PSCE – March 2015

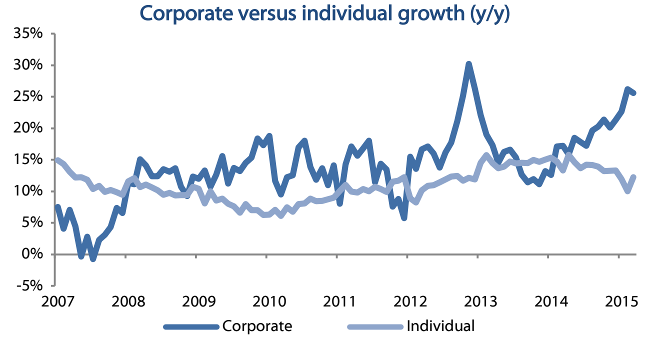
30 April 2015

PSCE expanding off an elevated base

	N$ m	Change in N$ m		% Change	
	Mar-15	One month	One year	Mar-15 m/m	Mar-15 y/y
Corporates	**30,197.7**	**477.9**	**7,229.0**	**1.61%**	**25.61%**
Individuals	**41,512.1**	**567.4**	**4,560.6**	**1.39%**	**12.23%**
Mortgage Loans	35,614.5	220.1	4,708.0	0.62%	12.87%
Other Loans & Advances	8,466.7	804.0	1,471.5	10.49%	22.58%
Overdraft	9,658.1	(170.1)	1,597.1	-1.73%	18.94%
Instalment Credit	11,032.0	220.4	1,997.1	2.04%	18.96%
Total PSCE	**72,084.5**	**1,056.2**	**11,905.3**	**1.49%**	**17.59%**

Source: Bank of Namibia

Corporate versus individual growth (y/y)



Overall

Total credit extended to the private sector increased by N$1.1bn, or 1.49%, in March 2015, taking total credit outstanding to N$72bn. On an annual basis PSCE growth accelerated slightly to 17.6% from 16.4% in February, an elevated rate of extension off an ever increasing base. A net total of N$10.8bn worth of credit has been extended over the last 12 months. Of this N$10.8bn, approximately N$6.2bn was issued to businesses, while N$4.5bn was taken up by individuals.

Credit extension to households

Credit extension to households expanded by 1.4% on a monthly basis and 12.2% on an annual basis in March, showing little reaction to the interest rate increase of February 2015. It is worth remembering that the transmission mechanism between rate hikes and PSCE contractions is relatively slow, particularly when interest rate increases are small.

Household mortgage loans expanded by 0.62% month on month while overdrafts dragged, contracting by 1.73%. Other loans and advances expanded by 10.5% on a monthly basis, and instalment credit expanded by 2.0%. While mortgage loans continue to make up the majority of credit extended to households it continues to register slower growth than the second largest component, instalment credit.

Installment credit is the fastest growing component of credit extended to households with a 12 month average year on year growth rate of 19.0%. This points to a nation that is becoming more comfortable with the use of debt for private consumption. While mortgage loans are used to purchase assets 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.

Credit extension to corporates

Credit extension to corporates grew by 1.6% on a month on month basis and 25.6% year-on-year in March, meaning fully higher than the growth of credit extended to households once again. This expansion was, primarily, driven by huge growth in "other loans and advances", which expanded by 44.7% y/y. The rapid uptake of credit by businesses can, at least partly, be attributed to the rapid expansion of the local economy as well as the potential growth in such yet to be unlocked.

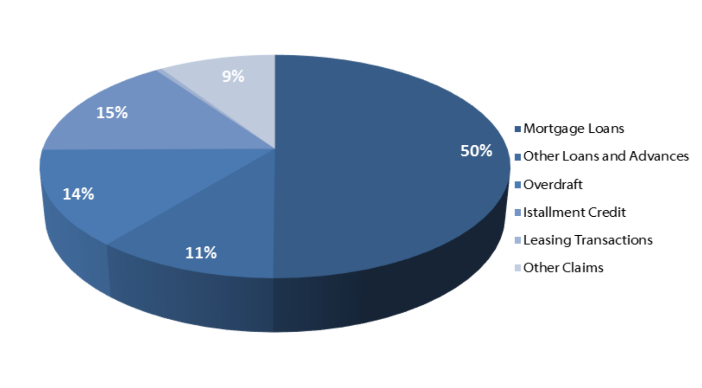
Reserves and money supply

Foreign reserves decreased by 17.6% m/m in February, from N$14.9bn to N$12.3bn, the lowest level since March 2012, despite on-going currency depreciation. Because of this massive decline in reserves, as well as the depreciation, BON now has only U$1bn worth of national reserves, a highly precarious position in which to put the country. It should also be noted that the Rand and hence the Namibian Dollar has been appreciating versus the Euro and many other emerging market currencies over the last year or so, but depreciation vis-à-vis the dollar.

