The South African Government's response to COVID-19

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Abstract

Purpose: This paper provides a critical analysis of the South African government's response to the COVID-19 crisis and its effect on state finances and budgets.

Design/methodology/approach: The paper critically analyses publicly available data.

Findings: The South African government's initial health response was praised by the international community, given the early lockdown and extensive testing regime. The lockdown devastated an already precarious economy, which led to negative social consequences. The initial lockdown delayed the epidemic, but subsequently, the infection rate climbed, requiring new restrictions, suggesting further economic disruption. Government has had to increase its borrowings, while the future tax take is forecast to be significantly reduced, a combination which will lead to a severely constrained public purse for many years to come. This will limit the Government's ability to address the basic social needs that predated the COVID-19 crisis.

Originality: This is one of the first academic papers to critically assess the effect of the South African government's response to the COVID-19 crisis on state finances and budgets.

1. Introduction

The Coronavirus Disease 2019 (COVID-19) has lower death-rates than many other diseases. COVID-19's death rate is not confirmed yet, but estimates range from 2% downwards, well below Ebola (50%) and MERS[1] (40%). However, COVID-19 represents a particularly threatening problem, because (1) it is so new that hardly anyone is immune to it, (2) it spreads quickly, (3) it often spreads before symptoms are evident, and (4) there is no vaccination available (Roser et al., 2020; UCI Health, 2020). These factors make COVID-19 a dangerous pandemic, with far-reaching implications for all countries. Well-resourced western countries are struggling, but developing countries, such as South Africa (SA), with precarious economies and pressing social needs, are likely to suffer even greater and more long-lasting consequences. This paper critically evaluates the South African government's response to COVID-19 and its likely consequences on state finances and budgets.

SA is a multi-racial and multi-cultural country with 11 official languages, though English is understood by almost all. It is the 24th-most densely populated nation with a population of approximately 58.8 million. Over 80% of its population is of Black African ancestry. Up until 1994, under the so-called Apartheid laws, this majority was legislatively excluded from fully participating in the country's economy. SA's poverty and unemployment are among the world's highest and are much higher for the Black African majority (Stats SA, 2019b; Roser et al., 2020; UCI Health, 2020). The African National Congress (ANC) assumed power in 1994 (Maroun and Cerbone, 2020). Subsequently, Gross Domestic Product (GDP) grew between 1994 and 2008, but has since stagnated under the leadership of the ANC's corruption-accused Jacob Zuma[2], and the country entered a technical recession during 2018 (Stats SA). South Africa's GDP per capita of US$6,000 in 2019 places it slightly below the middle of the list of world countries (98th from the bottom and 115th from the top) (World Bank, 2020).

Despite not being as well equipped, both from a social and economic standpoint, SA has heeded the call from the World Health Organization (WHO) to implement measures aimed at reducing the infection rate through drastic restrictions imposed on citizens. While SA's initial response has been lauded by the WHO (Ryan, 2020), the long-term effect on the economy is yet to unfold. Many companies are reporting losses for the second quarter of the year, and it is clear the COVID-19 pandemic represents a severe economic and social stress-test for SA and its Government. In addition, the evidence is mounting that the restrictions have been unsuccessful in slowing down the spread of the disease.

SA faces three interrelated problems, namely the public health threat from the COVID-19 pandemic, the economic and health effects of the lockdown, and numerous obdurate economic problems, some not directly a result of the current pandemic. These comprise of weak economic growth, high unemployment, falling per-capita income and unsustainable government debt trends. Early forecasts suggest that the lockdown is costing the economy R13 billion[3] per day. Preliminary

[1] Middle East Respiratory Syndrome.

[2] Former president Jacob Zuma faces numerous charges including corruption, racketeering, fraud and money laundering (BBC News, 2018).

[3] The local currency, the Rand, is indicated with a capital R; and in July 2020, US$1 was worth about R17.

projections by the South African Reserve Bank (SARB) indicate that SA could lose 370,000 jobs in 2020. Projections by analysts based on the initial 21-day lockdown suggested a GDP contraction of 7.2% during 2020 that would lead to a fiscal deficit of 12% of GDP and a debt-to-GDP ratio of 81% in 2021. This will place a further strain on the country's already overstretched public finances. The risk of a debt-spiral is now a reality (Mboweni, 2020b).

Navigating these issues will require steadfast leadership and will test President Cyril Ramaphosa's governance. The crisis is an opportunity for leaders to build trust, enhance unity, as well as display fiscal competence. This paper discusses the SA governmental response to the COVID-19 pandemic and its economic implications. SA was selected, because (1) it is a developing economy, (2) it has been applauded for its relatively quick and extreme response to COVID-19, and (3) it took extreme measures despite its poor economic and social circumstances pre-crisis. This paper makes a contribution by being one of the first papers to analyse the COVID-19 response of a developing economy. In addition, due to the features of the SA context, the paper provides a useful case to compare to developed and other developing countries. Finally, the paper provides a reference point for future research on the governance and fiscal implications of COVID-19.

