Tracking trends and analysing the COVID-19 pandemic and responses

# THE ECONOMY AND THE PANDEMIC

## WEEK 8 to 14 JUNE

### KEY FINDINGS FOR THE WEEK

### On the pandemic

- The move from Level 5 to Level 4 saw a sharp increase in cases, with Gauteng, the Eastern Cape and the North West now seeing exponential growth. In contrast, after an initial spike, KwaZulu-Natal has brought the rate of growth down sharply, and the contagion has also slowed in the Western Cape. The question remains whether government, business and civil society interventions to promote behavioural change could still rein in the pandemic and hold down the number of cases through to the end of the year.
- In the past week, it became increasingly clear that while South Africa could increase the number of hospital beds, it would struggle to get enough health professionals to care for patients in them.
- Lobbying by industries with a high risk of transmitting infections – especially personal services and entertainment – escalated. They contended it was unfair that they could not open up with the rest of the economy in Level 3. Yet the risk-adjusted approach explicitly differentiates between high-risk activities based on their perceived social benefits. To bolster their arguments, industry advocacy groups typically overstated their sector's contribution to the GDP. For instance, the Tourism Business Council told Parliament last week that it contributed 9% of the GDP. According to Statistics South Africa, however, in 2017 the figure was under 3%.

### On the economy

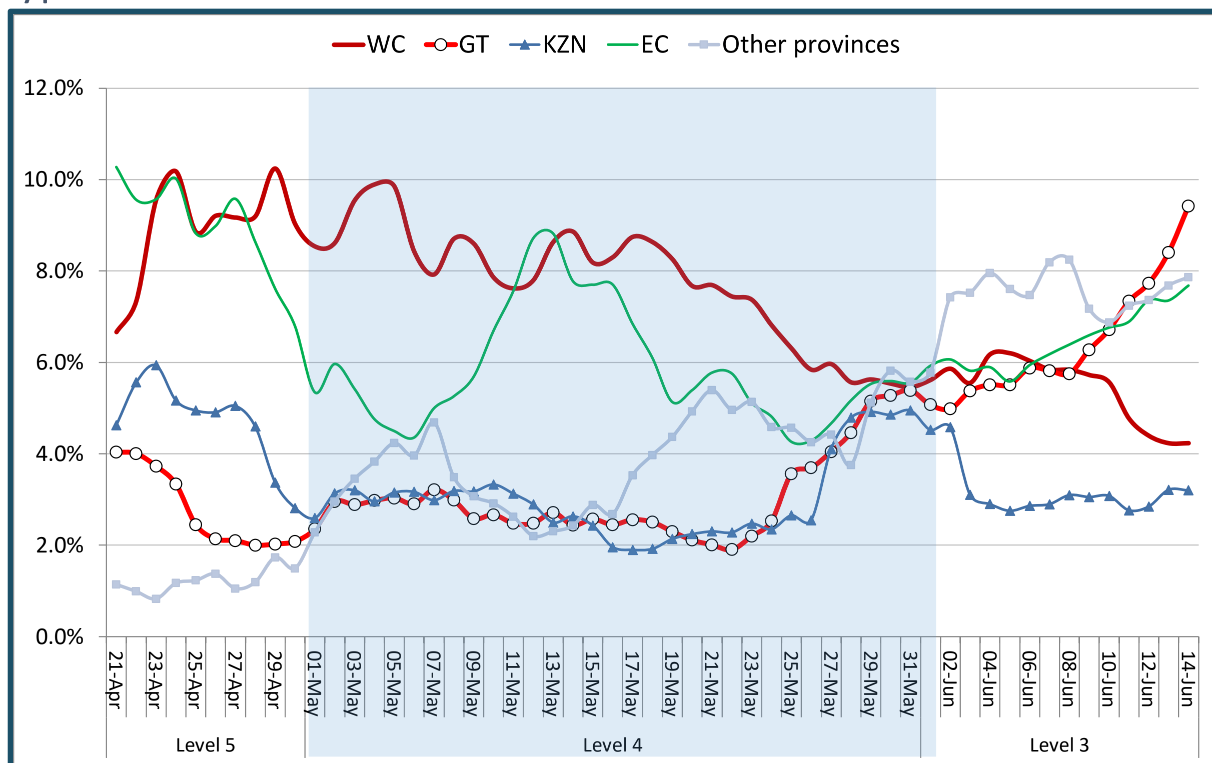
- The available data show an initial rebound in the economy following the move to Level 3 flattened out last week. A survey of business by TIPS, BUSA and the Manufacturing Circle found that, when UIF funds run out next month, many companies anticipate retrenchments due to low demand.
- The government plans a R500-billion stimulus package centred on guaranteed loans for small and medium business; the UIF COVID-19 TERS fund; and investment in infrastructure. As of 6 June, however, only around R500 million had been lent under the R200-billion loan guarantee scheme, which accounts for the lion's share of the proposed stimulus package.
- Virtually any effort to mobilise funding on the scale proposed for the stimulus package will affect the power as well as profits of different social groups, and consequently run into heated debates and intense lobbying. In the past week, debates swirled around the reprioritisation of the national budget, the use of UIF funding, the role of impact investments, and borrowing from the IMF and the World Bank. The government approached the IMF for a loan of US$4,2 billion, or R70 billion.

## TRENDS IN THE PANDEMIC

The move to Level 4 at the beginning of May was followed by a spike in reported cases in most provinces around three weeks later. KwaZulu-Natal and Limpopo managed to moderate the growth in cases through the past week. In contrast, exponential growth persisted in Gauteng, the Eastern Cape and the North West. In the Western Cape, the rate of growth in new cases saw a small jump over the past week, but it remains half as high as a month ago. In other words, the number of reported new cases there is still growing, but at a slower rate.

As the following graph shows, the rate of growth in reported new cases fluctuated between 2% and 3% a day (using seven-day rolling averages) in Gauteng until around 21 May, when it began to climb. In the past week, it reached 9% a day. In the Eastern Cape and the North West, new reported cases were rising at 8% daily. The figure was around 4% for the other provinces, including the Western Cape and KwaZulu-Natal.  As a result of these trends, the share of the Western Cape in all new cases fell from around two thirds in the first week of June to half in the second week.

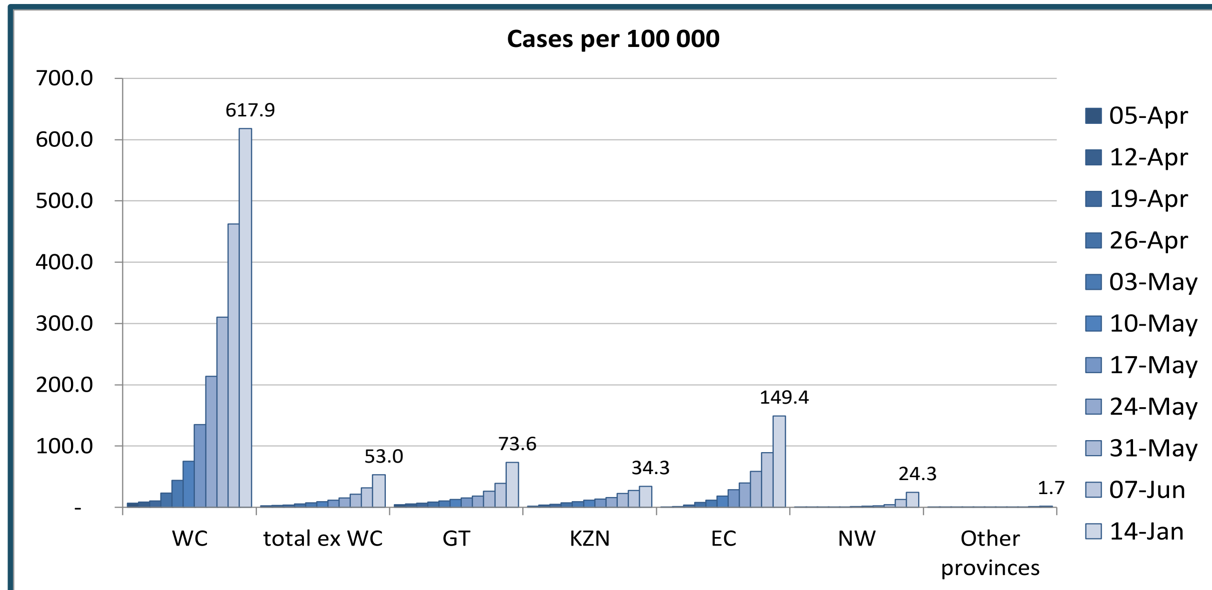
**Graph 1. Average daily (a) rate of growth for the week of 8 to 14 June compared to previous weeks, by province**




*Note:* (a) Calculated using seven-day rolling averages for first and last day of each week. *Source:* Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

Despite the rapid growth in new cases in most provinces, the number of cases per 100 000 residents remained far higher in the Western Cape than in the rest of the country. If Gauteng does not manage to moderate the growth in cases, however, it will catch up with the Western Cape in just over three weeks. The Eastern Cape will reach Western Cape levels in under three weeks. Outside of the Western Cape, the rate of transmission on 1 May, when the country moved to Level 4, was 3%, which would have doubled the incidence every month; on 1 June, it would have taken two weeks; and as of 14 June, the incidence would double in around 10 days.

