Media Statement

Bank of Namibia

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

On the 10th of July 2023, the Macroprudential Oversight Committee (MOC)[1] of the Bank of Namibia (the Bank) convened its first meeting of the year, to assess risks and vulnerabilities faced by the Namibian Financial System. Following a critical in-depth analysis of both the domestic and external economic environments, the Committee affirmed that the domestic financial system continues to demonstrate stability, robustness and resilience, amidst heightened risks and vulnerabilities originating from both the domestic and global sphere. In addition, the banking and non-banking sectors remained liquid and well capitalised to absorb potential losses. To support the domestic economy, the MOC, concluded that there is a need to enable a macroprudential policy intervention on the existing LTV regulation. The Committee also emphasised continued monitoring of inflationary pressures and geopolitical tensions, which have the potential to undermine economic recovery and negatively impact the financial system.

RECENT FINANCIAL STABILITY DEVELOPMENTS

The MOC of the Bank at its meeting held on the 10th of July 2023, conducted a comprehensive review of global and domestic financial stability, with a specific focus on the vulnerabilities within the Namibian financial system.

1. **The Committee observed that global financial stability risks increased, putting strain on the resilience of the global financial system.** These risks stem from various factors including inflationary pressures, tight monetary policy conditions, geopolitical tensions and low economic growth. The recent occurrence of bank failures further added to the challenges faced by the banking sector in more Advanced

[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.

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Economies. While inflation has decreased in some jurisdictions due to central bank interest rate hikes, it remains elevated and above target in other economies. Moreover, the International Monetary Fund has revised its global economic growth outlook to 2.8 percent in 2023, down from 3.4 percent in 2022, with expectations of a recovery to 3.4 percent in 2024. The downside risks to the global economic outlook remains the debt distress in emerging markets, the implementation of stringent monetary policies to combat inflation and geopolitical tensions.

2. **Namibia's real Gross Domestic Product (GDP) growth is expected to slow down in 2023 and 2024, mainly due to weaker global demand.** Contrary to the robust growth of 4.6 percent observed in 2022, the domestic real GDP growth is projected to moderate to 3.0 percent in 2023 and is expected to slow down further to 2.9 percent in 2024. The moderation is mainly on account of global monetary policy tightening and the ongoing geopolitical tensions. In addition, water supply interruptions at the coast, climate change and spillover effects of electricity cuts in South Africa continue to increase risks for the domestic economy.

3. **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 dampened.** Economic activity in sectors such as mining, manufacturing, wholesale and retail trade, communication and tourism improved during the first four months of 2023, compared to the same period in 2022. The construction sector has experienced prolonged periods of subdued growth, performing below average. 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. These developments, therefore, necessitated the Committee to reflect on the existing LTV regulation which was introduced as a macroprudential tool to contain speculative behaviour in the housing market.

4. **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 grew by 5.3 percent to N$173.2 billion in the first quarter of 2023, driven by cash and balances at banks, as well as net loans and advances. The liquidity ratio of the banking sector stood at 19.1 percent during the first quarter of 2023, from 17.8 percent in the last quarter of 2022, due to diamond sales, government spending,

capital inflows and subdued private sector credit extension. Furthermore, the banking sector maintained adequate capital levels to meet the regulatory requirements and absorb potential losses. There was, however, a marginal decline in the Return on Equity and Return on Asset ratios, indicating reduced profitability due to decreases in both interest and non-interest income earned by the banking sector. Asset quality, as measured by the non-performing loans ratio, deteriorated slightly, but remained below the supervisory intervention trigger point of 6 percent. Going forward, the burden of debt servicing for households and businesses, along with slower growth expectations and tight monetary policy, may apply additional pressure on asset quality.

5. **The Non-Bank Financial Institutions (NBFIs) remained financially sound, with the investment assets returning a growth rate that coincides with financial market recovery.** The assets held by the NBFIs increased by 4.3 percent on a quarterly basis to N$381.8 billion during the first quarter of 2023. The increase was mainly due to growth observed in the long-term insurance and retirement funds sub-sectors. Retirement Funds (RFs) remained solvent with a funding position at 101.2 percent, thus remaining above the prudential limit. The return on investments of the retirement funds increased to 4.6 percent in the first quarter of 2023 from 3.9 percent recorded in the last quarter of 2022, recovering from the bearish first three quarters of 2022. This contributed significantly to the increase in assets held by the NBFIs. Total benefits paid continued to exceed the total contributions received. However, it is not expected that retirement funds' viability will be affected in the short to medium-term, given the sufficiency of reserve levels. Similarly, the long-term insurance (LTIs) sub-sector remained solvent with adequate capital reserves. The claims in the LTI sector continued to recover from the elevated levels observed in 2021, which were as a result of relatively higher mortality rates attributable to the Delta Variant of Covid-19. There were no significant developments in the lapses and termination of LTI policies, despite the higher costs of living exacerbated by relatively higher inflation levels and a tight monetary policy environment. Collective investment schemes also remained stable during the first quarter of 2023, with no significant spikes in redemptions despite the expected effects of higher costs of living on households' disposable income.

6. **Considering the current macroeconomic conditions, the MOC deliberated and deemed it important to recommend a policy intervention on the existing LTV regulation.** In this regard, as per the applicable laws, the Bank will pursue Ministerial issuance of regulations to operationalise the macroprudential policy taken and communicate accordingly at a later stage. This is primarily to support economic activity. The MOC will continue to carefully assess and monitor unfolding developments and, when warranted, take the necessary remedial macroprudential actions with the tools at its disposal.

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