The article proceeds with an overview of SA's economy, followed by a discussion of SA's response, and concluding with a critical discussion.

2. State of the SA economy

With the abolishment of Apartheid and the inauguration of the first democratically elected government and president in 1994, SA appeared to have a bright future. With SA's well established physical and economic infrastructure, coupled with its new-found political stability, SA was considered a 'gateway into Africa' and a promising opportunity for the international community (Scholvin and Draper, 2012). Twenty-five years later, we find that SA did not adequately seize the opportunity and, although better off than most other African countries, is poorly equipped to manage the economic fallout from a pandemic, such as COVID-19.

At the end of 2019, SA had an averaged GDP growth of 2.65% since 1994. While this appears to be positive, it is less so on a per capita basis, considering the substantial growth in population during this time (from 40 to 58 million). SA has also experienced several political and economic setbacks. Investor confidence in SA is low, corruption scandals involving government and government officials are prevalent, and the regulatory and legislative landscape ebbs and flows with indecision and uncertainty[4]. These issues have contributed to SA not maintaining investor confidence, resulting in investors considering other African countries (Scholvin and Draper, 2012).

Worse still, many consider former President Jacob Zuma's presidency to be '9 lost years', during which SA regressed (Writer, 2019). During Zuma's tenure, the unemployment rate went from approximately 23% (2009) to 27% (2018) (Stats SA, 2020c). The unemployment rate was 29% in December 2019, placing SA 4th highest in the world (Trading Economics, 2020). In line with high

[4] Notable policy issues include: the nationalization debate, land expropriation without compensation and the Broad-Based Black Economic Empowerment philosophy of once empowered always empowered.

unemployment rates, it is estimated that only 8%[5] of the SA population pay personal income tax (SARS, 2020; Stats SA, 2020b). Recently, two of the three major rating agencies had downgraded SA bonds to junk status, with the third agency following suit as COVID-19 struck (White, 2020).

Before COVID-19, SA's GDP was forecast by Moody's to grow by 0.7% for 2020, a result of a stalling economy and the crippling effects of power outages due to the ineptitude of the state-owned monopoly electricity provider.

In one of the more optimistic recent forecasts, S&P forecast a contraction of 4.5% for 2020. According to the SARB's latest forecast, the economy will shrink by 7.2%, while Intellidex estimates a 10.6% contraction. Finance minister, Tito Mboweni, noted in his 2020 budget speech that the budget deficit for 2020/21 is expected to increase to 6.8% of GDP. Thus, even before COVID-19, revenue was expected to be lower than expenditure. From a fiscal perspective, SA had no margin to absorb the revenue shortfalls and unexpected costs required to combat COVID-19. National Treasury has warned Government of this lack of flexibility for many years. Due to the high debt levels, debt servicing costs are the 4th largest expense. To put this into context, this equals healthcare expenditure (Mboweni, 2020b).

3. SA government response to COVID-19

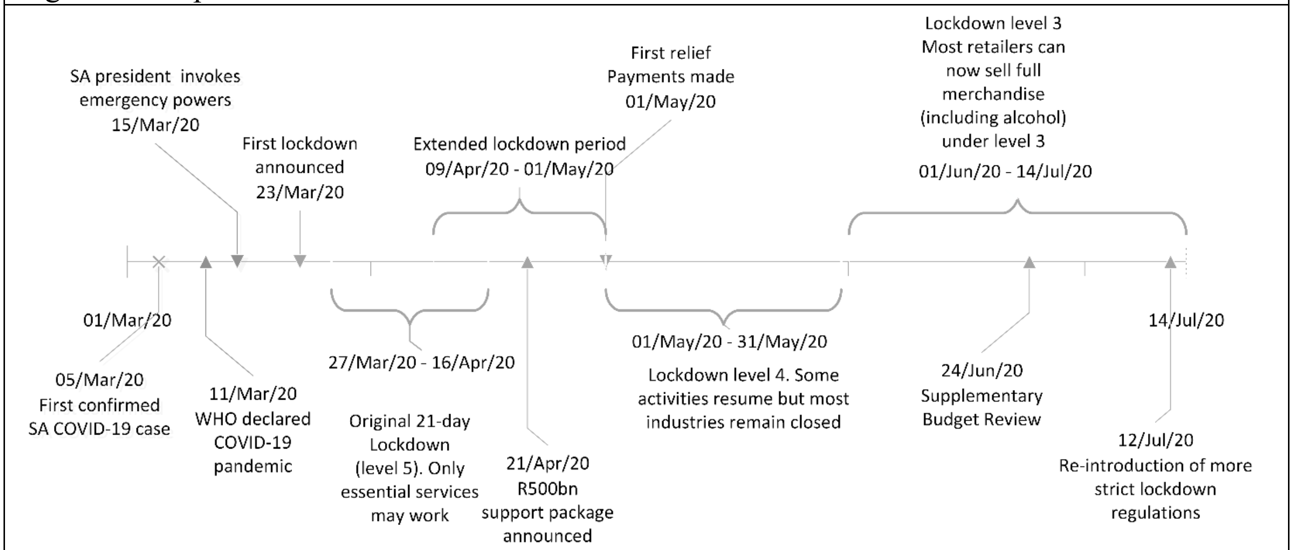
The COVID-19 crisis was unexpected. Responses to crises are complex, multifaceted and are influenced by a variety of internal, external and even personality traits (McConnell, 2003). Compared to countries such as Brazil, Mexico, and the United States, SA was relatively quick in responding to the health crisis represented by COVID-19 (Ryan, 2020). SA implemented a lockdown in 23 days from the first infection. This lockdown was 18 days sooner than Italy (39) and less than half the time it took for the US to implement a lockdown (54). The speedy implementation of a lockdown has been interpreted by most as an excellent example of good governance and decisive action, something SA has not seen in many years. But the simple fact is that unlike Italy, Germany, America and other developed countries, SA's healthcare would not have sustained an exponential increase in patients. SA's health expenditure in 2017 was a mere \$28bn or 8.1% of GPD. When compared to Italy's 8.8%, it is close; however, Italy's GDP dwarfs SA's at \$1.951tr compared to \$350bn[6]. In other words, Italy's spending on healthcare approximates \$172bn, which is six times that of SA's (WHO, 2017). While SA had the luxury of assessing the initial impact and response by various other countries, it was not something SA had a contingency plan for nor was SA's healthcare system capable of dealing with an influx of patients. Of course, the severity of the crisis in Italy revealed that COVID-19 posed a substantial threat to both human health and economic wellbeing.

