ECONOMIC RECONSTRUCTION, AND RECOVERY PLAN

NEDLAC PRESENTATION

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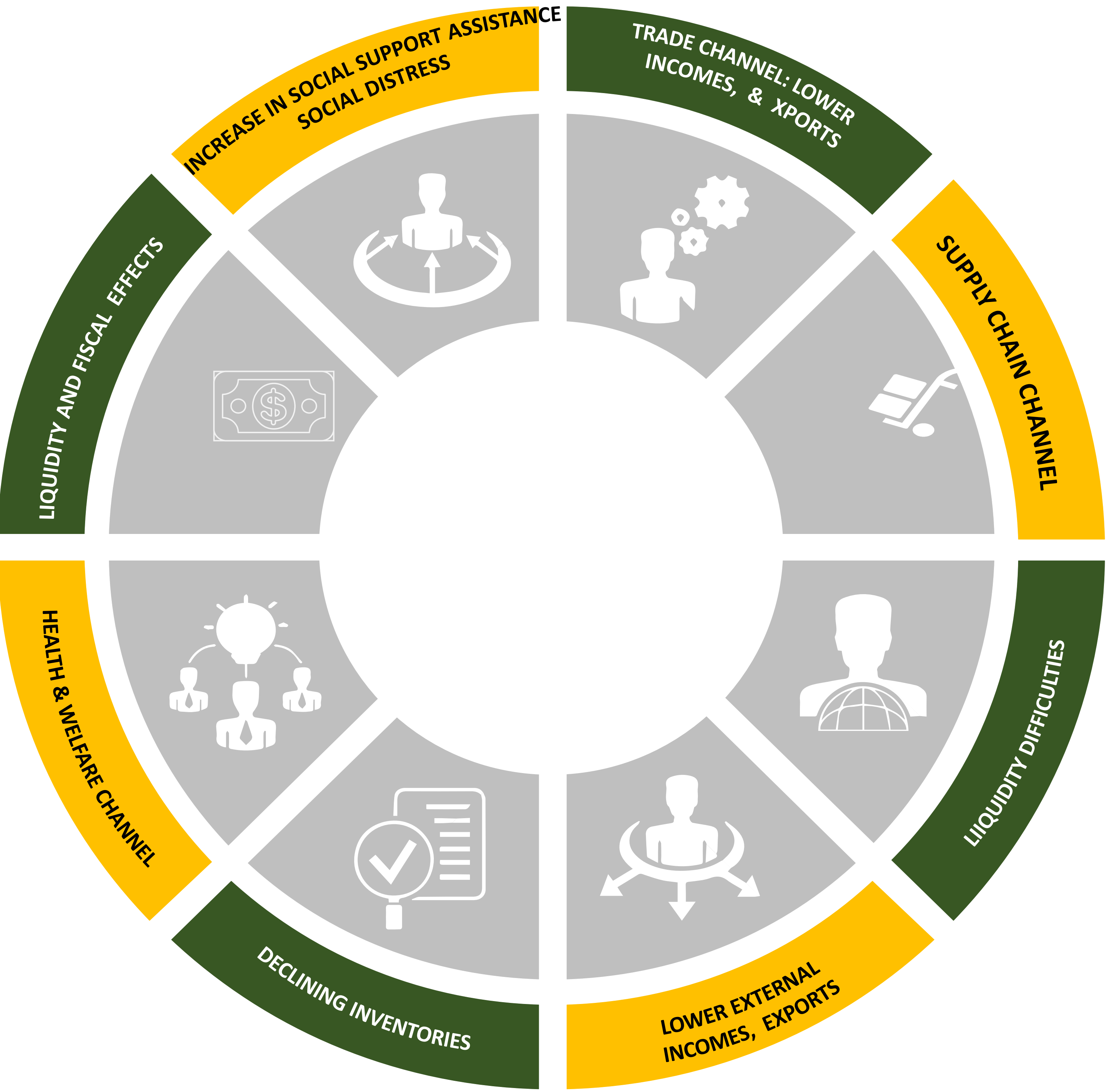
INTRODUCTION

