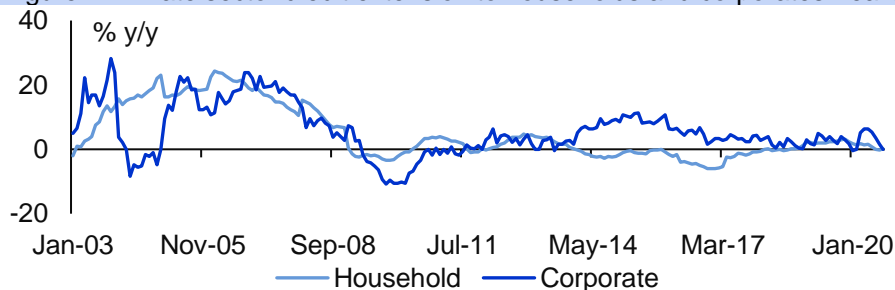


## PSCE update: Private sector credit extension decelerated in September on lower corporate credit demand

29<sup>th</sup> October 2020



Figure 1: Private sector credit extension to households and corporates: real terms



Source: SARB, Investec

- Private sector credit extension growth decelerated for the sixth consecutive month in September, to 3.1% y/y from 3.9% y/y in August and from this year's peak of 7.8% y/y in March.
- The September outcome was underpinned by the slowdown in corporate credit growth to 3.1% y/y from 4.6% y/y previously. As corporate credit comprises 55.5% of total credit, the effect outweighed the lift in household credit growth to 3.2% y/y in September from 3.0% y/y in August.
- Within the corporate credit category, general loans and advances which comprise the dominant share at 43.5%, registered a contraction of -3.2% y/y in September versus -0.2% y/y in August. This category is typically representative of financial company credit linked to securities trading and asset management and non-financial company credit utilised for fixed investment. The weak economic conditions and low rates of fixed investment have lowered the demand for credit. Additionally, credit card advances fell by -37.7% y/y whilst overdrafts dropped by -18.8% y/y.
- Growth in corporate asset-backed loans also moderated, with mortgage advances slowing to 7.7% y/y in September from 8.3% y/y whilst vehicle financing (instalment sales credit and leasing finance) contracted at a rate of -0.9% y/y versus growth of 2.1% y/y. The subdued economic environment, and uncertainty regarding the recovery prospects, is contributing to a delay in expansion projects, dampening asset backed credit extension.
- Growth in the investment category (including banks' holdings of public sector interest-bearing securities, debentures and other interest-bearing security investments, equity holdings in subsidiaries, listed and unlisted equities, derivative instruments and other investments) increased to 31.5% y/y in September from 25.8% y/y in August. Variations in interest rates and exchange rates contribute to the changes in this credit category.
- In September, the lift in household credit growth stemmed from an increase in asset-backed finance. Specifically, the growth in mortgage advances rose to 3.2% y/y from 2.9% y/y previously whilst vehicle finance increased to 4.7% y/y from 3.7% y/y. The increase in mortgage advances may be a function of the nascent recovery in housing market activity. Increased vehicle finance could in part be linked to pent-up demand following the restrictions in Q2.20.
- Household unsecured credit growth moderated to 2.2% y/y in September from 2.6% y/y. This is likely representative of the deterioration in consumer credit health. Based on available data, household's financial vulnerability has increased as real disposable incomes contracted in Q2.20 on job losses or salary reductions. The decline in disposable incomes manifested in an increase of the household debt to disposable income ratio, to a level of 85.3% that was last recorded in Q1.09

Figure 2: Annual growth in the components of PSCE (%)

	Aug 2020	Sep 2020
Total loans and advances (excl. investment & bills)	1.9	0.6
Vehicle Finance (instalment sales & leasing finance)	3.2	2.8
Mortgage Advances	4.6	4.6
Other loans & advances	-1.0	-3.7
Investment	25.8	31.5
Consumer credit	3.0	3.2
Corporate credit	4.6	3.1
<b>PSCE</b>	<b>3.9</b>	<b>3.1</b>