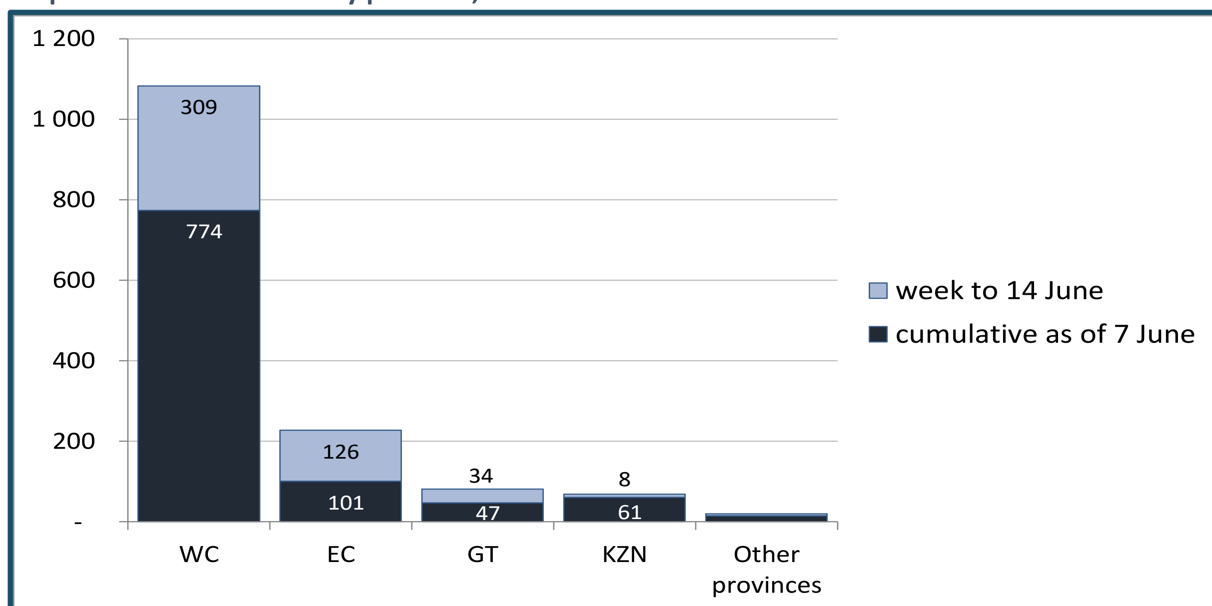
**Graph 2. Number of cases per 100 000 people by province, weekly, from 28 April to 14 June**




*Source:* Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

Deaths lag new infections by around three weeks. As a result, the Western Cape continued to dominate mortality reports in the past week. But the number of deaths in the Eastern Cape doubled in the past week. Mortality in Gauteng should start to climb rapidly from next week, based on the growth in reported cases.

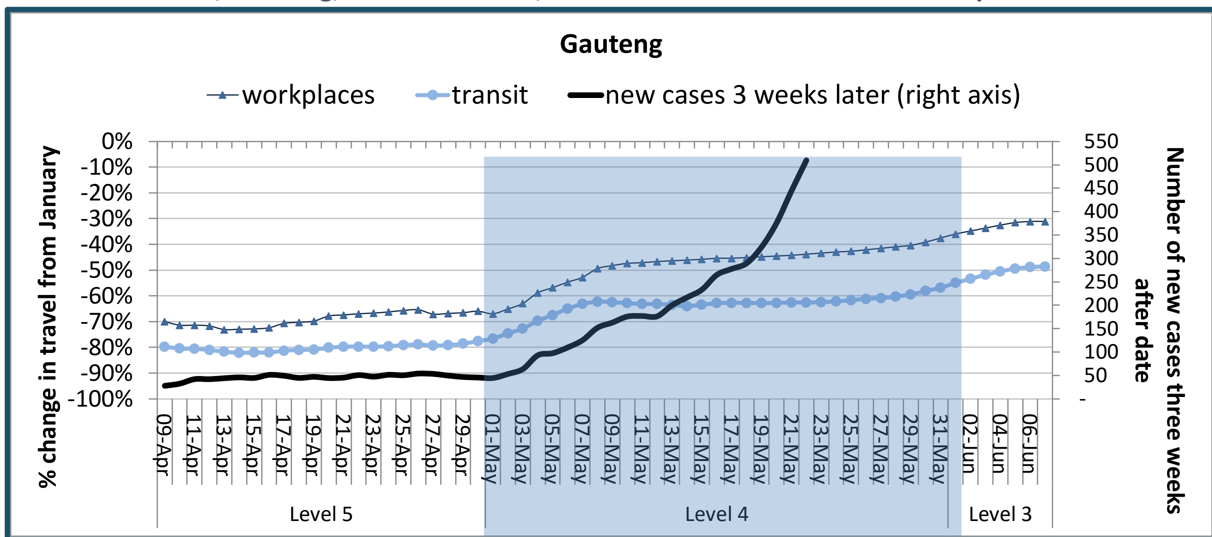
**Graph 3. COVID-19 deaths by province, cumulative to 7 June and in the week to 14 June**

