MEDIA STATEMENT

THREE-MONTH EXTENSION OF THE COVID-19 LOAN GUARANTEE SCHEME

The Loan Guarantee Scheme (LGS) was announced by President Cyril Ramaphosa on 21 April 2020 as part of the Economic Stimulus Package and was designed to support small businesses that were experiencing financial distress as a result of the COVID-19 pandemic. The LGS was launched by the National Treasury, the South African Reserve Bank and the Banking Association South Africa (BASA) on 12 May 2020.

As at 27 March 2021, banks had approved 14 827 in loans to the value of R18,16 billion. The total number of loan applications received since the beginning of 2021 to 27 March 2021 is 1 787. Of these, banks approved 511 applications, of which only 97 were taken up by clients.

The end of the Availability Period (the period for draw down of loans) was 11 April 2021 for most participating banks under the guarantee scheme. After further consultation, the National Treasury, the South African Reserve Bank and the BASA have agreed to extend the deadline by three months to 11 July 2021, and in the process to harmonise this deadline for all participating banks. The guarantee scheme will continue to service all loans advanced up to the extended date, for up to five years. The further extension of three months will enable an orderly winding down of the scheme and allow those businesses who have applications already lodged to be assessed.

The LGS has not been as effective as originally envisaged, as many distressed companies have been reluctant to assume more liabilities (further loans) with little certainty of the length and severity of the economic impact of the COVID-19 pandemic. However, in addition to this guaranteed loan scheme, banks have also provided significantly more support to their small business customers via their own balance sheets, totalling at least R33 billion in payment relief, between April and November 2020. Such support reduced demand for the LGS. Banks have also restructured loans and credit facilities worth billions more to their clients and corporate customers in financial distress.

The Financial Sector Conduct Authority (FSCA) has also provided further support to businesses and individuals by adjusting regulations to support insurance premium relief for policyholders, allowing them to claim while minimising disruptions to the expected income of intermediaries. In addition, the FSCA advised the boards of trustees for retirement funds and financially distressed employers to consider allowing appropriate relief with regard to retirement contributions.

The National Treasury continues to monitor the impact of the COVID-19 pandemic on the economy and jobs, and recognises the challenges facing both small and large businesses, particularly those in the hardest hit sectors. Existing support measures by the South African Reserve Bank and FSCA, as detailed in the 2021 Budget Review, will continue, subject to conditions and regulatory mandates. National Treasury, working with relevant stakeholders, continues to explore more appropriate support and risk-sharing mechanisms, including proposals related to non-bank financial institutions and development finance institutions, mindful of the fiscal challenges facing South Africa.

Further queries on loan applications can be directed to the individual banks, which are administering the scheme.

Jointly issued by:

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