Figure 1 presents important COVID-19 events related to SA between 1 March 2020 and 14 July 2020 to put the remainder of the paper's discussion into context.

[5] Tax statistics reflect 4,9 million taxpayers were assessed in 2018 while the estimated population is 58,8 million.

[6] Italy and SA had similar populations in 2017 being 61 and 57 million respectively.

Figure 1 – Important COVID-19 events in South Africa



As predicted by McConnell (2003), the potential severity of the crisis promoted a centralised response from the SA government. SA's health department first issued a notice on 23 January that SA has plans in place, and there is no need to panic (Maja, 2020). Six days later, the Minister of Health held a media briefing and outlined how SA would manage COVID-19. This plan mainly related to screening at entry ports, putting outbreak response teams on high alert, distributing information to all private and public healthcare workers and setting up a hotline to field questions from clinicians (Department of Health, 2020a).

The first confirmed SA COVID-19 case was reported on 5 March. Ten days later, President Cyril Ramaphosa broadcast a nation-wide address on COVID-19. Beside official events, this is very unusual for SA. A website dedicated to centralising information dissemination about the crisis and responses was also set up (sacoronavirus.co.za). Between 7 and 27 March, the Government had reached out to many bodies, organisations and sectors to discuss the way forward (including water affairs, labour, mining and education). The relatively speedy, and co-ordinated, response enhanced the SA government's legitimacy and organisations, such as the WHO applauded SA's response (Ryan, 2020). This acknowledgement helped impart some faith in the Government's ability to deal with the crisis. This faith is crucial for it to be able to govern during large-scale crises and is especially crucial in SA, which has not experienced significant crises in recent times (McConnell, 2003).

Within ten days of the first confirmed COVID-19 case in SA, the President invoked his disaster management powers and five days later announced a full national lockdown (SA Government, 2020). Internationally, countries like the USA and Switzerland, implemented a staggered approach to a lockdown with the cancellation of events and implementation of social distancing measures, mainly to preserve the economy. SA adopted a "rip off the band-aid" approach and implemented severe restrictions from day one of the lockdown. In addition, SA revoked visas, instituted travel bans and closed 35 of SA's 53 land ports. High-risk countries such as Italy, Iran, South Korea, Spain, Germany, the United States, the United Kingdom and China were included in the initial ban. India and Thailand adopted a similar approach. This hard-line attitude was a prelude to the SA government's overall response with President Ramaphosa stating that COVID-19 "calls for an extraordinary response; there can be no half measures" (Ramaphosa, 2020c). Moreover, the President clearly stated that the Government's priority is the health of South Africans, a commendable stance but one that SA may not be able to afford. The Government implemented a strategy focused on four factors: preparation, primary-detection, lockdown, and enhanced surveillance. At the time, the strategy was applauded internationally, and the WHO declared that the rest of the world could learn from SA (Ryan, 2020).

The overall response has been drastic and devastating. SA's strategy resulted in over 100 days (and counting) of lockdown restrictions, which may prove to be devastating in itself, from both economic and social perspectives. While achieving a delay in the spread of COVID-19, the already-depressed economy has been brought to a standstill. The pandemic has also exposed, and may be aggravating, the country's high levels of inequality among races and genders. From a social perspective, many SA citizens have been unable to earn an income as businesses have been forced to cease operations. Job-losses have affected low-income workers most. The lockdown has also seen a rise in the abuse of women and children (Ramaphosa, 2020a), which has received international coverage (Abebayo, 2020).

