

## Joint Media Release

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**FOR IMMEDIATE RELEASE**

**THE FINANCIAL STABILITY REPORT FOR 2018 CONCLUDED THAT THE NAMIBIAN FINANCIAL SYSTEM REMAINED RESILIENT IN 2017, DESPITE WEAK ECONOMIC GROWTH.**

### **KEY HIGHLIGHTS:**

- The Namibian financial system, which is made up of banks, non-bank financial institutions and the payments system, continued to be financially sound, safe and resilient, with no disorderly functioning of financial markets or infrastructure. The domestic economy contracted in 2017 compared to 2016, thereby increasing vulnerabilities in some sectors of the economy.
  - The performance of the Namibian banking sector has been sound, although the asset quality deteriorated, consistent with the weakness of the economy.
  - Non-Banking Financial Institutions (NBFIs) remained financially stable and sound and continued to grow their assets, despite domestic economic conditions.
  - The payments system and infrastructure continued to perform efficiently and effectively, and with robust risk-mitigating measures in place to facilitate safe payments.
  - Both regulators for the banking and non-banking financial sector, BoN and NAMFISA respectively, continued to regulate and enhance macro-prudential surveillance to ensure the financial system as a whole remains financially sound and stable.
- Going forward, the projected improvement in economic growth in 2018 will continue to sustain financial stability in Namibia.

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**1. The Bank of Namibia and the Namibia Financial Institutions Supervisory Authority (NAMFISA) jointly released the annual Financial Stability Report (FSR) on 27 April 2018.**

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 debt, house price developments, the banking sector, the non-banking financial sector, and payment and settlement systems. The overall assessment concludes that the financial system remained resilient despite recessionary economic conditions which increased vulnerabilities in some sectors. In this regard, continuous monitoring and surveillance is essential.

## **SUMMARY OF THE ASSESSMENT**

**2. Global growth strengthened in 2017, supported by improved demand in Advanced Economies (AEs) and the recovery of some Emerging Market and Developing Economies (EMDEs) as well as strengthened economic activity in Sub-Saharan Africa.**

Economic growth in the US improved on the back of strong business investment, while growth in the Euro Area and Japan was underpinned by robust private consumption, investment and external demand. EMDEs such as Brazil, Russia and Nigeria recovered significantly, largely ascribed to growth in trade and investment, while growth in China remained healthy. Growth in Sub-Saharan Africa improved mainly due to recoveries observed in the Angolan, Nigerian and South African economies.

**3. The global economy is projected to expand at a moderately stronger pace in 2018.** According to the IMF's April 2018 World Economic Outlook (WEO), global output is estimated to increase by 0.1 percentage point to 3.9 percent in 2018. The improvement in global output is expected to emanate mainly from marginally higher growth projected for EMDEs alongside steady growth in AEs on account of strong sentiment and favourable global financial conditions, which are expected to boost demand. Economic activity in Sub-Saharan Africa is also expected to pick up.

**4. While still supportive of economic growth, global financial conditions have tightened slightly.**

According to the IMF's April 2018 Global Financial Stability Report (GFSR), financial vulnerabilities which have accumulated during the years of very low interest rates and low volatility could put financial stability and economic growth at risk. A continuation of the situation may further contribute to a build-up of financial weaknesses as well as increasing the risk to global financial stability and economic growth over the short and medium-term. Although risk-taking by financial intermediaries is part of a healthy economic recovery, it may breed vulnerabilities that could harm future growth if excessive, particularly when investors opt for riskier instruments. In this regard, continued monitoring and heightened vigilance is therefore essential.



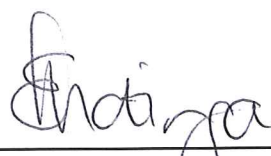
5. **The domestic economy contracted in 2017.** Real GDP in Namibia is estimated to have contracted by 0.8 percent in 2017, from a positive growth rate of 0.7 percent in 2016, due to declines in the construction, wholesale and retail trade and public sectors. Growth is projected to improve steadily to 1.4 percent in 2018; however, the risks to the domestic outlook remain pronounced, primarily due to persistently low uranium prices. The slowdown in the economy in 2017 has contributed to the shedding of jobs in various sectors of the economy, thereby resulting in the increase in non-performing loan (NPL) ratios as household income became constrained. Going forward, however, the projected improvement in economic growth is expected to contribute positively to financial stability in Namibia.
6. **While the level of household indebtedness moderated slightly, corporate debt increased during the period under review.** Household debt relative to disposable income moderated slightly from 84.1 percent in 2016 to 83.3 percent in 2017, in line with the slow growth in total credit extended in 2017. In contrast, total corporate sector debt grew by 12.7 percent in 2017, compared to 9.8 percent in 2016. The growth in the corporate debt stock was concentrated in the sector's foreign debt, whereas the domestic debt rose quite slowly. The private sector's foreign debt grew by 20.3 percent as a result of a low base, attributed to the restructuring of debt to equity by some mining companies in 2016. Despite the relatively rapid growth in that component, the risks emanating from both the household and corporate sectors' debt remained well contained, with no immediate threat to financial stability. Continuous monitoring is nonetheless required.
7. **Overall house price inflation for residential properties, though positive over the last 5 years, continued to decelerate in 2017.** With the economy sluggish and grinding into recession in 2017 and the associated shedding of jobs, disposable income remained under significant pressure. These macroeconomic challenges continued to weigh on the Namibian housing market as annual house price inflation decelerated to 4.0 percent in December 2017, in contrast to 5.4 percent during the same period in 2016. The moderation in the housing market may however not pose a threat to the stability of the financial system even if prices were to continue decelerating, given the sustained demand and a relatively smaller proportion of non-primary residential properties.
8. **Since the last FSR, the performance of the Namibian banking sector has been sound, although the asset quality deteriorated.** The banking industry remained adequately capitalised and maintained capital positions well above the minimum prudential requirements during 2017. The banking institutions' assets continued to grow, although the non-performing loans (NPLs) ratio which is the key measure of the asset quality significantly deteriorated to 2.5 percent at the end of December 2017, up from 1.5 percent during the same period in 2016. At this level non-



performing loans do not pose a threat to financial stability, however, the Financial System Stability Committee will continue to monitor these trends and take prompt action as and when necessary.

9. **The non-bank financial institutions (NBFIs) industry also remained financially stable and sound and continued to grow their assets, despite recessionary economic conditions in the domestic economy.** The NBFIs asset base grew by 18.0 percent in 2017, driven mainly by a general increase in investment income due to upbeat financial markets and thus improved market returns during the period under review. Going forward, concentration risk within NBFIs however needs to be monitored.
10. **The payments system and infrastructure continued to perform efficiently and effectively, with robust risk-mitigating measures in place to facilitate safe payments.** During the period under review, key payment systems and infrastructures remained broadly available with no major disruptions or disorderly functioning that may compromise the provision of key financial services that support the economy.
11. **From a risk profile point of view, the key risk to Namibia's financial system resulted mainly from the country's economic slowdown.** Most risks to the financial system have either remained low or unchanged with minimal potential impact to the financial system. Of concern, however, is the sustained slowdown in the economy over the past 2 years, which has the potential to reverse the current profiles of risks and increase vulnerability across the board. In the medium to long run, the fiscal consolidation efforts underway may restore and strengthen macroeconomic fundamentals, which could aid the continued stability of the financial system.

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>) and (<https://www.namfisa.com.na/publications>).

  
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