

Macro-Economic Impact Assessment of Capping the Interest Rate on Specific Credit Categories Applying the South African INFORUM Model (SAFRIM)

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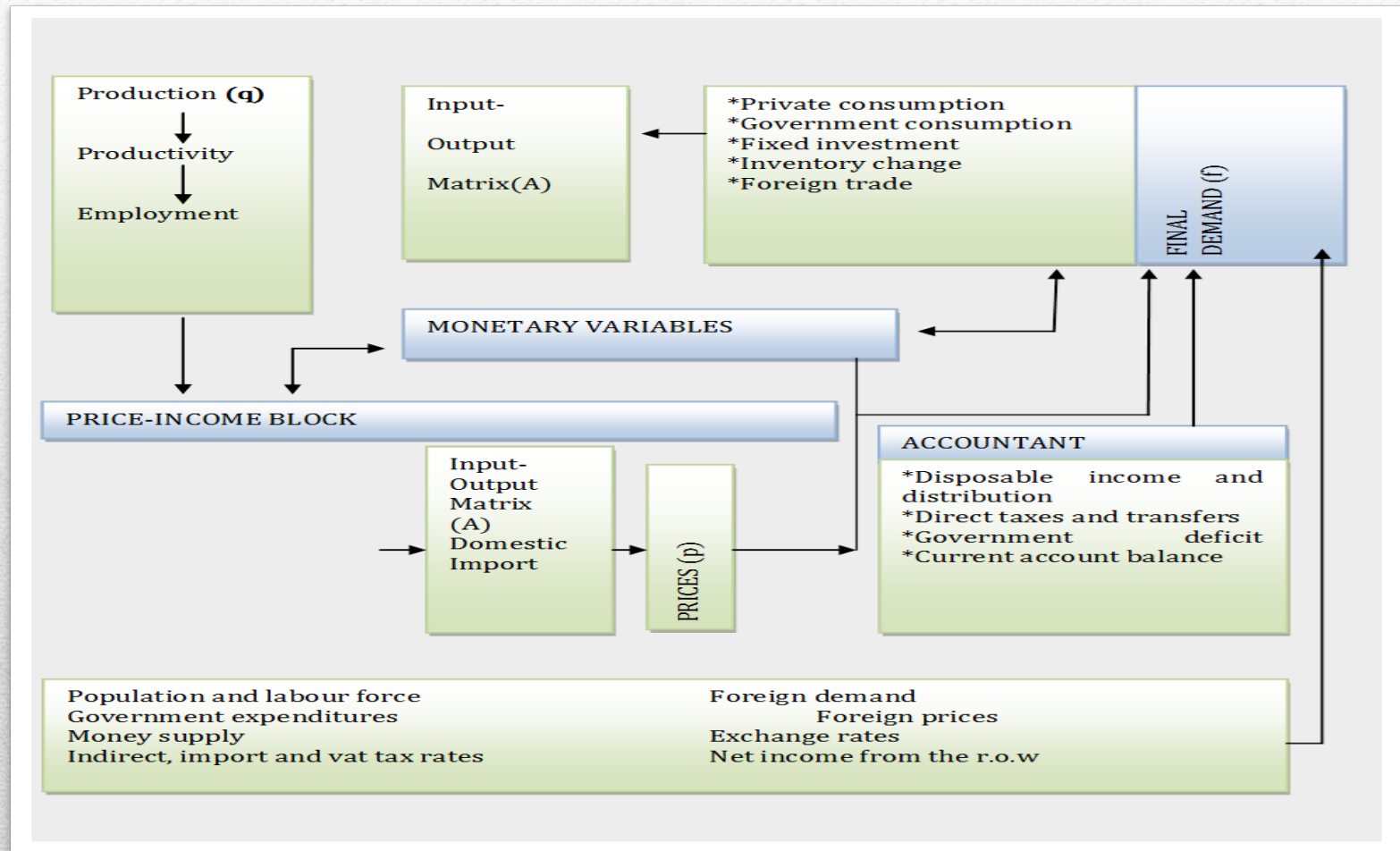
The structure of the presentation is as follows:

