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**SYNOPSIS OF THE NAMIBIA
FINANCIAL STABILITY REPORT
2019**

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The Bank of Namibia and Namibia Financial Supervisory Authority jointly released Namibia's 2019 Financial Stability Report (FSR) in April 2020. The purpose of the Financial Stability Report (FSR) is to identify risks and vulnerabilities in the financial system and assess the resilience of the financial system to domestic and external shocks. The financial system in Namibia consists of financial markets, instruments, institutions and infrastructure.

The report indicates that the Namibian Financial system remained sound and resilient in 2019, despite subdued economic activity. The global economic environment has deteriorated as the world faces the worst setback since the Great Depression of the 1930s. *The FSR focused on the economic environment in 2019, while also being cognisant of the available year –to-date developments associated with the COVID-19 pandemic.*

KEY HIGHLIGHTS:

1. The **banking sector** remained robust, profitable and well capitalised despite sluggish economic conditions during the period under review. The total assets of the banking sector continued to grow, albeit at a slower pace with liquid assets well in excess of the statutory minimum required. Liquidity constraints remained unchanged when compared to 2018, however Asset quality deteriorated in 2019 compared to 2018.
2. The **Non-Banking Financial Institutions** sector remained stable and sound during the period under review despite the recessionary conditions, although the positive performance of the NBFIs may be dampened by the outbreak of COVID-19 in 2020. The Non-Banking Financial Institution sector assets grew by 9.0 percent in 2019 supported by a robust financial market performance.
3. **Namibia's National Payment Settlement (NPS)** system and infrastructure continued to operate efficiently and effectively during 2019 as well as early 2020. The National lockdown imposed in the face of the COVID-19 pandemic impacted the operations of the NPS participants and their ability to offer their full range of payment solution, particularly in-branch payment services.

SUMMARY OF RISK ANALYSIS

Global growth decelerated to 2.9 percent in 2019, from 3.6 percent in 2018 on the back of trade wars and geopolitical tensions. The domestic economy recorded a contraction of 1.1 percent in 2019 compared to a marginally positive growth of 0.7 percent in 2018. Although the domestic outlook remains uncertain, the Government stimulus package, coupled with other relief measures are expected to mitigate the negative impact of the pandemic on the economy to a certain extent.

The Central Bank reduced the repo rate by cumulative 225 basis points thus far in 2020, of which the last two reductions of 100 basis points each were intended to mitigate the impact of COVID -19 on the economy. Going forward, policy responses to COVID-19 may support the cash flows of households and corporates in the short medium term with a probable softening of the threat to financial stability.

Household indebtedness increased to 7.3 percent during 2019 up from 7.0 percent in 2018, driven largely by demand for short term borrowing. Household debt relative to disposable income rose from 92.9 percent in 2018 to 97.7 percent in 2019. Corporate sector debt increased by 0.8 percent to N\$127.2 billion in 2019, up from N\$126.1 billion in 2018, mainly driven by increase in domestic debt.





Risk to the *Non-Banking Financial Institutions* increased substantially due to COVID-19 pandemic. The NBFIs are expected to absorb the risk, given the high capital buffers. The severe losses on the global financial markets are expected to also adversely affect the NBFIs asset position with possible spill-over to the banking sector through the wholesale funding channel, if the current conditions persist.

Payments system risks also increased during the period under review due to an increase in the total value of fraud across all systems, elevating the risks associated with the security of retail payments.

According to the IMF's April 2020 Global Financial Stability Report, global financial conditions have tightened sharply since the onset of COVID-19. Financial conditions were broadly accommodative characterised by reduced financial markets volatility and stable interest rates in both the Advanced Economies (AEs) and Emerging Markets and Developing Economies (EMDEs) during 2019

The financial system remained sound and resilient in 2019, despite unfavourable domestic and global economic conditions. On the global front, financial conditions have tightened sharply since the onset of the COVID-19 pandemic, prompting Central Banks and fiscal authorities to adopt policy measures to deal with vulnerabilities. With the outbreak of COVID19, risks to the Namibia financial system will be intrusively and strongly monitored.

Going forward, in light of current developments, the probability of further downside risk to the banking sector is high; however, the impact is estimated to be medium as Namibia has put in place measures to contain the spread of the pandemic as well as to mitigate its impact on the economy. These measures may mitigate the risks; however, should the risks materialise, the impact on both the global and domestic economy will be severe.

Source: Bank of Namibia financial Stability Report April 2020



REPUBLIC OF NAMIBIA

This publication was produced by: Ministry of Finance

Economic Policy Advisory Services

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