



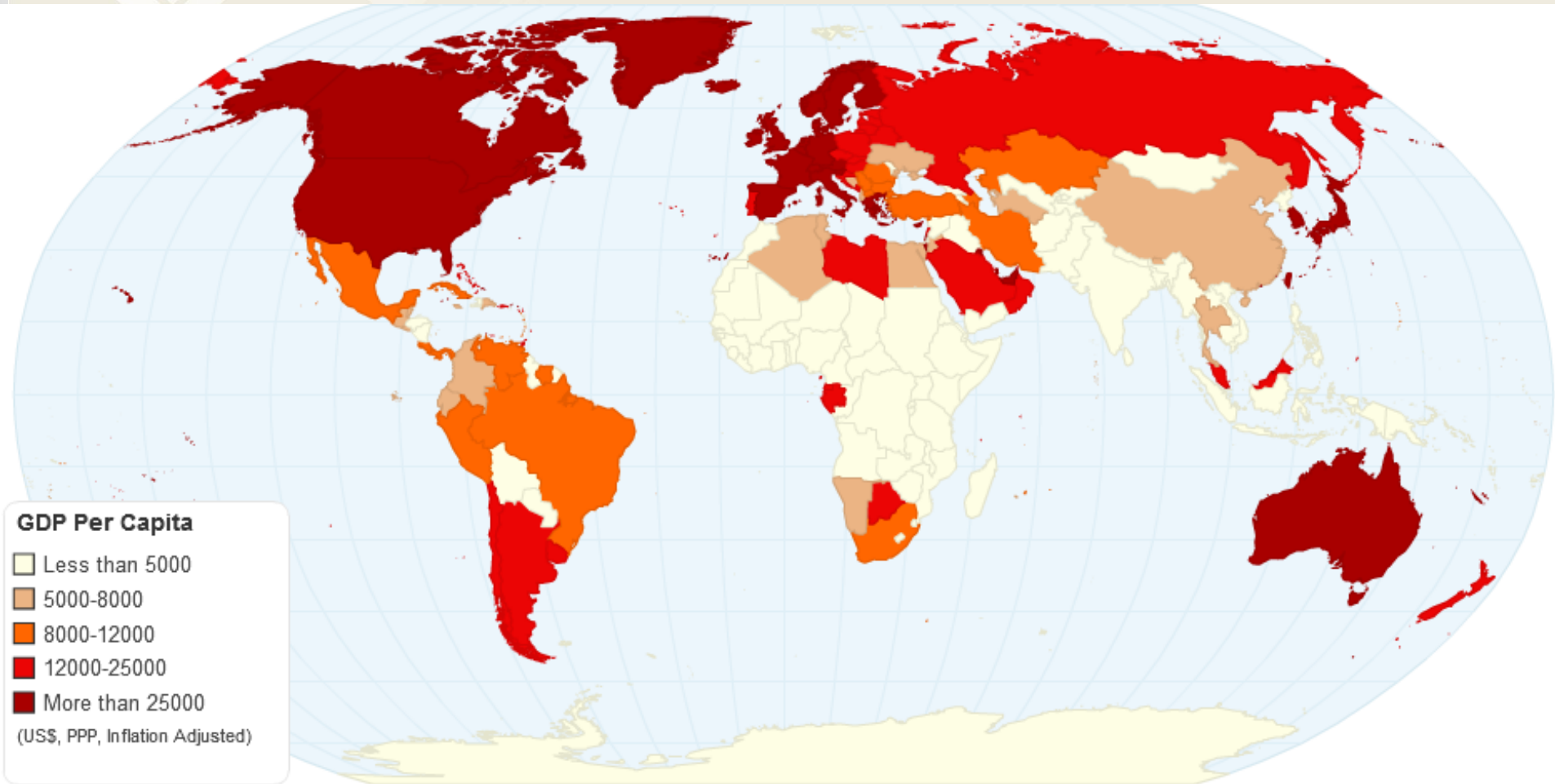
# **Namibia: Notes on Q3-2012 Financial Stability Report**

