



# FINANCIAL STABILITY REPORT

APRIL 2023



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### **What is Financial Stability and the purpose of the FSR report?**

Financial system stability is defined as the resilience of the domestic financial system to internal and external shocks, be they economic, financial, political or otherwise. It can also be described as the absence of macroeconomic costs of disturbances in the system of financial exchanges between households, corporates, and financial institutions.

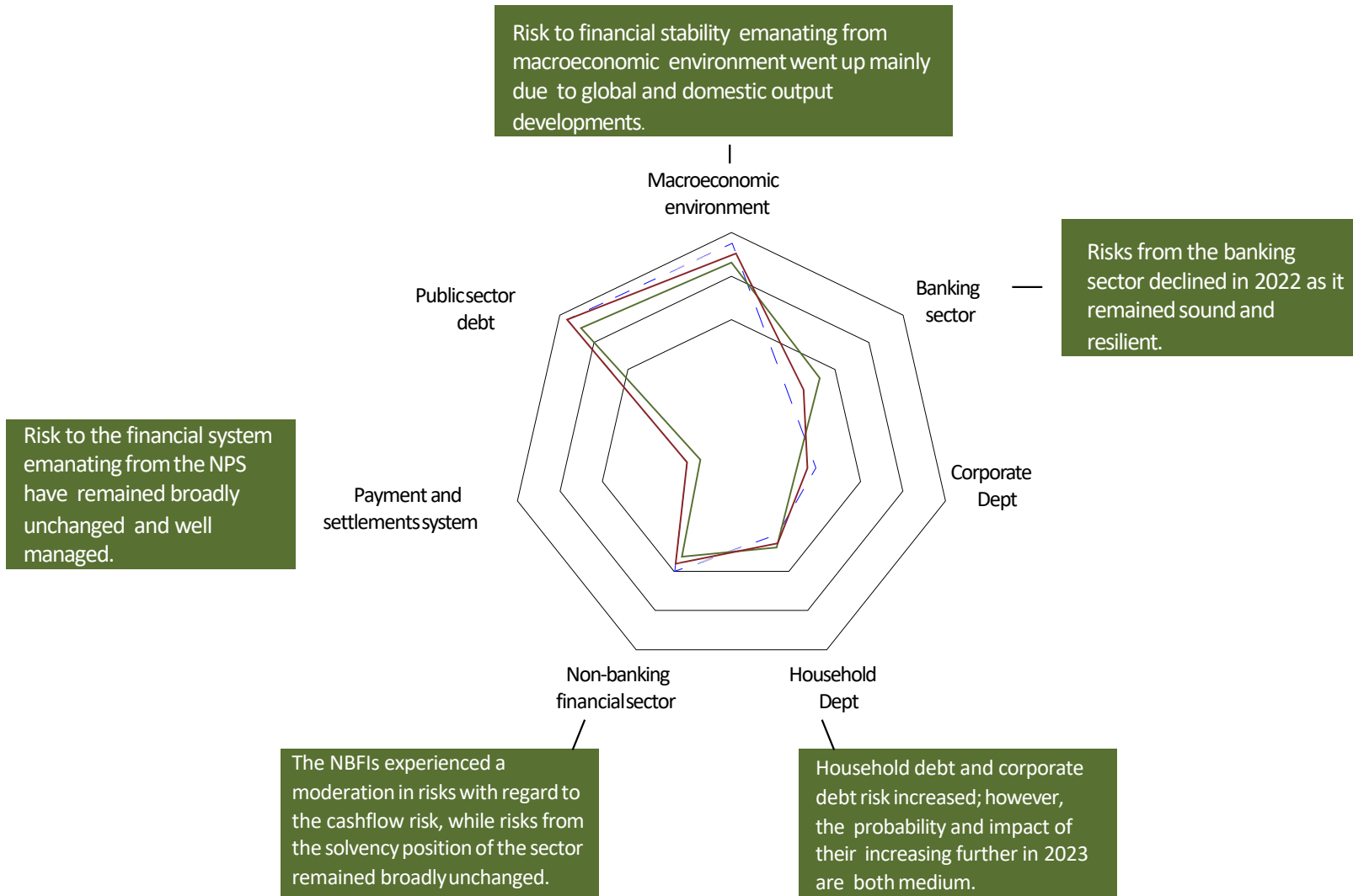
The purpose of the Financial Stability Report (FSR) is to identify risks and vulnerabilities in the financial system, assess the system's resilience to domestic and external shocks, and present recommended policy responses to the risks identified.



