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AN OVERVIEW AND ANALYSIS OF THE NAMIBIAN FINANCIAL SYSTEM FOCUSING ON THE BANKING SECTOR

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Abstract. This article examines the evolution of Namibia's financial system post-independence in 1990. The structure and composition of the financial system is discussed along its contributions to employment creation and economic growth. The ownership structure of the banking sector and its overall performance is also outlined. The finding reveals that there has been a significant increase in the influence of non-bank financial intermediaries, meanwhile the dominance of the financial sector continues to shrink with mounting credit risk pressures. The financial sector's contribution to employment creation has been quite minimum and is likely to continue in the foreseeable future as developments in the artificial intelligence world accelerate. The practical policy interventions emanating from this assessment necessitate a serious consideration.

Keywords: *financial system; credit risk; banking sector; Namibia.*

Rezumat. Articolul examinează evoluția sistemului financiar al Namibiei după obținerea independenței în a. 1990. Structura și compoziția sistemului financiar sunt discutate împreună cu contribuțiile sectorului la crearea de locuri de muncă și creșterea economică. Structura de proprietate a sectorului bancar și performanța sa generală este, de asemenea, subliniată. Constatarea relevă că a existat o creștere semnificativă a influenței intermediarilor financiari nebancari, în timp ce dominația sectorului financiar continuă să se restrângă odată cu presiunile crescânde ale riscului de credit. Contribuția sectorului financiar la crearea de locuri de muncă a fost destul de minimă și este probabil să continue și în viitorul apropiat, pe măsură ce evoluțiile din lumea inteligenței artificiale se accelerează. Intervențiile practice de politică care decurg din această evaluare necesită o analiză serioasă.

Cuvinte cheie: *sistem financiar; riscul de credit; sectorul bancar; Namibia.*

1. Introduction

Namibia is a member of a currency board arrangement, the Common Monetary Area (CMA), other members being Lesotho, Eswatini and South Africa, which is the leader of the arrangement. To ensure import stability amongst member countries, the currencies are pegged on a one-to-one parity with that of the South African rand (the major trading partner to all the member countries in the CMA). This arrangement strips member states, who are subordinates of South Africa, of their ability to independently set a monetary framework of their choice. Notwithstanding, through capital restrictions and prudential requirements, member states have some limited leeway in deviating from the repo rates adopted by the South African Reserve Bank (SARB). This manoeuvrability is what has enabled the Central Bank in Namibia (Bank of Namibia (BoN)) to seldom maintain a differentiated repo rate from that of the SARB, especially when it is deemed necessary to regulate its own domestic affairs that relate to money supply and endogenously driven inflation [1].

Moreover, the CMA member states are required to maintain a minimum international reserve coverage, especially the South African rand, in order to ensure import price stability from its major trading partner – South Africa [1]. According to [2], extensive regulatory regimes have been put in place for market risk, country risk and consolidated supervision, of anti-money laundering or combatting the financing of terrorism. Furthermore, the effectiveness of the information-sharing provisions is another regulatory framework put in place with the SARB. The oversight regulation of the financial system is said to have considerably improved, owing to numerous legislations adopted in the financial sector [2]. The implementations of the upgraded bills on NAMFISA, BoN, Financial Institutions and Markets (FIM), Banking Institutions Act (BIA), Microlending, Deposit Insurance and Financial Services Adjudicator (FSA) have been established with international norms that are central in improving the regulation.

The quality of on-site supervision and the launch of risk-based supervision of banks, implemented since 2008, have over the years been of vital importance to the stability of the Namibia banking and financial system [2]. Equally important, the wide-range supervisory examination manual of the IMF plays a hand due to the challenging and severe on-site examination. Furthermore, the Prompt Corrective Action regime is an effective set of tools for addressing all forms of unsafe practices.

Considering the above, this study presents an overview of the evolution and performance of Namibia's financial system with a specific focus on the banking sector. Therefore, the study is divided into seven sections. Firstly, the study looks at the structure of Namibia's financial system. Secondly, the composition of Namibia's state-owned financial institutions is discussed. Thirdly, the composition of Namibia's Non-Banking Financial Institutions (NBFI) is presented. Fourthly, the contribution of Namibia's financial sector to GDP and employment creation. Fifthly, the paper also describes the ownership structure of Namibia's banking sector. Sixthly, a descriptive evaluation of the performance of Namibia's banking indicators is provided. Lastly, the study's conclusion is provided.

