

Money and Banking Statistics

01 Sep '20

July 2020

The Bank of Namibia reported that private sector credit extension growth moved down 60bps in the month of July 2020 to 2.3%, from 2.5% the previous month, to an outstanding amount of N\$101.6 billion.

Private Sector Credit Extension

	Outstanding Amount	One Month Change	One Year Change	M/M (%)	Y/Y (%)
Total Claims on the Private Sector	102 242.0	-476.2	1 918.6	-0.5	1.9
<i>Other financial corporations</i>	5 596.6	201.7	-13.7	3.7	-0.2
Other nonfinancial corporations (Businesses)	42 505.2	-639.1	-485.6	-1.5	-1.1
Loans and Advances	38 824.7	-581.2	-49.5	-1.5	-0.1
Mortgage Loans	12 609.4	180.3	-797.5	1.5	-5.9
Other Loans & Advances	16 279.3	-525.1	1 024.0	-3.1	6.7
Overdraft	9 936.1	-236.4	-276.0	-2.3	-2.7
Instalment and Leasing	3 680.5	-57.9	-436.1	-1.5	-10.6
Other resident sectors (Households)	59 069.0	164.9	2 754.5	0.3	4.9
Loans and Advances	52 680.9	165.5	3 256.1	0.3	6.6
Mortgage Loans	40 854.6	251.3	1 957.7	0.6	5.0
Other Loans & Advances	9 539.2	-4.4	1 198.6	0.0	14.4
Overdrafts	2 287.1	-81.4	99.9	-3.4	4.6
Instalment and Leasing	6 388.1	-0.7	-501.7	0.0	-7.3
Claims on non-resident private sector	667.9	-1.9	-350.2	-0.3	-34.4

Source: Bank of Namibia

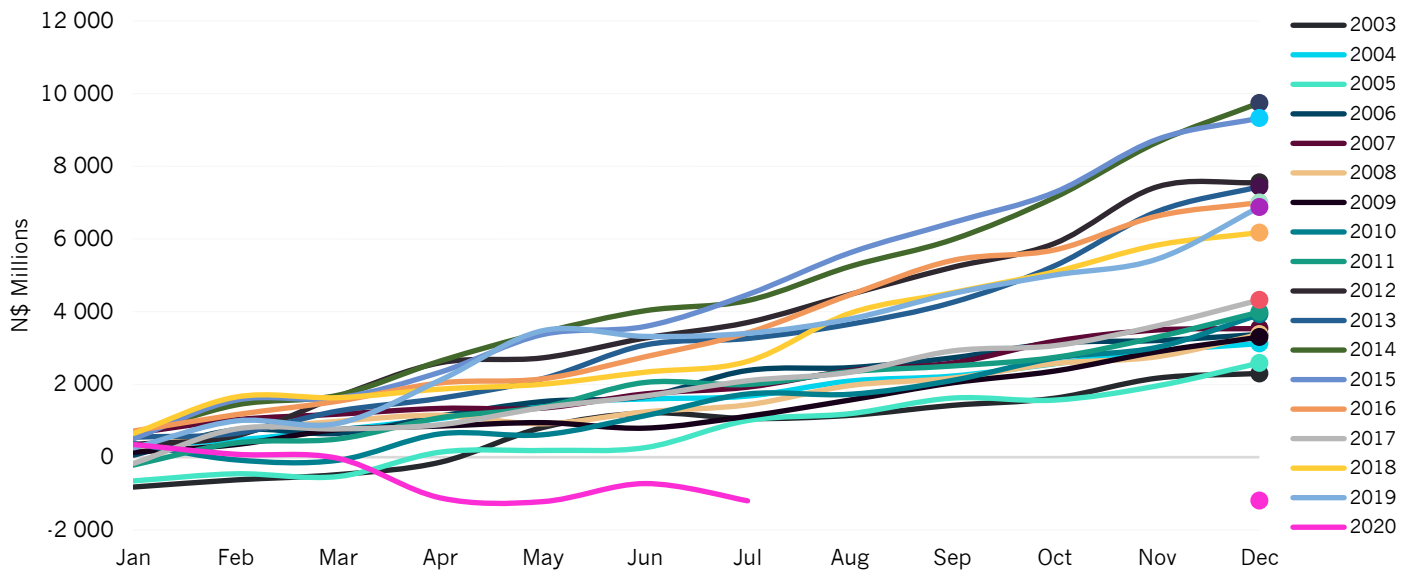
Growth in credit extended to the private sector slowed down in July 2020, with growth of 2.3% y/y, 60bps lower than reported in June. This is just 20bps higher than July's annual inflation print of 2.1%, meaning that there is little credit growth in real terms. Moreover, growth was 5.2 percentage points slower compared to July 2019. This resulted in m/m and y/y extensions of -N\$476.2 million and N\$1.9 billion, respectively, to an outstanding amount of N\$102.2 billion. Credit extension growth to individuals slowed over the month, moving down 320bps to 4.9%. Credit extension to businesses stayed at contractionary levels for the third consecutive month, with growth of -1.1%. Net credit repayments for July represent the fourth largest monthly repayments in our time series. Non-resident extension growth continued to act as a drag on overall growth, contracting by 34.4% annually to N\$667.9 million.

