CIRRUS SECURITIES

Money and Banking Statistics

30 Apr '21

March 2021

Private sector credit extension increased by 1.6% y/y in March, moving down 0.2 percentage points from the growth in February, according to the Bank of Namibia. Total outstanding private sector credit currently stands at N$105.3 billion.

Private Sector Credit Extension

	Outstanding amount (N$'m)	M/m (N$'m)	M/m (%)	Y/y (N$'m)	Y/y (%)
Total Claims on the Private Sector	**105,265.2**	**-337.6**	**-0.3**	**1,609.6**	**1.6**
Other financial corporations	4,650.7	38.3	0.8	-1,023.4	-18.0
Other nonfinancial corporations (Businesses)	**44,137.1**	**-469.1**	**-1.1**	**544.5**	**1.2**
Loans and Advances	40,645.6	-430.3	-1.0	919.0	2.3
Mortgage Loans	12,416.4	-18.6	-0.1	-468.2	-3.6
Other Loans & Advances	17,060.2	-64.1	-0.4	105.7	0.6
Overdraft	11,169.1	-347.6	-3.0	1,281.5	13.0
Instalment and Leasing	3,491.5	-38.8	-1.1	-374.4	-9.7
Other resident sectors (Households)	**60,669.2**	**215.3**	**0.4**	**1,520.5**	**2.6**
Loans and Advances	54,249.6	204.2	0.4	1,755.8	3.3
Mortgage Loans	42,183.5	191.1	0.5	1,778.6	4.4
Other Loans & Advances	9,629.7	-8.3	-0.1	-59.1	-0.6
Overdrafts	2,436.4	21.4	0.9	36.3	1.5
Instalment and Leasing	6,419.6	11.0	0.2	-235.3	-3.5
Non-resident private sector	**458.9**	**-83.7**	**-15.4**	**-455.5**	**-49.8**

Source: Bank of Namibia

Credit extension growth to the (domestic) private sector moved down marginally in the third month of 2021, with growth of 2.0% y/y compared to 6.1% y/y in Mar '20. However, if credit extended to non-residents is included, overall PSCE growth comes in at 1.6%. This was 1.5 percentage points lower than the inflation print that month. Under this broader definition, credit extended increased by N$1.6 billion y/y and contracted by N$337.6 million m/m.

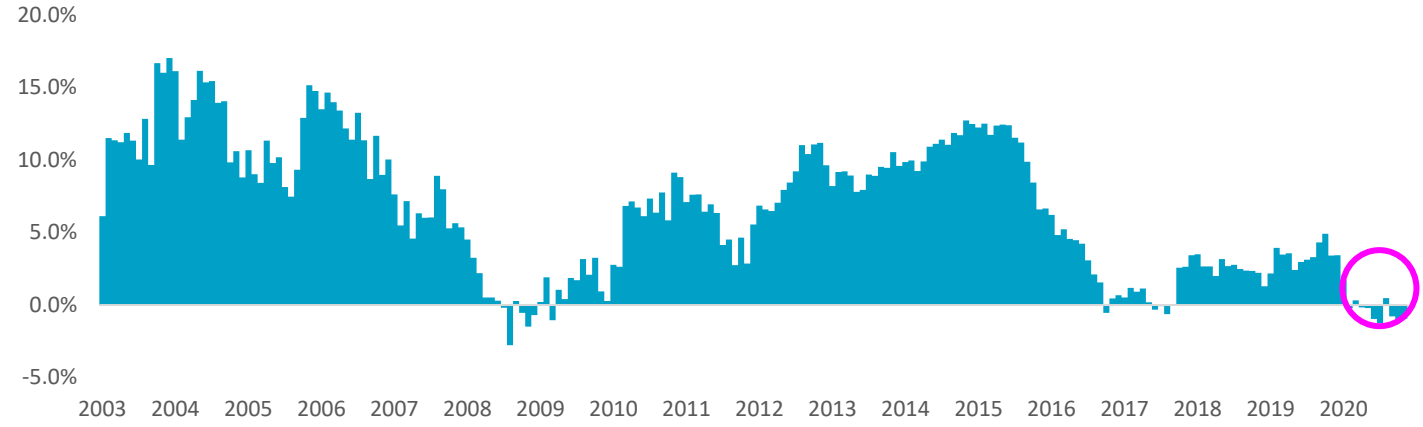
Annual credit extension growth to businesses slowed in Mar '21 to 1.2% y/y (N$544.5m), however contracted 1.1% m/m (-N$469.1m). However, households' credit extension growth remained flat in March with growth of 2.6% y/y (N$1.5bn). Furthermore, household credit extension grew 0.4% (N$215.3m) m/m. The non-resident sector, an insignificant portion of the overall figure, continued to act as a drag on growth on both an annual and monthly basis, with respective contractions of 49.8% y/y (-N$455.5m) and 15.4% m/m (-N$83.7m). This amounted to N$458.9 million advances outstanding to non-residents, the lowest level since Sep '17.

