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THE NAMIBIAN FINANCIAL SYSTEM REMAINS STABLE, SOUND AND RESILIENT AMIDST A CHALLENGING GLOBAL AND DOMESTIC ECONOMIC ENVIRONMENT

The Macroprudential Oversight Committee (MOC)[1] of the Bank of Namibia (the Bank) held its second and last meeting of the year on the 07th of December 2023, to assess potential risks and vulnerabilities in the Namibian Financial System. Following a comprehensive assessment of domestic and global economic conditions, the Committee deemed the domestic financial system as stable, sound, and resilient. This is despite increasing risks and vulnerabilities stemming from both the domestic and global sphere. In addition, the financial sector demonstrated resilience through maintaining adequate capital and liquidity buffers to absorb the impact of shocks, while simultaneously ensuring that the payment infrastructure operated efficiently. Further, the MOC welcomes the revised Loan-To-Value (LTV) regulation that came into effect on 31 October 2023, and will continue to monitor the developments within the property market given the relaxed LTV limits. The Committee also concluded that, no further macroprudential policy actions are warranted at this stage. The MOC, however, emphasised continuous monitoring of inflationary pressures, high interest rates and slow domestic and global recovery, which could adversely impact the financial system.

RECENT FINANCIAL STABILITY DEVELOPMENTS

The MOC of the Bank at its meeting held on the 07th of December 2023, conducted a thorough assessment of both global and domestic financial stability, with a specific focus on the potential vulnerabilities within the Namibian financial system.

1. **The MOC observed that global financial stability risks remain elevated putting strain on the resilience of the global financial system.** This stems from heightened

[1] 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 Macroprudential 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.

geopolitical risks, persistent inflationary pressures, tight monetary policy conditions, slowdown in economic growth and the risk of a repricing of assets in international money and capital markets. Despite the global easing of inflation, core inflation remains high in various economies, necessitating higher interest rates for longer to bring inflation within target rates of the various central banks. Furthermore, the International Monetary Fund anticipates global growth to slow to 3.0 percent in 2023, from 3.5 percent in 2022 and moderate further to 2.9 percent in 2024. The downside risks to the global economic outlook remain high inflation and interest rates, geopolitical tensions, geopolitical fragmentation, and weak property markets, as borrower debt repayment capacity diminishes.

2. **Namibia's real GDP growth is projected to slowdown during 2023 and 2024, largely due to weaker demand in both global and domestic economies.** Real GDP growth is projected to slow to 3.9 percent in 2023, from 7.6 percent in 2022, and is expected to moderate further to 3.4 percent in 2024. The anticipated slowdown in growth for 2023 is primarily attributed to reduced demand in both the global and domestic economies. This is due to the persistently high levels of inflation and interest rates, which are expected to dampen overall consumer spending. The moderation can further be attributed to substantial base effects, originating from diamond mining and other mining and quarrying activity.

3. **The banking sector's balance sheet growth remained strong, reflecting an improved liquidity position and adequate capital levels.** On a quarterly basis, total assets for the sector increased by 1.5 percent to N$174.6 billion in the third quarter of 2023, mainly ascribed to increases in cash and balances at banks, short-term negotiable securities, as well as net loans and advances. The liquidity ratio of the banking sector stood at 18.5 percent during the third quarter of 2023, from 18.1 percent in the second quarter of 2023, due to an increase in cash balances on the back of higher diamond sales, and government payments. Furthermore, the banking sector maintained adequate capital levels to meet the regulatory requirements and absorb potential losses. Both the Return on Equity and Return on Asset ratios increased during the review period mainly due to an increase in net-interest income earned by the banking sector. Asset quality deteriorated slightly but remained below the supervisory intervention trigger point of 6 percent. Going forward, the pressure on households and businesses due to higher interest rates and slow economic growth could further deteriorate asset quality.

4. **The MOC welcomes the amendments to the LTV ratio regulations.** Notwithstanding the recovery witnessed in the domestic economy, as well as the sound and stable financial sector, activity in the housing and construction sectors remains muted. This lacklustre performance has been further exacerbated by the dampened credit extension particularly for the property market, contributing to the ongoing sluggish growth observed within this sector. As such, in response to the prolonged periods of subdued growth and dampened credit growth observed in the construction sector, the MOC reflected on the existing LTV regulation which was introduced as a macroprudential tool to contain speculative behaviour in the housing market and recommended their further relaxation. The MOC noted the amendments to the LTV regulation which came into effect on 31 October 2023, purposed to primarily support economic activity. The MOC will continue to monitor the developments within the property market given the relaxed LTV limits and its impact.

5. **Simultaneously, the Bank is exploring the implementation of a countercyclical capital buffer (CCyB) as an additional layer of resilience for the banking sector**. The CCyB is a forward-looking macroprudential policy tool which acknowledges the cyclical nature of financial markets, economic activity and aims to fortify banks against potential losses during periods of pronounced economic stress. In essence the CCyB is a capital requirement that banks need to build during economic expansion, which is witnessed by periods when credit is growing rapidly, on top of the existing capital adequacy requirements. This buffer can be released during economic downturns to cover credit losses or to lend to the real economy without the banking sector's resilience being jeopardised. The Bank will commence consultations with the industry on the implementation of the CCyB in Namibia.

6. **Namibia's payment system and infrastructure continue to operate efficiently.** The payment system has been operating effectively during the review period, with financial market infrastructures such as the Namibia Interbank Settlement System and Namclear operating with no major interruptions.

7. **The Non-Bank Financial Institutions (NBFIs) sector exhibited resilience despite the challenging macroeconomic conditions.** The total assets held by the NBFIs increased by 1.3 percent on a quarterly basis and 11.8 percent on an annual basis to N$399.2 billion, effectively withstanding the cooling off in global equity markets during the third quarter of 2023. In addition, the sizable year-on-year growth is due to base effects. Benefits paid continued to exceed contributions received, in line with the maturity level of the retirement funds (RF) subsector. In the short-to-medium, this is not expected to threaten the viability and liquidity of the RF subsector. Accordingly, RFs maintained a funding position above the prudential level, signifying a strong solvency position.

8. **The long-term insurance (LTI) subsector remained solvent, with the demand for LTI products withstanding the effects of the macroeconomic environment.** The claims experienced in LTIs has since normalised from the levels observed in the immediate aftermath of COVID-19. LTI assets were observed to slow marginally, in line with the contraction in stock markets during the third quarter of 2023.

9. **Collective investment schemes (CIS) remained stable, with no significant redemptions observed despite the macroeconomic environment.** CIS remained a significant source of liquidity in the Namibian economy, with N$48.5 billion (56.6 percent) of funds under CIS management held domestically.

10. **Considering the above assessment, the MOC concluded that the financial system continues to display resilience despite the current macroeconomic conditions.** In this regard**,** the Committee has determined that, no further macroprudential policy intervention is required at this stage. The Bank will, however, continue to monitor the developments and when warranted, take the necessary remedial macroprudential action with the tools at its disposal.

Issued by:

Mr. Johannes !Gawaxab
GOVERNOR