeconomic policy, i.e. fiscal and monetary policy, in a way that delivers an immediate, targeted and clear response.

Wisely used together, these key levers can deliver a countercyclical boost directly into the heart of the economy. But, if these two levers work against each other, or if the levers are used incorrectly, then we can be left substantially worse off. We must be careful not to choose a path that seems easy, or too good to be true. The easy path more often than not to a bad destination; and if something seems to be too good to be true, it probably usually is.

Over the last week, the teams from the National Treasury and South African Reserve Bank have worked together on a set of macroeconomic responses to the crisis. Governor 10 and I have convened two bilaterals – one on Saturday between ourselves, and one on Sunday involving our two full teams.

Our key discussion point was to appropriately calibrate the fiscal and monetary policy interventions, and provide appropriate advice.

We must always balance short-term fiscal and monetary policy interventions with long-run sustainability. Working under the leadership of our President, we calibrated a fiscal package of approximately R500 billion. Governor 10 (Lesetja Kganyago) has already unveiled a



monetary and policy package. This will bring additional life into the whole financial system, and will utilise the combined balance sheet of the country in a careful but appropriate way.

This takes our total economy wide measures over R800 billion. Let me say that again – our combined fiscal and monetary policy package is over R800 billion. This is a major fiscal and monetary policy response

The components of the fiscal and monetary response

The main components of the fiscal response can be thought of in five components, which are:

Firstly, an extraordinary health budget (R20 billion) to respond to coronavirus,

Secondly, the relief of hunger and social distress,

Thirdly, support for companies and workers,

Fourthly, the phased re-opening of the economy which the President spoke about last night, and

Finally, the supportive monetary and financial market measures.

The President has spoken in detail about these components.

Let me give a short summary:

Under the **first part of the package**, we are setting aside an amount of R20 billion to be directed to addressing our efforts in dealing with the pandemic.

Under the **second part of the package**, the government will substantially increase our social security net.

We are directing R50 billion towards relieving the plight of those who are most desperately affected by the coronavirus. Child support grant beneficiaries (children) will receive an extra R300 in May.

From June we will change the way the system works a little. From June to October caregivers (typically mothers) will get an additional R500 each month. All other grants will be topped by R250 per month for the next six months. We will use our existing system to disburse these grants.

In addition, a special Covid-19 Social Relief of Distress grant of R350 a month for the next 6 months will be paid to individuals who are currently unemployed and do not receive any other form of social grant or UIF payment.

Our teams are working closely with the Department of Social Development SASSA and teams from the Payments Association of South Africa, the Banking Association, and others to identify easier payment systems to be used in this regard. We aim to use existing cash transfer systems including mobile cellphone technology. The Department of Social Development and SASSA will outline the details on how this will be implemented including a smooth application process making it easier for eligible recipients to sign up and get the money quickly.

On the **third part of the package**, we have rolled out an extensive set of tax relief and support for workers. My other colleagues in particular Thula Nxesi will speak to the detail on the support for workers.

On the tax side, our proposals include:

1. An increase in the expanded employment tax incentive amount from R500 to R750 per employee.
2. A skills development levy holiday of 4 months from 1 May 2020.
3. Fast-tracking VAT refunds.
4. Deferring the payment of excise duty on alcoholic beverages and tobacco products.
5. A three-month deferral for filing and first payment of carbon tax liabilities to 31 October 2020.
6. A postponement of some of the corporate tax proposals in this year's Budget on interest expenses and assessed losses.
7. An increase in the deferment of employee's tax
8. An increase in the turnover threshold for automatic deferrals.
9. We have been particularly pleased to see how quickly the nation has pulled together. A Solidarity Fund has been set up and has shown us a new way of how we can bring together our society to confront the challenge. Already the Solidarity Fund has spent R1 billion on personal protective equipment. Up to a third of such donations will be tax deductible. We will also increase the limits for payroll giving to the Solidarity Fund – including in determining the monthly withholding of employees' tax.
10. Finally, we have expanded access to living annuity funds by allowing individual to adjust the proportion they receive as annuity income, instead of waiting up to one year until their next contract anniversary date.

