

03 February 2020

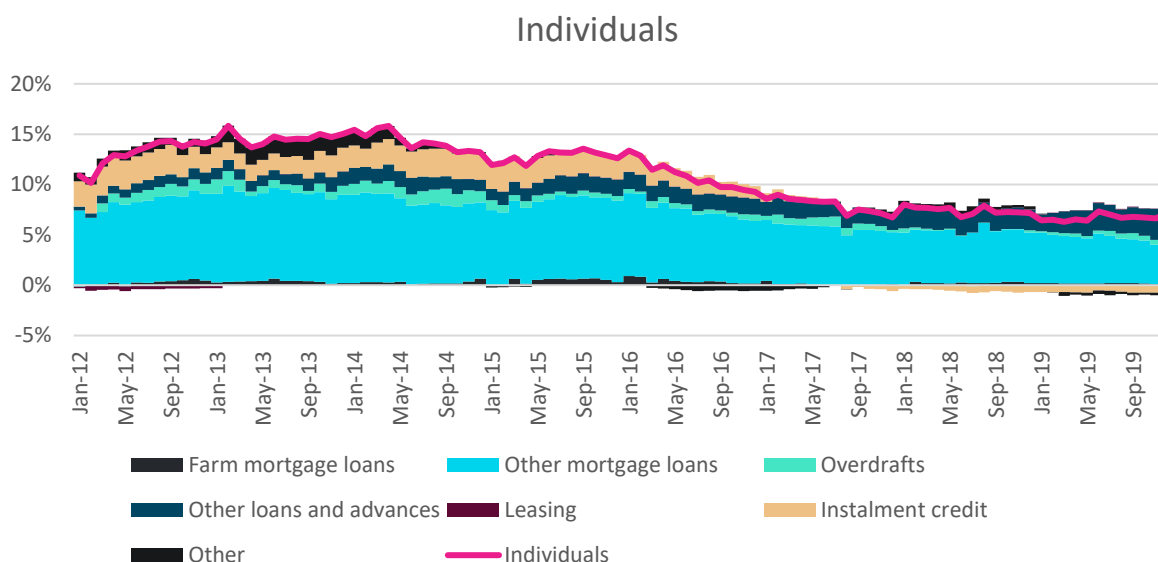
CIRRUS
SECURITIES

Private Sector Credit Extension

	N\$ Million Outstanding	Change in N\$ Million		% Change	
		MoM	YoY	MoM	YoY
Individuals	61,352.1	758.8	4,110.1	1.3	7.2
- Mortgage Loans	41,302.9	224.0	2,309.3	0.5	5.9
- Other Advances & Loans	8,606.6	469.4	2,087.2	5.8	32.0
- Overdraft	3,405.1	36.1	257.7	1.1	8.2
- Installment Credit	6,407.7	30.6	-408.7	0.5	-6.0
Businesses	41,419.2	666.4	2,763.6	1.6	7.1
Total PSCE	103,736.6	1,429.2	6,703.2	1.4	6.9

Growth in credit extended to the private sector ramped up in the month of December 2019 with YoY growth of 6.9%, 1.1 percentage points higher than was experienced in November. However, growth was 0.6 percentage points slower as compared to December 2018. This resulted in MoM and YoY extensions of N\$1.4 billion and N\$6.7 billion, respectively, to an outstanding amount of N\$103.7 billion. Both extension growth to individuals and businesses ramped up into the festive month moving up to 7.2% and 7.1%, respectively, as extension to individuals and business moved up 200 and 60 basis points over the month. Non-resident extension growth acted as a drag on growth, falling 15.0% annually to N\$965 million.

