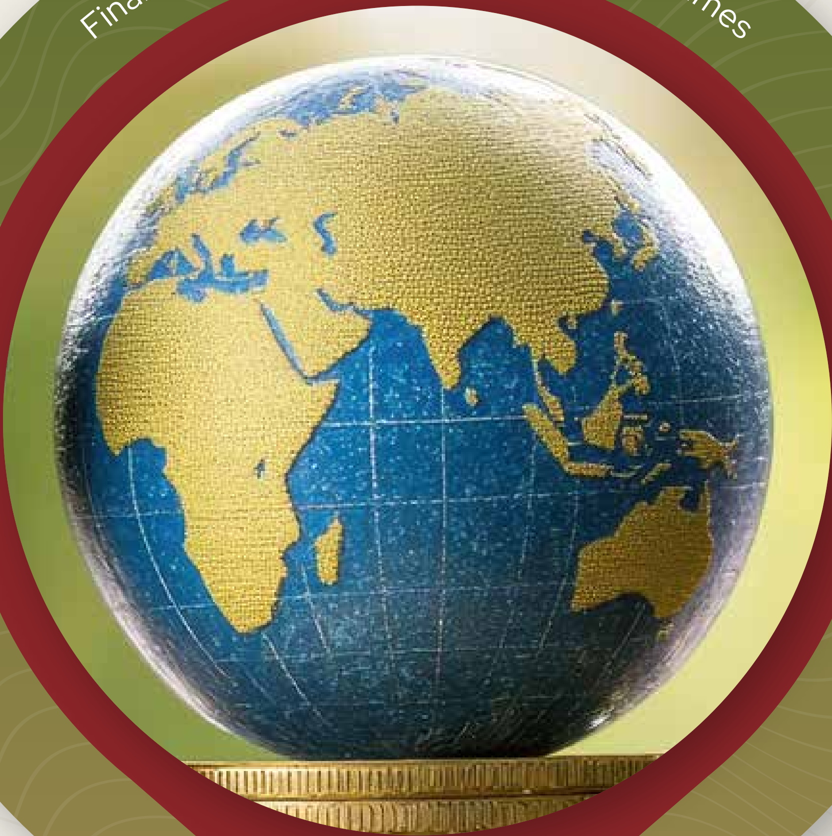
Financial System Resilience in Uncertain Times



APRIL 2026

FINANCIAL STABILITY REPORT

Bank of Namibia

NAMFISA
NAMIBIA FINANCIAL
INSTITUTIONS SUPERVISORY AUTHORITY

Preface

The purpose of this financial stability report is to identify risks and vulnerabilities in the financial system, assess the system's resilience to domestic and external shocks, and present recommended policy responses to the risks identified. Thus, such reports inform interested parties about the soundness of the financial system and actions being taken by the country's regulators and government to mitigate the identified risks. In this role, a financial stability report also functions as a communication tool.

Financial system stability is defined as the resilience of a financial system to internal and external shocks, be they economic, financial, political, or otherwise. Financial system stability can also be described as the absence of significant macroeconomic disruptions in the system of financial transactions between households, corporates, and financial institutions.

The financial system in Namibia consists of financial markets, instruments, institutions, and infrastructure. The regulatory structure, while not strictly a part of the financial system, plays an important role in regulating and monitoring the system. Chapter 6 of the Bank of Namibia Act 1 of 2020 gives Namibia's central bank the explicit mandate of macroprudential oversight and of coordinating activities to safeguard financial stability in the country. The main functions of the Macroprudential Oversight Committee include consulting with the Namibia Financial Institutions Supervisory Authority (NAMFISA) and the Ministry of Finance (MoF) to ensure that policies are in place to manage financial stability and to foresee and counter crises that could impact the entire financial system. The stability of Namibia's financial system is critical, as it provides important services to households, corporates, and the real economy.

The contents of this financial stability report are reviewed and, if found satisfactory, approved by the Financial System Stability Committee. This Committee was established to monitor risks affecting the financial system and to provide advice and make recommendations to the Bank of Namibia (BoN). The Committee also acts as a liaison between the MoF, NAMFISA, and the BoN on matters related to Namibia's financial stability.

Members of the Financial System Stability Committee

Bank of Namibia

- Governor (Chairperson)
- Deputy Governors
- Director: Financial Stability and Macroprudential Oversight
- Technical Advisor to the Governor

Namibia Financial Institutions Supervisory Authority

- Chief Executive Officer (CEO) (Deputy Chairperson)
- Deputy CEO: Market Conduct and Operations
- Deputy CEO: Prudential Supervision
- General Manager: Research, Policy and Statistics

Ministry of Finance

- Director: Economic Policy Advisory Services (Non-voting member)

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Bank of Namibia

Vision

To be a leading central bank committed to a prosperous Namibia.

Mission

To support sustainable economic development through effective monetary policy and an inclusive and stable financial system for the benefit of all Namibians.

Values

- Act with integrity
- Lead through innovation
- We care
- Open engagement
- Performance excellence
- Embrace diversity

NAMFISA

Vision

To have a safe, stable and fair financial system contributing to the economic development of Namibia in which consumers are protected.

Mission

To regulate and supervise financial institutions and financial intermediaries to foster a stable, fair non-banking financial sector and to promote consumer protection and provide sound advice to the Minister of Finance.

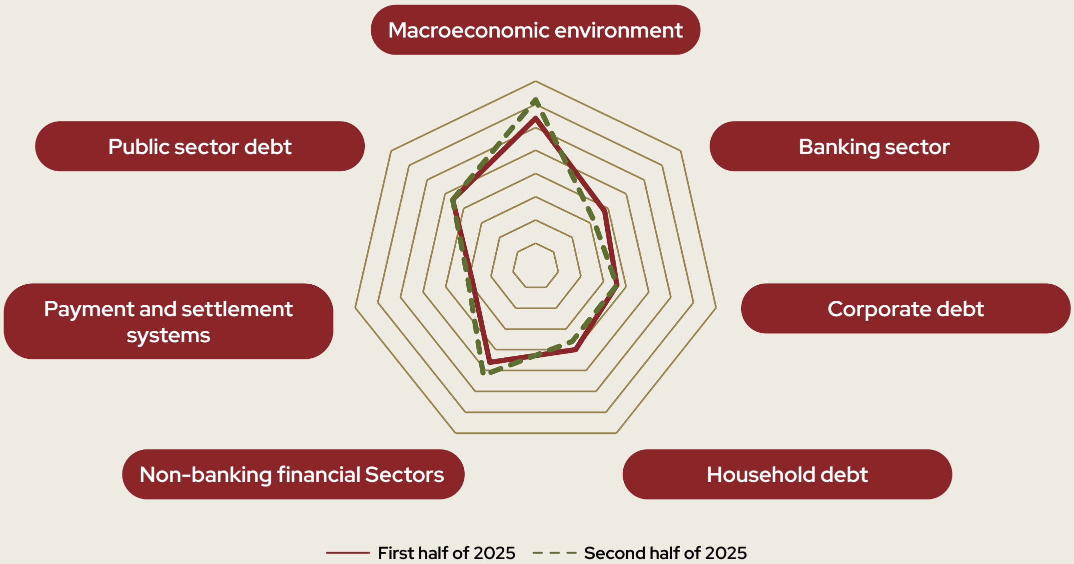
Values

- We are committed to teamwork
- We are passionate about service
- We act with integrity
- We are accountable
- We are agile

FINANCIAL STABILITY KEY HIGHLIGHTS

FINANCIAL STABILITY KEY HIGHLIGHTS

Financial stability risks remained broadly contained, although vulnerabilities stemming from global economic uncertainty persisted



Idiosyncratic Risks

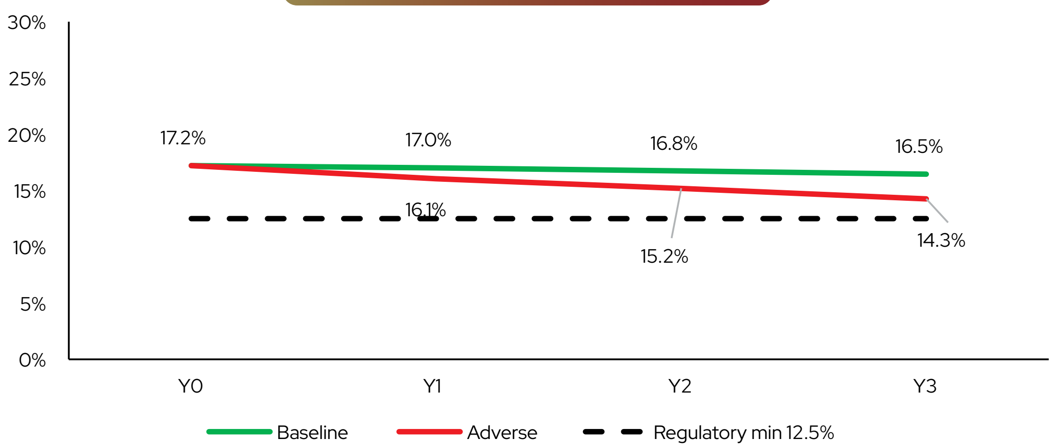
There is a high probability that cyber risk may materialise during 2026.

Since Namibia submitted its fourth progress report to the FATF in November 2025, all 13 deficiencies are remediated.

Risk emanating from climate change remained moderate with a low probability of impacting the financial system.

Risks associated with the sovereign–financial nexus have increased, reflecting the growing interdependence between the sovereign and the financial sector.

Stress Testing



- The stress test results indicate that the Namibian banking sector remains resilient, to severe but plausible macro-financial shocks.

Banking sector

LCR

169.0%
Declined
145.6%

CAR

18.1%
Declined
17.3%

ROE

20.2%
Increased
21.5%

ROA

2.6%
Increased
2.8%

NPL

5.1%
Declined
4.3%

The banking sector remained liquid, well-capitalised and profitable, with notable improvements in asset quality in the second half of 2025.

NBFI sector

The NBFI assets expanded by **16.6%** to **N$552.8 billion**

Funding position from **101.1%** to **101.4%**

Solvency position from **117.0%** to **119.9%**

This performance demonstrates the sector's resilience despite external macroeconomic headwinds.

Payments infrastructure and regulatory developments

The **NISS** recorded a **99.56%** availability rate.

This is slightly below the threshold of 99.90%, due to system migration activities.

Macroprudential policy stance

To strengthen the macroprudential policy framework, the Macroprudential Oversight Committee (MOC) approved the countercyclical loan-to-value regulation that would eventually replace the existing loan-to-value regulation.

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Abbreviations

AEs	Advanced Economies
AGOA	African Growth and Opportunity Act
AI	Artificial Intelligence
AML	Anti-Money Laundering
AUM	Assets Under Management
BoN	Bank of Namibia
CAR	Capital Adequacy Ratio
CCyB	Countercyclical Capital Buffer
CcLTV	Countercyclical Loan-To-Value
CFT	Combating the Financing of Terrorism
CIS	Collective Investment Scheme
CMA	Common Monetary Area
CPF	Combating Proliferation Financing
Covid-19	Coronavirus Disease 2019
DBBST	Dynamic Bank Balance Sheet Tool
DSIB	Domestic Systemically Important Bank
ECB	European Central Bank
EFT	Electronic Funds Transfer
EMDEs	Emerging Market and Developing Economies
FATF	Financial Action Task Force
FSR	Financial Stability Report
FSSC	Financial System Stability Committee
FY	Fiscal Year
GaR	Growth-at-Risk
GDP	Gross Domestic Product
IMF	International Monetary Fund
IQR	Inter-Quartile Range
ISTM	Integrated Stress Testing Model
ISO	International Organization for Standardization
JSE	Johannesburg Stock Exchange
LCR	Liquidity Coverage Ratio
LTI	Long-Term Insurance
LTV	Loan-To-Value (Ratio)
MOC	Macroprudential Oversight Committee
MPC	Monetary Policy Committee
MTEF	Medium-Term Expenditure Framework
NAD	Namibia Dollar
NAMFISA	Namibia Financial Institutions Supervisory Authority

Abbreviations

NBFI	Non-Bank Financial Institution
NISS	Namibia Interbank Settlement System
NPL	Non-Performing Loan
NPS	National Payment System
NSFR	Net Stable Funding Ratio
NSX	Namibia Securities Exchange
OECD	Organisation for Economic Co-Operation and Development
RWCR	Risk-Weighted Capital Ratio
S&P	Standard and Poor's Global Credit Ratings
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADC-RTGS	SADC Real-Time Gross Settlement
SARB	South African Reserve Bank
SOE	State-Owned Enterprise
US	United States
USD	United States Dollar
VAT	Value-Added Tax
WEO	World Economic Outlook
ZAR	South African Rand

1. Executive Summary

1. EXECUTIVE SUMMARY

The Financial System Stability Committee (FSSC) noted in its April 2026 meeting that Namibia's financial system remained resilient, despite heightened vulnerabilities stemming from the macroeconomic environment. The Committee observed that both the banking and non-bank financial institution (NBFI) sectors remained sound, supported by adequate capital and liquidity buffers to absorb potential losses. Banking sector stress test results confirmed that domestic banks would remain resilient under the adverse, yet plausible macrofinancial scenarios. Similarly, NBFI stress test results indicated that vulnerabilities were primarily concentrated in solvency under extreme tail events, while liquidity positions remained comfortably within tolerance thresholds. Furthermore, the payment infrastructure and operations continued to function efficiently. Against this backdrop, the current macroprudential policy stance, supported by existing microprudential measures, was deemed to be sufficient to safeguard financial system stability.

Risks to the global economy remained tilted to the downside. Geopolitical tensions in the Middle East have disrupted global oil supplies, reigniting inflation concerns during the early months of 2026. This, in turn, could potentially affect monetary policy expectations. At the same time, heightened uncertainty contributed to tighter global financial conditions.

To safeguard the resilience of the financial system amid heightened uncertainty, this edition of the Financial Stability Report (FSR) identifies and assesses the following key risks to financial stability:

1. Escalating global conflicts
2. The sovereign–financial nexus
3. Cyber risk

Despite these risks, the FSSC concluded that the Namibian financial system remained sound, and the Committee will continue to monitor and evaluate the impact of global and domestic risks. Moreover, the Bank of Namibia's Macroprudential Oversight Committee (MOC) stands ready to respond with appropriate macroprudential instruments to address risks that could weaken the resilience of the domestic financial sector.

2. Assessment of Risks to Financial Stability

2. ASSESSMENT OF RISKS TO FINANCIAL STABILITY

This section presents a brief analysis of the main risks to the stability of the domestic financial system. The various risks are analysed and rated from low to high, based on their probability of occurrence, as well as their potential impact on financial stability in Namibia, should they materialise. Table 1 offers a summary of Namibia's risk position as determined by the FSSC, showing the direction of risks since the October 2025 FSR, as well as the probability and impact of the cited risks materialising. The subsequent sections in this report detail the developments in the external macroeconomic environment, trends in household and corporate debt, and the dynamics of the property market. The report further outlines trends in the financial soundness indicators for domestic banking institutions, stress test simulations, and developments in the NBFI sector, as well as the payment and settlement system. The final section outlines the macroprudential policy developments during the review period.

Table 1: Risks to financial stability in Namibia

Nature of risk	Direction of risk since October 2025[1]	Probability of risk materialising in 2026	Impact of risk materialising in 2026
Macroeconomic environment events/risk			
Global economic slowdown	Up	Medium	Medium
Global financial turbulence	Up	High	Medium
Domestic economic slowdown	Up	Medium	Medium
Inadequacy in foreign reserves	Up	Medium	Medium
Sovereign credit rating downgrade: Namibia	Unchanged	Low	Medium
Sovereign credit rating downgrade: South Africa	Down	Medium	Medium
Excessive Namibia Dollar/South African Rand (NAD/ZAR) depreciation	Unchanged	Medium	Medium
Public sector debt risk			
Increase in public sector debt	Unchanged	Medium	Medium
Household debt risk			
Excessive increase in household debt	Unchanged	Low	Medium
Corporate debt risk			
Excessive increase in corporate debt	Unchanged	Medium	Medium
Banking sector risk			
Liquidity risk	Unchanged	Low	Medium
Capital Adequacy	Unchanged	Low	Medium
Credit risk	Down	Low	Medium
Payment system risk			
Security of retail payments	Unchanged	Low	Low
Settlement in last window	Unchanged	Medium	Medium
Non-banking financial institution risk			
Liquidity and Redemption Risk [2]	Unchanged	Low	Medium
Demographic and structural challenges [3]	Unchanged	High	Medium
Financial market volatility and interest rate risks [4]	Unchanged	Medium	High
Solvency position [5]	Unchanged	Medium	High
Cyber risk	Unchanged	High	Medium
Anti-money laundering/combating the financing of terrorism and combating proliferation financing (AML/CFT/CPF): Grey-listing	Down	Low	Medium
Sovereign-Financial Nexus	Up	Low	High
Climate risk	Unchanged	Medium	Medium

Key: Low | Medium | High

[1] Compared with the October 2025 FSR.
[2] Relates to retirement funds, collective investment schemes and long-term insurers.
[3] Relates to retirement funds.
[4] Relates to retirement funds, collective investment schemes and long-term insurers.
[5] Relates to retirement funds and long-term insurers.

Global financial conditions transitioned from a period of relative accommodation to one of renewed uncertainty and tightening in the early months of 2026. According to the International Monetary Fund's (IMF's) April 2026 Global Financial Stability Report (GFSR), financial markets have remained broadly orderly thus far into 2026, but financial stability risks have increased. Financial conditions have tightened since the onset of the conflict in the Middle East, but remain well below stress levels observed in past episodes of global turmoil, suggesting that a margin of safety persists. However, the relatively modest adjustment to date also indicates that markets may not have fully priced in adverse scenarios, pointing to asymmetric downside risks. Key risks stem from the ongoing Middle East conflict, potential inflationary pressures, and the potential for further tightening in financial conditions. While market corrections have been orderly, global equity prices have declined by 8 percent since February 2026 following earlier gains, and sovereign bond yields have risen sharply amid higher inflation expectations. Emerging markets have faced notable pressures due to a stronger dollar and higher energy prices, particularly in more vulnerable, commodity-importing economies.

The financial system's resilience could be tested as several channels could transmit market stress into broader financial instability. Elevated public debt and greater reliance on short-term issuance increase rollover risks and may revive the sovereign-bank nexus. In emerging markets, capital outflows and carry trade unwinds could intensify currency pressures. High leverage among nonbank financial intermediaries may amplify volatility through forced deleveraging, while stretched and concentrated equity valuations, particularly in artificial intelligence related firms increase downside risks. Although liquidity mismatches in private credit remain contained, rising borrower stress and increased retail exposure pose emerging vulnerabilities. At the same time, more frequent supply shocks have weakened the equity–bond hedging relationship, raising the risk of simultaneous asset price declines. Against this backdrop, policymakers should prioritise strengthening financial system resilience. Key measures include ensuring the readiness of liquidity and funding facilities, safeguarding inflation expectations, reinforcing supervisory and central bank governance, strengthening emerging market policy frameworks, placing public debt on a sustainable path, completing Basel III reforms, enhancing oversight of nonbank financial institutions, and improving cross-border data sharing.

Downside risks dominate the global economic outlook. The duration and scale of the war in the Middle East present a significant risk through its impact on commodity markets, inflation expectations, and financial conditions. A reassessment of earnings growth expectations of artificial intelligence (AI) companies in richly valued equity markets could spread from technology stocks to broader benchmark indices. On the upside, rapid adoption of AI, supported by rising infrastructure investment, could boost productivity and strengthen medium-term growth prospects.

Macroeconomic risks are expected to increase, with potential vulnerabilities emerging from foreign reserves adequacy and weak economic growth. During the review period, risks associated with the macroeconomic environment increased, and the probability of their materialising in the next 12 months is rated as medium, with an overall medium impact (Table 1). Although the level of foreign reserves remained adequate to cover imports of goods and services, pressure on foreign reserves is expected, as the current account deficit is expected to widen over the next 12 months. In addition, the domestic economy is vulnerable to substantial downside risks, specifically inflationary pressure arising from geopolitical conflicts, and depressed prices of mined diamonds resulting partly from weak global demand and an increase in laboratory-grown diamonds.

