Business Day

More relief needed to address Covid-19 economic damage, says Michael Sachs

'From a fiscal and economic point of view, we are closer to the end of the beginning rather than we are to the beginning of the end'

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The government may have to extend its various Covid-19 relief schemes as the extent of the economic devastation caused by the pandemic becomes clear.

This is the view of Financial and Fiscal Commission (FFC) deputy chair Prof Michael Sachs, who previously headed up the Treasury's budget office.

The extent of the economic damage is clear from the Treasury's projections of a 7.2% decline in GDP this year. At the same time the government's ability to provide relief is limited by a fiscal crisis which will see debt as a percentage of GDP rise to an estimated 81.8% this year and the consolidated budget deficit to 15.7%.

The FFC is tasked with making recommendations to the government on fiscal policy and intergovernmental relations. It held a media briefing Monday on its submission on the 2021/2022 division of revenue, which was tabled in parliament at the end of July.

Questioned about the adequacy of the government's R500bn relief package Sachs said it lacked ambition and might need to be expanded once the economic damage caused by the pandemic took hold.

Sachs emphasised that while the level of lockdown was easing, the economic crisis was still unfolding and "we are yet to see the extent of the damage not only to small firms and the informal sector but to large corporates in the economy who sustain a bulk of the wage bill".

"We may need yet to see a big extension, for instance, of the loan guarantee scheme and other support to the economy going forward. From a fiscal and economic point of view, we are closer to the end of the beginning rather than we are to the beginning of the end."

Sachs believed there was no point in expanding the envelope of the R200bn loan guarantee scheme when so little — only about R12bn — had been used so far but it could be extended in terms of its lifespan and the companies that qualified to access it to include major companies in financial distress. At the moment the scheme is targeted at small and medium enterprises. Other forms of relief could also be expanded.

Sachs said the Treasury could have allocated more in government expenditure for Covid-19 relief in the supplementary budget, even taking into account its large borrowing requirement and budget deficit.

The government's borrowing requirement for 2020 is more than R700bn and the loan received from International Monetary Fund (IMF) was only the relatively small amount of R70bn.

Sachs noted that SA's fiscal deficit of about 15% placed it among a group of three countries with extremely large fiscal deficits, the others being the US (about 25%) and Brazil (about 15%). From that point of view the stimulus package was very large.

However he added that it had to be noted that the financing of the Covid-19 response entirely through reprioritisation displayed a lack of ambition, and more could have been allocated from government expenditure.

FFC chair Prof Daniel Plaatjies said the commission would be working in the coming months on a post-Covid-19 economic recovery plan but emphasised the importance of investment in agriculture because of its multiplier effects on the economy and its job-creation potential.

The commission estimates that for every rand invested in primary agriculture, the GDP multiplier is 44c, while for agro-processing it is 25c.

Public expenditure in the agricultural sector to date has been "dismal", Plaatjies noted.

In its submission on the 2021/22 division of revenue, the FFC said the fiscal credibility of SA is under threat, and the country needs to strengthen the coherence of its economic and fiscal stance as it responds to the Covid-19 pandemic.

"The fiscal credibility of the SA government is under threat, due to inconsistencies and ambiguities of the budget relative to the economic and fiscal positions taken by the government and its president," the FFC's submission said.

Finance minister Tito Mboweni should develop and execute "a clear, coherent and comprehensive macroeconomic framework that is in line with the president's economic and social support response package to Covid-19".

The commission said that the government's interventions thus far "have fallen far short of the magnitude by which Covid-19 has shifted the SA economy". This is because it lacks a "clear and coherent economic vision, supported by concomitant budgetary support and strategy to bring about clear fiscal actions".

A localised product value chain approach would help to transform the domestic economy and stimulate inclusive growth, the commission noted in a media statement on the submission.

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