



Joint Media Release

Date: 28 April 2022
Attention: News Editors
Ref: 8/1/2/2

FOR IMMEDIATE RELEASE

BANK OF NAMIBIA AND NAMFISA LAUNCH APRIL 2022 FINANCIAL STABILITY REPORT

The just released April 2022 Financial Stability Report concludes that the Namibian financial system remained resilient, stable and sound in 2021, within a fluid economic environment.

HIGHLIGHTS:

- The FSR Report highlights specific risks emanating from the macroeconomic environment, domestic household and corporate debt, the banking sector, the Non-Banking Financial Institutions sector, as well as the payment and settlement system:
- The Namibian financial system during 2021 continued to withstand shocks from the impact of the global Covid-19 pandemic.
- Global growth is expected to moderate in 2022 and 2023 reflecting worsening global supply shortages and a quicker withdrawal of monetary accommodation across most economies.
- The Namibian economy experienced positive growth of 2.4 percent in 2021 and is projected to pick up to 3.4 percent in 2022 and 3.7 percent in 2023, respectively.
- Household debt growth slowed, while corporate debt increased in 2021.
- The banking sector remained liquid, profitable and well capitalised during 2021, despite sluggish economic conditions.
- The non-bank financial institution (NBFI) sector remained resilient during 2021, withstanding the effects of COVID-19, rising inflation, and the interest rate hikes in various jurisdictions.
- Namibia's payment system and infrastructure remained stable and continued to operate efficiently and effectively in 2021.
- Going forward, risks to the Namibian Financial System will be monitored closely and policy measures will be adopted to maintain financial stability as deemed appropriate.

- 1. The Bank of Namibia (BoN) and the Namibia Financial Institutions Supervisory Authority (NAMFISA) hereby jointly release the annual Namibia Financial Stability Report (FSR).** The report assesses the stability of the Namibian financial system and its resilience both to internal and external shocks. The report further highlights specific risks emanating from the macroeconomic environment, domestic household and corporate debt, the banking sector, the Non-Bank Financial Institutions sector, as well as the payment and settlement system. The assessment concludes that the financial system continued to withstand the shocks from the impact of the global health crisis. The regulatory authorities remain committed to continuously monitor the identified risks and take appropriate and timely action going forward.

SUMMARY OF THE ASSESSMENT

- 2. Overall, the financial system continued to withstand the shocks from the impact of the global health crisis.** Both the Global and Namibian economies in 2021 recovered from the initial shock of the pandemic, albeit at a slower pace than initially anticipated. Financial markets remained resilient and continued to be profitable on the back of very accommodative monetary and fiscal policy during the period under review. Asset quality in the banking sector deteriorated beyond the crisis trigger point of 6.0 percent, although the liquidity and solvency ratios of the sector remained above the prudential requirements. Stress tests show vulnerabilities in liquidity but considering the relaxed liquidity requirements plus no significant withdrawals in Collective investment Schemes recorded, this risk is well managed by the regulators. Similarly, Non-Banking Financial Institutions (NBFIs) remained profitable and solvent during the period and the payment system infrastructure continued to operate efficiently.
- 3. Global growth prospects weakened on the back of military conflict, geopolitical tensions, supply chain challenges, rising cost pressures, and the withdrawal of monetary accommodation.** Based on the IMF World Economic Outlook for April 2022, global real gross domestic product (GDP) was estimated to have expanded by 6.1 percent in 2021 and was expected to improve by another 3.6 percent in 2022. However, the IMF's latest forecast for 2022 was notably weaker than previous projections as the Russia-Ukraine conflict led to significant disruptions to supply and trade, exacerbating global inflationary pressures in the process. In addition, the ongoing retrenchment in China's real estate sector and a rise in its COVID-19 cases were expected to limit growth prospects further. Moving forward, the risks to the global

outlook are centred largely on the evolution of geopolitical tensions and military conflict in Eastern Europe which has led to significant increases in food and energy prices and adversely impacted supply chains, as well as the world's ability to contain the spread of the COVID-19 pandemic.

