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FOR IMMEDIATE RELEASE

THE FIRST BI-ANNUAL FINANCIAL STABILITY REPORT CONFIRMED THAT FINANCIAL SECTOR REMAINS HEALTHY AND SOUND

The Bank of Namibia released its first bi-annual Financial Stability Report (FSR) for 2014 on 22 April 2014. 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 external environment, domestic household and corporate debts, performance of the banking sector, performance of the non-banking financial sector and payment and settlement systems. The overall assessment concludes that the financial sector is healthy and sound, but continuous monitoring is needed as a prudential measure.

SUMMARY OF THE MAIN RISKS

1. **Since the last issuance of the FSR in September 2013, the risks stemming from the external macroeconomic environment have remained largely unchanged and may diminish going forward on account of enhanced financial stability in emerging markets and sustained economic recovery from advanced economies**. The initial pessimistic scenario for emerging markets expected upon announcement of the US Fed's tapering of its monetary expansion programme appear to have abated so far, with somewhat regained stability of leading emerging market' currencies and foreign capital flows. Advanced economies, particularly the US, continue to recover.

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2. **Despite exchange rate volatility and severe drought, the domestic economy registered satisfactory performance and low inflation during the second half of 2013.** Domestic engines of growth, including sizeable construction activity in the mining sector (uranium and gold), sustained a brisk growth of the local economy. Also, relatively rapid growth of the tertiary sector, particularly wholesale and retail trade suggests a strong growth of private consumption, albeit putting pressure on the country's international reserve position. Monthly inflation rates have remained relatively low with an annual inflation rate of 5.6 percent for 2013, down from 6.7 percent in 2012.

3. **Household debt as a share of disposable income increased from 83 percent at the end of June 2013 to 87 percent by the end of December 2013, thus warranting strong monitoring.** The rise in the household indebtedness ratio is largely attributed to a faster increase in bank credit to households relative to the growth in households' disposable income. As was highlighted in previous FSRs, household debt is predominantly mortgage loans, contracted at variable interest rates. As such, going forward, any increases in interest rate levels may place an additional debt burden on households, which is already high by international comparisons.

4. **Though corporate debt levels (as a share of GDP) are higher than years back (albeit declining marginally between the end of June and end of December 2013), the fact that it was used to supporting valuable future export promotion activities is encouraging.** As such, risks of corporate debt remain low and unchanged from earlier FSR assessments, but warrant monitoring going forward, as new corporate debt and debt service costs increase. Large exposures to manufacturing, as well as to transport and logistics, also warrant oversight due to concentration risks.

5. **Financial soundness indicators for the banking sector remain at comfortable levels by international standards, although some structural patterns of the balance sheets require monitoring.** The resilience of the commercial banks is regularly tested and current stress testing results suggests that the commercial banking institutions are able to withstand a shock to the

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banking system. Of concern is the assets of banking institutions, which are highly concentrated in mortgage loans, and as such, the situation needs continuous monitoring in light of the high level of household indebtedness. The inherent risk of banking institution maturity mismatch remains unchanged for the next six months (i.e. the same as observed in the September 2013 FSR). Notwithstanding the above concerns, the banking sector remains compliant with regulatory liquidity requirements.

6. **Since the last FSR report of September 2013, the balance sheets of non-banking financial institutions remain healthy**. This is expected to continue in the next six months. NBFIs continue to register double-digit asset growth during the year 2013. Provident institutions remained well capitalised, with solvency levels exceeding the statutory requirements. Investment institutions invested most of their assets locally, in line with regulatory requirements as well as the risk appetite of their clients.

7. **Lastly, the national payment infrastructures continue to operate effectively and efficiently with no major outages.** Some operational controls are being reviewed in order to further strengthen efficiencies.

The media and the public at large are encouraged to read the full Financial Stability Report which can be accessed at www.bon.com.na/Publication/Financial Stability Report

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