## **Gonzalo Pastor**

**Bank of Namibia**

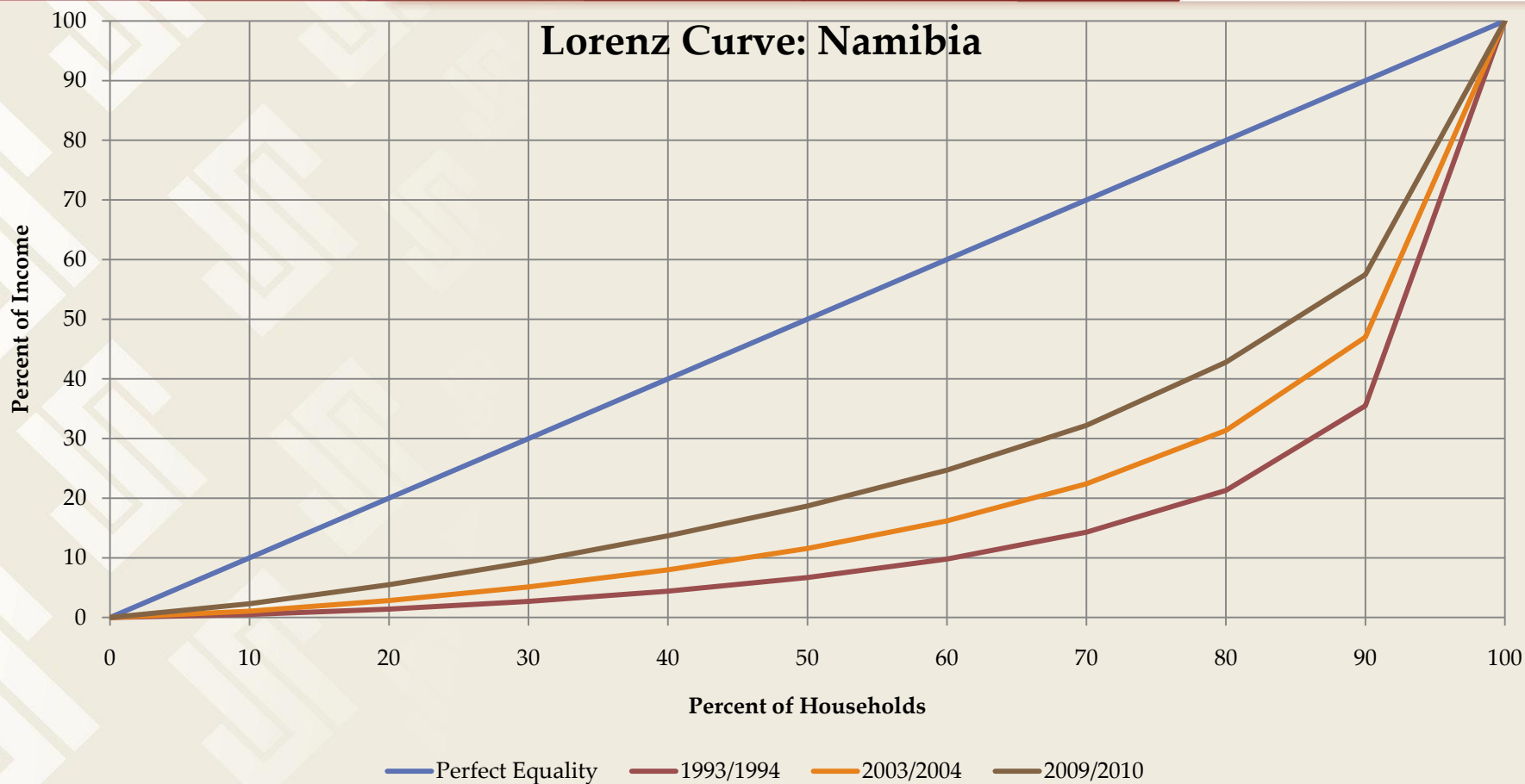


Namibia is in Southern Africa; with a US\$12 billion GDP



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# Namibia has one of the highest recorded income inequality in the world



	Gini Coefficient
1993/1994	0.70
2003/2004	0.63
2009/2010	0.60

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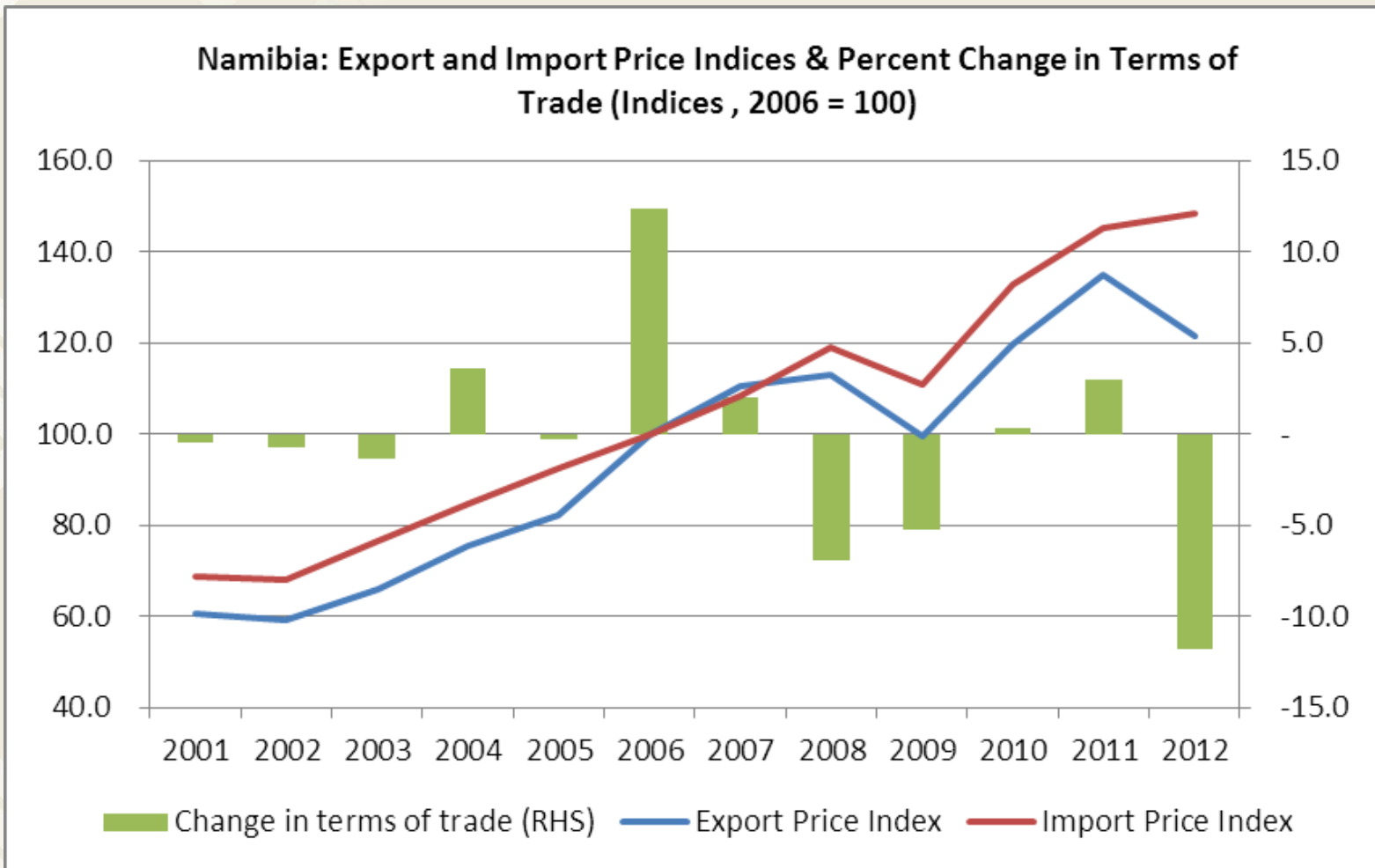
# NAM is an small open economy

Table 1. Middle-Income SSA Countries: Openness to Trade, 2000-12  
(In percent of GDP)

	Exports	Imports	Total trade
Botswana	42.7	37.3	80.1
Cape Verde	37.2	69.2	106.4
Ghana	29.1	42.5	71.6
Lesotho <sup>2</sup>	52.3	122.5	174.8
Mauritius	54.9	61.6	116.5
<b>Namibia</b>	<b>40.0</b>	<b>46.6</b>	<b>86.6</b>
Senegal	26.2	42.0	68.3
Seychelles	93.3	106.4	199.6
South Africa	29.2	29.2	58.4
Swaziland	75.2	86.3	161.5
Zambia	37.2	38.8	76.0
<b><i>Memo item:</i></b>			
<b>Excluding NAM, LSO, Seychelles</b>	<b>41.5</b>	<b>50.9</b>	<b>92.3</b>

Source: IMF, Regional Economic Outlook, May 2012.

