MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

MINISTER'S REMARKS FOR 14 APRIL 2020 MEDIA BRIEFING

Check against delivery.

Final will be posted on the Website..

Introduction

The COVID-19 pandemic is one of the greatest challenges that has ever faced our nation.

It is three simultaneous shocks. It is a health shock, which will stretch the resources of our health care system to its limit. It is a global economic shock, which will substantially reduce global growth and consequently external demand, and it is a domestic economic shock, because our domestic policies will reduce economic activity, both from a demand side and a supply side.

In situations such as this, we know that the health and lives of our fellow South Africans must come first. An out-of-control pandemic would hit the economy extremely hard.

It is increasingly clear that, led by our President, we have chosen the right path.

The figures presented by the Minister of Health and his team yesterday show that we are indeed 'flattening the curve'. Across the world, As of 10.30 am this morning, globally there have been 1.9 million coronavirus cases, and 119,806 deaths. 453,308 people have recovered.

In South Africa, we have kept cases down and deaths down.

Our curve is not rising exponentially, indeed at this point it has a welcome kink.

President Ramaphosa has extended the lockdown by a further two weeks until the end of April. We continue to reiterate pleas calling on all South Africans to stay at home unless it is necessary for them to be outside.

The health of our people, and their lives, must come first. But we must also ensure that we protect their livelihoods.

The economic outlook

Our health approach to this lockdown is 'data-dependent'. Similarly, our economic response will be data-dependent, and we will evaluate and update our response on a continuous basis.

A short while ago, the Monetary Policy Committee reduced interest rates by a further 100 basis points. Their flexibility, and willingness to act speedily is similar to the approach of many other central banks.

Going into this health care crisis, the economy was already in recession. Without doubt, given what we know since February, COVID-19 will certainly further deepen the South African downturn woes.

Our internal scenario planning has mapped out the economic impact of different lockdown scenarios, together with the consequent different paths for the fiscal deficit, for government borrowing and for the fiscal response.

At this stage, our central scenario is for a deep recession in 2020, followed by a rapid upswing in economic growth.

Critically, the path relies on an understanding of how the global economy will adjust.

We are in constant conversation with the teams at multilateral bodies, domestic and local economists, and of course the South African Reserve Bank. We are also monitoring domestic and global high frequency data to ensure that we understand as well as we can the ongoing evolution of the economy. Our sophisticated banking and payment system provides us with near real time payment data. This shows a substantial fall in transactions in retail, hospitality and food and drink. There was a spike in activity in food (and alcohol) sales prior to the lockdown, and in the first weekend of the lockdown, but these have now settled. In addition, there was large ATM activity in the first weekend, but now things have normalised.

This provides inputs into our forecasting process. The forecasts we have been receiving so far vary from the optimistic to the deeply pessimistic.

On the relatively optimistic side, the Organisation of Economic Cooperation and Development (OECD) has highlighted that economic growth in South Africa will shrink by less than other emerging markets, in part because South Africa is not a net oil exporter.

The International Monetary Fund's April 2020 World Economic Outlook will be released later today. Current estimates from the IMF show global growth contracting this year by about 2.9%. For South Africa, their initial estimate was for an economic contraction of 5.8 per cent. Other estimates vary.

The most recent official sector forecast is that issued by the South African Reserve Bank a few minutes ago. The Bank expects GDP in 2020 to contract by 6.1%, compared to the -0.2% expected just three weeks ago. GDP is expected to grow by 2.2% in 2021 and by 2.7% in 2022.

The Bank' s headline consumer price inflation forecast averages 3.6% for 2020, 4.5% for 2021, and 4. 4% in 2022. The forecast for core inflation is lower at 3.8% in 2020, 4.0% in 2021, and 4.2% in 2022.

But like I have alluded to in the past, every crisis is an opportunity for us to address our problems and challenges.

The pandemic, and the response to the pandemic, will cause major disruptions to global supply chains. Lockdowns in many countries will reduce consumption, and consequently global demand. This will reduce our exports. Global growth has been revised sharply lower. Our economy is also highly dependent on services, particularly tourism. These will be affected by the global travel ban. These are only two examples of how we will be affected by a complex and unfolding global emergency.

As a small open economy we regularly experience external shocks. For this reason, we have chosen a flexible exchange rate, and monetary policy that is anchored by an inflation target.

This approach has served us well in the past, through many crises, and it is serving us well at present.

In line with the experience of other emerging markets – and similar to other shocks we have experienced in the past – the exchange rate has depreciated significantly and bond yields have risen. Despite historic levels of volatility, the National Treasury has continued borrowing in the domestic market, albeit at record high yields. Due to Treasury's prudent long-term borrowing strategy, these higher yields will only slowly feed through into higher borrowing costs. In addition, Government has significant cash buffers available. These can be deployed should there be a significant prolonged disruption in markets.

PHASE 1 OF THE ECONOMIC POLICY RESPONSE

When the lockdown was announced, we acted immediately to announce a set of Phase 1 economic measures.

These included:

1. Immediate release of fund to where they were needed

2. An Instruction Note 8 of 2019/20 applicable to Public Finance Management Act (PFMA) institutions and a Municipal Finance Management Act (MFMA) Circular 100 for municipalities and municipal entities, **to speed up the procurement of goods/commodities required to reduce and control the spread of the virus.**

3. A first set of **exceptional tax measures as part of the fiscal package.** These measures are over and above the tax proposals made in the 2020 Budget on 26 February 2020. The tax adjustments are made in light of the National State of Disaster and due to the significant and potentially lasting negative impacts on the economy from the spreading of the COVID-19 virus.

