

PSCE– July 2014

08 September 2014

Slowdown in y/y growth on base effects, m/m still strong

	N\$ m	Change in N\$ m		% Change	
	Jul-14	One month	One year	Jul-14 m/m	Jul-14 y/y
Corporates	24 669.3	(201.8)	3 625.5	-0.81%	17.23%
Individuals	38 957.4	476.5	4 855.6	1.24%	14.24%
Mortgage Loans	32 704.8	366.3	3 314.1	1.13%	11.28%
Other Loans & Advances	6 625.5	(592.6)	196.0	-8.21%	3.05%
Overdraft	8 485.7	(236.4)	1 301.3	-2.71%	18.11%
Instalment Credit	9 783.4	146.9	1 502.2	1.52%	18.14%
Total PSCE	63 921.0	269.4	8 561.3	0.42%	15.46%

Source: Bank of Namibia

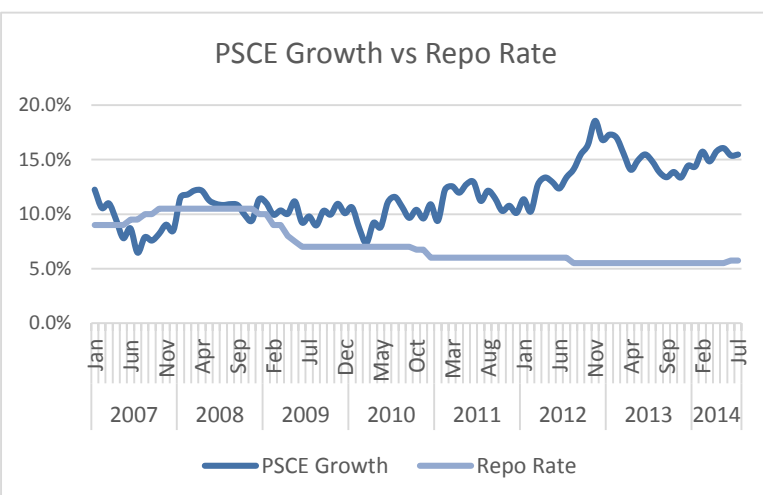
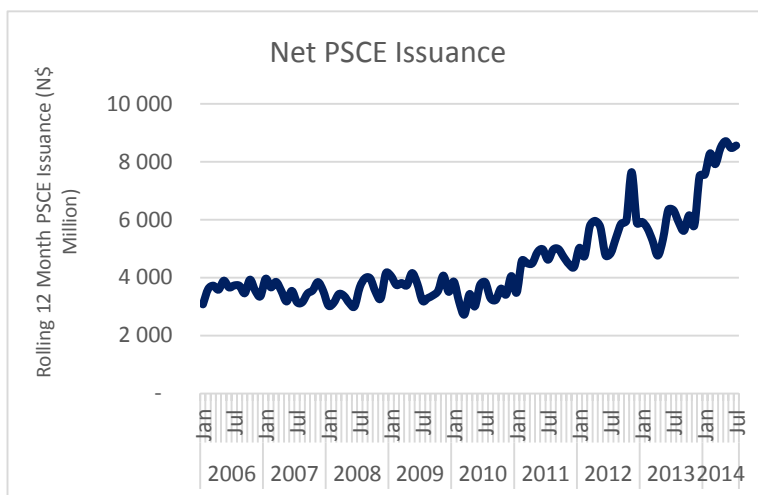
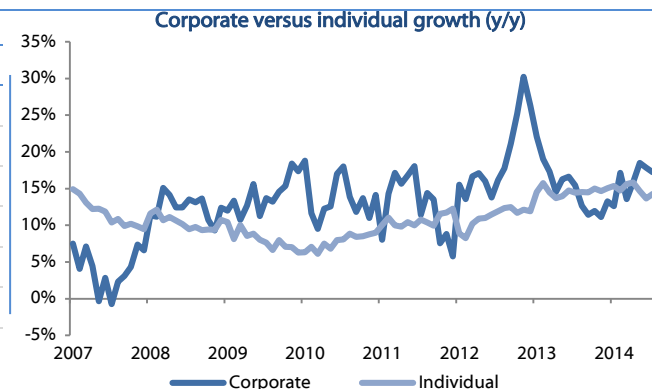
Overall

