FIN24

Mboweni's stimulus package dismissed as 'relief' measure in Parliament

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Lameez Omarjee

With South Africa facing its deepest crisis since the 1930s Great Depression, much faith has been placed on almost R1 trillion in interventions of both National Treasury and the Reserve Bank to stimulate the economy, as we head into the second half of the year. But the state's fiscal and monetary response to Covid-19 was dismissed as a "relief" measure and not a stimulus package in Parliament on Tuesday.

Only R95 billion of the government's R500 billion fiscal package can be considered a "new injection" into the economy, Eddie Rakabe, the programme manager of the Financial and Fiscal Commission, told Parliament's standing committee on appropriations. The commission is an independent constitutional institution which advises the state on financial and fiscal matters.

The Tito Mboweni-led Treasury last month announced a fiscal package of R500 billion that includes a R200 billion credit guarantee scheme, R70 billion in tax relief, and R130 billion to be reprioritised from Budget 2020. The South African Reserve Bank has cut rates three times over the past two months, with borrowing costs at lows last seen in the early seventies, as well as relaxing regulations to allow banks to lend more to consumers. Combined, the interventions amount to about 18% of the country's GDP, at close to R800 billion. The fiscal response alone amounts to 10% of GDP.

Government intends to raise R95 billion of this package with borrowings from multilateral institutions such as the New Development Bank, the World Bank and The International Monetary Fund.

Falling short

Of the fiscal interventions, "... only R95 billion could be considered a fiscal stimulus. This means that the Covid-19 stimulus falls far too short of the expected shock to the economy," Rakabe said.

The central bank expects the SA economy to contract by as much as 7% this year on the back of a pandemic that has resulted in much of the global economy grinding to an almost complete halt over the past two months. The economic crisis is set to be worse than the global recession of 2008, where one million jobs were lost. In severity, the crisis mirrors that of the Great Depression of the early twentieth century.

In an **interview with Fin24**, Investec CEO Fani Titi said the R500 billion stimulus from government may not be enough, and that the banking industry might have to step up to provide relief to certain businesses not already covered by existing support measures.

Chair of the appropriations committee and former deputy finance minister Sfiso Buthelezi argued the interventions were both fiscal and monetary, and hence the statement that the stimulus was purely R95 billion was not correct.

But in its presentation, the Commission said the impact of monetary measures have had a "muted" impact on growth. **Previously, Reserve Bank Governor Lesetja Kganyago said** that the impact of monetary policy interventions had not yet been felt with the economy still on lockdown.
Monetary policy interventions by the **Reserve Bank such as interest rate cuts** and liquidity boosting measures, aim to benefit those who are indebted, and will not necessarily stimulate consumption, said Rakabe. Indebted individuals and businesses are likely to use any income towards debt relief, he added.

The Reserve Bank has partnered with Treasury and other commercial banks to launch a R200 billion loan guarantee scheme. Loans will be extended to businesses with annual turnover less than R300 million so that they can cover operational expenses, as they battle the impact of Covid-19. So far government has extended R100 billion of this guarantee. Rakabe pointed out that if businesses are unable to repay loans, then government will have to take on the outstanding debt owed to banks, which will add fiscal strain. It is expected to increase government's guarantee exposure from R484 billion to R684 billion.

In response to questions from Fin24 on the FFC's assessment that the fiscal stimulus was only R95 billion, National Treasury said that government's fiscal stance this year, in the context of the economic support provided is "clearly stimulatory".

"Government is not raising taxes or cutting spending in response to the negative fiscal impact. The decision to not cut spending in the midst of an unprecedented fall in tax revenues is very counter-cyclical and economically stimulatory," Treasury said.

Treasury referred to the R70 billion tax measures which include income support and payment holidays and to a R40 billion drawdown from the unemployment insurance fund to reflect the extent of government's efforts.

Director General Dondo Mogajane has previously said that the R500 billion is limited, given the size of job losses and business that will result due to the impact of Covid-19.

Reprioritisation
The Commission also made several recommendations on how government can reprioritise funding for Covid-19 efforts. Government should first determine what can be considered as essential and non-essential, explained Dr Mkhululi Ncube, the Commission's project manager for the local government unit.

Essential spending is that which is directed towards fighting Covid-19, spending that goes towards providing social relief to poor, and spending towards kick-starting the economy. The priority departments identified by the commission in this regard include health, social development, and water and sanitation.

The Commission recommended more aggressive spending be implemented among non-essential departments or spending items – these include compensation of employees, goods and services such as travel items and catering services, and even training and development. The Commission also recommended that non-essential infrastructure programmes be postponed.

Some conditional grants may also require spending cuts. The Commission identified 23 grants which could be reprioritised in the interim – they include the community library services grant, some education-related and health-related grants and other infrastructure grants related to municipalities and transport not deemed a priority in the face of the crisis.