- When South Africa was hit by the COVID-19 health crisis, it was already in the midst of a deep economic crisis.
  - South Africa faced the immediate challenge of effectively responding to the COVID-19 induced crises
  - Needed to address the persistent crisis of low growth, slow development, capacity under-utilisation, rising unemployment, poverty and inequality.
- As a result, the Economic Reconstruction, Recovery and Growth Plan has two aims:
  - to deal with **immediate actions** towards economic recovery amid covid-19
  - **Rebuild and grow** the economy ensuring sustainability, resilience and inclusion.
- Accordingly, **the Plan pursues multiple objectives**:
  - Implementing the agreed reforms to stimulate investment;
  - Support and build an industrial base that creates jobs for the majority and supports sectors to pivot to new opportunities;
  - Support cooperatives as well as small, medium and microenterprises whilst strengthening value chains.
  - Strengthen empowerment; transforming ownership pattens in the economy. Strengthen public investment in infrastructure to meet NDP goals.
  - Strengthen public employment programmes.
  - Equipped, productive and skilled population for the new phase of the economy.
  - Build social compacts that unlock scarce resources and deal with trade-offs in society.
  - Build capacity of the State to deliver and implement the economic recovery in line with NDP objectives

IMPLICATIONS FOR ECONOMIC POLICY

- The top impacts are that:
  - The current challenges create an economic impact that reverberates into the future
  - There is a need to manage multiple risks such as a health compromised workforce, high poverty rates, inequality and economic vulnerability, in a fragile economy.
  - The design of the economic strategy must explicitly act as a very forceful counter to the employment and poverty effects of covid responses. That means supporting industries, but it may also mean re-weighting and re-directing effort to areas of opportunity.
  - This crisis hits at fiscal revenue and lifts spending pressure.
  - Digitisation is accelerating globally. Countries and populations that are not keeping up will be left even further in behind. In SA this will lead to deeper inequalities. The process of ensuring universal access to affordable broadband and digital public services has become even more critically important and should be prioritized.
- Covid-19 era attacks employment in a country that started with 30% official unemployment. There are four unique characteristics of the Covid-19 health response that require special attention in an economic response plan.
  - The special character of the Covid-19 is that it limits labour-intensive industries that happen to also have significant supply chains.
  - It accelerates structural change towards digitalisation and diminished use of labour in the production process.
  - The people who work are the same ones who live in dense urban communities, and whose children return to school. The prevention response has to deliver to these three spheres.
  - The movement of people is constrained locally, regionally and globally.

COVID-19 AFFECTS THE ECONOMY THROUGH VARIOUS CHANNELS



The COVID-19 pandemic:

- Infections reduce labor supply.
- Quarantines, regional lockdowns, and social distancing—which are essential to contain the virus curtail mobility, with particularly acute effects on sectors that rely on social interactions (such as travel, hospitality, entertainment, and tourism etc.).
- Workplace closures disrupt supply chains and lower productivity. Layoffs, income declines, fear of contagion, and heightened uncertainty make people spend less, triggering further business closures and job losses.
- There is a de facto shutdown of a significant portion of the economy.
- Health care expenditures necessarily rise sharply above what had been expected. These domestic disruptions spill over to trading partners through trade and global value chain linkages, adding to the overall macroeconomic effects.

CONTEXT: COVID-19 IMPACT

DIVERSE FORECASTS OF IMPACT OF COVID 19 ON THE LOCAL ECONOMY

2020 GDP Estimates for South Africa

	IMF	JP Morgan	OECD	National Treasury	World Bank	Nedbank	BER	SARB	Moody's	IDC	Average
2020 GDP Estimates for South Africa	-8,0%	-7,7%	-7,5%	-7,1%	-7,1%	-7,0%	-7,0%	-7,0%	-6,5%	-6,3%	-7,1%

-7.1% **This average represents the largest contraction in local GDP since World War 2!!**

- Current estimates of South African growth in 2020 across 10 major local and international institutions suggests the local economy will contract between a range of -5.4 % to -7.7%, an average of -7.1%.
- Current high frequency data indicates the following:
  - Declining Revenue collections : NT/SARS project R285 billion tax shortfall
  - Decline in Trade and investment : Exports down R50.43bn and Imports down 12.87bn (vs April 2019)
  - Increase in unemployment CCMA Referrals: over 80,000 YTD, half of which in the last two months
  - 1.6 million jobs to be lost in 2020 according to Nedbank projections
  - NT project 2.7million-7 million job losses
  - NIDS CRAM survey suggest a loss of 3 million jobs between Feb and April 2020

