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DPRU  
DEVELOPMENT POLICY  
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# Lockdown Economics: Key Challenges Facing the South African Economy

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GOVERNANCE ACCOUNTABILITY PLATFORM ONLINE DEBATE

**Friday, 16 October 2020**

# Outline



- The Outlook for Economic Growth
- The Fiscal Deficit Spike
- Employment and Inequality: The Covid-19 Impact
- The Ramaphosa Stimulus Package
- A Post-Covid Economy: A Few Discrete Considerations

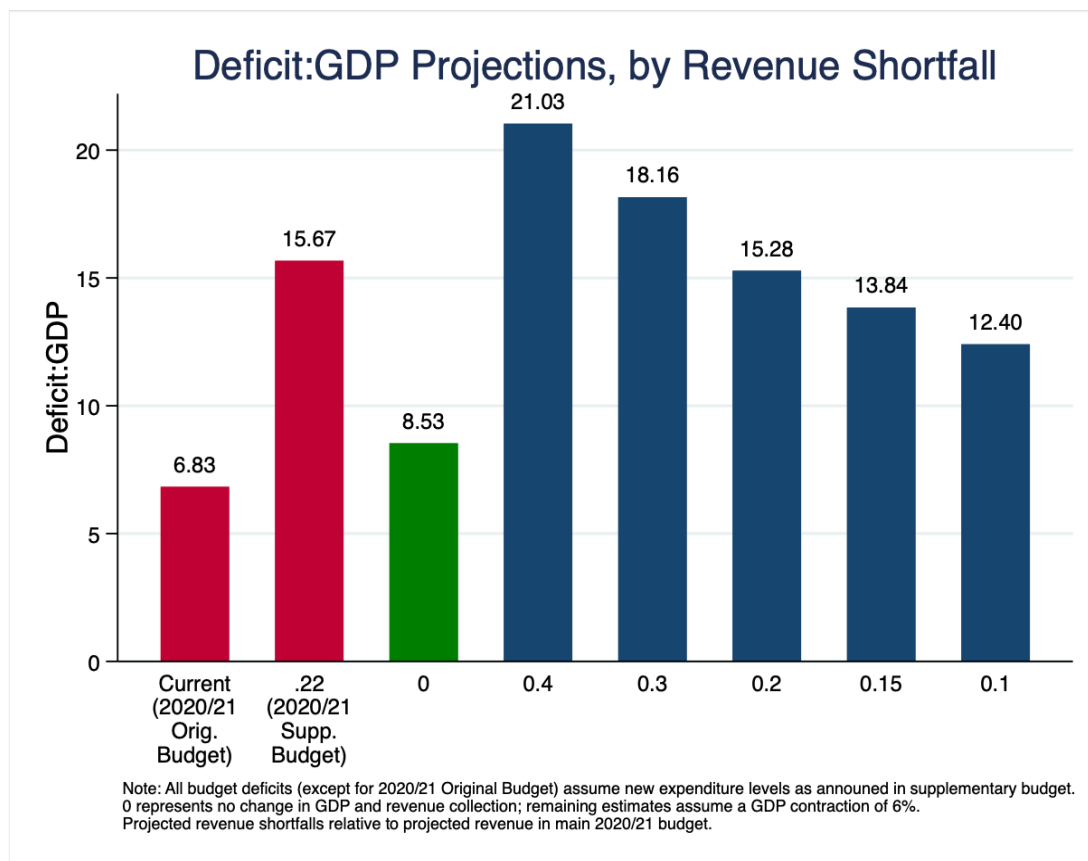
# The Outlook For Economic Growth



Source	Date of Forecast	GDP	
		2020	2021
Pre-Crisis Forecast			
National Treasury	26-Feb	0.9	1.3
Current Forecasts			
HSBC	02-Apr	-6.7	4
BER	08-Apr	-7	5.1
SA Reserve Bank	14-Apr	-6.1	2.2
IMF	15-Apr	-5.8	4.0
Nat. Treasury	15-Jun	-7.2	2.6

- Pre-Covid19 forecasts of tepid growth.
- Revised significantly downwards. Simple average of core forecast teams place economic contraction in 2020 at about 6.6% decline in GDP.
- Important: Bounce-back of between 2 and 5% projected for 2021.
- Forecasts make projections on intensity and length of lockdowns to varying degrees.