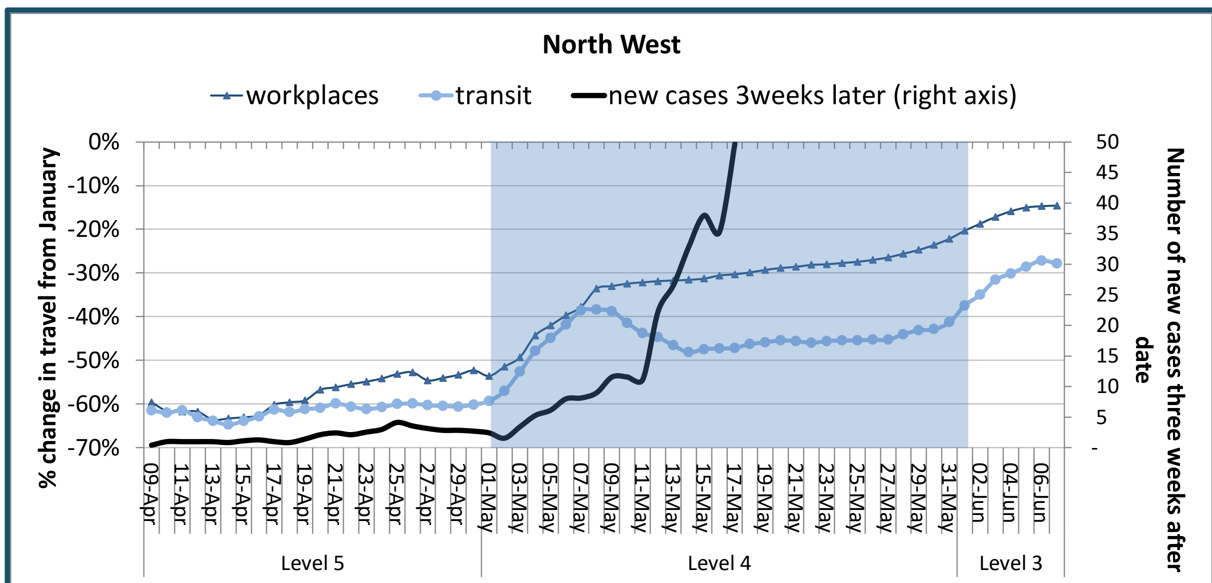


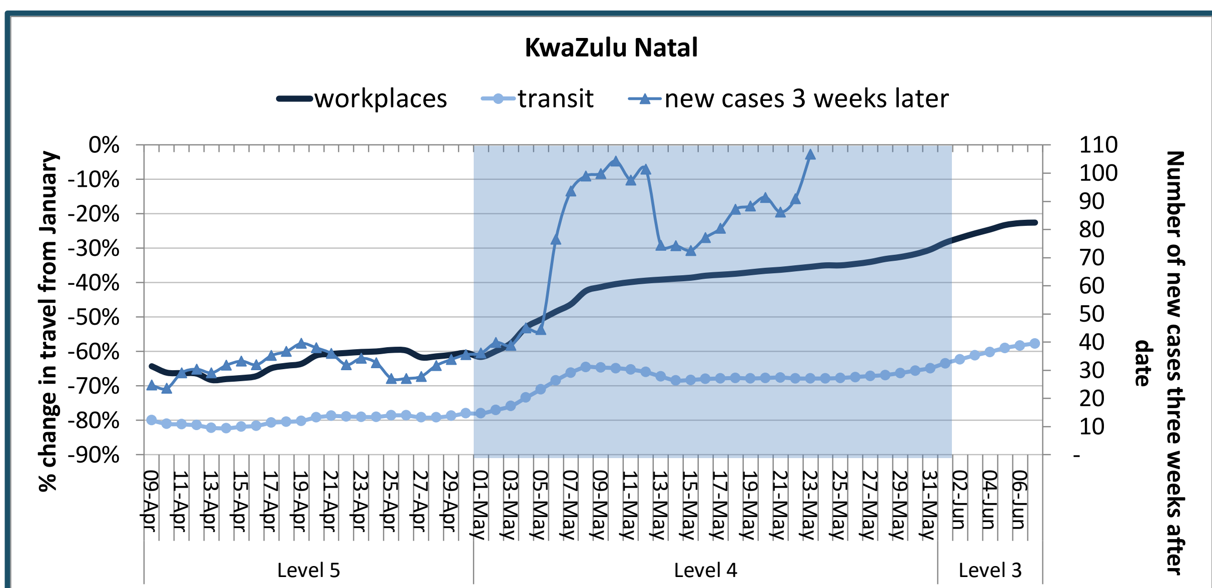

*Source:* Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

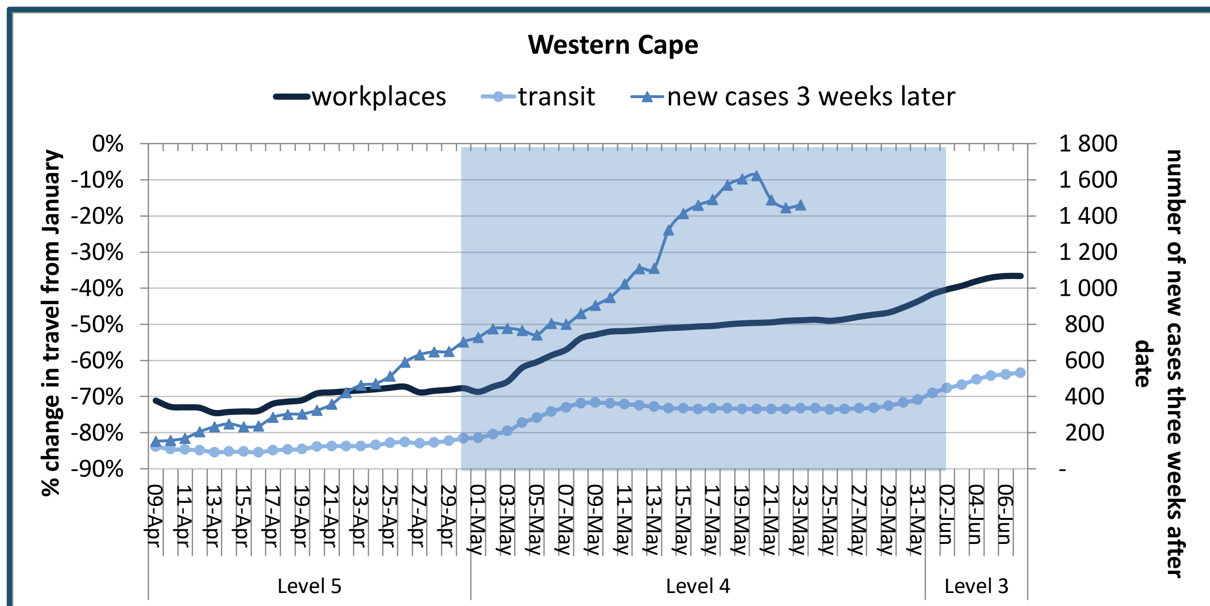
It remained unclear whether Gauteng, the Eastern Cape and the North West would be able to shift behaviour sufficiently to slow the rate of new infections before the contagion got out of hand. The effects of the more relaxed restrictions in Level 4 essentially showed up three weeks later, but while KwaZulu Natal has so far managed to contain the uptick in new cases, it has persisted and indeed accelerated in Gauteng and the North West. The question is whether a similar bump in cases will result in the next few weeks because of the opening up for Level 3.

**Graph 4. Change in travel to work and public transit compared to number of new cases reported three weeks later, Gauteng, the North West, KwaZulu Natal and the Western Cape**






*Source:* New case data accessed at www.sacoronavirus.co.za on relevant dates; mobility data from Google COVID-19 Community Mobility Reports. Accessed at https://www.google.com/covid19/mobility/ on 15 June 2020.

In Gauteng, the fastest daily growth in cases was in the CBD and Soweto, at an average of over 8% a day from 1 June through 10 June, the latest information available. The number of cases in these two subdistricts rose from 160 on 1 May to 1 213 on 10 June. In this period, their share in all cases in Gauteng climbed from one in ten to one in five.

The increasing strain on the health system emerged in tracing data. On 1 May, Gauteng traced almost six people for each new case. On 21 May, the figure had fallen to 4,5; three week later, it was down to 2,5. The number of cases climbed more than fourfold from 1 May to 10 June, while the number of contacts traced did not quite double.

It also became clear in the past week that South Africa could add hospital beds and equipment in response to the spike in COVID-19 cases, but would struggle to staff them adequately. The problem was aggravated by the need to train healthcare workers to avoid infection and, if they were exposed, to stop them coming to work. In the Western Cape, between a fifth and a quarter of healthcare employees were unable to work as a result of COVID-19 infections. Furthermore, preparations for the anticipated spike in COVID-19 cases competed with needs in the rest of the healthcare system, leading to pushback within the medical profession.

In the past week, the Western Cape government said it was advertising for 4 000 more doctors and nurses plus 1 200 other health workers. For comparison, according to a response to a Parliamentary question, as of 8 June it had added 317 emergency care practitioners plus 256 other doctors and 460 nurses. The other provinces had bolstered their healthcare rolls by a total of 54 doctors and 2 072 nurses in the same period. The Cuban brigade added 187 medical specialists at a reported cost of R24 million, or less than R150 000 each.

According to labour-market data, in 2018 South Africa had around 170 000 health professionals with university degrees, of whom 135 000 were actively employed. It had another 300 000 healthcare professionals with diplomas, with 225 000 employed. Relatively few of the jobless professionals were, however, seeking paid employment. The surveys do not capture South African health professionals who are now working overseas.

Some countries, such as China and Korea, have managed to contain the kind of spike now seen in Gauteng and the North West by responding both immediately and stringently, despite the inevitable short-run costs and pushback. Crucial elements in their response were shutting down hotspots; intensive contact tracing and isolation of potential cases; very extensive public communication and education on ways to prevent infection; and analysis of clusters so as to identify how to prevent further outbreaks.

The rapid rise in reported cases in the past two weeks opens up two sets of policy dilemmas.

First, policymakers face strong lobbying from industries that were not permitted to open in Level 3 because they present relatively high risks. These activities include restaurants, tourism, movie theatres, hairdressing and other personal services. In addition, taxis have argued that they should not have to abide by physical distancing rules that require them to run 30% empty. Lobbyists for relatively risky industries argue that

- Other high-risk activities, notably worship services, were allowed to reopen in Level 3;
- They make a significant contribution to the economy and to employment;
- They can operate in ways that reduce the risk of contagion; and
- Business owners will face personal hardships if they cannot open soon.

From a policy standpoint, the risk-adjusted approach aims precisely to distinguish activities that provide large enough social and/or economic benefits to offset the risk of contagion. Reaching agreement on how to value activities proves difficult, however, since the benefits and costs differ across social groups and are often intangible.

Experience shows that lobbying is most likely to succeed when public policies impose substantial and practical burdens on a small, well-defined and capacitated group, even if the measures generate broader, but less tangible, benefits for most of the population. In the case of the pandemic, the owners of high-risk businesses face the loss of their livelihood, which makes it easy for them to advocate a change in policy. The costs of a runaway contagion for the rest of the population are, however, still hypothetical, which makes it far harder to mobilise support for measures aimed at reducing the risk.

In addition, lobbyists inevitably exaggerate the economic and employment impacts of their industry. For instance, the Tourism Business Council claimed, based on data published by an international tourism association, that tourism contributes some 9% of the South African GDP. Statistics South Africa’s special satellite accounts for the industry, however, find that it contributed under 3% of the GDP in 2017, and around 4,5% of employment.

While some high-risk activities can be modified to limit transmission, the necessary measures are inevitably disruptive and often very costly. Where they have been imposed, businesses often lobby to dilute them. In South Africa, taxis, airlines and restaurants have already begun to push back against measures aimed at limiting transmission. Taxis want to end the rule that they can only fill 70% of seats; airlines complain that taking the details of all passengers to enable tracing is unduly onerous; and restaurants argue they cannot survive with takeaway food only. In other countries, similar complaints have arisen about rules limiting the number of people in restaurants, bars and retail outlets. Moreover, the Department of Employment and Labour finds that almost half of workplaces are not in compliance with rules designed to prevent the spread of COVID-19.

Second, the forecast of an inevitable spike in cases muddies the discourse on how to manage risks in reopening the economy. For public health and economic policy, the question is not when a spike will come, but how society can minimise it through changes in behaviour and policy interventions. From a practical standpoint, the longer South Africans can limit the number of cases by changing their behaviour, the more likely an effective treatment or vaccine will emerge as a more durable and reliable solution.

The potential for moderating the height of the spike, and with it the number of cases in the next few months, can be seen from the variations in other countries' experiences. In South Korea, the seven-day rolling average of new cases peaked at just 12 per 100 000. In Brazil, the number reached 159 per 100 000 on 12 June, and was still climbing. In most of Europe, new cases began to decline around a month ago, but they peaked at very different levels – some 125 per 100 000 in France, 82 in the UK, 70 in Germany and 57 in Denmark. In the US, the number of new cases reached 96 per 100 000 before declining, but it is now beginning to rise again.