- Description of the Case Study – The macroeconomic impact of the proposed interest rate and credit cost capping
 - Overview of the South African INFORUM(SAFRIM) model
 - Activating the SAFRIM model
 - Summary of results
 - Conclusions
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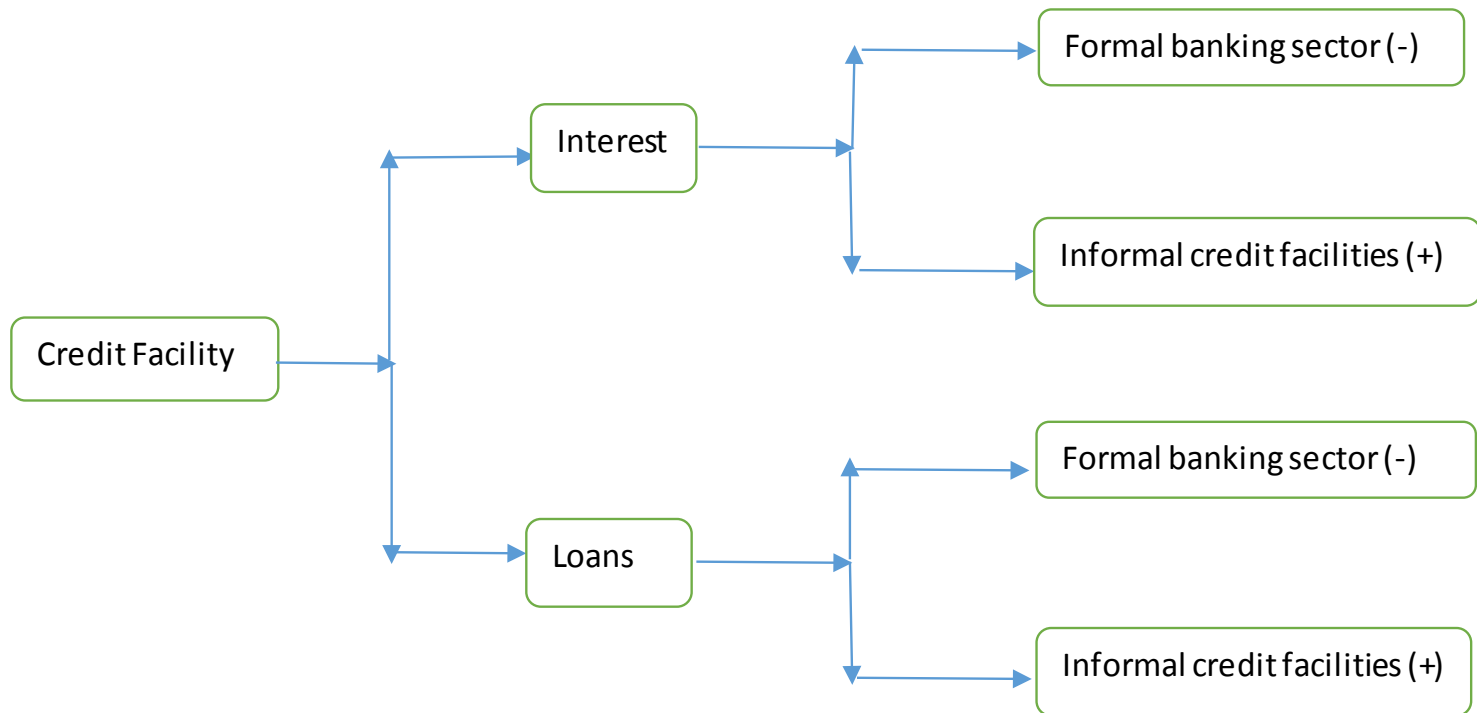
Description of the Case Study

