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## THE NAMIBIAN FINANCIAL SYSTEM REMAINS STABLE, SOUND AND RESILIENT

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*The Macprudential Oversight Committee (MOC)<sup>1</sup> of the Bank of Namibia held its second meeting of the year on the 8<sup>th</sup> of December 2022 to assess vulnerabilities in the Namibian financial system. Following a comprehensive analysis, the Committee is of the view that the domestic financial system remains stable, robust and resilient to withstand elevated risks and vulnerabilities emanating from the global and domestic economic and financial environment. The MOC therefore concluded that there is no need for macroprudential policy intervention, at this stage. The analysis conducted further revealed that both the banking and non-banking industries remained liquid, profitable and well capitalised, while the critical payment infrastructure operated efficiently. Going forward, the inflationary pressures which emanated from geopolitical tensions requires close monitoring as it could undermine the economic recovery and negatively impact the health of the financial system.*

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### RECENT FINANCIAL STABILITY DEVELOPMENTS

The Macprudential Oversight Committee of the Bank of Namibia reviewed the overall state of global and domestic financial stability, paying particular attention to the developments in and risks to the Namibian financial system.

- 1. The Committee concluded that the financial system is stable, sound and resilient, despite prevailing risks and vulnerabilities.** The banking and non-banking industries continued to perform adequately and remained profitable for most of 2022 as observed in the third quarter data. Moreover, the banking industry remains liquid, and well

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<sup>1</sup> The Bank of Namibia Act 1 of 2020 provides the responsibility of macroprudential oversight and the coordination of activities to safeguard financial stability to the Bank of Namibia. The Macprudential Oversight Committee (MOC), an internal committee at the Bank, was established to support the Bank in implementing the macroprudential mandate and exercise macroprudential decision making powers entrusted to the Bank.

capitalised, while the non-banking industry is reporting funding and solvency positions above the prudential limits.

- 2. Domestic economic activity improved throughout most of 2022.** As such, the Bank has revised its growth projections for 2022 upwards from 3.2 percent released in the August Economic Outlook to 3.9 percent in its latest November 2022 projections. The anticipated growth in 2022 is expected to be broad based, although some sectors such as construction and public administration are expected to remain weak in 2022. Risks to domestic growth remain concentrated around global developments, most notably inflationary pressures stemming from the geopolitical tensions in East Europe and global supply chain disruptions, notwithstanding internal pressures associated with climate change that could impact growth in the primary industries.
- 3. Risks to the global outlook remain skewed to the downside.** The IMF has revised projections downwards for a third time this year. Global growth is expected to slow from 6.0 percent in 2021, to 3.2 percent and 2.7 percent in 2022 and 2023 respectively. Downside risks to the outlook continue to be dominated by the ongoing Russia-Ukraine war and the associated spillover effects, particularly on energy prices in Europe. Additionally, global supply chain disruptions, coupled with COVID-19 related restrictions in China, could potentially result in further inflationary pressures if this situation is prolonged.
- 4. The banking sector remains liquid, profitable and adequately capitalised, although not performing at pre-covid levels.** Growth in the total assets of the banking sector rose by 10.7 percent to reach N\$161.4 billion at the end of September 2022. Further, the banking sector maintained adequate capital levels to meet the regulatory requirements and to absorb potential losses. The non-performing loans (NPL) ratio has improved, declining further by 0.4 percentage points to 5.7 percent during the third quarter of 2022. Although the ratio is below the Crisis Supervisory Intervention Trigger Point (SITP) for the first time in more than two years, it is important to note that the NPL ratio is a lagging indicator. The improved NPL ratio was on the back of the slightly better economic conditions owing to the lifting of COVID-19 restrictions. The ratio could, however, potentially deteriorate going forward if inflationary pressures and the subsequent monetary policy tightening continues.

- 5. The Non-Bank Financial Institutions (NBFI) sector growth slowed during the review period but remained profitable and sufficiently capitalised.** Over the third quarter of 2022, NBFI assets grew marginally by 0.8 percent year-on-year to N\$356.9 billion. This was the slowest annual growth since the first quarter of 2020. The slower annual growth in NBFI's assets as at the third quarter of 2022 is as a result of the effects of high inflation, recessionary pressures, and the geopolitical tension in Europe which lead to unfavourable developments in the financial markets. Furthermore, a notable gap was observed between retirement funds' benefits paid and contributions received, with benefits paid exceeding contributions received. It should, however, be noted that retirement funds hold sufficient reserves from which shortfalls in contributions are recoverable. In addition, investment returns enjoyed over time are sufficient to cover the gap between benefits paid and contributions received. Thus, the retirement funds industry remained fully funded. Although, the situation requires monitoring going forward, there are no risks to financial stability in the short term.
- 6. The Long-term Insurance (LTI) industry and Collective Investment Schemes (CIS) remained solvent and stable during the period under review.** The LTI industry realized a positive performance in 2022, despite the bearish financial markets. Furthermore, the LTI industry remained profitable in 2022, continuing its recovery from the losses recorded in 2021, owing to a moderation in its claims experience. Companies and households remain the dominant source of funds for CIS. Funds managed by CIS are primarily channelled into the domestic money market and listed debt markets. LTIs and collective investment schemes were not found to pose risks to financial stability in the short term.
- 7. Namibia's payment system and infrastructure continue to operate efficiently.** The payment system has been operating effectively during 2022, with financial market infrastructures such as the Namibia Inter-Bank Settlement System (NISS) and Namclear operating optimally with no major interruptions. Nampay an electronic transfer system, has successfully been implemented this year. Nampay allows individuals and business to transact in a safe and speedy manner. It is worth noting that incidents of fraud remained within the safety index measures.
- 8. The Bank of Namibia in collaboration with NAMFISA, the non-banking institutions regulator, will continue to monitor risks and make the necessary interventions.** The Committee maintains the view that the relief measures that were implemented at the

onset of the COVID-19 pandemic by the Bank of Namibia and NAMFISA continue to cushion the financial system against a potentially severe impact, buttressed by domestic economic recovery. However, the Bank will continue to monitor the impact on households and SMEs and take appropriate corrective measures if warranted.

- 9. The Macprudential Oversight Committee is of the view that despite the prevailing risks and vulnerabilities, the financial system remains sound, thus requires no macroprudential policy interventions at this stage.** The Bank will continue to monitor unfolding developments and when warranted, take the necessary remedial macroprudential actions with the tools at its disposal.

Issued by:

A handwritten signature in black ink, appearing to read 'Ebson Uanguta', with a horizontal line underneath it.

**Ebson Uanguta  
DEPUTY GOVERNOR**