Many sectors remain unable to operate, some who may now operate have closed business permanently, while many others operate under costly restrictions with regulations putting the onus on employers to provide personal protective equipment for all employees (and even school pupils). The Government initially banned the sale of both cigarettes and alcohol, which has fuelled despair, protests, and crime, such as break-ins to obtain tobacco and alcohol. The alcohol ban was temporarily lifted, but reinstated after an increase in infections and domestic violence. These products represent significant sources of tax revenue, which are now forfeited. The lockdown has, and will continue to, reduce tax revenue primarily due to the following:

- No excise duties or VAT on tobacco products have been collected since the beginning of lockdown,
- Reduced wages have resulted in reduced personal income tax collection due to reduced hours and retrenchments,
- A reduction in customs duty due to reduced imports,
- Reduced VAT collections and decreased company's tax, because of reduced operations, and
- Reduced fuel levies due to a drastic reduction in travel.

As GDP data for the second quarter is not yet available, the following first quarter data is given to provide context to the expected severity of COVID-19's impact on major industries of SA. Major GDP growth rates, by industry, for the first quarter of 2020 were: mining (-21.5%); manufacturing (-8.5%); electricity, gas and water (-5.6%) and construction (-4.7%). The only industry with any meaningful gain was the agricultural sector (+27.8%) (Stats SA, 2020a). However, the mining sector accounted for approximately 9% of GDP while the agricultural sector only accounted for 1% in 2019 (Stats SA, 2019a). These indicators suggest that tax collection from the corporate sector will be severely curtailed for quarters two through to four.

SARS Commissioner, Edward Kieswetter, estimates the shortfall in collections at around R285 billion. This shortfall will further strain SA's budget presented in February 2020. Strain on the fiscus has been exacerbated due to the SA's economy's heavy reliance on the manufacturing and mining sectors, both of which have had reduced productivity and negative growth during this period (Maroun and Cerbone, 2020; South African Market Insights, 2020). The finance minister has also foreshadowed a possible sovereign debt crisis in 2024. Consequently, a reduction in government spending would be required. The Supplementary Budget Review (SBR) was published on 24 June 2020, which proposes to stabilise debt by implementing zero-based budgeting principles and reducing the public sector wage bill, leading to an expected peak in the debt to GDP ratio of 87% in 2023/2024 (Mboweni, 2020b).

After declaring a national state of disaster, SA had access to up to R35 billion[7] in emergency relief from the National Treasury Fund (SA Government, 1999, Section 16(2); Mboweni, 2020b). Funds were made available to "capacitate the sectors dealing with the national response" to COVID-19 first (Ramaphosa, 2020c). This response included acquiring 60 new mobile testing units, establishing 180 testing sites and 320 testing units, and deploying 28,000 community health care workers across the country (Department of Health, 2020b; Mafuma, 2020).

With SA's first confirmed COVID-19 case reported on 5 March, there was relatively little time to engage broadly within government and with outside organisations. However, a R500 billion social support and economic relief fund was announced on 21 April and, at approximately 10% of SA's GDP, is a substantial response (Ramaphosa, 2020b). The package will be partly funded by borrowing from the World Bank and the International Monetary Fund (IMF), even though this contradicts the Government's stance in April 2020 that no such borrowing will take place to "safeguard South Africa's democratic national sovereignty" (Cooney, 2020). The specifics of the package are shown in Table 1, with Panel A providing the breakdown of the funding sources and Panel B revealing what the package will be spent on.

[7] A maximum of 2% of the annual national budget can be appropriated per the Disaster Management Act. The total direct charged against the National Revenue Fund was R1.76trillion.

Table 1: The R500bn social relief and economic support package		
Panel A: Source of funding (Adapted from National Treasury SA, 2020, p. 32)	**Amount (R billion)***	**Percentage**
Credit guarantees scheme	200	40%
Baseline re-prioritization	130	26%
Borrowings from multilateral finance institutions and development banks	95[8]	19%
Transfers and subsidies from social and security funds	60	12%
Available funds in the Depart. Of Social Development 2020/21 appropriation	15	3%
Total	**500**	**100%**
Panel B: Allocation of funding (Adapted from National Treasury SA, 2020, p. 31)		
Credit guarantees scheme	200	40%
Job creation and support for SME and informal businesses	100	20%
Tax and other levy payment holidays	70	14%
Vulnerable household support (6 months)	50	10%
Wage protection (UIF)	40	8%
Health and frontline services	20	4%
Municipality support	20	4%
Total	**500**	**100%**

* For illustration purposes, 1 US$ was worth about 17 Rand in July 2020.

The main budget spending was adjusted down (see Table 2) by removing funds from (1) projects delayed due to the lockdown, (2) capital and other departmental projects that can be delayed, (3) programmes with a history of poor performance and (4) re-directing spending towards COVID-19 responses within original functions (Mboweni, 2020b). Given that budgets removed are difficult to get back, with R101 billion diverted, this decrease in funding may be hard for departments to win back in future (Mboweni, 2020b). The overall COVID-19 response will result in a net R36bn[9] increase in the current main budget deficit. This change arises from an increase of R145bn in allocations and reductions of R101bn (Table 2).