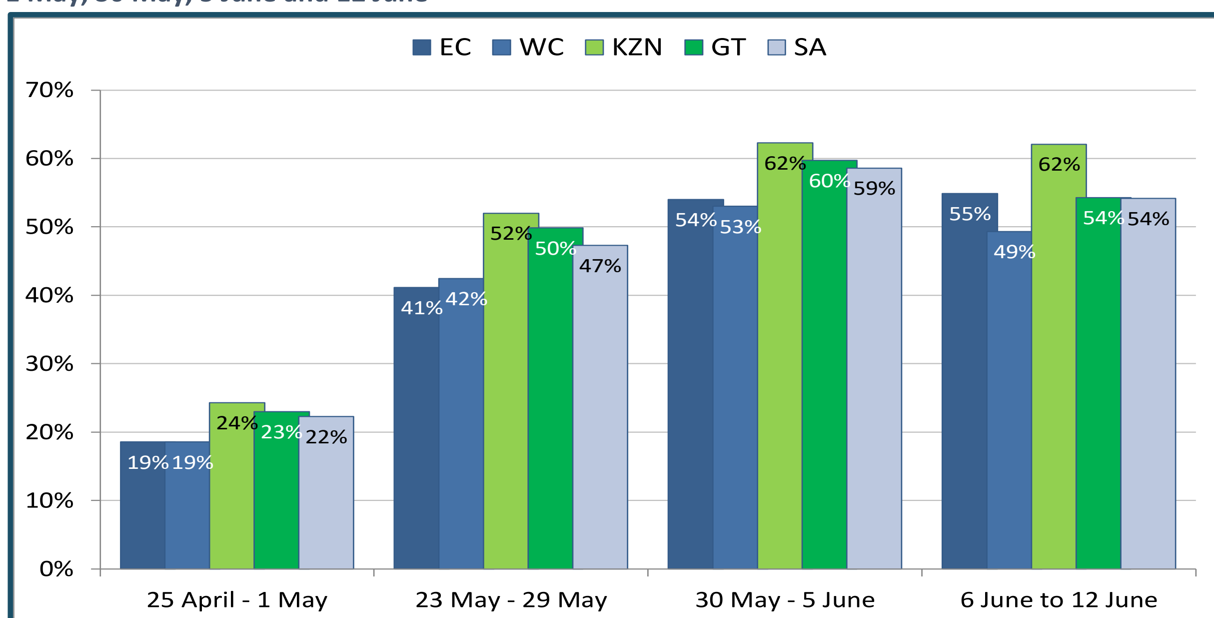
Obviously, the economic and social costs of the pandemic will be far more manageable if the maximum daily increase in cases in South Africa remains on the lower end of this scale. In the seven days to 12 June, reported new cases averaged 47 per 100 000 people, but the number was climbing rapidly. An increasingly critical question was what further actions policymakers, civil society and economic stakeholders could take to slow down new infections.

# TRENDS IN THE ECONOMY

## Macroeconomic developments

The available evidence indicates that the bounce back in economic activity with the move to Level 3 moderated in the second week of June. According to the Yoco recovery tracker, in the second week of June small business turnover fell compared to the first week, dropping from 59% to 54% of the pre-lockdown figure. The fall was centred on Gauteng and the Western Cape. In contrast, turnover in the rest of the country was essentially unchanged.

**Graph 5. Small business turnover relative to the first two weeks of January, average for week to 1 May, 30 May, 5 June and 12 June**

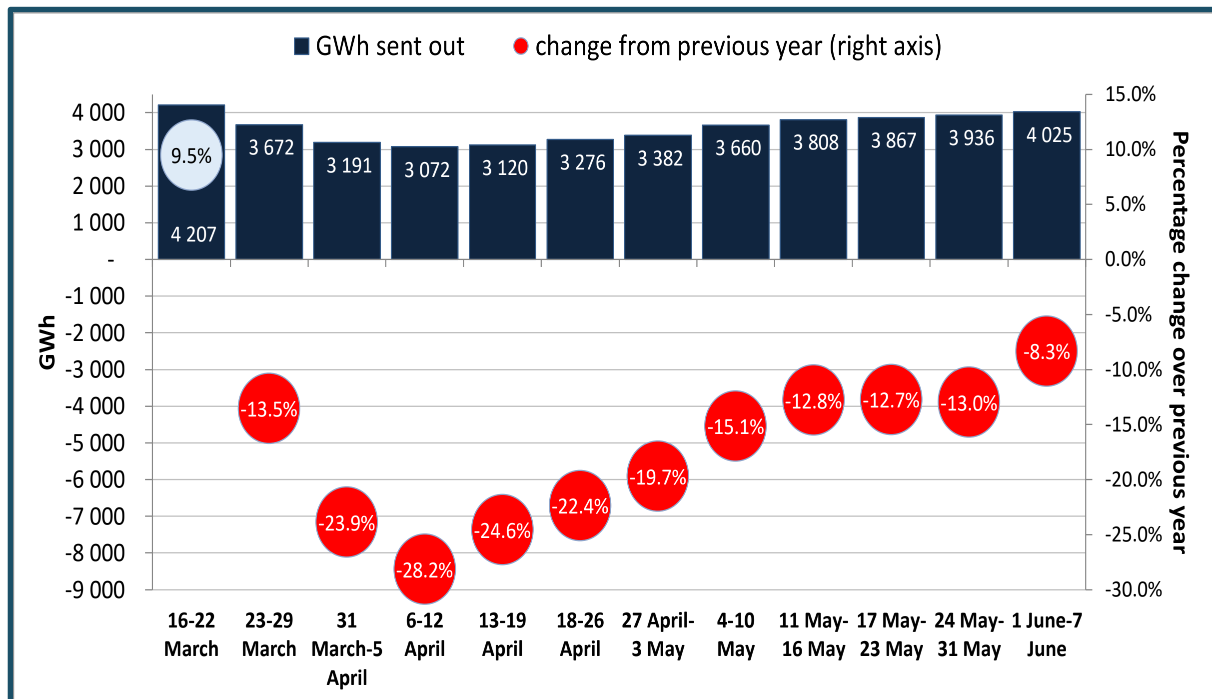



*Source:* Calculated from Yoco Small Business Recovery Monitor. Downloaded at www.yoco.co.za 12 June 2020.

Data on electricity supplied in the first week of June underscores the increase in economic activity with the move to Level 3.

Demand increased by 2,3% over the last week of May. Compared to the same week in 2019, demand was still 8,3% down. Still that compared to a low point of 28% down in the second week of April 2020 compared to April 2019, and 13% down on a year earlier in the last week of May 2020. Electricity use was only 4% below pre-lockdown levels, but the relative increase in part reflected higher electricity use as winter grows colder.

**Graph 6. Electricity sent out in GWh, weekly, 24 March to 7 June, and percentage difference from the same week in 2019**

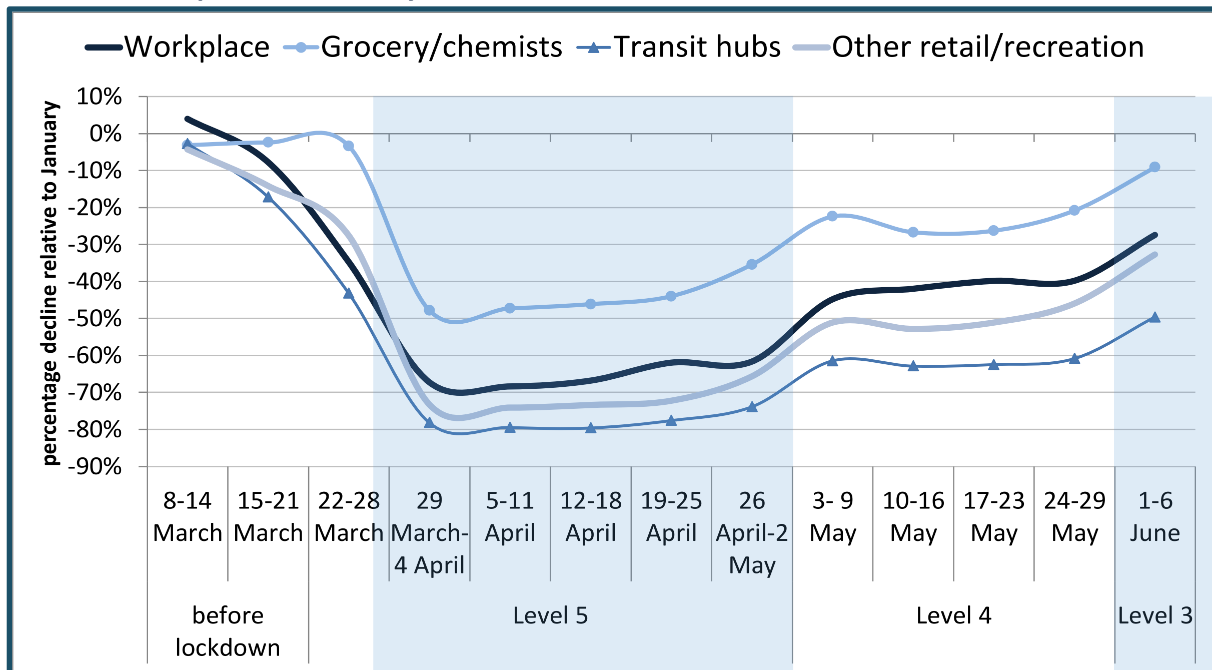



*Source:* Calculated from Eskom System Adequacy Reports for relevant weeks. Accessed at http://www.eskom.co.za/Whatweredoing/SupplyStatus/Pages/SupplyStatusT.aspx

Data on travel to work and for other purposes are also only available for the first week of June. They too suggest a significant recovery followed the move to Level 3.

