Money and Banking Statistics

01 Jul '21

May 2021

Private sector credit extension increased by 2.7% y/y in May, decreasing slightly by 0.2% from the growth in April, as reported by the Bank of Namibia. The annual growth remains largely due to growth in loans and advances to individuals which accounted for 58.2% of total extensions. Total outstanding private sector credit currently stands at N$105.0 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	**105,009.7**	**-214.2**	**-0.2**	**2,724.0**	**2.7**
Other financial corporations	3,870.4	-885.2	-18.6	-1,229.8	-24.1
Other nonfinancial corporations (Businesses)	**43,274.8**	**-526.7**	**-1.2**	**498.1**	**1.2**
Loans and Advances	39,919.5	-502.3	-1.2	891.6	2.3
Mortgage Loans	12,432.6	-28.2	-0.2	-335.7	-2.6
Other Loans & Advances	16,676.7	-9.3	-0.1	228.4	1.4
Overdraft	10,810.2	-464.8	-4.1	998.9	10.2
Instalment and Leasing	3,355.2	-24.4	-0.7	-393.5	-10.5
Other resident sectors (Households)	**61,113.3**	**83.1**	**0.1**	**2,338.1**	**4.0**
Loans and Advances	54,624.7	60.3	0.1	2,241.1	4.3
Mortgage Loans	42,441.1	9.3	0.0	1,996.4	4.9
Other Loans & Advances	9,676.7	23.7	0.2	122.3	1.3
Overdraft	2,506.9	27.3	1.1	122.3	5.1
Instalment and Leasing	6,488.6	22.9	0.4	97.1	1.5
Non-resident private sector	**621.7**	**229.3**	**58.5**	**-112.2**	**-15.3**

Source: Bank of Namibia

Credit extension growth to the private sector fell m/m in May '21, decreasing 0.2% m/m. Moreover, if credit extended to non-residents is included, overall PSCE growth comes in at 2.7%. This was 1.1 percentage points lower than the inflation print experienced over the similar period, which came in at 3.8%. Total credit extended increased by N$2.7 billion y/y and decreased N$214.2 million m/m.

Annual credit extension growth to businesses fell, decreasing 1.2% or N$526.7 million m/m. Credit extended to businesses amounted to 41.2% of total PSCE, down 0.6 percentage points from May '20. Furthermore, households' credit extension growth was relatively stagnant M/m, improving 0.14% (N$83.1 million), however, improving 4% Y/y (N$2.3 billion).

As for the non-resident sector (a relatively insignificant portion of the overall figure), after putting pressure on growth for an extended period, it surprised by increasing 58.5% m/m (N$229.4 million), however, contracted 15.3% y/y (-N$112.2 million).

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 extensions will likely rebound as interest rate rebound from these historically low levels. Moreover, as the property market continues to come under severe stress and low deflationary pressure, mortgage extension growth is expected to remain low for the year, weighing down half of the overall extensions. Finally, given the impairments/write-offs to banks assets and net repayments observed over the period PSCE growth is expected to remain low for 2021.

