

## Joint Media Release

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**FOR IMMEDIATE RELEASE**

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### **THE FINANCIAL STABILITY REPORT FOR 2016 ESTABLISHED THAT THE NAMIBIAN FINANCIAL SYSTEM REMAINS HEALTHY AND SOUND**

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#### **KEY HIGHLIGHTS:**

- Banking sector remains sound, profitable and adequately capitalized.
- Non-Banking Financial Institutions are sound and do not pose systemic risks to the financial stability.
- Both household and corporate debts increased considerably and require continuous monitoring going forward.
- Payment system infrastructure continues to operate efficiently and effectively.
- Overall, the Namibian financial system remains robust and resilient to shocks.

The Bank of Namibia and the Namibia Financial Institutions Supervisory Authority (NAMFISA) jointly released the annual Financial Stability Report (FSR) on 12 May 2016. The Report assesses the stability and resilience of the Namibian financial sector to internal and external shocks. The report further highlights specific risks stemming from the external environment, domestic household and corporate debts, the banking sector, the non-banking financial sector and payment and settlement systems. The overall assessment concludes that the financial sector is robust, healthy and resilient to shocks, but continuous monitoring of risks to financial stability from the domestic, regional and global environments is needed as a prudential measure.

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## SUMMARY OF THE MAIN RISKS

**1. Since the last FSR, the Namibian financial system remained robust, despite a rise in household indebtedness and some adverse developments in the global economy.**

The Namibian financial system remained stable in 2015, characterised by a sound, profitable and adequately capitalised banking sector with a relatively low level of Non-Performing Loans (NPLs). Moreover, the performance of the non-banking financial sector was strong during 2015, as its balance sheet remained robust. The payment system also operated efficiently and effectively. Household indebtedness remained higher than comparator economies and warrants targeted strategies to reduce risks to financial system stability. In addition, the level of foreign debt exposure by the corporate sector requires monitoring. On the international front, a slowdown in China, and declining commodity prices, particularly for uranium, copper and zinc posed a potentially negative impact on financial stability. The Namibian financial system has, nonetheless, coped well with shocks to financial stability in the period under review.

**2. Since the last FSR, uncertainty and weakening global growth prospects have increased risks to financial stability.** These developments have tightened financial conditions, reduced risk appetite, raised credit risks, and constrained household and corporate balance sheets. In addition, the global growth outlook has deteriorated in advanced economies as a result of declining confidence, while the fall in commodity prices and slower economic growth have kept risks elevated in Emerging Market Economies (EMEs). Financial spill overs from EMEs have also risen substantially, implying their importance when assessing macro-financial conditions.

**3. The Namibian economy recorded respectable growth in 2015, although slower than that of the preceding year.** Real GDP growth was largely driven by construction, wholesale and retail trade, complemented by public services. On the downside, the agricultural sector was estimated to have contracted during 2015, mainly as a result of the adverse effects of the drought. Looking ahead, economic activities are expected to continue registering a positive increase, nonetheless risks remain and include: the slowdown in the economies of Namibia's main trading partners, sluggish commodity prices, volatile exchange rates and the impact of the prevalent drought conditions.

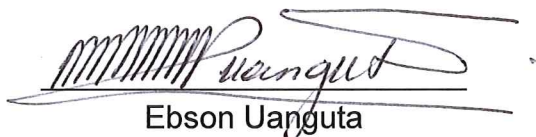


4. **Since the last FSR, household debt increased, driven by mortgages and other loans and advances.** The ratio of household debt to disposable income rose to 89.1 percent in December 2015 from 85.5 percent in December 2014. The trend in household debt will be closely examined and suitable policy measures will be effected to keep its growth rate at sustainable levels.
5. **As a proportion of GDP, corporate debt levels rose during the period under review on the back of increases in both foreign and domestic private sector debt, coupled with the depreciation of the Namibia Dollar.** The increase in corporate debt was largely ascribed to borrowing by both local and multinational enterprises to expand their operations, exacerbated by exchange rate depreciation. Since credit extended to businesses was used for productive activities, it is anticipated that this may not pose a major risk to financial stability in the country. Similarly, the acceleration in the growth rate of large exposures in the banking sector, in sectors such as manufacturing and construction, does not pose a major risk to the financial system.
6. **Since the last FSR, the performance of the Namibian banking sector has been characterised by healthy profit levels and adequate capital.** The banking institutions remained resilient and maintained capital and liquidity at levels higher than the minimum set by the Bank of Namibia. Moreover, banking institutions have exhibited robust aggregate balance sheet growth. Despite the slight decline in the banking sector asset quality, the NPL ratio remains within acceptable levels.
7. **The balance sheets of Non-Banking Financial Institutions (NBFIs) are strong and do not pose systemic risks to the country's financial system.** Overall, growth of the assets of the NBFIs sector was positive and is expected to continue to grow going forward. Since the last FSR, the capitalisation of provident, insurance and investment institutions was adequate to ensure solvency and funding levels in excess of those required by relevant statutes. These levels are sufficient to withstand the shocks and risks to which these institutions are exposed.
8. **Finally, since the previous FSR, the payment system operated effectively.** In this regard, progress was made to ensure transparency in the way the national payment system (NPS) is operated and to reduce the associated risks. Specifically, an analysis of

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critical incidents that could impact the stability of the NPS was performed and ways to prevent such incidents in the future were recommended, including techniques to improve operational controls.

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?page=1> and <http://www.namfisa.com.na/news/>).



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