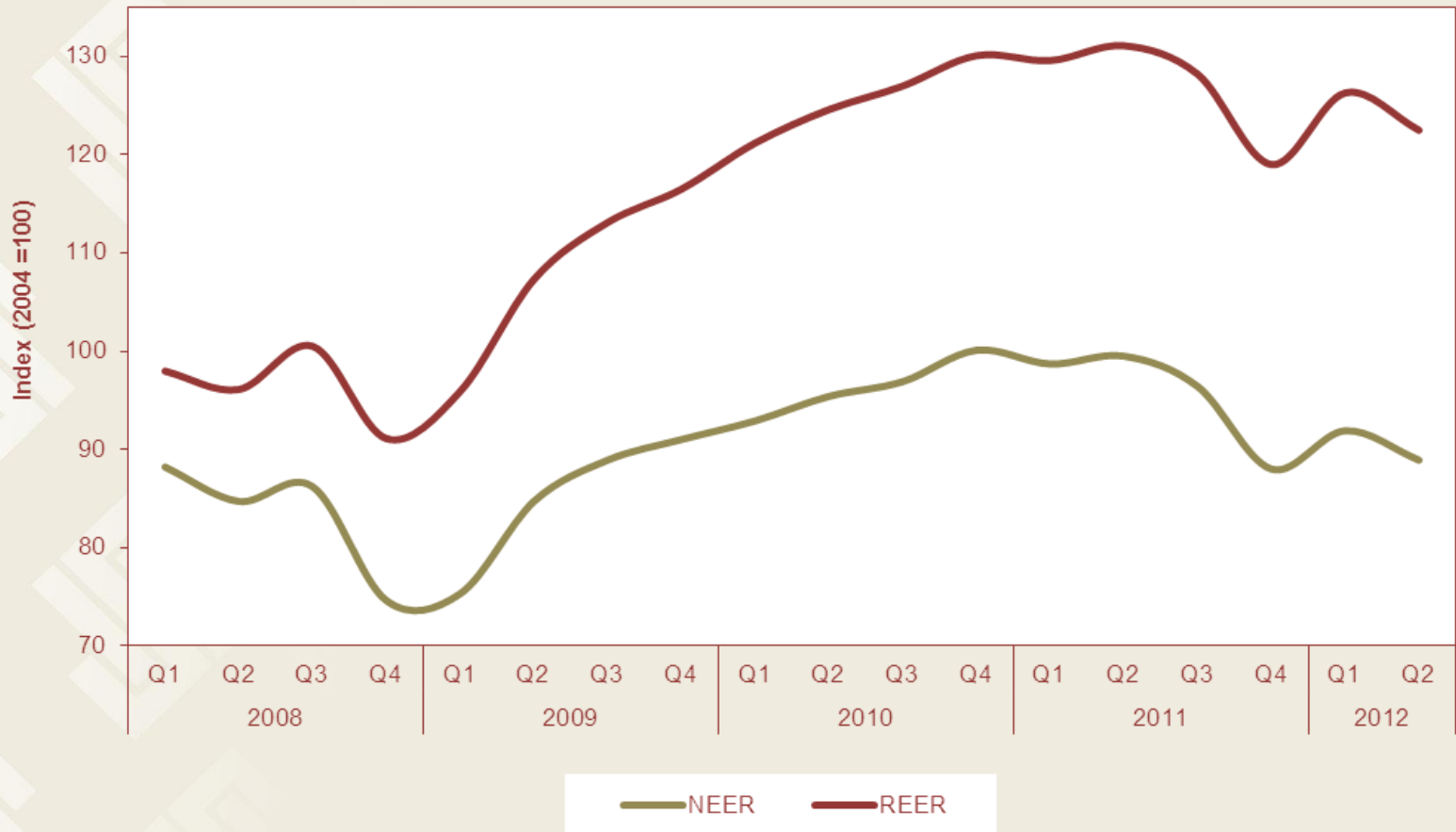
... subject to the headwinds of global trade and finance.



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# NAM is member of the ZA's rand CMA (1/1 peg)



# NAM's banks look healthy



Structure	Dec 09	Jun 10	Dec 10	Jun 11	Dec 11	Jun 12
Number of banks	4	5	5	5	5	5
Total assets of banks (N\$ '000 000)	'47,669	47,699	51,501	52,782	59,971	62,886
Assets/GDP	63.5	61.1	63.5	61.4	66.0	65.5
<b>Capital Adequacy (%)</b>						
Tier 1 leverage ratio	7.8	8.6	8.3	8.7	7.8	7.7
Tier 1 capital ratio	11.7	11.4	11.1	11.1	10.8	10.5
Total RWCR	15	15.2	15.3	14.7	14	14.5
<b>Asset Quality</b>						
NPL/Total gross loans	2.7	2.4	2	1.8	1.5	1.4
Gross overdue/ Total loans and advances	8	4.7	4.3	4.5	3.5	3.9
Provisions/Total loans	1.8	1.8	1.5	1.5	1.4	1.3
Provisions/NPLs	66.2	74.8	78.6	84.6	94	94.3
Specific provision/NPLs	28.7	30.5	30.3	31.3	33.3	
<b>Earnings and Profitability</b>						
Return on assets	2.1	2.1	2.5	1.9	2.6	2.0
Return on equity	21.2	21.4	23.6	19.2	26.4	20.2
Net interest margin	4.5	4.9	5.2	4.9	5.7	5.4
Cost to income ratio	57.9	62.5	57.3	60.1	52.3	61.4
<b>Liquidity (%)</b>						
Liquid assets to total assets	10.0	10.5	10.7	10.2	12.4	11.1
Total loans/Total deposits	85.3	87.7	86.6	89.1	82.2	84.5
Total loans/Total assets	72.8	74.9	74.1	76.1	71	73.0

# NBFIs are also important in NAM



## NBFIs: Sources of Funds by Type of Institution 1/

	Dec. 2010	Dec. 2011	Avg. share	Annual growth
	(N\$ millions)		(Percent)	
Pension Funds	47,574	50,977	55.5	7.2
Short-term insurance companies	686	783	0.8	14.1
Long-term insurance companies	12,822	13,757	15.0	7.3
Medical aid funds	288	321	0.3	11.5
Unit trust schemes	22,333	22,878	25.4	2.4
Companies	406	532	0.5	31.0
Natural persons	5	9	0.0	80.0
Other	1,941	2,408	2.4	24.1
Total Funds	86,055	91,665	100.0	6.5
<b>Memo item:</b>				
Nominal GDP (end-year; N\$ billions)	81,136	90,842		
Total Funds/GDP (percent)	106	101		

Source: NAMFISA Quarterly Statistical Bulletin Q4 2011

1/ Refers to total funds under investment management.



