The lagged effects of increasing interest rates mean a 2.27% increase on an annual basis in the magnitude of the that it is unlikely that we will see a major impact on credit demand by household growth. Due to strong wealth effects as a result of prolonged and abnormally elevated the reserve position to more sustainably. Foreign reserves househoues is mitigated by continues to drive credit extended to corporates, while instalment credit experienced a contraction. Seasonal effect of credit extension on mortgages and other credit again transmission mechanism between rate hikes and PSCE contractions. 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 22.6% 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 corporates, 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.
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