During the review period, risks to the financial system stemming from the banking and payments sector remained unchanged. The banking sector remained liquid, well-capitalised and profitable, with notable improvements in credit risk in the second half of 2025. In addition, risks from household and corporate sector debt remained unchanged during the reporting period. However, in view of the prevailing macroeconomic conditions, the likelihood that household and corporate debt risks will materialise over the next 12 months is assessed as medium. The security of retail payments risk and the settlement risk in the last window both remained unchanged during the second half of 2025. The likelihood and impact of the security of retail payments risk materialising in 2026 were assessed as low, while the likelihood and impact of the settlement risk in the last window over the next 12 months were both assessed as medium.

Subsequent to the October 2025 FSR, Namibia submitted its fourth progress report to the Financial Action Task Force (FATF) Africa Joint Group in November 2025. Namibia received confirmation from the task force that the two remaining strategic deficiencies had been remediated. Notably, 13 strategic deficiencies were remediated ahead of the May 2026 deadline. In light of this development, the country will now be subject to an on-site assessment by the task force. Moreover, the rating outcomes for all action items have remained low risk since November's progress report.

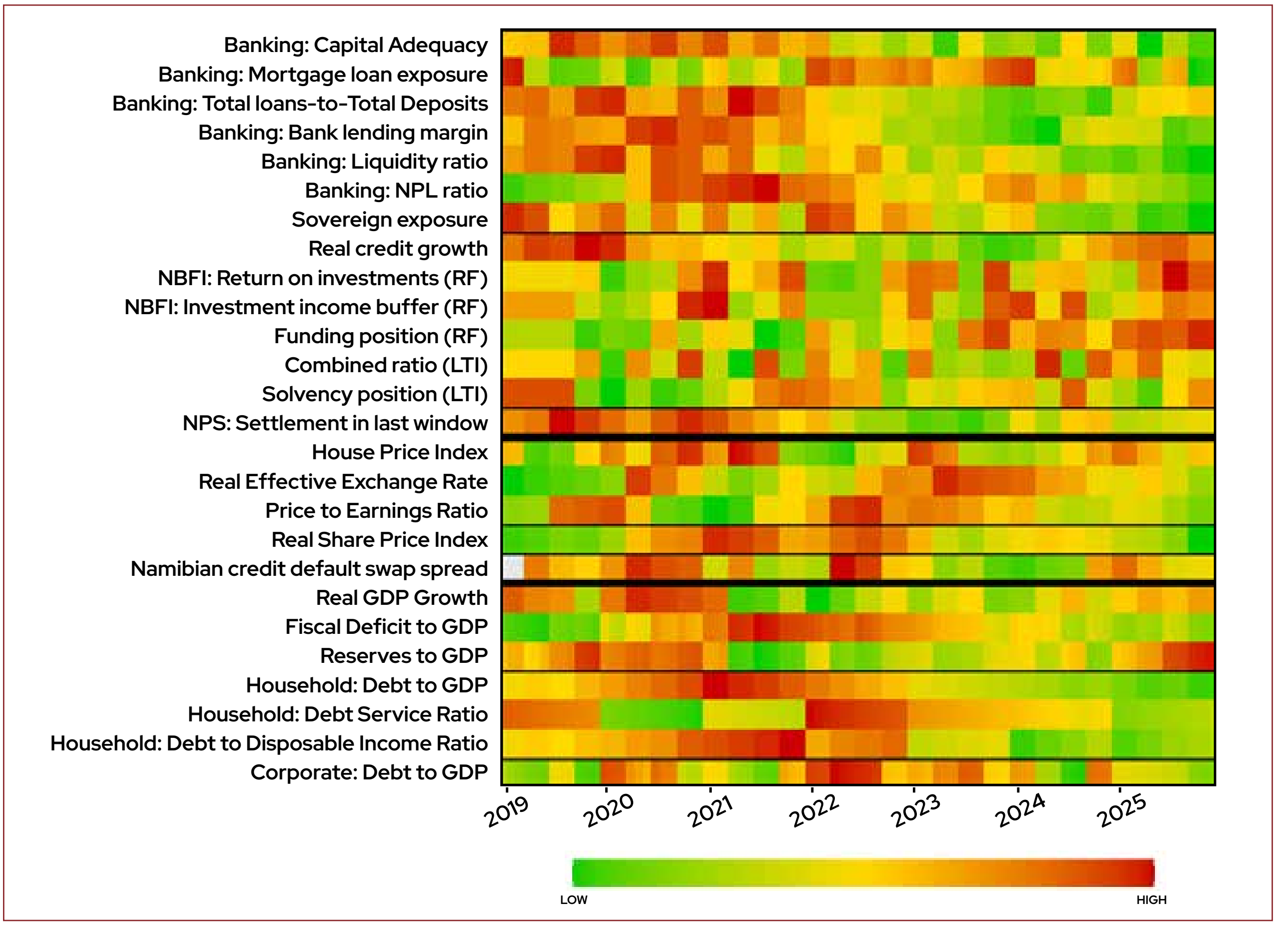
Risks emanating from climate change remained broadly unchanged, with a medium probability of materialising during 2026. Climate change has negatively impacted the agriculture sector in Namibia, particularly livestock, leading to a 3.3 percent contraction in 2025. Nonetheless, the sector is estimated to improve during 2026, supported by positive growth in crop farming and slower contraction in livestock farming. Moreover, the sector's direct exposure to banks' total loans and advances remains broadly unchanged at 5 percent. Going forward, climate change will continue to have asymmetric effects on financial stability.

There is a high probability that cyber risk may materialise during 2026. The growing reliance on digitisation, as well as increased third-party and supply chain compromise risks, have increased financial institutions' exposure to cybersecurity risk. Notwithstanding these risks, financial institutions and relevant stakeholders across the financial sector, through the Financial Sector Cyber Resilience and Fraud Mitigation Council will continue to implement and strengthen measures aimed at safeguarding the safety, security, and integrity of the financial system.

Risks associated with the sovereign–financial nexus have increased, reflecting the growing interdependence between the sovereign and the financial sector. Among NBFIs, retirement funds held N$46.1 billion in Namibian government bonds and long-term insurers held N$17.7 billion (representing 15.3 percent and 18.3 percent of their respective total assets) while the CIS subsector held N$30.1 billion in Treasury bills. At the same time, banking sector exposure to the Government has increased from an average of 16.8 percent of total assets to 18.9 percent, partly driven by banks' participation in the financing of the Eurobond redemption in October 2025. This deepening interconnectedness strengthens domestic funding resilience but also heightens the risk of bidirectional contagion. These developments highlight the need for continued monitoring of sovereign exposures and the associated systemic risk implications.

The Bank of Namibia (BoN) uses a wide range of financial stability indicators that reveal potential cyclical build-up of changes in the financial system which, if left unaddressed, could lead to vulnerabilities. A snapshot of all material developments is communicated through the financial stability heatmap in Figure 1. The heatmap visually depicts the statistical transformation of a broad spectrum of financial stability indicators against their historical developments. Thus, the tool flags areas that require deeper analysis. Most of the indicators used in the heatmap are discussed throughout the Report, particularly those that are relevant to financial stability in Namibia.

Figure 1: Financial stability heatmap



Note: GDP = gross domestic product; LTI = long-term insurance; NPL = non-performing loan; NPS = National Payment System
Source: BoN

3.

The Real Economy And Financial Markets

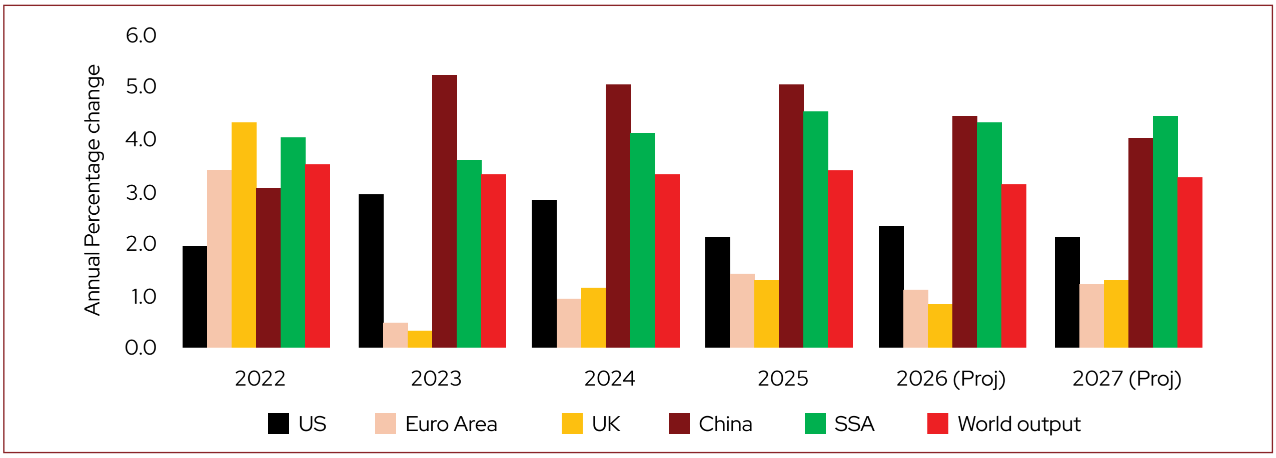
3. THE REAL ECONOMY AND FINANCIAL MARKETS

3.1 The macroeconomic environment

Global developments and risks

The global economy withstood higher trade barriers and elevated uncertainty during 2025, yet another shock this time around, conflict in the Middle East, which challenges global activity. The April 2026 World Economic Outlook (WEO) of the International Monetary Fund (IMF) projected global growth for 2026 at 3.1 percent, a downward revision of 0.2 percentage points compared with that in the January 2025 WEO Update (Figure 2). Growth in AEs is projected to moderate to 1.8 percent in 2026, from 1.9 percent in 2025. In the United States (US), the economy is projected to expand by 2.3 percent in 2026, supported by fiscal policy and the lagged impact of accommodative monetary policy rates, while the impact of higher trade barriers gradually wanes. The projected growth was revised downwards by 0.1 percentage points, reflecting the effect of the war, given the net energy exporter status of the US. In the euro area, growth is expected to decline to 1.1 percent in 2026 from 1.4 percent observed in 2025. This reflects a 0.2 percentage point downward revision in each year relative to the January 2026 WEO Update, with the effect of better-than-expected growth in 2025 giving way to the negative impact of the Middle East conflict over time. Growth in EMDEs is expected to fall to 3.9 percent in 2026 before recovering to 4.2 percent in 2027. Growth in China was revised upward by 0.1 percentage points to 4.4 relative to the January Update, reflecting the lower US effective tariff rates on Chinese goods, and stimulus measures offset the negative impact of the shock induced by the war. Similarly, the March 2026 report of the Organisation for Economic Co-operation and Development (OECD) projects global growth to remain broadly stable at 2.9 percent in 2026, sustained by robust technology-related investment and gradually lower effective tariff rates.

Figure 2: Global real gross domestic product growth



Note: US = United States; UK = United Kingdom; SSA = sub-Saharan Africa
Source: IMF April 2026 WEO Update

Global inflation is projected to increase in 2026 before decelerating in 2027, reflecting expected higher energy and food prices. Global inflation is projected to increase to 4.4 percent in 2026 from 4.1 percent in 2025 before decelerating to 3.7 percent in 2027, reflecting higher energy and food prices. US core inflation is projected to return to its 2 percent target during 2027. Similarly, in the United Kingdom, inflation rose in 2025 partly due to changes in regulated prices and is expected to pick up to nearly 4 percent before returning to its target by the end of 2027 as the effects of higher energy prices fade and a weakening labour market continues to exert downward pressure on wage growth. Inflation in China is projected to start rising from low levels, whereas inflation in India is expected to return to near-target levels after a marked decline in 2025, driven by subdued food prices.

Risks to the global economic outlook remain tilted to the downside. A further intensification of the current war in the Middle East could affect the global economic outlook. The effect is already being felt through volatility in commodity prices and supply chain disruptions, and exchange rate depreciation could get worse. Disruptions in the fertiliser market could threaten food security and lead to substantial food price inflation. In emerging market economies, cross-border financial transactions could lead to capital flow reversals and abrupt asset price adjustments. A reassessment of expected productivity gains from AI could dampen investment and trigger a repricing of risky assets, particularly given elevated valuations in certain market segments. Given current trade policies, more countries could adopt a protectionist posture, particularly if trade diversion and rerouting become disruptive. On the upside, rapid adoption of AI, supported by rising infrastructure investment, could boost productivity and strengthen medium-term growth prospects. Moreover, progress in trade talks and enhanced policy predictability could support global economic growth.

Domestic developments and risks

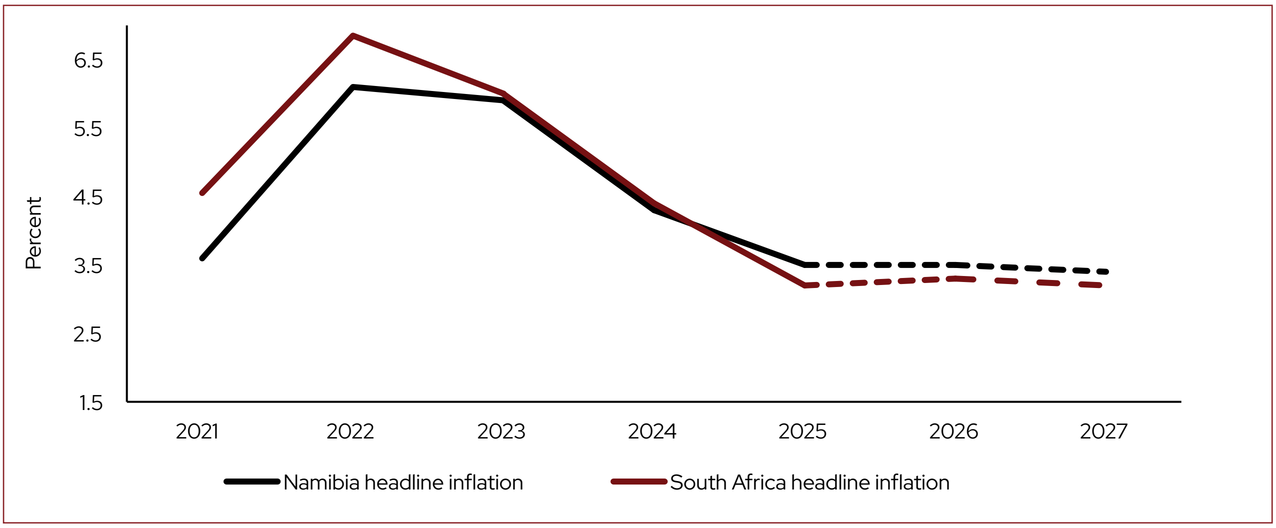
During the fourth quarter of 2025, real gross domestic product (GDP) growth contracted, reflecting weak performance in the primary industries. The Namibian economy contracted by 0.5 percent in the fourth quarter of 2025, compared with a positive growth of 2.6 percent observed in the third quarter of 2025. The contraction was mainly driven by the primary industries, owing to the poor performance of the mining sector, particularly the diamond production subsector. Moreover, the decline was further driven by a fall in manufacturing output, mainly attributed to declines in output in the basic non-ferrous metals, meat processing, and diamond processing subsectors. Nonetheless, the tertiary sector demonstrated resilience, reinforcing its position as a key sector in the economy.

The Namibian economy is projected to moderate in 2026. Based on the December 2025 Domestic Economic Outlook, the economy is projected to grow by 2.6 percent in 2026, remaining below its 5-year average. The growth will be supported by positive performance in the tertiary and secondary sectors. However, the primary sector is projected to contract over the forecast period as the diamond industry is expected to remain under pressure due to persistent weakness in global demand for natural diamonds. The metal ores subsector similarly contributes to the contraction in the primary industry sector.

Risks to the domestic economy remained moderate, as the economy remains fragile in the face of global factors. Slower global growth, volatile oil prices driven by geopolitical tensions in the Middle East, and persistently tight global financial conditions continue to pose significant risks to imports, fiscal sustainability, and exchange rate stability. These pressures could also disrupt global supply chains and dampen productivity growth. Given these evolving risks, it is imperative to continuously monitor their implications for financial stability.

Namibia's and South Africa's headline inflation decelerated in 2025 compared to 2024. Namibia's headline inflation decelerated from 4.3 percent to 3.5 percent in 2025 (Figure 3). The slower inflation outcome was primarily ascribed to disinflationary pressures in transport, housing, and alcoholic beverages. In South Africa, headline inflation decelerated by 1.2 percentage points to an average of 3.2 percent year-on-year, driven by improved domestic energy supply, lower food inflation, and a more stable Rand. Moreover, the South African Reserve Bank's (SARB) 3 percent inflation target has contributed to lower inflation expectations, as it has reinforced SARB's commitment to long-term price stability. Headline inflation for Namibia and South Africa is expected to average 3.5 percent and 3.3 percent, respectively, in 2026.

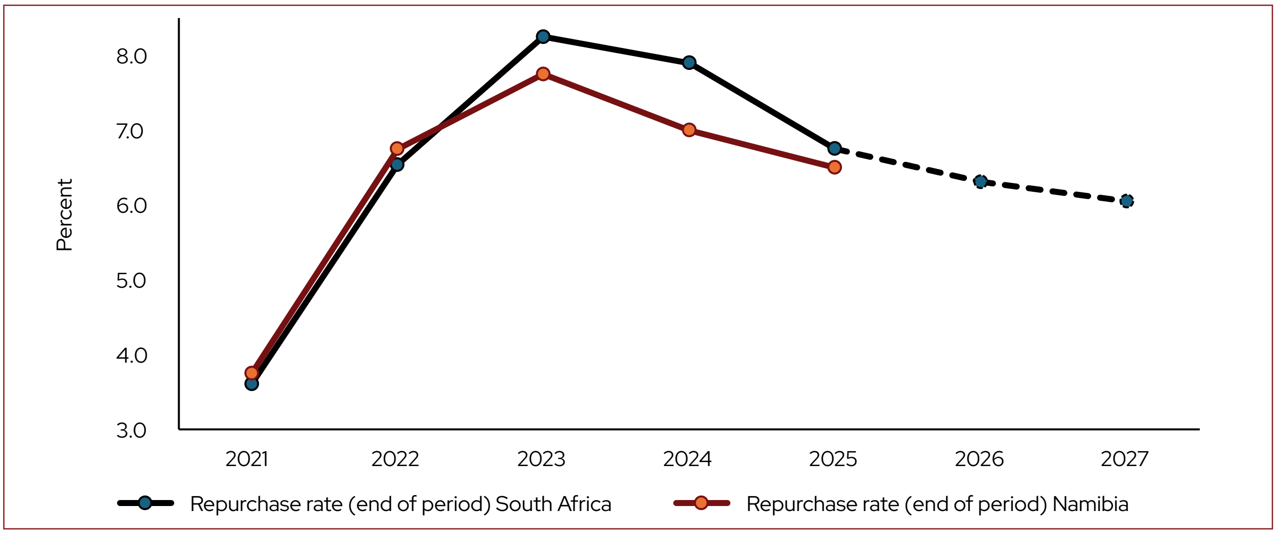
Figure 3: Headline inflation trends



Source: BoN and SARB

Since the publication of the October 2025 FSR, the BoN has kept its policy rate unchanged, while the SARB reduced its policy rate at its November 2025 meeting. The BoN kept its repo rate unchanged at 6.50 percent at its latest meeting in April 2026. This was supported by domestic inflation remaining subdued, and private sector credit extension showing signs of improvement. This rate was maintained to safeguard the peg between the Namibia Dollar (NAD) and the South African Rand, while supporting the domestic economy. The SARB's repo rate was reduced by 25 basis points during the period under review, reaching 6.75 percent, as near-term inflation remained well contained (Figure 4). The SARB's Quarterly Projection Model forecast gradual repo rate cuts as inflation subsides, stabilising at around 6.1 percent in 2027. However, considering the global uncertainty, risk to inflation is tilted to the upside.