# The Fiscal Deficit Spike



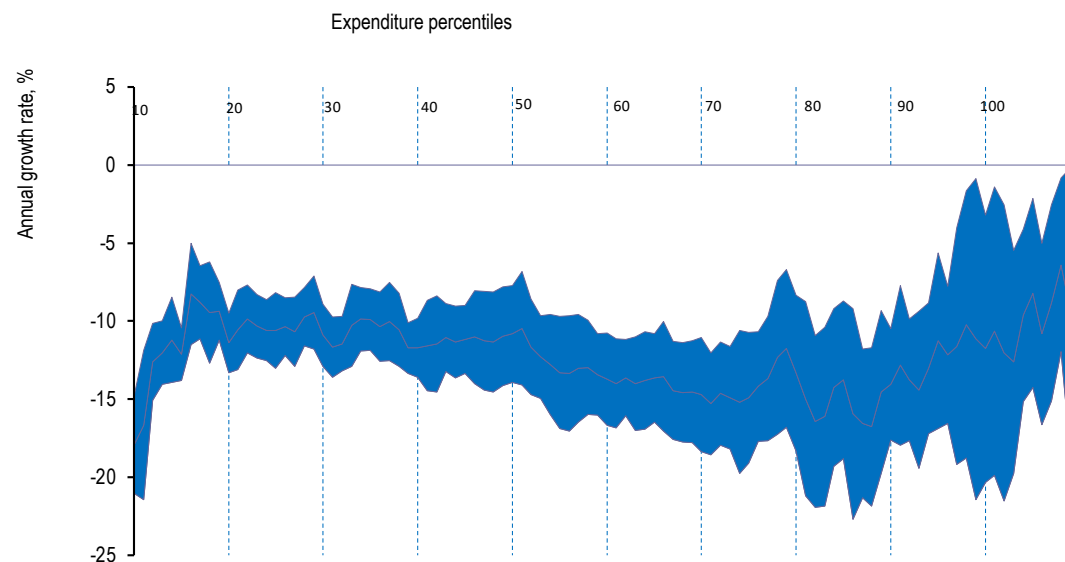
Source: National Treasury, 2020 and own calculations.

- Original Budgeted Deficit: 6.83%.
- No change in GDP or Revenue and with Covid-19 Stimulus Package: 8.53%.
- NT Projects 15.67% for 2020.
- Revenue shortfall of 30% with GDP contraction of 6%, deficit: GDP rises to 18.16%.
- Financing sources include Special Covid Bond and IFIs.
- World Bank, BRICS Bank Funding will occur.

# Employment and Inequality: The Covid-19 Impact



## Distributional Projections



Source: Sulla, V. (et al), World Bank, April 2020

- World Bank Macro-Sim model shows:
  - Covid's impact across the income distribution is uneven but wholly negative.
  - Poor and middle class will see income declines of 5 and 20%.
  - Crisis will reinforce both overall inequality in South Africa, as well as erode income in the middle of the distribution.
  - Assumes a lockdown period of 3 months.

