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## THE NAMIBIAN FINANCIAL SYSTEM REMAINED SOUND AND RESILIENT

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*The Macroprudential Oversight Committee at their recent meeting concluded that overall, the financial system is resilient, solvent and sound despite the COVID-19 pandemic and otherwise challenging economic conditions. The banking sector remains liquid, profitable and well capitalised, while the non-bank financial sector remains sound, with funding and solvency positions above the prudential limits in the pension fund and insurance subsectors.*

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1. The recently constituted Macroprudential Oversight Committee of the Bank of Namibia established in terms of the new mandate under section 31(1) of the Bank of Namibia Act (Act No 1 of 2020), at its first bi-annual meeting held on 14 July 2021 reviewed the overall state of global, regional and domestic macrofinancial stability, paying particular attention to the developments in and risks to the Namibian financial system.
2. **Overall, the domestic financial system remains sound, solvent and resilient.** The Committee concluded that the financial system was resilient, solvent and sound on the basis of the latest information available, despite the COVID-19 pandemic, weak domestic growth and challenging macroeconomic conditions. The banking sector remains liquid, profitable and well capitalised, while the non-bank financial sector remains sound, reporting funding and solvency positions above the prudential limits.
3. **Asset prices are not a matter of concern.** The Committee did not observe undue upward pressure on asset prices that could adversely impact the stability of the financial system,

given that the property market was already under pressure over the last few years and prices have stabilised. A significant positive equity build-up was observed where current housing valuations exceeded outstanding mortgage balances by a substantial margin.

4. **Overall credit extension remains muted in the domestic economy.** With credit extension subdued, there were no signs of excessive new borrowing by either households or businesses that could impact the stability of the financial system.
  
5. **The build-up of financial vulnerabilities emanating largely from the pandemic and fragile growth warrants close monitoring going forward.** The Committee observed that there was a build-up of vulnerabilities that emanated mainly from the deterioration in banking sector asset quality as reflected in the non-performing loans ratio, and from elevated household indebtedness. Moreover, the slow economic recovery on account of the COVID-19 pandemic, vaccination hesitancy, the third wave of the COVID-19 pandemic, and on the regional front, the recent unrest in South Africa, could increase the vulnerability of the Namibian financial system. The deterioration in asset quality and high household indebtedness are directly related to the pandemic-stricken economic climate and its impact on the labour market, thus impacting on disposable income and the ability of borrowers to service their debt. The Bank continues to scrutinise and monitor asset quality of banking institutions. The relief measures that were implemented at the onset of the COVID-19 pandemic by the Government, the Bank of Namibia and NAMFISA have cushioned the financial system against a potentially severe impact.
  
6. The National Payment System (NPS) remains stable, safe, efficient, and effective.
  
7. The Committee is of the view that there is no need for further macroprudential policy interventions at this stage; however, the Bank of Namibia remains steadfast and will take remedial macroprudential action if and when necessary.



Johannes !Gawaxab  
**GOVERNOR**

**Contact:**

Department of Strategic Communications and Financial Sector Development  
Bank of Namibia, Tel: (061) 283 5114, Fax: (061) 283 5546 or email: [info@bon.com.na](mailto:info@bon.com.na)