Travel to work climbed by 31%; for retail and recreation, by around 50%; and to transit hubs, by 19%. These figures indicate consistently that public transport has recovered less strongly than other activities, which presumably reflects the recognition that it is relatively high risk. That recognition has delayed the opening of Prasa commuter rail, which serves only around 15% of commuters but is important in Cape Town and, to a lesser extent, parts of Gauteng.

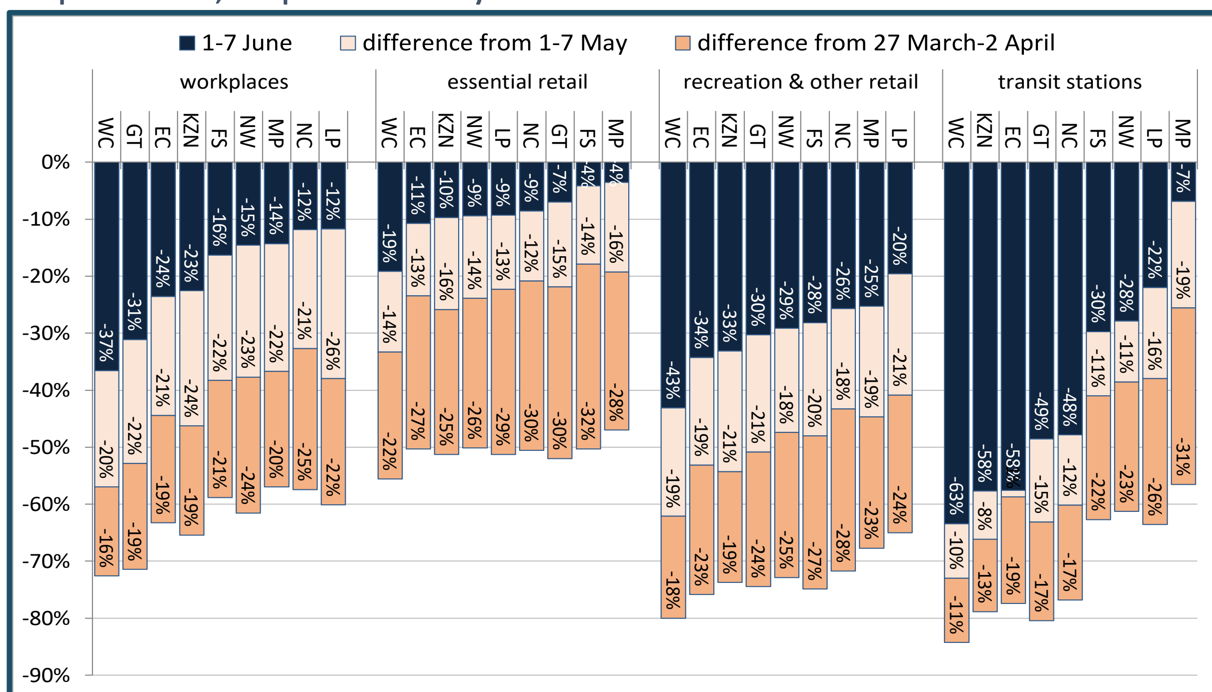
**Graph 7. Percentage change in travel by type of destination, weekly average from 8 March to 7 June, compared to January 2020**




*Source:* Calculated from Google COVID-19 Community Mobility Reports. Accessed on 13 June 2020 at https://www.google.com/covid19/mobility/.

The figures at provincial level underscore the extent of the economic opening since 1 May. Travel to work remains lowest compared to January in the Western Cape and Gauteng. It seems likely that the lag in the Western Cape reflects, at least in part, public concerns about the relatively high levels of contagion.

**Graph 8. Percentage change in travel by type of destination, by province, weekly average from 26 April to 7 June, compared to January 2020**




*Source:* Calculated from Google COVID-19 Community Mobility Reports. Accessed on 15 June 2020 at https://www.google.com/covid19/mobility/.

## Prospects for Level 3: What businesses are telling us

While most businesses could restart production with the move to Level 3, major hindrances to economic activity persist. On the one hand, both domestic and export demand have fallen sharply as a result of the pandemic. The supply-side shock from the lockdowns internationally and in South Africa slashed incomes for both households and industry, which in turn makes it harder for businesses to reopen. On the other hand, measures to avoid transmission of COVID-19 impose new costs. They range from the difficulties of reorganising work to enable physical distancing, staggered shifts and work from home, to more obvious expenses for sanitiser, protective equipment, and in some cases worker transport.

With Business Unity South Africa (BUSA) and the Manufacturing Circle, TIPS asked companies how these issues were affecting them as the economy reopened on Level 3. As of 12 June, 33 companies had responded, ranging from petrol stations to leading manufacturing concerns. All of the responding companies save one were able to operate almost fully on Level 3; some had also produced essential products such as food, packaging and health inputs from Level 5, but none had been fully open before 1 June.

Two thirds of the responding companies did not expect demand to recover in the next three months. Several noted that business had also been depressed before the lockdown, with the economy in recession in the second half of 2019. On average (with responses weighted by the number employed), they said that demand was down almost by a third, although the figure ranged widely. Several companies noted that local industry was still using inventory from before the lockdown, and that exports remained difficult. Still, the companies that operated in Level 5 all noted improved demand in Level 3.

Virtually all of the companies applied for funds from the Unemployment Insurance Fund (UIF) COVID-19 Temporary Employer/Employee Relief Scheme (TERS) to help pay salaries, although some did not answer the question and one did not qualify because they outsourced all their work. Three quarters of the respondents got the grant, while the rest were still awaiting a final decision. Several said, however, that the UIF did not have full records on their registered employees, which caused significant delays.

The responses reflect the scale of the UIF funding and its critical importance in maintaining employment relationships during the lockdown. In Gauteng, as of 11 June, the UIF COVID-19 TERS fund had paid R20 billion to 3,5 million employees working for 306 000 companies. That represented over a third of employees and close to half of all employers in the formal private sector. The average payment per worker came to around R5 000. For comparison, the UIF paid normal unemployment benefits to only 360 000 people from 26 March to 11 June.

In terms of the survey, on average, again weighted by employment, the respondents got nine tenths of the funds they requested from the UIF. That was, however, only enough to cover a fifth of their salary bill. Because South African payscales are so unequal, most workers likely got a substantially higher share of their wages, with much lower percentages affecting only managers and professionals. A third of companies made up the difference in salaries for their employees, but two thirds had asked at least their higher-paid employees to accept lower remuneration during the lockdown.

The UIF funding for the COVID-19 TERS programme extends only through June, although applications for May have just opened. In practical terms, then, the flow of funds to businesses will likely continue through July or even August.

Over half of the companies said they would probably have to retrench workers after the UIF grant ended. On average (weighted by employment), they expected to downsize by between 15% and 20%, although the figures for individual companies range from under 5% to over 50%. The main reason given was lack of demand, followed by liquidity challenges as a result of meeting fixed costs during the lockdown while getting little or no income. The extent of retrenchments will depend at least in part on the effectiveness of the government stimulus, which is discussed in the final section of this tracker.

None of the companies had received any funding from government other than the UIF grant to assist during the lockdown. Most did not qualify because they were too large or because they were sole proprietors. Several noted that they would not be eligible due to Broad-Based Black Economic Empowerment requirements.