[8] Update: A $4.3bn loan from the IMF has been approved and met with strong criticism due to (1) its USD denomination where the exchange rate has already depreciated significantly in recent months raising concerns over its ultimate cost, (2) sufficient money being available in domestic markets, (3) credible allegations of corruption in Government spending regarding COVID-19 and (4) concerns by Government ministers that indebtedness to the IMF ‘has exposed the economy to further suffocation by imperialist interests’ (Citizen, 2020; Felix, 2020, p. 1).

[9] R145m – R101.885m – R8.109m (Table 2).

Table 2: Major revisions to non-interest spending plans					
R million	**Budget 2020**	**Reductions**	**Allocations**	**Other adjustments**	**Revised**
General public services	618 840	-24 310	25 055	13	619 599
Economic development	88 381	-12 145	4 649		80 886
Learning and culture	151 543	-15 617	10 560	-8 122	138 364
Health	55 516	-2 631	5 544		58 430
Peace and security	207 006	-4 185	10 170		212 991
Community development	219 727	-26 322	28 430		221 835
Social development	198 497	-15 675	41 016		223 837
Provisional allocations: COVID-19 package	-	-	19 575	-	19 575
Provisional allocations not assigned to votes	-7 786	-	-	-	-7 786
Contingency reserve	5 000	-	-	-	5 000
Total	**1 536 724**	**-100 885**	**145 000**	**-8 109**	**1 572 731**

(Mboweni, 2020a, p. 11)

The Government has increased social grants by R41bn by offering grant top-ups for six months to cushion the effects of COVID-19 for those most vulnerable in society (see Table 3). In addition to the top-ups, a new Social Relief of Distress grant of R350[10] has been established and is expected to benefit 8 million beneficiaries (Mboweni, 2020a).

However, much of the COVID-19 package funding will be raised by reducing spending on the very projects that are aimed at improving society's development and wellbeing. Replacing long-term benefits for short-term relief may be opportunistic. Firstly, the ruling party may have future national (2024) and municipal elections (2021) in mind, given the many corruption and mismanagement allegations against it. This is also evident in the inconsistency in the duration of relief provided to grant-holders (six months) compared with that offered to working, tax-paying individuals (three months)[11]. Secondly, the reallocation can later be blamed for the non-delivery of long-term development. This mismatch may result in worse consequences for those most in need in the long-run. If the economy is not stimulated and nurtured, more citizens become reliant on welfare, which reduces funds available to stimulate the economy. Such a death spiral is not sustainable.

[10] This may take the form of cash, food parcels or vouchers to purchase food.

[11] The Temporary Employee Employer Relief Scheme offered relief for 3 months where salaries were ceased or reduced due to COVID-19.

Table 3: Adjustments to social grant spending 2020/21				
	Baseline monthly grant (R)	**Number of beneficiaries**	**Top-up (R)**	**Top-up %**
Child support*	445	12 811 209	300	67.4
Old age	1 860	3 672 552	250	13.4
Disability	1 860	1 045 388	250	13.4
Foster care	1 040	339 959	250	24.0
Care dependency	1 860	155 094	250	13.4
* The top-up will be replaced with a new Caregiver grant of R500 per month from the second month. This is expected to benefit over 7 million beneficiaries.				

(Mboweni, 2020a, p. 15)

Table 3 reflects the significant social welfare burden SA faced pre-crisis, and the cost to sustain it. The cumulative monthly cost of these social grants is significant despite the relatively low grant amount. Raising a healthy and loved child to become a productive member of society on only R445 (R745 during the crisis) per month is no easy task. With lockdown restricting people to their homes with (often) no ability to work, the number of children born, and whose parents will claim additional grant support, is likely to increase significantly adding further to SA's future uncertainty (Economist, 2020).

SA's financial aid is similar to that of the USA's Families First Coronavirus Response Act, in that it is aimed mostly at paid sick leave, unemployment and food assistance. SA does not have an equivalent to the USA's est. $2.3 trillion CARES[12] which is focused on stimulating the economy. This difference is likely due to SA's high debt to GDP ratio and poor investment rating rendering significant borrowings costly and high risk to SA's future sustainability. The lack of funds to stimulate the economy may prolong the high levels of social welfare dependency, inequality and poverty. The R500bn COVID-19 relief package does not include a strong economic-stimulus allocation, focusing instead on short-term relief.

As SA was already in a weak fiscal and economic position pre-crisis, the mixed approach of cash and non-cash measures is practical. This response may have been heavily influenced by President Ramaphosa's business background (see, McConnell, 2003). Nevertheless, the main budget deficit will increase (National Treasury SA, 2020) as even the non-cash measures have real effects. As an illustration, Table 4 provides a breakdown of the effect of tax and levy payment holidays.