2. The structure of Namibia's financial system

Namibia has for many years been classified by the World Bank as an upper middle income with an advanced financial system as per developing countries' standards. This status has often been disputed by many Namibians, including the late President (H.E Hage Geingob) who on multiple occasions has disputed such a biased ranking and pleaded with the World Bank to downgrade it to a lower income status. The reason for this argument is predominantly due to the country's colonial history which saw the vast majority of black Namibians disposed their land. Consequently, the country has continued to suffers from huge income inequality which has placed it amongst the top five most unequal countries in the world, with a GINI coefficient index of 64.2 % as of 2019 World Development Indicators. Its financial system comprises of a Central Bank (also known as the Bank of Namibia (BoN)), private banks, state-owned financial institutions, and Non-Bank Financial Institutions (NBFI). Prior to Namibia's independence in 1990, Namibia (previously known as South West Africa) was simply a province of South Africa. As such, the functions of the central bank were predominantly performed by the South African Reserve Bank (SARB). The BoN was established in 1990 in terms of Article 128 of the Namibian constitution [3]. Nevertheless, it only managed to introduce its own currency, the Namibian Dollar (N$) in 1993.

During the early years of independence, Namibia's financial structure in terms of the total size of the financial system was strongly dominated by the banking sector [4]. However, decades later the influence of some NBFI such as the pension funds and insurance companies, become formidably dominant. In fact, from 1991 to 1995 the share of the banking sector, in relation to the total assets of the financial system gradually shrunk from 72.7% to 67.5% and further to 51.4% in 2001 (this excludes the stock exchange). However, during that same time period, the share of NBFI (total combination of pension funds, unit trusts and insurance companies) gradually rose from 23.3% to 32.5% and further to 48.6% in 2001. The increasing influence of the NBFI, if not properly managed, is likely to exacerbate the already high credit risks condition of the Namibian financial system. The percentage change in the amount of total assets for Namibia's banking sector for the period, 2020 - 2021 stood at 37.2% [5]. In contrast to the share of assets of NBFI, in 2021, 20% of its share of total assets was from the insurance companies (both long- and short-term combined) alone, whilst 57.5% was from the pension funds [6].

3. The composition of Namibia's financial institutions

The Namibian financial institution comprises of four specialised state-owned financial institutions, and nine privately-owned financial institutions. The state-owned institutions include: the Namibia Post Office (NamPost) Savings Bank - a division of NamPost Limited, the Agricultural Bank of Namibia Limited (AGRIBANK), the National Housing Enterprise Limited (NHE), and the Development Bank of Namibia Limited (DBN). On the other hand, the privately-owned institutions comprise of: Banco Privado Atlántico Europa Limited, Bank BIC Namibia Limited, Bank Windhoek Limited, First National Bank Namibia Limited, Nedbank Namibia Limited, Standard Bank Namibia Limited, Letshego Bank Namibia Limited, Trustco Bank Namibia Limited, and ABSA Ltd.

The NamPost Savings Bank provides basic savings and transactions services through the postal network and micro-loans to individuals across the country. The offices of the state-owned financial institutions are operational in all 14 regions of the country, thereby supporting the governmental objectives intended of widening the country's financial inclusion and development. With regards to farming activities, the AGRIBANK is the principal governing institution tasked with the mandate of extending financial assistance (through loans) to farmers and would-be farmers to assist them in purchasing livestock and/or any other related agricultural products, including housing finance for small-scale farmers [7].

The BoN describes the NHE as a statutory body in which the government is the sole shareholder mandated to provide/construct houses for the vast majority of citizens falling within the low and middle-income bracket [7]. Through the NHE, citizens are afforded a dignified shelter, which is a constitutional the right. The DBN, formally formed in April of 2004, has an overarching goal of contributing to the socio-economic wellbeing and economic growth [8]. The institution is also responsible of sourcing funds intended to finance some of the country's developmental agendas as outlined in various developmental documents (Vision 2023, NDPs, HHPs, etc…). The same institution is equally allowed, if necessary, to fund individuals and businesses with bankable project proposals, amongst others. The total loans and advances during the 2020/21 financial year (FY) stood at N$7.92 billion. This amount is said to be lower when compared to the N$8.47 billion registered in the preceding FY. The decline is largely attributed to the shocks that occurred in the global economy at the time.

With regards to the privately-owned institutions, of the four largest (Bank Windhoek Limited, First National Bank Namibia Limited, Nedbank Namibia Limited, and Standard Bank Namibia Limited), three of them, headquartered in South African, were estimated to account for a combined total bank asset of 98% in 2018.

Given the country's colonial history which is often cited as the reason for its extremely high GINI ratio (second highest in the world), any improvements aimed at harnessing the financial sector's contribution to employment and economic growth are greatly welcome as they are likely to invert the existing income disparity between the rich and the poor.