The combined effect of these revenue and expenditure measures have naturally changed the fiscal framework. That said, for the next few weeks, many of these measures can still be accommodated within the current framework. I will shortly be tabling a revised budget bill to Parliament to deal with all these measures.

We are in this together. South Africa is resilient, and we have the ability to get through tough times together.

Further support for firms will come from a R200 billion loan guarantee scheme, which the President also announced. The key features of the Covid-19 loan guarantee scheme are provided in detail on our website.

Fourthly, the phased re-opening of the economy

As the President said last night, on the 23 April 2020, most of government's efforts are focused on finding mechanisms to ensure firms can return to work safely. Conditional on businesses installing a screening and testing system and providing a safe working environment, we can open up the economy. There is no need for us to elaborate on the measures, which were detailed by our President.

As businesses open we will focus on screening and testing. Clear communication strategies are required and it is critical to ensure that people feel protected and safe. Targeted lockdowns will need to be re-imposed where risks begin to emerge. It will be critical to facilitate trade, to generate export earnings as well as to provide some support for businesses that can operate. The fiscal and economic impact of banning certain goods needs to be taken into account.

To achieve this, we have developed an approach that determines the measures we should have in place based on the direction of the pandemic in our country.



We have an excellent health response to this crisis, led by Minister Mkhize. Our economic package will help cushion the blow on the economy.

But we must be aware that even with the best programmes in the world, growth will not recover immediately. In order to manage the health risks of this extremely contagious disease, international experience suggests that a phased approach to the normalization of economic activity is required. Since very little is known about how co-morbidity factors affect infection and mortality rates, and with existing health problems, cramped living conditions and poverty within the population, caution is warranted.

But the longer that growth remains weak, the greater the risk that there will be permanent destruction of economic capacity. This in turn has serious implications for the income streams of households and firms.

Global weakness further compounds these growth effects, alongside the impact of a weaker currency and higher borrowing costs.

Concerns about the sustainability of South Africa's fiscal choices has seen the cost of borrowing in our country increase faster than other emerging economies. The fiscal weakness was present going into the crisis – in particular, rising debt to GDP levels and the rapid growth in interest costs as a share of total spending, squeezing out spending on other priorities. Unsustainable state-owned enterprises are putting enormous pressure on the budget. The quicker we find solutions to this the better for everyone.

While we are keenly aware of the need for a short-run enormous intervention, we cannot take our eye off the ball, i.e. the long-run. We must ensure that our choices do not mortgage our future.

Thus in the month ahead, our response will be in three phases:

- Phase 1 is the phase we are currently in, which aims to **PRESERVE** our economy. It is designed to be a set of immediate, targeted and temporary responses.
- Phase 2 is a plan for **RECOVERY** from the immediate effects of the crisis. We will outline This in due course.
- Phase 3 is a **PIVOT** to position the economy for structurally higher growth. This virus will be beaten. But we must make sure that when we beat it, we do not compromise our long-run sustainability.

In particular, as we come out of the coronavirus crisis, we must work quickly to implement our structural reforms to get the economy moving. Virus or no virus, the economy has been growing too slowly for too long.

Concluding remarks

In conclusion, I would like to thank my colleagues and the many South Africans for the way in which in which we are working together in this crisis.

In the spirit of *Thuma Mina*, many have put up their hands, and put their shoulders to the wheel for our country. There have been colloquia, research papers, opinion pieces, and so forth. We have truly experienced the intellectual capacity of our nation, and we have been presented with near endless set of ideas. We have also drawn from the community of nations. We are members of many international bodies. They have shared their experiences and ideas with



us, and we have shared ours with them. They have ensured that we have a truly global response.

As we aim to propel our economy forward after the crisis, we must all remember that together we can do more.

ISSUED BY MINISTRY OF FINANCE

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