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FOR IMMEDIATE RELEASE

THE JUST RELEASED *APRIL 2024 FINANCIAL STABILITY REPORT* CONCLUDES THAT THE NAMIBIAN FINANCIAL SYSTEM REMAINED STABLE, SOUND AND RESILIENT IN 2023, DESPITE SLOWER ECONOMIC GROWTH.

HIGHLIGHTS:

- The Namibian financial system, which is made up of the banking and non-banking sectors, as well as the payment system and infrastructure, continued to be stable, sound and resilient throughout 2023.
- The banking sector financial soundness indicators remained at comfortable levels during 2023, with the growth in assets outpacing the prevailing inflation rate. The sector reported healthy profitability and liquidity positions with capital adequacy well above the prudential requirements. Asset quality deteriorated during 2023, however; it remained below the crisis time supervisory intervention trigger point of 6 percent.
- The Non-Bank Financial Institutions (NBFIs) sector remained financially stable and sound despite the contractionary monetary policy environment.
- The National Payment System and infrastructure remained stable, while efficiently contributing towards reliability in payments.
- The Namibian economy grew by 4.2 percent in 2023 and is projected to moderate to 3.7 percent in 2024.
- Since the last Financial Stability Report, growth in both household and corporate debt slowed in 2023.
- Global growth slowed during 2023 due to elevated interest rates, long-term repercussions of the pandemic, and a gradual withdrawal of fiscal support.
- Going forward, global growth is projected to remain at 3.2 percent in both 2024 and 2025. This projection reflects restrictive monetary policies and withdrawal of fiscal support, as well as low underlying growth in productivity.
- Given the 2023 developments, the domestic regulatory initiatives introduced include the revision of the loan-to-value ratio.
- The Namibian financial stability outlook is shaped around three key themes: climate change, cyber risk and the recent greylisting by the Financial Action Task Force (FATF).

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 April 2024 FSR assesses the stability of the Namibian financial system and its resilience to internal and external shocks. The report further highlights specific risks emanating from the macroeconomic environment, domestic household and corporate debt, trends in the property market, developments in the banking sector, the Non-Bank Financial Institutions sector (NBFIs), as well as the payment and settlement system. The assessment concludes that the financial system in Namibia remained stable, sound and resilient with no major disruptions or disorderly functioning of key financial services, despite the moderation in economic growth and prevailing risks. The regulatory authorities are committed to continuously monitor the identified risks and take appropriate, timely action.

SUMMARY OF THE ASSESSMENT

2. **The Namibian financial sector remained stable, sound and resilient in 2023 despite moderate economic growth compared to 2022.** The growth momentum in the domestic economy stalled due to slower growth in the primary and secondary industries. The reduced momentum in the primary industry was due to the lacklustre performance of the diamond and agriculture sectors. Similarly, the growth in the secondary industry was underpinned by weaker global demand. The overall inflation for Namibia averaged 5.9 percent during the period under review, compared with 6.1 percent in 2022, in line with the contractionary monetary policy stance. The financial system nonetheless continued to function efficiently amidst these macroeconomic developments. Both the banking and NBFI sectors maintained a sound and stable financial position during 2023 and were viable sources of funds for the financial system. The payment system infrastructure also continued to contribute reliably toward the financial system’s efficiency.

3. **During 2023, the Namibian economy lost growth momentum on the back of slower developments in the primary and secondary industries**. Real growth slowed to 4.3 percent during 2023 compared to 5.3 percent recorded in 2022, on the back of sluggish growth in the primary and secondary industries. Growth is projected to moderate to 3.7 percent in 2024 due to anticipated weaker growth in the mining and agriculture sectors, owing in part to uncertain weather conditions. Risks to domestic growth are predominantly in the form of a prolonged tight global monetary policy stance, amidst renewed inflationary concerns as geopolitical tensions intensify. Other domestic risks include water supply constraints, drought conditions and high costs of key import items that are likely to persist for some time.

