24. Extraordinary COVID-19 social support programs in South Africa yield economic benefits during the pandemic period

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Since the onset of economic downturns caused by the COVID-19 pandemic, many countries have struggled with uneven recoveries across sectors, as some types of workers and industries were better able to resume their activities than others. Even in the best-case scenarios, recovery would have been precarious, but the spread of new virus variants has cast doubt on the hopes for rapid reopening and recovery, especially for low- and middle-income countries with low vaccination rates.

South Africa experienced a third wave of COVID-19 infections in mid-2021, driven by the Delta variant's strong transmissibility. This was accompanied by renewed restrictions on movement and economic activity. In addition to the third wave, civil unrest in July 2021 further disrupted recovery. Coping with these challenges and encouraging a strong recovery will require policies that support vulnerable populations.

In a recent discussion paper, we outline the results of a detailed social accounting matrix (SAM) modeling exercise on the near-term economic impacts of extending social support programs in South Africa — finding such action can lead to greater GDP growth, among other outcomes.

South Africa's economic growth was sluggish, and unemployment and poverty were high, even before the pandemic. Following extensive restrictions to contain the spread of COVID-19, GDP fell by 17.8 percent year-on-year in the second quarter of 2020. Economic activity improved in subsequent quarters as lockdowns were eased.

While improved from 2020, South Africa remains in a deep recession by historical standards. The Delta variant-driven third wave that began in June 2021 prompted the government to reintroduce restrictions at a higher alert level. This situation, alongside civil unrest in two major provinces, led to some backsliding, with GDP in the third quarter of 2021 still around 3 percent lower than at the beginning of the pandemic. By the end of 2021, less than 40 percent of adults were fully vaccinated.

As part of its pandemic response, the government implemented aggressive intervention policies to support the incomes of vulnerable groups such as children, the elderly, and disabled people. It increased the levels of existing social grants and introduced a temporary Social Relief of Distress (SRD) fund to support unemployed people not covered by other social grants or unemployment

insurance. The government was able to do this relatively quickly, as the infrastructure for disbursing grants was already in place. However, top-ups to existing grants ended in October 2020, while the SRD grants were discontinued in April 2021. Thus, vulnerable households entered the new lockdown with a smaller safety net. Almost one-fifth of households in South Africa report social grants to be their main source of income. Household-level surveys (the NIDS-CRAM studies) show that household and child hunger remain elevated a year after the pandemic started. The SRD grant was reinstated for eight months, from August 2021 to March 2022, to help mitigate food insecurity and poverty.

We analyze the impact of extending income support to vulnerable households through the third quarter of 2021, focusing our analysis on two alternative interventions. In the first, we consider a continuation of SRD support and COVID-19 supplements to social grants for a full year through September 2021 (full intervention). In the second, we consider a continuation of SRD support alone (reduced intervention). We also consider three funding mechanisms: an increase in government debt; increasing taxes on high-income households; and reallocating funds from regular government spending.

Our SAM multiplier model for South Africa uses a starting point that captures the impacts of the economic fallout during the first six months of the pandemic. The method captures transactions of various commodities by different types of users, such as industry and households, along with other factors. The detail included in the data is comprehensive at both broad industry and household decile levels, allowing some distributional analysis.

As shown in Figure 1, the full intervention, funded by increasing government debt, adds 2 percent to GDP. Sectors in food and clothing supply chains benefit more, given the propensity for poorer households to spend on these items. When the full intervention is financed by raising taxes for the top 10 percent of households, a 0.7 percent increase in GDP is achieved. This comes as higher taxes erode some purchasing power from wealthier households. Still, the net effect on in-year GDP is positive. When funds are redirected to priorities other than current spending, however, the net impact on GDP is a decline of 0.2 percent. A similar impact, albeit smaller, is observed when the reduced intervention is considered. Thus, how income support is financed matters.

Because of the policy focus on supporting lower-income households, these interventions are pro-poor. More than half of SRD grant recipients are in the lowest four deciles, and close to 60 percent of child support grant disbursements go to households in these deciles. Thus, the Palma index, a measure of income distribution – calculated as the ratio of income earned by the top 10 percent to that of the bottom 40 percent – is lower in all scenarios, regardless of financing method (Figure 2). In another scenario, in which income support is targeted toward semi-skilled and unskilled workers instead of lower-income households (wage support), the decline in the Palma index is less sharp. This is because most primary- and middle-school-educated workers fall in the middle of the income distribution.

Notably, we estimate that the anticipated increase in government debt is more than offset by improvements in broader economic activity in most scenarios (the exception is where reducing other government spending is used to offset increases in income support). Thus, in these scenarios, government debt-to-GDP ratios ease slightly, at least over the short term.

