Private Sector Credit Extension

	N$ Million	Change in N$ Million		% Change	
	Outstanding	MoM	YoY	MoM	YoY
Individuals	**58,775.2**	**42.4**	**3,149.7**	**0.1**	**5.2**
- Mortgage Loans	40,444.7	101.3	2,006.3	0.3	5.0
- Other Loans & Advances	8,011.5	-4.9	1,460.5	-0.1	20.0
- Overdraft	2,384.6	5.3	215.8	0.2	10.0
- Installment Credit	6,342.6	-41.7	-472.5	-0.7	-7.0
Businesses	**42,776.7**	**-144.9**	**485.2**	**-0.3**	**-1.7**
Total PSCE	**102,285.7**	**-129.9**	**3,322.6**	**-0.1**	**1.8**

Growth in credit extended to the private sector moved down significantly in May 2020 with YoY growth of 1.8%, 153bps lower than was experienced in April. This is lower the inflation experienced over the period – with the inflation print in May amounting to 2.1%. Moreover, growth was 4.0 percentage points slower as compared to May 2019. This resulted in MoM and YoY extensions of -N$130 million and N$3.3 billion, respectively, to an outstanding amount of N$102.3 billion. Both extension growth to individuals and businesses slowed over the month, moving down 44bps and 286bps to 5.2% and -1.7%, respectively. Non-resident extension growth continued to act as a drag on growth contracting by 31.8% annually to N$733.9 million.

Individuals

Credit extended to individuals grew 5.2% annually, or N$3.1 billion, a decrease of 0.4 percentage points as compared to the previous month. Credit extension to individuals experienced MoM growth of 0.1%, a marginal improvement given the net repayment in the previous month. Additionally, monthly repayments were once again observed across several household credit lines, namely Other loans & advances and Instalment credit. This resulted in an outstanding amount of N$58.8 billion in credit to individuals.

Mortgage extension growth continued to move down with extension growth of 5.0%, 0.2 percentage points lower than was experienced in March 2019, thereby extending the downward trend in the line since November 2018, after a single instance of trend disturbance in March 2020. This is the lowest observable value since September 2004.

Other loans and advances continued to grow in excess of 20.0%, annually, however slowed down a further 2.3 percentage points, over the month, to 20.0%. Similarly, growth in this line amounted to -0.1% on a monthly basis. This strong annual growth is indicative of weak household balance sheets as household indebtedness remains high. Moreover, as more individuals' incomes come under pressure, due to income reductions and retrenchments, these short-term facilities will continue to be utilised to finance income shortfalls.

Growth in overdrafts remained rigid, as compared to April, amounting to annual growth of 10.0%. 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 pandemic induced expenditure.

Instalment credit continued to post negative growth for the 32nd consecutive month, with annual growth of -7.0.%. May saw vehicle sales rebound significantly, due to base effects, however vehicle sales on an annual basis remained subdued with -55.5%.

Businesses

Growth in credit extended to businesses moved down significantly into May, both on an annual and a monthly basis, with respective decreases of 6.6 and 3.5 percentage points. This translated into monthly and annual extension growth figures of -1.5% and 1.1%, respectively, with outstanding extensions of N$42.9 billion to businesses, an annual increase of N$485 million. This annual growth is the lowest observable growth since November 2005 and is the first annual contraction since December 2005. Moreover, this is the second consecutive month that business extensions saw a net repayment.

	One Month Change (Millions)	One Year Change (Millions)	MoM %	YoY %
Businesses	**-144.9**	**485.2**	**-0.3**	**-1.7**
Loans and Advances	17.7	325.9	0.1	-2.2
Mortgage Loans	*52.4*	*-14.5*	*0.4*	*-3.7*
Other Loans & Advances	*87.1*	*787.3*	*1.1*	*8.5*
Overdraft	*-121.9*	*-446.9*	*-1.2*	*-8.1*
Instalment Credit	-51.2	-273.3	-1.4	-9.1
Leasing Transactions	-8.1	-68.6	-3.2	-24.8
Other	-103.2	501.1	-1.3	5.0