4. The Office of the Auditor General announced **a conditional Exemption Notice in order to ensure effective and efficient service delivery and to minimise any potential delay in decision making**. The conditional Exemption Notice will also facilitate and enable legislative processes during the period of the national state of disaster.

All these measures are available on the National Treasury's website.

Banking and finance market interventions

The banking and finance industry have also taken a steps to help ease the impact of COVID-19

South Africa has a safe, sound, well-regulated and resilient financial sector. We have deep and liquid markets. Since the global financial crisis, we have taken steps to strengthen the banking system, including increasing capital, improving liquidity and reducing leverage. As a result, the banking and financial system is particularly resilient.

To support the real economy, the following steps have been taken by the South African Reserve Bank:

1. In line with its Constitutional mandate, the South African Reserve Bank cut the repo rate initially by 100 basis points and an additional 100 bps a short while ago. This will put money straight back into the economy.
2. The Bank has also proactively provided additional liquidity to the financial system. This includes purchasing of government bonds in the secondary market to ensure that there is sufficient liquidity in the government bond market.
3. Regulatory requirements are expected to release lending of up to R550 billion into the economy, including a reduction in capital requirements of R30.7 billion in capital and a reduction in liquidity requirements. In addition, up to R3 trillion in total exposures will benefit from changes to rules around restructuring.
4. Guidance to reduce dividends and bonuses will ensure that banks use capital wisely.

As the President highlighted in his address, Many large institutions have used force majeure to stop paying suppliers. Those who can, should continue to pay (on top of salaries) their suppliers and rentals, to ensure that the underlying economy continues to function and to focus support on those small businesses that really need them. The measures we have announced will assist with cash flow, the aim is to maintain productive capacity, and income for employees.

Banking

In the spirit of working together with Government, the largest banks have announced a number of measures to help their customers, including Instalment reductions, interest and fee deferrals, extension of loan terms, processes to help qualifying customers access debt relief packages like the South African Future Trust and government SME relief schemes, fee waivers and other relief efforts.

Insurance

Insurance companies have made a number of interventions. These vary across different companies, such as:

- Premium holidays and premium deferrals on a case by case basis
- Paying suppliers in shorter periods to assist with improved cash flow in the system.
- Pre-payment of claims or parts thereof before final assessment and increasing the “grace” period for premium payment.
- Business interruption claims due to COVID-19 to be considered on a case by case basis, and working on clear guidance on how pandemic exemptions will work

- Reduced excesses; and
- Leniencies on missed debits

PHASE 2 OF THE ECONOMIC POLICY RESPONSE

This was only the first phase of our response. In light of our data-dependent approach, we are working tireless to develop an a phase 2 set of interventions.

Most importantly, the crisis is an important opportunity for government to implement structural reforms to: Restructure the network industries; Liberate SMMEs to be the engines of growth and employment; and Broad-based measures to lower the cost of doing business.

We will naturally revise our fiscal framework to take into account the effect of COVID-19 on the fiscus. There are a number of elements to our fiscal response:

1. Putting forward clear estimates of the additional health care costs that will be needed
2. Reprioritising unnecessary expenditure towards these health care costs
3. The impact of slowdown on our projections for revenue
4. It should be costed as much as possible (how much is needed?);
5. It should be temporary (clear timeline of 1 year);
6. It must be crafted as a 3rd line of defence for the vulnerable
7. A clear timetable or plan to stabilize debt over the current forecast period
8. Supported by an economic recovery plan (structural reforms) and a set of reforms within the fiscal system e.g. passing the RABS (road accident benefit scheme), consolidation of public entities and closure of SAA and SAX

Together with my colleagues in the economic cluster, have put together a few proposals on how we can further grow the economy. These will announced shortly. Amongst the measures we are looking is expanded support for SMME lending through the banking system, similar to in other countries.

Government, through National Treasury, is exploring all funding avenues to finance all Covid-19 related programmes and measures aimed at addressing the pandemic. The funding avenues will not be limited locally, but will include exploring all global partners and international finance institutions. Funding transactions will be announced officially once concluded.

Going back to opportunities emerging from this crisis, we as government have reiterated, the commitment to implement structural economic reforms to address the weak economic growth, constrained fiscus and ailing state-owned companies.

The Covid-19 pandemic and measures taken to address its spread have had a substantial negative impact on economic growth and government's fiscal position.

The Pre-existing fiscal position was precarious, and we must ensure that whatever we do does not harm our long-run fiscal sustainability. The fiscus' ability to respond to crisis is weak.

The 2020 Budget was already mildly expansionary and supportive of growth. In particular, the fiscal consolidation path was designed to strengthen our fiscal health. Fiscal health is a necessary, but not sufficient condition, for sustained growth.

Several priority areas were growing at above inflation rates including capital spending.

Nevertheless, given the current crisis, a higher deficit may be accommodated if it is a) temporary and b) if reprioritized spending is directed towards crisis (health) response, and direct fiscal support to the most vulnerable.

The other parts of the package involve the drawing down of existing surpluses (e.g. UIF) or increasing the contingent liability of government (guarantees)

But it is absolutely critical , now more than ever, to focus on raising long-run growth.

Beyond the Covid crisis, a major risk facing the economy and the fiscus is if long-run economic growth returns to the pre-crisis averages of between 1 to 2 percent. Higher levels of economic growth need to become a non-negotiable objective.

In the absence of urgent structural reforms, the considerable fiscal actions to mitigate the current crisis may leave the fiscus on at the edge of a cliff. For example, we must, without any hesitation, act to implement the President's announcements on electricity, and rapidly work to implementing the range of reforms that we had already

Let me stop here, and hand over to Mashudu to take your questions.