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THE NAMIBIAN FINANCIAL SYSTEM REMAINS STABLE, SOUND AND RESILIENT

The Macroprudential Oversight Committee (MOC) of the Bank of Namibia at its third meeting assessed vulnerabilities in the Namibian financial system and concluded that there is no need for further macroprudential policy intervention, at this stage. Despite elevated risks and vulnerabilities emanating from the global environment, with the potential to spill over to the domestic economy, the Committee is of the view that the domestic financial system remains adequately robust and resilient to withstand these strains. The analysis conducted revealed that both the banking and non-banking financial industries remained liquid, profitable and well capitalised. Going forward, the inflationary pressures emanating from geopolitical tensions require close monitoring.

RECENT FINANCIAL STABILITY DEVELOPMENTS

The Macroprudential Oversight Committee of the Bank of Namibia at its third meeting held on 4 August 2022 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, resilient and sound despite prevailing risks and vulnerabilities.** The banking and non-bank financial industries continued to perform adequately and remained profitable during the first half of 2022. The banking industry expanded its balance sheet and remains liquid, profitable, and well capitalised, while the non-bank financial industry is reporting funding and solvency positions above the prudential limits. The domestic economy is expected to improve in 2022 and 2023, albeit at a slower pace than previously anticipated. The resilience of the domestic financial system has enabled it to withstand

the impact of geopolitical tensions, inflationary pressures, tightening monetary policies and COVID-19.

2. **Global financial conditions have tightened considerably over the first half of 2022, with a negative outlook.** According to the latest International Monetary Fund (IMF) Global Financial Stability Report, financial conditions have tightened substantially as central banks have adopted more hawkish stances to combat inflation. Specifically, this development poses a risk to emerging markets through potential capital outflows and currency depreciation. Moreover, the IMF has revised its projection for global growth downwards for the third time in 2022. In July 2022, the IMF projected that the global economy will grow by 6.1 percent which is 0.4 percentage points lower compared to the projection made in April 2022. This is mainly on the back of the tensions between Russia and Ukraine driving up key commodity prices such as those of oil and grain, coupled with prolonged supply chain issues and lockdown-related losses in output stemming from the COVID-19 pandemic amongst other factors. These developments are causing a steep increase in global inflation. The elevated prices, coupled with higher borrowing costs strain the income of households who are still struggling to recover from the impact of the pandemic. These developments could ultimately have a negative impact on domestic economic recovery efforts.

3. **Banking sector assets maintained positive growth during the first half of 2022.** Growth in banking sector assets continued to recover from the lows experienced in the second quarter of 2020 at the peak of the pandemic. Asset quality, as measured by the Non-Performing Loans (NPLs) ratio, plateaued towards the end of 2021 but remained above the crisis intervention threshold during the first half of 2022. In this regard, developments in asset quality are monitored by BoN and presented to the Financial System Stability Committee (FSSC) which on a quarterly basis assesses whether any policy action is required. Despite the lower liquidity position of the banking industry, the liquidity ratio remained well above the statutory minimum and the industry maintained adequate capital levels sufficient to meet the regulatory requirements and to absorb potential losses. With regard to the profitability of the sector, although both the Return on Equity (ROE) and Return on Assets (ROA) trended downwards during the first half of 2022 compared to December 2021, the ratios remain above the record levels experienced in the second quarter of 2020 due to the impact of the pandemic. Overall, the Committee is of the view that slightly lower profitability is to be expected given the recent headwinds faced by the global and domestic economy. These

developments are not concerning at this stage; however, the Committee will continue to monitor them going forward.

4. **Namibia's payment system and infrastructure remained stable and efficient.** The payment system has been operating effectively and efficiently during the first half of 2022, with financial market infrastructures such as the Namibia Inter-Bank Settlement System (NISS) and Namclear operating optimally. In addition, Nampay has successfully been implemented this year, which will further strengthen the efficiency and security of the system. Moreover, fraud remains within the safety index measure of 0.05 percent.

5. **The Non-Bank Financial Institutions (NBFI's) remained stable, profitable and sufficiently capitalised**. NBFI assets expanded year-on-year, attributable to a combination of new business and positive returns on investment, despite a marginal decline on a quarterly basis. With respect to the retirement funds, it is important to note that the gap between benefits paid and contributions received narrowed. Nonetheless, the retirement funds' funding position remains sound and above the regulatory requirements. The life insurance subsector remained solvent with sound reserves. Similarly, the collective investment schemes sector remained stable with no notable withdrawals.

6. **Inflation has accelerated substantially since the second half of 2021.** The year-on-year inflation rate rose to 6.0 percent during the first half of 2022, higher than the 4.5 percent recorded at the end of December 2021. This observed acceleration emanated primarily from rising housing, food and fuel prices. The inflation developments are supply-side driven with a significant portion being imported. Notable relief measures to date include the recently announced reduction in petrol and diesel prices by the Ministry of Mines and Energy. A continued rise in inflation could impact the performance of the financial system, and as such BoN will continue to monitor these developments and adopt appropriate measures.

7. **Growth in private sector credit extended (PSCE) remained subdued during the period under review.** Year-on-year PSCE growth stood at 3.4 percent at the end of June 2022, higher by 2.2 percentage points when compared to December 2021. Prior to the pandemic the average growth in PSCE stood at around 6.8 percent during 2019, 3.5 percent in 2020 and 2.4 percent on average during 2021. Therefore, despite the growth in PSCE during the period under review, demand is still relatively low compared

to pre-pandemic times. The main drivers of PSCE remains short-term credit while the demand for long- term credit remains subdued.

8. **In pursuit of safeguarding the stability of the Namibian financial system, the Bank of Namibia in collaboration with NAMFISA will continue to monitor risks and take appropriate steps.** Potential financial vulnerability build-up would largely emanate from inflation and the impact on household disposable income and corporate profitability. Furthermore, the MOC will continue to monitor the level of asset quality. Of continued concern is the vulnerability build-up observed in the government debt level which has increased above the domestic threshold and SADC target. The Committee noted that the relief measures that were implemented at the onset of the COVID-19 pandemic by the Government, the Bank of Namibia and NAMFISA remain in place and will continue to cushion the financial system against a potentially severe impact.

9. At present, the Macroprudential Oversight Committee is of the view that the current developments do not warrant further macroprudential policy interventions; however, the Bank of Namibia remains steadfast and will take remedial macroprudential actions with the tools at its disposal if and when warranted.

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