

## PSCE– March 2014

8 May 2014

### Individuals instalment credit is a key driving force underlying overall credit extension

|                        | N\$ m           | Change in N\$ m |                | % Change    |              |
|------------------------|-----------------|-----------------|----------------|-------------|--------------|
|                        | Mar-14          | One month       | One year       | Mar-14 m/m  | Mar-14 y/y   |
| <b>Corporates</b>      | 23,290.2        | (255.5)         | 2,779.5        | -1.1%       | 13.6%        |
| <b>Individuals</b>     | 37,738.2        | 525.4           | 5,097.5        | 1.4%        | 15.6%        |
| Mortgage Loans         | 31,554.7        | 67.2            | 3,572.4        | 0.2%        | 12.8%        |
| Other Loans & Advances | 6,907.2         | 189.4           | 528.0          | 2.8%        | 8.3%         |
| Overdraft              | 8,120.5         | (223.8)         | 644.1          | -2.7%       | 8.6%         |
| Instalment Credit      | 9,292.7         | 160.6           | 1,348.2        | 1.8%        | 17.0%        |
| <b>Total PSCE</b>      | <b>61,303.9</b> | <b>274.2</b>    | <b>7,917.8</b> | <b>0.4%</b> | <b>14.8%</b> |

Corporate versus individual growth (y/y)



Source: Bank of Namibia

#### Overall

Credit extended to the private sector increased by N\$274.2 million, or 0.4%, in March 2014 to N\$61.3 billion. On an annual basis PSCE growth eased, increasing 14.8%, with total credit outstanding N\$7.9 billion more than a year ago. The growth rate recorded in March was underpinned by strong expansion in the household segment of the market, while growth in the corporate segment slowed. The split between business and private credit in total debt outstanding is 38.2% to 61.8%.

#### Credit extension to households

Credit extension to households expanded by 1.4% on a monthly basis and 15.6% on an annual basis in March, which is an increase in growth when compared to the preceding month. The on-going 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 instalment credit, which expanded by 4.3% and mortgage loans up 0.8% during the month. This growth is offset to some extent by a contraction in overdrafts, which is likely to be on account of individuals repaying overdraft debt from the holiday period, as the year progresses. Over the past year, the majority of the credit extended to households was in the form of mortgage loans (N\$2.9 billion out of a total of N\$5.1 billion), which expanded by 13.3%, largely reflecting strong house price increases in Windhoek and at the coast. Instalment credit increased by N\$248.5 million in March to a N\$920.5 million increase for the year.

Instalment credit is a key driving force underlying overall credit extension, making up 11.6% of total credit extension. On a year-on-year basis, instalment credit expanded by 18.2% in March, up from 12.6% growth in February. Instalment 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 13.6% year-on-year in March, down from 17.1% in February. On a monthly bases, credit extension to corporates contracted 1.1%. Only "other loans & advances" expanded, up 3.1%, which was offset by all the other sub-categories. On a year-on-year basis, growth in mortgage loans eased to 10.9%, overdrafts eased to 5.8%, while "other loans & advances" increased 1.1% from a contraction of 2.2% in the previous month. 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.

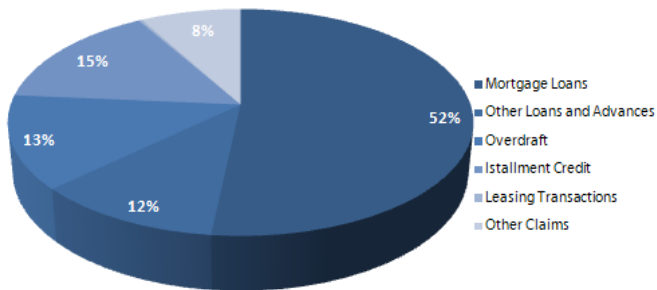
#### Money Supply and Reserves

Foreign reserves contracted 12.3% month-on-month to N\$14.6 billion at the end of March 2014 following a contraction of 18.5% in February. 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 10.5% in March, down from growth of 11.0% in February. The observed slow growth in M2 is reflected in a decline in domestic claims, down 0.3% m/m.

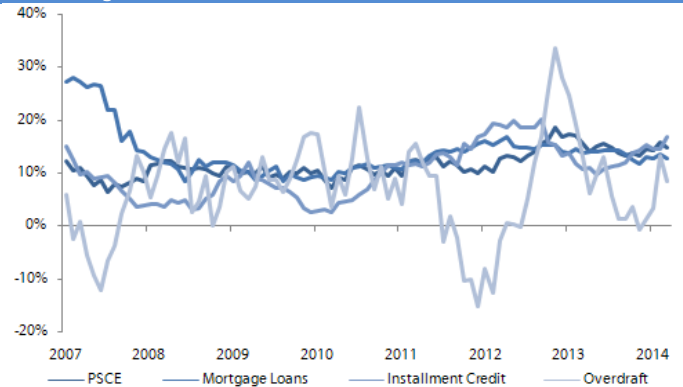
Looking forward, we expect credit growth to remain strong through 2014 despite expectations of interest rate increases, as real income growth is expected to remain elevated given the buoyant economic conditions within the country, which will reinforce demand for credit from households. Additionally, 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

