

## Joint Media Release

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**FOR IMMEDIATE RELEASE**

**THE FINANCIAL STABILITY REPORT FOR 2017 ESTABLISHED THAT THE NAMIBIAN FINANCIAL SYSTEM REMAINS HEALTHY, SOUND AND WELL-CAPITALIZED.**

### **KEY HIGHLIGHTS:**

- Overall, the Namibian financial system continued to be sound, robust and resilient to shocks, with key financial services functioning orderly.
- Risks to global financial stability have subsided since the last Financial Stability Report.
- The global economy remained sluggish during 2016, though projected to improve moderately in 2017 and 2018.
- The domestic economy, though having slowed in 2016, is projected to improve in 2017.
- Namibia's banking sector remains sound, healthy, profitable and adequately capitalized.
- Non-Banking Financial Institutions (NBFIs) are sound and do not pose systemic risks to financial stability.
- While the level of indebtedness of the private sector remained high, growth in both household and corporate debt slowed during 2016.
- The payment system infrastructure continues to operate efficiently and effectively.
- The introduction of LTV ratios as a macroprudential regulation as of the 22<sup>nd</sup> of March 2017, is expected to contribute to reduced concentration risk for commercial banks.

**1. The Bank of Namibia and the Namibia Financial Institutions Supervisory Authority (NAMFISA) jointly released the annual Financial Stability Report (FSR) on 28 April 2017.** 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 macroeconomic environment, domestic household and corporate debt, the banking sector, the non-banking financial sector and payment and settlement systems. The overall assessment concludes that the financial sector is robust, healthy and resilient to shocks, 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

- 2. Since the last FSR, the Namibian financial system continued to prove its resilience as it withstood an array of adverse developments in the global and domestic economies during the period under review.** Generally, the financial system and markets in Namibia remained sound, profitable, and with no disruptions or disorderly functioning of key financial services despite unfavourable domestic and global economic conditions. Specifically, the banking sector and the non-bank financial institutions (NBFIs) continued to be sound and well capitalized, with a consistently low level of non-performing loans (NPLs) and sufficient buffers to cushion any potential volatility in liquidity and profitability. Notwithstanding this sound position, the liquidity levels and sustainability of the liquidity management strategies require monitoring. The payment system and infrastructure similarly continued to perform efficiently and effectively, and with increasingly robust risk mitigating measures to facilitate safe payments.
- 3. Risks to global financial stability have subsided since the last Financial Stability Report.** According to the IMF's April 2017 Global Financial Stability Report (GFSR), the improvement in the risks was mainly ascribed to the projected improved economic growth in 2017, accommodative monetary policy and more favourable financial conditions in advanced economies. Emerging market risks remained unchanged, as recovering commodity prices and modest deleveraging in some corporate sectors were offset by higher external financing risks and rising financial vulnerabilities in China. Going forward, downside risks and uncertainties to financial stability remain, and include the global shift towards protectionism which may adversely affect trade and global growth and thereby exerting pressure on financial stability.
- 4. The global economy remained sluggish in 2016, but it is projected to expand in 2017.** According to the IMF's April 2017 World Economic Outlook (WEO), global growth is estimated at 3.1 percent in 2016, which represents a marginal slowdown from 3.4 percent in 2015. The slowdown in global growth during 2016 was mainly driven by subdued growth in Advanced Economies (AEs), as well as the slow recovery in the Emerging Market and Developing Economies (EMDEs). The slow recovery in



the EMDEs and to a large extent the depressed commodity prices are ascribed to reduced momentum in the pace of expansion in China, partly as a result of rebalancing in the economy, and the temporary negative consumption shock in India. Going forward, global growth is projected to improve moderately to 3.5 percent and 3.6 percent during 2017 and 2018, respectively.