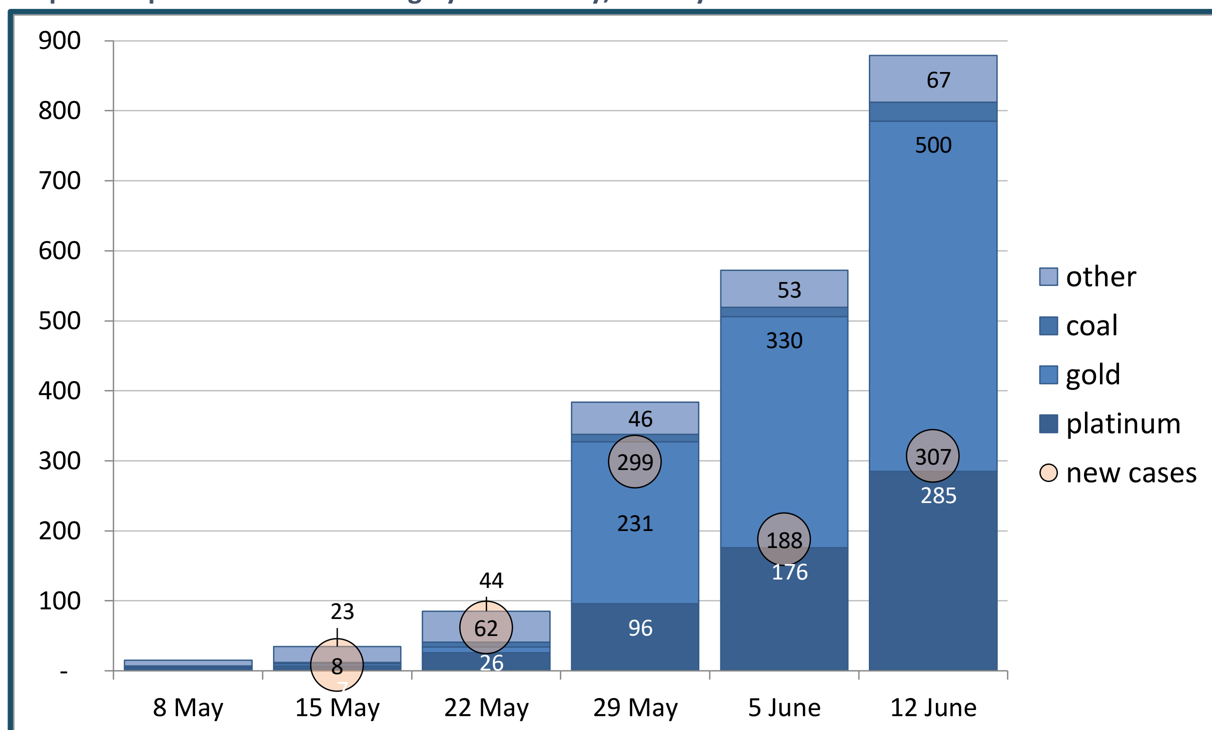
On the cost side, the additional expenditure to prevent the transmission of COVID-19 averaged around 3%, although it reportedly ranged from negligible to 20% of operating costs. Respondents were also concerned about the double-digit increases granted to Eskom this year.

## Company developments

### Infections

The mining industry, and especially gold, continued to see a high level of contagion, although the number of new cases stabilised at between 200 and 300 a week. As the following graph shows, the number of cases approached 900 on 12 June. That equated to almost 200 cases per 100 000 workers, which was around four times the national average outside of the Western Cape.

**Graph 9. Reported cases in mining by commodity, 30 May to 12 June**




*Source:* Minerals Council. COVID-19 Dashboard. Downloaded on relevant dates from https://www.mineralscouncil.org.za/minerals-council-position-on-covid-19

Almost all cases occurred in underground mines, which are dominated by gold and platinum. The gold mines accounted for one in five miners but over half of all COVID-19 cases in the industry. In contrast, platinum contributed a third of mining employment and just under a third of cases. In gold, there were 550 infections per 100 000 workers; in platinum, the figure was 175. Cases in mining largely accounted for the spike in the North West as the platinum belt opened up under Level 4.

Outside of mining, the private sector generally did not announce clusters of cases at industry level. That made it far more difficult to identify and manage risk areas.

The Western Cape government blamed its outbreak mainly on clusters in retail, which continued to be a significant problem. As of 11 June, three Shoprite stores in Soweto had closed after a regional manager who had visited them tested positive. The workers were screened and close contacts asked to quarantine. The Department of Employment and Labour has closed a number of retail outlets for failing to comply with COVID-19 occupational health and safety requirements.

In contrast to the private sector, outbreaks in the public sector are more likely to be reported on, either officially or by the unions. Healthcare workers faced the most obvious risks, but the return to school also brought reports of a number of cases in education, while the police continue to have a high incidence. As of 12 June, 335 public servants out of 170 000 in Gauteng tested positive, mostly in health and education. That rate of infection is over 10 times the average for the province.

As of 12 June, at least 15 staff members at Dr George Mukhari Academic Hospital in Pretoria tested positive for COVID-19. In the Eastern Cape, according to City Press, 10 clinics and various hospital departments closed last week due to the virus, and a total of 359 public and private healthcare workers had tested positive. The provincial government said that a core problem was that health workers are not adequately trained to prevent infections. In Middleburg, the provincial hospital closed, reportedly because 30 staff members contracted the virus.

As of 13 June, 1 600 police officers had tested positive, up from almost 850 two weeks earlier. Some 1 034 of the police cases were in the Western Cape. There were 186 cases in the Eastern Cape, 199 in Gauteng and 53 in KwaZulu Natal. Almost 10 000 officers tested negative after coming into contact with cases or showing symptoms. In addition, two air force staff members in Pretoria tested positive, leading to closure of the service headquarters.

In education, 61 schools closed in the Western Cape as a result of COVID-19 infections. Only 60% of learners who were expected back attended during the week, although the strong cold front could have helped depress the numbers. In the Eastern Cape, 31 schools closed soon after opening (two thirds in Buffalo City), with 26 confirmed cases and 48 being investigated. Not all the closures involved school activities – in one case the wife of a driver for learner transport tested positive, in another a learner's parent. The Gauteng government said it closed 54 schools after 56 people tested positive. In one case, a teacher did not immediately go into isolation after the infection was confirmed. As a result, their contacts in school management and administration ended up having to leave as well, and the school ultimately closed for over a week. Two schools in Durban closed because a teacher tested positive in each, although in one case the educator had not actually returned to school yet.

Of the workplaces it inspected, the Department of Education and Labour found that the public sector was most likely not to comply with COVID-19 regulations. The inspector general said that the public sector accounted for 54% of violations and the private sector for 43%, although public servants make up only around a fifth of all formal workers. That said, inspections are not random. Inspectors had visited a total of 4 306 workplaces as of last week and found 2 374 in compliance. The department is increasing the number of inspectors by 500.

The Department of Employment and Labour reiterated last week that workers who had been diagnosed with COVID-19 could return to their jobs only after completing 14 days of self-isolation and undergoing a medical examination. They did not, however, need to have a test before reporting to work. People who had low exposure with symptomatic people could remain at work if they wear a mask and monitor their symptoms, but high-risk prolonged contacts (conversations that last over 15 minutes, for instance) would have to be granted sick leave to go into quarantine.

Unions continue to demand that workplaces close and undertake deep cleaning when cases are discovered. More recent research, however, indicates that the virus is almost exclusively contracted from exposure to people rather than from surfaces. The core challenge is to identify contacts with other employees and ensure that they go into quarantine.

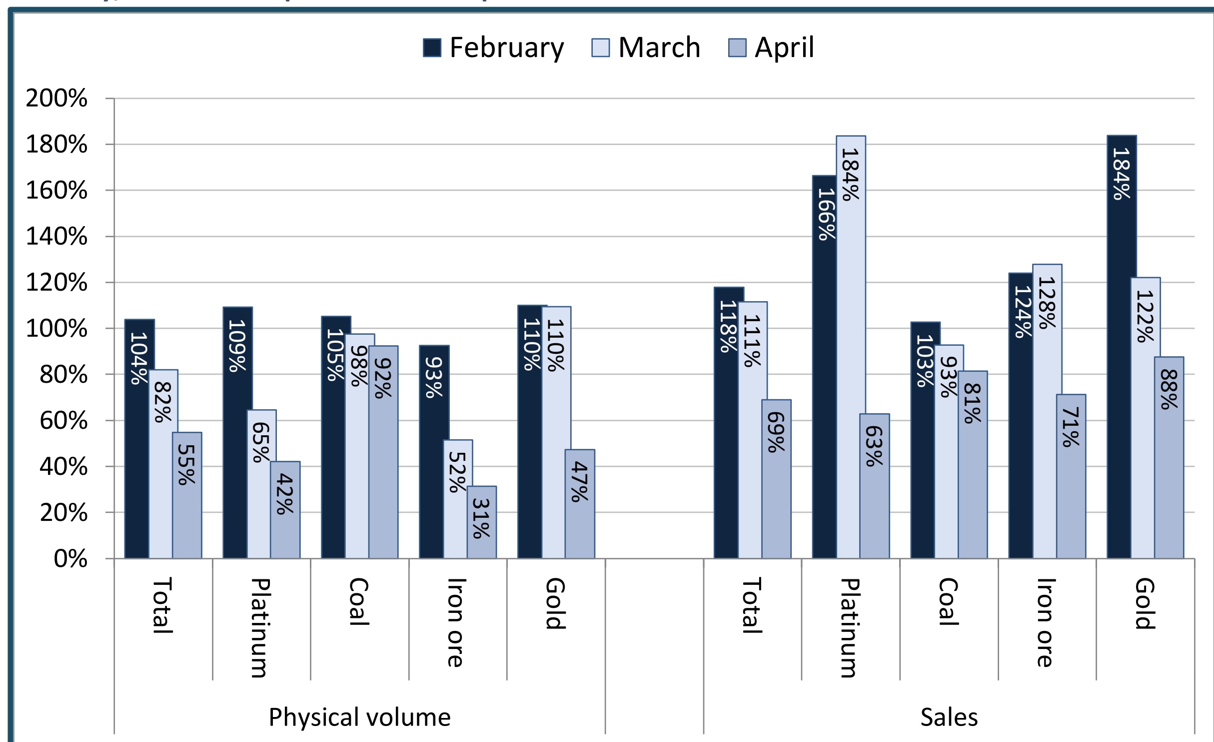
## Industry and company developments

### *Mining*

Statistics South Africa's publication on mining production and sales through April showed the extraordinary impact of the lockdown on production.

