



Joint Media Release

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FOR IMMEDIATE RELEASE

THE JUST RELEASED *APRIL 2023 FINANCIAL STABILITY REPORT* CONCLUDES THAT THE NAMIBIAN FINANCIAL SYSTEM REMAINED SOUND AND RESILIENT IN 2022, AMIDST PREVAILING RISKS.

HIGHLIGHTS:

- The Namibian financial system, which is made up of the banking and non-banking sectors as well as the payment system and infrastructure, continued to be sound and resilient throughout 2022.
- The banking sector financial soundness indicators remained at comfortable levels during 2022, with the growth in assets outpacing the prevailing inflation rate; however, this is not sustainable given current economic conditions. The sector reported higher profits, improved asset quality, a healthy liquidity position and capital adequacy well above prudential requirements.
- The Non-Banking Financial Institutions sector remained financially stable and sound, despite a contraction in asset growth on the back of adverse financial market performance in the beginning of 2022.
- The National Payment System and infrastructure remained stable, while efficiently contributing towards reliability in payments in order to facilitate financial stability.
- The Namibian economy grew by 4.6 percent in 2022 and is projected to slow down to 3.0 percent in 2023.
- Since the last Financial Stability Report, growth in household debt slowed while corporate debt increased significantly, owing to an increase in foreign debt.
- Global growth slumped during 2022, primarily on the back of the war in Ukraine that further fuelled inflationary pressures, coupled with the resurgence of Covid-19 in China.
- Going forward, global growth is expected to shrink amidst severe tightening of financial conditions in which corporate and sovereign spreads widen, stock prices fall and currencies depreciate of most emerging market economies.
- Given the 2022 developments, no policy intervention is warranted but to steer the course.

1. The Bank of Namibia (BoN) and the Namibia Financial Institutions Supervisory Authority (NAMFISA) hereby jointly release the annual Namibia Financial Stability Report (FSR). The 2023 report assesses the stability of the Namibian financial system and its resilience both to internal and external shocks. The report further highlights specific risks emanating from the macroeconomic environment, domestic household and corporate debt, the banking sector, the Non-Banking Financial Institutions sector (NBFIs), as well as the payment and settlement system. The assessment concludes that the financial system in Namibia remained sound, profitable and with no major disruptions or disorderly functioning of key financial services, despite prevailing risks. The regulatory authorities are committed to continuously monitor the identified risks and take appropriate and timely action going forward.

SUMMARY OF THE ASSESSMENT

2. The international financial system was put to the test by recent bank failures, inflationary pressures, and rapid monetary policy tightening, while simultaneously being faced with additional vulnerabilities in 2023. The failure of Silicon Valley Bank and Signature Bank in the United States, caused by liquidity constraints, and the state supported merger of Credit Suisse and UBS in Europe, has significantly impacted market confidence and triggered emergency responses by the respective authorities. These bank failures pose a threat to global financial stability as further contagion could have far reaching implications, thus highlighting the importance of safeguarding the financial system. The International Monetary Fund (IMF) *April 2023 Global Financial Stability Report* indicates that risks to the financial system have increased on the back of rapid interest rate increases to contain inflation. In addition, further monetary policy tightening is projected to continue well into 2023. Although inflation is projected to slow down in 2023, inflation's return to target is unlikely before 2025, for most countries. Going forward, global growth is expected to shrink by 2.8 percent amidst severe tightening of financial conditions in which corporate and sovereign spreads widen, stock prices fall and a currency depreciation of most emerging market economies. Policymakers are therefore cautioned to act resolutely to maintain trust, while faced with heightened risks to financial stability.

3. Overall, the Namibian financial system remained sound and resilient in 2022; however, projected vulnerabilities in the global financial system could potentially impact the domestic financial system. Risks are centred around global and domestic output developments, coupled with anticipated tighter financial conditions globally, as both the global and the Namibian economies are projected to slow down in 2023. In 2022, however, domestic output improved, notwithstanding the decline in global output, while the domestic

financial system continued to function effectively and efficiently. Both corporate and household debt increased during the reporting period. The banking sector remained adequately capitalised and profitable while maintaining liquidity levels well above the prudential requirement and managing credit risk accordingly. Similarly, the non-bank financial institutions maintained stable, sound, and profitable operations during the period under review. The payment system infrastructure continued to reliably contribute toward the efficiency of the financial system. Overall, risks to the financial system mostly increased; however, the probability of this persisting is medium with medium impact.

