

23 August 2020

Covid-19 Financial Relief Update

Despite uncertain business conditions and a weak economy reducing demand for credit, South African banks have been able to provide a cumulative R46,22 billion – in financial relief and loan guarantees – to South African businesses and individuals who are financially distressed due to the Covid-19 pandemic and national lockdown, up to 15 August 2020.

Banks have voluntarily offered financial relief of R19,45 billion to individuals and of R13,38 billion to commercial and small and medium enterprises. This assistance from banks significantly reduced demand for help from the Covid-19 Loan Guarantee Scheme, which offers small businesses loans to cover their operating expenses, like rent and salaries, until ‘new normal’ economic activity can resume. Banks extended R13,39 billion under the Covid-19 Loan Guarantee Scheme.

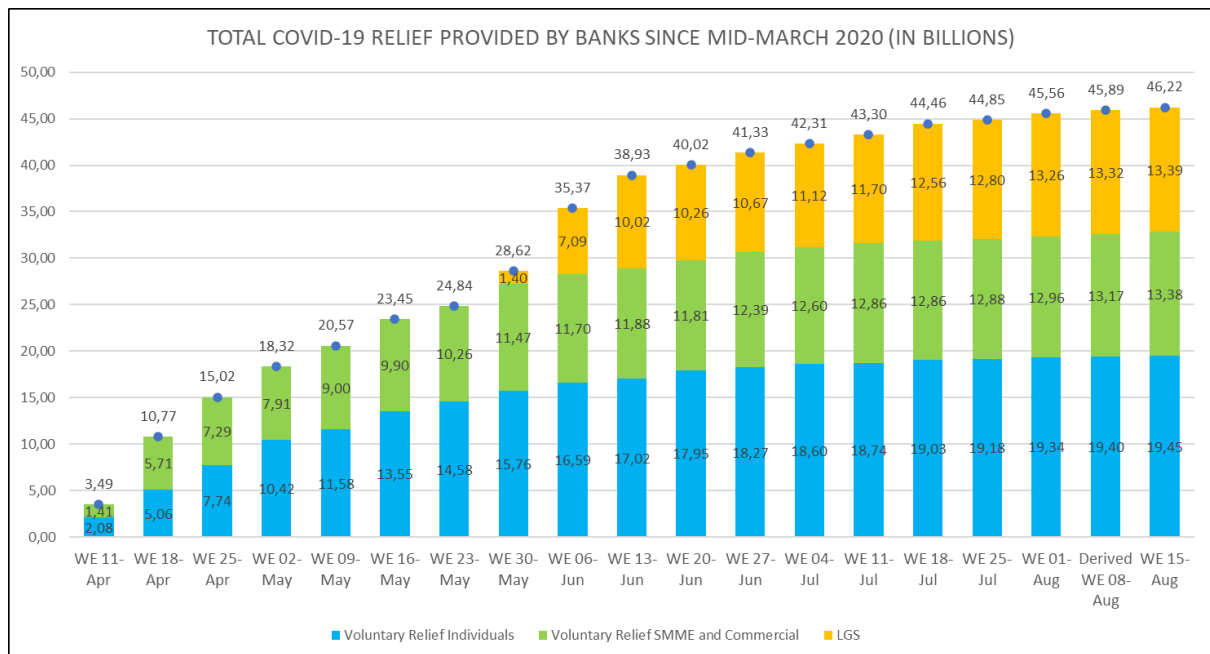
Adjustments to the scheme, designed to make it easier for business to access the loans, have not resulted in a significant increase in the rate of take-up of the available funds. In the two weeks to 15 August, an additional R136 million was extended to commercial and small and medium enterprises, an increase of 1% on the two weeks before. In a meeting with the Minister of Finance last week, banks explained that some owners were reluctant to incur more debt, while uncertain business conditions and a weak economic outlook, hampered their ability to generate sustainable income, from which they could repay the loans.

As at 15 August 2020, participating banks had received 40 292 applications – up by only 615 over two weeks - for loans from the guarantee scheme. Of all the applications, 24% have been approved by banks and taken-up by businesses, while 39% are in the process of being assessed. Nine percent were rejected because they did not meet the eligibility criteria for the loan, as set out by the Treasury and the SARB, and 25% were declined because they did not meet banks’ risk criteria. The average size of the loans under the scheme are R1,2 million. Banks are expected to be reasonably sure that businesses will be able to continue operating once normal economic activity returns, so that the loans can be businesses repaid and taxpayers’ funds are protected. The South African Reserve Bank (SARB) and National Treasury have agreed with the commercial banks, to guarantee R67 billion loans under this scheme. SARB and Treasury have announced that the scheme could be extended to guarantee up to R200 billion. However, demand for Covid-19 loans is expected to peak soon, due to the prevailing business and economic conditions.

Separately from the loan guarantee scheme, since March 2020 banks have offered payment breaks, worth a combined R32,83 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 R32,83 billion is the cumulative amount of the monthly instalments for assets and loans, which have been deferred. The aggregate value of loans affected by the restructuring is R540 billion. This includes R230 billion for home loans, R52 billion in business mortgages and R47 billion in asset-based finance for companies. Cash flow relief for eligible individuals and businesses is critical to the preservation of quality of life, jobs, businesses and a functioning economy. Banks are continuing to offer financial relief to their customers. The offering of each bank depends on their capacity and risk management policies.

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. Some business are expected to opt for support from the Loan Guarantee Scheme once their relief from commercial banks expires.



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.

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