[12] On March 27, 2020 the USA passed the Coronavirus Aid, Relief, and Economic Security Act, (CARES Act) providing aid for major individual and business assistance and economic stimulus. It is the largest package addressing COVID-19 to date.

Table 4: The effect of tax and levy payment holidays extended due to COVID-19		
Description	**Liquidity / support (delayed revenue) R billion**	**Foregone revenue (R billion)**
Expansion of employment tax incentive	-	15
Deferral of 35% of personal income tax liability	19	2
Deferral of 35% of provisional tax payments	12	3
Skills development levy holiday (4-months)	-	6
Tobacco and alcohol excise duty holiday (90-days)	6	-
Carbon tax filing and payment holiday (2-month)	2	-
Case-by-case applications for deferral	5	-
Total	**44**	**26**
Grand total	**R70 billion**	

(National Treasury SA, 2020, p. 40)

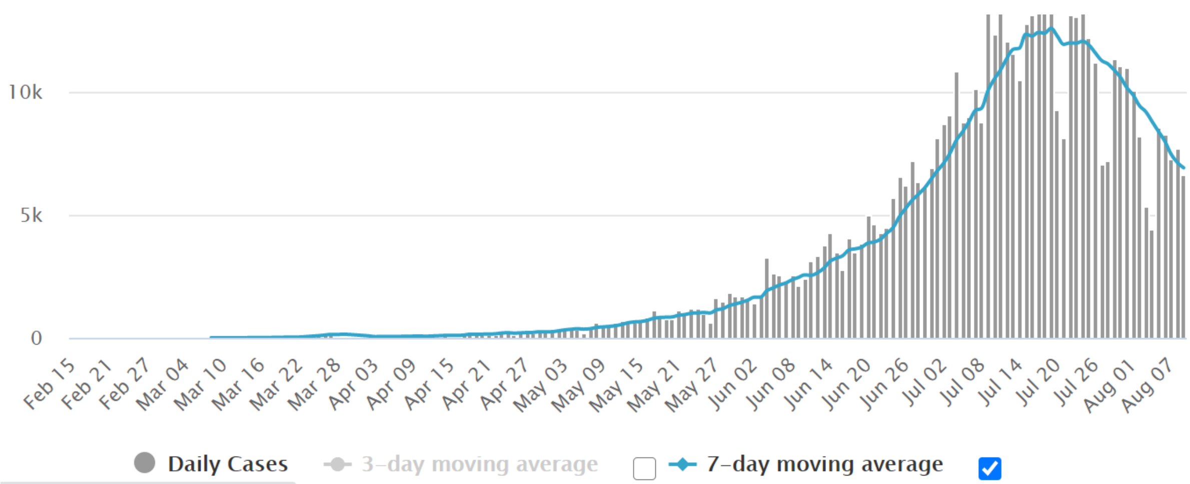
However, there are benefits to using non-cash support measures. As SA Government officials are notoriously regarded as corrupt (BBC News, 2018; Madia, 2020; Writer, 2020a), the use of non-cash support measures decreases the risk and potentially the magnitude of the misappropriation of funds. It also reduces the risk of abuse of support by residents, and the non-cash support is likely to represent a lower administration burden (in terms of labour hours, system changes and additional outlays).

The support package is, in the National Treasury's view, the best strategy for both dealing with the COVID-19 crisis and Government's unsustainable debt through economic support and recovery plans. The aim is to maintain and create jobs, ultimately reducing the reliance on Government grants. This strategy will also encourage business confidence and foreign direct investment. However, while the R500bn package is a temporary relief measure promising short-term benefits, it is financed through medium to long-term loans and other measures. With increased debts and repayments, coupled with reduced revenue and continued demand for spending to ensure economic recovery, a debt-crisis looms.

Under the Supplementary Budget, a budget deficit of R709 billion is expected, which is attributable mainly to a revenue shortfall as opposed to increased spending (Mboweni, 2020a). This pushes the consolidated budget deficit up from the figure of 6.8% of GDP that was expected in February to 15.7% of GDP (ibid). SA was also expected to pass the "tipping point" as gross government debt is forecast to rise to 81% of GDP (Grennes et al., 2010). To avoid a sovereign debt crisis, governmental spending needs to be reduced with a focus on impact spending to ensure positive returns in the economy, i.e. an increase in future tax income and reduction in dependencies on social welfare. The reallocation of R101bn from various budget lines indicates that cost reductions are possible (Mboweni, 2020a). Alternatively, the National Treasury could look at increasing taxes. This may increase the cost of living for already struggling lower- and middle-income citizens and incentivise high tax-paying citizens to leave SA. With only 8% of SA's population paying tax, SA cannot afford this (see, for example, Sako, 2002; Oberoi and Lin, 2006).

In a cruel irony, the initial lockdown did not slow down the spread of the virus sufficiently, as shown by the rise of the 7-day moving average of the daily infection rate up to mid-July (see Figure 2). This led the SA Government to re-introduce more restrictive lockdown regulations in early July. These extended lockdowns and restrictions will lead to further adverse economic consequences.