# Financial Stability Analysis



- The Bank of Namibia (BoN) defines financial system stability as the resilience of the domestic financial system to internal and external shocks, be they economic, financial, political or otherwise. It can also be described as the absence of macroeconomic costs of disturbances in the system of financial exchanges between households, corporates, and financial institutions.
- **Since 2009, the BoN has been preparing *Financial Stability Reports*** that included assessment of key sectors, infrastructure and institutions that are important to the stability of the financial system. The assessments have been mainly focused on the banking institutions and payment system infrastructure.
- The current *Report* contains an assessment of the stability and resilience of the Namibian financial sector using available **economic and financial data through September 2012.**

## Policy recommendations to deal with:

- Weak external environment
- Rising household debt levels
- Rising levels & structure of corporate debt
- Situation of local banks

- **External environment:** Addressing the financial vulnerabilities arising from a weak international environment demands preventive policy actions to limit the build-up of systemic financial risks and minimize negative impacts on the real sector.
  - Strong policy coordination among the Ministry of Finance, the Bank of Namibia, and the regulator of non-bank financial intermediaries is warranted.
  - Fiscal solvency, along the implementation of a sustainable medium-term fiscal consolidation framework, is critical to rebuild policy buffers in the event of a prolonged and volatile external environment.
  - Efforts to increase exports as well as export diversity should continue to be pursued, as should efforts to increase import substitution within a competitive framework.

- **Household indebtedness** warrants close monitoring, as the ratio of household debt to disposable income and the debt service to income ratio are currently high and experiencing strong upward trends.
- Lending institutions remain vigilant in their extension of loans; negative shocks to income and eventual hikes in interest rates may have on the repayment capacity of borrowers.
- Conduct regular stress testing on the impact of possible interest rate shocks.
- Apply a 50% risk-weight to residential mortgage loans to ensure that banking institutions have an adequate capital buffer to absorb possible losses.
- New study loan-to-value ratio for second properties to contain household leverage.

- **Corporate Debt:** Current levels of corporate debt to GDP are generally at an acceptable level, but trends in such warrant monitoring going forward.
  - There is an issue of domestic bank credit concentration of large corporations.
  - The breakdown of locally and externally issued credit to corporates in Namibia shows that a substantial portion of credit to corporations is sourced from outside the country, and at levels of over 40 percent: (i.e., debt intolerance thresholds; Rogoff, Reinhart, and Miguel Savastano), particularly should it continue to grow.

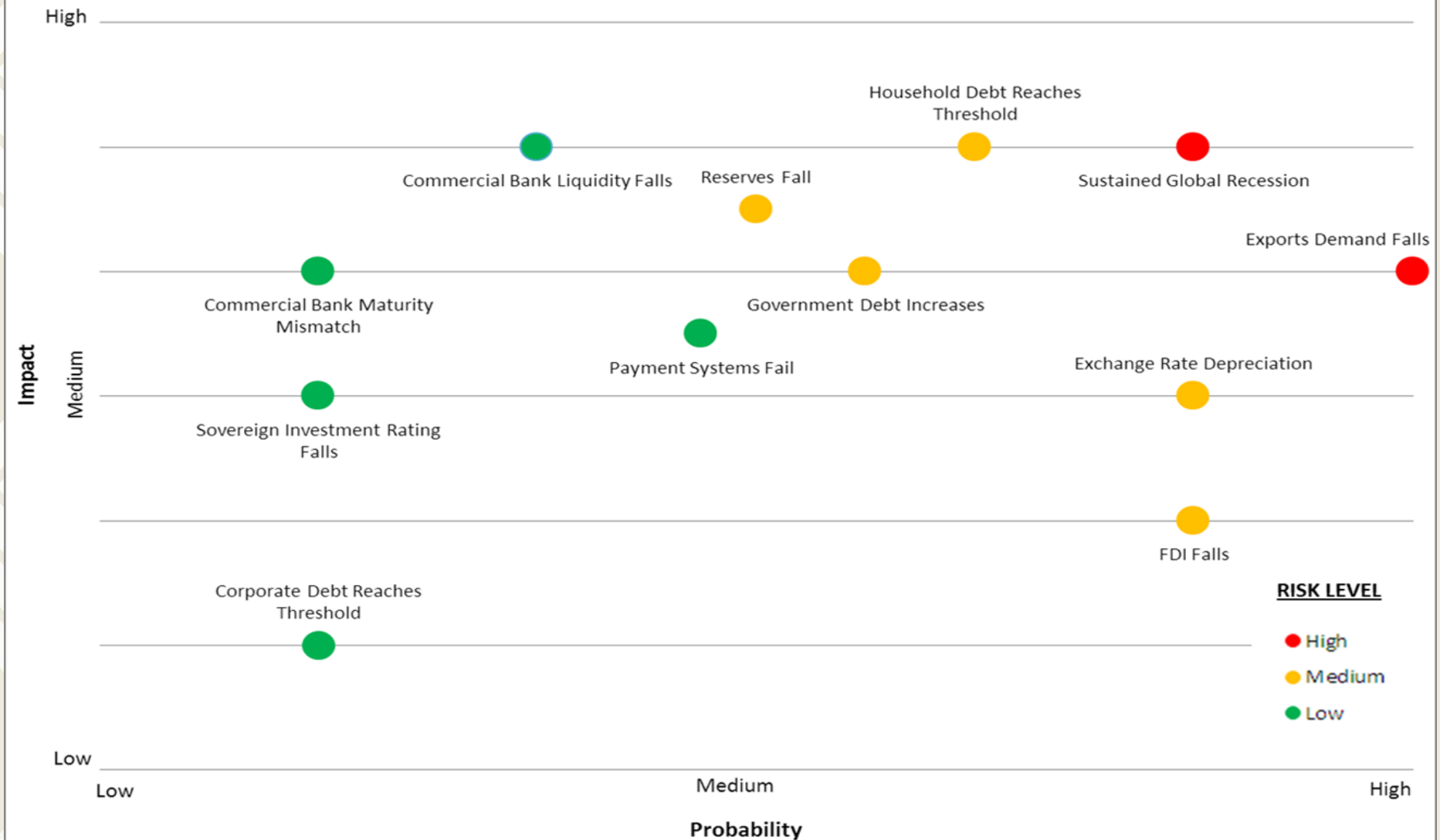
- **Banking sector:** Financial soundness indicators suggest that domestic banking institutions are liquid, profitable and solvent, although some structural challenges remain.
  - The Bank of Namibia encourages banking institutions to have more diversified funding sources to address the risk arising from the maturity mismatch between banks' assets (heavy long-term mortgage portfolio) and liabilities (generally short-term).
  - Banks are also required to conduct regular stress testing and have formal, well-developed contingency funding plans as primary tools for measuring and managing liquidity risk.



