

## PSCE– February 2014

7 April 2014

### Mortgage loans continue to drive Private sector credit extension

|                        | N\$ m           | Change in N\$ m |                | % Change    |              |
|------------------------|-----------------|-----------------|----------------|-------------|--------------|
|                        | Feb-14          | One month       | One year       | Fan-14 m/m  | Fan-14 y/y   |
| <b>Corporates</b>      | <b>23,545.7</b> | <b>577.0</b>    | <b>3,446.0</b> | <b>2.5%</b> | <b>17.1%</b> |
| <b>Individuals</b>     | <b>37,212.8</b> | <b>261.4</b>    | <b>4,775.7</b> | <b>0.7%</b> | <b>14.7%</b> |
| Mortgage Loans         | 31,487.5        | 581.0           | 3,781.9        | 1.9%        | 13.7%        |
| Other Loans & Advances | 6,717.7         | (277.4)         | 358.2          | -4.0%       | 5.6%         |
| Overdraft              | 8,344.2         | 283.2           | 985.7          | 3.5%        | 13.4%        |
| Instalment Credit      | 9,132.1         | 97.2            | 1,174.7        | 1.1%        | 14.8%        |
| <b>Total PSCE</b>      | <b>61,029.7</b> | <b>850.5</b>    | <b>8,289.0</b> | <b>1.4%</b> | <b>15.7%</b> |



Source: Bank of Namibia

### Overall

Credit extended to the private sector increased by N\$850.5million, or 1.4%, in February 2014 to N\$61.0 billion. On an annual basis PSCE growth remains strong, increasing 15.7%, with total credit outstanding N\$8.3 billion more than a year ago. The strong growth showing in February was underpinned by strong expansion in both the corporate and household segments of the market, however the reasons for the strong demand from the two segments remain divided. The split between business and private credit in total debt outstanding is 38.3% to 61.7%.

### Credit extension to households

Credit extension to households expanded by 0.7% on a monthly basis and 14.7% on an annual basis in February, which is a slowdown in growth when compared to the preceding month. Nonetheless, growth remains well above the average level of 10.7% recorded over the past seven years. The ongoing strong growth in credit extension to households can be largely ascribed to prolonged and historically low interest rates in Namibia, allowing for the relatively cheap uptake of credit by interest sensitive households.

The main categories driving growth in household credit on a month on month basis is that of mortgage loans, which expanded by 1.2%. This growth is offset by some extent by a contraction in "other loans & advances" and installment credit, which is likely to be on account of individuals repaying extra debt accumulated during the December-January festive period. Over the past year, the majority of the credit extended to households was in the form of mortgage loans (N\$2.7 billion out of a total of N\$4.6 billion), which expanded by 13.5%, largely reflecting strong house price increases in Windhoek and at the coast.

Despite the month-on-month decline in installment sales, on an annual basis, this form of credit remains a key driving force underlying overall credit extension. On a year-on-year basis installment credit expanded by 12.6% in February, slowing from 15.6% growth in January. Installment sales credit includes credit extended for the purchase of vehicles, electronics and other consumer goods bought with installment contract payments. Broadly speaking, installment credit extension to households is perceived to be "non-productive", used to purchase consumer goods, most of which are imported, placing pressure on the country's balance of payments and reserves.

### Credit extension to corporates

Credit extension to corporates grew by 17.1% year-on-year in February, up from 12.6% in January. Unlike credit extension to households, high growth in credit extended to corporates is unlikely to be as a result of low interest rates, as corporates in Namibia tend to be less sensitive to interest rate changes than households.

The main categories driving credit extension to corporates on a monthly basis, were mortgage loans that expanded by 4.5% and leasing transactions, up 6.3%. On a year-on-year basis, mortgage loans expanded by 14.2%, while leasing transactions increased 26.3%. Thus, the current strong credit extension to corporates is likely to be driven by a positive business climate in Namibia, resulting in increased demand for credit for expansion purposes, rather than recurring expenses.

