MSP

Plataforma Multi-Stakeholder

NA REGIÃO NORTE DE MOÇAMBIQUE

SME Financing Working Group

Virtual Session 1 - Information-sharing

/ DRAFT / FOR DISCUSSION

Banking response to Covid-19

April 2020

Today's agenda

Agenda items

1. SSA & increased susceptibility to Covid-19
2. Short and medium-term economic shocks
3. Mozambique: robust medium-term prospects due to mitigating factors
4. Short-term effects on the SME sector
5. Central bank responses to Covid-19 (regionally and locally)
6. Commercial bank support to SMEs

Sub-Saharan Africa is particularly susceptible to Covid-19

Pre-existing health conditions	SSA populations are disproportionally affected by communicable diseases, with around 26 million **HIV positive** individuals, 240 million considered **malnourished**, millions suffering from **tuberculosis** and other diseases/chronic illnesses
Inadequate living conditions	Over 400 million have **limited access to sanitation** facilities and access to **clean water**
Ill-equipped healthcare system	**Underfunded healthcare systems** with less than half of the per capita healthcare spending than that set out in the United Nations' Millennium Development Goals
Weak financial system	An already **high debt burden** of average c.60% on of SSA GDP paired with **constrained public finances** expose communities to vulnerability

Note: WHO's Commission on Macroeconomics and Health, Absa research, World Economic Outlook (2018)

Covid-19 likely to have negative short and medium-term impact on the regional economy

Inflation – Increased inflation will likely be offset by dampened consumer demand and improved food security on better weather conditions

Remittance declines – Global job insecurity and lower disposable income may lead to lower remittances, a key source of income for SSA households, estimated at US$ 46bn in 2018

Depreciation – Pressure on SSA currencies will lead to a sharp depreciation in local exchange rates against the dollar

Reduced income – Government-driven lockdowns and slower economic activity will result in reduced employment, reduced informal trade and consequently, reduced income

Lower commodity prices – For commodity-dependent countries, this will likely lead to fiscal and current account imbalances

Depressed investment – Likely reduced investment into physical infrastructure, FDI inflows, and cross-border lending & commercial bank investment activities

Supply chain interruptions – Significant decline in manufacturing activity and interruptions of imports from China with notable declines in South Africa, Kenya and Uganda

Negative global spillovers – Depressed global oil prices, coupled with a US/European recession and a further collapse of China's economic growth will impact SSA economies

Mozambique’s medium-term economic prospects remain favorable

- **Favorable factors:** Mozambique’s reconstructive efforts following last year’s cyclones, improved agricultural output and ongoing gas development should prevent a recession
- **Development support:** A $US 313.4m IMF and World Bank package for direct state budget support as well as other ongoing projects with development partners will assist in keeping the economy stable
- **Slow but positive growth:** After expanding 2.2% in 2019, we expect growth to fall to 0.6% this year (government projects 2.2 - 3.8%, down from 4.8%)
- **Restrained economic activity:** A 30-day state of emergency will severely constrain market performance
- **Slowed gas development:** Exxon Mobil’s planned FID in Area 4 has been delayed due to northern instability paired with a current weak global environment. Fear that Area 1 gas developments will follow suit or move at a slower pace

While Mozambique’s economy maintains medium term prospects, restrained activity and the threat of gas development postponement may pose a crunch in the short-term

