



## Joint Media Release

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FOR IMMEDIATE RELEASE

THE JUST-RELEASED FINANCIAL STABILITY REPORT CONCLUDES THAT THE NAMIBIAN FINANCIAL SYSTEM REMAINED RESILIENT IN 2018, DESPITE SUBDUED ECONOMIC ACTIVITY.

### KEY HIGHLIGHTS:

- The Namibian financial system, comprising of the banking and the non-banking sector as well as the payment system and infrastructure, continued to be sound and resilient throughout 2018. The domestic economy is projected to register a modest positive growth rate in 2019, which is also expected to contribute positively towards financial stability in Namibia, going forward.
  - The banking sector remained profitable, liquid and well capitalised, notwithstanding further deterioration in asset quality, as measured by the non-performing loans ratio.
  - The Non-Banking Financial Institutions (NBFIs) industry remained financially stable and sound, despite the sluggish performance of the domestic economy.
  - The National Payment System (NPS) continued to perform efficiently and effectively.
  - The two regulators for the banking and non-banking financial sector, namely the Bank of Namibia and NAMFISA continued to regulate and enhance macro-prudential surveillance to ensure the financial system as a whole remains financially sound and stable.

Going forward, although near-term risks to global financial stability have risen slightly, financial conditions are still broadly accommodative and supportive of growth in the near-term.

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**1. The Bank of Namibia (BoN) and the Namibia Financial Institutions Supervisory Authority (NAMFISA) jointly released the annual Financial Stability Report (FSR) on 2 May 2019.** The Report assesses the stability of the Namibian financial sector and its resilience to internal and external shocks, during 2018. The report further highlights specific risks emanating from the external environment, the domestic economy, domestic household and corporate debt, the banking sector, the non-banking financial sector, as well as the payment and settlement system. The overall assessment concludes that the financial system remained sound, profitable and resilient, despite the weak domestic and global economic conditions as portrayed by increased vulnerabilities in some sectors.

## **SUMMARY OF THE ASSESSMENT**

**2. According to the International Monetary Fund's (IMF) April 2019 Global Financial Stability Report (GFSR), global financial conditions remained largely accommodative, but characterised by variations across regions which may increase financial stability risks.** Since the October 2018 GFSR, global financial conditions were broadly accommodative, characterised by reduced financial market volatility and stable interest rates in both the Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs). Nonetheless, vulnerabilities have continued to build up, particularly in the sovereign, corporate, and non-bank financial sectors of some AEs leading to elevated medium-term risks. At the same time, financial conditions in EMDEs have tightened which could be ascribed to a combination of country-specific factors, trade tensions, as well as worsening external financial conditions. Near-term risks to global financial stability have risen modestly, while medium-term risks remain elevated due to persistent financial vulnerabilities, coupled with increased debt levels and stretched asset valuations.

**3. Global growth slowed marginally, owing to weakening performances in both Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs).** According to the April 2019 World Economic Outlook (WEO) of the IMF, global growth is estimated at 3.6 percent in 2018, down by 0.2 percentage point from 3.8 percent in 2017. Gross Domestic Product (GDP) growth in key AEs and EMDEs slowed, with the exception of the US and Russia. GDP growth in Sub-Saharan Africa, however, increased slightly to 3.0 percent in 2018, compared to 2.9 percent in 2017, mainly due to the improved GDP growth rate in Nigeria.

**4. The global economy is projected to slow further in 2019.** Global output growth is estimated to moderate by 0.3 percentage points to 3.3 percent in 2019. The projected slowdown in global output in 2019 is ascribed to lower growth rates for both AEs and EMDEs. In the AEs, GDP growth is projected to slow in 2019 on the back of moderations in most key AEs, except Japan. Economic

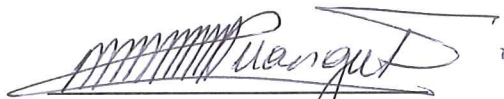
activities are also expected to moderate in EMDEs during 2019 on account of a greater than previously envisaged slowdown in China. Growth in Sub-Saharan Africa is, however, projected to continue to expand over the same period, supported by expected improvements in the growth rates of both Nigeria and South Africa. Going forward, risks to the outlook remain and include the possible collapse of the China/US trade negotiations, escalation of trade tensions to other countries and a no-deal withdrawal of the UK from the European Union.