4. The composition of Namibia's Non-Banking Financial Institutions (NBFI)

There are quite a number of NBFI operating within the Namibian financial system. These include the pension funds, life insurers and the non-life insurers that are made up of insurance companies, microfinance institutions, medical aids, the Namibian Stock Exchange, trusts/money market funds and stockbrokers. The NBFI are believed to play a crucial intermediate role in the country's financial system by linking institutional investors to financial markets and banks.

According to the International Monetary Fund (IMF) [2], the bulk of pension funds' assets are managed by investment managers, with a total of 37% of total assets invested within Namibia, while 41% is invested in South Africa and the rest trickles to other investment destinations around the world. Furthermore, the majority of life insurance companies directly manage their own investments, with only 5% of their investments placed under the guard of investment managers. Insurance companies (life insurers and non-life insurers of both short term and long term) accounted for approximately 10% of the total assets of the Namibian financial system during the year 2001. However, according to [9]'s annual report, approximately 20% of total assets were recorded in 2021, which is a percentage lesser when compared to the records of the previous year. From 1994 to 2001, percentage share of unit trusts in terms of total financial assets rose from as little as 1%, since the formation of the first unit trust, to approximately 5.5%. By the end of the second quarter of 2022, unit trust schemes accounted for 27% of total assets per investor.

The number of asset managers and stoke brokers have continued to increase since the mid-90s, from zero to approximately 18 for asset managers and 7 stock brokers in 2001. In addition, the establishment of the Namibian Stock Exchange (NSX) in 1992 introduced regulations that required institutional investors to invest at least 35% of their assets domestically. The placement of the development capital portfolio of the Government Institutional Pension Fund (GIPF) with assets managements companies in 1994-95, were cited as some of the reasons for the rapid development of these institutions after independence.

Between the periods 1991 to 2001, the assets of pension funds averaged approximately 31.9% of the total assets of Namibia's financial system. From 2016 to 2021, approximately 55.9% of the total assets was derived from pension funds [9]. With regards to the number of institutions, the pension funds institutions increased from as little as 200 institutions at independence to about 500 in 2001. As of 2022, there were 135 pension funds registered under the NAMFISA. Currently, the pension system consists of a universal, non-contributory pension, private, and occupational schemes which covers approximately 30% of the total labour force, including the GIPF. As of 2021, the assets of the pension fund sector stood at the tune of N$212,932,000, a figure higher than the previous year which stood at approximately 180,522,000. Approximately 40% of pension fund assets are invested domestically while the remainder is split between South Africa/CMA and overseas investment destinations [2].

The insurance market in Namibia is dominated and concentrated by subsidiaries from mainly South African financial groups. This sub-sector consists of 16 life insurers, 14 general insurers and one state owned reinsurer. Assets in the insurance sector include insured pension funds products providing an explicit capital guarantee. These pension fund assets are held on the balance sheets of the life insurance companies. Long term insurance companies make up the largest share of assets under management in terms of assets under administration per source of funds. According to [9]'s annual report, total assets of long and short-term insurance companies amounted to N$73,860,000 in 2021 as compared to N$68,168,000 in the previous year. With regards to the medical aid industry, though small, it has been growing. In 2016, the industry's total assets were N$1,443,000, but by the end of the year 2021, the figure had almost doubled to the tune of N$2,287,000.

In Namibia, the unit trust market includes the Money market unit trusts which invests in treasury bills, certificate of deposits, and direct deposits with banks. The first unit trust in Namibia was only established in August 1994 by Sanlam. Since then, the sub-sector has enormously grown to include eight registered unit trust management companies by the end of 2000. These included the Old Mutual Unit Trust Management company, the Sanlam Unit Trust Management company, the Commercial Bank of Namibia Unit Trust Management company, the Standard Bank Unit Trust Management company, and Investec Namibia. The benefits of unit trust membership come from the mutual pooling of resources for investment under professional management. It is important to note that activities in these funds fluctuate with liquidity in the banking sector. This is because banks compete through increased deposit rates as their liquidity needs increase.

In relation to the stock market, the Namibian Stock Exchange (NSX) is the only licensed stock exchange entity in the country as per the stock exchange control Act (No.1 of 1985). The listed securities on the stock exchange market comprise of mostly dual-listed South African companies and primary-listed Namibian companies. The NSX records low levels of liquidity due to the buy-and-hold strategy that most investors in the country use as well as the partially insufficient instruments available. One of the reasons for investors holding on to trading instruments is due to the need of conforming to the local investment requirements. It is also important to note that there are four registered stockbrokers in Namibia that act as intermediaries between investors and the stock exchange. These institutions have risen since independence, although the services they offer are still very limited when compared to those offered by South Africa.