# Employment and Inequality: The Covid-19 Impact



Table 2: Changes in employment by industry and occupation, 2019Q2 – 2020Q2

	2019Q2	2020Q2	Change		Employment shares (%)		Share of change
			Absolute	%	2019Q2	2020Q2	
<b>Industry</b>							
<b>Primary</b>	<b>1 223 144</b>	<b>1 172 236</b>	<b>-50 908</b>	<b>-4.2</b>	<b>7.5</b>	<b>8.3</b>	<b>2.3</b>
Agriculture, etc.	842 062	799 033	-43 029	-5.1	5.2	5.7	2.0
Mining and quarrying	381 082	373 203	-7 879	-2.1	2.3	2.6	0.4
<b>Secondary</b>	<b>3 303 486</b>	<b>2 634 571</b>	<b>-668 915</b>	<b>-20.2</b>	<b>20.3</b>	<b>18.7</b>	<b>30.6</b>
Manufacturing	1 789 388	1 455 825	-333 564	-18.6	11.0	10.3	15.3
Utilities	151 339	112 926	-38 412	-25.4	0.9	0.8	1.8
Construction	1 362 759	1 065 820	-296 939	-21.8	8.4	7.5	13.6
<b>Tertiary</b>	<b>11 780 270</b>	<b>10 314 562</b>	<b>-1 465 709</b>	<b>-12.4</b>	<b>72.2</b>	<b>73.0</b>	<b>67.1</b>
Trade	3 428 621	2 946 463	-482 158	-14.1	21.0	20.9	22.1
TSC	982 502	884 683	-97 819	-10.0	6.0	6.3	4.5
Finance	2 495 239	2 234 281	-260 958	-10.5	15.3	15.8	11.9
CSP	3 622 492	3 243 976	-378 517	-10.4	22.2	23.0	17.3
Private households	1 251 416	1 005 159	-246 256	-19.7	7.7	7.1	11.3
<b>TOTAL</b>	<b>16 306 900</b>	<b>14 121 369</b>	<b>-2 185 531</b>	<b>-13.4</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Occupation</b>							
<b>High-skilled</b>	<b>2 367 575</b>	<b>2 360 096</b>	<b>-7 479</b>	<b>-0.3</b>	<b>14.5</b>	<b>16.8</b>	<b>0.3</b>
Legislators	1 527 944	1 287 769	-240 175	-15.7	9.4	9.1	10.8
Professionals	839 631	1 072 327	232 696	27.7	5.1	7.6	-10.5
<b>Semi-skilled</b>	<b>9 228 963</b>	<b>7 790 407</b>	<b>-1 438 556</b>	<b>-15.6</b>	<b>56.6</b>	<b>55.3</b>	<b>64.6</b>
Technical professionals	1 436 393	1 213 133	-223 259	-15.5	8.8	8.6	10.0
Clerks	1 708 008	1 470 386	-237 622	-13.9	10.5	10.4	10.7
Service workers	2 687 359	2 301 782	-385 577	-14.3	16.5	16.3	17.3
Skilled agriculture	53 782	67 454	13 671	25.4	0.3	0.5	-0.6
Craft	1 957 006	1 520 915	-436 091	-22.3	12.0	10.8	19.6
Plant and machine operators	1 386 415	1 216 737	-169 678	-12.2	8.5	8.6	7.6
<b>Low-skilled</b>	<b>4 715 050</b>	<b>3 935 253</b>	<b>-779 797</b>	<b>-16.5</b>	<b>28.9</b>	<b>27.9</b>	<b>35.0</b>
Elementary occupations	3 720 516	3 190 566	-529 950	-14.2	22.8	22.7	23.8
Domestic workers	994 535	744 687	-249 847	-25.1	6.1	5.3	11.2
<b>TOTAL</b>	<b>16 311 588</b>	<b>14 085 756</b>	<b>-2 225 832</b>	<b>-13.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: QLFS 2019Q2 and 2020Q2. Authors' own calculations.

Notes: [1] Sample restricted to working-age population (15 - 64 years). [2] All estimates weighted using relevant sampling weights. [3] Industry and occupation totals do not sum because sample here excludes workers in 'Other' industries and occupations.

- Job losses total 2.18 million q-on-q.
- 67% of jobs lost emanate from tertiary sectors, 30% from secondary sector.
- Over 300 000 jobs lost in manufacturing and CSP.
- 250 000 domestic workers lost their jobs.
- Majority of workers losing their jobs are semi-skilled (65%) or low skilled (35%).

# Employment and Inequality: The Covid-19 Impact



Table 4: Changes in employment by select demographic and labour market groups, 2019Q2 – 2020Q2

	2019Q2	2020Q2	Change		Employment shares (%)		Share of change
			Absolute	%	2019Q2	2020Q2	
<b>Total</b>	<b>16 312 706</b>	<b>14 148 215</b>	<b>-2 164 491</b>	<b>-13.3</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Race</b>							
African/Black	12 250 320	10 554 996	-1 695 324	-13.8	75.1	74.6	78.3
Coloured	1 686 611	1 412 289	-274 322	-16.3	10.3	10.0	12.7
Indian/Asian	530 391	488 224	-42 167	-8.0	3.3	3.5	1.9
White	1 845 384	1 692 706	-152 678	-8.3	11.3	12.0	7.1
<b>Gender</b>							
Male	9 179 612	7 977 963	-1 201 649	-13.1	56.3	56.4	55.5
Female	7 133 094	6 170 252	-962 842	-13.5	43.7	43.6	44.5
<b>Age group</b>							
15-34	5 964 514	4 869 685	-1 094 829	-18.4	36.6	34.4	50.6
35-54	8 749 069	7 866 851	-882 219	-10.1	53.6	55.6	40.8
55-64	1 599 122	1 411 680	-187 442	-11.7	9.8	10.0	8.7
<b>Formality</b>							
Formal	12 012 387	10 881 660	-1 130 727	-9.4	73.6	76.9	52.2
Informal	3 249 666	2 435 950	-813 716	-25.0	19.9	17.2	37.6
Private households	1 273 358	1 019 109	-254 249	-20.0	7.8	7.2	11.7
<b>Sector</b>							
Private	13 629 880	11 599 189	-2 030 691	-14.9	83.6	82.0	93.8
Public	2 843 080	2 698 836	-144 244	-5.1	17.4	19.1	6.7
<b>Unionisation</b>							
Member	3 948 660	4 203 095	254 436	6.4	24.2	29.7	-11.8
Non-member	9 339 867	7 280 290	-2 059 577	-22.1	57.3	51.5	95.2
Do not know	475 084	320 010	-155 074	-32.6	2.9	2.3	7.2