Individuals

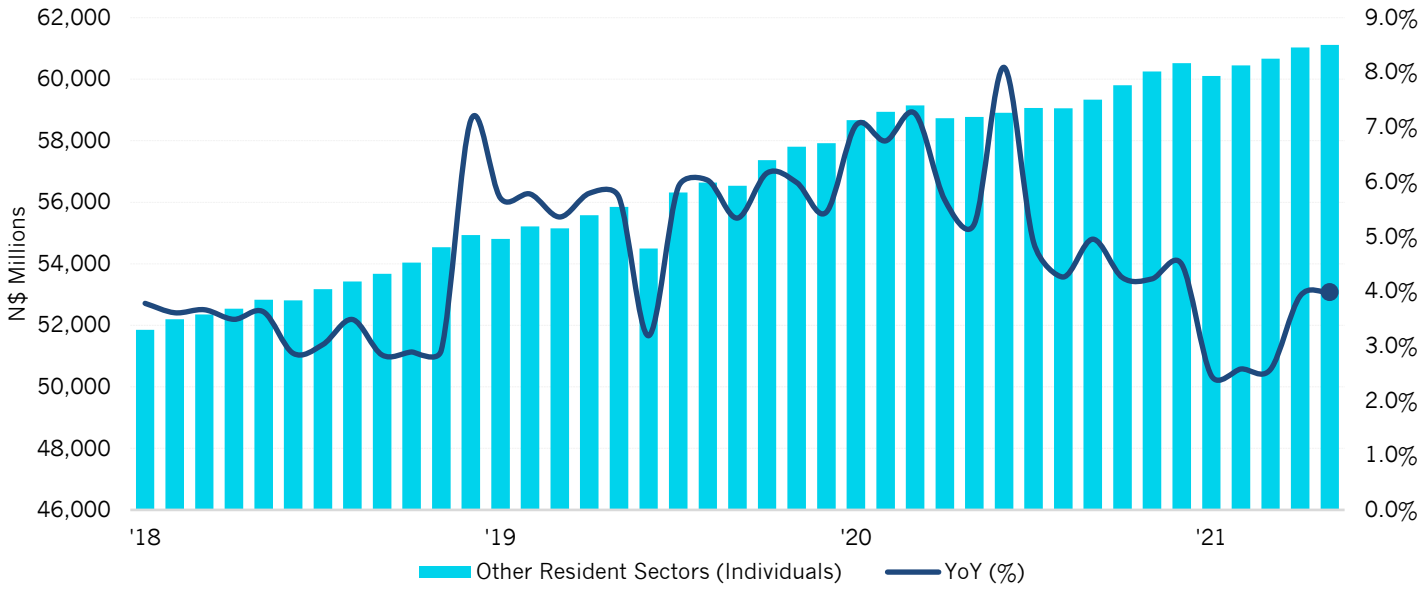
Credit extension growth to individuals was mostly stagnant into May ’21, growing to 4.0% compared to 3.9% in March. Of all the credit extension lines, Overdrafts saw the largest movement, increasing 5.1% y/y (N$27.4 million).

Mortgage loan growth slowed 0.3 percentage points to 4.9% y/y (N$2.0 billion) and saw net extensions m/m of just N$9.3 million. Mortgage loans make up 69.4% of credit extended to households. Ongoing pressures to household incomes, particularly with further lockdowns and subdued economic growth, will place further strain on a deflationary housing market. Additionally, the risk of increased residential properties coming to market (notably in Windhoek) will delay any anticipated recovery in the middle and upper value segments of the housing market.

Overdraft growth increased by 1.1% (N$27.4m) m/m and 5.1% (N$122.3 million) y/y. Similarly, other loans and advances growth remained in positive territory, moving up 0.47 percentage points to 1.3% y/y. Instalment and leasing credit also posted growth for the second consecutive month (after posting its first positive growth in 40 months in April ’21), with annual growth of 1.5%. This is unsurprising given the base effect due to extremely poor new vehicle sales in the comparable period of ‘20.

Household PSCE

Annual household credit extension growth has improved from earlier this year, but remains relatively low



Source: Bank of Namibia, Cirrus Securities

Businesses

Credit extension growth to businesses remained weak in May ‘21 with growth of 1.2% y/y (N$498.1 million). However, net repayments were made by business m/m as credit extension growth amounted to -1.2% m/m (-N$526.7 million). The outstanding value of business advances amounted to N$43.3 billion, still below the May ’19 level of N$43.5 billion. This is a clear indication of the extent of net repayments over the past two years as businesses honoured debt obligations and shied away from increasing their debt exposure, either by being unable to access affordable financing or because investment/expansion plans were put on hold.

