PSCE – January 2015

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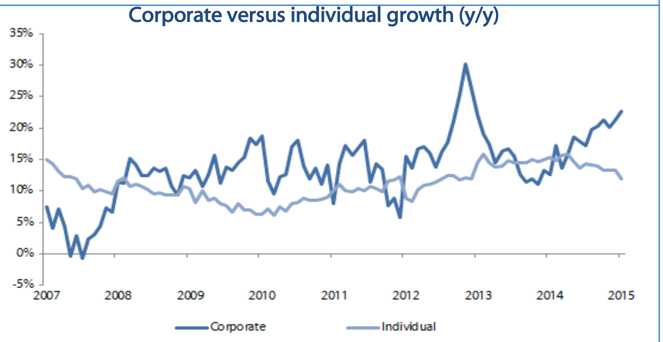
Cyclical decline in PSCE to Individuals

	N$ m	Change in N$ m		% Change	
	Jan-15	One month	One year	Jan-15 m/m	Jan-15 y/y
Corporates	**28 176.2**	**625.4**	**5 207.5**	**2.27%**	**22.67%**
Individuals	**41 374.7**	**(133.2)**	**4 423.2**	**-0.32%**	**11.97%**
Mortgage Loans	35 069.9	(153.8)	4 163.4	-0.44%	13.47%
Other Loans & Advances	7 446.6	368.1	451.5	5.20%	6.45%
Overdraft	9 607.7	288.2	1 546.7	3.09%	19.19%
Instalment Credit	10 585.9	(49.3)	1 551.0	-0.46%	17.17%
Total PSCE	**69 892.6**	**495.8**	**9 713.3**	**0.71%**	**16.14%**

Corporate versus individual growth (y/y)



Source: Bank of Namibia

Overall

Credit extended to the private sector increased by N$495.8m, or 0.71%, in January 2015, taking total credit outstanding to N$69.9bn. On an annual basis PSCE growth decelerated slightly to 16.1%, from the 16.5% in December. A net total of N$9.71bn worth of credit has been extended over the last 12 months, as high growth continues to be seen off an ever increasing base. Of this N$9.71bn, approximately N$5.21bn was issued to businesses, while N$4.42bn was taken up by individuals.

Credit extension to households

Credit extension to households contracted by 0.32% on a monthly basis, but expanded 11.97% on an annual basis in January. This is the first monthly contraction since January 2012, and only the ninth monthly contraction in the last nine years. The actual size of the contraction was small relative to the expansions seen in the previous few periods, and is insignificant in terms of total outstanding household credit. Bank of Namibia cited elevated levels of private sector credit extension as one of their reasons for hiking interest rates in February, but it is questionable whether the 25 basis point increase will have much effect on credit extension. The current period contraction is due to seasonal effects witnessed in January and February. It is also worth noting that the transmission mechanism between rate hikes and PSCE contractions is relatively slow, particularly when interest rate increases are small.

Household mortgage loans contracted by 0.79% month on month and as such was the driver behind the contraction in household credit extension. The contraction was widely spread over the category however, with only subcategory expanding during the month being overdrafts. Mortgage loans continue contribute over 65% of the total value of household credit although this fraction is slowly declining as instalment credit grows more rapidly.

Installment credit continues to makes up the second largest component of credit extended to households (16.5%) but is the fastest growing component with a 12 month average year on year growth rate of over 18%. This points to a nation that is becoming more comfortable with the use of debt for private consumption. Installment credit is often used to purchase consumer goods and could be seen as a non-productive utilization of credit. Much of this is spent on imported goods which puts pressure on the country's reserve position when too large.

Credit extension to corporates

Credit extension to corporates grew by 22.67% year-on-year in January, meaningfully higher than the growth of credit extended to households once again. Mortgage loans, the largest component of credit extended to corporations, grew by 0.77% m/m and 23.6% y/y, once again illustrating the seasonal effect of credit extension on mortgages and other credit. On a month on month basis loans and other advances as well as overdraft credit continues to drive credit extended to corporates, while instalment credit experienced a contraction. The seasonal effects seen in credit extended to households is mitigated by high growth in loans and other advances attributable to corporates during the month in review.

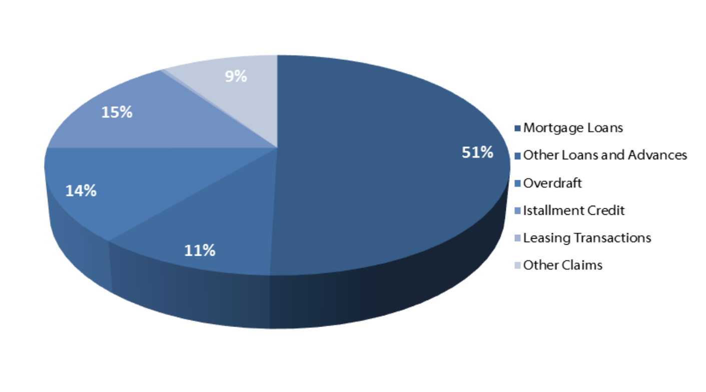
Reserves and money supply

Foreign reserves increased by 21.7% m/m in January, from N$13.5bn to N$16.5bn, but declined 11.5% y/y. The usual SACU payment in January has elevated the reserve position to more sustainable levels, although still lower than last year January. The M2 money supply saw a slight decrease of 0.23% from December as transferable deposits held with BoN fell by 4.2%.