# Recommendations are consistent w underlying risks



## Risk Probability and Impact Summary



## Which are the transmission channels?

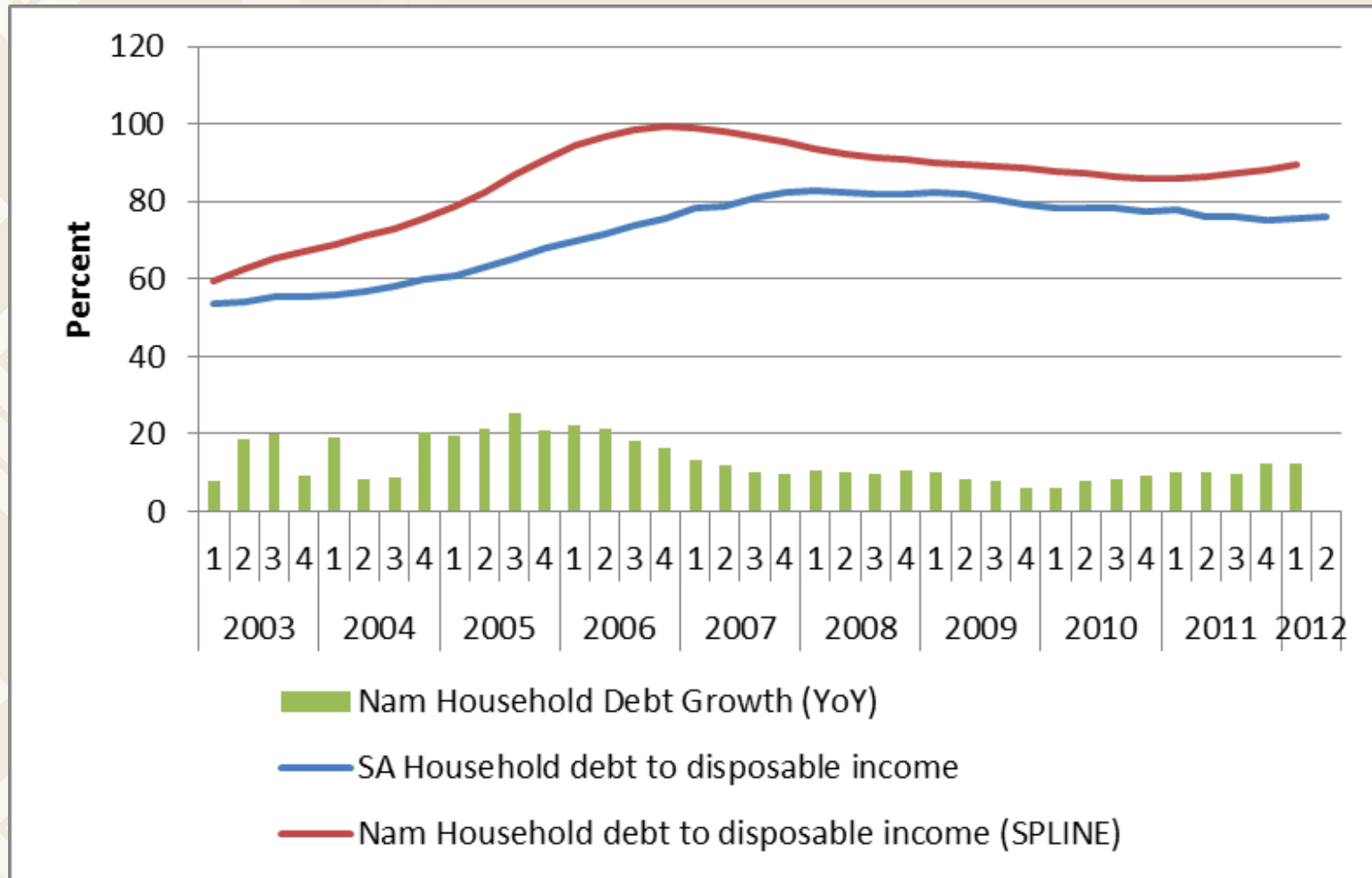
- Namibia's exports largely revolve around **minerals** (41 percent of total exports; diamonds are 20% total exports). **Direction of trade:** over 50 percent of total Namibian exports are destined for Europe.
- Waning commodity prices may affect **FDI inflows**.
- **Intl. reserve import coverage** could fall if exports fall and fiscal deteriorates.
- **Namibia's peg** = little control over currency movements.
- Sovereign rating and outlook downgrades in **South Africa**, may affect Namibia.
- Historically-**low levels of international interest rates** have significantly reduced interest income on positive net foreign asset positions of domestic banking institutions--including the Bank of Namibia--and that of nonbank financial intermediaries. Alas WW II experience.