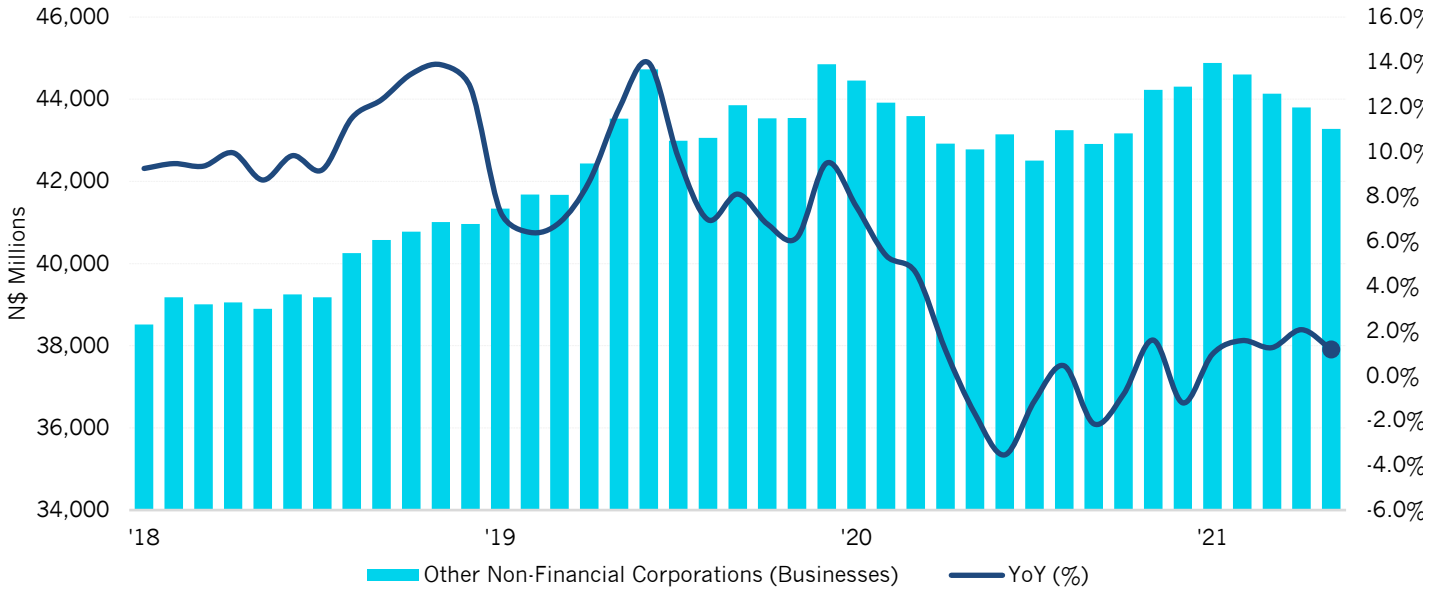
Short-term debt facilities remain the primary credit service businesses are utilizing y/y. Overdraft extension growth remained in double digit territory with growth of 10.2%y/y (N$1.0 billion). However, net repayments of N$464.8 million were made to this line m/m. Other loans and advances growth moved up 0.8 percentage points to 1.4% y/y (N$228.4 million), but remained flat m/m with net repayments of N$9.3 million. All other business extension lines saw contractions over the period, with mortgage loan and instalment and leasing with respective annual growth rates of -2.6% and -10.5%.

The relatively low growth y/y and net repayments for all lines m/m suggest have two likely explanations. Firstly, the ongoing uncertainty and weak macroeconomic environment result in elevated credit risk, particularly vis-à-vis other options for lenders such as government securities, likely making it more difficult to access finance. Secondly, the weak economic backdrop, risk of future lockdowns, and poor outlook for household incomes have resulted in entities needing to reduce debt exposure and/or

putting on hold plans for expansion or investment, resulting in reduced (tangible) demand for credit. A mixture of both factors is likely driving the weak business credit extensions growth (and net monthly repayments).