Credit extended to the private sector increased by N\$269.4m, or 0.42%, in July 2014, taking total credit outstanding to N\$63.9billion. On an annual basis PSCE growth picked up by 0.1 percentage point, to 15.5%. As such, a net total of N\$8.56 billion worth of credit has been extended over the last year. This is the second highest level of net issuance seen over a 12 month period in the history of the country, as high growth continues to be seen off an ever increasing base. Of this N\$8.56bn, approximately N\$3.63bn was issued to businesses, while N\$4.86bn was taken up by individuals.

This strong growth in private sector credit extension is attributable to a number of factors, all of which contribute to, or result from, the current strong performance seen by the Namibian economy.

Increasing employment numbers -due primarily to major construction activity, increasing wages -due to wage settlements above inflation, and wealth effects -due to a developing and growing economy – combine with expansive fiscal policy (reduced tax rates and increases in government expenditure) to increase the disposable income of the populous, which in turn drives demand for credit as this new-found income is leveraged upon in an effort to improve standards of living by individuals. Added to this is the accommodative monetary policy position pursued by the Central Bank, allowing for cheap access to credit, thus incentivizing spending over saving.

On the side of the corporates, a rapidly growing economy results in demand for business services, from construction to retail activity, and thus demand for credit from businesses, be it for expansion, cash-flow management or startup. The culmination of these factors results in abnormally high levels of credit extension growth, despite the ever higher level of outstanding debt by the public.



Interest rates

As mentioned, expansive monetary policy witnessed in Namibia over the past half-decade has contributed significantly to the current high levels of private sector credit extension and private sector credit extension growth. In June 2014, the Bank of Namibia started increasing interest rates (which we believe is the start of a hiking cycle that will see a 2.0 to 2.5 percentage point increase in the base lending rate of the country (repo rate), however, prior to this, Namibia was in a cutting cycle which saw record low interest rates for the country for a prolonged period of time. This cycle began in November 2008, as the world was in the midst of round one of the global financial crisis and resultant recession. At the time, Namibia's outstanding credit within the private sector stood at N\$32.5bn, and in order to support and stimulate aggregate demand in the local economy, the Bank of Namibia slashed rates from 10.5% to 7.0% in 8 months, thereafter bringing rates down further, to 5.5% over the following three years. As a result, Namibia rode out the global headwinds with a fair measure of success, however, outstanding credit to the private sector has now almost doubled to the current levels of N\$63.9 billion.

Credit extension to households

Credit extension to households expanded by 1.2% on a monthly basis, and 14.2% on an annual basis in July, up from 0.7 and 13.7%, respectively, in the preceding month. This strong growth was largely on account of the continued strong demand for installment credit in the country, with installment sales to individuals growing by a whopping 19.2% y-y, and overdrafts, up 23.8% y-y. As a result of this growth, outstanding installment credit to households is now N\$1.02bn more than at the same point in 2013, while outstanding overdrafts are N\$452m higher.

Credit extension to corporates

While private sector credit extension to households continued to expand in July, on a month on month basis, credit extension to business contracted, albeit marginally. While PSCE to corporates was up 17.8% y-y, it declined by 0.8% m-m. This month-on-month decline came about as corporates repaid overdrafts and other loans to the value of N\$822m, which repayment was not offset by new issuance in other categories of PSCE. Despite this monthly contraction in outstanding credit extension to corporates, on an annual basis, strong growth remains. 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.