# Risks arising from household debt levels

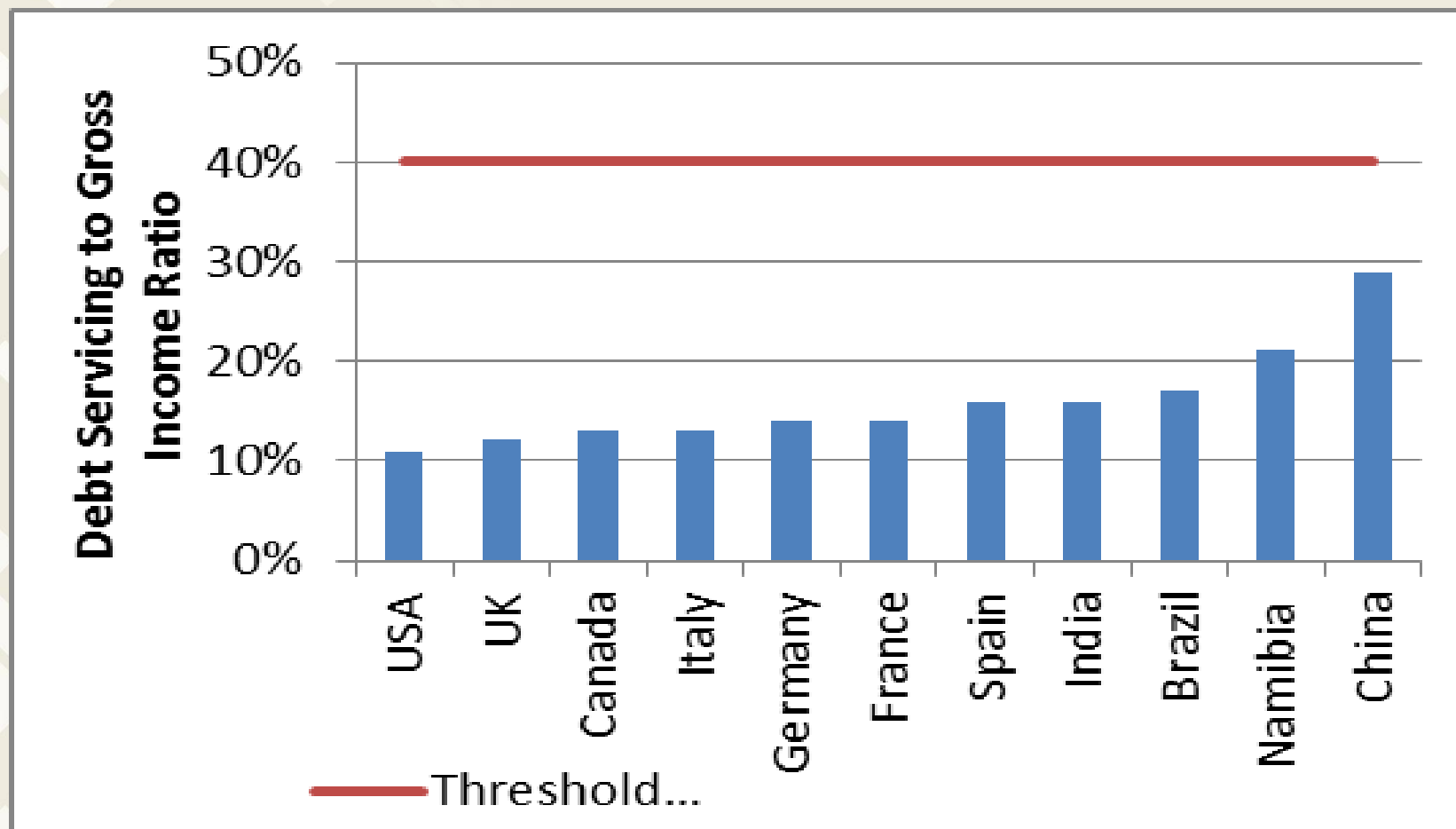


	Household debt to disposable income			Household Debt Servicing Ratio (DSR)		
UK	145%	2012	12%	2011		
Canada	136%	2012	13%	2012		
Spain	124%	2012	16%	2011		
Japan	122%	2008				
USA	112%	2012	11%	2012		
<b>Namibia</b>	<b>89%</b>	2011	<b>21%</b>	2011		
Germany	95%	2011	14%	2011		
France	93%	2008	14%	2012		
South Africa	75%	2012				
Italy	70%	2008	13%	2012		
Brazil			17%	2011		
India			16%	2011		
China			29%	2011		

# NAM & South Africa: Household debt to Disposable Income Ratio



# NAM's debt service burden is high by intl. standards



# Overall corporate debt; dismiss debt intolerance hypothesis?



N\$ Millions	2006	2007	2008	2009	2010	2011	2012
<b>Domestic</b>	42%	49%	46%	52%	47%	39%	42%
<b>Foreign</b>	58%	51%	54%	48%	53%	61%	58%
<b>Total Debt</b>	19 436	20 905	25 679	26 230	32 472	41 867	43 783
<b>YoY Change (Total)</b>	27%	8%	23%	2%	24%	29%	5%
<b>GDP (Nominal)</b>	54 028	62 081	72 946	75 070	81 120	90 835	
<b>Debt to GDP Ratio</b>	33%	32%	32%	32%	38%	44%	



