

Namibia

Banking Institutions Act, 1998

Determination on policy changes in response to economic and financial stability challenges, following the fallout of the Covid-19 Pandemic (BID-33)

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Table of Contents

Determination on policy changes in response to economic and financial stability challenges, following the fallout of the Covid-19 Pandemic (BID-33)	3
General Notice 127 of 2020	3
1. Objective	3
2. Background	3
3. Policy and regulatory changes	4
4. Effective date	5



Republic of Namibia
Annotated Statutes

Banking Institutions Act, 1998

**Determination on policy changes in response to economic
and financial stability challenges, following the fallout of
the Covid-19 Pandemic (BID-33)**

General Notice 127 of 2020

Published in [Government Gazette no. 7166](#) on 1 April 2020

Assented to on 30 March 2020

Commenced on 1 April 2020

[Up to date as at 23 April 2020]

In my capacity as Deputy Governor of the Bank of Namibia, and under the powers vested in the Bank by virtue of section 71(3) of the Banking Institutions Act, 1998 (Act [No. 2 of 1998](#)) as amended, I hereby issue this Determination on policy changes in response to economic and financial stability challenges, following the fallout of the COVID-19 Pandemic (BID-33).

E. Unguta

Deputy Governor

Bank of Namibia

1. Objective

This Determination is issued to provide policy and regulatory changes amid economic challenges posed by COVID-19 pandemic in Namibia.

2. Background

Over the past three years, Namibia was faced with an economic recession, which was aggravated by contractions in the agriculture, construction and mining industries. Most recently, the outbreak of the COVID-19 pandemic has had a major impact on the global economy resulting in a slowdown in economic activity worldwide and major disruptions in the global supply chains.

The effect of the current state of the local and global economy put financial strain on local industries, corporates, small businesses and individuals, and ultimately on banking institutions that have exposures to affected sectors and individuals. In consideration of the adverse effect of the drought and COVID-19 and to mitigate the long-term impact thereof on the banking sector, the Bank devised strategies to provide some relief to the banking institutions and their customers. Therefore, the Bank resolved to relax certain regulatory requirements to provide relief to banking institutions to deal with impaired loans as well as to continue lending to the real economy and stimulate economic growth.

The regulatory changes are explained hereunder and are valid for a period of two (2) years, or until revoked in writing by the Bank.

3. Policy and regulatory changes

3.1 Credit policy measures

(a) Loan repayment moratorium

In accordance with the Determination on Asset Classification the Bank granted relief to banking institutions for capital payment moratorium where a holiday is allowed on the principal amount for a period ranging from six (6) months up to a period, but not exceeding 24 months (two years) based on thorough assessment of economic and financial condition of individual borrowers.

During the repayment holiday period, interest maybe capitalized, on condition that a reduced interest rate shall apply during the repayment holiday period. This is necessary to maintain a no-borrower-worse-off principle to prevent the accumulation of interest amounts and avoid borrowers being placed in a worse-off position at the end of the moratorium period. The interest rate can revert back to the applicable interest rate after the repayment holiday.

It would be required that, before the granting of the repayment holiday for loans and advances that are already classified as non-performing, the loan should retain the same classification and provisioning status over the moratorium period. A change of classification and provisioning status can only be made when new terms are established and conditions of reclassification to accrual status are agreed and both the conditions of the Determination on Asset Classification and Provisioning on the expected full repayment of interest and a sustained record of performance is satisfied.

(b) Write Offs under the Loss Category

The Bank agreed to amend the Determination on Asset Classification and Provisioning to lengthen the duration or period before loans should be written off. In this regard, it was decided that any asset, which is overdue 360 days, or more shall be classified as Loss and shall be written-off within 3 years after being classified as a "Loss" against the provision for loan losses account unless such loan is:

- (i) well secured;
- (ii) in the process of collection; and
- (iii) the time needed to realize collateral does not exceed three years after judgement.

This change will substantially lengthen the process and the value of the collateral may deteriorate over the period. The Bank has resolved that, when an asset is classified as Loss, the banking institution shall apply a haircut of 25 percent on the value of the collateral. In the event that the asset remains in loss category for 1 year from date of classification as Loss, a haircut of 50 percent shall apply; for 2 years from date of classification as Loss, a haircut of 75 percent shall apply; 3 years from the date of classification as Loss a 100 percent haircut on the value of the collateral shall apply.

3.2 Liquidity relief measures

The Bank anticipates that the current economic environment would have an impact of the limits as

outlined in the Determination of Liquidity Risk Management. It is expected that as affected customers will default on their loan obligations, or as they may be given repayment holidays, the cash inflow of banking institutions will become distorted and decrease, and the gap between inflows and outflows will widen.

Therefore, the Bank decided to relax the two Business-as-Usual maturity mismatch limits required in terms of the Determination on Minimum Liquid Assets (BID-6) for the next 6 months and require banking institutions outflows in the (0 to 7 days) time bands to exceed their inflows by only the amount equivalent to unencumbered liquid assets buffer, which is the portion above the 10 percent minimum liquid assets requirement held during that period. This entails that banks holding higher liquid asset buffers can be allowed to have wider mismatches as opposed to banking institutions with smaller buffers. In addition, for the (8 to 30 days) time band, the Boards of banking institutions may decide and set their own limit.

3.3 Capital conservation buffer

To further support banking institutions supplying credit to the economy, the Bank has reduced the Capital Conservation Buffer rate to 0 percent for a period of at least 24 months. This capital conservation buffer enables Domestic Systemically Important Banks to use the capital they have built up during good times, to use during times of distress.

The release of the buffer is to allow banking institutions to boost an existing distressing economy by lending to the most vulnerable economic sectors.

3.4 Concentration risk limit / single borrower limits

The Bank decided to postpone the introduction of the limit in respect of the total exposures outstanding at any time to a single person or a group of related persons in terms of the Determination on Limits on Exposures to Single Borrowers, Large Exposures and Concentration Risk (BID-4), which is currently set at 25 percent since December 2019, where the limit was 30 percent of a bank's capital funds before. In postponing the effective date of implementation of the 25 percent single borrower limit, banking institutions will be allowed further scope in lending to the most vulnerable sectors during these challenging times.

4. Effective date

This Determination comes into effect on the date of the publication in the *Gazette*.

Questions relating to this Determination should be addressed to:

Director: Romeo Nel

Banking Supervision Department

Bank of Namibia

Tel: +264 61 283 5040/1