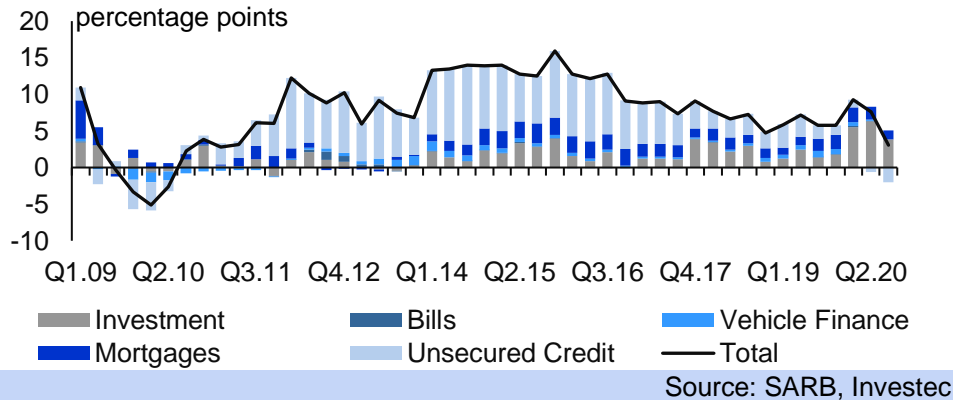
Source: SARB

**PSCE update: Private sector credit extension decelerated in September on lower corporate credit demand**

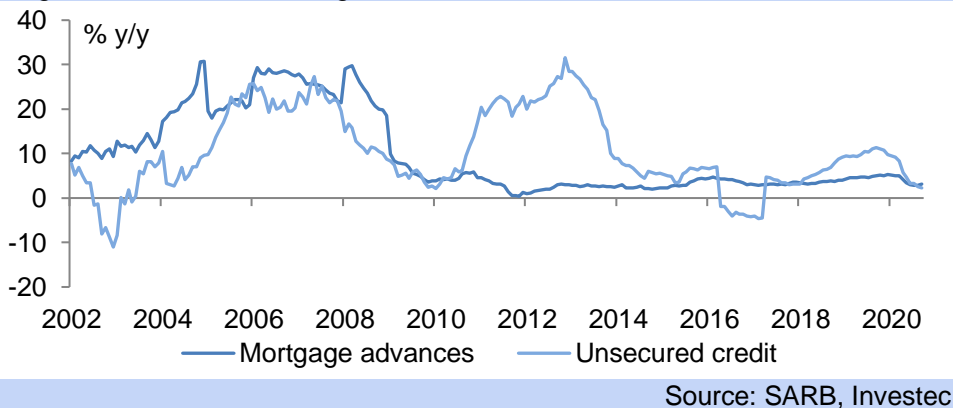
29<sup>th</sup> October 2020



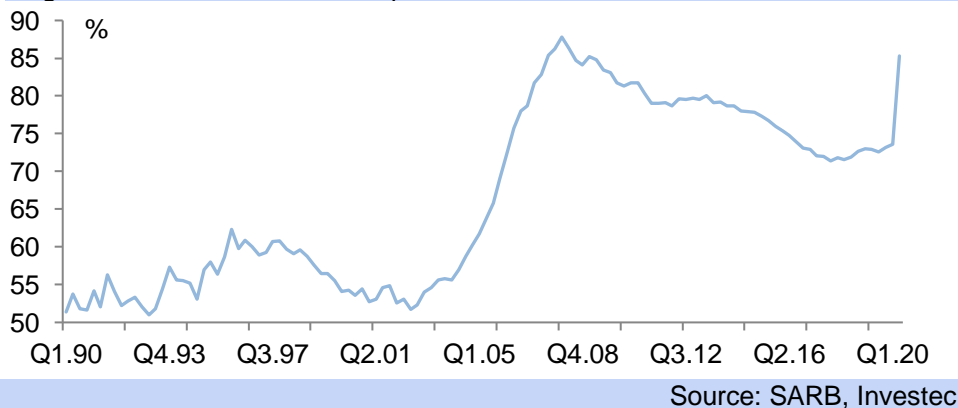
**Figure 3: Private sector credit: contributions to corporate credit growth**



**Figure 4: Household credit growth**



**Figure 5: Household debt to disposable income ratio**



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