5. The contribution of Namibia's financial sector to GDP and employment creation

The importance of the financial sector, in terms of its contribution to GDP and employment, has continued to evolve through the years, after independence from colonialism. As seen from both Tables 1 and 2, the contributions have not always been consistently incremental, as in some years the sectors contributed little, while in others it contributed slightly more. Needless to say, in term of its contribution to GDP and employment creation, the financial sector has always been amongst the top 5 sectors (out of a total of 13 sectors) of the tertiary industry.

Table 1

Percentage contributions to GDP of the top 5 tertiary industries, 1996-2021

Tertiary industries	1996-2000	2001-2005	2006 – 2010	2011 – 2015	2016 – 2021	Avg.	Rank]
Wholesale & retail trade, repairs	8.3	10.7	10.9	11.4	10.2	8.6	[1]
Real estate & business services	8.6	9.0	8.2	8.5	5.5	6.3	[2]
Arts, entertainment, & recreation	1.4	6.9	6.1	5.7	5.5	4.3	[3]
Financial & insurance services	3.1	3.9	4.8	5.9	7.2	4.2	[4]
Transport & Storage	3.6	2.7	2.7	2.8	3.0	2.5	[5]

Source: Authors' compilation using data from the NSA and BoN
Note: The other sectors include, Hotels and restaurants; Information Communication; Professional, scientific and technical services; Administrative and support services; Public administration and defence; Education; Health; and Private household with employed persons.

Tables 1 demonstrates that the average percentage contribution to GDP by the financial sector has consistently featured the top 5 most influential sectors, in terms of its percentage contribution to GDP in the tertiary industry. More specifically, the information reveals that the financial sector ranked third during the post-independence, 1996 – 2000 years. Nonetheless, between the periods 2001 – 2005, the Arts, entertainment, and recreation sector became increasingly developed, and overtook the position of the financial sector causing it to decline into the fourth position. Between the periods, 2006 – 2021, it retained its initial position as can be observed from the reported descriptive statistics. Overall, the average percentage GDP contribution of the financial sector was calculated to be 4.2% during the periods 1996 – 2021, which caused it to rank as the fourth most contributing in the category of tertiary industries.

With respect to its employment contribution to total labour force (in Percentage), Table 2 presents a comparative analysis of the top 5 tertiary industries that contributed most to the total labour force, using the available statistics from the Namibia Statistics Agency (NSA) for the periods between 2012 to 2018.

Table 2

Employment (%) of labour force of the top 5 tertiary industries, 2012-2018

Tertiary industries	2012	2013	2014	2016	2018	Average	Rank
Wholesale & retail trade, repairs	11.9	N/A	11.6	12.1	10.7	9.3	1
Financial & insurance services	2.0	2.1	2.1	3.0	2.5	2.3	2
Transport & Storage	3.6	0.8	3.7	0.9	0.8	2.0	3
Real estate & business services	0.3	6.3	0.1	0.2	0.2	1.4	4
Arts, entertainment, & recreation	0.5	N/A	0.6	0.6	1.0	0.5	5

Source: Authors' computations using data from the NSA Labour Force Survey of 2012 - 2018. Note that the 2012 Namibia Labour Force Survey (NLFS) is the earliest survey ever conducted in Namibia, whereas the 2018 NLFS is the latest survey at the time of this study.

Based on Table 2, the average employment contribution to the total labour force by the financial sector, during the space of five years of available data point, was 2.3%. Such a contribution has caused it to rank as the second highest contributor, amongst the tertiary industries. This seems to back the recurring assertions made by several studies which argue that the financial sector plays an important social-economic role [10-12]. The evolution of the Namibian financial system is unlikely to yield any significant future employment opportunities due to the evolutions taking place in the Artificial Intelligence (AI) world. The continual advancements in AI engenders financial institutions to explore alternative cheaper ways of conducting business, whilst simultaneously maximising their profits. The automation of most aspects of their businesses that used to be mechanical to robotics, signals a significant shift that will no doubt eclipse the future employment prospects for this sector.

All in all, the financial sector's contribution to GDP growth rate has slightly increased over the year relative to other sectors within the tertiary industry. However, its contribution to employment creation, projected to decline due to advancements in AI, has since remained unchanged.

6. Ownership structure of Namibia's banking sector

Namibia's current banking system comprises of seven commercial banks, an E-bank, and a foreign bank branch. The banks include: Banco Privado Atlantico Europa Limited, Bank BIC Namibia Limited, Bank Windhoek Limited, First National Bank Namibia Limited, Nedbank Namibia Limited, Standard Bank Namibia Limited, Letshego Bank Namibia Limited, Trustco Bank Namibia Limited, and ABSA Ltd.

As a matter of fact, out of the four largest banks, three are subsidiaries of South African banks representing a combined total bank asset of 98% [2]. Banks operating with the Namibia's banking sector are subject to BoN's regulations and supervisions, despite the majority of them being externally owned. The Central Bank (BoN) is the sole issuer of money supply, and the guarantor of financial and price stability that augments economic growth, amongst other mandates [13].