- Capping interest rates can be seen as a way to limit the extent to which consumers could face being over-indebted, blacklisted or prosecuted for bad debts or declared insolvent.
 - The macroeconomic impact of the proposed interest rate and credit cost capping were conducted by assuming that some lending by formal sector registered credit providers will be curtailed.
 - Part of the customers who would no longer be serviced by registered credit providers will then still access credit provided by unregistered credit providers operating in the informal unregulated sector.
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Dynamic and inter-related workings of the SAFRIM Model



Impact on Interest Payments and Loans Available



Summary of Impacts on Consumer Expenditure (R million)

	Net interest paid (negative indicates impact on disposable income)	Net credit effect: credit from informal lending and rejected (positive) and credit (negative)	Net effect on consumption expenditure
2016	400	-5 012	-4 612
2017	850	-5 644	-4 793
2018	1 429	-7 259	-5 829
2019	2 271	-10 551	-8 280
2020	3 117	-10 595	-7 478
2021	3 377	-3 260	117
2022	3 491	-1 439	2 053
2023	3 610	-1 488	2 122
2024	3 733	-1 538	2 194
2025	3 860	-1 591	2 269

Methodology

$$\text{fdc} = \text{pcec} + \text{invc} + \text{govc} + \text{exc} - \text{imc} + \text{fdrc} + \text{trcc} + \text{interest}$$

Where:

fdc	= total final demand
pcec	= private consumption expenditure
invc	= investment (investment excluding investment in the mitigation measures)
govc	= government
exc	= exports
imc	= imports
fdrc	= residual
trcc	= transfer costs
interest	= interest on unsecured loans/credit facilities

Summarised Results of the Economic Impact: GDP (R Million, 2014 constant prices) and Employment (Numbers) for Unsecured Lending and Credit Facilities (Average over the period 2016 to 2025)

	Unsecured Credit		Total Unse- cured Credit Impact	Credit Facilities		Total Credit Facili-ties Impact	Net Impact on Unse- cured Credit and Credit Facilities
	Impact on Consumption Expenditure			Impact on Consumption Expenditure			
	Net Interest Paid	Change in Credit		Net Interest Paid	Change in Credit		
	1	2	3	4	5	6	7
GDP - Total Economy	2 307 241	2 301 928		2 305 463	2 302 722		
Baseline	2 305 357	2 305 357		2 305 357	2 305 357		
Difference	1 884	-3 429	-1 544	106	-2 635	-2 529	-4 073
Employment - Total Economy	15 155 220	15 106 900		15 138 941	15 110 196		
Baseline	15 137 965	15 137 965		15 137 965	15 137 965		
Difference	17 256	-31 064	-13 809	977	-27 769	-26 793	-40 601

Impact on Household Income (R million, 2014 Prices)

Impact	Size of Impact
Impact on Households	-8 968
Low Income Households	-1 367
Medium Income Households	-1 762
High Income Households	-5 839