Mining as a whole saw a 45% decline in the volume of output in April 2020 compared to April 2019. In constant rand terms (deflated with projected CPI), its sales dropped only 30%, because depreciation against the US dollar increased the industry's rand revenues from exports. As Graph 10 shows, coal production remained at nine tenths of 2019 levels in volume, but output of South Africa's other main export commodities dropped by well over half. The high price of gold meant that its revenue shrank only just over a tenth compared to April 2019, but South Africa's other major mining products saw a sharp decline in sales as well as volume.

**Graph 10. Change in mining production and sales in constant rand terms (deflated with CPI), February, March and April of 2020 compared to 2019**




*Source:* Calculated from Statistics South Africa. Excel Mining Production and Sales (202004). Excel spreadsheet. Downloaded from www.statssa.gov.za in June 2020.

The Minerals Council expects that mining output will be 8% to 10% lower for the year. As long as physical distancing remains in place, production will remain constrained. As of 9 June, only around 230 000 miners were back at work – just over half the total in 2019. Moreover, except for gold, international demand may take time to recover.

### Auto

In May 2020, the local auto industry sold almost 13 000 units, which was an uptick as a result of the move to Level 4. But sales were some 68% down on May 2019, and around 70% lower than in January and February. Exports came in at 11 000 vehicles, 64% lower than last year.

The sharp fall in sales means that between a fifth and a third of the 60 000 employees in car dealerships may lose their jobs. Both domestic and export markets are unlikely to pick up in the very short run, as households and businesses are still seeing lower incomes in most cases. That in turn makes it harder for them to get financing. In South Africa, the slow reopening of licensing offices also makes it more difficult to finalise sales.

BMW exported its first 2 000 cars this week, worth R1,5 billion. It began production three weeks earlier, but the ports took time to reopen fully. Transnet's dedicated roll-on, roll-off facilities remain crucial for the auto industry's ability to compete globally.

### Taxis

The taxi industry continues to struggle with the need to run below capacity to maintain physical distancing. Taxis are high risk for longer trips even if people wear masks, leave seats empty and use sanitiser, because they are relatively small closed spaces unless the windows are open – unlikely in this week's cold snap. But apartheid spatial planning leaves many

workers with few alternatives, although, as noted, it appears that people are avoiding public transport when possible.

Given lower revenues as a result of running a third empty, the taxis have demanded either a subsidy or higher fares. The national taxi council, Santaco, now says that fares will go up by between 10% and 25% from 1 July, which would be 2,5 to five times the likely inflation rate for June. The local taxi associations in Johannesburg, however, have backed off an increase of over 100% for trips from Alexandra to Sandton.

Santaco is reportedly negotiating with the government for a subsidy, but no agreement has been reached. Government reportedly offered a once-off payment of R1,1 billion. It argued that it cannot cover the full losses of any industry from the lockdown but would provide some assistance. In contrast, Santaco asked for a R20 000 monthly payment for each taxi, which would add up to an estimated R4 billion a month. It also wanted to scrap limits on inter-provincial travel and on capacity, which would seem to obviate the need for a subsidy and was rejected by the government.

## *Electricity*

The TIPS/BUSA/Manufacturing Circle survey found that many companies are worried about escalating electricity costs even as the economy faces the difficult task of restarting. In this context, the Energy Intensive Users Group – mostly mines and refineries that purchase electricity on a very large scale directly from Eskom – last week called for reforms to the legal requirements for setting electricity tariffs. In particular, the law has been interpreted as requiring that the tariff cover Eskom's fixed costs, which means that it goes up sharply when demand falls. That in turn has led to a long-run shift away from electricity-intensive technologies, resulting in further price increases. Combined with loadshedding, this pricing system has contributed to a 10% fall in electricity demand over the past 10 years, even before the lockdown.

This week the Department of Mineral Resources and Energy advertised a Request for Information for a "South African nuclear new build programme". Although the Integrated Resource Plan now provides for some nuclear generation, analyses universally suggest that it will escalate tariffs in the short run, because nuclear requires immense up-front investments. It is not clear how it could be funded given the limitations on government spending and borrowing capacity, which the pandemic has severely aggravated. While the stimulus package is expected to promote infrastructure, a nuclear programme would generate very little employment directly, and could worsen supply-side constraints if it boosted electricity tariffs.

## *Restaurants*

South Africa's restaurants are only allowed to sell takeaway food during the lockdown. As a result, some chains estimate that they only need around a third as much staff as before, and even then the sales volume is often too low to justify opening.

Some restaurants have insurance for business interruptions, but most policies do not cover the pandemic. Even where they have protection against infection, the insurance companies argue that it only covers closure where someone catches COVID-19, not when it results from lockdown rules. Some restaurant owners are now taking the insurance companies to court over the issue, as well as engaging with the Financial Services Conduct Authority.

In 2019, the restaurant industry employed over half a million workers and was a core attraction for tourism. In other countries, however, restaurants have been the location of super-spreader events because they are often fairly crowded, closed areas. Overseas, one solution has been to open up sidewalk seating, but that would likely only succeed in summer. Another proposal is to leave every other table open, but many smaller restaurants would not be profitable if they have to hold down capacity to that extent.

### *The airlines*

Last week saw South Africa's first domestic commercial flights since the lockdown began. Flights were only open to business travellers, however, although they constituted just a fifth of airplane passengers before the lockdown. The first week saw a rebound due to pent-up demand, but the second week will likely see flatter demand as well as more flights, all restricted to the same routes between Gauteng, Cape Town and Durban. FlySafair is opening at just 20% of capacity.

The saga of the state-owned airlines continued in the past week. South African Express had its liquidation offer extended to 9 October, although it has not paid its workers since March. The company's lawyers still expect transfers of over R150 million that were included in the 2020/21 national budget. But that budget will be superseded by a supplementary budget that reallocates funding to respond to the pandemic, and it is not clear how the resources planned for state-owned enterprises will be affected.

The Business Rescue Plan for SAA is now expected on 15 June.

### *Property*

Mall owners have seen myriad demands for reduced rentals from businesses that could not operate during the lockdown. A survey by a rental platform for households found similar problems. In May, less than two in five respondents said they could pay their full rent, while over a fifth could not pay at all. The survey covered formal tenants paying from R2 000 to R12 000 a month. Flat and house rentals could face further downward pressure if short-term tourism accommodation ends up on the residential market.

In South Africa, in contrast to most of the world, renters tend to be relatively high income. In 2016, half of the richest 20% of households were rental tenants, and a third of the next quintile, but the share fell to around a fifth for the poorest 60%. Lower-income households were more likely to get title to township or RDP housing, or live in traditional housing in historic labour-sending regions. Of course, these houses have a far lower value than those occupied, whether as owners or tenants, by the higher-income group.

## Progress on the stimulus package

Almost a month after the lockdown began, in late April, the government announced a R500 billion recovery and stimulus package. To date, it has initiated some critical components, including the largest – a R200 billion loan guarantee scheme for business – as well as the use of R40 billion from the UIF surplus to fund the COVID-19 TERS scheme, which assists employers to avoid retrenchment but ends in June. R50 billion was set aside to improve social grants for six months, and R20 billion to assist municipalities, which face crashing revenues even as the pandemic leads to soaring demands for water, sanitation, healthcare and support for homeless people.

The move to Level 3 raises the urgency of the stimulus package, since businesses can now take advantage of moves to bolster aggregate demand. Outside of the major relief programmes and the loan-guarantee scheme, however, details have been scant. The tabling of a supplementary budget on 24 June is expected to add clarity.

Three over-arching areas of contestation have emerged around the stimulus package: the strategy for reconstruction; how it should be funded; and the role of monetary policy.

Government has announced that the stimulus package will centre on funding infrastructure. In practice, however, the main programmes announced so far have been the loan-guarantee scheme for businesses with under R200 million in turnover – that is, effectively, small and medium enterprises – and the COVID-19 TERS. Together, these programmes account for almost half of the total package.