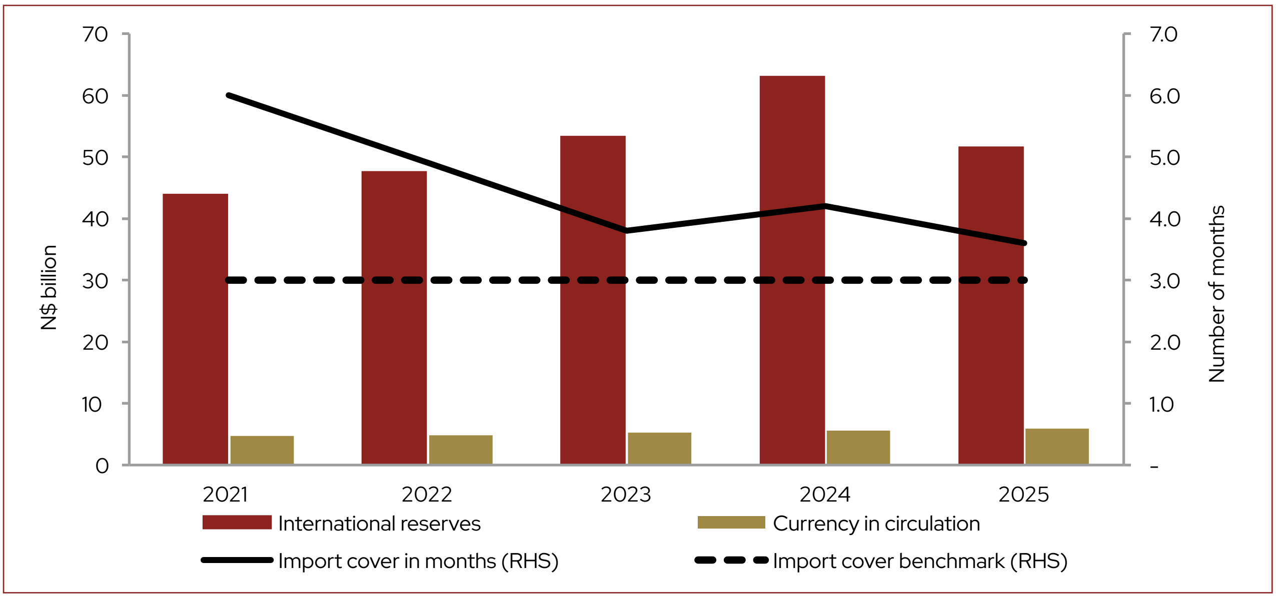
Figure 4: Policy expectations in Namibia and South Africa



Source: BoN and SARB

By the end of December 2025, the stock of foreign reserves had declined, largely due to Government foreign debt repayments. The stock of foreign reserves stood at N$51.6 billion at the end of 2025, down from N$63.0 billion which was reported at the end of 2024 (Figure 5). The observed annual decline was primarily attributable to the Government's external debt service obligations, notably the redemption of the Eurobond. This trend was exacerbated by lower Southern African Customs Union (SACU) receipts, net South African Rand (ZAR) outflows from commercial banks for elevated import payments, and the strengthening of the NAD/ZAR against major foreign currencies. As a result, foreign reserves translated into an estimated import cover of 3.3 months, down from 4.2 months. Notwithstanding the decline, the level of foreign reserves remained adequate, with the December 2025 stock amounting to 8.8 times the currency in circulation of N$5.9 billion. In addition, import cover remained above the international benchmark of three months, underscoring Namibia's continued capacity to sustain the currency peg to the ZAR and meet the country's short-term external financial obligations. Moreover, the stock of foreign reserves remained broadly unchanged at N$51.8 billion in March 2026 compared to December 2025.

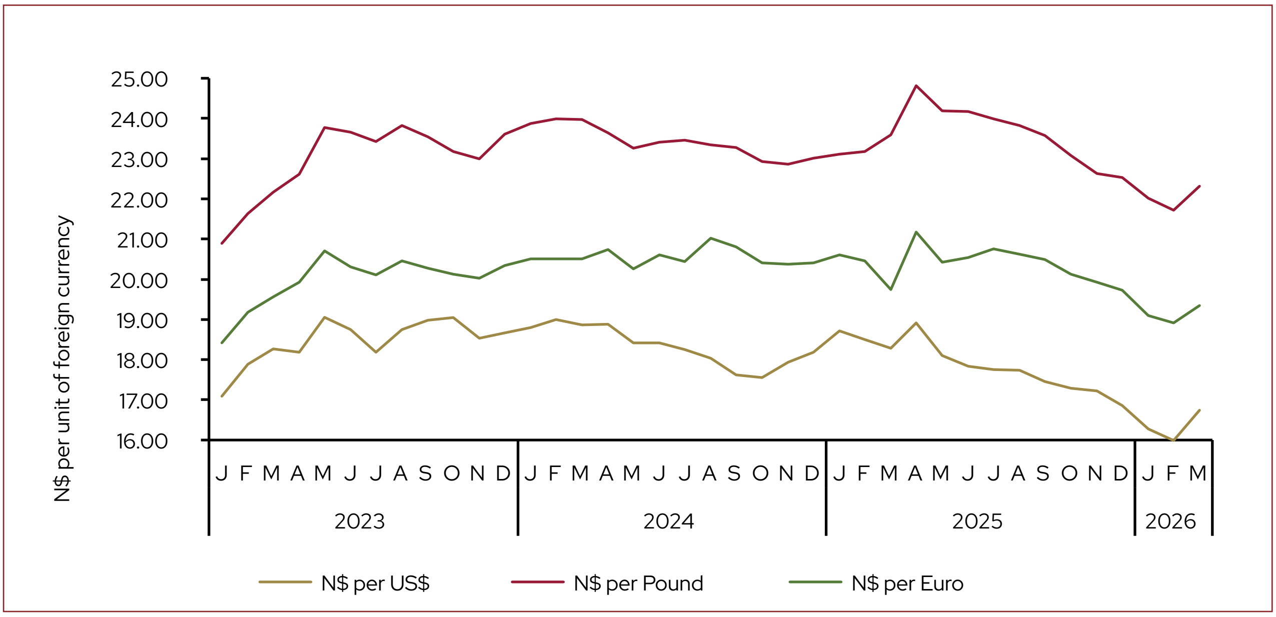
Figure 5: Foreign reserves currencies



Source: BoN and SARB

During the fourth quarter of 2025, the NAD/ZAR appreciated against major currencies, mainly reflecting a weaker USD and regional economic developments. The domestic currency strengthened by 3.0 percent, 4.4 percent and 3.4 percent against the USD, the British pound and the euro, respectively, on a quarterly basis (Figure 6). The currency's strength was supported by expectations of future interest rate cuts by the US Federal Reserve alongside a lift in global sentiment following the US Senate's agreement to end the longest federal government shutdown. In addition, the SARB's decision to reduce its inflation target to 3 percent, high international gold prices, and South Africa's removal from the FATF grey list, all of which boosted investor confidence. The NAD/ZAR also benefited from improved global market sentiment after the US and China reached a truce in trade tensions that previously unsettled markets, along with optimism over the renewal of the US's African Growth and Opportunity Act (AGOA). However, this trend reversed in March 2026, with the domestic currency depreciating as the USD regained strength due to deteriorating global risk sentiment and safe-haven flows stemming from the U.S.-Iran conflict.

Figure 6: Exchange rate developments against selected major currencies

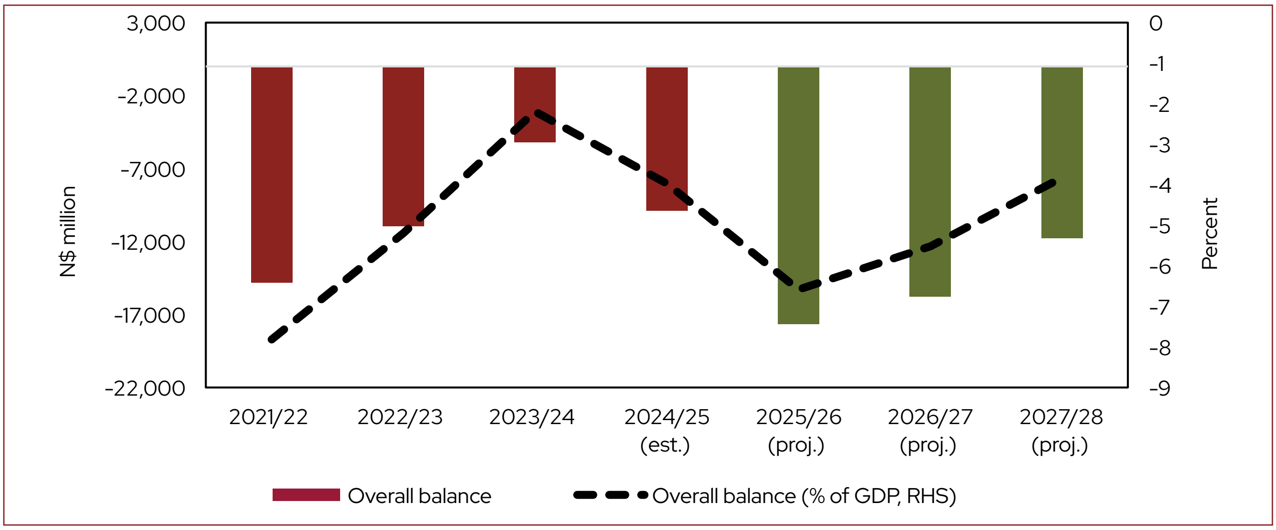


Source: BoN and SARB

Public finance

The Central Government budget deficit is estimated to widen in the 2025/26 fiscal year; however, it is expected to narrow over the Medium-Term Expenditure Framework (MTEF) period. According to the 2026/27 budget statement tabled in February 2026, the budget deficit for FY2025/26 is now estimated at 6.6 percent of GDP, up from the earlier projection of 5.9 percent in the October 2025 mid-year review (Figure 7). The deterioration reflects lower-than-expected revenue collections, particularly in individual income tax, diamond company taxes, VAT (value-added tax), and withholding tax on interest. Looking ahead, the deficit is projected to decline to 5.5 percent of GDP in FY2026/27 and further to 3.3 percent by the end of the MTEF period. This improvement is based on expectations that revenue growth will outpace expenditure growth, supported by a recovery in key revenue streams, including individual income tax, VAT, and SACU receipts. Debt servicing as a percentage of revenue increased to 14.7 percent in FY2025/26, mainly driven by higher debt service costs, and is further anticipated to increase over the MTEF period (Figure 8).

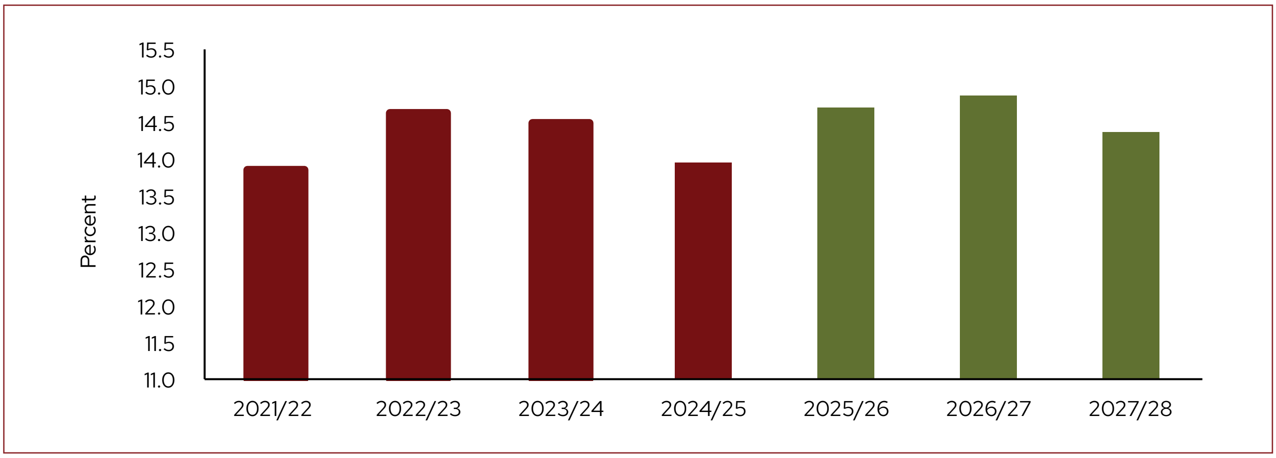
Figure 7: Public finance



Source: Ministry of Finance

During the first three quarters of FY2025/26, driven by domestic debt, the Central Government debt increased relative to the same period in FY2024/25, while foreign debt declined. Total Government debt stock stood at N$172.7 billion at the end of December 2025, having increased by 5.4 percent during the year under review. The increase in domestic debt on an annual basis was driven by a rise in the issuance of both Treasury bills and internal registered stock. Meanwhile, total debt as a percentage of GDP stood at 64.0 percent at the end of December 2025, representing a decline of 1.6 percentage points from its position a year earlier. At this level, Namibia's debt-to-GDP ratio remains above the Southern African Development Community (SADC) benchmark of 60 percent.

Figure 8: Government debt service to revenue



Source: Ministry of Finance

Namibia's sovereign credit ratings

In November 2025, Fitch Ratings affirmed Namibia's rating with a stable outlook, supported by its strong governance indicators and institutional framework. Namibia's rating was further supported by fiscal financing flexibility, underpinned by a large non-banking financial sector with assets amounting to about 180 percent of GDP at the end of 2024 (Table 2). This is balanced against high fiscal deficits and government debt relative to peers, large fiscal financing needs, and a rigid expenditure profile. Consistent with what was reported in the October 2025 FSR, Moody's outlook remained positive, reflecting prospects of significant oil discoveries.

Table 2: Namibia's sovereign credit rating and outlook

Rating agency	Rating	Outlook	Date of update	Action
Fitch Ratings	BB-	Stable	21 November 2025	Rating affirmed with stable outlook

Source: Moody's and Fitch Ratings

S&P Global Credit Ratings (S&P) upgraded South Africa's long-term foreign currency rating to 'BB' and local currency rating to 'BB+' in November 2025, with a positive outlook. The upgrade reflects South Africa's improving growth and fiscal trajectory, alongside the reduction in contingent liabilities largely tied to performance improvements at the state-owned electricity utility, Eskom (Table 3). The government is on track to post its third annual primary surplus in fiscal 2025/26, while contingent liabilities are likely to ease as Eskom is being reformed. Eskom has posted its first profit in eight years and is therefore likely to require less financial support going forward.

Table 3: South Africa's sovereign credit rating and outlook

Rating agency	Rating	Outlook	Date of update	Action
S&P Global	BB+	Positive	14 November 2025	Positive outlook

Source: S&P Global and Fitch Ratings

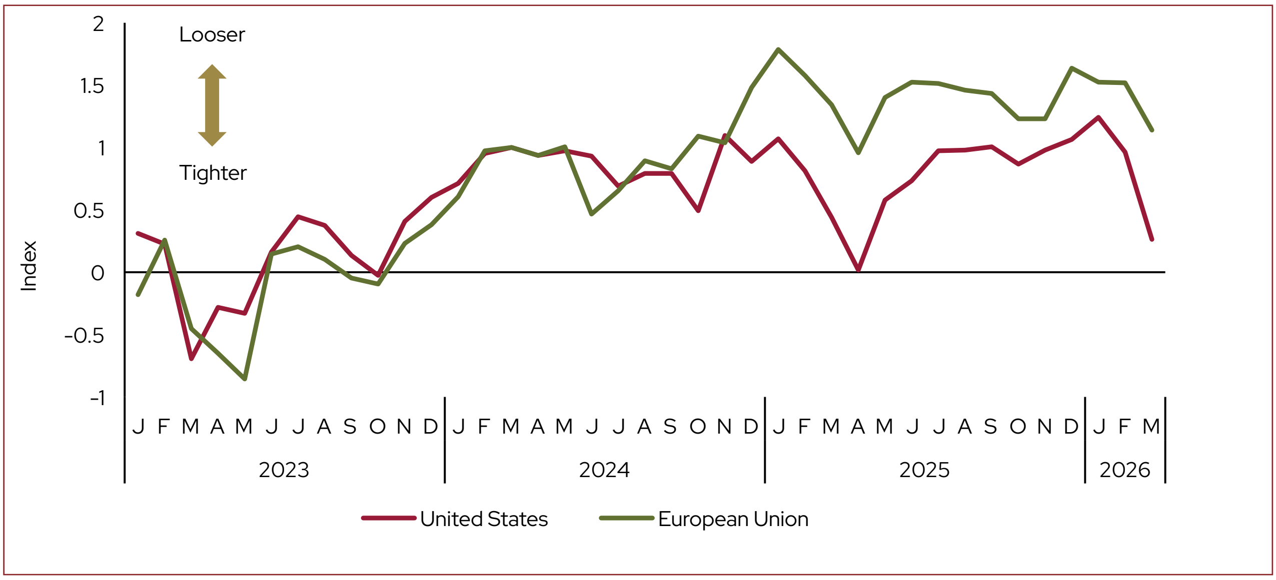
3.2 Developments in financial markets

International developments

Global financial conditions initially eased following the October 2025 FSR, though this accommodative trend reversed abruptly in early 2026. The divergence in monetary policy between the US and other major AEs that characterised much of 2025 began to narrow, while financial conditions in the European Union remained broadly accommodative (Figure 9). In the US, financial conditions eased during the latter half of 2025 following a prolonged period of restrictive monetary policy earlier in the year. This shift was largely driven by changing market expectations regarding the policy path of the US Federal Reserve, as moderating inflation and signs of cooling in the labour market supported expectations of monetary easing and subsequent policy rate cuts. However, this accommodative trend reversed abruptly in the first quarter of 2026. As illustrated in Figure 9, US financial conditions tightened sharply in February and March 2026. Escalating geopolitical tensions in the Middle East, particularly the closure of the Strait of Hormuz, resulted in a significant disruption of global oil supply, reigniting inflation concerns. Consequently, market participants rapidly scaled back expectations of further near-term monetary easing, pricing in a prolonged period of elevated policy rates. This shift was characterised by increasing sovereign bond yields and increased equity market volatility, which drove the steep decline in the index.

In the euro area, financial conditions remained relatively stable and accommodative through late 2025 before tightening in early 2026 due to global spillover effects. This reflects the European Central Bank's (ECB) continued commitment to supporting economic activity amid subdued growth and weak industrial demand. Following four consecutive rate cuts totalling 100 basis points by June 2025, the ECB reduced the deposit facility rate from 3.00 percent in January 2025 to 2.00 percent in June 2025. The ECB maintained this lower policy rate during the second half of the year, thereby sustaining relatively favourable financing conditions in the region. Consequently, although the interest rate differential between the euro area and the US narrowed, funding conditions in the euro area remained comparatively supportive relative to those in the US. Nevertheless, the region was not immune to global spillover effects in early 2026, experiencing a noticeable tightening in February and March. The euro area's heavy reliance on energy imports meant that the oil supply shock directly threatened the unions inflation outlook, prompting markets to reassess the ECB's capacity to maintain loose financing conditions. This recent escalation of geopolitical tensions has firmly reintroduced uncertainty into the global inflation outlook, tightening financial market conditions across major economies.