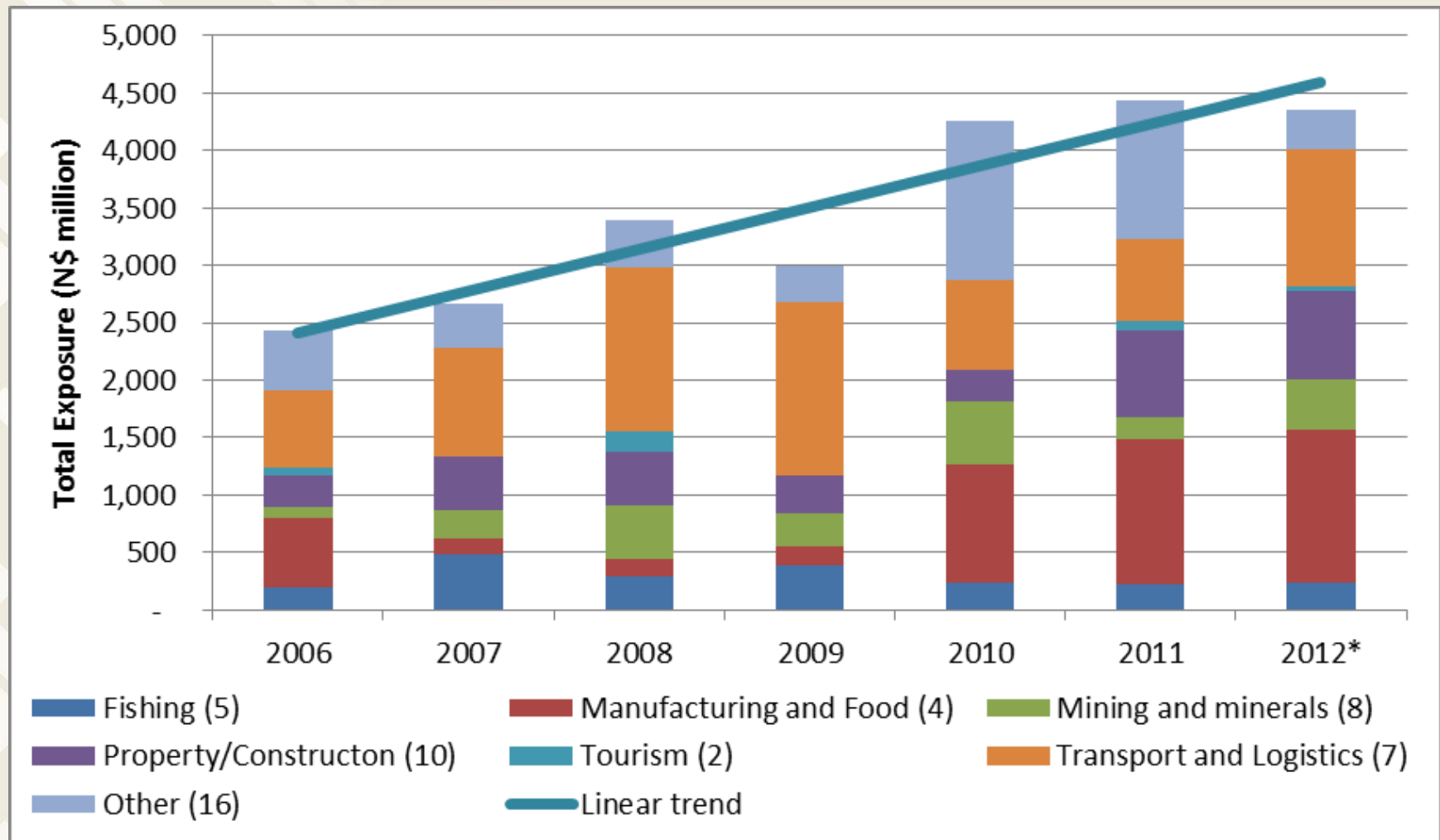
# Sizeable large exposures



	2006	2007	2008	2009	2010	2011	2011*	2012*
<b>Total Largest Exposures (LE)</b>	2 427	2 665	3 400	3 001	4 263	4 440	4 132	4 349
<b>Total PSC</b>	26 538	30 100	34 241	37 751	41 838	46 177	44 062	48 811
<b>PSC to Businesses</b>	8 148	9 976	11 210	13 155	15 013	15 876	15 909	17 550
<b>LE to PSC</b>	9.1%	8.9%	9.9%	7.9%	10.2%	9.6%	9.4%	8.9%
<b>LE to Business PSC</b>	29.8%	26.7%	30.3%	22.8%	28.4%	28.0%	26.0%	24.8%

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# Volatile large exposures (...working capital funding)



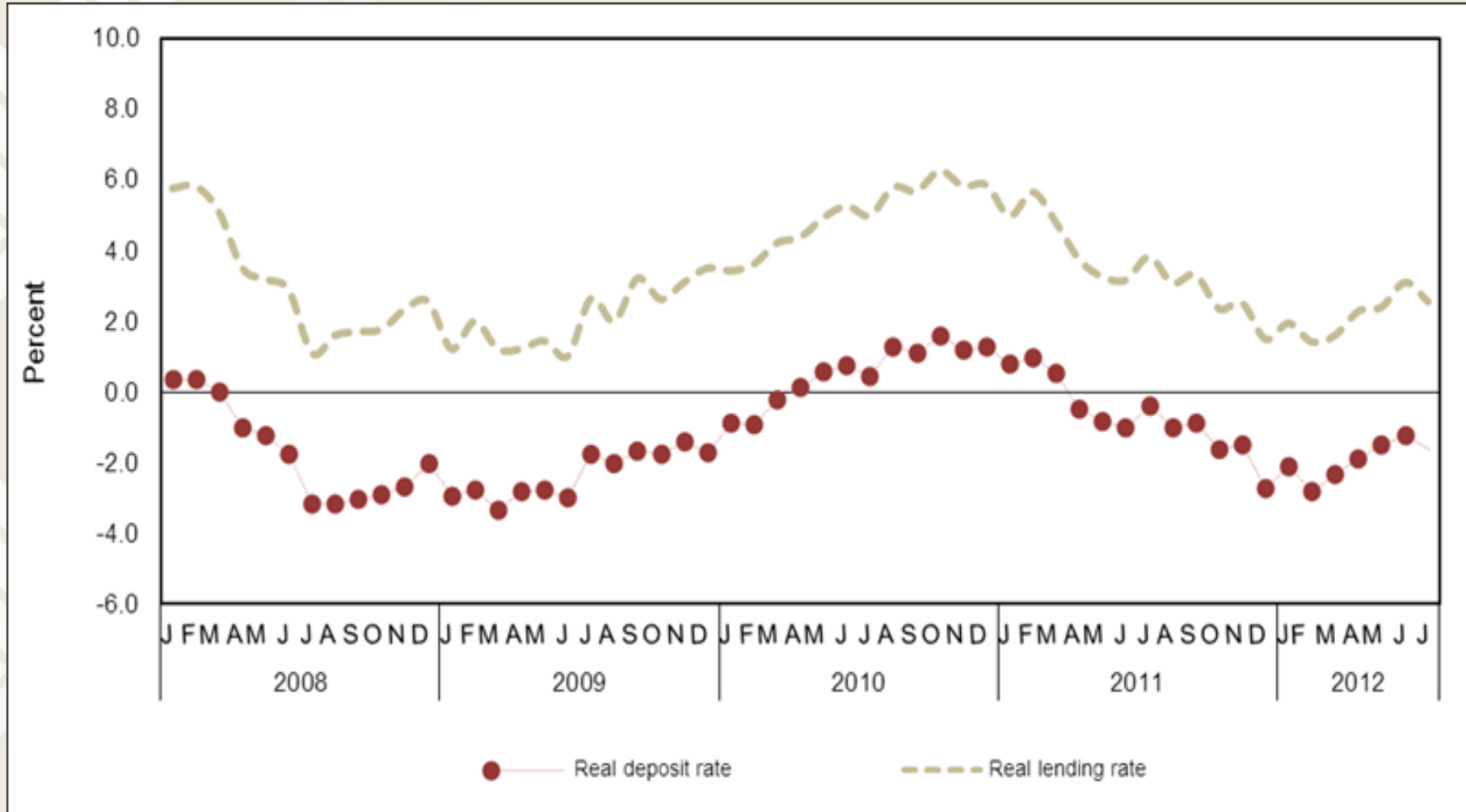
# Risks stemming from banks' balance sheets