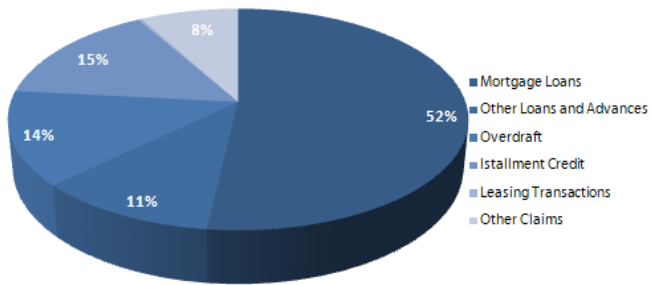
### Money Supply and Reserves

Foreign reserves contracted 10.6% month-on-month to N\$16.6 billion at the end of February 2014 following an expansion of 18.5% in January. This decrease was largely on account of commercial banks net purchases of ZAR following the closure of the interest rate differential between Namibia and South Africa, central government payments and the appreciation of the NAD against major currencies at the end of February 2014.

M2 expanded 11.0% in February, up from growth of 8.8% in January. The substantial growth in M2 can mainly be attributed to the high growth in both domestic claims and the net foreign assets of the banking sector, up 23.1% and 11.0%, respectively.

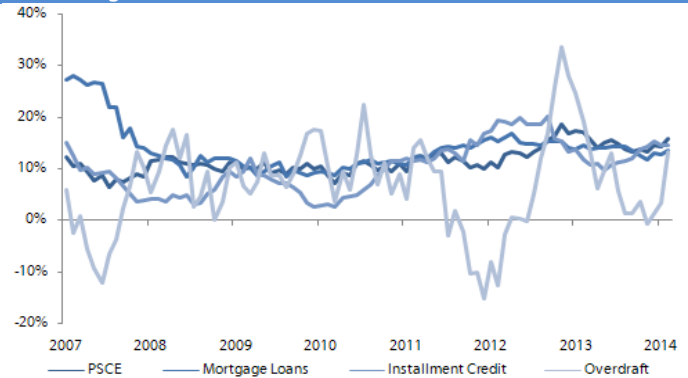
Looking forward, we expect credit growth to remain strong through 2014 despite expectations of interest rate increases, as real income growth is expected to remain elevated given the buoyant economic conditions within the country, which will reinforce demand for credit from households. Additionally, demand for credit from corporates is expected to remain strong, as corporates are largely unaffected by the Bank of Namibia's rates. On the supply side, the closure of the interest rate differential can be expected to put pressure on local commercial banks, which may result in a reduction in credit supply to households and corporates going forward.