## OVERALL ASSESSMENT OF FINANCIAL STABILITY

- The Namibian financial system remained sound and resilient in 2022.
- Global growth prospects weakened further amidst continued geopolitical tensions, inflationary pressures, and rising interest rates.
- The NAD/ZAR depreciated notably against the US Dollar, whereas it appreciated slightly against the British Pound and the Euro, international reserves increased, sovereign credit outlook below investment grade.
- Household debt growth rate slowed, while corporate debt increased significantly.
- The banking sector remained liquid, profitable and well capitalised.
- Despite a contraction in the growth rate of NBFIs assets, the NBFIs sector remained financially stable and sound.
- The National Payment System remained stable, safe, efficient, and effective during 2022.

# DOMESTIC FINANCIAL STABILITY RISKS MAP



Since the 2022 FSR, overall risks to financial stability in Namibia, though stable, edged up and are expected to remain broadly medium in 2023, as economic uncertainty persists.

# RISKS TO FINANCIAL STABILITY IN NAMIBIA

**Table 1: Risks to financial stability in Namibia**

Nature of risk	Direction of risk <sup>2</sup> since April 2022	Probability of risk materialising in 2023	Impact of risk materialising in 2023
<b>Macroeconomic environment events/risks</b>			
Global economic slowdown	Up		
Global financial turbulence	Up		
Domestic economic slowdown	Down		
Decline in international reserves	Down		
Sovereign credit rating downgrade: Namibia	Up		
Sovereign credit rating downgrade: South Africa	Up		
Excessive NAD/ZAR depreciation	Up		
<b>Public sector debt</b>			
Unsustainable increase in public sector debt	Up		



# RISKS TO FINANCIAL STABILITY IN NAMIBIA

Nature of risk	Direction of risk <sup>2</sup> since April 2022	Probability of risk materialising in 2023	Impact of risk materialising in 2023
<b>Household debt risk</b> Excessive increase in household debt	Up	Medium	
<b>Corporate debt risks</b> Excessive increase in corporate debt	Up	Medium	
<b>Banking sector risks</b> Liquidity risk Credit risk	Down Down	Medium	
<b>NPS risks</b> Security of retail payments Settlement in last window	Unchanged Down	Medium	
<b>NBFI risks</b> Funding position Cash flow risk Market risk Solvency position	Up Down Up Unchanged	Medium	
			Low

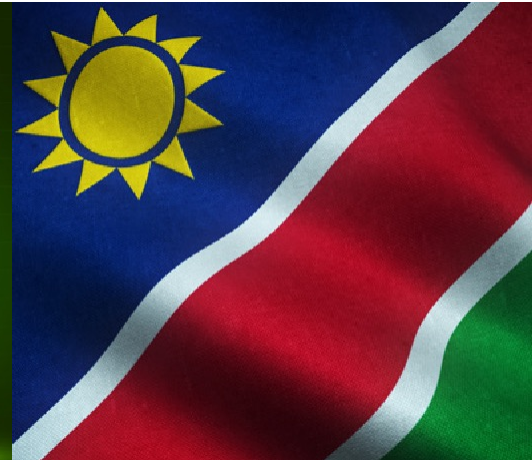
Key

Low

Medium

High

# RISKS STEMMING FROM THE MACROECONOMIC ENVIRONMENT



Amidst rising interest rates and geopolitical tensions, global growth slumped to 3.4 percent in 2022 and is expected to fall further to 2.8 percent in 2023 before picking up in 2024.

The deterioration in global growth during 2022 was underpinned by inflationary pressures, monetary policy tightening to curb inflation, and the resurgence of Covid-19 in China coupled with its zero-Covid policy.

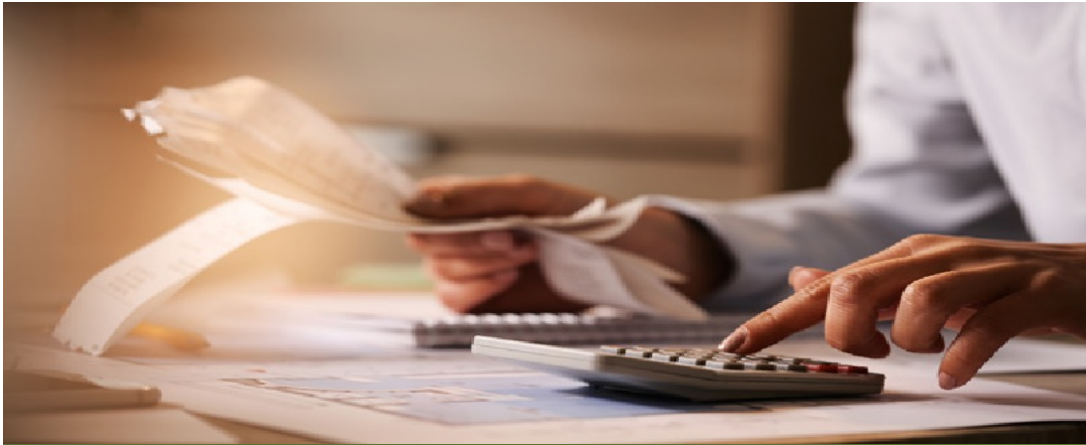
Going forward, risks to the global outlook remain skewed to the downside. The main threats are the war in Ukraine, the slow recovery in China, and the severe impact of tight monetary policy to fight inflation.