Mozambique compared to its regional peers, in light of Covid-19

Figure 9: Key SSA Macroeconomic forecasts

	Real GDP (%, y/y)				Inflation (ave, %,)				Policy rate (eop)				FX/USD (eop)			
	'19F	'20F	'21F	'22F	'19F	'20F	'21F	'22F	'19F	'20F	'21F	'22F	'19F	'20F	'21F	'22F
Angola	-0.3	-3.0	0.6	2.8	17.1	21.6	20.7	18.1	15.50	15.50	15.50	15.50	479	570	600	630
Botswana	3.6	-2.1	4.9	4.6	2.8	2.9	3.7	4.1	4.75	4.75	4.75	4.75	10.76	12.15	12.48	12.78
Ghana	6.3	2.0	4.2	6.5	7.8	8.5	10.2	10.4	16.00	14.50	15.50	15.50	5.75	6.70	7.30	7.70
Kenya	5.5	1.6	3.9	5.0	5.2	5.9	5.5	4.9	8.50	7.25	8.00	8.50	101	106	107	110
Mauritius	3.4	-5.3	5.5	4.6	0.5	2.8	3.8	2.8	3.35	2.85	3.25	3.25	36.57	40.00	38.00	38.80
Mozambique	2.2	0.6	4.4	4.8	2.8	4.2	3.1	2.8	12.75	11.25%	-	-	62.97	68.00	69.50	72.00
Namibia	-1.1	-2.4	2.3	2.4	3.7	3.8	5.7	5.1	6.50	4.75	4.75	4.75	13.98	16.40	17.06	17.71
Nigeria	2.2	-1.1	2.3	2.7	11.4	12.0	11.9	11.0	13.50	13.50	13.50	13.50	363	410	450	480
Seychelles	4.7	-10.3	8.7	5.4	1.8	2.1	3.8	3.7	5.00	4.00	4.00	5.00	13.36	14.90	15.20	15.50
South Africa	0.2	-3.1	-	-	4.1	4.3	4.6	4.7	6.50	4.75	4.75	4.75	13.98	16.40	17.06	17.71
Tanzania	6.8	2.9	4.1	4.9	3.4	3.8	5.1	5.6	7.00	6.00	6.00	7.00	2,294	2,400	2,500	2,575
Uganda	4.5	1.4	4.4	4.7	2.9	4.5	5.2	5.4	9.00	7.50	8.50	9.00	3,675	3,900	4,100	4,200
Zambia	2.0	-1.2	1.6	2.9	9.2	15.3	12.6	10.5	11.50	11.50	12.50	12.50	14.09	18.00	19.30	19.60

Source: SSA central banks, SSA finance ministries; Statistics offices; Bloomberg, Absa Research

Real GDP growth remains in positive territory unlike its peers

Rates of 4.4% and 4.8% in the next two years is an encouraging sign for economic growth

Inflation is set to stabilize

By resuming to 2019 levels by 2022, maintaining consumer purchasing power

Policy rate slightly drops and remains constant thereafter

Encouraging a favourable environment for investment

Short-term exchange rate volatility

Creating risk for investment and negatively affecting the import sector

Worst-case scenario trajectory: results of a full lockdown or extended state of emergency

More drastic preventative scenarios likely to augment economic consequences

1

90-day state of emergency

- No large gatherings and prohibition of all events
- Essential services to remain open with price monitoring of essential goods
- Re-orientation of industry to produce critical goods

2

Phase 4 lockdown

- Closure of all activity in the public, private and commercial sector
- Prohibition of travel
- Curfew

Fall in GDP

negative GDP growth ranging between -3% to -5% with recovery only foreseen in 2021 due to significantly lower economic activity

Decrease in investment

delays in more than 50% of all FDI, particularly the expected postponement of major LNG projects

Increased donor reliance

dependence on donor support to provide economic and humanitarian relief

Surge in SME defaults

particularly in most hard-hit sectors such as travel & transport and manufacturing

SME's are facing risks in the face of Covid-19

1. **Costs –** SMEs with high percentage of fixed costs and debt service might have difficulties in adjusting structure to subdued demand
2. **Demand** – due to government-mandated lockdowns, many SMEs are not be able to operate with reduced sales and customer spending for many that remain open
3. **Liquidity** – SMEs do not typically have extensive reserves. Curtailed revenues and sustained costs make liquidity a major issue
4. **Employment** – employees being laid off due to insufficient business in the short-term may affect the business's long-term ability to survive
5. **Access to credit** – due to impact on financial service sector, banks may have less credit appetite for new lending. Additionally, increased default rates may lead to a rise in interest (as a result of higher risk premiums required)
6. **Supply chain** – SMEs have less leverage with vendors and may not have access to supplier-granted credit, resulting in possible supply chain interruptions

