Bank of Namibia

Date: 09 December 2024

Attention: News Editor

Ref: 9/6/2

FOR IMMEDIATE RELEASE

THE NAMIBIAN FINANCIAL SYSTEM REMAINS STABLE, SOUND AND RESILIENT, AMIDST GLOBAL AND DOMESTIC MACROFINANCIAL UNCERTAINTIES.

The Macroprudential Oversight Committee (MOC)[1] of the Bank of Namibia (the Bank) held its second meeting of the year on the 5th of December 2024, to assess potential risks and vulnerabilities in the financial system. Based on a thorough assessment of global and domestic macrofinancial developments, the Committee found the domestic financial system to be stable, sound, and resilient. Both the banking and non-banking financial institutions sectors maintained adequate capital and liquidity buffers to withstand potential losses. In addition, the payment infrastructure and operations remained efficient. Alongside existing microprudential measures, the MOC continues to make significant progress in strengthening the banking sector's resilience and addressing vulnerabilities in the property market through targeted macroprudential measures. Going forward, the recent accommodative monetary and fiscal policy measures, coupled with the existing regulatory initiatives are expected to further promote a sound financial sector. The MOC emphasised continuous monitoring of the identified global and domestic financial stability risks, which could adversely impact the soundness of the Namibian financial system.

RECENT FINANCIAL STABILITY DEVELOPMENTS

The MOC of the Bank at its last meeting of the year held on the 5th of December 2024, 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 global economy remained resilient with risks to the outlook tilted on the downside.** The global economy has remained resilient during the disinflationary process, and global growth is expected to remain stable at 3.2 percent in 2024 and

[1] The Bank of Namibia Act 1 of 2020 provides the responsibility of macroprudential oversight and the coordination of activities to safeguard the financial stability of 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.

2025, reflecting a subdued yet steady performance. The growth prospects are attributed to various factors, including stronger recovery in investment in Advanced Economies (AEs), particularly the United States, easing inflationary pressures, and improved trade flows. Global financial conditions remained accommodative in 2024, supported by monetary policy easing by major central banks, which bolstered economic activity and improved investor sentiment. However, the outlook to both global growth and financial stability comes with cautious optimism given the elevated geopolitical uncertainties, high sovereign debt levels, vulnerabilities in corporate and real estate sectors, subdued growth prospects for China, and the uncertainty of future policies of newly elected governments.

2. **Namibia's real GDP growth is projected to moderate in 2024 before improving in 2025.** Real GDP growth is projected to moderate to 3.5 percent in 2024 before improving to 4.0 percent in 2025. The projected slowdown in growth for 2024 is mainly attributed to the sluggish global economy, dampening demand for Namibia's mineral exports, and the ongoing drought conditions. Risks to the Namibian economy remain titled to the downside. The key risks include uncertain rainfall patterns, prolonged drought periods, and water supply interruptions particularly in coastal towns. In addition, there are persistent concerns about falling diamond prices, which pose a substantial risk to one of Namibia's key export sectors.

3. **The banking sector remained resilient amidst elevated NPLs.** The banking sector's total assets grew by 3.7 percent to N$181.0 billion during the third quarter of 2024, driven by increased short-term negotiable securities and net loans and advances. The liquidity ratio stood at 19.8 percent during the review period, compared to 18.2 percent observed in the previous period. In terms of profitability, both the return on equity and return on assets declined on a quarterly basis to 18.9 percent and 2.3 percent, respectively. This was due to a slowdown in net interest income and higher provisioning expenses. Both the Tier 1 and Total risk-weighted capital ratios remained above the prudential requirement. The NPL ratio increased slightly to 5.9 percent during the third quarter of 2024 on the back of consumption based credit, particularly overdrafts, instalment sales and leases. Notwithstanding this, the banks have sufficient provisions and adequate capital to absorb potential credit losses. In addition, the Bank has imposed the necessary supervisory interventions to contain credit risk and will continue to monitor the developments to ensure stability.

4. **The Non-Bank Financial Institutions (NBFIs) sector demonstrated resilience and stability throughout the review period, in the face of changing economic conditions.** In the third quarter of 2024, the sector experienced robust growth, with assets expanding by 9.0 percent on a quarterly basis, reaching N$486.6 billion. The expansion in assets is attributable to conditions in global financial markets and steady demand for NBFI products, bolstered by easing inflation rates and increased government spending. Notably, both the retirement funds and long-term insurance subsectors achieved medium-term returns on investments that exceeded inflation rates. The positive financial market performance coupled with steady demand, contributed to these subsectors maintaining sound capital reserves and thus remain solvent during the third quarter of 2024. Furthermore, the collective investment schemes subsector continued to play a crucial role in the Namibian economy, by maintaining a significant source of liquidity.

5. **Risks in the Namibian property market remained moderate during the review period.** The vulnerabilities in the property market remain the relatively subdued mortgage credit demand compared to historical averages, elevated interest rates and low housing sales volume. The house price index and price-to-rent ratio continue to be elevated, while growth in the rental price index and rental yields. remain stable. Although the property market currently faces several challenges, the accommodative monetary and fiscal policy measures, coupled with the existing regulatory initiatives are expected to stimulate the property market, going forward.

6. **Namibia's interbank and settlement system (NISS) operated efficiently.** Settlement and operational risks within the NISS remained well contained during the period under review. This is mainly due to the NISS operating without disruptions, as well as the bulk of the payment obligations settling within the earlier settlement windows, thus deterring settlement risk.

MACROPRUDENTIAL POLICY DEVELOPMENTS

7. **The MOC continues to make significant progress in strengthening the resilience of the banking sector and addressing vulnerabilities in the property market.** To enhance banking sector resilience, the Bank advanced preparations and consultations with industry regarding the countercyclical capital buffer, ensuring transparency and a comprehensive understanding of its implementation. The Loan-to-Value ratio was eased in October 2023, to stimulate the uptake of mortgage credit demand in the market. However, despite this development, non-primary mortgage credit remains subdued, particularly within the corporate sector. This reflects the current macrofinancial environment characterised by elevated interest rates, eroded real incomes, and subdued economic conditions.

MACROPRUDENTIAL POLICY STANCE

8. **Following its assessment, the MOC concluded that the financial system remains sound, stable and resilient despite the prevailing macroeconomic conditions.** The current active macroprudential policy tools, alongside existing microprudential measures and ongoing risk assessments are considered sufficient for the current macrofinancial environment. As such, the Committee has determined that no macroprudential policy intervention is required at this stage. The MOC will continue to closely monitor the economic and financial conditions, as well as the overall risk environment, and when warranted, take the necessary remedial macroprudential action with the tools at its disposal.

Issued by:

Mr. Johannes !Gawaxab
GOVERNOR