7. The performance of Namibia's banking indicators

From the recession that was caused by the unfortunate COVID-19 pandemic in Namibia, the banking sector performance, though positive, has been deteriorating. On the other hand, levels of capital and liquidity continue to be well over the required amounts (in bank institutional terms). Additionally, the Namibian Financial Institution Supervisory Authority [NAMFISA][14] reported an increase in liquid assets at the tune of N$19.0 billion to N$20.1 billion from 2019 to 2020, respectively. The increase is said to have been heavily influenced by Government's payments of deferred tax payments, Value Added Tax (TAX) refunds and the corporates repatriating funds. Furthermore, there has been a slightly improvement in the loan repayments by debtors operating within the banking sector. This is evident when one observes the sluggish declines recorded by the NPL ratios. The demands for credit from businesses and households has also been slowing down, as the growth in the private sector credit extension (PSCE) was recorded to have declined from 6.8% in 2019 to 2.4% in 2021 [5].

In terms of the banking sector's balance sheet, positive growth was still recorded during the recession. In fact, NAMFISA [14] reported a 1.3% increase that amounted to N$144.0 billion at the end of 2020 from 2019. On the contrary, the net loans and advances reduced from N$101.2 billion to N$100.7 billion, during the review period. This is a further indication of a decline in the demand for credit. With regards to the liability side of the banking sector, more liabilities came from demand deposits. These deposits accounted for a rise of 51% of total funding from 47.1% and comprising of mainly wholesale deposits that are volatile and may pose a risk to the overall financial stability.

Furthermore, the [14]'s report stated that the sector's total assets rose from N$142.2 billion in 2019 to N$144.0 billion in 2019, thus signifying a 1.3% growth rate that was lower than the previous year which was 7.6%. Likewise, the increasing rate of assets failed to exceed 2.2% average rate of inflation. Moreover, during the review period (2019 - 2020), total assets declined from 71.2% to 69.1% while net loans and advances continued to record the largest share of the asset's category. On the other hand, cash and balances with banks increased by 8.8% from N$13.6 billion in 2019 to N$14.8 billion in 2020.

With regards to capital and liabilities, the [14] report indicated that non-banking institutions contributed the most in terms of funding the banking sector. The contributions consist of demand deposits, notice and fixed deposits as well as negotiable certificates of deposit. During the same review period mentioned earlier, 2020 recorded 1.6% non-bank funding unlike the 8.4% in the previous year. The non-banking deposits comprised the highest share of non-bank funds, which were largely made up of wholesale deposits. In terms of capital adequacy, the total risk-weighted capital (RWCR) slightly declined to 15.2% in 2020 from 15.3% in 2019, although it still remained above the statutory minimum of 11%. This implied that the banking sector is sufficiently capitalised due to its continuing to hold a capital position that is not below the domestic provident requirement of 11.0% for RWCR.

In 2021 the asset quality of the banking sector deteriorated as the level of non-performing loans (NPL) ratios rose to 6.4% [14]. This NPL ratio, which was considered to be very high as besides it being above the 4.0%-point limit set by the BoN, it was above the 6% trigger point, for times of crisis. The persistent rise in NPLs was attributed to factors such as the hostile economic conditions which has been exacerbated by the after-effects of the global Coronavirus pandemic of 2019 which caused a number of businesses to either scale down their operations or completely shut down. The average rate of NPL for the period 1996 - 2021 was 3.5%. An earlier study by Nikolaidou and Vogiazas [15], a comparative graphical presentation of the NPL for a few selected Sub-Saharan African (SSA) countries, in which Namibia was also included, together with countries of the Central East and South East European (CESEE) regions depicts some interesting facts that are worth noting (see Figure 1).