Business PSCE

Y/y growth, although weak, remains positive for the fifth consecutive month



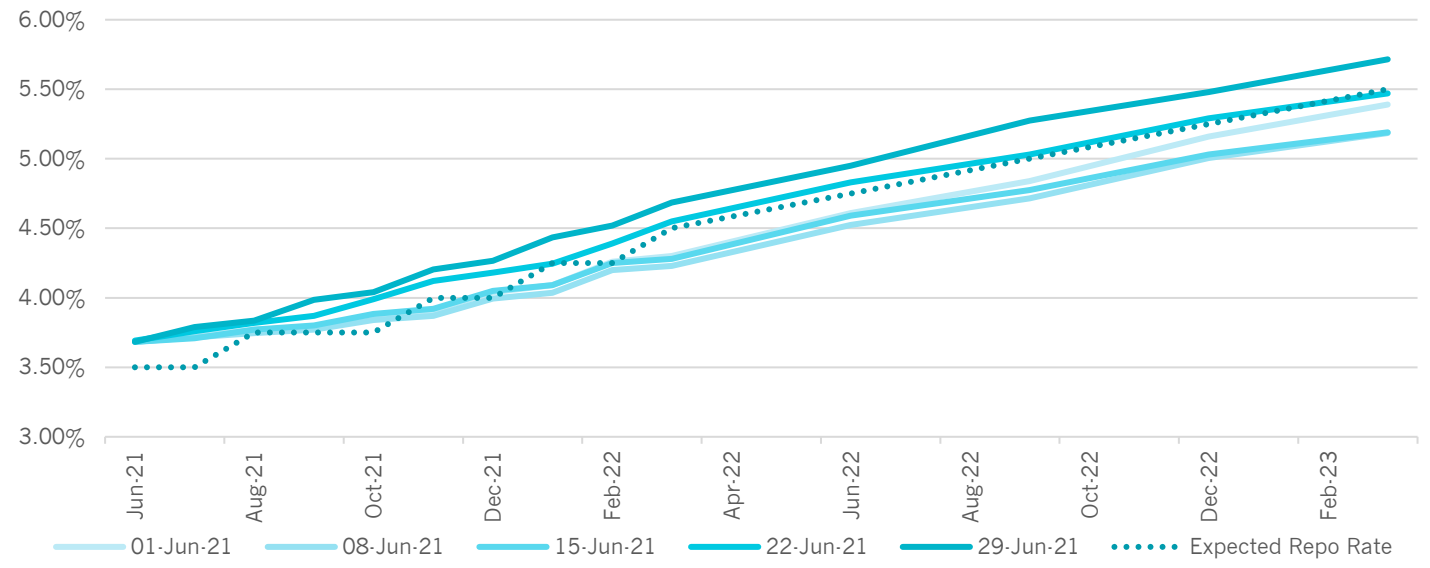
Source: Bank of Namibia, Cirrus Securities

Interest Rates

The Bank of Namibia's MPC met on 16 Jun '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%. The South African Monetary Policy Committee will meet on 22 July 2021. The FRA curve suggests that rate hikes are anticipated by the market in the near term, for South Africa, likely driven by a growth recovery, higher inflation and a relatively strong currency compared to a year ago.

FRA curve

The FRA curve indicates a series of rate hikes are expected this year.



Source: Cirrus

Liquidity

Average banking sector liquidity worsened in May, averaging N$340.8 million – a decrease of N$2.8 billion compared to April. The Bank if Namibia attributes the lower liquidity balances to net transfers by investment managers as well as several cross-border transfers during the month of May.

International Reserves and Central Government Claims at BoN

Foreign reserves decreased by 5.2% m/m to N$39.0 billion (April: N$41.2 billion). The decrease in the official reserve stock can be attributed to increased government payments, foreign currency purchases by commercial banks, and some currency appreciation by the rand during the period. Central Government Claims decreased 13.0% m/m to N$7.8 billion from N$9.0 billion, after material inflows from the IMF and SACU in Apr '21. With Government's revenue collection concentrated in the first half of the calendar year, this balance is expected to steadily decrease as the year progresses – particularly with the redemption of government securities in October and November this year.

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