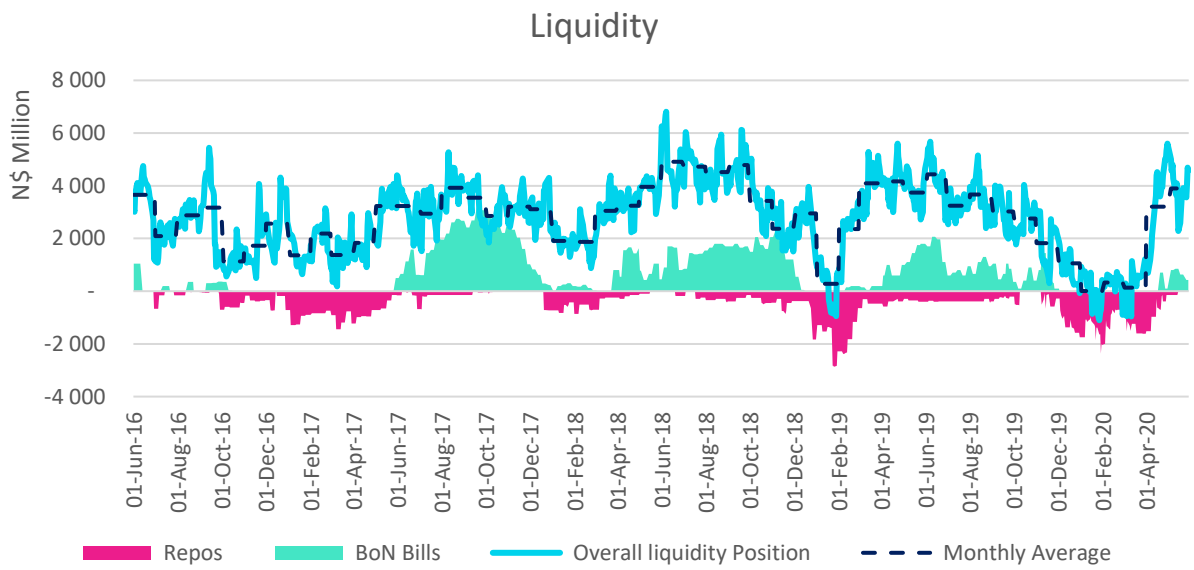
The slowing of extension growth was largely due to net repayment of both short-term debt and mortgage facilities utilized by businesses. Growth in overdrafts moved down significantly into May with annual growth of -8.1%, 3.8 percentage points lower than was experienced in the prior month. This amounted to a net repayment of N$446.9 million on an annual basis. Monthly this translated into growth of -1.2% and amounted to total outstanding overdrafts of N$9.8 billion. Moreover, growth in other loans and advances saw monthly and annual growth of 1.1% and 8.5%, respectively. Other claims saw a further slowdown in growth on an annual basis, moving down 1.5 percentage points down to 5.0%, totalling N$8.1 billion in May. This represented a net repayment of 1.3% on a monthly basis.

The slowdown in extensions to business is not unanticipated as supply side effects will dampen extension growth due to risk management. Given the weak balance sheets of businesses, having dealt with 4 years of little to no economic growth, a dampened outlook for the economy in 2020 and increasing non-performing loans, banks will be more cautious with their credit extension. Moreover, banks will continue to amend their asset management strategies and participate more in government debt auctions as the spread between administered and market determined rates are at historic lows.

Interest Rates

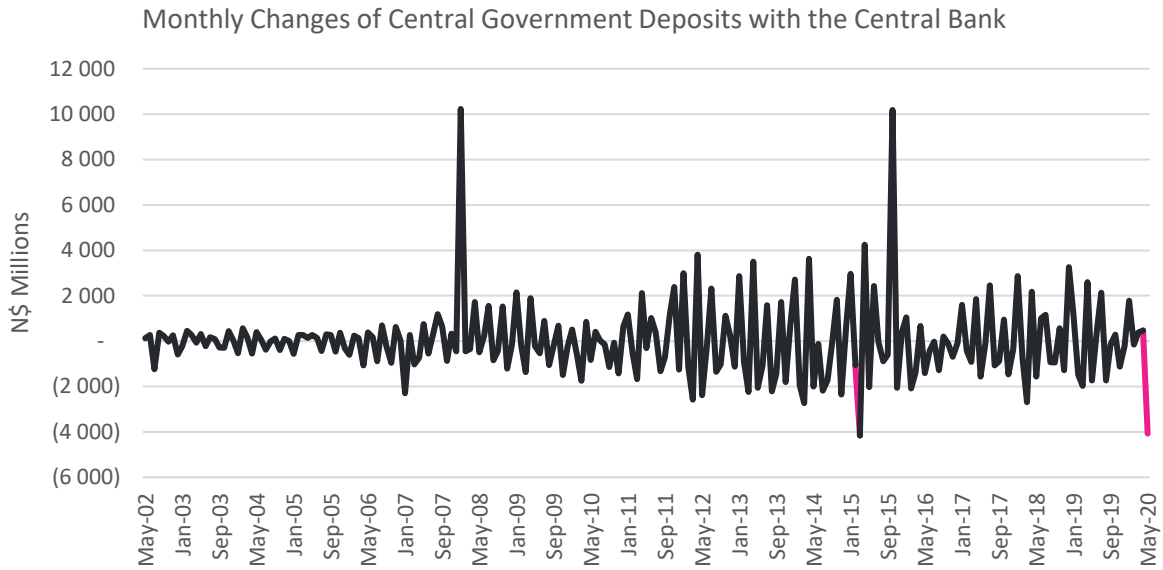
On 17 June, the Bank of Namibia's (BoN) monetary policy committee elected to cut the repo rate by 25 bps to 4.00%. This final cut results in a cumulative reduction in the repo rate of 250 bps since the beginning of the year. The committee openly illustrated that this decision balances the need for further monetary stimulus, in the wake of pandemic-induced weakness, vs the importance of sound saving and investment decisions in the economy. This action has deliberately left a spread between Namibian and South African rates of 25 bps. This is an especially welcomed decision by the Namibian MPC, as the effectiveness of further accommodative monetary policy stances on the economy is not guaranteed. Moreover, Namibian real rates are currently higher than are observable in South Africa – however this is mostly the result of lower inflation reported in Namibia.

