NAMFISA

Bank of Namibia

Joint Media Release

Date: 15 June 2015

Attentior News Editors

Ref: 9/6/2

FOR IMMEDIATE RELEASE

THE FINANCIAL STABILITY REPORT FOR 2015 CONFIRMED THAT THE FINANCIAL SECTOR REMAINS HEALTHY AND SOUND

KEY HIGHLIGHTS:

- Banking sector remains healthy and adequately capitalized.
- Non-banking financial sector is robust and poses no risks to financial stability.
- Both household and corporate debt increased moderately and requires continuous monitoring.
- Payment system infrastructure continues to operate efficiently and effectively.
- Overall domestic financial system is stable and resilient.

The Bank of Namibia and the Namibia Financial Institutions Supervisory Authority (NAMFISA) jointly released the annual Financial Stability Report (FSR) on 15 June 2015. 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 debts, the banking sector, the non-banking financial sector and payment and settlement systems. The overall assessment concludes that the financial sector is healthy and sound, but continuous monitoring of risks to financial stability from the domestic, regional and global environments is needed as a prudential measure.

SUMMARY OF THE MAIN RISKS

1. **Since the last Financial Stability Report (FSR), risks to financial stability from the global financial system increased.** Despite an improvement in growth prospects in some key advanced economies, new challenges to global financial stability have arisen. These challenges entail, but are not limited to, lower oil prices, diverging growth patterns and monetary policies amongst both advanced and emerging market economies

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(EMEs). According to the IMF's April 2015 Global Financial Stability Report (GFSR), expectations of rising policy rates in the US have triggered a significant appreciation of the US Dollar. In addition, long-term bond yields have turned negative for almost a third of the Euro Area's sovereign bonds. EMEs, especially crude oil and commodity exporters are also experiencing new financial stability challenges essentially diminishing asset valuations and rising credit risks. Moreover, significant capital outflows from several EMEs, including South Africa have caused exchange rates to depreciate with increased pressures on companies that borrowed in foreign currencies. These developments could further strain EMEs sovereigns that have increased their exposure to foreign currency borrowings. The resulting tensions in global financial markets have amplified market and liquidity risks.

2. **Economic activities in Namibia were healthy during 2014, despite a moderation in real GDP growth.** The main engines of growth were robust construction activities, sustained growth in diamond mining, wholesale and retail trade and transport activities, as well as public infrastructure programmes. On the downside, uranium mining posted a weaker performance during 2014, on account of low international prices. Furthermore, the after-effects of the drought and the response to the South African veterinary requirements imposed during the year, adversely affected livestock farming. Going forward, real GDP growth is expected to increase on account of continued robust construction work, an expected increase in mining production and activities in the wholesale and retail trade.

3. **Since the last FSR, household debt increased, driven by mortgages, overdrafts and instalment credit.** Overall, the ratio of household debt to disposable income rose to 83.9 percent in December 2014 from 82.9 percent in December 2013. This calls for comprehensive monitoring and targeted policy interventions to address growth in household indebtedness. If left unchecked, growth in mortgages, instalment credit and overdrafts would lead to systemic risks in the financial system.

4. **Corporate debt levels (as a share of GDP) increased during the period under review, due to growth in foreign private sector debt, coupled with the depreciation of the domestic exchange rate.** The increase in corporate debt was, however, largely ascribed to borrowing by companies, which earn foreign exchange and thus may not pose a major risk to the financial stability of the country, at least in the short-to-medium term. Nonetheless, the acceleration in the growth rate of large exposures in the banking sector, mainly to the mining, fishing and tourism sectors warrants monitoring to mitigate concentration risk.

5. **Financial stability indicators for the banking sector remain at comfortable levels by international standards, although some structural patterns of the balance sheets require monitoring.** The resilience of the commercial banks is regularly tested,

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and the current stress testing results indicate that the commercial banking institutions are able to withstand a shock to the banking system. The concentration of banking assets in mortgages remains high and needs continuous monitoring in light of the high level of household indebtedness. There were no major changes observed in the banking sector's structure, and the larger banking institutions continue to dominate the sector. The banking sector's financial condition is expected to remain sound and healthy in the foreseeable future.

6. **Since the last FSR report, the balance sheets of Non-Banking Financial Institutions (NBFIs) remained healthy and do not pose systemic risks to the country's financial system.** Overall, growth of the assets of the NBFIs sector was positive. This is expected to continue in the next six months. Since the last FSR, the capitalization of provident institutions was adequate to ensure solvency and funding levels are in excess of those required by statute. These levels are sufficient to withstand the shocks and risks to which these institutions are exposed.

7. **Finally, the payment infrastructures in Namibia continue to operate efficiently and effectively.** Progress has been made to ensure that there is transparency in the way the national payment system (NPS) operates and to reduce the associated risks. The overseers continued to participate in the analysis of critical incidents that may impact the stability of the NPS and recommend ways to prevent such incidents in the future.

The media and the public at large are encouraged to read the full Report, which can be accessed at www.bon.com/publications and www.namfisa.com/news

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