The Economics of COVID-19 in South Africa: Early Impressions

South Africa’s efforts to contain the COVID-19 pandemic have been relatively rapid and comprehensive by international standards. Around passing 100 confirmed cases, a National state of Disaster was declared, and the country was placed under a complete national lockdown for five weeks before transitioning to a five-level alert system from May. The lockdown was extremely stringent and brought most economic activity across the country to a halt.

A comparison of trajectories of cumulative confirmed cases with comparator countries, in combination with available epidemiological evidence, suggests that the introduction of the lockdown in South Africa, combined with effective contact tracing and the proactive deployment of community healthcare workers to help screen, test, diagnose, and isolate, appears to have delayed the spread of the disease during these early stages of the pandemic. This has allowed the South African government time to prepare for an inevitable exponential rise in infections once lockdown regulations ease.

However, such proactive measures have also resulted in extreme economic strain on virtually all South Africans with respect to income and employment. In a country with already high levels of poverty, inequality and unemployment, early evidence suggests that a substantial proportion of households are in distress. In response, government gradually introduced several relief measures to mitigate these adverse economic effects, including a stimulus package including additional spending amounting to 6.5% of GDP.

Although the full public health, social and economic effects of the pandemic depend on a variety of factors, in this paper we collate a set of early impressions on the economics of the pandemic in South Africa, using the latest available data at the time of writing.

We focus on several areas of key concern, including the expected macroeconomic impact of the pandemic, current monetary and fiscal policy response, and an evaluation of current interventions. We also construct and present an analytical instrument which can be used to guide post-lockdown transition policy using detailed occupation and industry data to see how public health and economic concerns can be balanced.
We begin by discussing the projected performance of the global economy, noting the importance of this for an open economy such as South Africa. The focus then shifts to South Africa. The IMF’s global economic growth projections suggest a pandemic-induced negative output growth of 3 percent in 2020, in excess of the Great Recession’s contraction of 0.1 percent in 2009 and even that of the Great Depression in the early 20th century.

The downturn is expected to be more severe in advanced economies relative to emerging markets and developing economies, although there is a substantial degree of heterogeneity. South Africa entered the COVID-19 period on a weak economic growth record and a recession. The country is expected to contract by 5.8 percent in 2020 – a significantly higher change relative to the emerging markets and developing country average – followed by a projected 4 percent bounce-back in 2021.

Alternative local forecasts point to a contraction between 5.8 and 9.5 percent in 2020 – substantially larger than the 2009 downturn of 1.5 percent – and an average expected bounce-back of 3.8 percent in 2021. At these growth rates, the South African economy will only reach 2019 quarter 4 GDP levels near the end of 2023. Importantly, these projections will need to be updated as the evolution of the epidemic evolves.

On the sectoral-level, the negative effects of the economic shock are of course heterogeneous across sectors. Early evidence suggests that no industries were operating at full capacity as of the beginning of April, and most firms are either operating at partial capacity or are temporarily closed. Temporary closures are highest in Construction, Manufacturing, and Trade, while permanent closures are most prevalent in Agriculture and Manufacturing.

With a high degree of uncertainty and unavailable representative labour force data, employment projections vary widely. The narrow unemployment rate is expected to rise from 29.1 to between 33 – 35 percent, the highest reflecting approximately 1.8 million job losses. This significantly exceeds the observed loss in employment of roughly 1 million jobs in 2009.

In terms of monetary policy, the South African Reserve Bank has instituted a number of policy interventions to stabilise the bond market and ensure liquidity in the financial market, including a cumulative reduction in the repo rate by 225 basis points at the time of writing, as well as a reduction of the Liquidity Coverage Ratio to 80 percent, amongst other measures.

At the time of writing, the government’s R500 billion fiscal package exceeds the COVID-related spending of any other developing country, and even that of some advanced economies, in terms of expenditure shares of GDP. Most of the spending is allocated to formal sector wage subsidies through the UIF and tax system, tax relief, credit guarantees, and several other job creation and protection measures predominantly aimed at formal sector firms. The remainder is allocated to additional public health support, municipality assistance, and an expansion of existing social assistance (grants) to support vulnerable households – including the introduction of a special COVID-19 Social Relief of Distress (SRD) grant. Although the package will offer much needed relief and support, this counter-cyclical expansionary fiscal approach is likely to further drive-up South Africa’s budget deficit and debt ratio. Public debt could rise from the current 62 percent of GDP to 80 percent in 2021, and the deficit is expected to rise from a pre-crisis level of 6.8 percent of GDP to 16 percent for 2020/21.
4 CURRENT GOVERNMENT INTERVENTIONS

Most of the government interventions are targeted at firms, require an application, and make use of existing budgetary allocations, which renders actual expenditure difficult to quantify at this stage. The composition of current measures shows that, after disaggregating firms and households into five distinct groups, a broad range of measures exist for formal sector firms; particularly SMMEs.

These include tax relief and deferrals, certain regulatory exemptions, wage support, additional assistance via the UIF, as well as credit and direct relief facilities. The Temporary Employer/Employee Relief Scheme (TERS) appears to be amongst the most popular programmes for firms. Non-representative StatsSA data suggests that one third of all surveyed firms had already applied to the TERS, with application rates in excess of 20 percent across sectors.

