Date: 22 July 2025

Attention: News Editor

Ref: 9/6/2

FOR IMMEDIATE RELEASE

THE NAMIBIAN FINANCIAL SYSTEM REMAINS STABLE, SOUND AND RESILIENT, AMIDST HEIGHTENED GLOBAL MACROFINANCIAL UNCERTAINTIES.

The Macroprudential Oversight Committee (MOC)[1] of the Bank of Namibia (the Bank) held its first meeting of the year on the 21st of July 2025, to assess potential risks and vulnerabilities in the financial system and its overall impact on financial stability. Based on a thorough assessment of global and domestic macro-financial developments, the Committee found that the domestic financial system continues to demonstrate resilience. Both the banking and non-banking financial institutions sectors remained sound and well capitalised with sufficient level of capital and liquidity buffers to absorb any potential losses. In addition, the payment infrastructure and operations remained efficient. Complementing the ongoing microprudential regulations, the MOC has made notable progress in enhancing the resilience of the banking sector and addressing vulnerabilities in the property market through targeted macroprudential measures. Going forward, the recent monetary and fiscal policy easing measures, alongside the existing regulatory initiatives, are expected to support the stability of the financial sector. The MOC reaffirms its commitment to closely monitor both the global and domestic financial stability risks that could impact and undermine the soundness of the Namibian financial system.

RECENT FINANCIAL STABILITY DEVELOPMENTS

The Bank's MOC, at its first meeting of the year held on the 21st of July 2025, conducted a comprehensive assessment of both global and domestic financial stability, with a specific focus on the potential vulnerabilities within the Namibian financial system.

1. **Despite heightened geopolitical tensions and uncertainties, the global economy remained resilient, although risks to the outlook are tilted to the**

[1] The Bank of Namibia Act 1 of 2020 provides the Bank of Namibia with the responsibility of macroprudential oversight and the coordination of activities to safeguard the financial stability. The Macroprudential Oversight Committee (MOC), an internal committee at the Bank, was established to support the Bank in implementing the macroprudential mandate and exercise the macroprudential decision-making powers entrusted to the Bank.

£U

downside. Since the last MOC meeting in December 2024, risks to global financial stability have risen sharply on the back of escalating trade tensions and growing geopolitical tensions. Despite this, global financial conditions remained accommodative during the period under review, supported by an easing monetary policy stance by major central banks as inflation eased. Going forward, the global economy is projected to slow to 2.8 percent and 3.0 percent in 2025 and 2026, respectively.

2. **Despite ongoing global headwinds, the domestic economy has demonstrated resilience during the first quarter of 2025.** Namibia's real GDP grew by 2.7 percent in the first quarter of 2025, albeit lower than the 4.8 percent growth recorded in the same period last year. This was mainly due to growth recorded across sectors such as mining, electricity generation, wholesale and retail trade, tourism, communication, and transport. Overall real GDP growth is projected to moderate to 3.5 percent in 2025, from 3.7 percent recorded in 2024. Downside risks to the outlook include heightened risks from persistent global uncertainty, such as trade tensions, geopolitical disruptions, and unpredictable commodity prices. Domestically, factors such as water supply disruption at coastal towns, and animal disease outbreaks, as well as slow execution of the development budget, may continue to pose downside risks to growth.

3. **The banking sector remained sound, well capitalised, and liquid during the first quarter of 2025, with notable improvement in asset quality.** The banking sector's total assets declined by 2.1 percent to N$182.7 billion during the first quarter of 2025, mainly due to a significant decline in cash and balances, primarily because of dividend payouts. The liquidity ratio stood at 20.9 percent during the review period, compared to 19.7 percent observed in the preceding period mainly attributed to higher investments in securities. In terms of profitability, both the return on equity and return on assets declined on a quarterly basis to 19.6 percent and 2.5 percent, from 21.9 percent and 2.7 percent, respectively. This is mostly ascribed to a decline in total income because of weaker fee-based income and a reduction in interest earnings amid a falling interest rate environment. Both the Tier 1 and Total risk-weighted capital ratios were lower during the first quarter of 2025; mainly due to the increase in risk-weighted assets, coupled with a decline in total eligible capital. Despite this decline, the level of capital remained above the prudential requirement. The non-performing loans (NPL) ratio continued to improve during the first quarter of 2025, particularly driven by a notable reduction in mortgage NPLs, supported by

