

## **Moneyweb**

### **Not the beginning of the end of economic support, says Sachs**

Government will have to provide more support as the country readies for economic recovery.

Tebogo Tshwane 18 Aug 2020

South Africa's Covid-19 restrictions have been eased further to allow for increased activity in the majority of sectors, but this is not the end of the economic crisis and possibly not the end of the road for the government's support interventions.

These are the comments of Michael Sachs, deputy chair of the Financial and Fiscal Commission (FFC) and former head of National Treasury's budget office.

The Covid-19 pandemic has had a severe impact on the country's already fragile economy, which was in its second recession in two years. Government's fiscal deficit has more than doubled from the initial 6.8% forecast in February to 15.7%. The economy is now expected to contract by 7.2% in 2020, the largest in 20 years. And while the unemployment rate sits at 30% in the first quarter, it's expected that this figure will be far more devastating.

#### **Underwhelm**

A number of interventions have been put in place to cushion the fallout of the pandemic, through monetary policy instruments by the South African Reserve Bank, as well as a R500 billion social, health and economic response package.

The FFC is an independent constitutional advisory institution which advises the three spheres of government on fiscal issues. The commission outlined the details of its submission for the 2021/2022 Division of Revenue Bill to the media. The submission was tabled in Parliament in July.

Answering questions regarding the efficiency of government's Covid-19 package, Sachs said the intervention "displayed a lacked ambition" and was undermined by a failure in implementation.

Sachs said even with the large budget deficits and borrowing requirements for 2020, the government could have added more spending to the budget rather than funding the response "entirely through reprioritisation".

The government has reprioritised R130 billion from the current package and intends to borrow \$95 billion in new money, most of which has already been approved by the African Development Bank, the International Monetary Fund and the National Development Bank. The rest of the package consists of a R200 billion Covid-19 loan scheme for small- and medium

businesses, a wage guarantee programme through the Unemployment Insurance Fund (UIF) and tax deferrals.

“The government could have gone further, even given the size of the deficit, on the expenditure in terms of adding resources,” he said.

### **Implementation falls flat**

Moreover, Sachs said the core interventions of the R500 billion package have failed to have the desired effect.

He said that where government used existing infrastructure, such as the top-ups to social grants, this has been more effective than areas where it “attempted to create new channels to respond” in the loan guarantee scheme and the special R350 unemployment grant.

Firstly, the R200 billion loan scheme guaranteed by National Treasury and administered through the banks “failed to get off the ground”.

Since its launch in May, the scheme has only transferred around R12 billion to 8 542 businesses – and only in July. The scheme has had to tweak some of its criteria to allow for greater uptake, including the cap on an annual turnover of R300 million and the extension of the drawdown and payment holiday period.

Sachs said the wage guarantee provided through the Unemployment Insurance Fund (UIF) Covid-19 Temporary Employer/Employee Relief Scheme budget could have also been bigger.

The scheme was extended to limited qualifying business from July until August 15, with applications opening on Monday.

He added that the Covid-19 special unemployment grant had also “disappointed” as the South African Social Security Agency failed to disperse the grant efficiently and timeously.

“Remember, the lockdown is easing – but the economic crisis is 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 who sustain the bulk of the wage bill,” said Sachs.

“We may have to see an extension of the guarantee scheme and other support to the economy going forward.”

<https://www.moneyweb.co.za/news/economy/not-the-beginning-of-the-end-of-economic-support-says-sachs/>