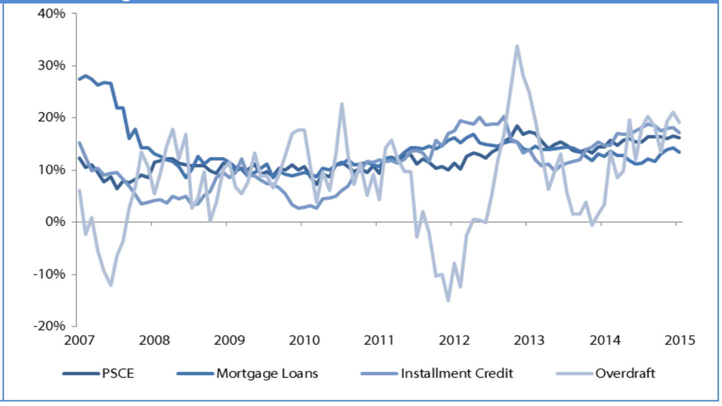
Outlook

Due to strong wealth effects as a result of prolonged and abnormally high growth, we believe that demand for credit will remain high, while real income growth 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 households for a period of 6 to 18 months after rate hikes start, provided that the magnitude of the hiking cycle is sufficient to cause an impact.

Credit Split

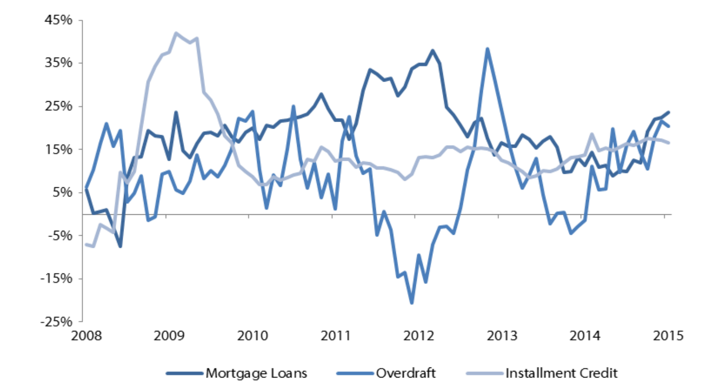


Credit Categories

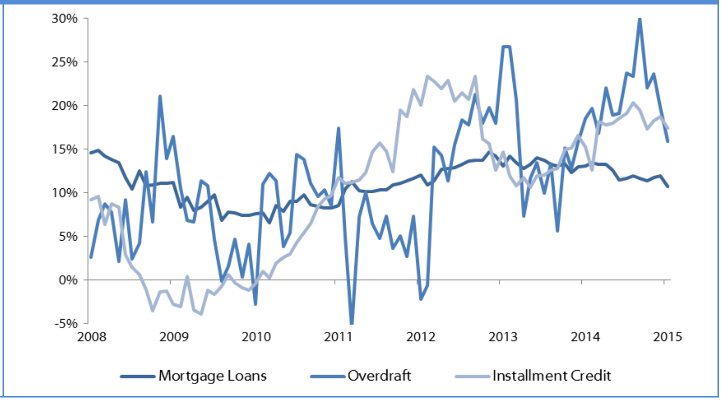


Source: Bank of Namibia

Businesses

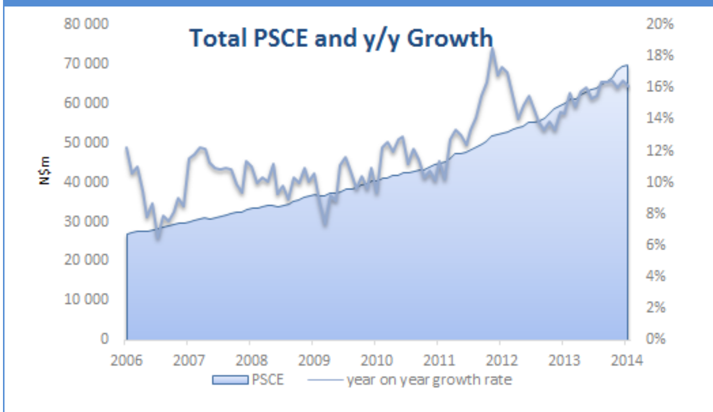


Individuals

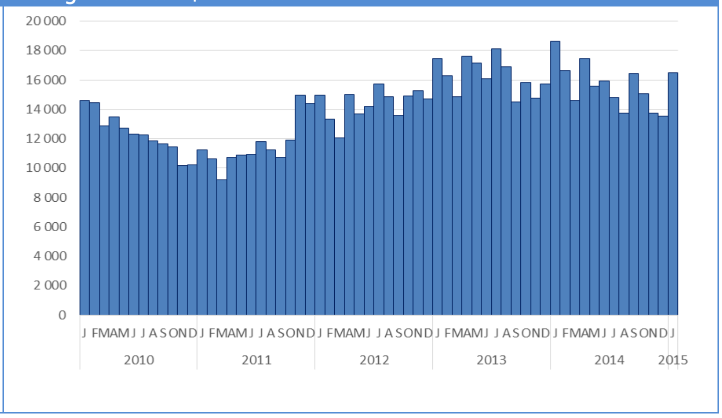


Source: Bank of Namibia

PSCE Growth



Foreign reserves N$ millions



Source: Bank of Namibia

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