IMMEDIATE SUPPORT & RELIEF TO PROTECT AND PRESERVE

IMMEDIATE SUPPORT TO PROTECT AND PRESERVE

PEOPLE

2030 NDP

1

Wage and employment support

- Currently the Covid19TERS is the most significant intervention. It offers wage support for firms and employees that have temporarily closed. It reached 321,110 employers and 3.64m workers with R18,769bn paid in April. This is about 30% of formal sector workers. By mid-June a further 83,026 employers, 1 m workers were paid R4.344bn. It was meant to be paid for 3 months, and requires a monthly application.
- As firms return to work, wage support could pivot to an expanded ETI. Continued support will be needed to encourage continued employment in a context where firms will be under continued pressure to cut back on employment and labour time. This will be especially so in respect of youth.
- Incentives for work-sharing and short time compensation to slow down retrenchments

2

Loan bridging finance

- By late July, the banks had approved R12bn of loans using the loan guarantee finance scheme. In addition, also by late June, the banks had on their own accord provided R12bn of voluntary debt relief to over 100,000 SMEs and R16.5bn to individuals. The SARB earmarked R200bn with a state guarantee. Treasury will revise the scheme's rules to include all businesses and also offer a 'business restart' option

3

Determine special help for labour intensive industries that are especially damaged

- Some industries will be slow to restart. Tourism and hospitality, restaurants, events, cinemas, and cultural industries are examples. These activities employ millions of people and have extensive supply chains into food, manufacturing, agriculture, transport, and other activities that also employ millions of people
- An approach to supporting these industries must be found so that they are able to sustain, rebound and contribute to future economic development and transformation. This support will, at a minimum, need to ensure that related infrastructure and critical capacity is not lost

IMMEDIATE SUPPORT TO PROTECT AND PRESERVE: MACRO-ECONOMIC

Monetary Policy Measures, these include but are not limited to;

i. Drastic monetary expansion through reduction of interest rates
ii. Financial-sector regulations have been eased to support the flow of credit to households and businesses, and commercial banks have introduced temporary payment holidays
iii. the SARB has sought to support financial-market functioning by (1) expanding accommodation to banks through new lending facilities, with uptake peaking at around R85 billion in March;
iv. purchasing government bonds on the secondary market, to ensure orderly market functioning, with purchases totalling R11 billion as of April; and
v. releasing capital buffers for banks, to keep credit flowing to the real economy.

Fiscal Policy Measures, these include but are not limited to;

i. Increased government spending to prevent, detect, control, treat, and contain the virus, and to provide basic services to people that have to be quarantined and to the businesses affected,
ii. Wage subsidies to people and firms to help curb contagion - UIF
iii. Expansion and extension of transfers and grants —both cash and in-kind, especially for vulnerable groups
iv. Tax holidays and tax relief for people and businesses and vulnerable sectors
v. Spending was adjusted by:
   - Removing funds underspent due to delays caused by the lockdown from the baselines of affected departments.
   - Suspending allocations for capital and other departmental projects that could be delayed or rescheduled to For later.
   - Suspending allocations to programmes with a history of poor performance and/or slow spending.

SOUTH AFRICA'S ECONOMIC RECOVERY PLAN

South Africa requires a new beginning. We need a renewed commitment to guide our economic policy.

This must focus on the significant expansion of productive employment opportunities for the South African population.

To be successful – and to transform the lives of our people - private sector economic activity needs to be unleashed, and its business models directed at significant employment creation, just as state capability needs to be significantly improved.

The key missions that will drive this new arrangement is the reconstruction and economic recovery through the following priorities:

PHASES OF SOUTH AFRICAS ECONOMIC RECOVERY PLAN

PHASE 1: ENGAGE & PRESERVE

- The current recovery plan is about saving lives first.
- It is also about saving distressed households, firms and jobs. Our approach emphasizes both the economic and the social aspects
- Massive health care response,
- Targeted support to employment preservation, SMEs, vulnerable households, firms and financial system,
- Ensure social stability
- Ensure food security
- Engage social partners to drive recovery agenda on key policy initiatives underway

PHASE 2: RECOVER & REFORM

- Restart economy while controlling health risks to avoid a total collapse in employment, investment and production,
- Support for households, firms and financial system continues – augmented by efforts to raise investment and employment,
- Fiscal reprioritization towards productive activities and in support of social obligations
- Strengthen SME supply chain inclusion
- Economic , SOE , Strategic sector reform package focusing on boosting industrial and trade competitiveness