Table x. Other Depository Corporations: Distribution of Assets and Liabilities, 2009-2012

	Dec-09	Dec-10	Dec-11	Jun-12	Aug-12
(In percent of total assets)					
Total Assets	100	100	100	100	100
Net foreign assets	19	16	13	10	10
Net claims on central bank	5	5	6	5	4
Net Domestic assets	76	79	81	86	86
Net claims on government	3	2	7	7	7
Claims on private sector	61	63	60	61	62
<i>o/w mortgage loans</i>	26	27	29	29	30
Other items net	13	14	14	18	17
(In percent of total liabilities)					
Total Liabilities	100	100	100	100	100
Transferable deposits	30	32	33	33	31
<i>o/w other nonfin corporations</i>	17	19	19	19	18
Other deposits	44	42	42	42	43
<i>o/w other nonfin corporations</i>	8	7	6	7	7
Capital & reserves	26	26	25	26	26

Source: Bank of Namibia.

# Banks' deposit rates lower than inflation



# Chance of contagion from ZA's big banks ?



- **Banking institutions in Namibia are subsidiaries of big international banking institutions located in South Africa**

# Concluding remarks



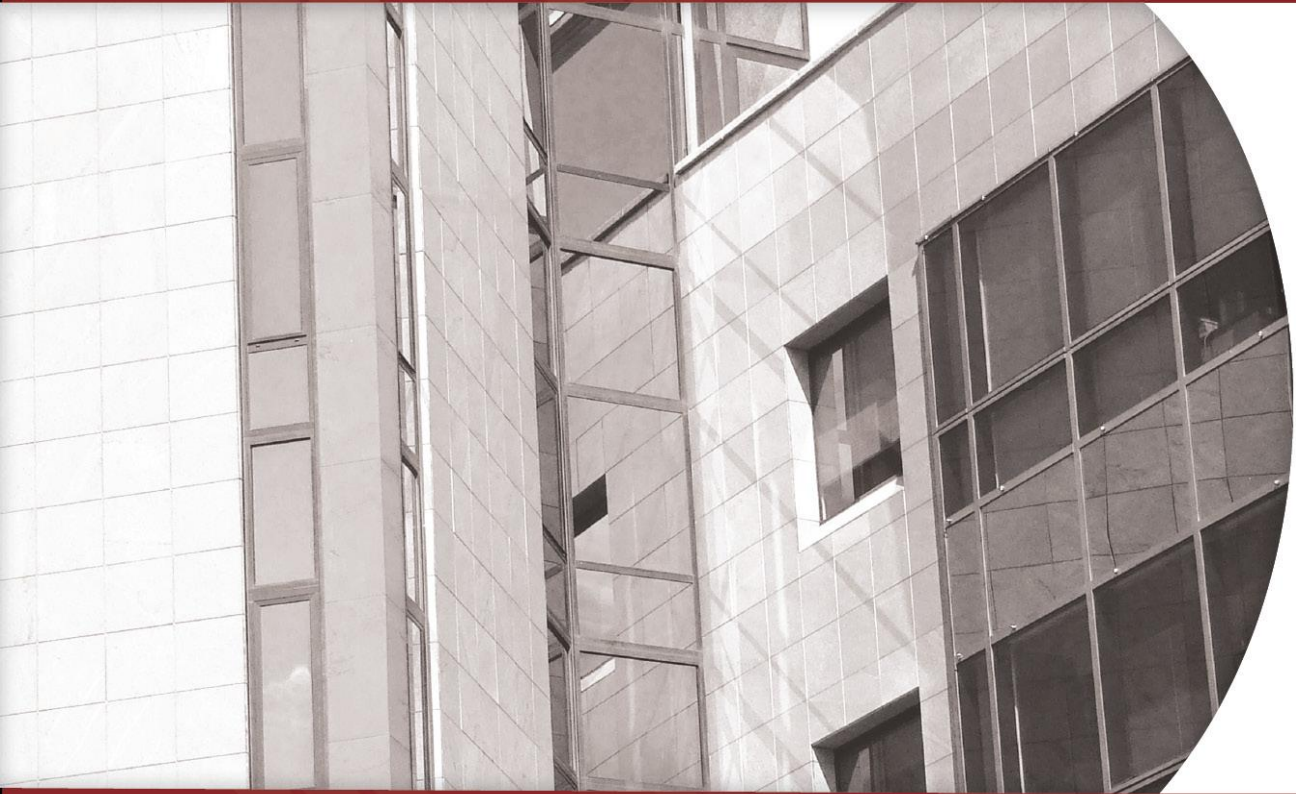
Pending issues in the analysis:

- ✓ Include nonbank financial intermediaries in the risk assessment.
- ✓ Further assess the South African connection (peg, investment rating, imported inflation, labor unrest signalling).
- ✓ Investigate current hypotheses:
  - Household debt: develop action plans for rising ratios: **stock** of debt/income; **flow** debt service/income; especially sizeable mortgage borrowing and instalment credit.
  - Corporate debt:
    - Assess whether indeed **debt intolerance issues** do not matter in a mineral economy.
  - Situation of banks:
    - Maturity **mismatch** between assets and liabilities.
    - **Local banks as suppliers of working capital** to big multinationals. Big bucks are financed from abroad; as **debt rather than equity**.
    - Large **errors and omissions in balance of payments** compilations.





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Thank you.