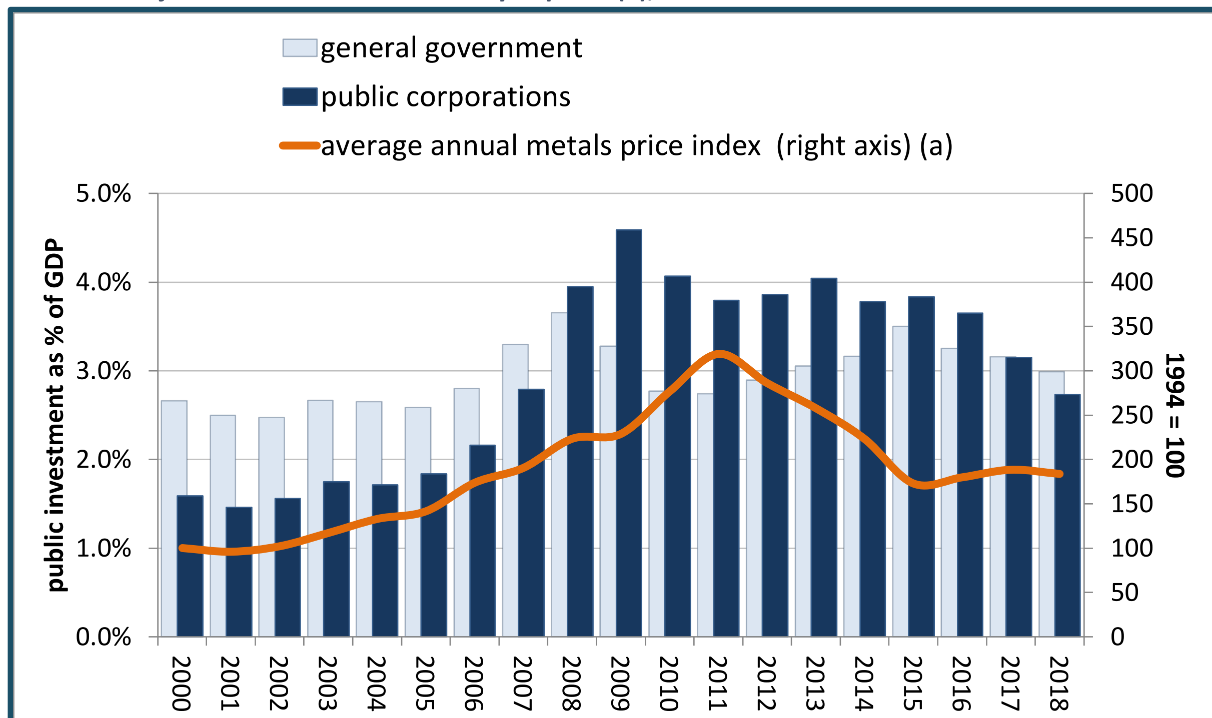
As part of the stimulus, the UIF's COVID-19 TERS notched up two achievements: it avoided mass retrenchments during the lockdown, and it helped sustained household demand. As of last week, half of the original commitment of R40 billion had been spent, reaching a third of formal workers and almost half of all businesses.

The credit-guarantee scheme – which was expected to account for around 40% of the stimulus package – has been less successful in disbursing resources. Over the past two weeks the South African Reserve Bank and National Treasury have been meeting with the banks as well as the Black Business Council to try to fix the problems.

By the first week of June, three weeks after opening its doors, the credit-guarantee scheme had approved R2,8 billion and lent only around R500 million, or 0,5% of its first tranche of R100 billion. Businesses complained that, despite the government guarantees, the rules of the fund required banks to apply the same criteria as for any other loan. That in turn means that many previously unbanked enterprises as well as formal companies in distress and innovative projects are effectively excluded. Moreover, the banks often required that businesses put up assets as security. As a result, the main risk still effectively landed on business owners rather than the government.

For the rest of the stimulus package, the Minister of Finance has committed to reprioritising around 10% of non-interest spending to fund infrastructure. Past efforts to reprioritise the national budget demonstrate, however, that it is far harder to downsize on-going programmes with long-run commitments than to cut once-off infrastructure projects. Over the past 25 years, spending on infrastructure has only expanded when the budget was growing rapidly, notably during the global metals price boom from around 2002 to 2011. It has shrunk whenever overall government spending slowed down – which was South Africa's experience over the past eight years. As Graph 11 shows, since 1994 growth in public investment by government and state-owned enterprises has broadly tracked the global prices of South Africa's main mining exports.

**Graph 11. SOC and general government investment as a percentage of the GDP compared to price index for major South African commodity exports (a), 1994 to 2018**




*Note:* (a) Annual average of monthly international prices in US dollars for coal, iron ore, gold and platinum, weighted by share of each commodity in South Africa's exports of all four commodities. *Source:* For investment, South African Reserve Bank. Interactive dataset; for commodity prices, Index Mundi and Kitco.

The last major infrastructure programme was introduced in the early 2010s, with the establishment of the National Infrastructure Plan and the Presidential Infrastructure Coordinating Commission. The plan expected to leverage strategic investments in bulk electricity, water, rail and telecommunications to benefit small businesses, less developed regions and low-income communities. In practice, the main projects ended up being rail lines to transport ores and coal to the ports, and huge coal-fuelled electricity plants that have been largely dysfunctional as well as heavily polluting. Government found it far more difficult to drive programmes to build schools in poor rural communities, densify cities, and establish sustainable solutions for public transport.

That is the nature of path dependency. Redesigning infrastructure spend to benefit the majority and promote township enterprise requires not only funding but fundamental changes in government decision-making and spending systems. Without that systemic change, it proves very difficult to implement plans to use infrastructure to transform the economy. The challenges are demonstrated by the difficulty of moving electricity onto a more economically, socially and environmentally sustainable model, as noted in the section on it above.

Funding for the stimulus package comes from three sources: the budget; mobilisation of domestic savings, especially social protection surpluses and retirement funds; and foreign borrowing, largely from multilateral institutions. Contestation over the financing strategy is already fierce, since new commitments on the scale required inevitably impose significant costs on some stakeholders.

A supplementary budget is planned for 24 June, which will replace the 2020/21 budget that was tabled in February and passed last week. It is expected to reprioritise R184 billion for the

stimulus package. Obviously, shifting funds around in the budget does not change the quantity of aggregate demand, but more efficient and effective government spending would certainly promote growth, especially if it does not just go to foreign suppliers and lenders. But government spending affects the economy and society mostly through its mix of goods and services, as noted above, and South Africa's deeply unequal and divided society makes any major changes difficult.

In the original 2020/21 budget, the only significant growth in real terms was funding to rescue Eskom, South African Airways (SAA), and some smaller state-owned enterprises. The budget provides R56 billion for Eskom, mostly for restructuring, and R6 billion for SAA. While Eskom remains too big to fail, the supplementary budget should shed light on government's willingness to sustain SAA in the midst of the full-blown global economic crisis initiated by the pandemic. The establishment of a new council to guide restructuring of state-owned enterprises last week suggests a growing recognition that a realignment of their business models and financing with state priorities can no longer be put off.

In the original 2020/21 budget, improvements in government services were supposed to be funded primarily by a 3% cut in real pay for virtually all public servants. The mechanism was to eliminate the cost-of-living increase while retaining annual notch improvements. It remains to be seen whether that approach will survive in the supplementary budget.

Resources from domestic savings are the second pillar of the stimulus package. In particular, the government aims to encourage more active investment of the surpluses at the social-protection funds as well as retirement funds, combined with direct private investment in infrastructure.

Again, experience shows that achieving these aims will be fraught. On the one hand, fund managers rarely endorse innovative investment paths even when they will ultimately benefit ordinary members more than conventional financial investments in listed businesses and government bonds. On the other hand, infrastructure and services to meet the needs of low-income households and communities rarely prove profitable. That makes it difficult to establish genuine public-private partnerships. Instead, private direct investment tends to flow into large projects that primarily serve established large businesses, or else to require substantial government subsidies.

Finally, government has approached multilateral institutions, most recently the IMF, for loans. As with any debt, the more money it obtains from these sources, the greater the conditionalities will be. Through mid-2020, government's only major multilateral debt was US$3,75 billion for Eskom's new plants.

In these circumstances, the initial request to the IMF, for R70 billion or US$4,2 billion, will likely not include explicit policy requirements. The challenge will be to avoid going much further into debt, because that inevitably increases the power of lenders to dictate policy. Experience with IMF and World Bank lending to upper-middle-income economies demonstrates that the results are frequently a deterioration in economic and government capacity as well as deeper inequalities, rather than improved growth and equality.

Finally, the role of monetary policy in the stimulus reignited controversy last week. The Reserve Bank committed to limits on quantitative easing. It has, however, bought up government bonds on a large scale, reduced interest rates and changed regulations to

facilitate bank lending. In May, the Reserve Bank purchased over R10 billion worth of government bonds, compared to R11 billion in April but just R1 billion in March.

A number of economists have argued that monetary policy remains too restrictive. That said, in Europe and the US, over-reliance on monetary policy following the 2008/9 global financial crisis arguably contributed to economic fragility in the longer run. It encouraged financialisation, with far greater private debt, a surge in short-run portfolio investments and higher returns to financial interests, combined with limited wage increases for most working people. From this standpoint, an expansionary fiscal policy is more able to reconstruct economic systems so as to lay the basis for more inclusive growth in the long run.

Already, the stabilisation of international financial markets – which may be short-lived if a second wave of the pandemic hits the US and Europe – combined with very low interest rates internationally has seen a return of portfolio investment to emerging markets, including South Africa. Like South Africa, most other upper-middle-income countries have a sub-investment credit rating, or none at all. In the five months to May, foreign investors sold R64 billion in South African government bonds; in the month to 10 June, they bought back almost R7 billion. National Treasury increased its weekly debt auctions by a third in May, with orders still far exceeding offerings.


## TIPS TRACKERS

TIPS Tracker: The economy and the pandemic highlights important trends in the COVID-19 pandemic in South Africa, and how they affect the economy.

TIPS FDI Tracker monitors inward foreign direct investment projects. It reports on new FDI projects, analyses these, and adds them to an ongoing list of investment projects.

TIPS Export Tracker provides updates on export trends, and identifies sectors and products that are performing well and those that are lagging.

TIPS Import Tracker provides an overview of import patterns and looks at the causes of surges in imports, and their likely impact on industry.



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