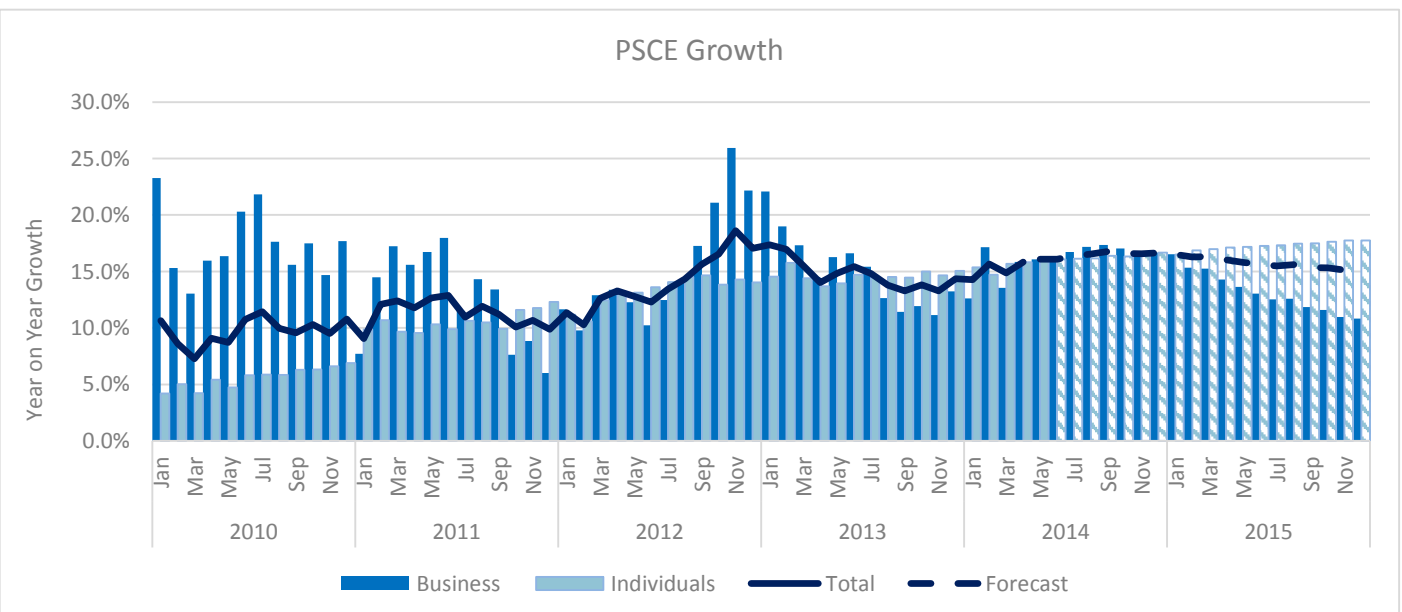
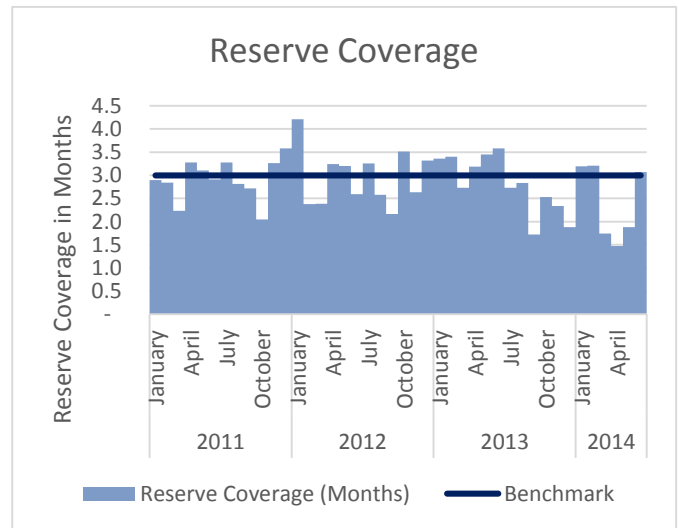
Reserves

Foreign reserves declined by 7.2% month-on-month in July, from N\$15.9bn to N\$14.8bn. This decline is on account of a net outflow of funds on the balance of payments, as a large merchandise trade deficit was seen, and capital inflows in the capital account were insufficient, despite a SACU payment, to offset the negative balance that resulted on the current account of the balance of payments.