- 5. The domestic economy contracted at a slightly slower pace in 2018 and a marginally positive growth rate is expected in 2019.** Real GDP in Namibia contracted by 0.1 percent in 2018, from a slightly deeper contraction of 0.9 percent in 2017, but is expected to expand by 0.3 percent in 2019. The decline in Namibia's growth rate during 2018 emanated mainly from the weak performance in the secondary and tertiary industries, while strong output growth sustained activity in the primary industry. The external current account deficit, however, is estimated to have improved during 2018, as a result of increased exports and higher inflows on the services account. Going forward, risks to the domestic economic outlook remain, and include the persistently low uranium price and unpredictable rainfall.
- 6. The level of household indebtedness as well as the stock of corporate debt rose, although the ratio of household indebtedness to disposable income moderated slightly in 2018.** Household debt increased by 7.0 percent in 2018, up from 6.7 percent in 2017, on the back of an increased demand for short-term credit. On the contrary, the household debt to disposable income ratio moderated due to the disposable income increasing at a faster pace than household debt. As a result, the risk to financial stability remained unchanged. Disposable income increased by 8.5 percent in 2018, from 4.2 percent in 2017. The stock of corporate sector debt grew during 2018 to reach N\$126.4 billion, representing an increase of 12.2 percent compared to 2017. The higher corporate debt stock was mainly as a result of inter-company borrowing in the mining sector. The increased level of the corporate debt stock therefore does not pose a risk to financial stability since it is directed towards increasing production, which in turn enhances financial stability.
- 7. The banking sector remained profitable, liquid and well capitalised, although asset quality deteriorated further since the last FSR.** The non-performing loan (NPL) ratio increased from 2.5 percent in 2017 to 3.6 percent in 2018, which signifies that the banking sector asset quality worsened. This, however, remains within the limits set by the Bank of Namibia. The banking sector continued to grow in terms of assets. Moreover, banks continued to register positive profit growth, despite a challenging economic environment over the period under review. Both capital and liquidity remained well above the minimum statutory requirements during 2018, meaning that the banking sector had adequate capital as well as a favourable liquidity position.

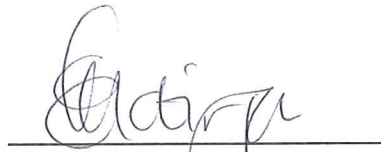
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- 8. Despite a moderation in the growth rate of Non-Bank Financial Institutions (NBFI) assets, the NBFI sector remained financially stable and sound.** The NBFI sector assets grew by only 0.9 percent in 2018, significantly slower compared to the previous year. This slow growth in total NBFI assets was mainly driven by slow growth in pension fund assets, owing to volatile and poor performing financial markets during the period under review. Nonetheless, the sector's key financial ratios readily comply with prudential requirements indicating financial soundness.
- 9. Since the previous FSR, the National Payment System and infrastructure remained stable and continued to operate efficiently and effectively.** The key payment systems and infrastructure were mostly available and maintained high system availability, with two disaster recovery tests for the Namibia Interbank Settlement System (NISS) successfully conducted.
- 10. Despite a rise in some risks to Namibia's financial stability on the back of sluggish economic activity, most risks remained broadly unchanged.** Since the previous FSR most risks either remained unchanged or went up marginally. The marginal increase in risks were mainly related to the global economic slowdown, depreciation of the Namibia Dollar, as well as, the possibility of sovereign credit downgrades in both South Africa and Namibia. However, the probability of these risks materialising going forward is medium with a medium to low impact. The domestic economy is projected to improve, although, if the current slowdown persists, the potential impact on financial stability could be considered high. Despite the higher levels of debt in the household sector, the risk to financial stability remained unchanged as disposable income also increased. The increased level of the corporate debt stock similarly is not deemed to pose a significantly higher risk to financial stability. Although asset quality of the banks deteriorated further during the period under review, the probability and impact of a further deterioration remains medium as the banks continue to be profitable, liquid and well capitalised. Risks to the payment system as well as the NBFIs remained broadly unchanged with low to medium risks going forward. The regulatory authorities, going forward, commit to continuously monitor the identified risks and take remedial actions should a need arise.

The media and the public at large are encouraged to read the full Financial Stability Report, 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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