5. **The domestic economy, though having slowed in 2016, is projected to improve in 2017.** Growth in Namibia's real Gross Domestic Product (GDP) is estimated to have slowed down to 0.2 percent in 2016, from 6.1 percent in 2015, but is projected to improve to 2.9 percent in 2017. Contractions in construction, metal ores and diamond mining, as well as, fiscal consolidation negatively impacted on growth in 2016. The improvement in 2017 will mainly be supported by anticipated recoveries in both agriculture and diamond mining, as well as robust growth in the uranium mining and transport and communication sectors. In addition, the Southern Africa Customs Union (SACU) receipts, as an external liquidity injection, will improve significantly in 2017 compared to 2016, which will thus enhance the stability of the financial system in Namibia.
6. **Since the last FSR, growth in household debt slowed in 2016, in line with the slowdown in economic growth.** This was mainly due to the slower growth in mortgage lending and instalment sales credit to households over the same period. Notwithstanding the moderation, household debt as a ratio of disposable income, remained high at 84.6 percent in 2016, compared to 84.7 percent in 2015. Growth in household debt will continue to be monitored in line with the policy measures that were introduced during the latter part of 2016 and early 2017.
7. **Growth in the corporate debt stock slowed in 2016, following the exceptionally strong growth recorded in 2015.** This was evident in both domestic and foreign debt of the private sector.
8. **Since the last FSR, a macroprudential regulation in the form of Loan-to-Value (LTV) ratios for non-primary residential properties has been gazetted on the 26<sup>th</sup> of September 2016 and took effect in March 2017.** This policy tool was introduced to curb speculation in the residential housing market segment and thereby reduce the exposure of banking institutions to mortgage loans. It is also expected that LTV will



promote responsible borrowing while giving preferential access to housing for first time buyers in Namibia.

**9. Since the last FSR, the performance of the Namibian banking sector has been sound, with the banks remaining healthy, profitable and adequately capitalized.**

The banking industry remained adequately capitalised and maintained capital positions well above the minimum prudential requirements during 2016. The banking institutions' assets continued to grow, although at a lower rate, while the NPLs ratio improved slightly from 1.6 percent in 2015, to 1.5 percent in 2016.

**10. The Non-Banking Financial Institutions (NBFIs) remained sound and do not pose systemic risks to the country's financial system.**

Growth of the assets of the NBFIs sector remained positive and is expected to continue going forward. Since the last FSR, the capitalization of provident, insurance and investment institutions has been adequate to ensure solvency, while funding levels were in excess of the statutory requirements. These levels have been sufficient to withstand the shocks and risks to which these institutions are exposed.

**11. The payment system and infrastructure operated effectively and efficiently since the previous FSR.**

In this regard, the payment system maintained high system availability with one Disaster Recovery (DR) test conducted successfully in NISS (the settlement system) during the period under review. On-site activities were also conducted to assess the operations of new and existing participants based on their risk profiles as established through the offsite monitoring activities.

**12. From a risk profile point of view since the last FSR, most risks have either subsided or remained unchanged, with minimal corresponding impact on the stability of the financial system.**

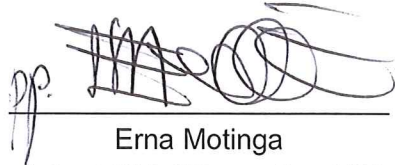
These risks to Namibia's financial stability remained low and well absorbed during 2016, when compared to that of 2015.



The media and the public at large are encouraged to read the full Financial Stability Report, which can be accessed at (<https://www.bon.com.na/Bank/Financial-Stability/Financial-Stability-Reports.aspx>) and (<http://www.namfisa.com.na/publications> ).



Florette Nakusera  
**Director: Research**  
**BANK OF NAMIBIA**



Erna Motinga  
**Assistant Chief Executive Officer**  
**NAMFISA**

**Enquiries can be directed to:**

The Director:  
Strategic Communications and Financial  
Sector Development  
Bank of Namibia  
Tel: +264 61 283 5114  
Fax: +264 61 283 5546  
Email: [info@bon.com.na](mailto:info@bon.com.na)

The Manager:  
Corporate Communications and  
Consumer Education  
NAMFISA  
Tel: +264 61 290 5177  
Fax: +264 61 290 5194  
Email: [info@namfisa.com.na](mailto:info@namfisa.com.na)