Source: QLFS 2019Q2 and 2020Q2. Authors' own calculations.

Notes: [1] Sample restricted to working-age population (15 - 64 years). [2] All estimates weighted using relevant sampling weights.

- Young, African, Males dominate job losses in 2020: 2-1 comparison.
- Whilst 52% of jobs lost were in formal sector, 37% in informal sector, and 11% for domestic workers.
- Informal and domestic work constitute about 50% of all jobs lost due to Covid-19 pandemic.
- Almost no jobs lost in public sector.
- All jobs lost were those individuals who are not union members.

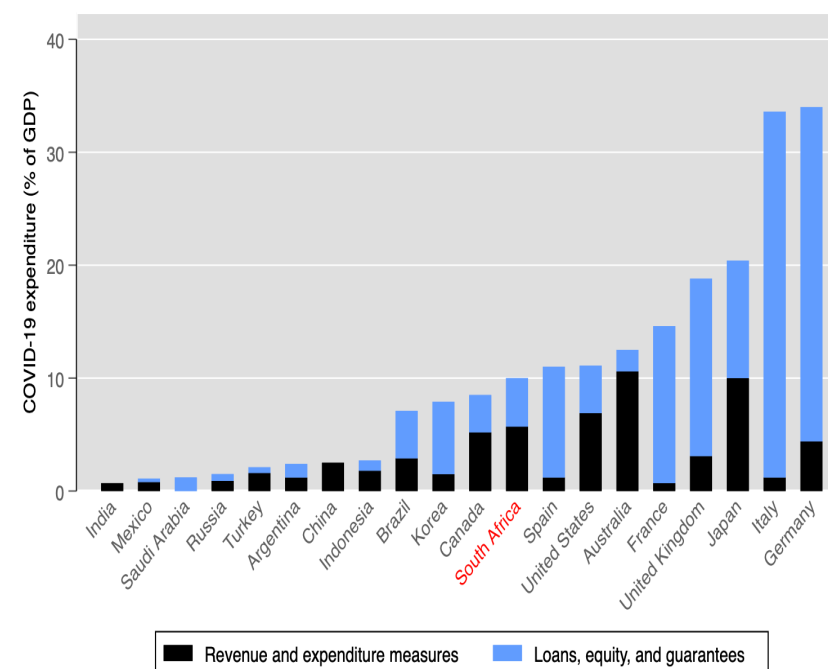


# The Ramaphosa Covid-19 Support Package



Intervention	R (bn)	% of Total
<b>Expenditure &amp; Tax Measures</b>		
Additional Health Support	20	3.98
Municipal Assistance (water and sanitation)	20	3.98
Social Assistance (Grants)	50	9.96
Wage Protection (UIF)	40	7.97
Job Protection & Creation	100	19.92
SMME Support	2	0.40
Tax Relief	70	13.94
<b>Loans</b>		
Credit Guarantee Scheme	200	39.84
<b>Total Allocation</b>	<b>502</b>	<b>100.00</b>
(Less - Reprioritisation & Tax Deferrals)	174	34.66
<b>Total Net Spend</b>	<b>328</b>	<b>65.34</b>

**Covid-19 Expenditure as Share of GDP, By Country**



Source: <https://www.csis.org/analysis/breaking-down-g20-covid-19-fiscal-response>  
& own calculations