It appears that the non-resident line was not used in overall PSCE calculation by the Bank of Namibia in their July report. Including non-resident extensions, total private sector credit extension growth amounted to just 1.9% - which is below July's inflation print. Total credit extension amounted to -N\$1.2 billion YTD, the lowest July YTD figures in our time series and the first time YTD extension were negative halfway through the year. This, in the context of the COVID-19 impact on the banking sector, is indicative of increased repayments, increased impairments, and more caution in extending new loans.

Credit extended to individuals grew by 4.9%, or N\$2.7 billion, a decrease of 3.2 percentage points as compared to the previous month. Credit extensions to individuals experienced MoM growth of 0.3% or N\$164 million. This resulted in outstanding amount of N\$59.1 billion in credit to individuals.

Year-to-date Credit Extension

PSCE for 2020 YTD remains in negative territory

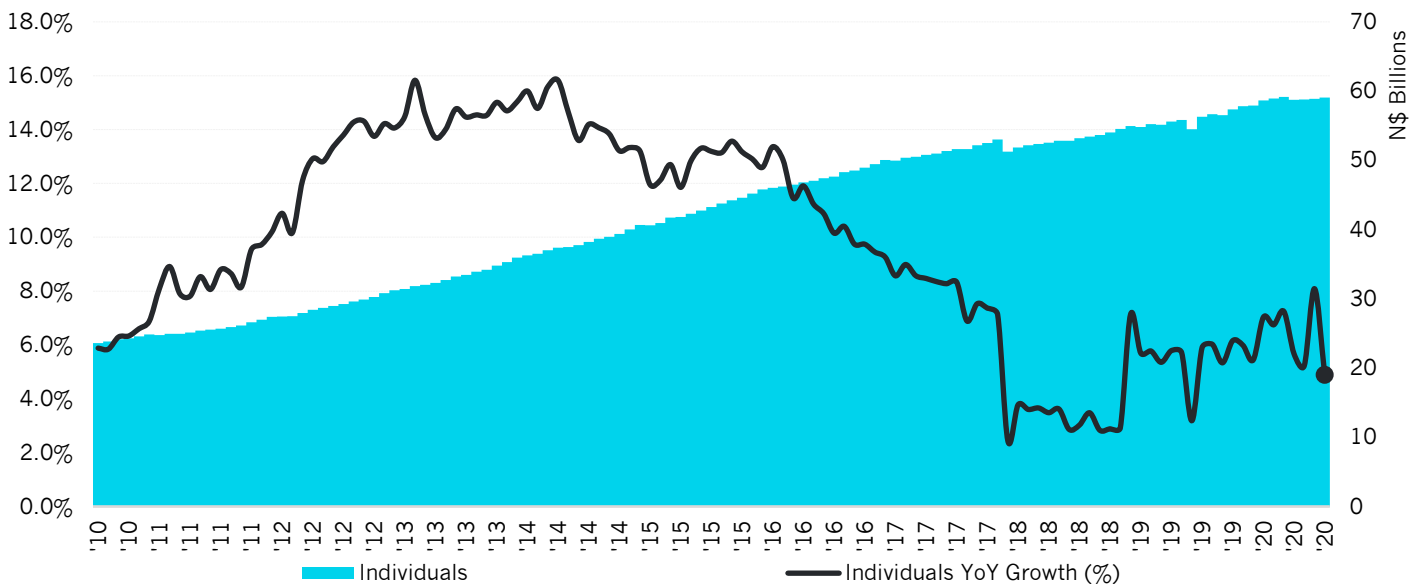


Source: Bank of Namibia

Individuals

Mortgage extension growth slowed in July, decreasing 2.8 percentage points to 5.0%. This is an extension of the downward trend experienced since November 2018, after instances of trend disturbance in March and June 2020. We suspect growth in the line is more likely a result of outstanding mortgage loans being restructured, given the ongoing duress for many households, as well as reclassifications from businesses to individuals (given the large net repayments for mortgages), rather than sudden growth in new loans being granted.

Credit Growth to Individuals



Source: Bank of Namibia

Other loans and advances continued to display strong annual growth, at 19.4% in July. However, growth in this line stayed flat 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 are constrained, due to salary/wage reductions and retrenchments, these short-term facilities will continue to be utilised to finance income shortfalls.