Figure 9: Financial conditions indices

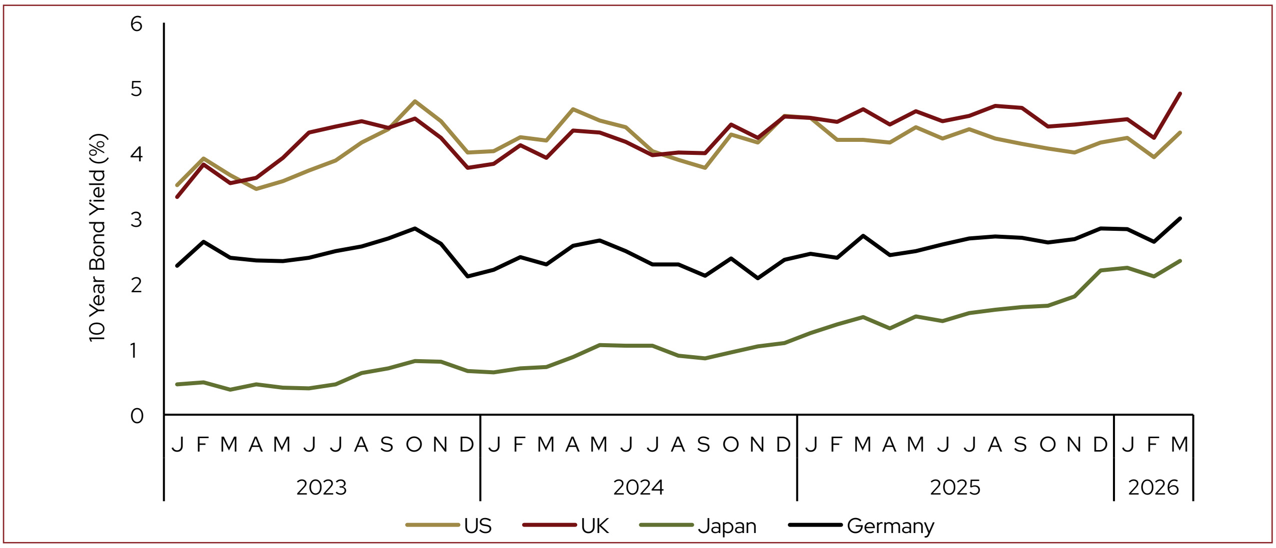


Source: Bloomberg

In the US, 10-year Treasury yields remained broadly range-bound, trending slightly downward towards the end of 2025. This development reflected the US Federal Reserve's shift towards monetary easing following signs of moderating inflation and cooling labour market conditions. However, yields edged higher in December 2025, ultimately reaching 4.3 percent by March 2026 (Figure 10). The resultant steepening of the yield curve suggests an increase in the term premium, as investors priced in persistent inflation risks stemming from evolving trade policies and growing concerns regarding the trajectory of US sovereign fiscal deficits.

While both German and Japanese bond yields rose in early 2026, their movements reflected diverging fiscal and monetary priorities. In the euro area, German bond yields rose from 2.6 percent in September 2025 to approximately 2.9 percent by January 2026 (Figure 10). The increase largely reflected expansionary fiscal policy, including sizeable infrastructure and defence spending initiatives, which were financed through higher government debt issuance. The resulting increase in bond supply exerted downward pressure on bond prices and consequently pushed yields higher. Similarly, Japanese government bond yields rose sharply, reaching a multi-year high of 2.3 percent in January 2026. This repricing reflected the Bank of Japan's continued normalisation of monetary policy and its gradual withdrawal from unconventional policy measures that previously constrained long-term yields. Yields were further supported by heightened fiscal uncertainty following the announcement of snap elections. Consequently, global sovereign bond yields diverged throughout late 2025 and January 2026, reflecting differences in domestic fiscal dynamics and evolving monetary policy expectations across major AEs. However, this regional divergence was overshadowed by synchronised global shocks. Following a brief flight to safety in February 2026 that pushed yields lower across AEs, global yields surged in unison in March as the oil supply shock heightened inflation expectations.

Figure 10: Selected global bond yields

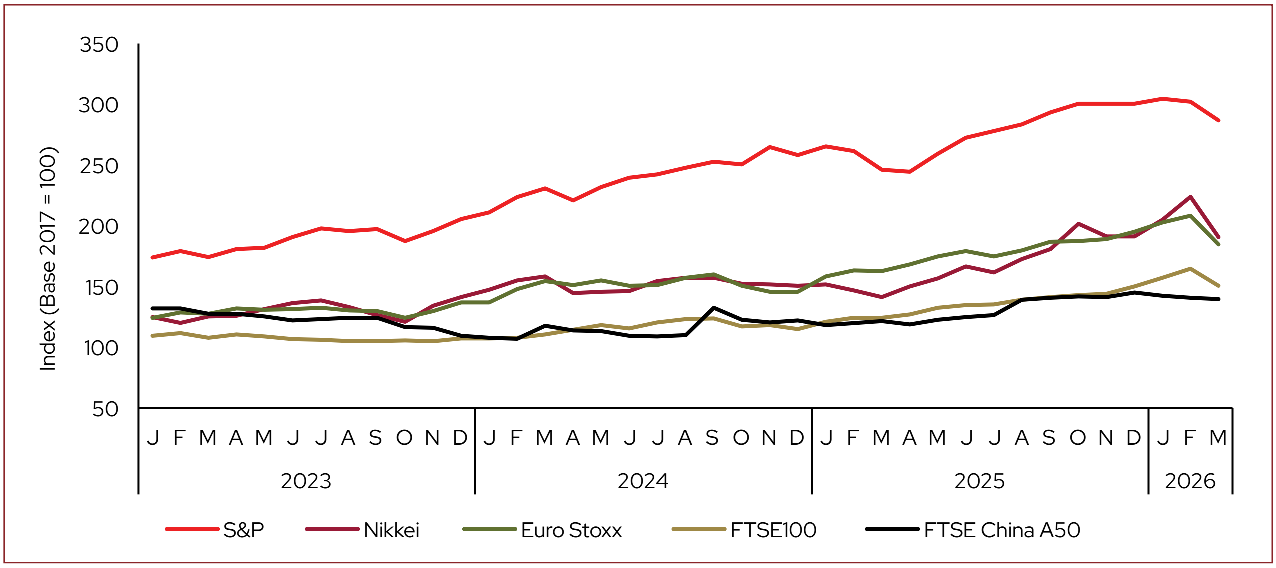


Source: Bloomberg

Following the volatility observed during the first half of 2025, global equity markets recorded strong gains and reached new highs before reversing sharply in March 2026. In the US, the S&P 500 index extended its upward trajectory, surpassing the 6,900-index points level in January 2026 (Figure 11). The rally was largely supported by continued strong performance among large technology firms and improving investor sentiment amid moderating inflation. However, this upward momentum reversed towards March 2026 as escalating geopolitical tensions in the Middle East prompted a flight to safety, leading investors to reallocate capital from equities to defensive assets. Despite the strong performance of global equity markets, concerns remain regarding concentration risk. A significant share of recent market gains has been driven by a small group of mega-cap technology firms, increasing the sensitivity of equity valuations to developments in this segment. Current market valuations are also increasingly linked to expectations surrounding the commercialisation of AI. Should these expectations fail to materialise, a correction in valuations could transmit broader volatility across global equity markets. In Europe, equity markets also maintained a generally positive trajectory during the period under review. The Euro Stoxx index benefited from the ECB's accommodative monetary policy stance, which improved financing conditions and supported investor sentiment across the region prior to the global market correction in March 2026.

Asian equity markets exhibited more mixed developments. In Japan, the Nikkei index recorded substantial gains, surpassing the 50,000-point level in October 2025 and reaching a historic high of over 58,000 points by February 2026 (Figure 11). The rally was supported by fiscal stimulus measures, increased foreign investor participation, and ongoing corporate governance reforms aimed at improving capital efficiency and shareholder returns. In contrast, Chinese equity markets remained relatively subdued. The FTSE China A50 index stabilised during the fourth quarter of 2025 before declining slightly in January 2026. Despite accommodative monetary policy and liquidity injections by the People's Bank of China, investor sentiment remained constrained by persistent challenges in the real estate sector and ongoing deflationary pressures. Ultimately, however, both markets succumbed to the synchronised global equity sell-off in March 2026, experiencing sharp declines as the oil supply shock and the resulting shift in global monetary expectations weighed heavily on regional investor sentiment.

Figure 11: Global equity prices



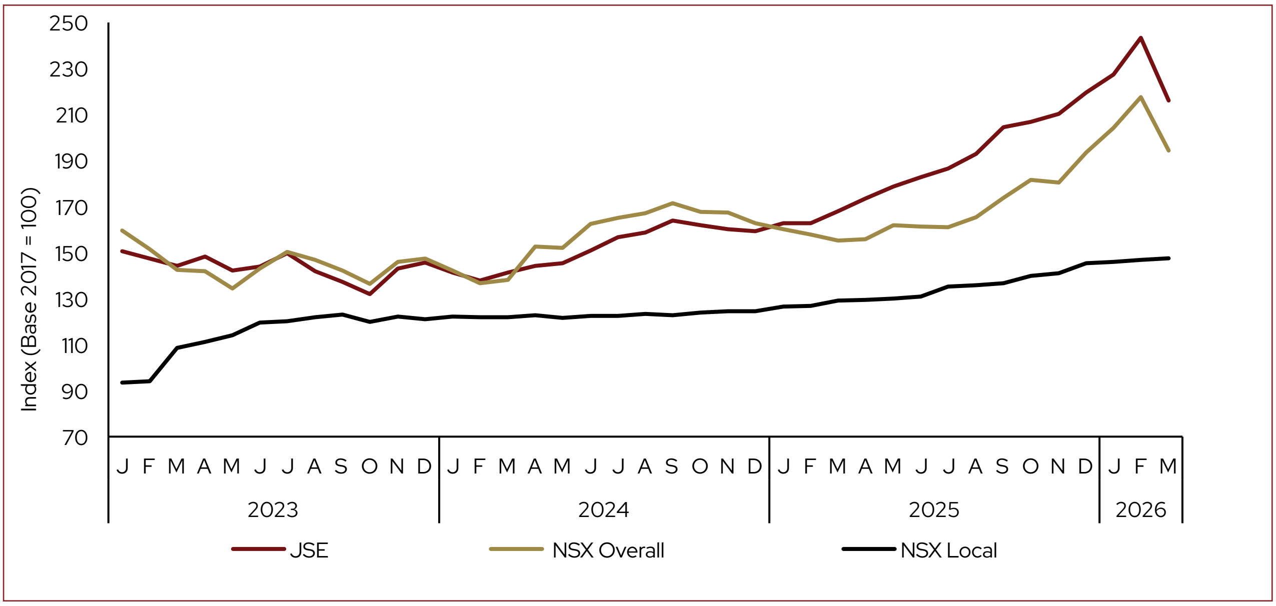
Source: Bloomberg

Financial market developments in Namibia and South Africa

The domestic equity market demonstrated robust growth and continued resilience into the latter half of 2025 and early 2026. The Namibia Securities Exchange (NSX) Overall Index increased to 2,408.6 index points in February 2026, up from 1,829.9 index points in August 2025, representing a gain of 31.6 percent (Figure 12). Similarly, the NSX Local Index remained relatively stable over the same period, increasing by 8.1 percent from 754.5 index points to 815.6 index points. The performance of the local index was largely supported by strong earnings within the financial sector. At the end of February 2026, the NSX Overall Index recorded a year-to-date return of 5.5 percent, while the Local Index increased by 0.4 percent, indicating continued resilience in the domestic equity market.

The Johannesburg Stock Exchange (JSE) All Share Index also recorded notable gains. During the review period, the index rose by 26.1 percent, climbing from 101,835.6 index points in August 2025 to 128,455.7 index points in February 2026. The rally was supported by an improved domestic economic outlook, strong earnings in the financial sector, and higher commodity prices. Investor sentiment was further strengthened by South Africa's removal from the FATF grey list and an upgrade to the country's sovereign credit rating by S&P Global, which boosted foreign investor confidence. The JSE maintained positive momentum in early 2026, recording a year-to-date return of 3.64 percent by the end of February 2026. Despite this early resilience, performance across the indices diverged sharply in March 2026. The NSX Overall Index and the JSE both experienced a steep decline, moving in tandem with the broader global equity sell-off. In contrast, the NSX Local Index maintained its upward trajectory, reflecting its insulation from external shocks.

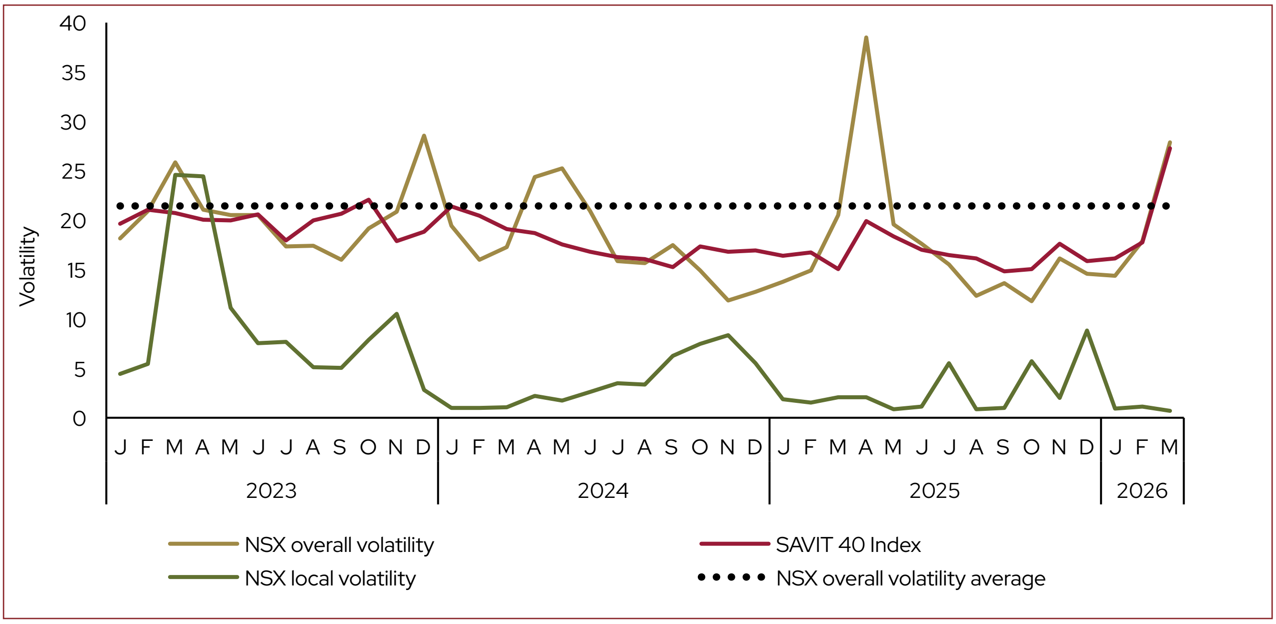
Figure 12: Performance of NSX Local Index, NSX Overall Index, and JSE



Source: Bloomberg and BoN

Equity market volatility in Namibia and South Africa remained broadly stable for much of the period under review before experiencing a sharp resurgence in March 2026. In Namibia, volatility in the NSX Overall Index trended downward and remained well below its historical average of approximately 21 index points for the remainder of 2025 and into early 2026 (Figure 13). Similarly, the South African Volatility Index Top 40 remained relatively contained, trading within a narrow range of 15 to 18 points during this same period. However, this stability was abruptly disrupted in March 2026 as volatility in both the NSX Overall Index and the South African Volatility Index Top 40 spiked sharply to approximately 28 points, breaching the historical average. This rapid resurgence reflected a sudden deterioration in international risk sentiment and the swift transmission of external uncertainties into dual-listed equities. In stark contrast, volatility in the NSX Local Index remained considerably lower than that of the NSX Overall Index throughout the review period. This divergence confirms that fluctuations in the NSX Overall Index originate almost entirely from international market developments, highlighting the continued insulation of purely domestic equities from broader macroeconomic shocks.

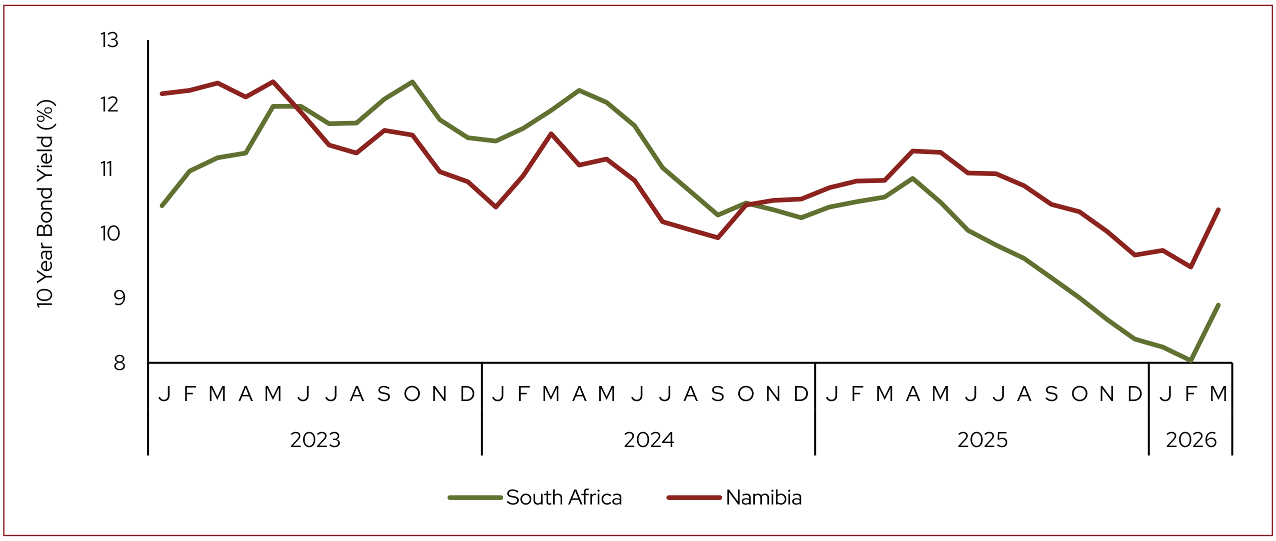
Figure 13: Namibian and South African equity market volatility



*Note: Historical volatility average is calculated as the average volatility within the NSX Overall Index from January 2017 to February 2026.
Source: Bloomberg and BoN

Namibian and South African 10-year government bond yields both declined during the second half of 2025. However, a structural divergence between the two markets resulted in a widening of the yield spread over the period under review. In South Africa, local currency bond yields declined markedly, falling from above 9.6 percent in August 2025 to approximately 8.0 percent by February 2026 (Figure 14). This compression in yields was largely supported by improved investor sentiment following South Africa's removal from the FATF grey list in October 2025, which reduced the risk premium on domestic assets. In addition, the improved fiscal outlook and the adoption of a 3 percent inflation target further strengthened the credibility of the SARB and contributed to the rally in government bonds. Namibian bond yields also declined over the same period, with the 10-year yield falling from 10.7 percent in August 2025 to 9.5 percent by February 2026. However, the compression in Namibian yields was largely influenced by developments in the South African bond market, reflecting the close financial linkages between the two economies. Despite this downward movement, the Namibia–South Africa 10-year yield spread widened. This reflects investor concerns regarding Namibia's fiscal position and macroeconomic outlook. As a result, Namibian government bonds continued to trade at a higher yield relative to South African bonds, as investors demanded a higher risk premium to compensate for these domestic vulnerabilities. However, consistent with the broader repricing observed across other financial indicators, this downward trajectory reversed abruptly in March 2026, with domestic yields spiking sharply in response to renewed inflationary pressures stemming from global energy markets.

Figure 14: Namibian and South African bond yields



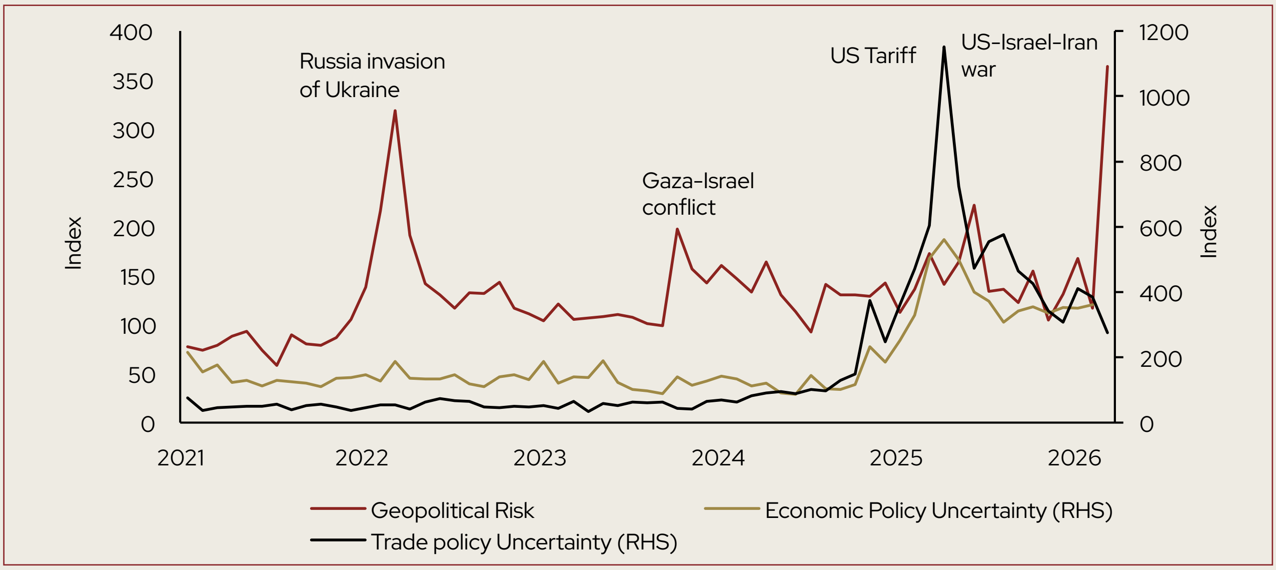
Source: Bloomberg and BoN

ARTICLE 1: **THE IMPACT OF GEOPOLITICAL RISK ON FINANCIAL STABILITY**

Geoeconomic fragmentation and geopolitical risk have emerged in recent years as defining challenges for economies worldwide. This has profoundly reshaped the global economic and financial landscape. Heightened geopolitical tensions, trade frictions, and regulatory divergence have created a world in which the political and economic spheres are increasingly intertwined. These developments have transformed the nature of the uncertainty faced by policymakers and financial institutions, as geopolitical shocks transmit through global markets, disrupt trade and investment flows, and potentially impact financial stability. As a small open economy, Namibia remains exposed to these developments through trade, financial linkages, and commodity markets. This article assesses the potential transmission of geopolitical risks to Namibia's financial system and outlines measures supporting resilience.

