Private sector credit extension growth remains high, driven by both business and individual demand

<table>
<thead>
<tr>
<th>N$ m</th>
<th>Change in N$ m</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan-14</td>
<td>One month</td>
</tr>
<tr>
<td>Corporate</td>
<td>22,968.7</td>
<td>266.3</td>
</tr>
<tr>
<td>Individuals</td>
<td>36,951.5</td>
<td>330.9</td>
</tr>
<tr>
<td>Mortgage Loans</td>
<td>30,906.5</td>
<td>63.8</td>
</tr>
<tr>
<td>Other Loans &amp; Advances</td>
<td>6,995.2</td>
<td>46.1</td>
</tr>
<tr>
<td>Overdraft</td>
<td>8,061.0</td>
<td>367.2</td>
</tr>
<tr>
<td>Instalment Credit</td>
<td>9,034.9</td>
<td>39.1</td>
</tr>
<tr>
<td>Total PSCE</td>
<td>60,179.2</td>
<td>601.8</td>
</tr>
</tbody>
</table>

Source: Bank of Namibia

Overall

Credit extended to the private sector increased by N$601.8 million, or 1.0%, in January 2014 to N$602.2 billion. On an annual basis PSCE growth remains strong, increasing 14.4%, with total credit outstanding N$8.1 billion more than a year ago. The strong growth showing in January 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 38.9% to 61.1%.

Credit extension to households

Credit extension to households expanded by 0.9% on a monthly basis and 15.4% on an annual basis in January, which is a slowdown in growth when compared to the preceding month. Non-the-less, growth remains well above the long term average level. 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 to month basis is that of overdrafts which expanded by 8.18% and other loans and advances which increased by 1.41%. The large increase in overdrafts is likely to be on account of December and January being relatively high cost months on account of the festive period. Over the past year, the majority of the credit extended to households (N$2.8 billion out of a total of N$4.9 billion) was in the form of mortgage loans, which expanded by 13.08%, largely reflecting strong house price increases in Windhoek and at the coast.

The other main category of credit extension, driving growth in household credit on a year-on-year basis is that of instalment sales, which expanded by 15.26% in January, slowing from 16.63% growth in December. Installment sales credit includes credit extended for the purchase of vehicles, electronics and other consumer goods bought with instalment 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 in the case of Namibia, placing pressure on the country’s balance of payments and reserves.

Credit extension to corporates

Credit extension to corporates grew by 12.6% year-on-year in January, down from 13.2% in December. 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 overdrafts that expanded by 3.54%, while leasing transactions increased 4.26%. On a year-on-year basis, mortgage Loans expanded by 11.32%, while leasing transactions increased 22.22%. 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 increased 18.5% month-on-month to N$18.6 billion at the end of January 2014 on top of an expansion of 6.5% in December. The increase in reserve holding is mainly attributed to a quarterly SACU payment received in January, amounting to some N$3.6 billion.

M2 expanded 8.8% in January, a growth slowdown from the 12.8% in December. This is mainly because of a contraction in Net Foreign Assets of 1.1% year-on-year.

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, growth in credit extension to corporates is expected to remain sizable as corporate’s are largely unaffected by the Bank of Namibia’s rates.
Credit Split

Source: Bank of Namibia

Credit Categories

Source: Bank of Namibia

Businesses

Source: Bank of Namibia

Individuals

Source: Bank of Namibia

Nonperforming loans per category

Source: Bank of Namibia

Foreign reserves N$ millions

Source: Bank of Namibia

Value in N$ million and Percentage Breakdown

Source: Bank of Namibia

M2 and PSCE Growth

Source: Bank of Namibia
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