

## Box 2 South Africa's fiscal response to COVID-19<sup>1</sup>

The COVID-19 pandemic plunged the world into both a health and economic crisis at a time when the South African economy was already struggling. This required government support to uphold economic activity and livelihoods, while maintaining fiscal sustainability.

Government responded by introducing a national lockdown in South Africa as from 27 March 2020, to enhance health preparedness. This was followed by the announcement, on 21 April 2020, of a fiscal support package of revenue and expenditure measures as well as loan guarantees amounting to R500 billion (about 10% of nominal gross domestic product (GDP)) to support households and businesses to recover and resume economic activity.

The proposed fiscal stimulus package comprised both expenditure reprioritisation and borrowing. The temporary fiscal measures are intended to support healthcare spending, low-income households, small- and medium-size businesses and municipal services such as emergency water supply, to assist with sanitation, public transport and the provision of food and shelter for the homeless. Some of the main tax relief measures introduced to assist businesses and individuals include:

- a skills development levy holiday;
- fast-tracking of outstanding value-added tax (VAT) refunds;
- a delay in the filing and first payment obligation of carbon tax liabilities;
- a deferral of excise taxes on alcohol and tobacco;
- an increase in tax compliant businesses' gross income threshold for automatic tax deferrals and an increase in the proportion of tax to be deferred; and
- an increase in tax deductions on donations.

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<sup>1</sup> For a detailed discussion, see Economic Measures for COVID-19 at [http://www.treasury.gov.za/comm\\_media/press/2020/20200428\\_COVID\\_Economic\\_Response\\_final.pdf](http://www.treasury.gov.za/comm_media/press/2020/20200428_COVID_Economic_Response_final.pdf)





## Fiscal support

	R million
Credit Guarantee Scheme	200 000
Job creation and support for small and medium enterprises and informal business	100 000
Income support (tax deferrals, skills development levy holiday and employment tax incentive extension)	70 000
Support to vulnerable households for six months	50 000
Wage protection (Unemployment Insurance Fund)	40 000
Health and other frontline services	20 000
Support to municipalities	20 000
<b>Total</b>	<b>500 000</b>

Source: National Treasury

The composition of the funding structure of the fiscal support package is such that the loan guarantee scheme of R200 billion does not have an immediate fiscal effect,<sup>2</sup> while R130 billion is sourced from the reprioritisation of the current budget and R75 billion from drawing down surplus funds of institutions such as the Unemployment Insurance Fund (UIF). The intention is to obtain the balance from international financial institutions such as the International Monetary Fund.

## Funding

	R million
Credit Guarantee Scheme	200 000
Baseline reprioritisation	130 000
Borrowings from multilateral finance institutions and development banks* for business support, job creation and protection	95 000
Additional transfers and subsidies from social security funds	60 000
Available funds in the Department of Social Development's 2020/21 appropriation	15 000
<b>Total</b>	<b>500 000</b>

\* International Monetary Fund, World Bank and the New Development Bank

Source: National Treasury

The announcement, on 13 May 2020, of further relaxing the lockdown regulations would support the gradual resumption of economic activity. Government intends to return to the path of fiscal consolidation as soon as possible, as set out in the 2020 Budget.

<sup>2</sup> Technical annexure of Economic Measures for COVID-19, page 2. See [http://www.treasury.gov.za/comm\\_media/press/2020/20200428\\_COVID\\_Economic\\_Response\\_final.pdf](http://www.treasury.gov.za/comm_media/press/2020/20200428_COVID_Economic_Response_final.pdf)