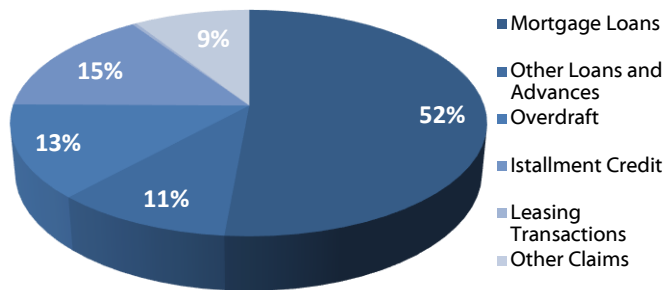
As such, it is expected that the country's reserve position will fall below the benchmark level of three months of import cover in July, as has been the case for most of 2014.

Forecasts

Going forward, we expect to continue to see strong growth in private sector credit, despite the commencement of an interest rate hiking cycle in the country. Due to strong wealth effects as a result of prolonged and abnormally high growth, we believe that demand for credit will remain high, while increases in disposable income will allow suppliers of debt to continue to lend with a fair level of confidence. Additionally, the lagged effects of increasing interest rates mean that it is unlikely that we will see a major impact on credit demand by household for a period of 6 to 18 months, after which higher interest rates can be expected to cause sufficient burn on the pockets of highly leveraged individuals to dampen demand, at which point the supply side of debt is also likely to be more cautious in their credit extension.