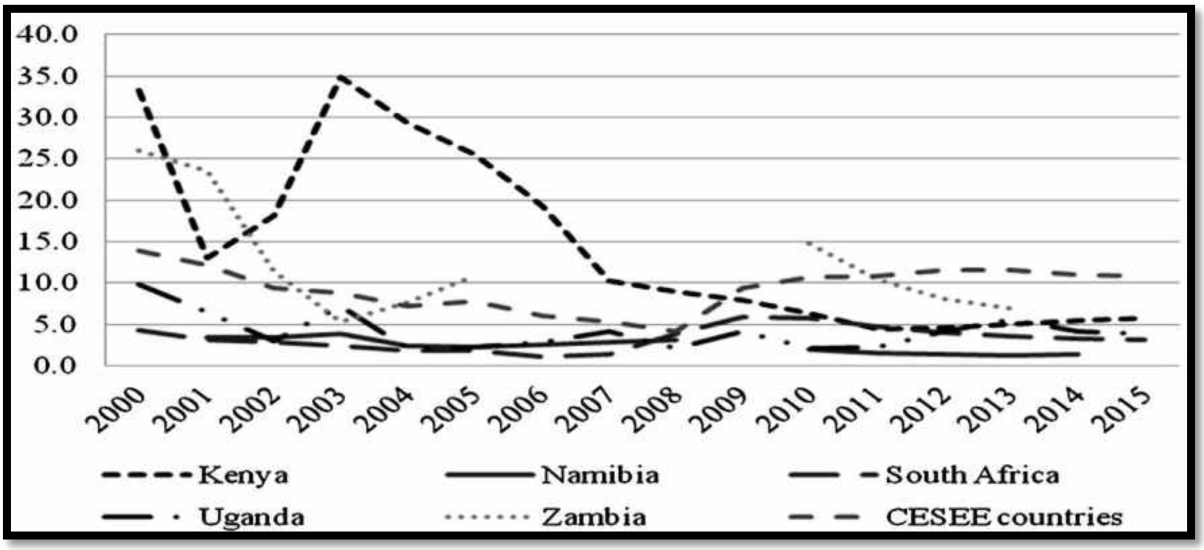

Figure 1. Ratio of NPL for a select SSA and the CESEE countries, 2000 – 2015.
Source: Adopted from Nikolaidou and Vogiazas [15] using World Development Indicators (WDI).

Even though the NPL information depicted in Figure 1 may not necessarily be speaking to the current phenomenon on NPL of the referred countries, as it contains only information dating the periods 2000 - 2015, the information is still relevant for comparison purposes. As can be seen, the ratio of NPL levels for Kenya and Zambia were quite volatile, as characterised by high spikes, when compared to those of their counterparts in the SSA region. In reference to Namibia, it was reported to have had the lowest average rates of NPL estimated at 2.4%, followed by South Africa with a 3.3% and Uganda with an average of 4.2%.

With regards to the after-tax profits, the banking sector recorded a 33.4% reduction of N$1.8 billion in 2020 compared to the amount recorded in 2019 that was N$2.7 billion [14]. During this same period, the net interest income saw a huge percentage fall of 17.3% in line with the lower repo rate from Bank of Namibia along with decreasing interest by commercial banks. Conversely, the same report under that other operating income had risen by N$63 million whilst accumulating a total of 3.7 billion that saw a huge positive contribution to the rise in total income.

The loan to deposit ratio (LDR) of the Namibian banking sector has come under pressure over the years, thereby causing banks to explore alternative avenues of funding other than the conventional deposits. In terms of the cost efficiency ratio, it has over the years fluctuated downwards, with the ratio of loans to assets (LTA) not having any particular trend pattern as can be seen in Figure 2.

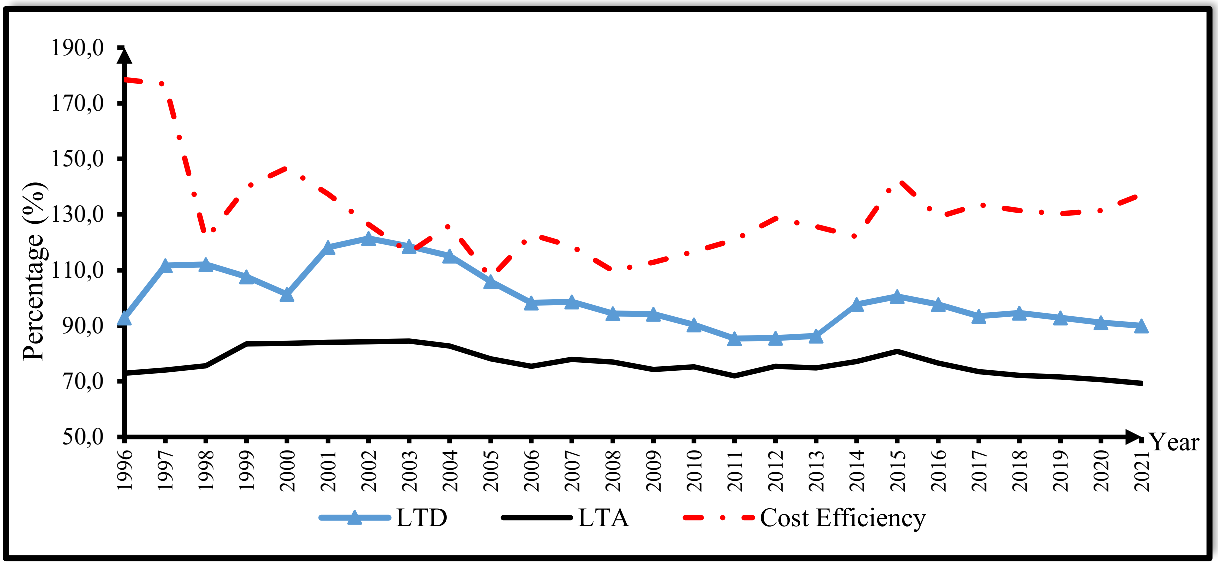

Figure 2. Liquidity and cost efficiency of Namibia's banking sector, 1996Q1 - 2021Q4.
Source: Authors' compilation using data from BoN.