Figure 2: Daily new COVID-19 cases in SA



Source: https://www.worldometers.info/coronavirus/country/south-africa/ accessed on 10 August 2020

According to Figure 3, South Africa is in the top 5 countries in terms of total COVID-19 infections, and ranks high among countries on the basis of per capita infection rates. Lockdown measures may be less effective in South Africa than in some Western countries, due to crowded living conditions and public transport, as well as unhygienic food supplies and poor access to hand sanitation and other health facilities in its poorer communities (NZ Herald, 2020). Therefore, whereas SA implemented restrictions relatively early in the infection cycle, this may not have yielded the desired slowdown in infection rates, whereas the predictably devastating social and economic effects have been realised. The decrease in the daily new infection rates since the end of July (see Figure 2) shows promising signs in terms of the ability to reduce restrictions.

Figure 3: COVID-19 infection rates by country

#	Country, Other	Total Cases	New Cases	Total Deaths	New Deaths	Total Recovered	Active Cases	Serious, Critical	Tot Cases/ 1M pop	Deaths/ 1M pop	Total Tests	Tests/ 1M pop	Population
	World	20,200,421	+173,590	737,078	+3,526	13,008,464	6,454,879	64,740	2,592	94.6			
1	USA	5,235,627	+36,183	166,000	+383	2,682,244	2,387,383	17,795	15,807	501	66,035,760	199,375	331,214,010
2	Brazil	3,057,470	+21,888	101,752	+616	2,118,460	837,258	8,318	14,373	478	13,231,548	62,201	212,723,058
3	India	2,267,153	+53,016	45,353	+887	1,581,640	640,160	8,944	1,641	33	24,583,558	17,795	1,381,456,118
4	Russia	892,654	+5,118	15,001	+70	696,681	180,972	2,300	6,117	103	30,800,000	211,044	145,941,435
5	South Africa	563,598	+3,739	10,621	+213	417,200	135,777	539	9,490	179	3,267,494	55,020	59,387,695
6	Mexico	480,278	+4,376	52,298	+292	322,465	105,515	3,708	3,721	405	1,091,695	8,458	129,077,256
7	Peru	478,024		21,072		324,020	132,932	1,488	14,477	638	2,573,691	77,943	33,020,085
8	Colombia	387,481		12,842		212,688	161,951	1,493	7,607	252	1,909,111	37,477	50,940,705
9	Chile	375,044	+1,988	10,139	+62	347,342	17,563	1,276	19,601	530	1,867,367	97,595	19,133,857
10	Spain	370,060	+2,873	28,576	+73	N/A	N/A	617	7,915	611	7,472,031	159,806	46,756,796
11	Iran	328,844	+2,132	18,616	+189	286,642	23,586	3,992	3,910	221	2,711,817	32,243	84,106,435
12	UK	311,641	+816	46,526	+21	N/A	N/A	67	4,588	685	18,349,668	270,146	67,924,946
13	Saudi Arabia	289,947	+1,257	3,199	+32	253,478	33,270	1,824	8,315	92	3,872,599	111,057	34,870,366
14	Pakistan	284,660	+539	6,097	+15	260,764	17,799	776	1,286	28	2,147,584	9,703	221,331,066
15	Bangladesh	260,507	+2,907	3,438	+39	150,437	106,632		1,580	21	1,273,168	7,722	164,864,840
16	Italy	250,825	+259	35,209	+4	202,248	13,368	46	4,149	582	7,276,276	120,365	60,451,842
17	Argentina	246,499		4,634	+28	108,242	133,623	1,565	5,449	102	856,055	18,922	45,240,280
18	Turkey	241,997	+1,193	5,858	+14	224,970	11,169	603	2,866	69	5,326,035	63,078	84,435,766
19	Germany	218,499	+1,218	9,265	+5	197,900	11,334	236	2,607	111	8,586,648	102,450	83,813,450
20	France	202,775	+785	30,340	+14	82,836	89,599	383	3,106	465	4,279,588	65,548	65,289,486

Source: https://www.worldometers.info/coronavirus/ accessed on 10 August 2020

4. Discussion and conclusion

Although a noble effort has been made to prevent the spread of COVID-19 and prioritise human life, the trade-off with economic stability and certainty seems precarious. Unlike the initial health response to COVID-19, the SA government has been slow in responding to economic concerns. Details pertaining to the restrictions applicable at the different levels of lockdown are vague, and no timeline has been drafted to provide a level of certainty to business and the public. This uncertainty, coupled with tobacco sales being permitted by the President after the initial lockdown, only for this to be overturned, has created public discontent. Many are drawing connections between the Government's actions and the scandals under the previous presidency of Jacob Zuma. These include raising concerns regarding political ties to illegal tobacco sales and corruption within the procurement of COVID-19 related equipment and services. The initial lockdown was followed by a continued rise in infections, which led to further lockdowns and restrictions.