Growth in credit extension remains very weak despite the low interest rate environment. This is less the result of weak demand, but rather of weak tangible demand and increased caution exercised by lenders. The latter is understandable, given that low administered rates do not accurately price the risk inherent in the Namibian economy. Credit extension will likely rebound only when interest rates rebound from these historically low levels, thereby compensating lenders for the risk associated with extending loans.

Real PSCE growth has been largely negative for almost a year, with nine of the last 12 months recording negative figures. Moving forward, with elevated inflation expectations and advances remaining subdued, real PSCE is expected to remain subdued/negative over the year. This is largely driven by heightened inflation expectations due to local rental payment inflation turning positive and increased global commodity price pressures.

Real PSCE

Real PSCE remained negative in Mar '20 and is expected to remain low, or largely negative, for the year



Source: Bank of Namibia, Cirrus Securities

Individuals

Credit extension growth to individuals remained flat in Mar '21, growing by 2.6% y/y compared to 7.2% in Mar '20. The low growth was primarily driven by increased activity in the mortgage and overdraft space, as net repayments were observed across all other lines. Moreover, all credit extension lines saw improvements m/m, resulting in m/m growth of 0.4%.

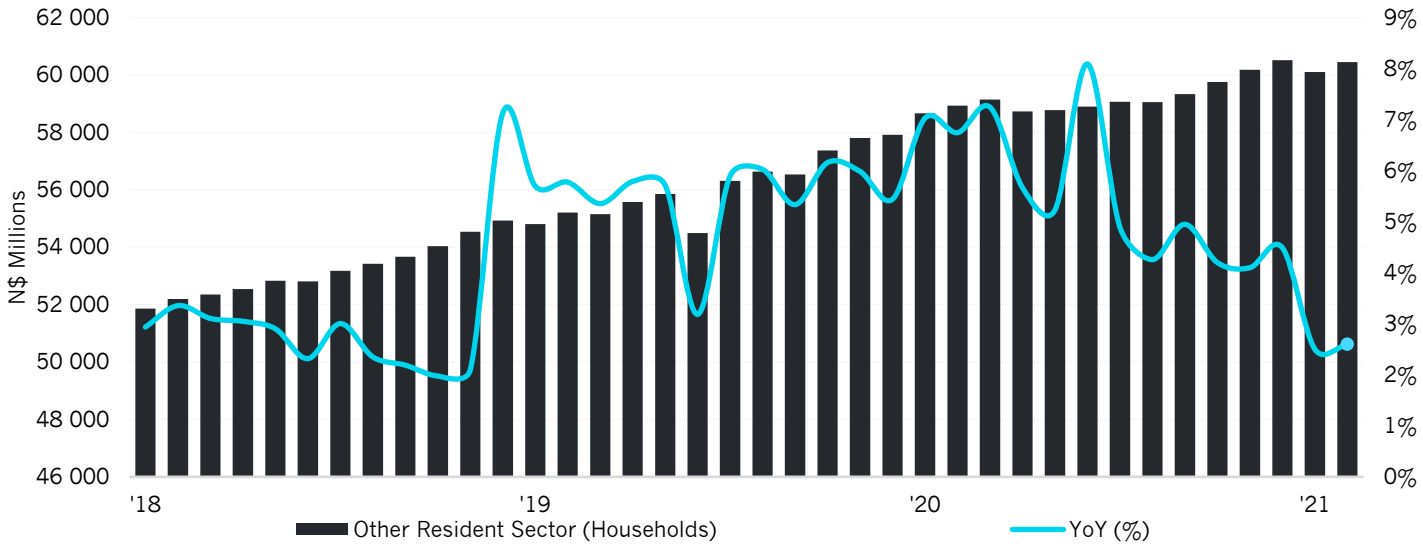
Mortgage loan growth, the largest contributor to advances, decreased 0.1 percentage points to 4.4% y/y. Moreover, mortgage extension growth saw improvements m/m, growing by 0.5%. The improvement is welcomed, however, this growth is 1.5 percentage points lower than in the comparable period in 2020. As the property market remains under pressure, growth in this line will remain subdued.

Overdraft growth moved out of negative territory in March. Overdraft advances increased by 1.5% y/y (N$36.3m) and 0.9% m/m (N$36.3). Conversely, other loans and advances growth moved deeper into negative territory in March, moving down 0.4 percentage points to -0.6%. The net repayments are indicative of "overstretched" households who drastically overutilized these facilities in 2020, given the economic pressures, and thus the need to lower their usage moving forward.

Finally, instalment credit and leasing continued to post negative growth for the 41st consecutive month, with annual growth of -3.5%. However, given the rigidly low growth witnessed in the line and the reversing trend of growth, it is expected that the line will enter positive territory this year.