Recent global developments, including conflicts in Eastern Europe and the Middle East, and heightened geopolitical fragmentation, have elevated geopolitical risk globally. This has led to quantitative measures of geopolitical risk increasing sharply since 2022 (Figure A1). Notably, as of March 2026, the geopolitical risk index has surged by 65 percent since the October 2025 FSR. The dramatic surge is driven by the outbreak of conflict in the Middle East and by disruptions to shipping through the Strait of Hormuz. With roughly one-fifth of global seaborne oil shipments stalled, Brent crude prices have rapidly surged past USD 106 per barrel, representing a historic supply shock. For Namibia, monitoring these risks is particularly relevant given strong external linkages through trade, reliance on imported goods, and exposure to global financial conditions.

Figure A1: Global economic and trade policy uncertainty indices



Source: Caldara & Iacoviello (2022); Federal Reserve Bank of St Louis

How Geopolitical Tensions Can Affect Financial Stability: A Conceptual Framework

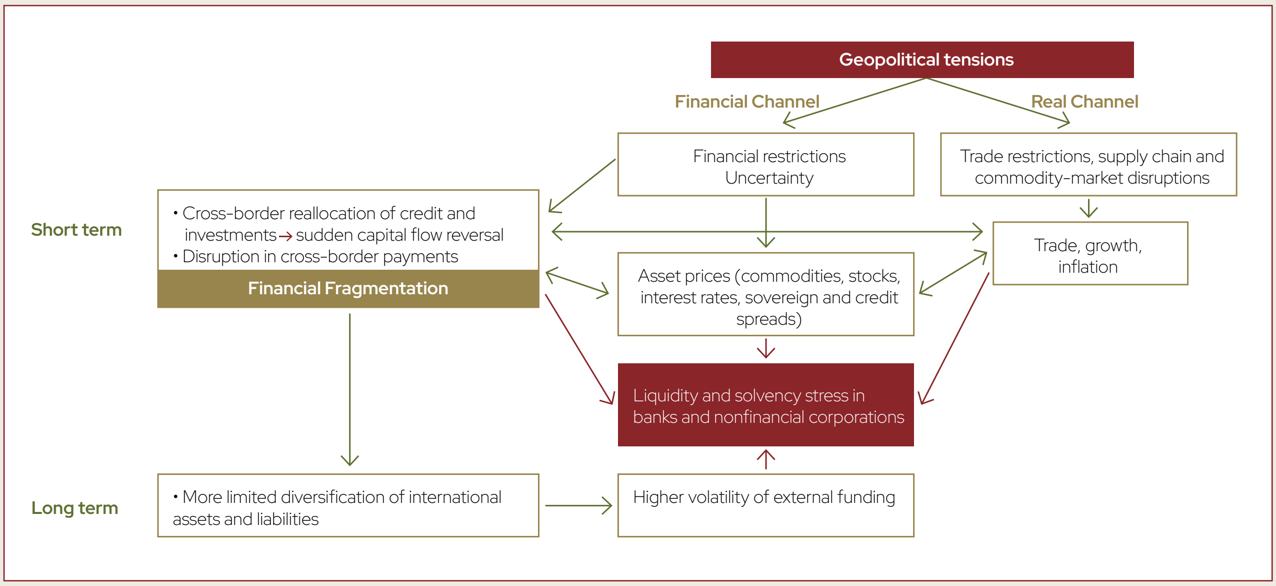
According to IMF 2023, geopolitical tensions can affect financial stability through two key channels, the financial channel and the real (macroeconomic) channel. Firstly, through the financial channel. This is evident in restrictions on cross-border capital flows and payments, such as financial sanctions, capital controls, or asset freezes, together with heightened uncertainty and risk aversion, which can disrupt international capital allocation and contribute to financial fragmentation (Figure A2). These developments may lead to a repricing of risk, declines in asset prices, and a withdrawal of cross-border funding. A sudden reallocation of capital can increase funding costs, elevate debt rollover risks, and weaken balance sheets across both financial and non-financial sectors, thereby generating liquidity and solvency pressures that threaten macro-financial stability.

Secondly, the real channel amplifies financial stability risks by affecting economic activity, inflation, and income dynamics. Geopolitical tensions can disrupt global supply chains, restrict trade and technology transfer, and create volatility in commodity markets. For small open economies such as Namibia, these shocks may reduce economic growth while simultaneously generating inflationary pressures. Supply chain disruptions may widen the trade deficit by raising import costs, further exerting pressure on foreign reserve buffers. Weaker economic activity and higher input costs can erode corporate profitability and household incomes, impairing debt-servicing capacity and increasing credit risk for banks. In turn, tighter monetary conditions in response to inflation may further depress asset prices and raise borrowing costs, reinforcing financial system vulnerabilities.

The interaction between the financial and real channels can give rise to adverse macro-financial feedback loops. For example, weaker economic activity may reduce investment and cross-border financial flows, which further dampens growth and trade. Similarly, commodity price shocks may trigger inflation and monetary tightening, leading to declines in asset prices and increased financial stress. Over time, persistent geopolitical tensions may also lead to financial fragmentation, reducing opportunities for international risk diversification and increasing the volatility of capital flows. This can heighten the domestic financial systems' susceptibility to external shocks and amplify systemic risk.

The extent of financial stability risks depends on country-specific vulnerabilities and the strength of policy buffers. The overall impact of geopolitical tensions on financial stability depends on country-specific characteristics, including the degree of financial openness, reliance on external funding, and the availability of policy buffers. Economies with limited diversification and stronger exposure to external financing conditions may be particularly vulnerable to sudden shifts in global capital flows and risk sentiment (IMF, 2025).

Figure A2: Geopolitical Risk and Macro-Financial Stability: Key Transmission Channels



Source: IMF 2023

Namibia's financial system exposure to geopolitical risk

Geopolitical risk transmission channels are particularly relevant for Namibia, given the economy's openness and its exposure to external trade and financial conditions. Disruptions to global supply chains and commodity markets could increase import costs, particularly for fuel and food, thereby intensifying inflationary pressures and tightening monetary conditions. Recent adjustments to domestic fuel prices, with pump prices raised by N$2.50 per litre for petrol and N$4.00 per litre for diesel in April 2026, reinforce the inflationary impulse already in the pipeline. At the same time, weaker global demand and price volatility may affect key export sectors, including mining and agriculture, with implications for economic activity and corporate earnings. On the financial side, heightened global risk aversion could increase funding costs and reduce capital inflows, while exchange rate volatility may further affect balance sheets. These developments could place pressure on households and firms through eroded purchasing power, thereby increasing credit risk in the banking sector and slowing demand for NBFI products, and accelerating NBFI redemption pressures.

The banking sector's exposure to these risks is assessed across funding conditions, market risks, credit exposures, and balance sheet resilience. On the funding side, banks remain predominantly funded through domestic deposits, which account for 92.5 percent of total funding, while reliance on foreign currency deposits remains limited at 7.5 percent by the end of 2025. This funding structure suggests low vulnerability to potential capital flow reversals and tightening global financial conditions. Liquidity conditions remain strong, with the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) averaging 165.5 percent and 117.2 percent, respectively, during 2025. Both ratios are well above the regulatory minimum requirement of 85 percent, indicating that banks maintain sufficient buffers to withstand short-term funding stress.

Market related risks arise through exchange rate volatility, interest rate adjustments, and asset price dynamics. Banks' direct exposure to exchange rate volatility appears contained, with net open foreign exchange positions at -0.01 percent of regulatory capital at the end of 2025. However, indirect exposures persist through foreign currency denominated loans, also averaging less than 10 percent of total loans during the same period. In addition, shifts in global and domestic interest rates may affect bank profitability and asset valuations through higher funding costs and repricing effects. However, it is worth noting that over the past three years, banks have maintained a positive and widening repricing gap, indicating an asset-sensitive position (Table A1). This suggests that interest income is likely to adjust more quickly than funding costs in a rising interest rate environment, thereby supporting net interest margins. In the context of inflationary pressures arising from geopolitical developments, this positioning provides a buffer against monetary policy tightening. Nevertheless, higher interest rates may also increase debt-service burdens for households and firms, potentially elevating credit risk over time.

Table A1: Interest rate risk

Category (N$ million)	2021	2022	2023	2024	2025
Total sensitive assets (by time to repricing)	126,782	135,278	143,947	153,237	156,822
< 3 months	118,443	124,817	133,027	141,857	146,710
3-6 months	4,278	4,444	4,752	6,112	5,634
6-12 months	4,061	6,017	6,168	5,268	4,478
Total sensitive liabilities (by time to repricing)	114,934	127,004	129,066	137,059	135,321
< 3 months	99,049	112,785	118,718	122,386	118,211
3-6 months	7,284	5,555	3,781	5,124	3,401
6-12 months	8,602	8,664	6,567	9,549	13,709
GAP	11,848	8,274	14,882	16,179	21,502

Source: BoN

Credit risk remains the primary transmission channel through which geopolitical shocks may affect the banking sector. The non-performing loan ratio stood at 4.3 percent at the end of 2025, indicating a moderate level of asset quality risk. Banks' exposures to sectors sensitive to external conditions, including mining and quarrying, agriculture, hunting and forestry, as well as trade and accommodation, accounted for approximately 15 percent of total non-performing loans. These sectors remain vulnerable to external demand shocks, commodity price volatility, and supply chain disruptions. Household vulnerabilities are also relevant in an environment of elevated inflation and borrowing costs, which may weaken debt-servicing capacity and increase default risks over time.

The sovereign bank nexus provides an additional channel of vulnerability. Banks held, on average, 18.9 percent of their total assets in government securities during 2025, linking financial sector stability closely to sovereign risk dynamics. While these exposures support liquidity and provide a stable source of income, a deterioration in fiscal conditions or an increase in sovereign risk premia could transmit to bank balance sheets through valuation losses and tighter funding conditions. In addition, heightened sovereign risk may crowd out private sector lending and amplify macro-financial vulnerabilities.

Overall, the banking sector remains resilient, as reflected in the key financial soundness indicators assessed, and is supported by strong capital and profitability buffers. The capital adequacy ratio averaged 17.1 percent, while return on assets and return on equity stood at 2.6 percent and 20.3 percent, respectively, in 2025. These buffers provide an important cushion against potential shocks arising from heightened geopolitical risks. Nonetheless, continued monitoring of external vulnerabilities, sectoral credit exposures, and funding conditions remains essential to safeguard financial stability.

A key systemic vulnerability in Namibia's NBFI sector arises from geopolitical shocks that simultaneously strain solvency and asset valuations, undermining cross-sector diversification benefits. A geopolitically-driven monetary tightening reversal would impact the NBFI sector through three concurrent mechanisms: mark-to-market losses on the combined fixed-income book across RF, LTI, and CIS portfolios; equity market repricing driven by higher discount rates and earnings compression; and forced asset sales by any subsector under redemption pressure, depressing prices for assets held across other subsectors.

The bidirectionality of the NBFI-sovereign nexus compounds this risk to the point of potential systemic consequence. During the review period, retirement funds held N$46.1 billion in sovereign debt, long-term insurers N$12.2 billion, and collective investment schemes a further N$30.1 billion in Treasury bills. Any distress in the sector that forces large-scale liquidation of these government securities would simultaneously raise the sovereign's borrowing costs and weaken the fiscal position, creating a feedback loop between NBFI solvency stress and sovereign fiscal pressure. The prescription of the domestic assets framework was deliberately designed to provide a fiscal anchor. As a result, it creates systemic interconnectedness risk, which becomes most acute under precisely the kind of geopolitically induced macro-financial shock with no predictable normalisation timeline that characterises the current environment.

The NBFI sector's overall macroprudential assessment remains one of adequate resilience under baseline conditions, but the margin for error has narrowed materially as geopolitical risks have escalated. No primary prudential threshold breach was recorded in 2025, and the sector's financial stability remained intact throughout the review period. Standard supervisory engagement remains the appropriate response at current indicator levels, but the escalating geopolitical environment calls for enhanced monitoring of portfolio composition, actuarial assumption robustness, and cross-sectoral contagion channels within the NAMFISA Integrated Stress Testing Model framework.

Conclusion

Overall, Namibia's financial system remains resilient to geopolitical risks, as reflected in the key financial soundness indicators assessed across both banking and non-banking sectors. While geopolitical tensions can transmit through financial and real channels, affecting funding conditions, asset prices, and economic activity, the domestic financial system is supported by strong capital and liquidity buffers, as well as relatively stable funding structures. The banking sector remains well positioned to absorb potential shocks, while the non-banking financial sector benefits from diversified portfolios and long-term investment horizons. Nonetheless, Namibia's openness and strong linkages to global financial markets imply that external developments remain a key source of risk. Against this backdrop, continued vigilance remains essential. Strengthening risk monitoring, maintaining adequate capital and liquidity buffers, and enhancing stress-testing frameworks will be critical to ensuring the financial system remains resilient amid evolving geopolitical risks.

3.3 The non-financial sector

Household debt to disposable income

Household debt growth moderated in 2025, reflecting a broad-based slowdown in credit expansion. Annual household indebtedness declined to 2.1 percent by the end of 2025, from the 4.0 percent recorded at the end of 2024 (Table 4). Consistent with the October 2025 FSR, this deceleration was primarily driven by developments in the microlending segment, where growth contracted by 3.6 percent during the period under review. In contrast, household credit extended by the banking sector rose by a modest 2.0 percent, largely driven by consumption-based lending. This growth was driven by instruments such as overdrafts and instalment and leasing credit, as well as other loans and advances. The composition of credit suggests that households continue to rely on short-term borrowing to meet immediate consumption needs, reflecting ongoing pressure on disposable income and cash flow positions. In terms of microlending, growth in the microlending loan book declined significantly, from 12.8 percent in 2024 to a contraction of 3.6 percent in 2025. This sharp moderation was mainly attributed to base effects stemming from a once-off injection of N$609.0 million into the sector during the second half of 2024 through a loan book acquisition. Despite the overall moderation in credit growth, the predominance of short-term, consumer-oriented lending presents potential financial stability risks. While subdued credit expansion may ease concerns around excessive household leverage, the continued reliance on short-term borrowing increases vulnerability to income shocks and interest rate changes, leaving households more exposed to adverse economic conditions.

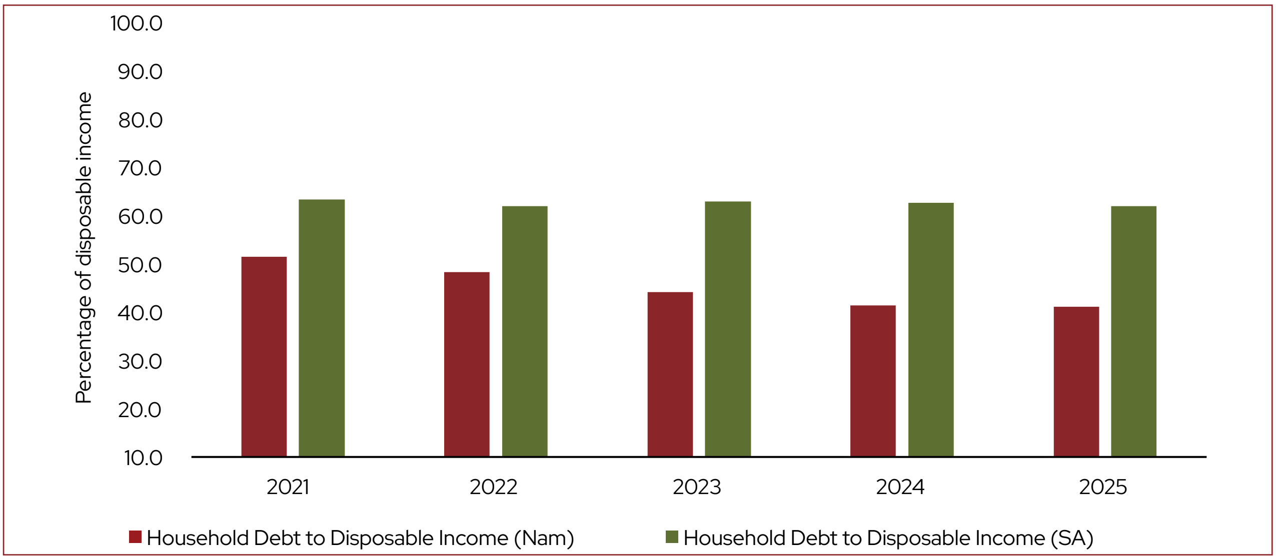
Table 4: Ratio of disposable income to household debt

Disposable income and household debt	N$ million				
	2021	2022	2023	2024	2025
Disposable income	134,362	147,977	167,324	185,732	190,657
Ratio of credit to disposable income (%)	46.0	43.7	39.8	37.0	37.0
Total credit extended to households/individuals	61,791	64,723	66,648	68,688	70,570
Adjusted credit to households/individuals*	69,107	71,465	73,805	76,760	78,354
Growth rate in household debt (%)	3.8	3.4	3.3	4.0	2.1
Adjusted credit of households/individuals-to-disposable income* (%)	51.4	48.3	44.1	41.3	41.1

Note: * This category includes credit extended to households by both banking and non-bank financial institutions.
Source: BoN and Namibia Statistics Agency (NSA)

Namibia's household debt-to-disposable income ratio remained broadly stable in 2025, supported by steady growth in disposable income. The ratio stood at 41.1 percent in 2025, marginally lower than 41.3 percent which was recorded in 2024 (Table 4). This slight moderation reflects broadly aligned growth in both household debt and disposable income, with debt increasing by 2.1 percent and income by 2.7 percent during the period under review. A similar trend was observed in South Africa, where the household debt-to-disposable income ratio declined from 62.7 percent to 61.9 percent in 2025, as the annual increase in nominal disposable income of households exceeded the increase in household debt (Figure 15). Within the Common Monetary Area (CMA), Namibia continues to exhibit relatively low household indebtedness. Household debt as a percentage of GDP stood at 30.7 percent, making it the second lowest in the region after Lesotho, which recorded a ratio of 17.2 percent in 2024. Overall, the stability in Namibia's household debt ratios suggests a contained level of household leverage. However, continued monitoring remains important, particularly in the context of subdued income growth and the composition of credit, which may still pose risks to household balance sheets.

Figure 15: Household debt to disposable income (Namibia and South Africa)



Source: BoN and SARB

Corporate debt

Namibia's total corporate debt stock increased modestly during 2025, primarily driven by higher domestic borrowing. Total debt rose by 2.5 percent to N$198.3 billion at the end of 2025, compared with N$193.4 billion at the end of 2024 (Table 5). The increase was largely underpinned by domestic debt, which expanded by 6.8 percent to N$53.4 billion during the period under review. This growth was mainly attributable to higher credit uptake by corporates, particularly in the form of overdrafts, instalment and leasing credit, as well as other loans and advances. Foreign debt also recorded a slight increase of 1.0 percent, reaching N$144.8 billion at the end of 2025. This was primarily driven by intercompany borrowing, notably within the mining and transport sectors. In addition, increased foreign trade credit extended to domestic banks also contributed to the overall rise in external corporate debt. Overall, the modest expansion in corporate debt reflects continued reliance on both domestic and external funding sources.