Based on Figure 2, the graphical presentation of the LDR for Namibia's banking sector averaged 97% from 1996 to 2021. The highest ratio (118.5%) was in 2003 whilst the lowest (85.4%) was recorded in 2011. The percentage of LTA shows that it has always been above 70%. The average rate for cost efficiency ratio stood at 130.4%. The peak of this ratio was recorded in 1996, whilst the lowest was registered in 2005.

With regards to mortgages, depicted in Figure 3, more than one-half of bank loans are directed to commercial and residential mortgages. Above all, individuals constantly dominate the total private sector credit. In 1995, individuals' total borrowing was recorded to approaching N$4.2 billion. By the end of the year 2001, the amount had almost doubled to N$8.2 billion. During the same period, the credit extension to the business sector had doubled from as little as N$2 billion to N$4.5 billion. However, the share to total private sector credit to individuals accounted for approximately 65% whilst the remaining 35% was extended to the business sector.

According to [14] the year 2020 recorded a higher mortgage loan percentage of 52.3% higher than its previous year (51.3% of total lending) on the banking sector balance sheet. This is not surprising because over the years, mortgage loans have dominated the category of loans and advances. Matter of fact, the share of mortgage as a percentage of total loans in the early 90s was merely 30%. The combination of the residential and commercial mortgage loans has continued to make up the largest component of the total loans and advances category, registering over 50% in both 2020 and 2021 [13].

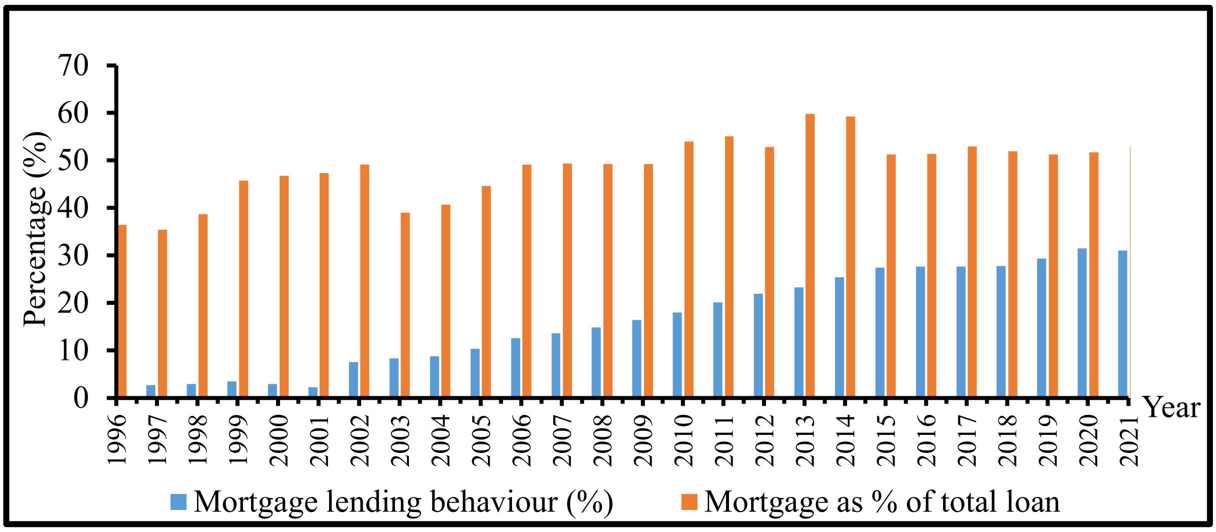

Figure 3. Mortgage lending behaviour (%) and mortgage to total loans (%), 1996-2021.
Source: Authors' compilation using data from BoN.

Regarding the year-on-year growths in the Namibia's banking sector assets, the growth rate was recorded to be below the average inflation rate of 3.6% registered in 2021. Nevertheless, the banking sector continues to make some positive strides as it has proven to be resilient amidst the challenging economic conditions facing the country.

