

## Payment holidays explained

Covid-19 will have a substantial impact on the economy. South Africa is taking the necessary measures to tackle the Covid-19 pandemic and financial institutions are offering payment holidays. However, what exactly is a payment holiday?



Hanno Bekker

Hanno Bekker, founding director of The Financial and Legal Research Group, explains payment holidays for SMEs.

We can commend the offering of payment relief that financial institutions are extending to SME's in this critical time, says Bekker.

"However, I want to highlight that the payment holidays are not without consequence. In these uncertain times, we must understand what economic interventions such as payment holidays entail and how they are going to unfold so that we may be prepared and prevent unnecessary future economic strain in the post-pandemic world", adds Bekker.

We know by now that the coronavirus will have a substantial impact on our economy as we see lockdown periods extended, many of us are wondering what our obligations and responsibilities are.

Bekker says, "To make it through this pandemic and to prevent total economic collapse, regular South African consumers must continue to make their payments to businesses. SME's are the heart of our economy and employ millions of South Africans who still need salaries."

From 1 April 2020 until 30 June 2020, a payment holiday will suspend your legal obligation to meet your full monthly bank repayment. However, it does not stop the loan from incurring interest or bank charges.

In other words, you are still expected to pay the fees and interest incurred on your loan for these three months, after the lockdown is over.

A payment holiday is a show of good faith from the bank saying that for the next three months they will not act against you for not paying.

As an SME you must meet the following criteria to qualify for a payment holiday:

- Your business must be based in South Africa
- The annual turnover of your business must be less than 20 million rand
- Your accounts and tax must be paid up to date including payments for March
- Your business must be in good standing with the bank
- The payment holiday does not include payments on which your business has already fallen behind.

"We strongly recommend to all SME's who can afford it to avoid making use of the payment holidays. The long-term effect of paying interest on the increased amount after the three-month holiday can have a severe impact on your business' future cash-flow. If there is no alternative, then you should use it, but be aware of the implications.

Businesses can mitigate the economic impact of Covid-19 by taking their business digital wherever possible and maintain contact with their customer base. Rerouting all communication to cell phone lines, video-conferencing and email and transitioning into the e-commerce space can aid in stabilising some of a business' income and allow entrepreneurs to continue to do business to a certain extent" Bekker concludes.