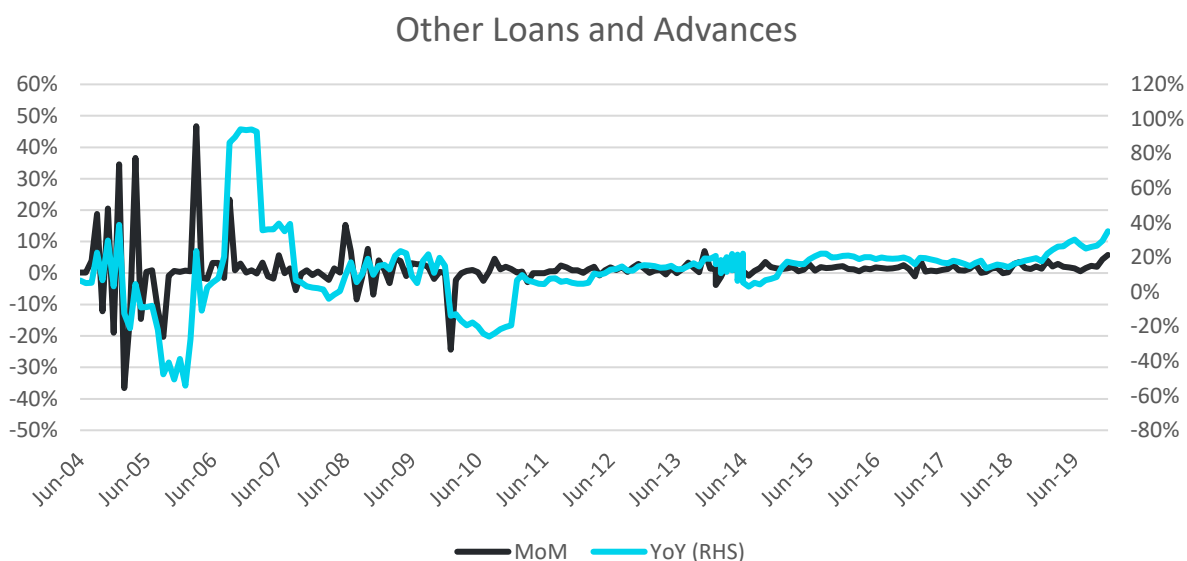
Individuals



Credit extended to individuals grew by 7.2% annually, or N\$4.1 billion, a significant increase of 0.6 percentage points as compared to the previous month. Credit extension to individuals experienced MoM growth of 1.3% - the largest MoM extension growth in 40 months. This resulted in an outstanding amount of N\$61.4 billion in credit to individuals.

Mortgage extension growth remained subdued with extension growth of 5.9%. This is expected to continue through 2020, as household disposable income remains under pressure and the risky credit environment makes the banks more cautious lenders, owing to the overall low-growth economy.

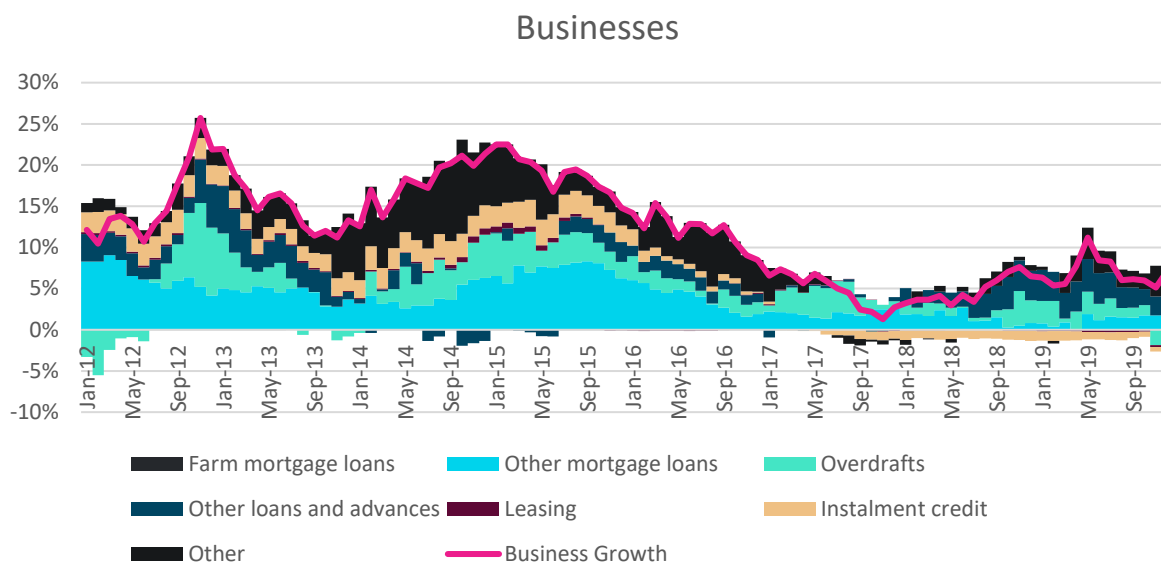
Other loans and advances continued to grow in excess of 20%, annually, accelerating further into December by 5.6 percentage points, over the month, to 35.1%. Moreover, growth in this line, on a monthly basis, moved up by 150 basis points. As this line item represents personal/commercial loans and credit cards, it is natural that there is a strong seasonal component, as individuals increase expenditure over the festive season, however the magnitude of said growth is worrisome. On a monthly basis, growth in the line is the highest in 79 months and on an annual basis the highest since August 2007. This is indicative of weak household balance sheets as household indebtedness remains high.