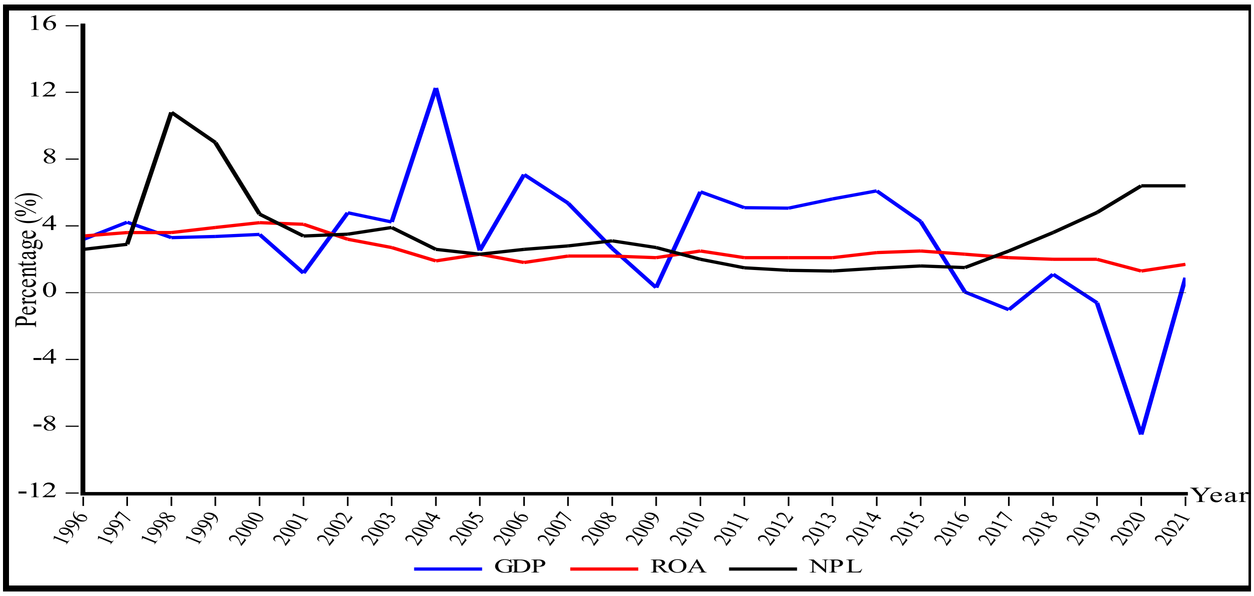

Figure 4. Percentage GDP growth rate, ROA and NPL, 1996Q1 - 2021Q4
Source: Authors' compilation using data from BoN.

Figure 3 illustrates the dynamics in the percentage of mortgage lending behaviour and mortgage as a percentage of total loans between the periods under review.

The data presented in Figure 3 indicates that the ratio of mortgage lending behaviour entered a double-digit zone beginning in 2005 up until the end of the study period. The share of mortgage as a percentage of total private loans averaged at 48.7% for the period under review. The highest mortgage as percentage of total loans (59.8%) was recorded in 2013, with 1997 being the year in which it recorded the lowest (35.4%). The relatedness between the percentage growth rate of the economy, return on asset (ROA) and non-performing loans (NPL) for the period 1996 - 2021 is presented on Figure 4.

Based on Figure 4, for the most part, the ratio of NPL has always hovered above the banking sector's ROA. This is not conducive for the banking sector in general as it ends up eating on their profit margins and may lead to bankruptcy if care is not taken. With regards to how the ratio of NPL relates to economic growth, except for the period 2016 -2021, it is not quite possible to tell without empirically investigating it, which is beyond the scope of this study. All in all, the rate of GDP growth appears to be very volatile, followed by the ratios of NPL and ROA, respectively.

8. Conclusion

This study explored the evolution of the Namibian financial system post-independence in 1990. The findings reveal that there has been a significant increase in the influence of non-bank financial intermediaries, meanwhile the dominance of the financial sector has continued to shrink. Moreover, Namibia's credit risk has been rising, exacerbated by the advent of the COVID19 pandemic. The contribution of the financial sector to employment creation, has been quite minimum and is expected be so due to the advance developments taking place in the artificial intelligence world. Given that the banks operating in the Namibian banking sector space are predominantly foreign owned, the BoN and NAMFISA have a crucial supervisory and legislative role of ensuring that there is stability in the banking and financial system. Beyond these basic mandates, the same institutions should also help citizens to guard against the exploitative behaviours of banking institutions. This can be achieved by ensuring that these profit driven institutions do not unfairly fix higher interest rates, as it is in most cases, and charge citizen hefty bank charges to make them earn abnormal profits. Government could intervene by setting a ceiling on the interest rates, thereby preventing citizens from being unfairly charged and ripped off.

Conflicts of Interest: The authors declare no conflict of interest.

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