Liquidity and Government Spending

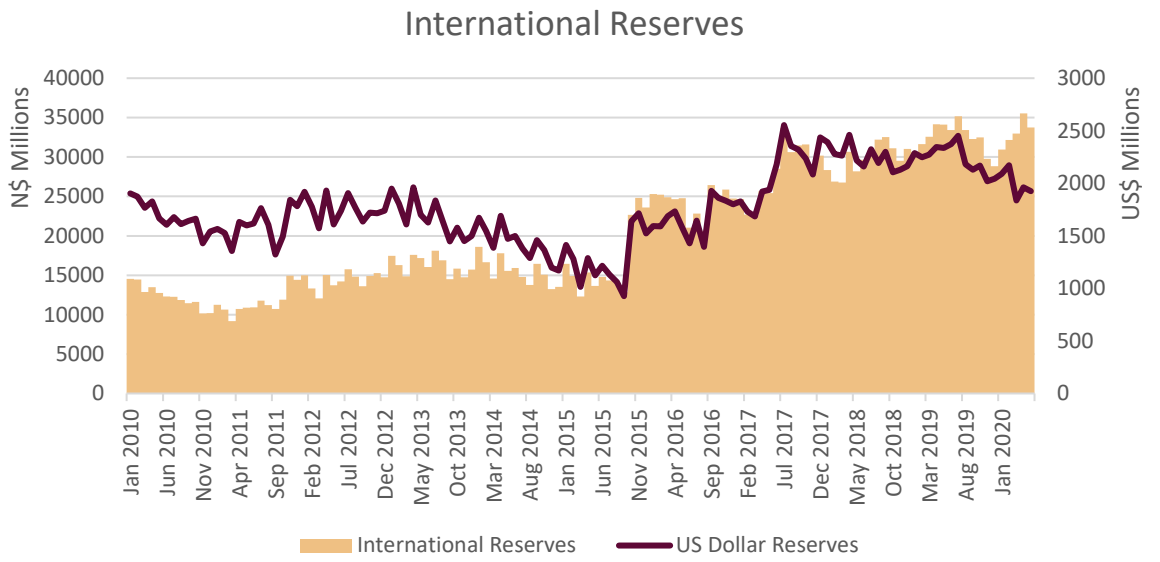


Liquidity continued to improve into May, averaging above N$1 billion for the second time in 2020. Liquidity in May averaged N$3.9 billion as compared to N$3.2 billion in April. The high liquidity level during the period under review was primarily due to fiscal operations observed in the month. The government made several other payments in May related to the COVID-19 stimulus package, such as the Emergency Income Grant and VAT refunds thereby contributing to the observed spike in liquidity levels.

Finally, May saw significant drawdowns in the government's balances with BoN. Over the period, Government's cash balances with the central bank moved down significantly by N$4.1 billion to N$4.3. This is second instance of such an event, by this magnitude, in our time series since May 2002.



International Reserves



Foreign reserves decreased in May, on a monthly basis, decreasing by 5.1% to N$33.7 billion, representing a value decrease of N$1.8 billion. Moreover, reserves decreased on an annual basis by 1.1%. During this period, the ZAR experienced an appreciation relative to the USD. The decrease in reserves was mainly due to Government payments and exchange rate revaluations due to the appreciation of the Namibia dollar against US currency over the period.