PHASE 3: DEVELOP & TRANSFORM

- Energy sector reform and energy security,
- Scale financial inclusion
- Roll out large scale infrastructure investment,
- Prioritising social and network industries, infrastructure i.e. (water, roads , rail and ports)
- Education and skills development
- Employment and job creation incentives
- SOEs reform
- Cutting red tape and "ease of doing business" bottlenecks

Stabilise Macro-Economic Environment

Achieve Food Security

Drive Industrialisation Focus on Downstream Value

Ensure Energy Security

Improve Infrastructure Delivery

THE ECONOMIC RECOVERY PLAN PRIORITIES/ENABLER

Priorities / enabler	Phase 1: Protect, Engage & Preserve	Phase 2: Recover & Reform	Phase 3: develop & transform
Energy Security	• Reliability of energy supply & Minimisation of load shedding through a maintenance focus • Implementing price and market regulatory changes to increase usage of LPG as an alternative energy source for heating and cooking, • Issuing a request for qualification on the gas-to-power programme • Enabling generation for own use.	• Separating and unbundling Eskom to eliminate cross subsidisation • The implementation of the Integrated Resource Plan to ensure the diversification of South Africa's energy sources.	• **LNG Import Architecture and Partnership** • **Gas to power programme** • **Prepare for Nuclear Build Programme** • **Grow State Share in Petrol In the IEA estimate for 2020, global electricity demand falls by 5% and low-carbon sources would far outstrip coal-fired generation globally, extending the lead established in 2019.eum Sector**
Thriving industrial base that creates jobs	• Support for local manufacturing • Continued support for firms and households in distress • Strengthen SMME and cooperatives support • Special help for labour intensive industries that are badly affected	• Resolve uncertainties such as land rights, digital migration, mineral rights, etc. • Sector stimulation and support, with special focus on labour absorbing industries. • Employment and job creation incentives (ETI) • Cutting red tape and "ease of doing business" bottlenecks	• Special support to labour absorbing sector development • Innovation • Regional and global trade • Review trade arrangements and commercial diplomacy with strategic markets • Innovate to bring Covid-19 targeted labour intensive sectors back to life asap • Deepen localization efforts • Deepen financial inclusion
Public Employment Programmes (PEPs) that build communities	Build and maintain community infrastructure Invest in the environment and a circular economy Strengthen education support Support ECD and community health Invest in the creative and cultural sector Create employment by enhancing food security	• Dramatic expansion in PEPs • Scale up and replicate ZIBAMBELE	• Skills development • Public investment in employment in the creative and cultural sector • Support the "COVID Class" of 2020 graduates • Investment in environmental restoration and ecological services • A War of waste

THE ECONOMIC RECOVERY PLAN PRIORITIES/ENABLER

Priorities / enabler	Phase 1: Protect, Engage & Preserve	Phase 2: Recover & Reform	Phase 3: develop & transform
Infrastructure to meet NDP 2030	• Accelerate implementation of shovel ready infrastructure projects • Review of regulatory impediments to increasing private sector investment in public infrastructure • Facilitate implementation of the priority projects identified through the SIDS process	• **Implement NPC recommendations with state procurement and project oversight** • **Rebuild the SA construction sector** • **Infrastructure SOE governance addressed** • **Encourage private investment through REIPP IPPs, concession rail and ports and similar; strengthen PPP framework** • **Maintenance, refurbishment of public buildings and roads** • **Digital migration**	• Energy and transport sector reform • Bulk water • Roll out large infrastructure investment • Broadband • Develop an National Infrastructure Plan and related pipeline
A pathway to fiscal & financial health	• Restore revenue collection capacity • Drastic monetary expansion through reduction of interest rates • Easing financial-sector regulations to support the flow of credit to households and businesses • Temporary payment holidays • Wage subsidies to people and firms through UIF • Expansion and extension of transfers and grants	• **Review Employment tax incentive:** SARS and NT could possible review employment tax incentive to vulnerable sectors and small business • **Review VAT progressivity to assist food insecure and vulnerable households**	• Tax holidays and tax relief for people and businesses and vulnerable sectors
A population that is equipped to deliver	• **National Skills Fund Strategic Focus** • **Provide mobile data for remote learning**	• Post-School Education and Training (PSET) as a labour market intervention	• Strengthening innovation through a resilient communications and Digital Economy • Labour Market Intelligence

