Date: 9 December 2021
Attention: News Editor
Ref: 8/1/1/2

FOR IMMEDIATE RELEASE

THE NAMIBIAN FINANCIAL SYSTEM REMAINED SOUND AND RESILIENT

The Macroprudential Oversight Committee (MOC) of the Bank of Namibia at their recent meeting concluded that there is no need for further macroprudential policy intervention, at this stage. Overall, the financial system is solvent, sound and has been resilient throughout the COVID-19 pandemic and associated economic challenges. Both the banking and non-banking sectors remained liquid, profitable and well capitalised.

RECENT FINANCIAL STABILITY DEVELOPMENTS

The recently constituted Macroprudential Oversight Committee of the Bank of Namibia at its second bi-annual meeting held on 09 December 2021 reviewed the overall state of the global, regional, and domestic financial stability, paying particular attention to the developments and risks to the Namibian financial system.

1. **The Committee concluded that the financial system is resilient and sound.** The banking sector remains liquid, profitable, and well capitalised, while the non-bank financial sector is sound, reporting funding and solvency positions above the prudential limits. This bodes well for financial stability because the financial system was able to withstand the impact of the COVID-19 pandemic coupled with challenging macroeconomic conditions.

2. **Although overall banking sector key performance indicators improved, asset quality remains a concern.** The liquidity ratio increased from 15.9 percent in the second quarter of 2021 to 17.8 percent in the third quarter. Capital adequacy slowed marginally on a quarterly basis, but remained well above prudential requirements. Profitability improved and is recovering to pre-pandemic levels, as represented by the return on equity (ROE) and return on assets (ROA) ratios. The ROE ratio increased from 11.8 percent in the second quarter of 2021 to 13.6 percent in the third quarter; while the ROA ratio increased from 1.4 percent to 1.6 percent over the same period. The stress tests indicated that the

banking sector will remain solvent over the next 12 months. Of concern is the continued increase in the non-performing loan ratio during the period under review, though marginally; however the Bank is monitoring these developments closely.

3. **The Non-Bank Financial Institutions Sector (NBFIs) remained sound and sufficiently capitalised.** The NBFIs recorded a quarterly growth rate in assets of 2.0 percent between the second and third quarter of 2021, driven mainly by market returns from pension funds and new business from long-term insurance (LTI) and collective investment schemes (CIS). Although the pension fund industry remained solvent, there are concerns regarding benefits paid exceeding contributions received, which is as a result of the of the impact of the pandemic on the labour market. However, there is some comfort that the return on investments recorded a 4.0 percent growth rate, during the period under review and hence remained sufficient to cover the gap identified above. The LTI sector remained solvent with sound reserves and net premiums sufficiently covering claims. In addition, the CIS sector remained stable. The regulator will continue to monitor developments accordingly.

4. **Private sector credit extended (PSCE) declined during the first ten months of 2021 compared to the corresponding period of 2020.** The growth in PSCE moderated to an average of 2.5 percent for the first ten months of 2021 when compared to the 3.7 percent growth recorded for the same period in 2020. The slowdown is attributed to lower demand for credit by both households and businesses owing to slow domestic economic activity.

5. **Given the COVID-19 pandemic, risks to the Namibian financial system remain imminent and will be monitored closely by both BoN and NAMFISA.** Potential financial vulnerability build-up would largely emanate from adverse developments related to the COVID-19 pandemic's impending fourth wave coupled with vaccination hesitancy. Another vulnerability build-up observed is the government debt level which has increased above the SADC target. These developments warrants close monitoring going forward. Although the economy is projected to recover from a contraction of 8.5 percent in 2020 to a growth rate of 1.5 percent for the year 2021 and improve further in 2022, the economic environment remains fragile. Since the last MOC meeting, the Bank extended relief measures for a further 12-month period to assist households and businesses in managing the impact of the pandemic. Generally, the relief measures that were implemented at the onset of the COVID-19 pandemic by the Government, the Bank of Namibia and NAMFISA have cushioned the financial system against a potentially severe impact.

Contact:
Department of Strategic Communications and Financial Sector Development
Bank of Namibia, Tel: (061) 283 5114, Fax: (061) 283 5546 or email: info@bon.com.na

6. At present, the Macroprudential Oversight Committee is of the view that the current developments do not warrant further macroprudential policy interventions; however, the Bank of Namibia remains steadfast and will take remedial macroprudential actions if and when necessary. Amongst others, the MOC has the following policy interventions at its disposal which can be used when necessary:

    - Loan-to-Value Ratio,
    - Debt-Service-to-Income Ratio,
    - Countercyclical Capital Buffer, and
    - Credit-to-GDP Ratio.

In conclusion, the Committee wishes to urge everyone of our collective responsibility to lessen the impact of COVID-19 on the economy. By observing public health protocols and getting vaccinated, Namibians should decisively deal with the health challenge at hand and thus shore-up macro-economic stability, going forward.

Johannes !Gawaxab
GOVERNOR

Contact:
Department of Strategic Communications and Financial Sector Development
Bank of Namibia, Tel: (061) 283 5114, Fax: (061) 283 5546 or email: info@bon.com.na

71 Robert Mugabe Ave, P.O. Box 2882, Windhoek, Namibia, Tel: + 264-61-283 5114, Fax: +264-61-283 5254, www.bon.com.na