Table 5: Domestic and external corporate debt (corporates and state-owned enterprises)

Debt category	N$ million				
	2021	2022	2023	2024	2025
Domestic debt	44,875	46,173	47,351	50,067	53,448
Local corporate debt	44,258	45,808	45,979	48,442	51,748
Local state-owned enterprise (SOE) debt	616	365	1,372	1,624	1,700
Foreign debt	94,671	111,672	129,073	143,333	144,822
Foreign corporate debt	86,951	102,276	120,700	134,531	135,476
Foreign SOE debt	9,470	9,636	8,373	8,802	9,346
Total SOE debt	10,086	10,001	9,745	10,427	11,046
Total debt	139,546	157,845	176,424	193,400	198,270
Nominal gross domestic product (GDP)	183,292	205,584	230,985	250,025	269,768
Corporate debt as a % of GDP	71.6	72.0	72.2	73.2	69.4
Foreign corporate debt as a % of GDP	47.4	49.7	52.3	53.8	50.2
Foreign debt as a % of total debt	67.8	70.7	73.2	74.1	73.0

Source: BoN and NSA

Corporate debt as a percentage of GDP declined during 2025, largely reflecting strong nominal GDP growth. Namibia's corporate debt-to-GDP ratio decreased from 73.2 percent at the end of 2024 to 69.4 percent at the end of 2025, supported by nominal GDP growth of 7.9 percent during the year. This decline was mainly driven by a reduction in the ratio of foreign corporate debt to GDP, which fell from 53.8 percent to 50.2 percent over the same period, despite a modest increase in the level of foreign debt. The decline therefore reflects denominator effects rather than a deleveraging of external obligations. While the expansion in domestic corporate debt is not considered a significant concern given that it is largely linked to sectors supporting economic activity, the continued increase in foreign borrowing warrants closer attention. In particular, higher reliance on foreign debt exposes corporates to exchange rate risk. A depreciation of the NAD could raise debt servicing costs, amplify repayment burdens, and place pressure on foreign exchange reserves. Overall, although corporate leverage ratios have improved on the back of strong economic growth, the composition of debt, especially the exposure to foreign currency liabilities, remains a key source of vulnerability from a financial stability perspective.

Total foreign private sector debt servicing declined marginally during 2025 compared to the previous year. The total value of repayments decreased to N$47.1 billion in 2025, from N$47.6 billion recorded in 2024 (Table 6). The decline was primarily driven by lower debt servicing obligations on intercompany borrowing. This was further supported by reduced withdrawals of foreign deposits held with domestic deposit-taking corporations.

Table 6: Foreign private-sector debt and debt servicing

Debt/debt servicing category	N$ million				
	2021	2022	2023	2024	2025
Total foreign private-sector debt	94,671	111,672	129,073	143,333	144,822
Total foreign private-sector debt servicing	16,114	25,429	37,491	47,550	47,098

Source: BoN

4.

The Financial Sector

4. THE FINANCIAL SECTOR

4.1 The banking sector

The banking sector's balance sheet expanded during the period under review, reversing the contraction reported in the October 2025 FSR. Total assets increased by 5.1 percent to N$188.2 billion at the end of December 2025 from its level at the end of the second quarter of 2025. The expansion in total assets was mainly driven by growth in net loans and advances, short-term negotiable securities, and trading and investment securities. Net loans and advances, which constitute the largest share of banking sector assets at 66.7 percent, increased by 7.5 percent to N$125.4 billion at the end of December 2025. The increase was primarily supported by stronger demand for instalment sales, which rose by 8.9 percent during the review period, as well as by an expansion in fixed-term loans amounting to N$6.2 billion following the redemption of Namibia's Eurobond in October 2025. Short-term negotiable securities increased by 11.1 percent to N$29.3 billion, largely reflecting higher investments by banks in foreign Treasury bills. Meanwhile, trading and investment securities rose by 20.7 percent to N$6.6 billion, mainly due to increased bank participation in derivative instruments amid favourable developments in gold prices. Overall, the expansion in banking sector assets reflects a recovery in credit activity alongside increased investment in liquid securities, which supported balance sheet growth during the review period.

Risk analysis

The FSSC analyses the resilience of the domestic financial system to internal and external shocks, be they economic, financial, political or otherwise. The main objective of these analyses is to identify potential risks in the banking sector and determine the best way to mitigate them. It is therefore important to analyse credit, liquidity and concentration risks in the banking sector. These risks further inform the scope of stress tests that are conducted, which are part of the overall analysis of the sector's resilience.

Credit risk

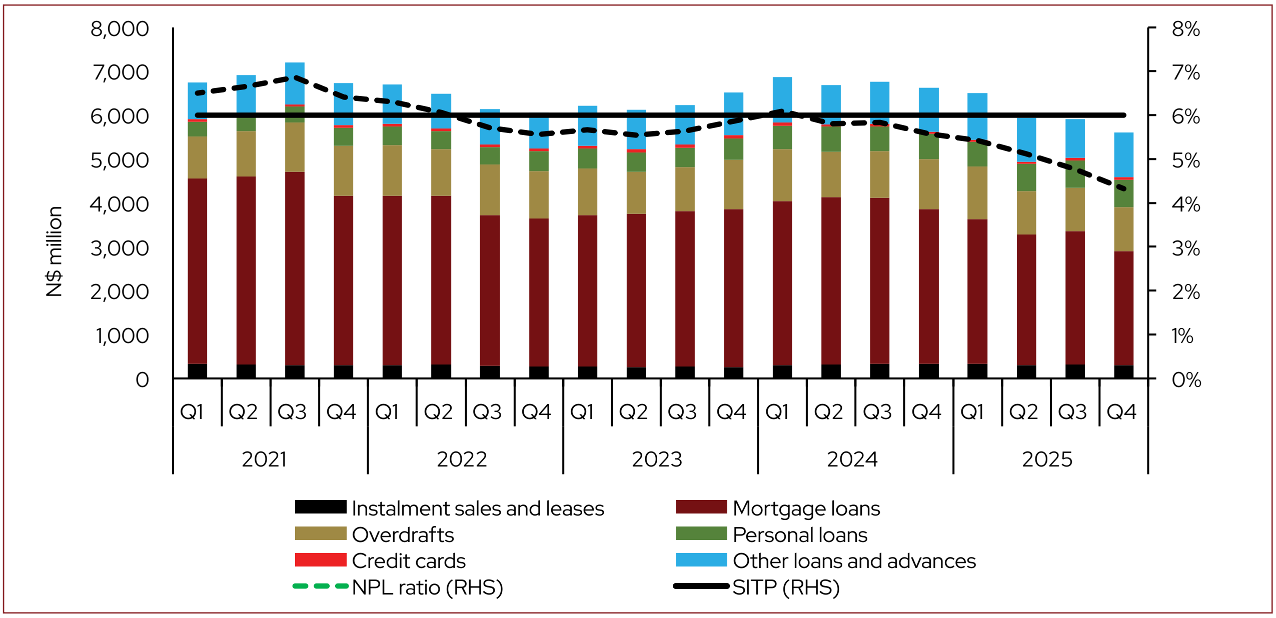
Credit risk is defined as the risk of default by borrowers and its potential impact on profitability and capital adequacy. The banking sector's assets are composed mainly of loans granted to households and corporates. The interest earned on these assets, which is a significant component of banks' income and profit, is subject to the risk of borrowers defaulting on their loans. Thus, the risk of default determines the quality of these assets: the higher the default rate, the lower the quality of the assets concerned, and conversely, the lower the credit risk, the higher the asset quality. Therefore, banks are required to increase provisions when their asset quality deteriorates. This measure is intended to ensure that potential losses are absorbed in a timely manner, thereby limiting the impact on capital.

Asset quality

Asset quality, as measured by the ratio of non-performing loans (NPLs) to total gross loans, improved during the period under review, reducing credit risk in the banking sector. Following the release of the October 2025 FSR, the NPL ratio declined to 4.3 percent at the end of the fourth quarter of 2025 (Figure 16). Figure 1 further illustrates the improvement in banking sector asset quality during 2025. This improvement was driven by both a reduction in NPLs and an increase in total loans and advances. NPLs on credit cards, personal loans and other loans and advances increased during the period under review, while that of mortgage loans as well as instalment loans and leases declined. Mortgage loans, which previously accounted for over 50 percent of total NPLs, now account for 46.4 percent, having declined by 12.8 percent to N$2.6 billion during the period under review. The decline in this category of NPLs was attributable mainly to a combination of repayments and write-offs during the second half of 2025, which totalled N$341.6 million. In addition, NPLs in instalment sales and leases declined marginally by 0.7 percent to N$299.6 million over the same period. The rest of the categories increased collectively by N$47.6 million during the period under review. From a sectoral perspective, individuals continue to dominate NPL exposures, accounting for a share of 32.7 percent of the total NPLs.

The outlook for asset quality remains subject to heightened uncertainty amid evolving macrofinancial conditions. While the easing of monetary policy during the second half of 2025 may provide some relief to households and corporates by reducing debt-servicing pressures, the future path of interest rates and broader economic conditions remains uncertain. In addition, the reduction in the spread between the repo and prime lending rates, which came into effect in September and December 2025, may support credit demand and lending activity over time. However, the overall impact of these developments on asset quality will depend on the pace of economic activity, household income dynamics, and corporate sector performance. Continued supervisory oversight and prudent credit risk management by banks are expected to support the maintenance of adequate asset quality. Overall, the NPL ratio is expected to remain broadly contained in the near term and is likely to remain below the supervisory intervention trigger point of 6.0 percent, although risks to the outlook remain.

Figure 16: Non-performing loans ratio and category distribution

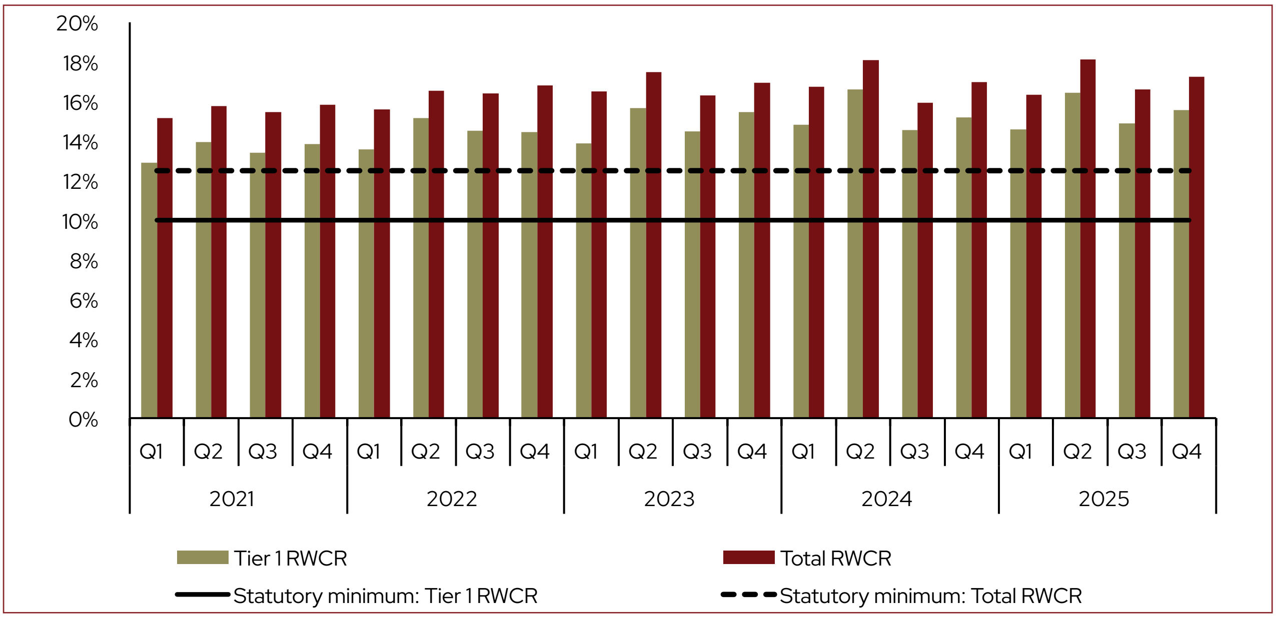


Source: BoN

Capital adequacy

The banking sector remained adequately capitalised during the second half of 2025, maintaining capital buffers well above the minimum prudential requirements. Both the total risk-weighted capital ratio (RWCR) and Tier 1 RWCR exceeded their respective regulatory thresholds of 12.5 percent and 10.0 percent. Since the October 2025 FSR, total eligible capital declined by N$507.5 million to N$22.4 billion at the end of December 2025 (Figure 17). As a result, the total RWCR decreased by 0.9 percentage points to 17.3 percent during the six-month review period. The decline reflected a combination of a modest reduction in total eligible capital alongside a 2.6 percent increase in risk-weighted assets. Similarly, the Tier 1 RWCR declined by 0.8 percentage points to 15.6 percent. This reduction was largely driven by lower retained earnings, following dividend payments amounting to N$3.5 billion during the second half of the year. Despite the marginal moderation in capital ratios, the banking sector's capital position remains robust. At 17.3 percent, the total RWCR remains above its 10-year average of 15.9 percent, indicating that banks continue to hold sufficient capital buffers to absorb potential losses while supporting credit intermediation. This sustained capital strength reinforces the resilience of the banking sector and supports overall financial system stability.

Figure 17: Capital adequacy



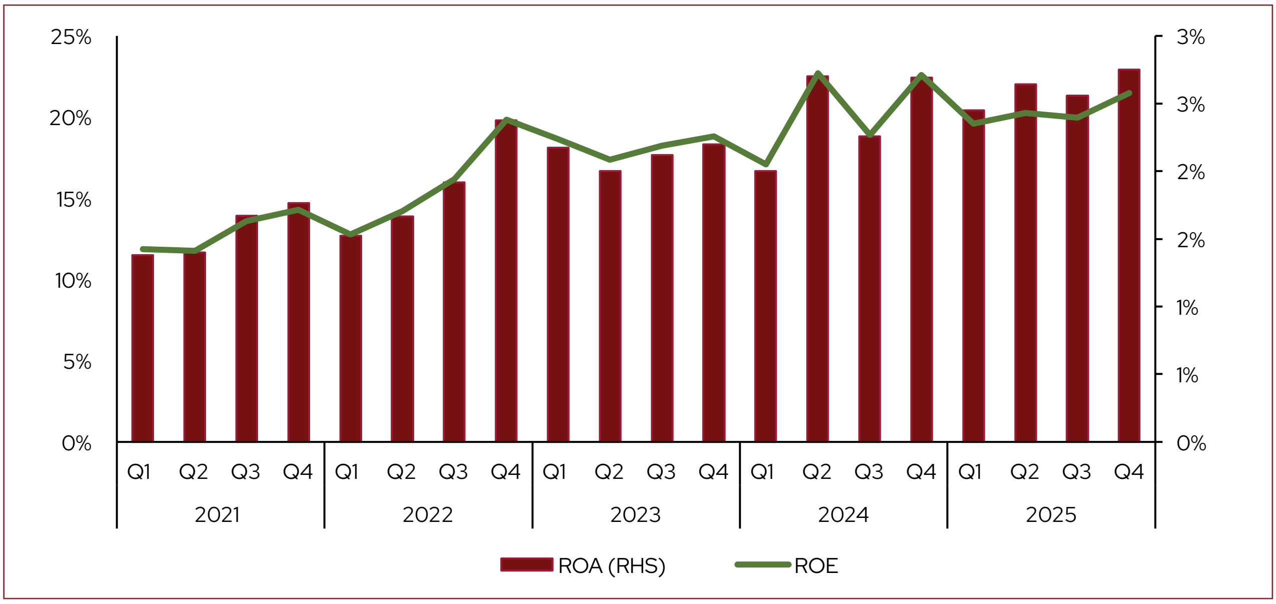
Source: BoN

Profitability

Banking sector profitability improved during the review period, supported by stronger net interest income and non-interest income. The return on assets increased from 2.6 percent in the second quarter of 2025 to 2.8 percent in the fourth quarter of 2025. Similarly, the return on equity rose from 20.2 percent to 21.5 percent over the same period (Figure 18). The improvement in profitability was primarily driven by growth in net interest income, other operating income, and net trading income. Net interest income, which accounts for more than half of total banking sector income, increased by N$140.2 million to N$2.4 billion in the fourth quarter of 2025. This development reflected a combination of higher interest income alongside lower interest expenses, broadly consistent with the easing monetary policy environment. Non-interest income also strengthened during the review period. Operating income increased mainly due to higher fee income, which rose by N$206.5 million to N$1.4 billion over the same period. The increase in fee income partly reflects seasonal spending patterns, as economic activity and transaction volumes typically peak in December.

Looking ahead, the outlook for banking sector profitability remains subject to evolving macrofinancial conditions. Uncertainty surrounding the future path of interest rates may influence banks' interest income and funding costs over the next 12 months. In addition, the Bank of Namibia's directive to narrow the spread between the repo rate and the prime lending rate, which took effect in September and December 2025, may gradually place some pressure on banks' interest margins. However, the overall impact on profitability may be moderated by potential adjustments in banks' business models, including increased lending volumes, higher fee-based income, and improved operational efficiencies. As such, the banking sector's profitability is expected to remain broadly resilient, although developments in interest rate conditions and credit demand will remain key factors influencing earnings performance going forward.

Figure 18: Profitability



Source: BoN

Adequacy of provisions

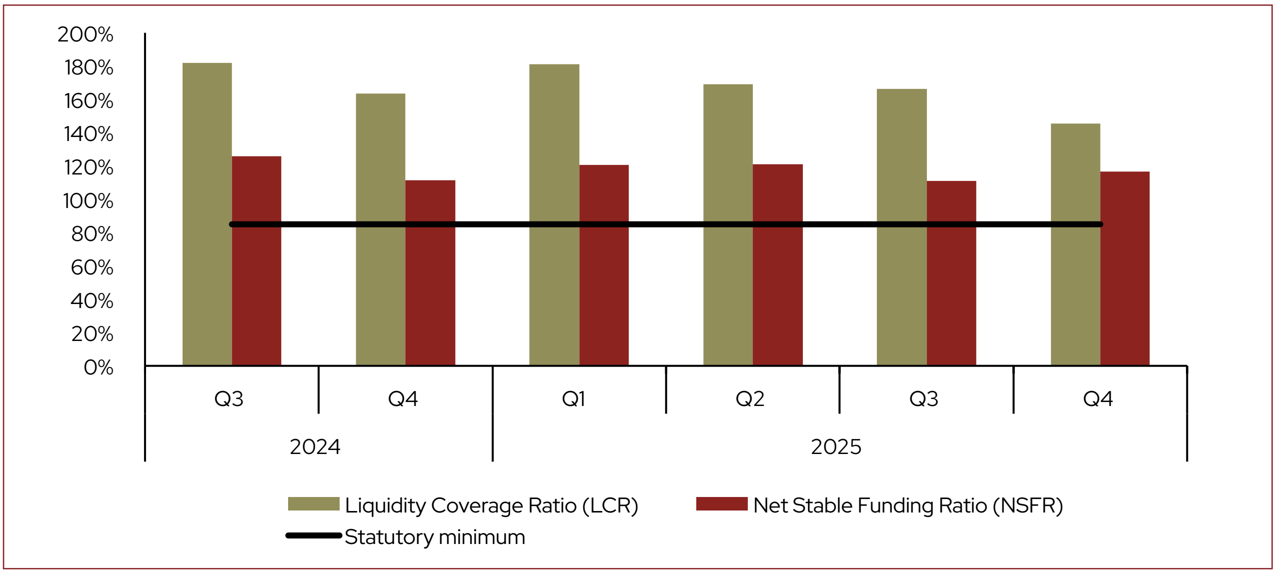
Total provisions declined during the second half of 2025 compared to the first half of the year, broadly consistent with the improvement observed in asset quality. Since the release of the October 2025 FSR, total provisions have decreased by 1.6 percent to N$3.2 billion. The decline was mainly driven by an 8.2 percent reduction in general provisions, which stood at N$1.2 billion at the end of December 2025, despite a 7.0 percent increase in total loans and advances over the same period. This suggests that improvements in credit quality enabled banks to reduce precautionary provisioning buffers while credit growth continued. In contrast, specific provisions increased by 2.9 percent relative to the second quarter of 2025, reaching N$2.0 billion by the end of the fourth quarter of 2025. The increase in specific provisions reflects continued efforts by banks to adequately cover identified credit exposures. Although NPLs have shown signs of improvement, banks are expected to maintain adequate provisioning buffers to safeguard against potential losses and manage credit risk prudently. Overall, credit risk in the banking sector remained moderate during the second half of 2025 and is expected to remain broadly contained during the first half of 2026, with a medium impact assessment.

