

11 November 2020

### **Covid-19 Financial Relief Update**

As at 24 October 2020, banks had provided over R50 billion in financial relief – R33,61 billion in payment breaks on credit agreements and R16,71 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 R33,61 billion voluntary relief initiative that banks offered to individuals and small, medium and commercial businesses for the six months since April 2020, under a special dispensation from the government and their regulators, has since come to an end. Over 83% of individuals and 95% of businesses who requested help, with personal and home loans, vehicle finance, business mortgages and credit facilities, received assistance. This cash flow relief for 2 684 271 credit agreements for eligible individuals and 135 540 businesses was critical to the preservation of quality of life, jobs, businesses and a functioning economy. Now:

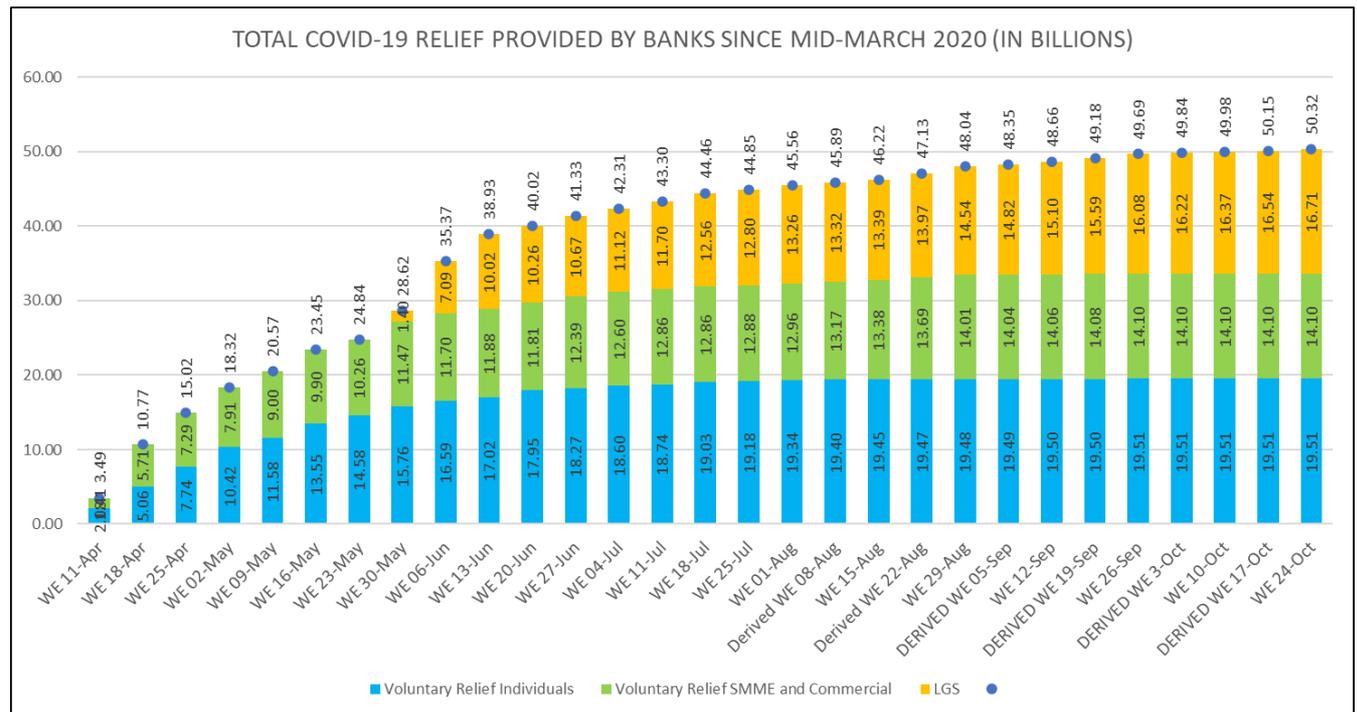
- Those who are obliged to resume repayments of their loans at the end of the deferral period are required to do so. The relief solutions including payment breaks were not debt ‘write-offs’ as banks must continue paying interest to customers who have deposited funds with them and must recover their operating costs to remain sustainable businesses.
- Those customers who are still in distress due to the Covid-19 pandemic and national lockdown should approach their bank for further assistance. It is standard practice for banks to assist customers in good standing experiencing temporary financial distress in the normal course of business. Individual banks can offer their customers tailored assistance, depending on their risk management policies.
- Banks are continuing to provide loans for salaries and other operating and start-up costs to small businesses under the Covid-19 Loan Guarantee Scheme, a partnership between the National Treasury and the South African Reserve Bank (SARB). The scheme does not extend non-repayable grants to companies in financial difficulties.

Since the beginning of August 2020, banks have been granted more flexibility to assess the ability of businesses to repay their Covid-19 loans as economic activity resumes. However demand for the scheme remains below original expectations. Based on present trends, banks expect to probably extend R24,41 billion in Covid-19 loans to enterprises by January 2021, largely due to the prevailing weakness in 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.

Until 24 October, participating banks had received 44 912 applications for loans from the guarantee scheme. Of these, 27% have been approved by banks and taken-up by businesses, while 15% are in the process of being assessed. Thirty-seven percent of applications were rejected because they did not meet the eligibility criteria for the loan, as set out by the Treasury and the Reserve Bank or because they did not meet banks’ risk criteria. The main reasons, so far, for the rejections are that the businesses did not have a good record of paying their debt, 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 more accessible, while ensuring that taxpayers' funds are not exposed to undue risk as a result of loans not being repaid.

Because of the criteria for the scheme and the need to balance protecting taxpayers with sustainable banking practices, banks are unfortunately not able to assist everyone who applied. Those businesses that feel their Covid-19 Loan Guarantee Scheme application was unfairly rejected, can lodge a complaint at the Ombudsman for Banking Services (OBS). The OBS can investigate and adjudicate complaints from businesses, involving amounts up to R10 million.



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