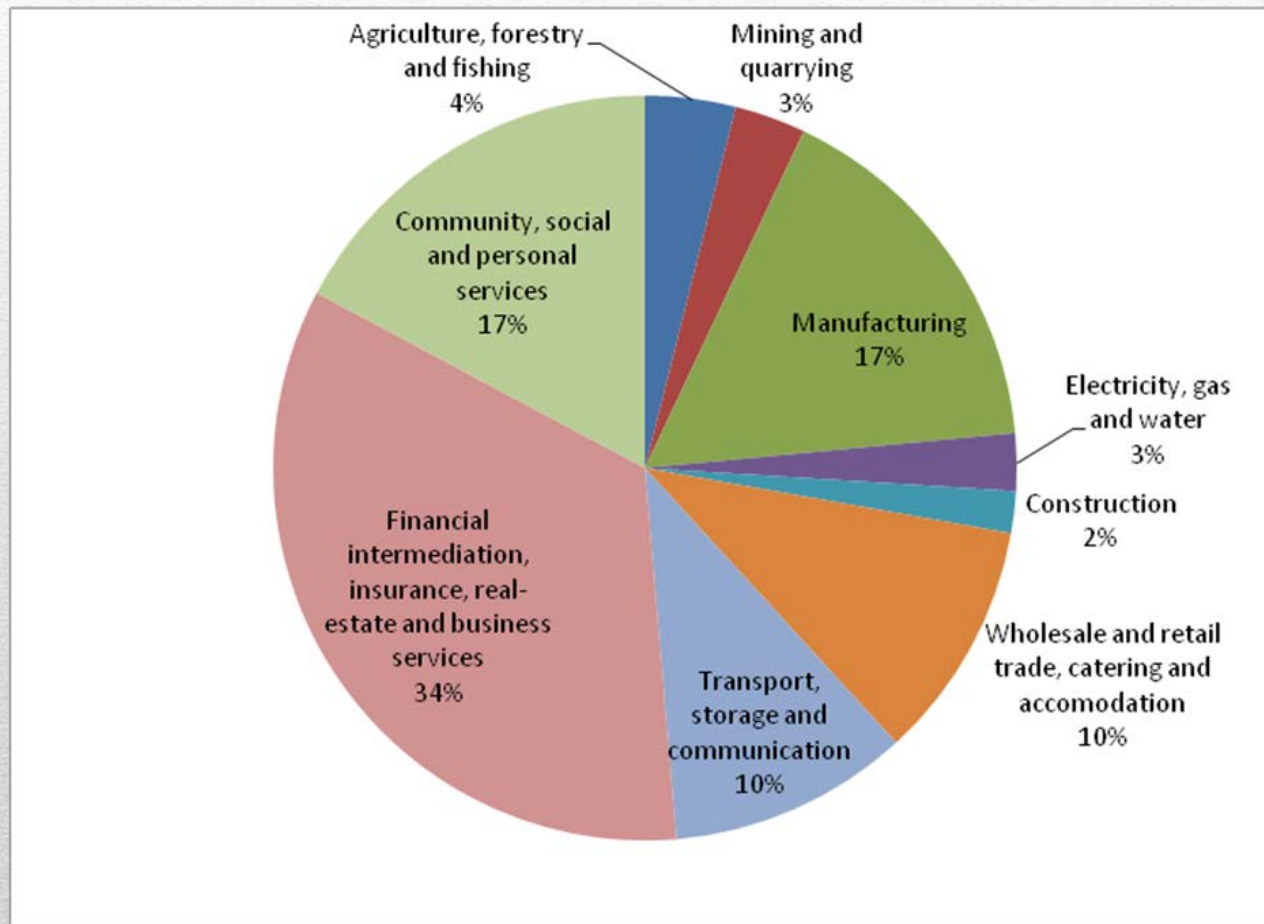
Impact on Government Revenue (R million, 2014 Prices)

Impact	Size of Impact
Fiscal Impact	-5 023
National Government	-4 508
Provincial Government	- 72
Local Government	- 442

Reduced Ability of Government to Invest in Certain Social Services (Numbers)

Impact	Numbers
1. Additional number of educators	-10 649
2. Additional number of hospital beds serviced	-3 923
3. Additional doctors	- 341
4. Additional low-cost houses	-4 014

Sectoral GDP Impact of Capping Interest Rates on Unsecured Lending and Credit Facilities



Summary and Conclusions

- The macroeconomic impact analysis of the proposed changes to the limitation of interest rates charged demonstrates very clearly that GDP and Employment will be demonstrably negatively affected by the proposed changes.
 - The main reason for this is that there is an inverse relationship between the capping of interest rates at lower levels and the willingness of financing institutions to accommodate credit.
 - The advantages of the lower interest rates to customers are also to a great extent nullified by the fact that a certain number of customers who are rejected by the formal banking sector will be obtaining credit from the informal unregulated lending sector, but at significantly higher interest rates regimes.
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- Thank You