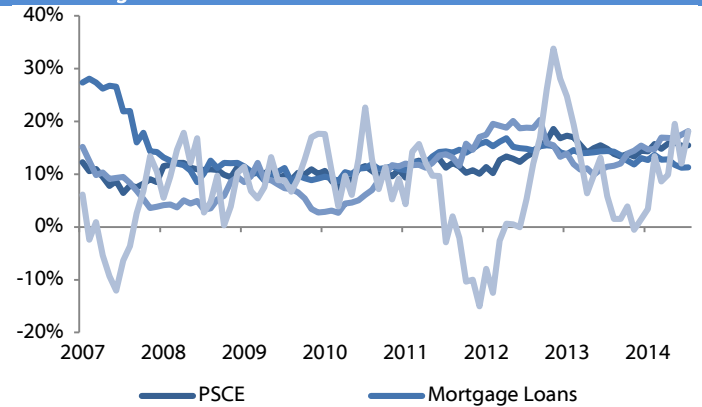


Credit Split

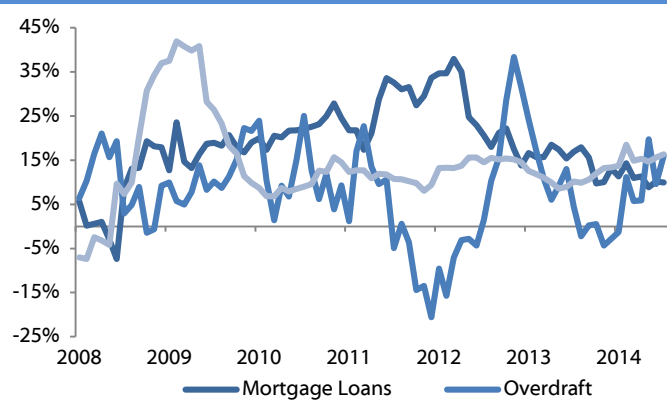


Source: Bank of Namibia

Credit Categories

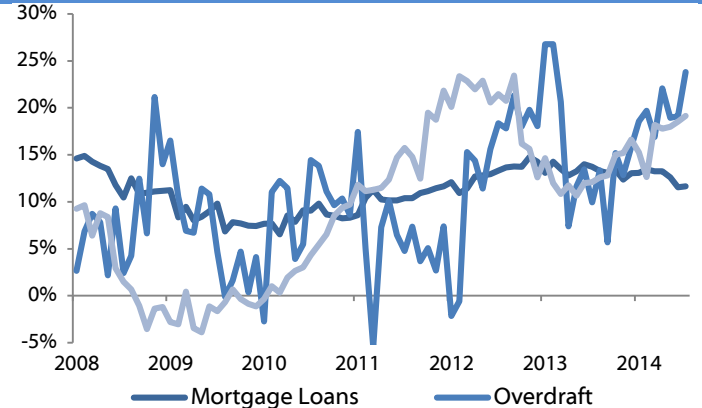


Businesses

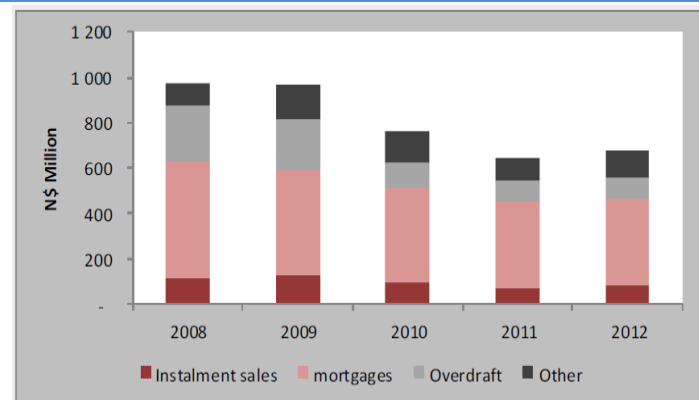


Source: Bank of Namibia

Individuals

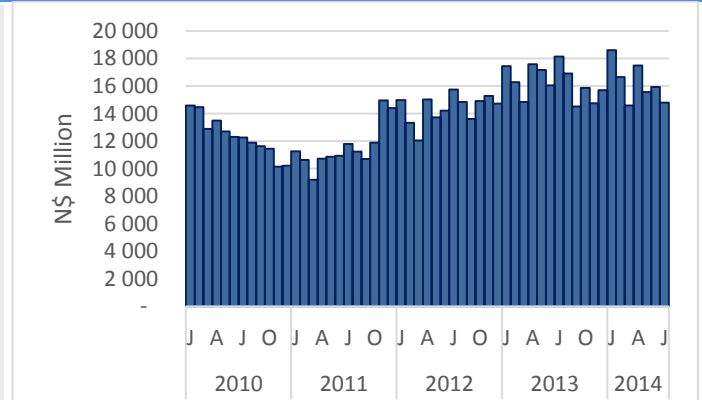


Nonperforming loans per category

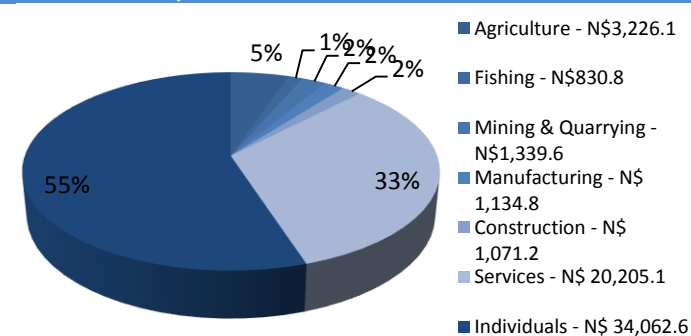


Source: Bank of Namibia

Foreign reserves N\$ millions

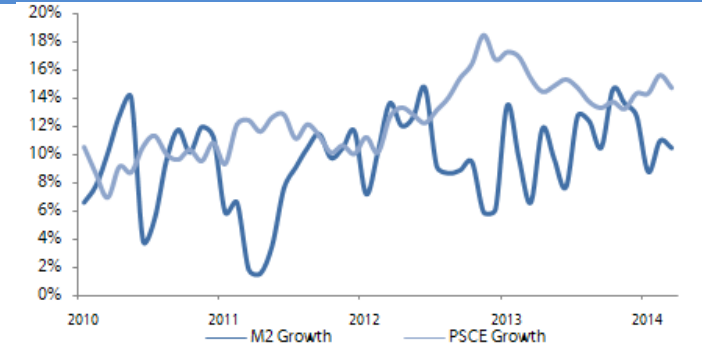


Credit Extension by Sector



Source: Bank of Namibia

M2 and PSCE Growth





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