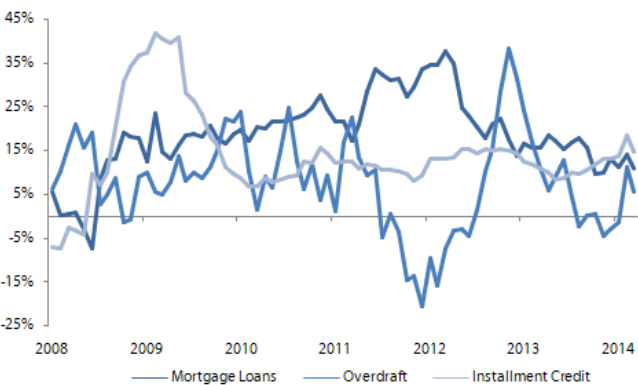


Source: Bank of Namibia

### Credit Categories

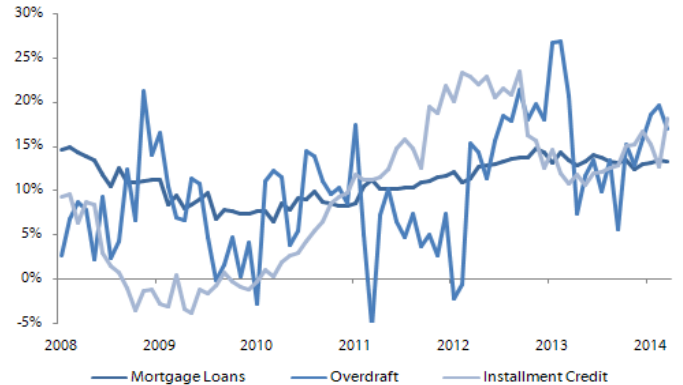


### Businesses

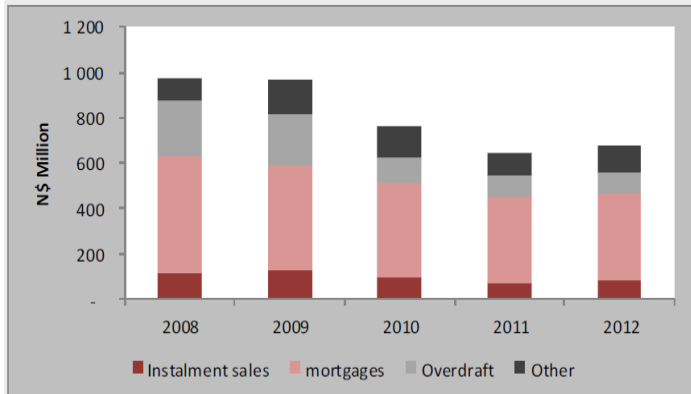


Source: Bank of Namibia

### Individuals

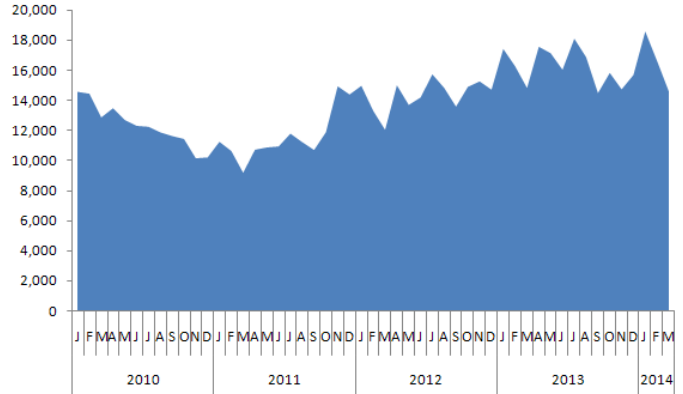


### Nonperforming loans per category

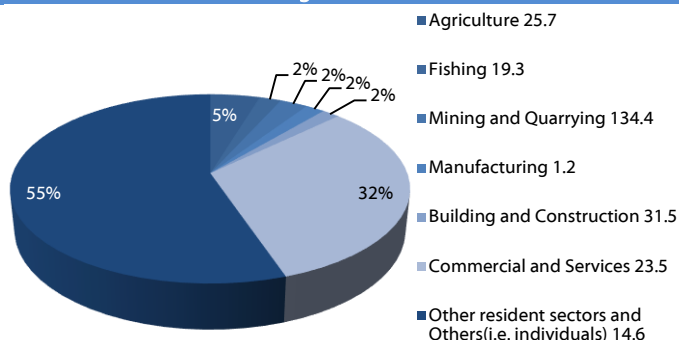


Source: Bank of Namibia

### Foreign reserves N\$ millions

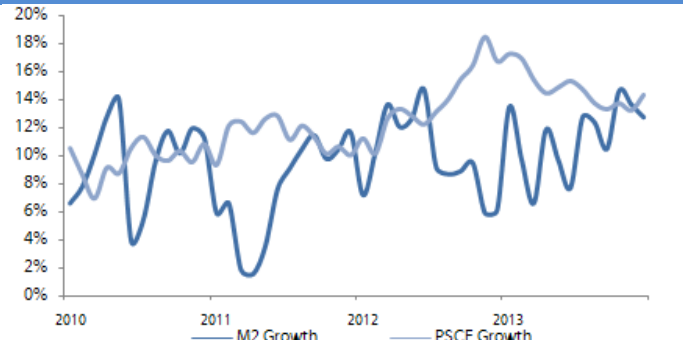


### Value in N\$ million and Percentage Breakdown



Source: Bank of Namibia

### M2 and PSCE Growth





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