Worryingly, the data also suggests that over one in every five firms do not yet have a plan, although this may be time-sensitive.

Furthermore, it appears that firms in the informal sector are currently inadequately covered. While they are understandably difficult to target, this is a concern given that an estimated 1.6 million informal enterprises employing one in every workers in South Africa, are in the informal sector.

5 ASSESSING THE EXPANSION OF SOCIAL ASSISTANCE

Most governments around the world have used social assistance as a means of targeting resources to vulnerable households in light of the pandemic. In South Africa, this amounted to spending an additional R50 billion on existing and new unconditional cash transfers from May to October 2020. The amounts of every existing social grant was increased and a special COVID-19 SRD grant was introduced which seeks to target unemployed individuals who do not receive any other government assistance.

We evaluate the social assistance increases from a coverage and financial perspective in order to understand the implications of the chosen package versus two different variations of the chosen package under a set of assumptions.

In essence, we find that the chosen social assistance policy appears to be less progressive than the original proposal of increasing the Child Support Grant (CSG) by R500, and it costs more. This is largely driven by variation in family and household sizes. However, the benefit of the selected package is that it reaches additional households that do not have a CSG recipient.

The introduction of the new Covid-19 SRD grant brings a large number of previously unreached households into the social assistance system. This is important because although the original proposal delivers resources progressively with a focus on the poorest 50 percent of households, in the context of a lockdown this may simply result in households in the middle of the distribution drifting down the distribution to be replaced by otherwise

Total Spending in Each Scenario for 6 Months, by Decile

Source: NIDS (2017), own calculations.
Notes: 1. Calculations assume a take-up rate of 60 percent of the eligible population for the Covid-19 grant by the 6th month, increasing linearly from zero over the period. 2. Uptake rates are assumed to be identical across the income distribution.
poorer households that have been able to access government support.

Even households in income decile 7 would not be considered well off, and therefore at least part of the current package targets households that would be vulnerable to poverty – many of which fall outside the reach of the pre-COVID-19 suite of social grants.

Finally, we also show that the selected package leads to the largest reduction in poverty, using an array of poverty lines.

6  AN ANALYTICAL TOOL TO GUIDE POST-LOCKDOWN TRANSITION POLICY

It is increasingly critical that the economy be reopened in some manner if South Africa is to avoid an even more damaging COVID-19-induced recession. However, reopening presents policymakers with the difficult task of balancing economic and public health priorities.

Of the key factors that determine how the virus will impact the economy, we focus on the frequency, length, and intensity of lockdowns which can be reliably informed using available data.

As a means of providing some analytical guidance on how rules regarding the sequencing of lockdowns may be more accurately and objectively measured and applied, we construct an index using multiple data sources which tries to measure the extent of workplace physical interaction (as a key component of transmission risk) across occupations and sectors, based on measures of physical proximity, face-to-face discussions, and public transport use.

We use the index to provide a framework around which criteria for different phases of a lockdown can be created.

Several findings stand out. We find a negative correlation between the ability to work from home and workplace physical interaction. Highest levels of physical interaction are observed in the health, food trade (both of which exhibit high shares of essential services workers), and the hotel and restaurant sectors.

Nearly 60 percent of employment is based in these sectors; most of which are in non-essential services.

Sectors which exhibit low work-from-home ability but high levels of physical interaction include health, policing, education, and transport to name a few. Nearly 60 percent of employment is based in these sectors; most of which are in non-essential services.

This is in contrast to the finance sector and some other service sectors which exhibit low levels of physical interaction but high work-from-home ability, representing just over 8 percent of total employment.
High GDP-contribution sectors are associated with lower levels of physical interaction, however not necessarily with higher total employment contribution levels.

We find a non-linear relationship between physical interaction and wages on the sectoral-level, essentially showing that both high- and low-wage workers exhibit low levels of physical interaction.

Most of the high index scores are confined to mid-wage level occupations in sectors such as Trade, Education, and Manufacturing – where most (72 percent) jobs are found.

Based on these findings, we propose a broad return-to-work sequencing beginning with occupations with high work-from-home ability (8 percent of total employment) followed by those with low work-from-home ability and low physical interaction scores (25.5 percent), and finally followed by those with low work-from-home ability but high physical interaction scores (nearly 50 percent). We emphasise, however, that the feasibility of following a set of clear guidelines for reopening also depends on the capacity of the government to enforce rules with respect to public health and safety.

Source: PALMS (2017-19), O*NET and StatsSA Time Use Survey (2010), own calculations; Essential service share estimates from Kerr and Thornton (2020).

Notes: y-line = median level of physical interaction; blue line = predicted physical interaction index score based off a linear regression of the physical interaction index on a 1st and 2nd order polynomial of the logarithm of mean real hourly wage.

The Development Policy Research Unit (DPRU) specialises in socio-economic research with a core focus on the areas of labour markets, poverty and inequality. The DPRU is located in the School of Economics at the University of Cape Town.

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