Household PSCE

Household extension growth remained flat over the month



Source: Bank of Namibia, Cirrus Securities

Businesses

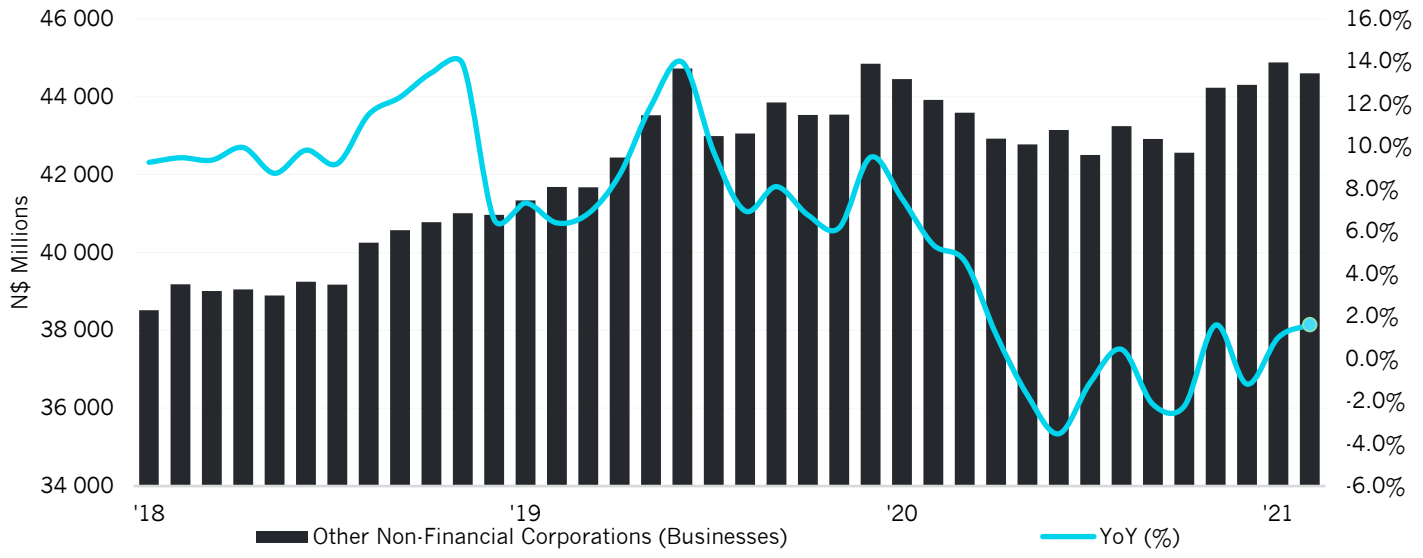
Credit extension growth to businesses slowed into the third month of 2021, with growth rates of 1.2% y/y (N$544.5m). However, net repayments were made by businesses m/m as credit extension growth amounted to -1.1% m/m (-N$469.1m). The outstanding value of advances to businesses amounted to N$44.1 billion. Short-term debt facilities remain the primary form of credit businesses are utilizing. Overdraft extension growth remained in double-digit territory, with growth of 13.0% y/y (N$1.3bn). Other loans and advances growth remained in positive territory, albeit at a much lower rate than in February. Growth in the line moved down 0.8 percentage points to 0.6% y/y (N$105.7m). All other business extension lines saw contractions over the period, with mortgage loans, and instalment and leasing recording respective annual growth rates of -3.6% and -9.7%.

It is unsurprising that businesses continue to utilise short-term debt facilities at a significantly higher rate than other lines, given the current economic environment and low interest rates. However, this reliance is still worrying, as the initial supply shock and latent demand shock mean the operating environment will remain suppressed.

Moving forward, we anticipate tangible demand for finance to remain weak, given the more cautious lending strategies exercised by the commercial banks and the headwinds posed by the macro environment. Industries that we expect to struggle accessing finance are companies those in or linked to tourism and construction, in particular. Moreover, there is growing concern that many companies have increasing creditors specifically linked to the construction industry which will only worsen the issue of access to credit.

Business PSCE

Business credit extension grew by 1.2% y/y



Source: Bank of Namibia, Cirrus Securities

Interest Rates

The Bank of Namibia's Monetary Policy Committee met on 14 Apr '21 and announced that there would be no change to the repo rate. Namibia thus maintains its 25bps spread over South Africa, with the repo in Namibia being 3.75%. Moving forward, the market, through the FRA curve, is anticipating one rate hike by the end of the year. If these were to transpire we maintain Namibia should keep its spread above South Africa. We reiterate that the spread should be maintained for the foreseeable future as any deviation to the upside motivates financial flows into Namibia, especially at higher spread levels, and may help bolster the reserve position.

Liquidity

Average banking sector liquidity improved in March, averaging N$2.3bn – an improvement of about N$847.5m compared to February. The increase in the liquidity position is as a result of significant inflows from pension funds repatriating assets. This was done by pension funds to comply with domestic asset requirements.

International Reserves and Central Government Claims at BoN

Foreign reserves increased in March, improving by 7.2% to N$34.7bn (January: N$32.4bn). The improvement in the official reserve stock was mainly due to inflows of funds associated by the repatriation of funds by pension funds. Moreover, the central government's balance at the central bank deteriorated further into March, decreasing by N$1.1bn to N$4.4bn.

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