E.U

write-offs, recoveries, and the growth in total loans and advances. Notwithstanding the growth of the latter, the banks have sufficient provisions and adequate capital to absorb potential credit losses.

4. **The non-bank financial institutions (NBFI) subsector remained sound and resilient during the first quarter of 2025, despite global uncertainties impacting equity markets and volatility.** During the first quarter of 2025, the NBFI's assets expanded by 12.8 percent year-on-year, reaching N$481.6 billion in March 2025, supported by positive financial market performance. Notably, both the retirement funds and long-term insurance subsectors recorded investment returns well above inflation. The positive financial market performance, coupled with steady demand, contributed to these subsectors maintaining sound capital reserves and thus remaining solvent during the first quarter of 2025. Benefits paid continued exceeding contributions received, signifying the maturity level of liabilities in the retirement funds subsector. Investment income is expected to continue absorbing the contributions-benefits shortfall, allaying any immediate concerns. In this regard, concerted efforts are needed to adopt measures that would address this shortfall to avoid negative repercussions and sustainability challenges in the industry. Furthermore, the collective investment schemes subsector continued to play a crucial role in the Namibian economy by maintaining a significant source of liquidity.

5. **Risks in the Namibian property market remained well contained during the review period.** The key vulnerabilities persist, including the relatively subdued mortgage credit demand compared to historical averages, and the lingering impact of earlier elevated interest rates. Moreover, the house price index and price-to-rent ratio continue to be elevated, while growth in the rental price index and rental yields remain stable. Despite ongoing vulnerabilities, the property market is expected to benefit from the supportive monetary and fiscal policy measures, along with the current regulatory efforts aimed at stimulating the sector.

6. **On the systemic important financial market infrastructure, Namibia's interbank and settlement system (NISS) operated efficiently during the period under review.** Settlement and operational risks within the NISS remained well contained during the period under review. This is mainly due to the NISS operating without disruptions, as well as the bulk of the payment obligations settling within the earlier settlement windows, thus deterring settlement risk.

EU

MACROPRUDENTIAL POLICY DEVELOPMENTS

7. **The MOC continues to make significant progress in enhancing the resilience of the banking sector and addressing vulnerabilities in the property market.** To enhance banking sector resilience, the Bank advanced its preparations and consultations with industry regarding the countercyclical capital buffer, ensuring transparency and a comprehensive understanding of its implementation. To further strengthen the macroprudential policy framework, the MOC approved the Countercyclical Loan-to-Value (CcLTV) that would eventually replace the existing and unadjustable constant Loan-to-Value (LTV) regulation to its toolkit to better manage property market risks. The CcLTV regulation is viewed to be more robust and would reduce systemic risk caused by excessive credit growth and financial sector procyclicality timely and effectively. In this regard, the Bank will commence work on the appropriate implementation framework of the CcLTV regulation.

MACROPRUDENTIAL POLICY STANCE

8. **Following its assessment, the MOC concluded that the financial system remains sound, stable and resilient despite the prevailing macroeconomic conditions.** The current active macroprudential policy tools, alongside existing microprudential measures and ongoing risk assessments, are considered sufficient for the current macro-financial environment. Accordingly, the Committee has determined that no additional macroprudential policy intervention is required at this stage. The MOC will continue to closely monitor both the global and domestic economic and financial conditions and stand ready to deploy appropriate macroprudential policy measures should conditions warrant a policy response.

Issued by:

Mr. Ebson Uanguta
DEPUTY GOVERNOR