Media Release

Bank of Namibia

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FINANCIAL STABILITY REPORT FOR MARCH 2013 LAUNCHED

The Bank of Namibia launched the bi-annual Financial System Stability Report of March 2013 on 18 April 2013. This Report assesses the recent performance of important institutions and infrastructure with a bearing on financial system stability in Namibia. The Report uses economic and financial data available to assess 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, performance of the banking sector, performance of the non-banking financial sector and payment and settlement systems. It concludes with policy recommendations to enhance financial stability.

SUMMARY OF MAIN RISKS AND POLICY RECOMMEDATIONS

1. **The global economic recovery remains weak, although less so than in the first half of 2012 with potential negative effects to the real economy and financial sector in Namibia. Global trade developments have also remained volatile.** In particular, international commodity prices for uranium have declined further, while food and energy prices remain elevated. The Namibia economy is mainly affected through trade and foreign direct investment channels. The external current account deficit has remained relatively small, as sizeable trade imbalances were financed by an increase in SACU receipts. International reserves stood at about 3.4 months of imports of goods and services by end-December 2012.

2. Addressing the financial vulnerabilities arising from a weak international environment therefore demands preventive policy actions. This is necessary to

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limit the build up of financial risks that have wide impact on the financial system and minimize negative impact on the real sector. In this context, strong policy coordination among the Ministry of Finance, the two regulators Bank of Namibia and NAMFISA, is warranted.

3. **Private sector debt levels remained high, even though household debt to disposable income declined slightly from 85 to 84 percent.** The debt servicing ratio remained unchanged at 21 percent. These indicators are above the regional levels and are potentially of concern and warrant monitoring; particularly should interest rates increase in the future. On the other hand, corporate debt, that is predominantly domestic, declined as a share of GDP from 44 percent in 2011 to 38 percent in 2012. Although the level of corporate debt to GDP is acceptable and no immediate action is required, the situation will be monitored for changes going forward.

4. **The concentration of banking industry loans in mortgage assets (mainly residential) remains a concern and as such the Bank is currently investigating the potential usage of forward looking regulatory tools, such as setting maximum Loan-to-Value Ratios in granting loans for second homes.** Practically, the regulation entails requiring borrowers to make a certain deposit for second housing loan. This is one of the effective tools used by central banks to directly control the amount that can be lent against a given amount of collateral. Although current policies and regulations of the Bank of Namibia are generally adequate in ensuring stability in the banking sector, there is need to introduce policies and regulations that are forward looking in order to strengthen risk management practises and to mitigate against this risk.

5. **Notwithstanding the concerns of higher household indebtedness and concentration of mortgages, the financial soundness indicators show that domestic banking institutions remain profitable and liquid as these institutions continue to hold more capital than required by local regulatory and international guidelines, indicating that the banking system as a whole is able to withstand various economic shocks.** In this connection, the stress

testing results conducted for credit risk further attests that banking institutions are able to remain solvent in the face of sizeable shocks.

6. **Non-bank financial intermediaries (NBFIs) manage relatively large amounts of private sector savings in the economy and their balance sheets appear strong.** While their balance sheets appear to be robust, NBFIs' exposures to global economy warrant monitoring. This is because NBFIs are creditors in relation to the rest of the world and therefore, are exposed to financial market contagion from overseas. Although little can be done to remove the contagion risk from global financial markets, local priority should be to mitigate and manage the risk through the existing robust regulatory framework.

7. **The national payment systems which represent a critical part of the financial system, continues to operate efficiently and safely, ensuring that smooth and efficient transaction can take place within the system.** Payments systems witnessed increased use, as well as reduced outages and disruptions. In this regard, current procedures which conform to internationally accepted principles and good practices of payment systems should be monitored and maintained to ensure continuation.

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