Liquidity risk

The liquidity position of the banking sector remained strong during the second half of 2025, despite a moderation in liquidity buffers over the period. Both the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) remained well above the transitional regulatory minimum requirements of 85 percent. The LCR declined from 169.0 percent in the second quarter of 2025 to 145.6 percent in the fourth quarter of 2025 (Figure 19). This reduction was driven by a 13.2 percent increase in net cash outflows, alongside a 2.5 percent decline in total high-quality liquid assets. The decrease in high-quality liquid assets was mainly attributable to lower investments in Treasury bills, which declined by 4.6 percent between June and December 2025 to an average of N$16.7 billion, largely reflecting the maturity of several instruments during the review period. Similarly, the NSFR declined from 120.9 percent at the end of the first half of 2025 to 116.5 percent in the second half of the year. The decline was mainly driven by an increase in required stable funding that outpaced the growth in available stable funding. Despite the moderation in these ratios, the banking sector's liquidity position remains comfortable.

Looking ahead, the LCR and NSFR are both expected to remain well above the minimum regulatory requirements. Under the transitional framework, the minimum requirement for both ratios is set to increase to 95 percent in April 2026, with full compliance of 100 percent expected by April 2027. Given the current level of liquidity buffers in the banking sector, banks are well positioned to meet these phased-in requirements. Liquidity conditions are therefore expected to remain adequate in 2026, supported in part by ongoing government funding needs and banks' continued holdings of liquid assets.

Figure 19: Liquid assets and liquidity ratio



Source: BoN

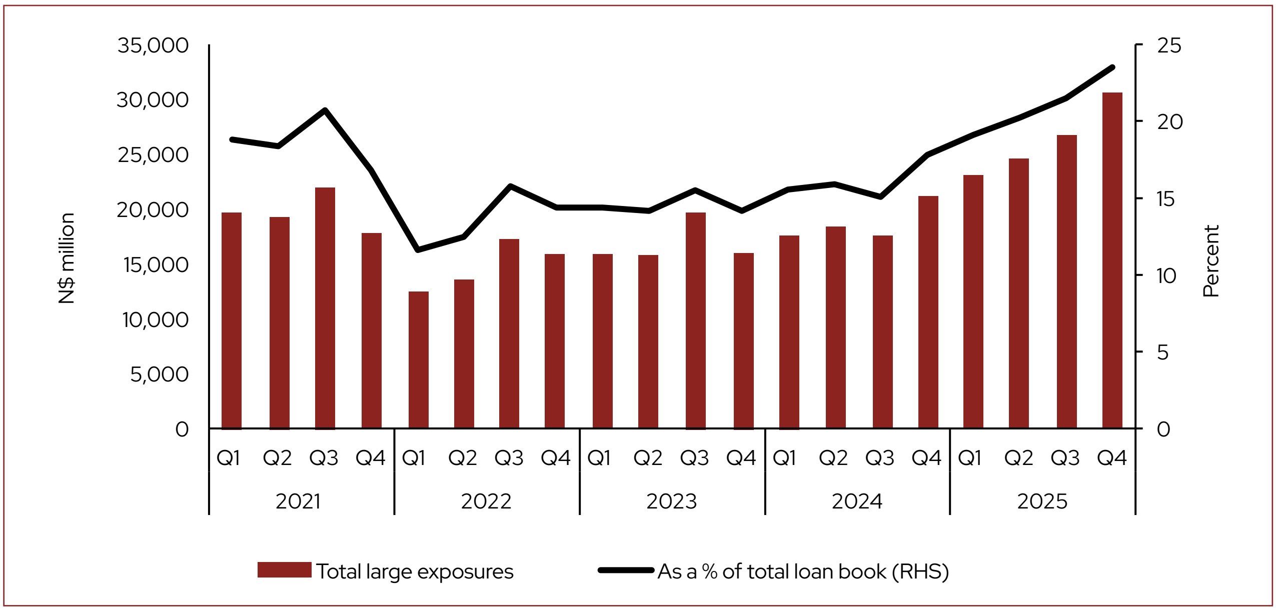
Both the loan-to-deposit ratio and the loan-to-funding ratio remained below 100 percent during the second half of 2025. This indicates that banks continued to fund their lending activities largely through stable funding sources. A loan-to-deposit ratio above 100 percent typically suggests that banks rely on additional borrowed funds to finance part of their lending activities. Similarly, elevated loan-to-funding ratios may constrain banks' ability to expand lending while prudently managing liquidity risk. The loan-to-deposit ratio increased from 85.5 percent in the second quarter of 2025 to 87.1 percent in the fourth quarter of 2025. This development reflects stronger growth in loans and advances (7.2 percent), which outpaced the 5.2 percent increase in deposits during the same period. Similarly, the loan-to-funding ratio increased from 80.9 percent at the end of the second quarter of 2025 to 82.6 percent in the fourth quarter of 2025. This increase indicates that a slightly larger share of total funding was allocated to lending rather than being held in liquid assets, which is consistent with the moderation observed in the sector's overall liquidity position. Despite the upward movement in both ratios, funding conditions in the banking sector remain comfortable. Overall, the current levels of these ratios remain manageable and continue to support financial system stability. Looking ahead, the probability of liquidity risk deteriorating in the first half of 2026 is assessed as low, with a minimal potential adverse impact on the stability of the financial system.

Concentration risk: Large exposures

Large exposures in the banking sector increased notably during the second half of 2025 compared with their level at the end of the first half of the year. Total large exposures6 rose by 24.3 percent to N$30.4 billion (Figure 20). This increase was largely driven by banks' higher exposure to the Government of Namibia following the redemption of the Eurobond, where banks provided approximately N$6.0 billion in financing. Excluding this once-off development, large exposures increased only marginally by 0.4 percent to N$24.5 billion. The modest underlying increase was mainly driven by new credit disbursements amounting to N$3.6 billion to companies operating in the agriculture, retail, finance, and mining and quarrying sectors. These disbursements were partly offset by repayments totalling N$3.5 billion during the period under review. The growth in large exposures also reflects banks' continued efforts to diversify their loan portfolios. Notably, lending to companies operating in the agricultural sector entered the large exposure category for the first time during the review period, indicating some sectoral diversification in large credit exposures. As a share of total loans and advances, large exposures increased from 20.2 percent at the end of the second quarter of 2025 to 23.5 percent by the end of the fourth quarter of 2025. Despite this increase, concentration risk remains contained, as all large exposures continued to comply with the single-borrower regulatory limit of 25.0 percent. As such, current exposure levels do not pose a material threat to the stability of the financial system.

Notwithstanding the above, exposures to the mining sector declined during the period under review, largely reflecting repayments by mining companies on their outstanding debt. Banks' exposures to the sector decreased from N$6.0 billion at the end of the second quarter of 2025 to N$4.3 billion by the end of the fourth quarter. Repayments by companies operating in the mining sector contributed to a moderation in large exposures and may also reflect weaker financing demand amid subdued conditions in the diamond sector.

Figure 20: Total large exposures



Source: BoN

[6] A large exposure is any exposure to a single person or group of related persons that, in the aggregate, is equal to or exceeds 10 percent of a banking institution's capital funds.

4.2 Non-bank financial institutions

The combination of a more accommodative monetary policy environment, recovering regional equity markets and improving domestic demand conditions reinforced the NBFI sector's resilience in 2025, extending the broad-based expansion that characterised the preceding year. Moderating inflation contributed to a compression of the risk-free rate that lifted asset valuations across equity and fixed-income markets alike, directly supporting the investment portfolios of the NBFI subsectors. Simultaneously, the conclusion of the monetary tightening cycle in both South Africa and Namibia improved household purchasing power and stimulated demand for savings and insurance products, providing a constructive backdrop for premium and contribution growth. Aggregate NBFI assets expanded by 16.6 percent to N$552.8 billion in 2025, representing an acceleration in the pace of asset accumulation relative to 2024 (14.3 percent). The sector's financial stability remained intact throughout the review period, with solvency, liquidity and capital adequacy indicators for each subsector assessed as broadly sound, and no threshold breaches recorded in any primary prudential metric. The sector's growing asset base amplifies its structural importance as both an intermediary of household savings and a stabiliser of public finances: retirement funds and long-term insurers collectively held N$52.8 billion in Namibian government bonds at year-end, providing the sovereign with a reliable, domestically sourced funding base insulated from the cross-border capital-flow volatility that continued to characterise the external environment.

The external macroeconomic backdrop remained complex, shaped in part by two evolving risk factors: US-Africa trade policy; and Namibia's FATF grey-listing. Taken together, these developments define an external risk environment that is in transition: the AGOA framework has been nominally restored but structurally weakened, and it remains subject to further policy discontinuity. Furthermore, the FATF process is approaching resolution, a configuration that replaces the static uncertainty that characterised the review period with a set of more precisely bounded but still consequential tail risks that the sector's stress testing framework is calibrated to illuminate.

Table 7: Non-bank financial institutions sector: Asset size

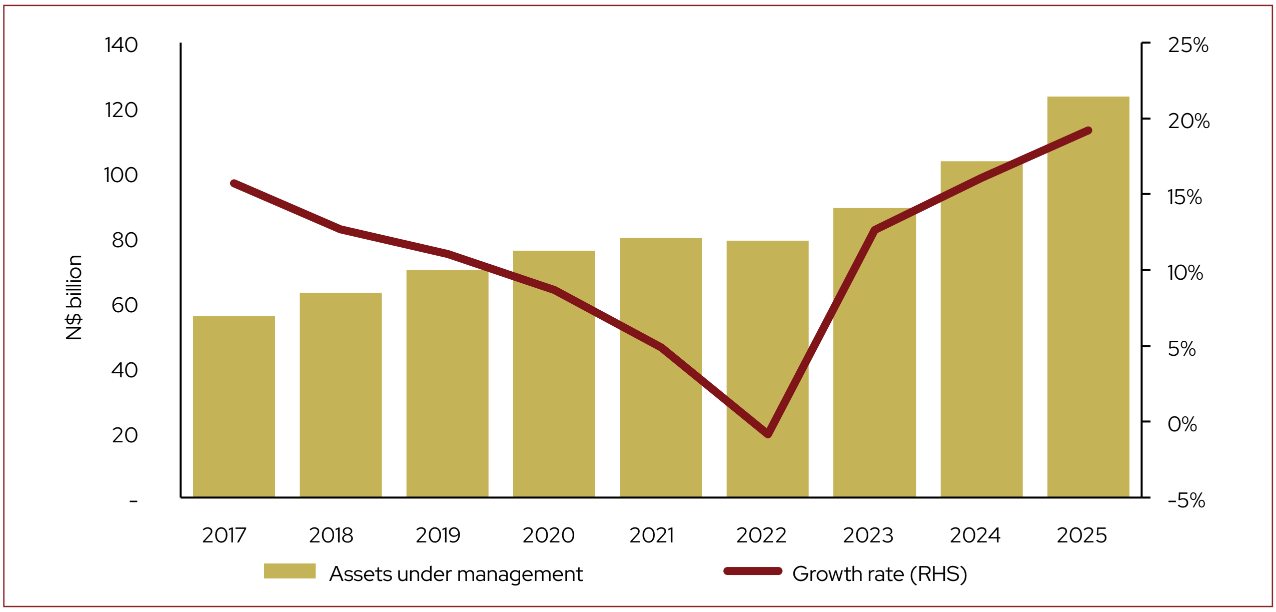
Total assets per subsector	2021	2022	2023	2024	2025
	(N$ million)				
Long-term insurance	66,672	68,757	74,260	83,837	97,120
Short-term insurance	7,188	7,200	7,745	9,121	10,207
Medical aid funds	2,287	2,001	2,097	2,796	3,596
Pension funds	212,909	205,817	237,145	262,777	303,465
Collective investment schemes*	61,622	60,974	68,424	80,027	97,555
Investment managers*	12,584	14,654	17,888	27,453	33,257
Friendly societies	2	2	2	3	3
Microlenders	7,316	6,743	7,157	8,071	7,551
Total	**370,582**	**366,149**	**414,811**	**474,084**	**552,755**
Annual growth	**13.5%**	**-1.2%**	**13.3%**	**14.3%**	**16.6%**

Note: *The assets under the two subsectors' management were recalculated, deducting funds managed on behalf of the other NBFI subsectors. This correction serves to guard against double counting in the determination of aggregate NBFI assets.
Source: Namibia Financial Institutions Supervisory Authority (NAMFISA)

Collective investment schemes

The collective investment schemes subsector sustained sound financial stability in 2025, with no indicators of structural liquidity or solvency stress. Total assets under management expanded by 19.2 percent to reach N$123.4 billion in 2025, accelerating from a 16.1 percent expansion in 2024 (Figure 21). The macroeconomic environment provided a directly supportive backdrop. The moderation of domestic inflation preserved the real value of savings and contributed to the continued growth in households' participation, with households contributing N$29.6 billion or 24.0 percent of total assets under management (AUM) during the review period. The stabilisation and subsequent decline of domestic interest rates improved relative returns in money market instruments, drawing corporate Treasury cash into the subsector: companies contributed N$48.0 billion, or 38.9 percent of total AUM, during the review period, an increase of 37.7 percent over 2024. Long-term insurers and unit trust schemes contributed N$11.8 billion (9.5 percent) and N$14.2 billion (11.5 percent), respectively, while retirement fund contributions settled at N$8.2 billion (6.7 percent), reflecting the inter-institutional linkages that characterise Namibia's integrated long-term savings system.

Figure 21: Collective investment schemes: Assets under management

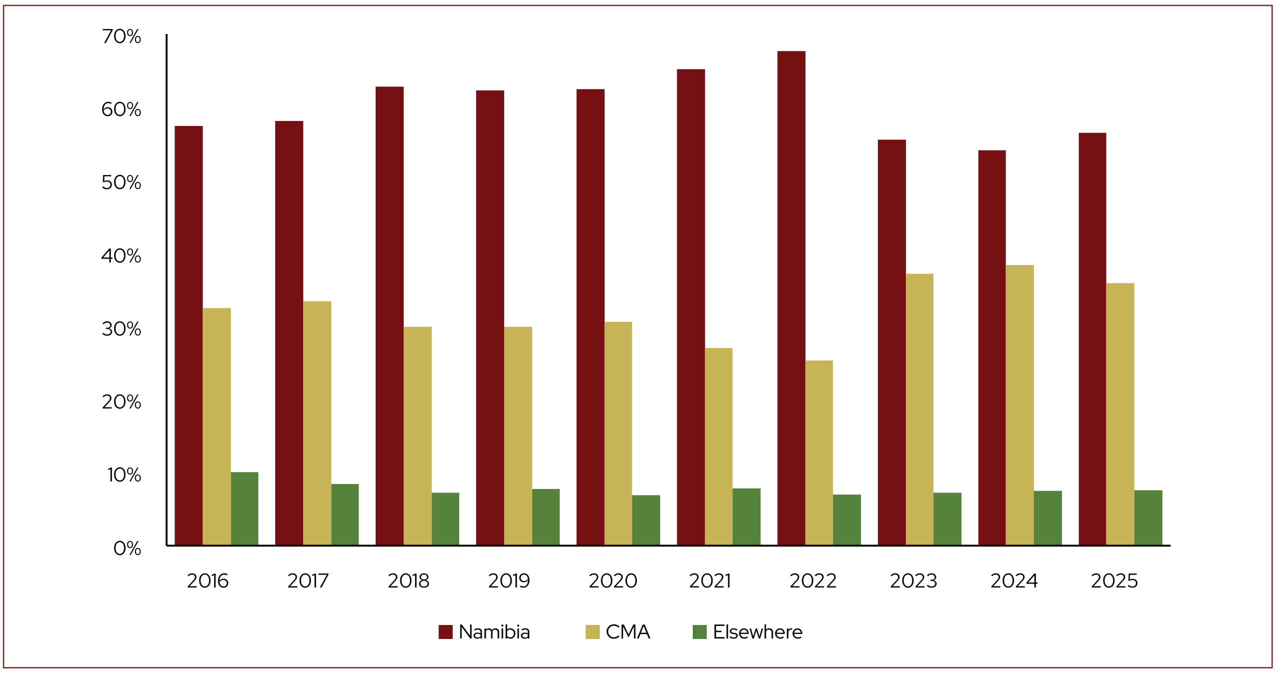


Source: NAMFISA

Sources and allocation of funds per location

The domestic asset allocation ratio recovered to 56.5 percent in 2025, rising from 54.1 percent in 2024, partially reversing the offshore drift that had accumulated over preceding years as interest rate differentials between Namibia and South Africa incentivised outward capital flows, a stability-relevant development that deepens the subsector's contribution to domestic capital formation and reduces its sensitivity to external capital-flow volatility. In absolute terms, domestically held assets reached N$69.7 billion in 2025, an increase of N$13.7 billion over the year. CMA-held assets stood at N$44.3 billion (35.9 percent), while offshore and Africa-domiciled holdings constituted N$9.2 billion and N$0.1 billion, respectively (Figure 22). The stabilisation and reversal of the domestic allocation ratio reflect in part the continued transmission of the effects of the Bank of Namibia's PSD-9 determination, which reclassified certain intra-CMA transactions and contributed to measured capital retention within the domestic financial system. The increase in domestic allocation is broadly consistent with the policy intent of regulatory determinations prescribing minimum domestic holding requirements and provides further evidence that these frameworks are achieving their intended capital mobilisation objectives. A higher domestic allocation concentrates the subsector's exposure to Namibia-specific macroeconomic risks, including fiscal dynamics, sovereign creditworthiness and the performance of domestic equity and money markets, a trade-off that warrants sustained monitoring as the domestic allocation ratio trends upward.

Figure 22: Collective investments schemes: Geographic allocation

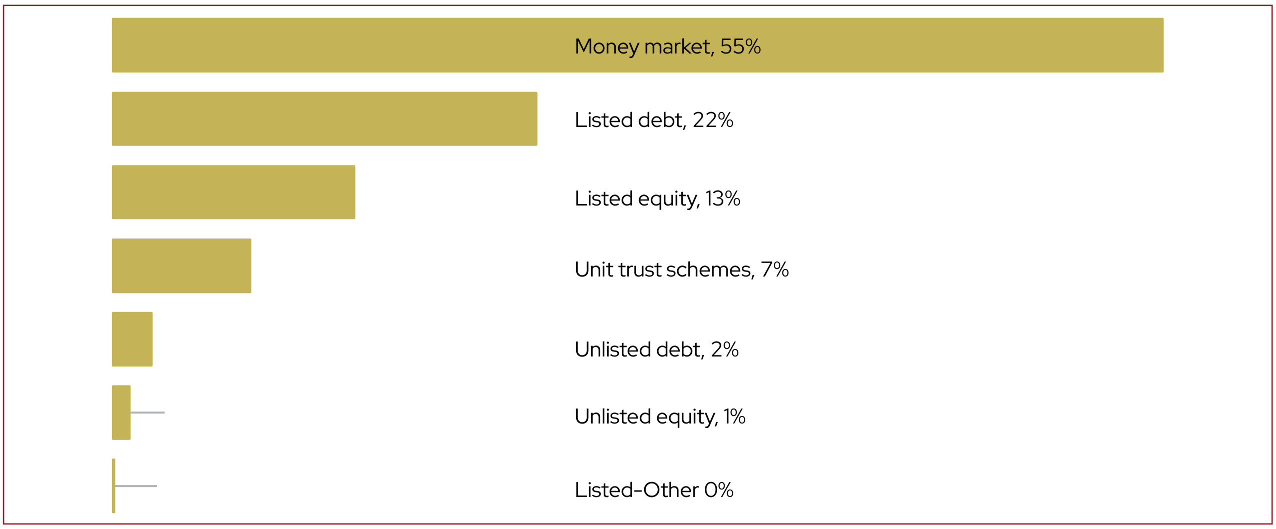


Source: NAMFISA

Money market instruments dominated the subsector's portfolio at 55.0 percent of total AUM (N$67.8 billion). This composition preserves the subsector's capacity to meet near-term redemption demands without recourse to forced liquidation of less liquid positions, a fundamental liquidity stability attribute, while channelling short-term institutional savings into instruments that support domestic monetary transmission and sovereign short-term financing. Within the money market segment, Treasury bills emerged as the single largest constituent at N$30.1 billion, representing 44.4 percent of money market holdings and reflecting a year-on-year increase of 39.8 percent from N$21.6 billion at end-2024. This rapid accumulation of Treasury bill holdings connects the collective investment scheme (CIS) subsector directly to the sovereign's domestic short-term financing programme and is examined in the context of system-wide sovereign exposure in Box 2.