Growth in overdrafts slowed by 0.8 percentage points, as compared to November, amounting to an annual growth of 8.2%. The relatively strong growth here is a further indication, in the context of the surge in other loans and advances, of strained households using short-term facilities to fund their expenditure over the festive period.

Instalment credit continued to post negative growth for the 29th consecutive month, with annual growth of -4.5%. Vehicle sales recorded an annual contraction of 13.5% in December 2019 and recorded the lowest annual sales in a decade.

Businesses



Growth in credit extended to businesses moved up into December, both on an annual and a monthly basis, with respective increases of 0.6 and 2.1 percentage points. This translated into monthly and annual extension growth figures of 1.6% and 7.1%, respectively, with outstanding extensions of N\$41.4 billion to businesses, an annual increase of N\$2.8 billion.

The uptick in growth was largely due to an uptick in short-term debt facilities utilized by businesses. Growth in overdrafts moved out of the negative territory in December with annual growth 0.5% - 2.4 percentage points higher than was experienced in the prior month – removing the drag on overall growth in extensions. On a monthly basis, this translated into growth of 4.9%.

Moreover, other loans and advances saw growth move up 2.0 percentage points, on a monthly basis, to 17%. This is uptick of short-term debt facilities does too contain a strong seasonal component to it as businesses exercise facilities to manage their working capital and take advantage of improved consumer spending over the festive season.

Interest Rates

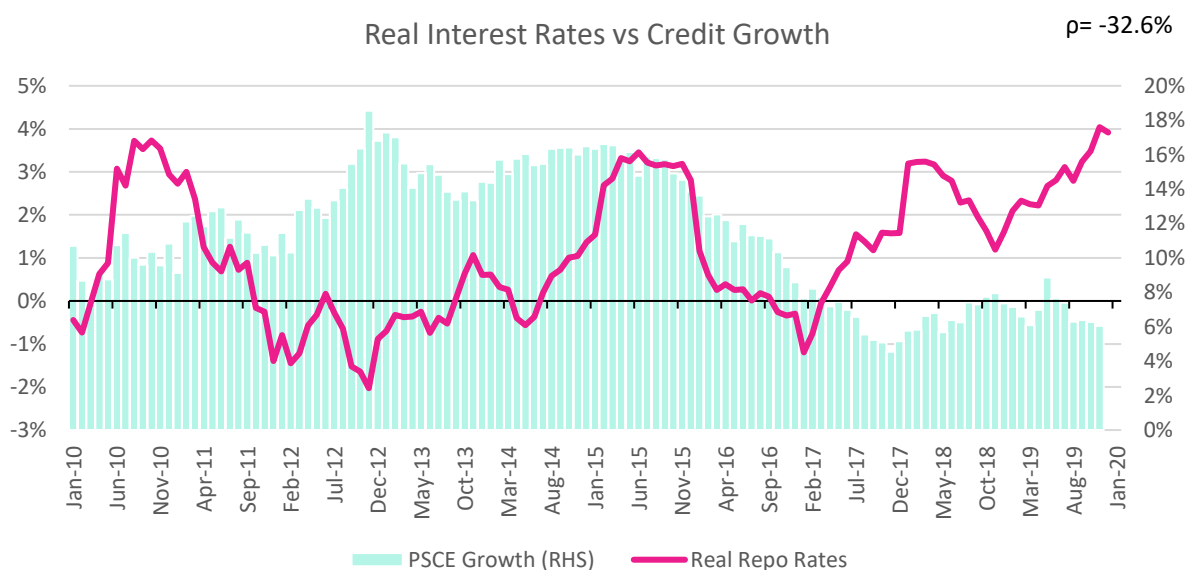
On 16 January, in a somewhat unexpected move, the South African Reserve Bank (SARB) cut their repo rate by 25 basis points to 6.25%. The country's economy continues to struggle, leading the IMF cutting its growth estimates for 2020 down 0.3 percentage points to 0.8%. Moreover, inflation in the country remains at the lower level of its target band as the national average, for 2019, amounted to 4.1%.