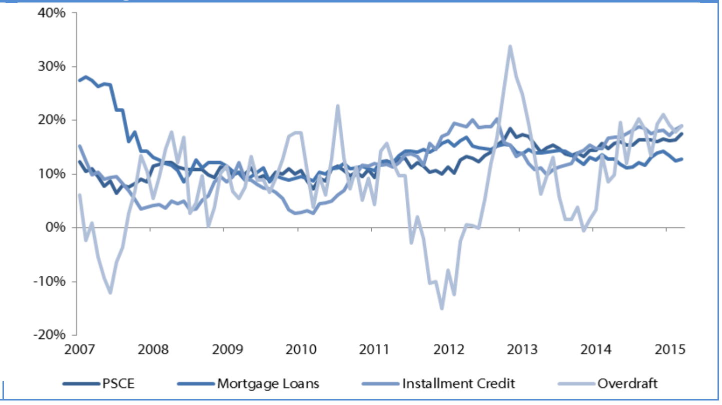
Outlook

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. However, the decline in reserves is cause for concern, as is the peculiar growth in installment credit seen through March, and these factors may result in a sooner, and more aggressive, interest rate hike than previously expected.

Credit Split

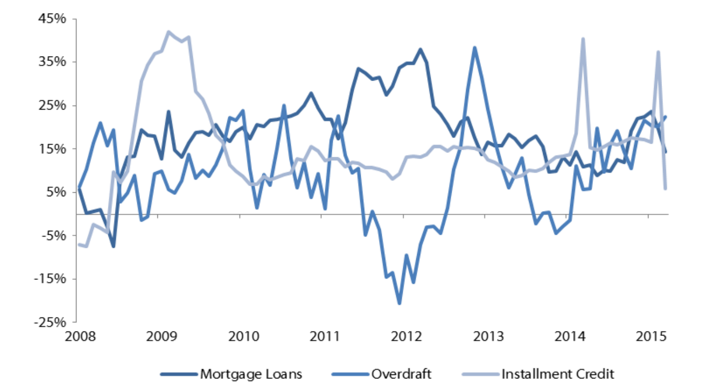


Credit Categories

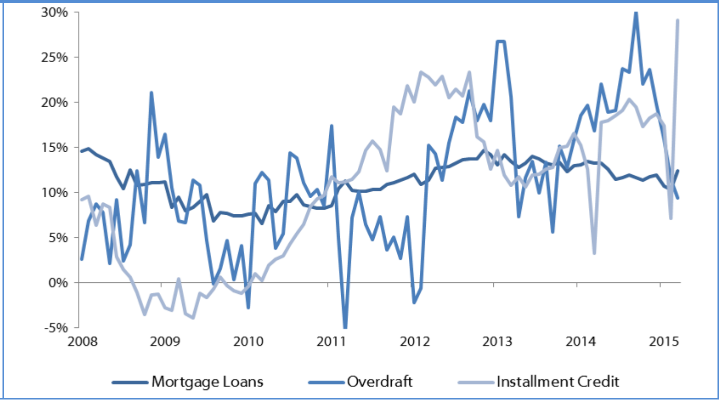


Source: Bank of Namibia

Businesses

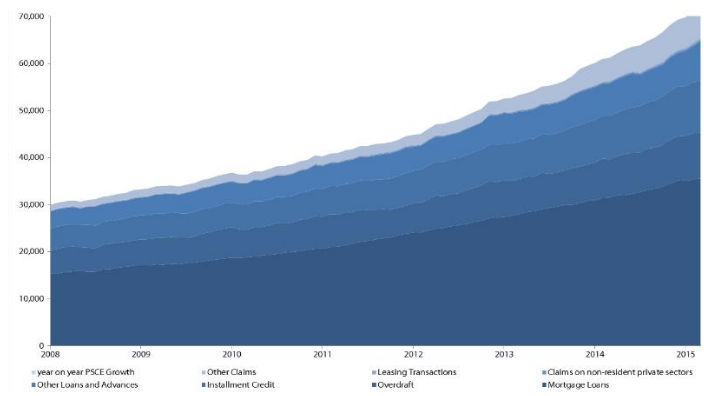


Individuals

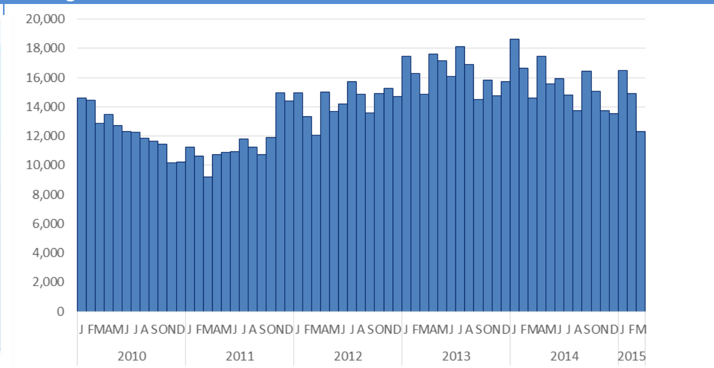


Source: Bank of Namibia

PSCE Growth



Foreign reserves N$ millions



Source: Bank of Namibia

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