- 4. Domestic economic performance is anticipated to improve in 2022 and 2023, following moderately positive growth in 2021.** According to the Namibia Statistics Agency's March 2022 national accounts, real GDP growth for Namibia, was estimated at 2.4 percent for 2021 from a deep contraction of 7.9 in 2020. As published in the Bank of Namibia February Economic Outlook, growth is expected to accelerate to 3.4 percent in 2022 and to 3.7 percent in 2023. These projected improvements are expected to be broad-based, with robust growth rates across all industries, but particularly in the diamond mining and manufacturing sector. As with the global economy, risks to domestic growth are dominated by health outcomes related to the COVID-19 pandemic, rising energy and food prices.
- 5. The level of household indebtedness decreased during the reporting period, with the level of corporate debt stock increasing at the same time.** The ratio of household debt to disposable income stood at 77.4 percent at the end of December 2021, compared with 87.7 percent for the previous reporting year end. The drop was driven by a steeper rise in disposable income in relation to household debt. Disposable income had grown by 15.64 percent by the end of December 2021 compared with the prior reporting year, boosted by policy relief measures as well as fiscal spending to support households impacted by COVID-19. Meanwhile, the overall demand for household debt remained subdued, growing at a relatively slow pace of 2.1 percent at the end of 2021 compared with the 4.5 percent reflected in 2020, being driven largely by the Other Loans and Advances category. On the other hand, the corporate sector's total debt stock expanded in 2021 due to increases in both foreign and domestic debt. The corporate sector's debt-to-GDP ratio had increased to 89.5 percent by the end of 2021, up from the 87.4 percent recorded for the end of 2020. The ratio of debt servicing to disposable income rose by 8.2 percent to reach 17.2 percent at the end of 2021. The short-term risks to financial stability in respect of household and corporate debt appear limited, although continued borrowing to support business operations or household cash flow could pose medium-term risks, especially if incomes are not elevated at the same rate. Notwithstanding the current fluid economic environment, the probability of debt risks materialising is medium with a low impact in terms of household debt, and medium for corporate debt.

- 6. The banking sector remained liquid, profitable and well capitalised during 2021, despite sluggish economic conditions.** Growth in total banking sector assets remained positive, with liquid assets well in excess of the statutory minimum liquid assets requirement of 10.0 percent of monthly average liabilities to the public. The banking sector was profitable during the period under review, despite unfavourable economic conditions, while also maintaining capital levels above the prudential requirements. Although asset quality - as measured by the non-performing loans ratio to total loans - improved marginally, it remained above the 6.0 percent crisis time supervisory intervention trigger point. Nonetheless, the banking sector was able to manage its credit risks owing to adequate provisions for delinquent loan losses coupled with low write-offs relative to total loans and profits as well as a host of relief measures, that supported the banking sector in managing its credit risks. Overall, risks to the banking sector did not appear significant in 2021, therefore posing no real threat to financial stability in Namibia. However, asset quality requires continuous monitoring as well as intervention if and when needed. Going forward, credit risks to the banking sector may increase in 2022 on the back of potential interest rate hikes, inflationary pressures and slower-than-expected economic recovery.
- 7. By and large, the non-bank financial institution (NBFI) sector remained resilient during 2021, withstanding the effects of COVID-19, rising inflation, and the interest rate hikes in various jurisdictions.** Total NBFI assets grew by 13.9 percent to N\$370.6 billion during 2021. This growth was attributable to new business, the performance of financial markets, and increased economic activity as a result of the economic recovery during the period under review. The NBFI sector therefore remained stable and resilient, with funding and/or solvency positions recorded above prudential requirements in 2021. The sector is expected to remain sound in 2022.
- 8. Since the 2021 Financial Stability Report (FSR), Namibia's payment system and infrastructure remained stable and continued to operate efficiently and effectively.** The Bank of Namibia (BoN) continued to fulfil its regulatory mandate as the overseer of the National Payment System in line with the Payment System Management Act, 2003 (No. 18 of 2003, as amended). Operational and settlement risks remained relatively low compared with those recorded in the 2021 FSR, with 77.0

percent of transactions settled within the first and second windows during 2021. The Namibia Inter-bank Settlement System (NISS) continued to maintain high system availability throughout 2021. The NISS also recorded a settlement milestone of N\$1.0 trillion during the reporting year. Despite a slight increase in the value of fraud transactions during the period under review, risks to financial stability from the national payment system remained relatively low.

9. Going forward, risks to the Namibian Financial System will be monitored closely and the authorities will not hesitate to adopt appropriate policy actions to mitigate the risks.

The media and the public at large are encouraged to read the full Financial Stability Report 2022, which can be accessed at (<https://www.bon.com.na/Bank/Financial-Stability/Financial-Stability-Reports.aspx>) and (<https://www.namfisa.com.na/publications>).



Johannes !Gawaxab
GOVERNOR
BANK OF NAMIBIA

Kenneth Matomola
CEO: NAMFISA

Enquiries can be directed to:

The Director:
Strategic Communications
Bank of Namibia
Tel: +264 61 283 5114
Fax: +264 61 283 5546
Email: info@bon.com.na

The Manager:
Corporate Communications
NAMFISA
Tel: +264 61 290 5177
Fax: +264 61 290 5194
Email: info@namfisa.com.na