These macroeconomic conditions have been experienced in Namibia as well – at a more exacerbated rate. Our estimates for 2019 reveal that the country contracted 1.8%, and a low growth environment is anticipated for 2020. Moreover, the country experienced low inflation in 2019, averaging 3.7% for the year and this sentiment will be brought forward into 2020.

For these reasons, we expect Bank of Namibia (BoN) to follow the SARB's policy decision and cut its repo rate by 25 basis points, thereby equating the two countries rates at 6.25%. This should alleviate some pressure for households and businesses alike, however the benefits will be marginal.

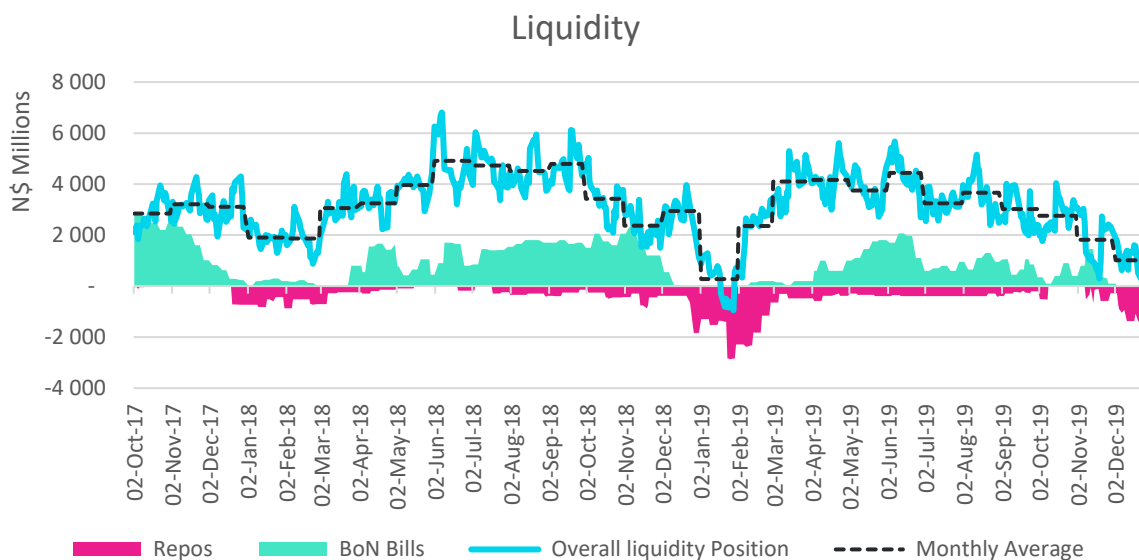
A strong motive for this the high indebtedness of households in the country. Debt-to-disposable income currently amounts to 95.5%, and given the low level of formal employment in the country, households have limited scope to take on additional debt.