### Credit Split

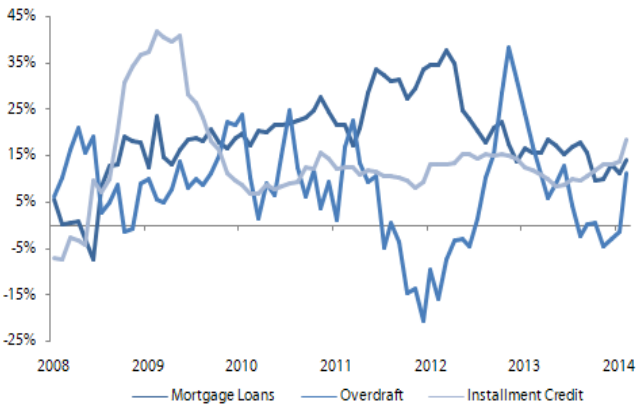


Source: Bank of Namibia

### Credit Categories

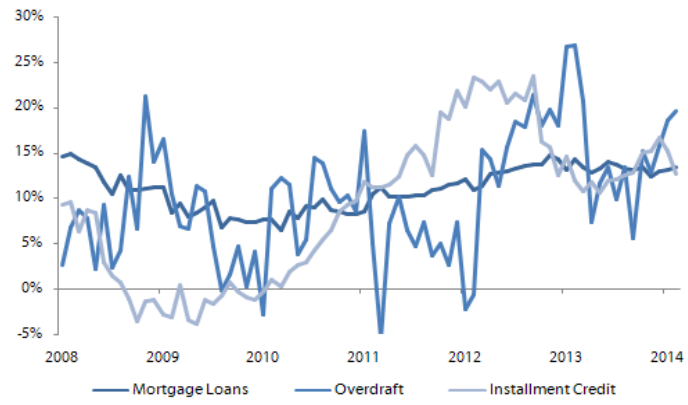


### Businesses

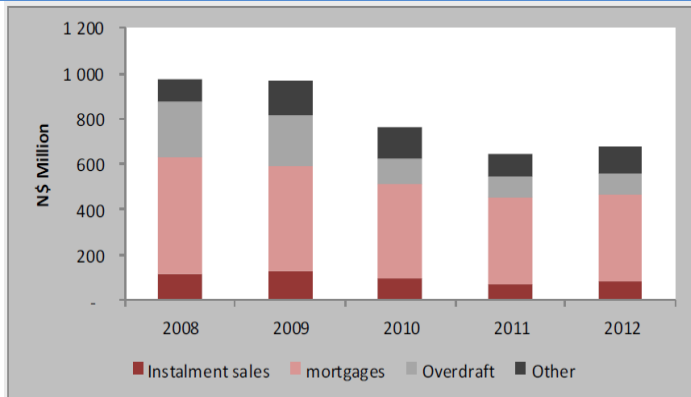


Source: Bank of Namibia

### Individuals

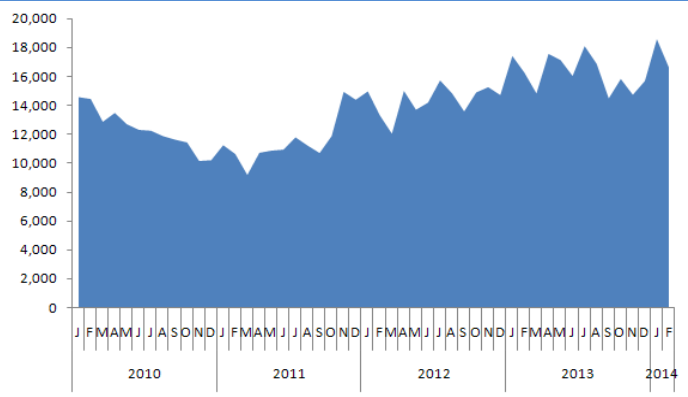


### Nonperforming loans per category

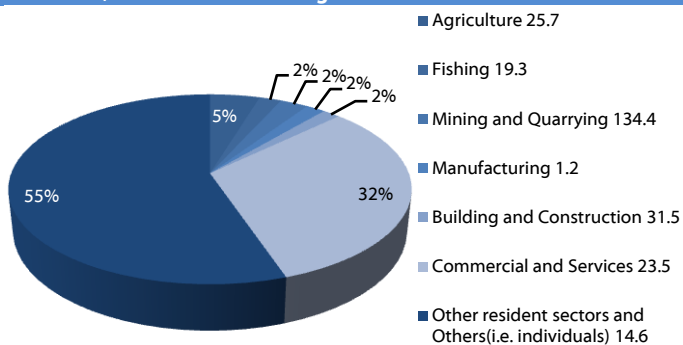


Source: Bank of Namibia

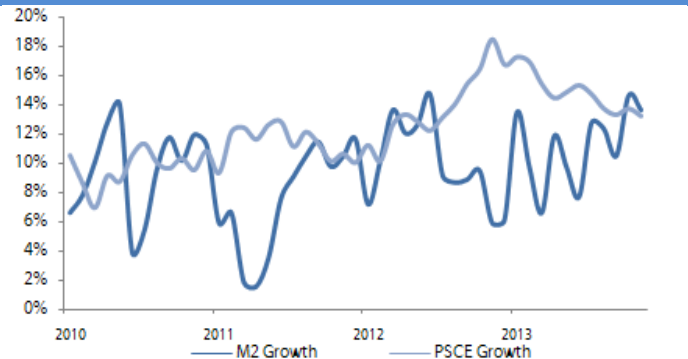
### Foreign reserves N\$ millions



### Value in N\$ million and Percentage Breakdown



### M2 and PSCE Growth





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