- 4. Although the domestic economy recorded improved growth in 2022, it is projected to slow down in 2023.** Domestic economic growth improved from 3.5 percent in 2021 to 4.6 percent in 2022. This improvement was mainly driven by the primary and secondary industries that recorded growth rates of 12.9 and 3.3 percent, respectively. Growth is projected to moderate to 3.0 percent in 2023 on the back of anticipated weaker global demand and reduced spending power, as inflationary pressures persist. Risks to domestic growth are predominantly in the forms of a global tightening of monetary policy and high costs of key import items. Other domestic risks include water supply interruptions, potential spillovers to Namibia of electricity cuts in South Africa, and uncertainty about the effects of climate change going forward.
- 5. Both household and corporate debt stock increased during the reporting period, although growth in household debt slowed.** The annual growth in household debt slowed to 3.4 percent by the end of 2022, compared to a growth rate of 3.8 percent in 2021. The ratio of household debt to disposable income moderated from 79.4 percent in 2021 to 77.9 percent in 2022, following the recovery in economic activity and approval of a salary increment for government employees in 2022. The total corporate debt stock rose somewhat in 2022 due to increases in both foreign and domestic debt. The corporate sector's debt-to-Gross Domestic Product ratio increased to 72.0 percent by the end of 2022, up from the 69.2 percent recorded in 2021. The short-term risks to financial stability in respect of corporate debt appear to be moderate, although sharp interest rate increases in 2022 to curb inflation have put a strain on the cashflow of indebted corporates and households. Notwithstanding the current fluid economic environment, the probability of both household and corporate debt risks materialising is medium, with medium impact.
- 6. The banking sector remained liquid, profitable, and well capitalised during the period under review, with improved asset quality.** Banking sector assets grew at a rate higher than the prevailing inflation. Despite this positive development, it is not sustainable to

maintain asset growth at this level given slowed economic activity. In addition, the banking sector reported higher profits, improved asset quality, a healthy liquidity position, and capital adequacy well above prudential requirements, which is indicative of a stable banking sector. The overall impact of risks from the banking sector did not appear to be significant during the period under review and have therefore not posed a real threat to financial stability in Namibia. Going forward, the stress test results point toward a liquid and solvent banking sector; as such, the probability and impact of downside risks to financial system stability emanating from liquidity constraints and asset quality deterioration range between low and medium.

7. The NBFIs sector remained resilient in 2022. However, NBFIs assets contracted by 1.2 percent to N\$366.1 billion, coinciding with negative financial market performances over the first three quarters of 2022. The sector is expected to remain solvent in the short- to medium-term, with its net assets expected to robustly absorb adverse asset side shocks. Risks inherent in NBFIs include inflation and its impact on the affordability of NBFIs services, particularly medical aid funds, long- and short-term insurance, and market risk and its impact on the asset side.

8. The National Payment System (NPS) and infrastructure remained stable, efficient, and effective during 2022. The Bank of Namibia continued to fulfil its regulatory mandate as the overseer of the NPS in line with the Payment System Management Act 18 of 2003, as amended. The Namibia Interbank Settlement System continued to maintain high system availability throughout 2022. When compared to 2021, there has been an overall increase in the total value of fraud across all payment streams, primarily electronic fund transfers and e-money payments; however, client education and awareness initiatives are under discussion to mitigate this going forward. Overall, risks to the financial system emanating from the NPS have remained broadly unchanged and well managed.

9. Going forward, risks to the Namibian financial system require continuous monitoring. Overall, risks to domestic financial stability remained stable; however, some risks are anticipated to increase on the back of uncertainty in the global macroeconomic environment and its potential spillover effects. Risks to financial stability in Namibia will be monitored accordingly under the advisory guidance of the Financial System Stability Committee and the direction of the Macroprudential Oversight Committee. No policy recommendations are warranted at present, but to steer the course.

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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