10 September 2020

Covid-19 Financial Relief Update

There has been an increase in the rate of uptake in the Covid-19 Loan Guarantee Scheme, despite demand for credit from the private sector continuing to slow, due to uncertain business conditions, unreliable electricity supply and a weak economy. As a result, at 29 August banks have been able to provide a cumulative R48,04 billion in relief – R33,49 billion in payment breaks and R14,54 billion under the loan guarantee scheme – to South African businesses and individuals who are financially distressed due to the Covid-19 pandemic and national lockdown. The Covid-19 Loan Guarantee Scheme is a partnership between the National Treasury and the South African Reserve Bank (SARB) and commercial banks, which offers enterprises loans to support them until 'new normal' economic activity can resume.

Banks have offered financial relief of R19,48 billion to individuals and of R14,01 billion to commercial and small and medium enterprises. This support from banks had significantly reduced demand for assistance from the Covid-19 Loan Guarantee Scheme. Banks are continuing to offer financial relief to their customers. The bespoke offerings of each bank depends on their risk management policies.

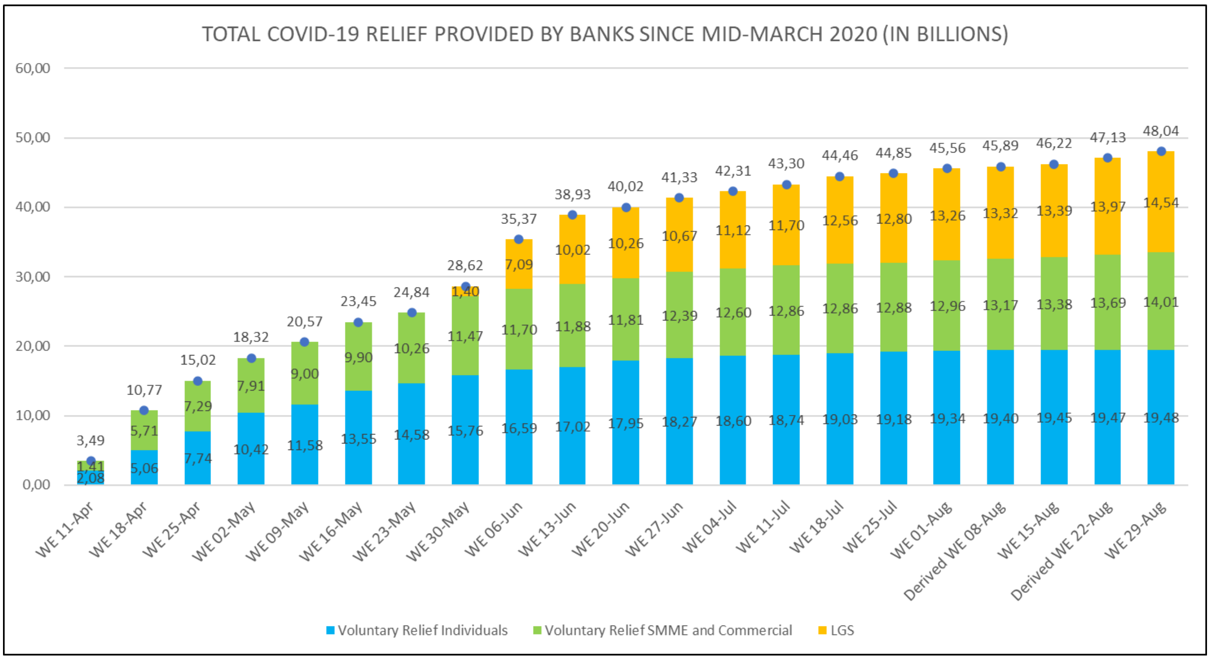
As at 29 August 2019, banks had extended R14,54 billion under the Covid-19 Loan Guarantee Scheme, up by R1,15 billion from 15 August 2020. This is an increase in the rate of uptake from the two weeks to 15 August, when only an additional R136 million was extended.
Since the beginning of August, banks have been granted more flexibility when assessing the ability of businesses to repay their loans as economic activity resumes. The date from which businesses are considered to have been in 'good standing' – having a good record of paying their debt – was also moved back to 31 December 2019, which made more enterprises eligible for the Covid-19 Loan Guarantee Scheme, as the South African economy was in recession well before the onset of the pandemic and the national lockdown.

As at 29 August 2020, participating banks had received 42 202 applications for loans from their clients from the guarantee scheme. The average size of a loan paid out under the scheme is R1,27 million. This means that if all the existing applications for loans were granted, at the average value of R1,27 million each, then the total demand from the scheme would be approximately R53,6 billion. Of all the applications, 25% have been approved by banks and taken-up by businesses, while 37% are in the process of being assessed. Thirty-five percent of applications were rejected because they did not meet the eligibility criteria for the loan, as set out by the Treasury and the SARB or because they did not meet banks' risk criteria. The main reasons, so far, for the rejections was that the businesses were not in 'good standing' or the requested loan value was too high and the repayments unaffordable for the business. Banks along with the Reserve Bank and National Treasury are continuing to review the reasons for the rejection of loan applications, with a view to making the scheme even more accessible, while balancing the risks to taxpayers.

Applications for Covid-19 loans are expected to peak soon, due to the prevailing business and economic conditions. Business owners are reluctant to incur more debt, while uncertain business conditions and a weak economic outlook hamper their ability to generate sustainable income, from which they need to repay their loans. The slow pace of economic reform, an unreliable electricity supply and lack of inclusive growth, with the resulting weak consumer and business confidence, has also reduced opportunities for enterprise and the need for credit. The devastating 51% contraction in the South African economy in the second quarter of this year underlines the desperate need for structural economic reform, sustainable fiscal management and bold political leadership to ensure their successful implementation.

Based on present trends, banks expect to probably extend between R24,41 billion and R43,74 billon in Covid-19 loans to enterprises by January 2021. The Reserve Bank and National Treasury have currently agreed with individual commercial banks to enable loans totalling a maximum of R67 billion under this scheme. The Reserve Bank and National Treasury have announced that the scheme could be extended to R200 billion, if required.

Separately from the loan guarantee scheme, since March 2020 banks have offered payment breaks, worth a combined R33,49 billion, to individuals and small, medium and commercial businesses to help keep them afloat through the lockdown. Over 84% of individuals and 95% of businesses who requested help, received assistance.
The R33,49 billion is the cumulative amount of the monthly instalments for assets and loans, which have been deferred. The aggregate value of the loans affected by this restructuring is R542 billion. This includes R230 billion for home loans, R93 billion for vehicle finance, R69,65 billion for personal loans, overdrafts and credit cards for individuals. It also includes R52 billion in business mortgages, R47 billion in asset-based finance, R28 billion in credit facilities and R19 billion for term loans for businesses. Cash flow relief for eligible individuals and businesses is critical to the preservation of quality of life, jobs, businesses and a functioning economy. These payment breaks are not debt 'write-offs' and interest and fees on credit agreements will continue to accumulate, despite any necessary adjustment in terms.



BASA will continue publishing industry relief data to demonstrate the significant role our members are playing to help their customers and the economy in these challenging times.

For further enquiries please contact:

Naledi Sekoati – Ogilvy South Africa
Cell: 062 768 2522
Email: Naledi.Sekoati@ogilvypr.co.za