Another factor restricting extension growth, is that of higher real interest rates experienced. As Namibia enters a lower interest rate environment, when accounting for inflation, real interest rates are at their highest observable level since 2005 and are anticipated to remain at these elevated levels. As illustrated below, during periods of low (in some cases negative) real repo rates; credit extension growth displayed strong double-digit growth for several years. However, as real interest rates continued to rise, in the last 3 years, credit extension slowed dramatically to the lower figures experienced recently.



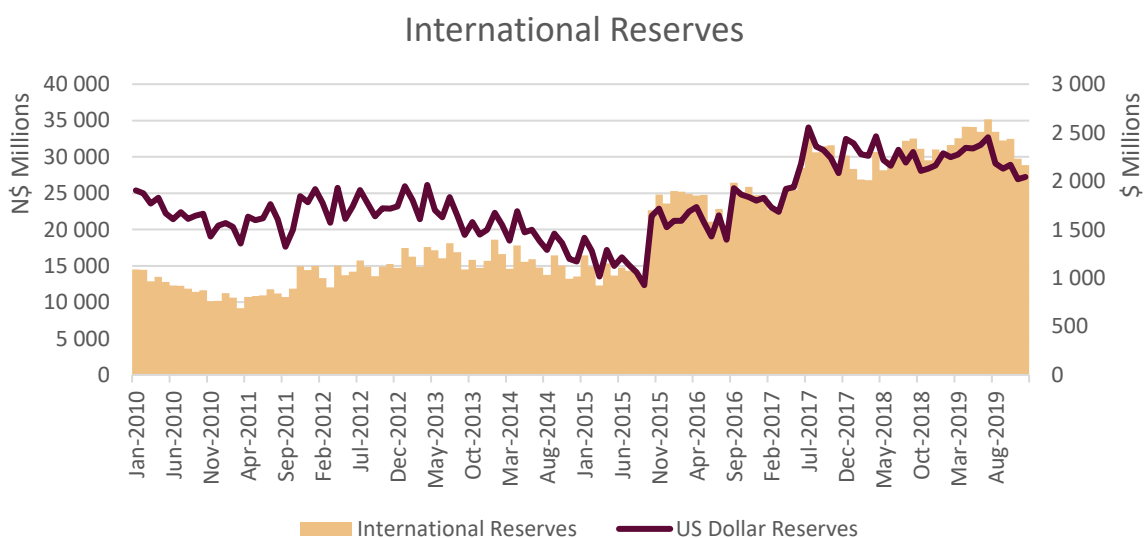
The current decade correlation coefficient suggests that a -32.6% relationship exists between real repo rates and credit growth extension. However this relationship has strengthened as the 5 year correlation coefficient suggests that a -57.3% relationship exists. Intuitively, as the economy continues to experience low growth, high (rising) unemployment and high debt levels, creditors will continue to be more sensitive to interest rate movements – with more sensitivity to the upside movements. This is therefore indicative that more accommodative monetary approach will not fuel growth in extensions. Moreover, while we see administered rates decreasing (i.e. repo), market-determined rates are moving in the opposite direction – for example TB yields edging up in recent auctions.

Liquidity



Liquidity continued to fall, for the fourth consecutive month, into December averaging N\$976 million as compared to N\$1.8 billion in the prior month. Moreover, liquidity fell into negative territory over the last week of the month bottoming at -N\$535 million at the end of the month. However, this is a seasonal observation as tax payments are made during the period thus lowering liquidity levels. Repo facilities continued to be exercised, at a much larger rate than the prior month, which is indicative of the lower liquidity levels.

International Reserves



Foreign reserves fell for a second consecutive month into December with MoM growth of - 3.0%, a value decrease of N\$905 million. During this period the ZAR experienced an appreciation relative to the USD. BoN attributed the decrease mainly due to net purchases of rands by commercial banks for import payments coupled with increasing Government foreign payments.