Although Namibia recorded an improved growth of 4.6 percent in 2022, the economy is projected to moderate to 3.0 percent in 2023, largely due to weaker global demand.

Domestic growth risks are primarily posed by further global monetary policy tightening and high import costs that are expected to persist throughout the projection period. Additional internal hazards include drought, floods and water supply disruptions and potential spillover of electricity cuts in SA to Namibia.



## HOUSEHOLD AND CORPORATE SECTOR



- The ratio of household debt to disposable income moderated from 79.4 percent in 2021 to 77.9 percent in 2022.
- Risks to financial stability emanating from household credit therefore remain minimal, especially given the recent positive developments in non-performing loans.



- Namibia's corporate debt as a percentage of GDP increased from 69.2 percent at the end of 2021 to 72.0 percent at the end of 2022.
- The short-term risks to financial stability in respect of corporate debt appear to be moderate.

## BANKING SECTOR

### The banking sector financial soundness indicators remained at comfortable levels during 2022

Banking sector assets grew by 11%, higher than the prevailing inflation of 6.1% (7.2% March 2023), 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 stress test results point toward a liquid and solvent banking sector.

## NON-BANKING FINANCIAL INSTITUTIONS (NBFIS)

The NBFIs maintained stable, sound and profitable operations during the period under review.



Although the NBFIs assets contracted by 1.2 percent the sector still remained robust and resilient. Adverse financial market performance in the beginning of 2022 impacted on the NBFIs performance.



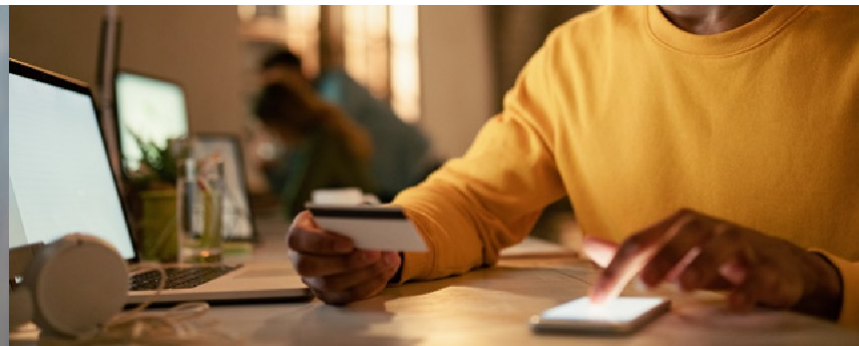
The NBFIs experienced a moderation in risks with regard to the cashflow risk, while risks from the solvency position of the sector remained broadly unchanged.



Conversely, market risks and risks emanating from the funding position of NBFIs went up and should be monitored.

## NATIONAL PAYMENT SYSTEM DEVELOPMENTS

**The National Payment System (NPS) and infrastructure remained stable, efficient, and effective during 2022.**



When compared to 2021, there has been an overall increase in the total value of fraud across all payment streams, primarily EFTs and e-money payments, but remained well within the threshold. Client education and awareness initiatives are under way.

The NISS continued to maintain high system availability throughout 2022 with availability of 99.89 percent, which was slightly below the target availability ratio of 99.90 percent.

Overall, the payment system and infrastructure remained stable, while efficiently contributing towards reliability in payments in order to facilitate financial stability in the country.

**Overall, the financial system in Namibia remained sound, profitable, and with no disruptions or disorderly functioning of key financial services, despite the economy performing below potential.**

- Risks to financial stability remained stable; however, some risks are anticipated to increase on the back of uncertainty in the macroeconomic environment, which also needs to be monitored closely.
- Potential systemic risks can be addressed through proactive financial regulation and supervision.
- 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.





# THANK YOU