4. **Both household and corporate debt stock increased during the reporting period, although at a slower rate when compared to 2022.** The annual growth in household debt slowed marginally by 0.1 percentage point, to 3.3 percent by the end of 2023. The ratio of household debt to disposable income moderated from 43.3 percent in 2022 to 40.5 percent in 2023 partly due to inflationary salary adjustments, coupled with recruitment by the Government during 2023. The total corporate debt stock increased during 2023, mainly due to foreign direct investor long-term loans extended to subsidiaries in the mining sector. Consequently, the corporate sector's debt-to-GDP ratio rose from 70.7 percent at the end of 2022 to 72.4 percent at the end of 2023. The short-term risks to financial stability emanating from corporate debt appear moderate given the lower growth estimated for 2023. The probability of an excessive increase in both household and corporate sector debt in the next twelve months is medium, considering the current economic environment, coupled with the fiscal relief measures put in place.

5. **The banking sector remained liquid, profitable and well capitalised during the period under review, with some concern for asset quality.** Banking sector assets grew by 6.1 percent, which is slightly higher than the prevailing inflation rate of 5.9 percent. The banking sector reported capital and liquidity positions well above the prudential requirements. Furthermore, the profitability position of the banking sector remained healthy on the back of higher net income, particularly interest income. Asset quality, as measured by the non-performing loans (NPL) ratio deteriorated in 2023 but remained below the crisis time supervisory intervention trigger point of 6 percent. Despite an increase in NPLs, the overall impact of risks from the banking sector did not appear significant during the review period. It was therefore not deemed to pose an imminent threat to financial stability in Namibia. This is further supported by the stress test results which indicated that the banking sector would remain liquid and solvent if the test scenarios imposed, materialised. The probability and impact of downside risks to the financial system's stability stemming from liquidity constraints and asset quality deterioration thus ranged between low and medium.

6. **The Non-Bank Financial Institutions (NBFI) sector remained sound during the period under review.** Total NBFI assets increased by 14.6 percent to N$419.4 billion in 2023. Despite the contractionary monetary policy environment, demand for NBFI products remained strong in 2023. Moreover, volatility in the financial markets remains a concern for short to medium term viability of the NBFI subsectors with dominantly short-term liabilities.

7. **The National Payment System (NPS) and infrastructure remained safe, secure, and efficient during 2023.** The Bank of Namibia continued to fulfil its regulatory mandate as the

overseer of the NPS in accordance with the Payment System Management Act, 2023 (No. 14 of 2023). Similarly, the Namibia Interbank Settlement System (NISS) maintained high system availability throughout 2023. Compared to 2022, total fraud in the NPS increased across all payment streams, primarily electronic fund transfers (EFTs) and e-money. The increase in EFT fraud was primarily via phishing, while that in e-money payments resulted from incidents that were perpetrated via phone scams, especially targeting e-money wallets. To curb the rise in fraud and enhance cyber resilience, discussions are held at various NPS industry platforms for public education and awareness campaign initiatives, and continuous improvement of the payments infrastructure. Despite these challenges, risks within the financial system emanating from the NPS remained broadly unchanged and well-managed. On the regulatory front, the Payment System Management Act, 2023 (No. 14 of 2023) was revised to empower the BoN to act as the sole regulator of the NPS. In addition, the BoN issued guidelines on the standardisation of quick response codes in the NPS.

8. **The domestic regulatory initiatives introduced in 2023 include the revision of the loan-to-value (LTV) ratio by the Macroprudential Oversight Committee (MOC).** In response to challenges faced by the property market, the MOC concluded that there is a need to enable a macroprudential policy intervention on the existing LTV regulation. In this regard, the revised LTV regulation involved implementing less strict LTV ratios, with no downpayments required to purchase first and second residential properties. However, for the third and subsequent properties, prospective buyers are required to make a 10 per cent deposit when acquiring a home loan. Besides the change in the LTV regulation, no other specific policy recommendations were deemed necessary. Still, a commitment to maintaining vigilance and steering the course to address any emerging risks remains imperative.

9. **The Namibian financial stability outlook is shaped around three key themes: climate change, cyber risk and the recent grey listing by the Financial Action Task Force (FATF).** Climate-related risk is a growing concern around the globe and has the potential to affect the financial system through physical and transition risks. Moreover, managing cyber risk is not merely about protecting information technology assets but is crucial for maintaining the overall stability and integrity of the financial system. Furthermore, idiosyncratic risks such as grey listing by the FATF have the potential to elevate systemic risks and undermine the outlook for financial stability in Namibia. Risks to financial stability in Namibia will be monitored accordingly under the advisory guidance of the Financial System Stability Committee and the direction of the Macroprudential Oversight Committee.

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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