



Joint Media Release

Date: 29 April 2021

Attention: News Editors

Ref: 8/1/2/2

FOR IMMEDIATE RELEASE

THE JUST RELEASED *APRIL 2021* FINANCIAL STABILITY REPORT CONCLUDES THAT THE NAMIBIAN FINANCIAL SYSTEM REMAINED RESILIENT IN 2020, DESPITE WEAK ECONOMIC ACTIVITY EXACERBATED BY THE COVID-19 PANDEMIC.

HIGHLIGHTS:

- The Namibian financial system was sound and resilient in 2020, despite pre-existing sluggish economic activity, worsened by the COVID-19 pandemic.
- The banking sector remained liquid, profitable and well capitalised, while asset quality deteriorated.
- The Non-Bank Financial Institutions (NBFIs) sector remained financially stable and sound, despite a moderation in the growth rate of the NBFi assets .
- The National Payment System (NPS) remained stable, safe, efficient and effective during 2020.
- Global growth prospects were revised slightly upwards, in response to the potential positive effect of the COVID-19 vaccines on economic activity by the second half of 2021.
- The Namibian economy contracted by 8.0 percent in 2020, and is expected to increase moderately to estimated growth rates of 2.7 percent in 2021 and 3.3 percent in 2022, respectively.
- The Namibia Dollar (NAD) depreciated against all major trading currencies, however, recovered in recent months.
- The stock of international reserves grew and remained at a sufficient level to safeguard the peg of the NAD to the South African Rand (ZAR) and meet the country's international financial obligations.
- Both Namibia and South Africa's sovereign credit outlooks were revised downwards by all major credit rating agencies.
- Household debt growth slowed, while corporate debt declined significantly in 2020.
- Going forward, risks to financial stability in Namibia will be monitored and the authorities will adopt policy measures 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 2020 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-Banking Financial Institutions sector, as well as the payment and settlement system. The assessment concludes that the financial system in Namibia remained sound, profitable and resilient with no major disruptions or disorderly functioning of key financial services, despite unfavourable domestic and global economic conditions. The regulatory authorities are committed to continuously monitor the identified risks and take appropriate and timely action going forward.

SUMMARY OF THE ASSESSMENT

2. The Namibian financial system remained resilient in 2020, despite the pre-existing weak economic activity that was further exacerbated by the COVID-19 pandemic. Both the global and domestic economy contracted in 2020, primarily as a result of the COVID-19 pandemic. The financial system continued to function efficiently and effectively, while remaining generally sound and profitable. The banking sector remained adequately capitalised, profitable (although less so than before) and maintained liquidity levels well above the prudential requirements. Asset quality as measured by non-performing loans (NPLs) deteriorated further in 2020, partly ascribed to unfavourable economic conditions and their resultant impact on household disposable income and business performance. The Non-Bank Financial Institutions (NBFIs) continued to be financially stable and sound despite unfavourable economic conditions. The NPS continued to effectively contribute towards safety and reliability in payments, thus enhancing financial stability in Namibia. Household debt growth slowed, and corporate debt declined significantly in 2020 with risks to financial stability having gone down. The financial system's resilience was maintained into early 2021, with the start of the rollout of vaccines in many parts of the world bringing the prospect of imminent normalisation closer.

3. The banking sector remained liquid, profitable and well capitalised amidst the adverse impact of the COVID-19 pandemic induced recessionary conditions. Total assets of the banking sector continued to grow, although at a slower pace, with liquid assets remaining well above the statutory minimum required. Furthermore, the banking sector continued to be profitable and maintained adequate capital levels well above the prudential statutory requirements during the period under review. Asset quality deteriorated and breached the

crisis-time benchmark of 6.0 percent in 2020. The probability of downside risk to financial stability emanating from liquidity constraints in the banking sector declined in 2020, while that from asset quality deterioration remained high. The potential impact on financial stability originating from both liquidity constraints and asset quality deterioration in the banking sector was assessed to be medium. To mitigate the impact of the deterioration in asset quality, the Bank of Namibia implemented additional regulatory reporting and will continue to monitor heightened credit risk going forward.

