Short-term credit shrinks

The extension of short-term credit contracted by 12,3% between Q1 2020 and Q1 2021 resulting in an estimated economy-wide decline in sales of R790m, with 1,400 fewer jobs were supported and R96m less in taxes collected.

Source: ©alexkopie 123rf

The extension of short-term credit is a key financial instrument for low-income households and micro businesses.

This is according to the results of the first AFSCI (Altron Fintech Short-term Credit Impact) Index, developed by Altron Fintech in partnership with Keith Lockwood, independent economic consultant and adjunct faculty member of the Gordon Institute of Business Science.

Short-term credit decline

According to the AFSCI, despite the partial normalisation of the economy, the value of short-term credit extended was down 20% and the number of loans advanced was 25% below their pre-Covid (Q4 2019) levels.

In the first quarter of 2021, R1.97bn of short-term credit was advanced via 715,000 loans with an average value of R2,758.

Lockwood attributes the decline in the number of credit-worthy credit applicants to the 1.4 million drop in total employment experienced during the pandemic, and the decline in average real incomes in South Africa over the same period.

“Just as net additions to credit extension can generate positive economy-wide economic impacts that are a multiple of the value of the credit extended, so does the contraction of net credit extension generate negative multiplier effects throughout the economy,” says Lockwood.

He adds that businesses that were receiving additional sales as a consequence of the credit made available to their customers will experience a decline in sales.

“They will then employ fewer factors of production and place orders of less value with their suppliers. The process will continue with indirect and induced impacts serving to magnify the negative impacts,” he adds.

Extension of repayment term

When compared with other types of consumer credit, a much larger proportion of short-term credit is advanced to people earning less than R15,000 per month.

Whereas this group only accessed 11% of total consumer credit in Q1 2021, they obtained 57% of the short-term credit advanced. Lockwood explains that to enhance the affordability of lending, there has been a significant extension of the average repayment period (term) of short-term loans.

Whereas loans with a term of up to one month accounted for 64% of the value of short-term credit advanced in Q4 2019, by Q1 2021 this had dropped to 54%.

Over the same period, loans with terms of four to six months increased their share from 26% to 34%.

An important market

“Credit is an important cog in the engine which fuels economic growth, and while short-term credit makes up a very small share of total consumer credit, it is an important market,” says Johan Gellatly, MD of Altron Fintech.

“An increase in credit extension injects money that was previously out of circulation back into the economy, and thereby generates a stream of economic activity and incomes,” he explains.
It provides

- First-time access to credit to many people that have never had access before.
- Lower-income households with a proportionately greater share of credit than is advanced to them by other forms of credit.
- A source of funding to households with low incomes and limited wealth assets in the event of unforeseen developments and emergencies.
- Finance to micro-business for working capital and stock and asset purchases
- A barometer of the financial health of a vulnerable, and often neglected, portion of South Africa’s population.

  However, despite the critical role that it plays within the economy, short-term credit is a relatively poorly understood form of credit.

  Results of the AFHRI can be found [here]