There is also the question of political will. National Treasury has for years urged the Government to reduce the public wage bill, State-owned entity bailouts, and debt levels with little effect. The private sector has for years been urging the Government to reduce red-tape and to become investment-friendly with at least some form of policy and regulatory certainty to no avail. Now, as revenues are down and spending is up, the government's commitment to reducing debt and prioritising economic recovery requires more action to be convincing. A recent announcement by National Treasury explicitly stating that it will no longer bail out the struggling national airline[13] bodes well for the fiscus. Commissions of Inquiry into alleged state-related corruption are encouraging. But there appears to be no plans to stimulate the economy, with (an over)reliance on increased social welfare benefits.

Owing to the prevalent inequalities, SA is not in a position to simply reduce costs to a minimum. National Treasury needs to balance spending that protects and assists the poor and vulnerable with sound impactful spending to stimulate the economy. These goals cannot be achieved merely through a reduction in spending, as this is likely to impact the poor the most, further increasing inequality in the long-term. The legitimacy obtained during the initial health response to COVID-19 appears to have dissipated, and action is required to address the failing economy. SA's budgetary response has been delayed with the concerns raised over the budget in parliament by opposition parties and some economists (Dlulane, 2020; Francis and Valodia, 2020). Inconsistent decision-making processes, by the ruling government, also raises concerns that politicking is preventing the economy from being prioritized by the Government. These policy uncertainties have been seen in several instances recently, for example, the renewable energy and mining sectors' experiences of policy uncertainty, change and delays, have left local and foreign investors perplexed (ESI Africa, 2020).

Further Government measures that does not require significant cash investments include stimulating the economy by ensuring:

- Predictable regulatory environments across all industries
- Reducted red-tape burdens to business
- Certainty over upholding property rights[14]
- Certainty over transformation targets and regulations (see Section 2)
- Reduced public sector corruption (to ensure adequate, relevant and productive expenditure), and
- Enhanced law enforcement and court systems.

(adapted from OECD, 2003)

Such measures would be viewed favourably both locally and internationally and will increase the probability of direct foreign investment. However, reprioritising short-term relief over long-term development is likely to result in worse outcomes.

To add to SA's financial woes, the SARB has engaged in quantitative easing for the first time by intervening in the bond market to stimulate liquidity (SARB, 2020). In late March, the coronavirus

[13] South African Airways is SA's national airline and, at the time of writing this article, is undergoing business rescue proceedings.

[14] There are currently plans to review and amend the SA constitution to facilitate expropriation without compensation (Writer, 2020b).

crisis triggered panic-selling of emerging market debt. This selling resulted in a surge in government bond yields, prompting SARB's intervention to shift rates in accordance with its policy. The SARB has not performed quantitative easing in the ordinary[15] sense as SA's interest rate was about 3.8% at the time. However, the consequence is the same, because SA's National Treasury and Government funds itself out of the same market. Even though the SARB's intention is not to give the Government more spending power (SARB, 2020), the SARB is inadvertently funding part of the COVID-19 response. The SARB is also likely to continue buying bonds as more borrowings are required to fulfil the R500bn COVID-19 response plan, which will expand the Government's budgetary deficit. This may result in the SARB being forced to buy more bonds for some time to come, if not permanently (Smith, 2020). This is certainly something SA's finances cannot afford, as it may result in fears that the SARB is losing control over price stability, which will result in a complete exodus of investors from the SA bond market. In addition, the SARB's ability to intervene is not unlimited.

On a positive note, the Government's ability to garner private support has been overwhelming. Private healthcare providers are aiding with testing and treatment at favourable pre-determined rates, and the banking sector has provided R12bn in debt relief to over 124,000 small and medium-sized enterprises. In addition, commercial banks have granted 3-month payment holidays to 2million clients worth approximately R17billion with other initiatives providing interest-free loans. This demonstrates SA citizens' commitment to the greater good and SA's future. These gains and partnerships will need to be nurtured if SA is to recover and become stronger. The best-case scenario is that SA's GDP will decline by 5% - something ordinarily associated with disaster before COVID-19 (Arndt et al., 2020). However, with SA rated at junk-status (White, 2020), this problem is exasperated. Add on the projected 7 million job losses and depressed tax revenue and the future of SA appears grim. What is clear is that the policy decisions (or indecision) made now will either set SA on a path of recovery or push the economy closer to the brink of collapse.

The COVID-19 crisis is not over. Daily new infections and deaths remain high. Rebuilding the economy should be the primary target. Therefore, all public and private institutions need to work together to create a new SA, as envisaged by Nelson Mandela, a country for all its people.

Areas for future research include comparing the initial responses of developing and developed countries. Specifically, the split between social relief and economic initiatives between countries and the effect on their respective recoveries, and public finances. The framework provided by McConnell (2003) may be useful to aid such comparisons and determine which strategies have been most effective in which contexts. This will be particularly useful to address future health crises. Finally, investigations how Governments prepare for future health crises and any other long-term monetary policy changes directly related to COVID-19 is welcomed.

[15] Quantitative easing usually occurs when a country's interest rates are near-zero. SA's interest rate was 3.8% down from 6.8% due to the various interest rate reductions.

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