- 4. Despite a moderation in the growth rate of Non-Bank Financial Institutions' assets, the NBFIs sector remained financially stable and sound.** The NBFIs sector assets grew by 4.8 percent to N\$341.5 billion in 2020, much lower than the 12.3 percent growth realised in 2019. The slower growth in total NBFIs assets was mainly driven by the continued recessionary conditions, worsened by the COVID-19 pandemic, during the review period. Nonetheless, the sector's funding and solvency positions remained above prudential requirements indicating financial soundness. Risks from the NBFIs were broadly mixed; however, going forward the probability of these risks are generally low to medium with mostly high impact should they materialise in the next review period.
- 5. The National Payment System remained stable, safe, efficient, and effective during 2020, in the face of the COVID-19 pandemic.** The Bank continued to fulfil its regulatory role through the issuance of relevant payment regulations and oversight of participants to ensure that potential risks to the NPS are appropriately managed. Risks from the payment system pertaining to settlement in the last window, remained unchanged with medium probability of occurrence and impact in 2021. On the contrary, the risk to security of retail payments may have increased with the intensified use of digital technology and emerging cyber security risks during the period under review; however, the probability and impact of this risk materialising in 2021 is medium.
- 6. Global growth prospects were recently revised slightly upwards, mainly due to the anticipation of the containment of the COVID-19 pandemic sooner than previously expected.** Based on the International Monetary Fund's (IMF's) April 2021 World Economic Outlook (WEO), global real GDP is estimated to have contracted by 3.3 percent in 2020 and projected to rebound to positive growth of 6.0 percent in 2021, owing to additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year. The projected improved growth in 2021 is broadly spread across both Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs), but with divergent magnitudes largely based on country-specific factors relating to how the

pandemic and its new variants are contained, as well as the depth of the health crisis in each country, and the roll-out of vaccinations. Global growth in 2022 is projected at 4.4 percent.

7. The domestic economy contracted in 2020 but is expected to recover in 2021 and 2022.

Namibia's economy contracted by 8.0 percent in 2020, nonetheless it is expected to pick up to estimated growth rates of 2.7 percent in 2021 and 3.3 percent in 2022, respectively. The contraction during 2020 is attributed to the outbreak of the COVID-19 pandemic, which led to protracted travel restrictions and a lockdown in many countries, including Namibia. The risk of renewed domestic economic slowdown is softened given the low base, good policy support and the possibility of viable vaccines which are expected to halt the pandemic sooner than was anticipated earlier on. Therefore, the probability of renewed economic slowdown is medium, while the impact, if the risk materialises, is high.

8. The Namibia Dollar (NAD) depreciated against all major trading currencies, international reserves grew, while Namibia's as well as South Africa's sovereign credit outlooks were revised downwards by all major credit rating agencies.

The depreciation of the NAD against all major currencies was attributed to investors' risk aversion towards EMDEs associated with the COVID-19 pandemic and with it a flight to invest in assets denominated in major AE currencies. At the time of releasing the April 2021 FSR, the risk of sharp NAD/ZAR depreciation had already materialised, with some of that depreciation reversed during the latter part of 2020 as risk aversion softened. Going forward, the risk of renewed sharp NAD/ZAR depreciation is projected to be moderate in line with market forecasts and forward cover rates. Namibia's international reserves increased mostly due to higher Southern Africa Customs Union (SACU) receipts, a weaker currency as well as a lower import bill. The international reserves remain at a sufficient level to safeguard the peg of the NAD to the South African Rand (ZAR) and meet the country's international financial obligations. The risk of a decline in international reserves in 2021 is deemed to be moderate. South Africa's and Namibia's sovereign credit rating outlooks were revised downwards by rating agencies, implying that the risk has increased compared to the April 2020 FSR. Going forward, the risk of a further sovereign credit rating downgrade for both Namibia and South Africa is medium with a medium impact.

9. Household debt growth slowed, while corporate debt declined significantly in 2020.

The annual growth in household debt slowed from 5.4 percent in 2019 to 4.5 percent in 2020, on the back of a much lower demand for short-term credit. The ratio of household debt to disposable income increased due to subdued growth in disposable income relative to the growth in credit. Disposable income contracted by 1.7 percent in 2020, in contrast to growth

of 1.1 percent registered in 2019. Nominal income and GDP declined, leading to an increase in debt-to-income ratios which does not bode well for financial stability; however, given lower interest rates, debt service ratios have gone down thus relieving financial pressure and reducing risks to financial stability. The risk of excessive household and corporate debt materialising in 2021 is viewed as having a low probability, with medium impact. The stock of corporate sector debt contracted significantly from N\$128.6 billion in 2019, to N\$123.9 billion in 2020, driven mainly by intercompany borrowing and repayments made by the mining sector. The risk to financial stability of an increase in corporate debt, has declined. However, the probability of this risk materialising in 2021 is low with a medium impact.

The media and the public at large are encouraged to read the full Financial Stability Report 2021, which can be accessed at (<https://www.bon.com.na/Bank/Financial-Stability/Financial-Stability-Reports.aspx>) and (<https://www.namfisa.com.na/publications>).



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