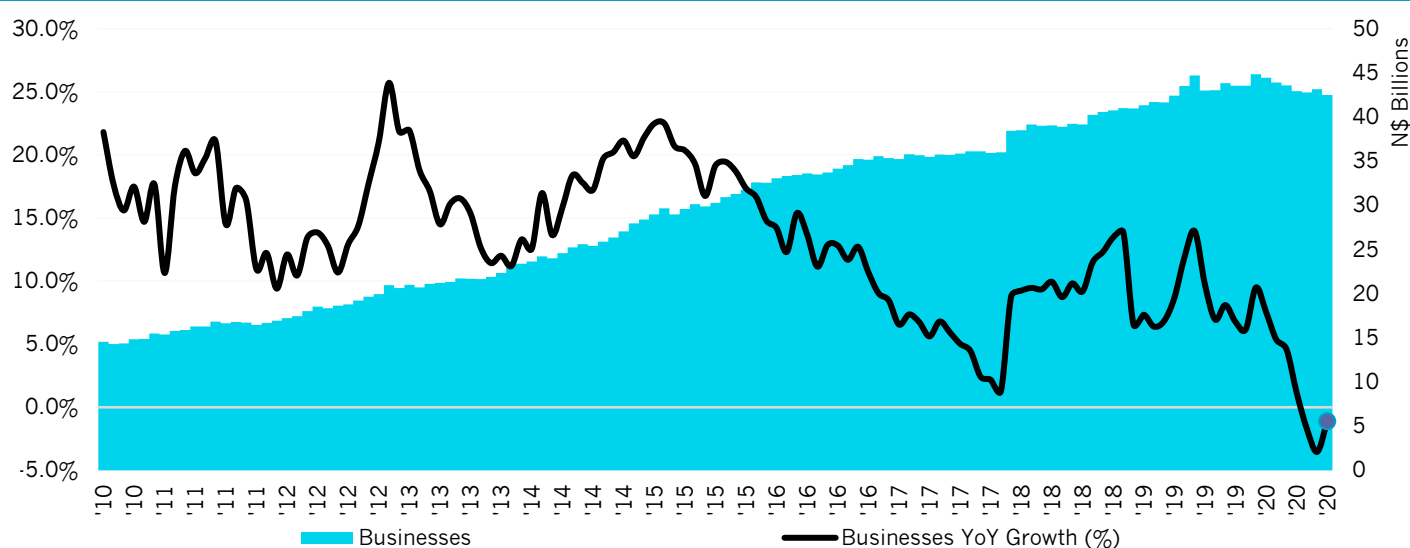
Growth in overdrafts slowed significantly compared to June, decreasing 17.8 ppts to 4.6%. The relatively strong growth here is a further indication, in the context of the surge in other loans and advances, of strained households using short-term facilities to fund their pandemic-induced expenditure.

Instalment credit and leasing continued to post negative growth for the 34th consecutive month, with annual growth of -7.3%. July saw vehicle sales remain subdued, on an annual basis, with total new vehicle sales growth of -26.3%.

Businesses

Growth in credit extended to businesses stayed contractionary in July, seeing annual growth of -1.15% (up 2.4ppt from June). This is the third consecutive month of annual net repayments (or possible impairments) seen in business extensions. Decreases were also witnessed on a monthly basis, with business extension growth of -1.5% to a total outstanding amount of N\$42.5 billion.

Credit Growth to Businesses



Source: Bank of Namibia

The slowing of extension growth was largely due to net repayments (or write-offs/reclassifications) of both short-term debt, instalment and mortgage facilities utilized by businesses. Growth in overdrafts stayed negative in July, with annual growth of -2.7%. This amounted to a net repayment of N\$276.0 million (on an annual basis). Additionally, on a monthly basis, overdrafts saw growth of -2.3%, bringing total outstanding overdrafts to N\$9.9 billion. Moreover, growth in instalment and leasing credit saw monthly and annual growth of -1.5% and -10.6%, respectively.

A significant net repayment in mortgages was seen in July. On an annual basis, mortgage loans for businesses decreased 5.9%. The Bank of Namibia (BoN) indicated that the lower growth for mortgage credit was partly due to business loan restructuring and write-offs, as well as the lower demand amid reduced economic activities.

The slowdown in extensions to businesses 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, given the inherent risk in credit extension at the moment coupled with historically low rates – meaning there is a disconnect between the risk and return faced by banks – the banks are effectively encouraged to amend their asset management strategies and participate more in government debt auctions, given the more appealing returns and lower risk.

