

TALKING POINTS BY THE GOVERNOR OF THE BANK OF NAMIBIA MR. JOHANNES IGAWAXAB, AT THE HANDOVER OF BAN LEADERSHIP, 03 JUNE, WINDHOEK, NAMIBIA

Director of Ceremonies,

Mr Conrad Dempsey, outgoing President of the Banker's Association of Namibia (BAN),

Mr Erwin Tjipuka, incoming President of BAN,

Invited esteemed guests,

Members of the Media,

Good Afternoon!

- 1. Allow me to express my profound gratitude to Mr. Dempsey for his exceptional leadership and unwavering cooperation with the Bank of Namibia during his tenure as BAN President.** The Banker's Association of Namibia, a pillar of our financial system, has continued to excel in its crucial role in an ever-evolving regulatory and economic landscape. This past year, BAN has fostered a higher level of mutual understanding among various stakeholders, a testament to Mr. Dempsey's leadership. Our financial system has reaped significant benefits from the synergy and collaboration between the regulator and BAN, including transformative developments and legislative amendments that have fortified Namibia's financial system.
- 2. The current economic landscape is undeniably challenging, marked by high interest rates, inflation, and the ongoing drought.** However, it also presents promising opportunities with the emergence of sectors like oil & gas and green hydrogen. Amidst these challenges, the Private Sector Credit Extension remains subdued, leaving households vulnerable to loan sharks and trapped in a cycle of deteriorating creditworthiness. Navigating these challenges and seizing the opportunities will necessitate a steadfast commitment from the banking industry to extend credit to new engines of growth while fortifying resilience in traditional sectors.
- 3. We must exercise caution in prematurely scaling back support for households and businesses at a time when the economic recovery has gained momentum, as this could have severe repercussions.** It is noteworthy that through its policy interventions, the Bank implemented credit relief measures from 2020 to 2024 to assist

distressed customers and bolster the economic resurgence of households and businesses in the aftermath of the COVID-19 pandemic. It is imperative to recognize that the economic challenges persist, with customers experiencing continued strain attributable to elevated inflation and interest rates. Therefore, banks must continue to support customers through the cycle while being mindful of prudent credit risk management. The Bank of Namibia also has a role to play in developing more targeted policy interventions to help banks support their customers in primary and underserved sectors, not only to navigate the current challenges but also to build resilient sectors, as we have done with the SME Economic Recovery Loan Scheme. I commend the banking sector for playing its part and participating in the scheme.

- 4. Namibia's economic prospects are favourable in both the immediate and long-term horizon, driven by burgeoning sectors such as Green Hydrogen and recent Oil and Gas discoveries.** Over the past three years, Namibia has witnessed a surge in foreign direct investment, primarily propelled by significant offshore discoveries of light oil in the ultra-deep waters of the Orange Basin. In 2023, the nation recorded its largest net foreign direct investment inflow on record, totalling approximately N\$49.0 billion, with half of this attributed to oil exploration and appraisal activities in the Orange Basin alone. The positive impact of oil exploration activities and appraisals on Namibia's GDP has been notable since 2021. These activities have contributed, on average, approximately 0.4 percentage points to economic growth between 2021 and 2023. This contribution is expected to rise further as companies intensify their exploration efforts.

Ladies and gentlemen,

- 5. I am happy to report that the banking sector remains resilient despite the challenges brought on by COVID-19 and the macroeconomic conditions.** In this regard, the sector remains well-capitalized and profitable, with ample liquidity to ensure banks can support the economy. All key financial soundness indicators are, thus, positive and above the minimum regulatory requirements. The recent industry figures indicate a capital adequacy ratio of 16.8 percent, a liquid assets ratio of 23.5 percent, and an ROA and ROE of 2.1 percent and 18.1 percent, respectively. Given the current economic pressure mainly on households, there has been an upward trend in industry non-performing loans, with the current ratio standing at 6.2 percent. This is, however, not a cause of concern as the NPLs are still manageable, and the banks have in place adequate provisions to guard against the upward trend observed in NPLs.

6. **The roles of banking institutions and the Bank of Namibia remain critical in maintaining financial stability.** As part of maintaining financial stability, the Basel Committee Core Principles for Banking Supervision form the basis of the risk management approach embedded in our legal and regulatory frameworks. Banks are, therefore, expected to subscribe to the international best standards and practices commensurate with their size, complexity, and risk profile, underscored by regulatory compliance. Currently, the main risks identified in the industry are cybersecurity risk and credit risk. On both fronts, the Bank of Namibia has developed robust regulatory frameworks to ensure effective risk management and resilience in the banking system.
7. **Due to technological advances, the sophistication of cyber-attacks and interconnectedness have made cybersecurity risk a real and present threat.** Banks have an obligation to their customers and one another to ensure that cyber threats are well understood and effectively mitigated. Now more than ever, it is crucial that banks make the necessary investments to develop the capability and capacity to respond and recover from cyber incidents. I strongly encourage your full engagement in the Financial Services Cyber Council, representing our unified response. This council aims to facilitate the exchange of cyber information and threat intelligence within the sector and to orchestrate and bolster defense and incident response capabilities. Such measures are essential for positioning the sector to effectively address and recuperate from cyber incidents.
8. **Our regulatory framework should be effective and responsive to the needs of our people and our economy.** Recent changes in banking regulations and compliance requirements include the Banking Institutions Act of 2023, the Payment System Management Act of 2023, and the Virtual Assets Act of 2023. The Acts were promulgated having regard to the national aspirations and international supervisory standards as provided by international standard setting bodies such as the Basel Committee on Banking Supervision, which in turn introduced key legislative reforms. These changes underscore the Bank's commitment to promoting a banking system that serves the Namibian economy and its people's prosperity.
9. **In conclusion, the Bank of Namibia's long-term vision continues to be one of having a banking sector that serves the prosperity and best interest of the country and its people; this includes ensuring a banking sector that is stable,**

inclusive, and modern. Collaboration between market players, regulators, and other stakeholders remains key to achieving our constitutional mandate. Core to the Bank's strategic priorities is to have continuous and proactive stakeholder engagements. The current state of the global and local economy and operating landscape calls for the Bank of Namibia, the industry, and other stakeholders to collaborate on solving complex problems and co-creating solutions to ensure the stability and sustainability of the Namibian banking sector. Our doors remain open for robust discussions on issues affecting the sector and its sustainability in the future.

Thank you for your attention.