Media Statement

Bank of Namibia

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THE NAMIBIAN FINANCIAL SYSTEM REMAINS STABLE, SOUND AND RESILIENT, AMIDST A CHALLENGING GLOBAL AND DOMESTIC MACROECONOMIC ENVIRONMENT.

The Macroprudential Oversight Committee (MOC)[1] of the Bank of Namibia (the Bank) held its first meeting of the year on the 10th of July 2024, to assess potential risks and vulnerabilities in the Namibian financial system. Based on a thorough assessment of global and domestic macro-financial developments, the Committee found the domestic financial system to be stable, sound, and resilient. This is despite rising vulnerabilities and risks, particularly concerns around elevated non-performing loans (NPLs). Nonetheless, the financial sector maintained adequate capital and liquidity buffers to withstand potential losses. In addition, the financial market infrastructure (Namibia Interbank Settlement System) operations remained efficient. While the domestic property market faces constraints, the outlook remains relatively positive due to policy initiatives that were introduced and relaxed to improve market conditions. In addition, the MOC is at an advanced stage of introducing and implementing the Countercyclical Capital Buffer (CCyB) as an additional macroprudential policy tool in Namibia and will thus, monitor the risk environment to guide future CCyB decisions. Going forward, the MOC emphasised continuous monitoring of the elevated interest rate environment, slow domestic growth, and uncertainties heightened by geopolitical tensions, as well as cyber-related risks which could adversely impact the financial system.

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[1] The Bank of Namibia Act 1 of 2020 provides the responsibility of macroprudential oversight and the coordination of activities to safeguard financial stability. The Macroprudential Oversight Committee (MOC), an internal committee at the Bank, was established to support the Bank in implementing the macroprudential mandate and exercise macroprudential decision-making powers entrusted to the Bank.

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RECENT FINANCIAL STABILITY DEVELOPMENTS

The MOC of the Bank at its meeting held on the 10th of July 2024, conducted a thorough assessment of both global and domestic financial stability, with a specific focus on the potential vulnerabilities within the Namibian financial system.

1. **Global economic activity remained moderate, whilst the financial system remained stable and resilient.** Real growth in the global economy moderated in 2023, compared to the growth rate recorded in 2022. This is due to restrictive monetary policies, reduced fiscal support, the impact of Covid-19, weak productivity growth and rising geopolitical tensions. Going forward, real growth in the global economy is projected to remain stable in 2024 and 2025. This rests on the upside risks, such as easing of inflationary pressures, which could boost economic activity. Risks to the global financial stability outlook include among others, increased volatility in the real estate market, elevated levels of public and private debt, cyber-related risks, and ongoing uncertainties in the geopolitical landscape. Continuous monitoring of these risks remains imperative in ensuring economic and financial stability.

2. **The Namibian economy recorded positive growth during the first quarter of 2024, although it is expected to moderate in 2024 before picking up in 2025.** The Namibian economy grew by 4.7 percent during the first quarter of 2024, compared to a growth rate of 5.3 percent observed in the corresponding quarter of 2023. This is mainly due to positive growth recorded during the first quarter of 2024 for the *electricity and water*, *wholesale and retail*, *transport and storage*, as well as the *mining and quarrying* sectors. Going forward, real growth in the Namibian economy is estimated to moderate to 3.7 percent in 2024 before improving to 4.1 percent in 2025. The projected slowdown in 2024 is ascribed to weaker global demand and slower growth in the domestic primary industry.

3. **Despite moderate economic conditions, the banking sector remained sound and resilient.** The banking sector's total assets grew by 2.8 percent to N$177.9 billion during the first quarter of 2024 on the back of growing cash and balances with banks. The liquidity ratio stood at 18.1 percent during the period under review, compared to 17.3 percent observed during the preceding quarter. This was mainly ascribed to diamond sales and increased government expenditure at the end of the FY2023/2024 fiscal year. In terms of profitability, both the return on equity and return on asset ratios declined slightly by 2.0 percent and 17.0 percent respectively, mainly

due to a slowdown in other operating income. Similarly, both the Tier 1 and Total risk-weighted capital ratios declined by 14.8 percent and 16.7 percent respectively, during the review period. Notwithstanding the slight declines in the profitability and capital ratios of the banking industry, the levels remained prudent for banks to meet the Bank's prudential regulatory requirements. Asset quality as measured by the NPL ratio, deteriorated to 6.1 percent at the end of the first quarter of 2024 from 5.9 percent during the last quarter of 2023. Despite the increase in the NPL ratio, the banks have sufficient provisions and adequate capital to absorb potential credit losses. The Bank further imposed the necessary supervisory interventions to contain the credit risk and will continue to monitor the developments in furtherance of stability.

4. **The weak macroeconomic environment further impacts developments in the property market.** The property sales volumes remained low in the residential real estate market, reflecting tight financing conditions. Other key indicators, such as growth in the rental price and the price-to-rent ratio, showed positive growth, while growth in the house price index, and the deposit-to-rent ratio remained stable. In terms of mortgage credit, both household and corporate mortgage credit extension remained muted during the review period on the back of elevated interest rates. Despite the current pressures, the MOC took note of the positive developments, such as housing subsidies and tax benefits, as well as a low inflation outlook for 2024 that may improve the property market conditions. In addition, the relaxation of the Loan-to-Value limits may continue to stimulate borrowing in the property market.

5. **The Non-Bank Financial Institutions (NBFIs) sector remained stable and resilient amidst sluggish economic activity and an elevated interest rate environment.** The NBFI assets grew from N$414.8 billion to N$426.8 billion during the first quarter of 2024. The retirement funds subsector maintained a funding position above the prudential limit during the first quarter of 2024, indicating resilience and ability to meet current obligations. Similarly, the long-term insurance subsector maintained sound capital reserves and remained solvent. Additionally, the long-term insurance subsector's return on assets continued its upward trajectory mainly due to a recovery in claims. Collective investment schemes (CIS) remained stable during the period under review. CIS remains a significant source of liquidity in the Namibian economy, with N$49.9 billion (54 percent) of funds under CIS management held domestically. Overall, the NBFIs sector remained sound and stable with no real threat to the stability of the financial system. Going forward, the

uncertain macroeconomic and financial market conditions may have an adverse effect on the NBFIs' performance.

6. **Namibia's interbank settlement system (NISS) continued to operate efficiently.** Settlement and operational risks within the NISS remained well contained during the period under review. This is mainly due to the NISS operating without disruptions, as well as the bulk of the payment obligations settling within the earlier settlement windows, thus deterring settlement risk.

MACROPRUDENTIAL POLICY DEVELOPMENTS

7. **The MOC is at an advanced stage of implementing the countercyclical capital buffer (CCyB) as an additional macroprudential tool, to further enhance the banking sector's resilience**. The CCyB is a macroprudential policy instrument that serves as a measure of protection to the banking sector against the build-up of systemic risks associated with periods of excessive aggregate credit growth. This buffer instrument is generally build-up during good economic times and used during economic down turns. During the meeting, the MOC approved the CCyB framework that aims to provide a comprehensive understanding of the Bank's CCyB operations, thereby promoting transparency of the policy tool. The preparations and consultations to introduce the CCyB as a macroprudential policy tool are underway.

MACROPRUDENTIAL POLICY STANCE

8. **Following its assessment, the MOC concluded that the financial system remains resilient and stable despite the prevailing macroeconomic conditions.** Thus, the Committee has determined that no macroprudential policy intervention is required at this stage. The MOC will continue to closely monitor the economic and financial conditions, as well as the overall risk environment, and when warranted, take the necessary remedial macroprudential action with the tools at its disposal.

Issued by:

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