THE ECONOMIC RECOVERY PLAN PRIORITIES/ENABLER

Priorities / enabler	Phase 1: Protect, Engage & Preserve	Phase 2: Recover & Reform	Phase 3: develop & transform
A state with capacity to deliver	• **Strengthen accountability of economic ministers and executive management to economic outcomes**	• Stabilise political-administrative interface • SOE performance and governance • Strengthen accountability systems • High culture of weak accountability and consequences. • Strengthen the capacity to deal with revenue and expenditure leakages	• Infrastructure SOE reform • Build capacity for labour market services • Build capacity for digital transformation • Build local government capacity • Build capacity to deliver infrastructure • Build capacity to promote global and regional trade and investment • Build capacity to mobilise domestic financial resources
A social compact for fair & sustainable choices & trade-offs	• Initial shaping of agreement on critical choices and trade-offs • Retain and expand Social Security measures • Promoting active citizenry to strengthen development, democracy and accountability. • Encouraging strong leadership throughout society to work together to solve problems.	• Sectoral social compacts • Progressive fiscal policies that ensures a safety net for the most vulnerable and economic excluded • Programme towards building a more inclusive work place • strengthening partnerships with business, civil society and trade unions to a greater commitment to promote inclusive growth and address the barriers that constrain it.	• Ensure an enabling environment to support existing, and incubate new businesses • Review system of social benefits and current Employment Equity framework and build enhanced programme for equitable workplace • Broaden participation of social partners • Improve South Africa's investment attractiveness • Deal with the wage gap on Executive Pay
Tourism Support	• Tourism & Hospitality • The Tourism Relief Find and the Tour Guide Fund • Launching an investment and market-entry facilitation programme to stimulate capital investment	• Cooperation with neighbouring destinations towards a regional value proposition • Develop market access tool for distribution, link with the green economy initiatives	• Transforming the tourism institutional architecture to deliver efficient, effective and purpose-led support • SMME funding in the tourism sector will be increased

THE ECONOMIC RECOVERY PLAN PRIORITIES/ENABLER

Priorities / enabler	Phase 1: Protect, Engage & Preserve	Phase 2: Recover & Reform	Phase 3: develop & transform
A nation that is food secure	• Link agro-production and agro-processing clusters to consolidated buying/ group buying programme to meet food requirements for additional social relief . • Ensure more support for emerging and small-scale farmers;	• Review trade policy for agro-processing • Create new small & medium agribusinesses • Reconfigure agro-processing incentive with DTIC • Identify strategic markets in Africa, Asia & Europe with DTIC • Secure market agreements for institutional markets	• Review Agriculture Marketing Act • Invest in agricultural research and new smart technologies; • Establish a sustainable strategy for agriculture to mitigate the impact of climate change; • Address the domination of agricultural inputs by big business and the monopoly; • Domination in agro-processing and food retail that keep out small players;
A South Africa that trades intensely with the continent	• Take advantage of the African Continental Free Trade Agreement • Harmonise road and rail infrastructure into the continent • Expand economic diplomacy to intensify mutual trade • Promoting an active regional industrial strategy that is funded	• Partnerships with other countries to leveraged in areas such as improving efficiencies in South Africa's ports and in expanding markets for products and services provided by South African SOEs. • Coordination in the implementation of specific interregional infrastructure projects such as the Beit Bridge project	**Focus areas: Capital goods**, equipment and industrial inputs particularly used in infrastructure projects, mining, agriculture, the green economy and digital infrastructure **Construction-driven** value-chains, such as cement, steel, piping (plastic and steel), engineered products and earth-moving equipment **Transport rolling stock**: automobile and rail assembly and component production, in preparation for the African Continental Free Trade
• **A Green economy that guarantees the security of energy, food & water.**	• Waste recycling, beneficiation and the transition to a circular economy • Develop market access tool for distribution, local beneficiation and export potential of ash, gypsum, slag and biomass • **Waste picker integration** and revitalization of buy-back centres and	• Increased issuing of green infrastructure bonds as a critical step in reducing carbon footprint • secure the funding of infrastructure at concessional cost • Intensive use of green climate finance to fund the just transition towards a greener future	• **Rehabilitation and restoration** of the ecological infrastructure in key Strategic Water Source Areas (SWSAs), including Ecosystems, Wetlands, and forests • Use the Extended Producer Responsibility (EPR) schemes to divert waste from landfill sites in: the industries paper and packaging, batteries, lighting, e-waste and waste tyres

THANK YOU
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