# Covid-19 Social Assistance in Context



## Covid-19 Social Relief Package, by Grant Type

Grant Type	Amount	Time Period	Coverage (Type)	Approx. Coverage (Size)	Approx. Cost
<b>CSG</b>	R300	May	Beneficiaries	13 million	R3.9 billion
	R500	June-October	Recipients	8 million	R20 billion
<b>All Other Grants</b>	R250	May-October	Beneficiaries	5 million	R7.5 billion
<b>Covid-19 SRD Grant</b>	R350	May-October	All Eligible Applicants*	Up to 10 million*	Up to R3.5 billion per month at 100% take-up
<b>Totals</b>	<b>R250- R500</b>	<b>May- October</b>		<b>36 million (61%)</b>	<b>R62.4 billion</b>

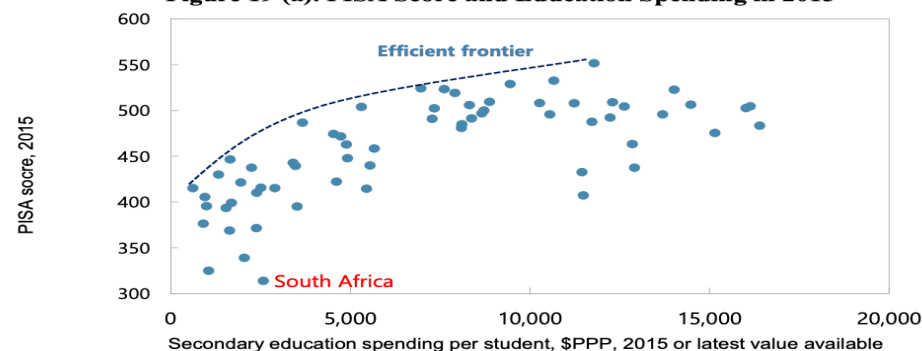
- President Ramaphosa's Covid-19 Grant has the capacity to reach 61% of the country's population.
- Total Cost of Covid-19 Grant coverage of 10m would be R62.4billion.

Source: NIDS (2017), GHS (2018), Department of Social Development (2020).

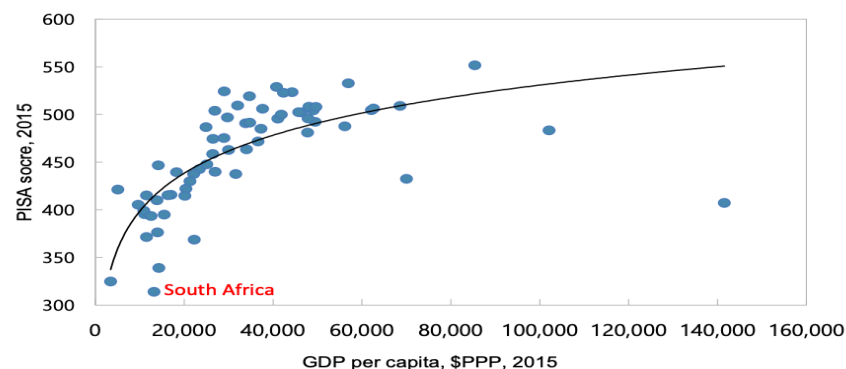
Notes: \*: The assumptions around eligibility and take-up for the Covid grant are discussed in Borat, Oosthuizen & Stanwix, 2020

# A Post-Covid 19 Economic Growth Policy: A Few Discrete Considerations

**Figure 19 (a). PISA Score and Education Spending in 2015**



**Figure 19 (b). PISA Score and GDP per capita \$PPP in 2015**



Sources: OECD; World Bank; and IMF staff estimates. Note: PISA scores assess the competencies of 15-year-olds in reading, mathematics, and science. Education spending is measured in dollars at purchasing-power parity (PPP). The estimated South Africa PISA score is a mapping from the TIMSS score using the methodology of OECD, 2015, *Universal Basic Skills*.

## Fiscal Challenges:

- Non-discretionary costs are crowding out complementary inputs to service delivery and infrastructure:
  - Transfer payments (35%), wage bill (34%), debt service costs (12%)
  - Only 18% left for goods and services and capital spending
- Generate more space for capital expenditure (reduction in transfers, wage bill and interest burden)
- Revenue Collection Efficiency
- Efficiency gains in current expenditure

## State-Owned Enterprises

- Private sector participation (the state as a minority shareholder)
- 'Crowding In' SOEs vs. Privatisation of Other SOEs
- The Eskom Debt Solution

## State Capacity and The Role of the Private Sector

- Schooling
- Employment Matching
- Infrastructure Provision
- Debt Markets



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Thank you