FIGURE 1 Net impact on GDP based on two alternative interventions

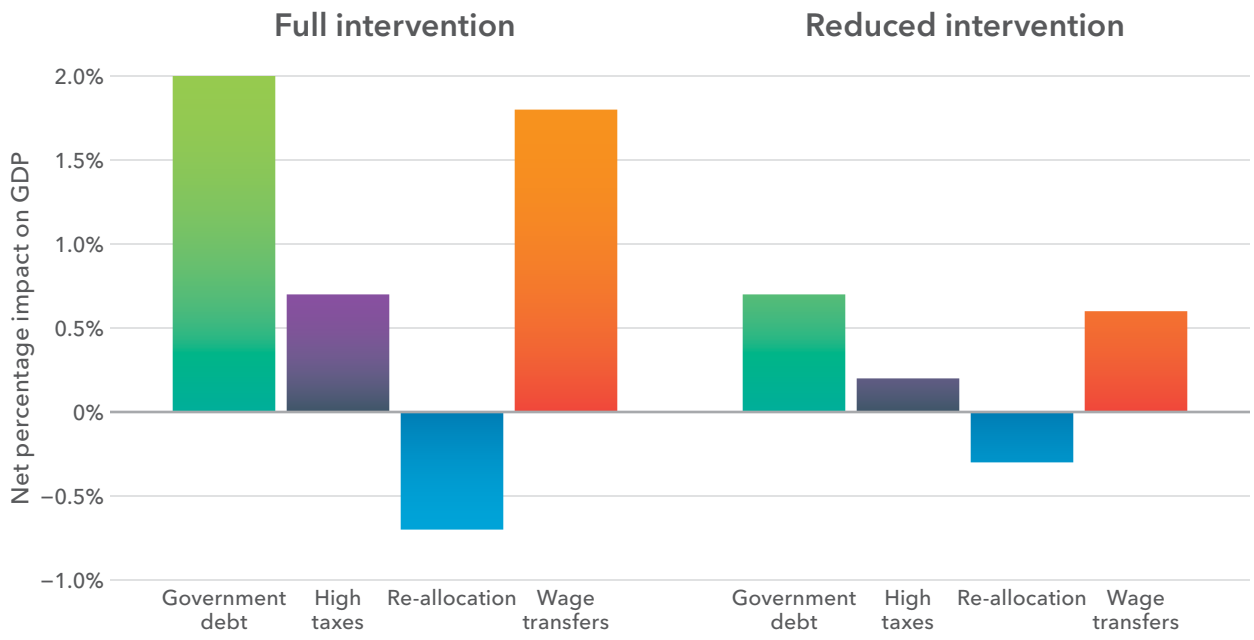
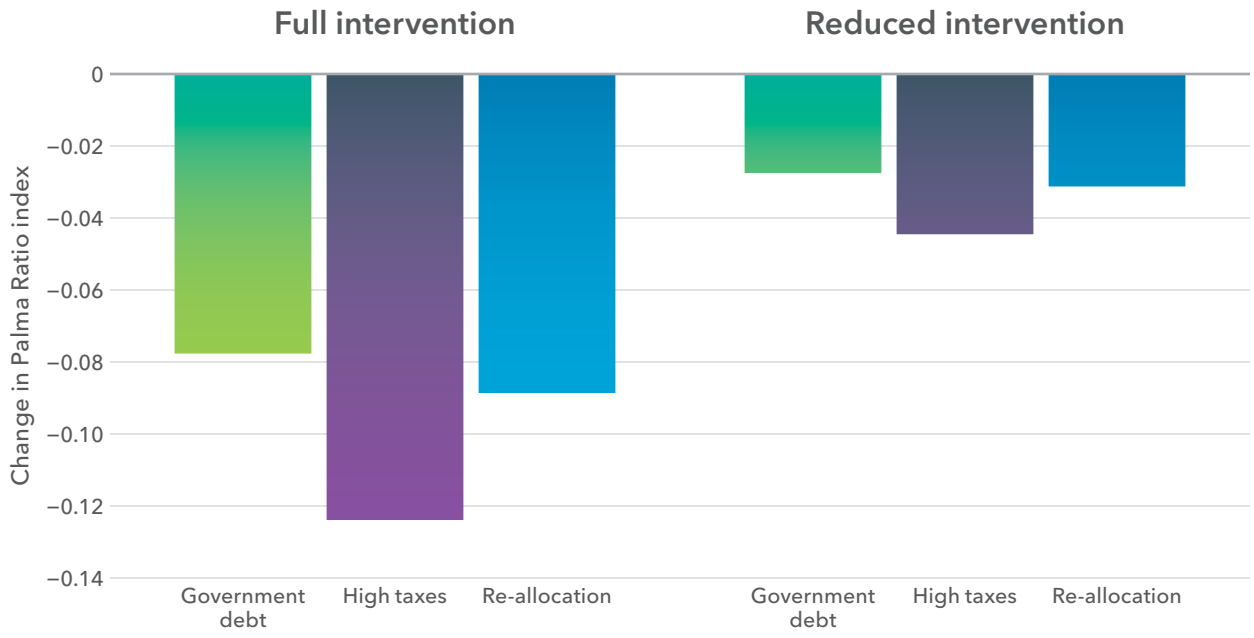


FIGURE 2 Change in Palma Ratio Index based on two alternative interventions



Note: The Palma Ratio is a measure of income inequality, calculated as the ratio of income earned by the top 10 percent to that earned by the bottom 40 percent.

The government's response to the COVID-19 pandemic constrained economic activity and imposed enormous hardship on lower-income households. These results argue strongly for substantial support targeted at these households as a temporary and extraordinary measure during the pandemic period. Although the Omicron variant has been more transmissible than Delta, hospitalization and mortality rates have not been as severe in South Africa. Thus, the government did not increase its restriction level during the fourth wave of infections. With continued strong efforts to vaccinate the population and a bit of luck (for example, no further new variants that fully evade the vaccine), pandemic restrictions on economic activity should loosen considerably in 2022. This should be the approximate duration of any additional extraordinary support to households.

Looking further ahead, South Africa's policy focus should shift from temporary support for households toward facilitating fairer and more sustainable long-term economic growth with fewer structural impediments. This requires different analytic approaches and different policy solutions. Further analysis, including longer-run perspectives, international perspectives, and further details to the work presented above, can be found on this interactive site.

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