Sectors most affected

Airlines/Transport

Tourism

Hospitality

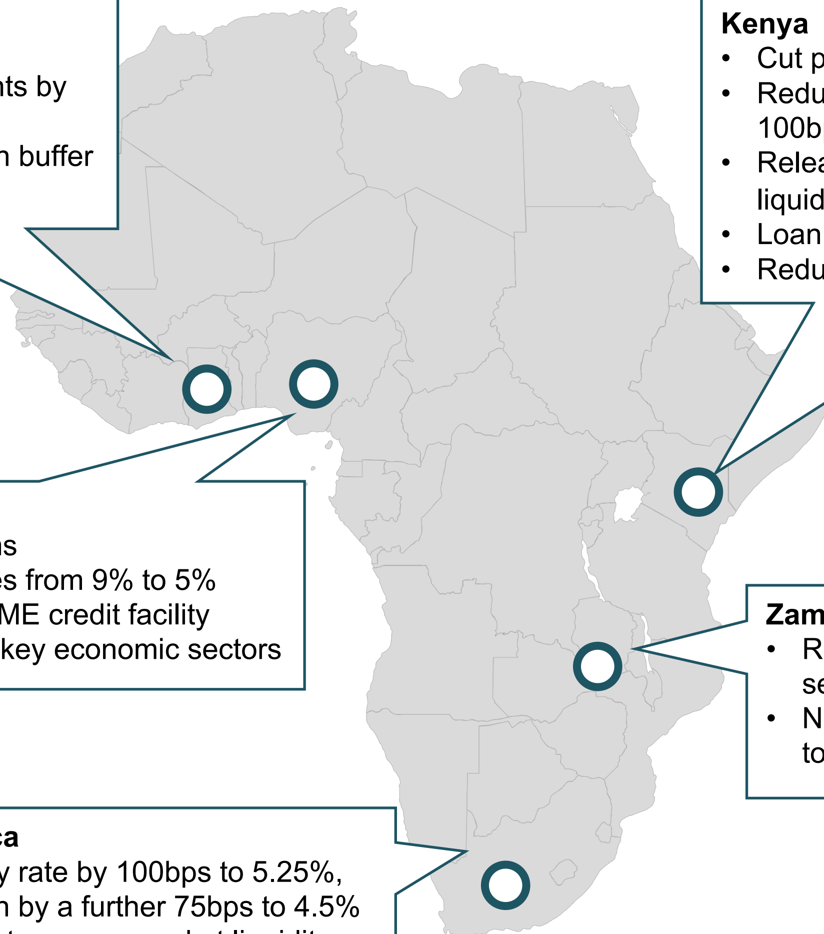
Entertainment

Many central banks across the region have responded to the current economic climate

/ SELECT EXAMPLES

Ghana
- Cut policy rate by 150bps
- Reduced reserve requirements by 200bp
- Reduced capital conservation buffer from 3% to 1.5%

Kenya
- Cut policy rate by 100bps
- Reduced cash reserve requirement by 100bps
- Released KES32.2bn as additional SME liquidity
- Loan repayment relief to SMEs
- Reduced charges for mobile digital platforms



Nigeria
- Extended moratoriums
- Reduced interest rates from 9% to 5%
- NGN50bn targeted SME credit facility
- ~$US3 bn support to key economic sectors

Zambia
- Reduced interbank payment & settlement system processing fees
- No charges on electronic transfers up to ZMW150 until 30 April

South Africa
- Cut policy rate by 100bps to 5.25%, and again by a further 75bps to 4.5%
- Changes to money market liquidity management strategy

Bank of Mozambique introduced new measures for Commercial Banks to encourage economic activity

Policy changes introduced in March & April

	Policy change	Objectives
1	**Reduction of mandatory reserves** on commercial bank deposits by 150 basis points • Local Currency Reserves - 11.5%, • Foreign Currency Reserves - 34.5%	• Increase liquidity • Reduce commercial bank cost
2	**US$500 million foreign currency financing line available** to commercial banks for a period of nine months starting March 23, 2020 combined with removal or provisions on foreign currency lending to non-exporters	• Stimulate imports • Increase foreign currency circulation • Reduce exchange rate fluctuation • Promote price stability (inflation)
3	**Eliminated obligation to set up provisions for restructured loans** by commercial banks for customers affected by the COVID-19 pandemic starting March 23 2020 until 31 December 2020	• Improve SMEs liquidity • Reduce economic impact • Increase robustness of financial sector
4	**Reduction of Monetary Policy Rate** by 150 basis points from 12.75% to 11.25%	• Encourage borrowing and investing

Commercial bank are seeking to support SMEs

In addition to Central Bank policies and state-mandated actions, commercial banks are responding to Covid-19 through a variety of strategies to support SMEs within their portfolio

Portfolio monitoring – triaging SMEs that are particularly vulnerable to cashflow interruptions and ensuring access to financing options

Health measures – implementing social distancing policies within retail operations and increasing sanitary response to customer-facing operations including branches and ATMs

Favorable terms – easing intermediate loan terms by lowering interest rates and extending grace periods when possible

Mobile money incentives– reducing fees on POS transfers and mobile wallet charges to encourage the use of technology and avoid the exchange of cash

Currency exchange support – ensuring sufficient foreign currency facilities to support cross-border trade, particularly of critical goods