Date: 12 April 2011

Attention: News Editor

Ref: 9/6/2

FOR IMMEDIATE RELEASE

FINANCIAL STABILITY REPORT, MARCH 2011

The Bank of Namibia has published and released its Financial Stability Report for the six months period ended 31 December 2010. The following are the salient features in the Report:

1. **Global financial conditions broadly improved in the second half of 2010 and were expected to remain stable in 2011, albeit with downside risks.** According to the January 2011 Global Financial Stability Report (GFSR) update of the IMF, equity markets rose and bank lending conditions eased in the major advanced economies. In many emerging economies, on the other hand, inflation pressures were emerging and signs of overheating from strong capital inflows were developing.

2. **As noted in the GFSR, global financial conditions were expected to remain broadly stable in most regions or to improve in 2011.** Bank lending in major advanced economies were projected to ease further. In emerging markets, capital inflows were expected to remain strong and financial conditions to be robust. However, downside risks remained, in particular, there were risks of the financial turmoil in the euro zone spreading, and high commodity prices, and overheating.

3. **In the second half of 2010, domestic economic activity continued to improve in line with global economic recovery, with GDP estimated to have**

expanded by 4.6 percent in 2010. The rise in global commodity demand and prices led to increases in outputs of diamond, zinc, uranium, copper and gold. The secondary sector also improved during the period. Growth in the sector benefitted mainly from increased public expenditure that was part of expansionary fiscal policy. On the other hand, in the tertiary industry, the tourism and transport and communication sectors moderated. The two sectors were likely constrained by the NAD appreciation against major currencies. Domestic economic recovery was further reflected in higher credit demand by the private sector.

4. **The Bank, in its latest economic outlook for 2011, projected the economic recovery to continue, notwithstanding the downside risks, and expected GDP to grow by 4.1 percent in 2011.** The recovery in domestic economic conditions was expected to improve the financial position of households, support domestic demand and further stimulate output expansion, with eventual spinoffs for banking stability. Similarly, a continued rebound in domestic economic activity would improve corporate financial performance. Both circumstances would result in improved repayment capacity of banking borrowers and further decrease the non-performing loans for the banking sector. Going forward, the main downside risks to the domestic economic recovery in 2011 remains, include the possible weakening in global economic recovery and, consequently, overshadowing the outlook for the country's major exports.

5. **Banking profitability improved further, liquidity was sufficient and bad debt fell, supporting banking stability.** The banking sector was adequately liquid, profitable and well capitalised during the second half of 2010. In addition, both non-performing loans and overdue loans declined. The former sustained the descending trend that was observed since the fourth quarter of 2009, while the latter increased in the first half of 2010. Cost efficiency also improved after deterioration in the first half of 2010. The banking sector, consequently, remained sound and stable.

6. On the other hand, the assessment of the performance of the National Payment System found the system efficient, safe and compliant. During the review period, the Bank continued to perform its oversight function of the performance of the National Payment System (NPS). The main objective of these oversight activities was to safeguard the safety and efficiency of the NPS. The assessment did not reveal any major concerns in the payment system that could pose systemic risk to the financial system.

7. The real effective exchange rate (REER) of the Namibia Dollar (NAD) continued to appreciate against the currencies of the major trading partners in the second half of 2010. The real appreciation resulted in loss of competitiveness for Namibia's exports and tourism. Notwithstanding the currency appreciation, and decline in the country's international reserves, the level continued to be adequate to maintain the currency peg. Namibia's reserves, nevertheless, continue to be constrained by recent reductions in SACU inflows.

Issued by: **Mr. N Katoma, Head of Corporate Communications**

Enquiries: Ms. M Fredericks, Corporate Communications Practitioner
Corporate Communications Division
Tel: (061) 283 5114, Fax: (061) 283 5834 or
Email: info@bon.com.na