Interest Rates

On 19 August 2020, the Bank of Namibia's Monetary Policy Committee elected to cut its repo rate by 25 basis points to 3.75%. This brings the cumulative cuts so far this year to 275bps. As mentioned in a previous note, monetary policy has run its course in invigorating the economy and lower rates will not do much to further stimulate consumption, thereby suggesting that BoN should focus on attracting foreign flows into the country by maintaining an attractive repo spread. Moreover, the lower

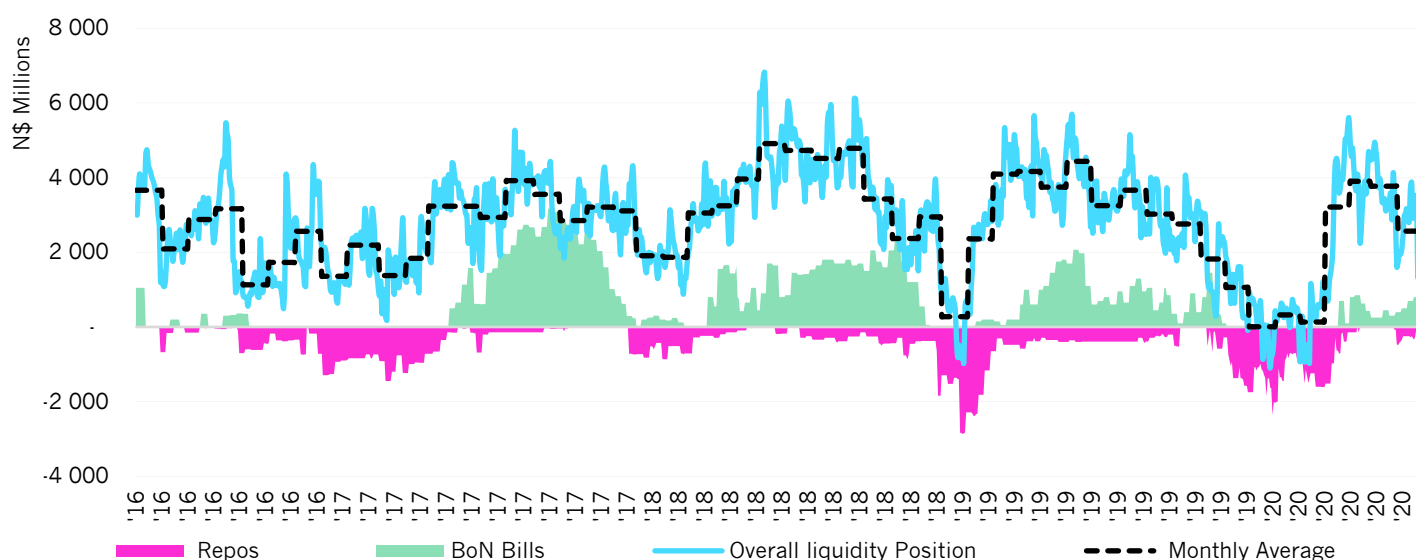
administered rates do not compensate banks appropriately for the heightened credit risk environment, therefore it is unlikely that we should see a rebound in extension growth.

Liquidity

Liquidity in July averaged N\$2.5 billion, compared to N\$3.8 billion in May. The high liquidity level during the period under review was primarily due to fiscal operations observed in the month. However, the monthly decline in liquidity balances during the period under review was primarily due to seasonal corporate tax payments.

Banking Sector Liquidity

Remaining higher after the lows seen early this year



Source: Bank of Namibia

International Reserves

Foreign reserves rose during July, increasing 11.5% to N\$35.4 billion. This is a value increase of N\$3.6 billion. However, reserves decreased on an annual basis by 0.6%. During this period, the ZAR experienced an appreciation relative to the USD. The increase in reserves was primarily due to SACU receipts and the third tranche of the AfDB loan disbursed to the Namibian Government during July.

Claims on Central Government

The central government's balance bank balance improved in July, owing to the aforementioned SACU receipts and AfDB loan inflows. As can be seen in the table below, government made use of a funding facility from the Bank of Namibia during March and April this year – the height of the need for cash during the COVID-19 response. In May, government's balance fell dramatically (the liability from BoN to central government) – including partial repayment of the funding facility from the Bank. However, the large inflows in July have seen government repay the outstanding amount on the facility and still retain a healthy overall balance.

Central Bank Survey

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Net claims on central government	-7 654.7	-7 501.6	-4 883.7	-4 452.4	-2 585.9	-2 779.0	-7 682.1
Claims on central government	0.0	0.0	3 002.2	3 905.4	1 698.2	1 265.5	0.0
Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other claims	0.0	0.0	3 002.2	3 905.4	1 698.2	1 265.5	0.0
less: Liabilities to central government	7 654.7	7 501.6	7 885.9	8 357.7	4 284.1	4 044.5	7 682.1
Deposits	7 654.7	7 501.6	7 885.9	8 357.7	4 284.1	4 044.5	7 682.1
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Bank of Namibia