Listed securities accounted for N$43.1 billion (34.9 percent of total AUM), comprising listed debt at N$27.4 billion, listed equities at N$15.6 billion, and marginal listed other holdings. Units in unit trust schemes contributed N$8.9 billion (7.2 percent) and unlisted securities N$3.6 billion (2.9 percent). The dominance of money market and listed debt instruments provides natural protection against the kind of illiquidity-driven stress that arises when asset valuations fall simultaneously with rising redemption demands. The large and growing allocation to Treasury bills, in particular, implies that any adverse repricing of government short-term paper, whether driven by fiscal deterioration, a credit event, or a monetary policy discontinuity, would simultaneously impair the net asset values of CIS portfolios and reduce the mark-to-market value of government bond holdings elsewhere in the NBFI sector, creating a correlated shock channel across subsectors.

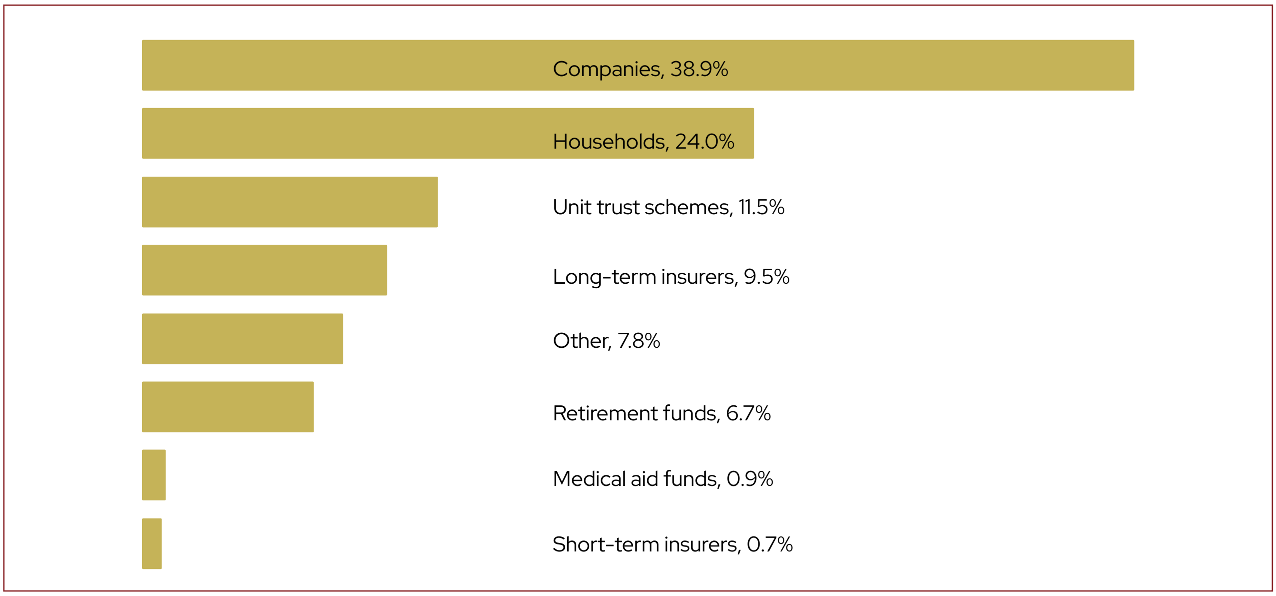
Figure 23: Assets under management: Allocation



Source: NAMFISA

The CIS subsector's stability assessment for 2025 is sound, with adequate liquidity, no structural solvency concerns, and a growing and diversified investor base that reflects the subsector's deepening role as the financial system's principal vehicle for short-duration pooled savings intermediation. The source-of-funds composition, dominated by corporate investors (38.9 percent) and households (24.0 percent), introduces potential concentration and redemption risk that is broadly mitigated by the subsector's predominantly short-duration, highly liquid portfolio; however, the rapid growth in corporate inflows increases susceptibility to coordinated redemption episodes during periods of corporate liquidity stress or sudden shifts in interest rate expectations. The continued growth in households' participation signals deepening retail financial engagement, consistent with NAMFISA's financial inclusion objectives.

Figure 24: Assets under management: Sources of fundsunder management



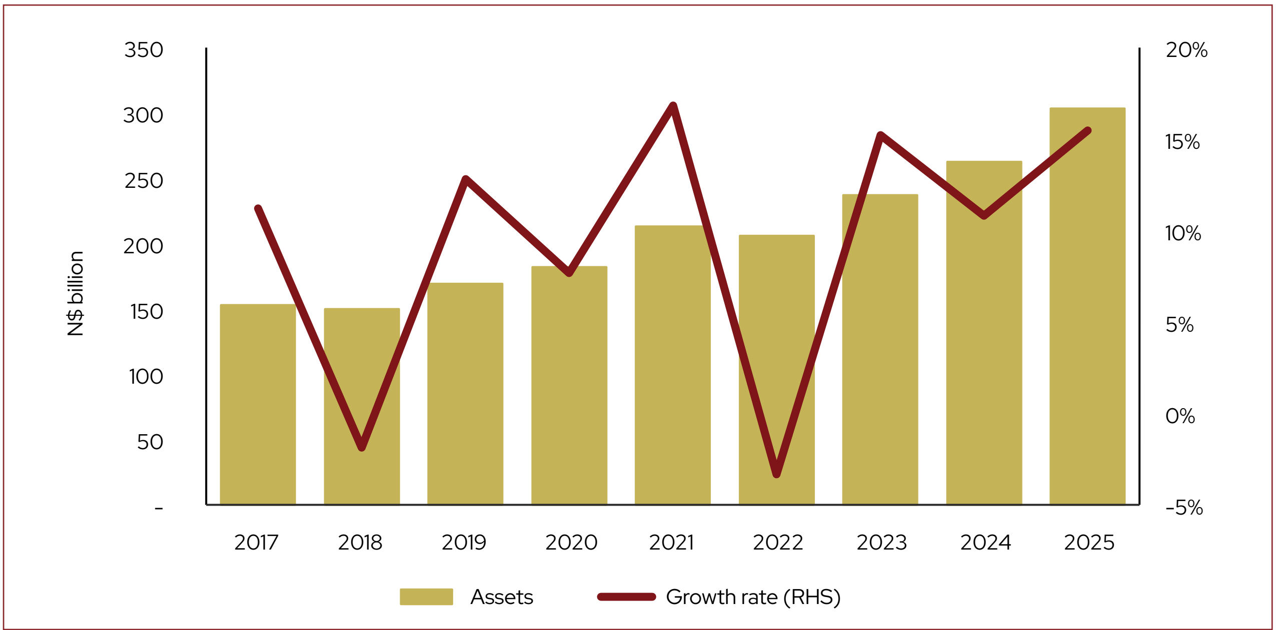
Source: NAMFISA

Looking ahead, the subsector is well positioned to sustain its growth trajectory, provided that equity market conditions remain broadly supportive and domestic interest rate normalisation continues at a measured pace. The subsector's expanding asset base amplifies its importance as a conduit for domestic capital formation and as a real-time barometer of household and corporate financial confidence. The growing concentration of AUM in Treasury bills and short-dated government instruments, while supportive of liquidity stability, reinforces the importance of monitoring the subsector's aggregate sensitivity to shifts in the government's fiscal and monetary policy stance.

Retirement funds subsector

The retirement funds subsector demonstrated notable growth and resilience in 2025, expanding by 15.5 percent to reach N$303.5 billion. This constituted an acceleration from 10.9 percent growth in 2024, driven primarily by strong investment returns in equity markets and continued positive contribution inflows, while maintaining a sound funding position of 101.4 percent that confirms loss-absorbing capacity above minimum prudential thresholds (Figure 25). The macroeconomic conditions of 2025 were materially supportive of retirement fund asset performance. The conclusion of the monetary tightening cycle in South Africa and Namibia generated mark-to-market gains across the subsector's fixed-income holdings, while simultaneously lifting equity valuations through a lower risk-free rate, reinforcing investment returns across the two largest asset classes. Participation in Namibian retirement funds remains primarily conditional on formal-sector employment, and the sustained positive contribution inflows of N$12.1 billion registered during 2025 are broadly consistent with the expected continued expansion of the formal economy, though the demographic dynamics described below place the subsector on a structurally net-paying trajectory that limits the contribution of inflow growth to funding position improvement.

Figure 25: Retirement funds: Total assets



Source: NAMFISA

Prudential indicators

Table 8: Retirement Funds Subsector: Funding Ratio Scenario Plausibility (500 simulations) 2025

Indicator	Latest	Median	P25	P75	Std. dist (IQR)	Trigger
Funding ratio	101.4	101.9	101.6	102.3	-0.800	Normal
Liquidity ratio	36.5	36.7	35.9	40.6	-0.041	Normal
Domestic concentration	50.4	49.3	47.3	50.5	0.364	Normal
Risky-asset ratio	44.5	44.8	44.4	47.0	-0.094	Normal
Credit-risk ratio	9.6	9.2	7.7	9.6	0.222	Normal
Sovereign exposure share	15.1	13.8	12.7	14.5	0.724	Normal
Liquidity mismatch ratio	43.9	43.6	41.5	44.8	0.095	Normal
Margin-at-risk ratio	122.0	120.8	118.8	123.8	0.242	Normal

Source: NAMFISA

The subsector's prudential indicator dashboard presents a broadly sound stability profile. The funding position, liquidity ratio, risky-asset ratio and domestic concentration are all classified as Normal relative to their respective historical distributions, and no indicator registered a stressed reading that would warrant a departure from standard supervisory engagement. The funding position of 101.4 percent sits comfortably within the inter-quartile range of the subsector's historical distribution, indicating neither an alarming erosion of buffers nor an excessively conservative over-funding that might suggest suboptimal benefit delivery to members. The liquidity ratio of 36.5 percent implies that roughly one-third of the portfolio can be converted to cash at short notice to meet benefit payments and redemptions, a proportion broadly adequate for a long-term savings subsector, but one that would be tested if benefit outflows accelerate unexpectedly or market liquidity deteriorates simultaneously across asset classes.

Portfolio composition metrics reveal a balanced risk profile, with the risky-asset ratio (equities, unlisted investments and other illiquid holdings) at 44.5 percent of total assets, modestly below its historical median of 44.8 percent, and domestic asset concentration at 50.4 percent, both firmly in the Normal zone. The sovereign exposure share registers 15.1 percent, elevated relative to the historical median of 13.8 percent but comfortably within tolerance bands, reflecting the progressive accumulation of Namibian government bonds consistent with the Prescription of Domestic Assets framework; the fiscal and systemic implications of this exposure are examined in Box 2. Credit-risk exposures, encompassing state-owned enterprise bonds, corporate bonds and housing loans, constitute 9.6 percent of assets, marginally above the median of 9.2 percent yet not sufficiently elevated to trigger enhanced supervisory monitoring. The combination of moderate domestic concentration and diversified offshore holdings suggests that the subsector successfully balances the dual imperatives of supporting domestic capital formation while mitigating concentration risk to Namibia's relatively small open economy. With approximately half of assets allocated domestically and half internationally (including CMA and broader African and global exposures), the portfolio structure provides natural hedges against localised shocks, while retaining meaningful exposure to regional growth dynamics. This positioning embeds currency risk given the NAD's peg to the ZAR, and the rand's sensitivity to commodity cycles, geopolitical developments and cross-border capital-flow volatility, a vulnerability that the AGOA uncertainty of 2025 rendered particularly salient.

Investment performance in 2025 delivered a return on investments of 14.8 percent, materially above the long-run median and contributing N$44.9 billion in net investment income, a substantial uplift from the N$28.3 billion recorded in 2024. This out-performance reflects the favourable confluence of recovering regional equity valuations, stabilising bond yields following the conclusion of the monetary tightening cycle, and moderating inflation that enhanced real returns. The margin-at-risk ratio, comparing risky assets to liquid asset buffers, stood at 122.0 percent, marginally above its historical median of 120.8 percent, suggesting that the subsector retains sufficient liquid capacity relative to mark-to-market exposures in riskier asset classes without having materially increased portfolio risk in pursuit of the favourable return environment.

Key vulnerabilities

Stress testing under a severe macro-financial scenario reveals that the subsector's funding position would deteriorate from 101.4 percent to 88.5 percent, falling below full-funding thresholds and creating a temporary underfunding position that would require monitoring and potential corrective action. However, given the extended liability horizon that characterises pension obligations, the prudential assessment assigns no immediate systemic concern to this finding. This severe scenario applies simultaneous shocks across asset classes: equity market corrections, credit spread widening, property revaluations and foreign exchange depreciation. These represent tail-risk conditions akin to a major financial crisis or severe geopolitical disruption of the type that escalating US-southern African trade tensions could, in an extreme scenario, precipitate. Under the severe stress, total assets compress from N$304.7 billion to N$252.3 billion, while total technical liabilities contract from N$300.5 billion to N$285.0 billion as discount rate adjustments only partially offset valuation losses. A more moderate stress scenario yields a marginally less adverse outcome, with the funding position declining to 89.2 percent and total assets falling to N$255.0 billion. The narrow difference between moderate and severe outcomes underscores the non-linear nature of portfolio losses once multiple risk factors align: the first wave of shocks exhausts loss-absorbing buffers, leaving limited cushion against compounding deterioration. Both scenarios confirm that the subsector's current 1.4 percentage-point surplus is insufficient to absorb tail events without temporary breaches of full-funding thresholds; however, the long-dated nature of retirement liabilities provides a critical buffer that distinguishes retirement funds from institutions with shorter liability profiles. The typical retirement fund member has 15 to 30 years until benefit crystallisation, creating an extended recovery horizon during which asset values can mean-revert, risk premia can normalise, and portfolio rebalancing can gradually restore funding adequacy without forced liquidations or benefit curtailments, provided that trustees resist procyclical de-risking during market troughs and maintain strategic asset allocations aligned with long-term return objectives.

Liquidity stress tests indicate that the subsector can withstand a prolonged, multi-year funding shock without breaching regulatory liquidity thresholds. Under the severe scenario, liquid assets decline steadily from N$102.2 billion in 2025 to N$55.4 billion by 2028, with cumulative outflows reaching N$46.9 billion and the LCR falling from 24.0 percent to 13.0 percent but remaining above minimum requirements throughout. The moderate scenario yields a slightly more comfortable trajectory, with liquid assets reducing to N$57.7 billion by 2028 and the LCR bottoming at 13.5, again without triggering threshold breaches. These results show that the subsector retains meaningful liquidity headroom even under a three-year stress, while the gradual erosion of buffers underscores the need to maintain diversified liquid-asset holdings so that benefit obligations can be met without forced sales of illiquid assets at depressed valuations during extended periods of market strain.

The liquidity mismatch ratio, defined as illiquid assets divided by members' funds plus reserves, registers 43.9 percent, marginally above its historical median of 43.6 percent and classified as Normal. This indicates that a significant share of the asset base is deliberately invested in long-dated or harder-to-trade instruments that match the long-run maturity profile of pension obligations rather than signalling an elevated risk of near-term funding stress. The margin-at-risk ratio of 122 percent should therefore be read as a reflection of the subsector's growth-oriented investment stance rather than as an indication of imminent liquidity fragility. Benefit payout dynamics warrant monitoring, but operate more as an asset-accumulation issue than as an immediate liquidity constraint: benefits paid in 2025 totalled N$15.1 billion against contributions of N$12.1 billion, confirming that the subsector is structurally net-paying as it matures. The ratio of benefits to contributions is projected to rise to 142 percent in 2026, 155 percent in 2027 and 167 percent in 2028, reflecting both the ageing of membership cohorts and subdued formal-sector employment growth. Longevity risk compounds this trajectory: evidence that at least 8.2 percent of current pensioners have already surpassed their initial life expectancy projections generates obligations not fully anticipated in original fund designs, and approximately two-thirds of the N$300.5 billion in total liabilities relate to members older than 45. From a financial stability perspective, persistently high payout ratios primarily increase the system's reliance on sustained positive real returns and prudent asset-liability matching, with structural reforms to contribution and benefit parameters serving as a medium-term tool to safeguard solvency, rather than signalling a present liquidity vulnerability.

The Monte Carlo analysis, in which approximately 47 percent of simulated paths produce outcomes at least as adverse as the severe scenario, presents an ostensibly paradoxical finding: a high probability of adverse outcomes coupled with a moderate supervisory stance. This reflects three reinforcing considerations (Table 9). First, the current 1.4 percentage-point surplus is slim, and a large share of plausible scenarios could exhaust it at the immediate shock point. Second, the long-dated maturity profile of pension liabilities provides extended recovery horizons during which temporary underfunding can be rectified through market normalisation and portfolio adjustments without crystallising losses. And third, the baseline solvency position is sound, governance frameworks are adequate, and the subsector demonstrates capacity to absorb moderate shocks without systemic instability, justifying continued standard supervision rather than crisis-mode intervention.

Table 9: Retirement funds subsector: Macroprudential indicators 2025

Horizon	Paths at Threshold	Classification	Supervisory Signal
1-Year	49.8%	Relatively mild	No immediate prudential concern. Standard supervisory engagement applies.
2-Years	49.4%	Relatively mild	No immediate prudential concern. Standard supervisory engagement applies.
3-Years	50.6%	Relatively mild	No immediate prudential concern. Standard supervisory engagement applies.

Source: NAMFISA

Subsector stability assessment

Stress testing results show that vulnerabilities are concentrated in solvency under rare tail events, while liquidity remains comfortably within tolerance, a configuration that supports a baseline stability assessment of broadly adequate resilience, with standard supervisory engagement remaining the appropriate response at current indicator levels. Under the severe scenario, the funding position would fall from 101.4 percent to 88.5 percent, indicating that current buffers are not designed to fully absorb very rare, multi-factor shocks and would require measured corrective action over time. Liquidity indicators, by contrast, confirm that liquidity is not a concern even under very conservative assumptions. Structural net outflows matter mainly for solvency and buffer rebuilding rather than for immediate funding stress. The elevated benefit-to-contributions ratio increases reliance on investment income and long-term asset-liability matching, but does not currently point to liquidity fragility, provided governance and investment strategy continue to prioritise resilience over short-term return maximisation.

Deterministic baseline projections incorporating moderate GDP growth for Namibia, gradual interest-rate normalisation, stable exchange rates, and continued positive but moderating equity returns, project assets expanding from N$304.7 billion in 2025 to N$323.2 billion in 2026, N$341.8 billion in 2027, and N$413.1 billion by end-2028. The deterministic path implies a benign environment in which geopolitical risks remain contained, regional growth stabilises, inflation converges towards central bank targets, and financial-market volatility remains within historical norms. The sharp uptick in projected asset growth for 2028 (20.9 percent, compared with 6.5 percent in 2026 and 5.8 percent in 2027) warrants particular scrutiny: this acceleration is driven by model assumptions rather than structural fundamentals and may prove optimistic if the key supporting conditions (stable exchange rates, subdued inflation, uninterrupted equity-market gains) were to reverse. The baseline should therefore be interpreted as a central tendency around which significant dispersion exists, contingent on the evolution of macro-financial conditions and policy responses over the projection horizon.

Long-term insurance subsector

The long-term insurance subsector maintained sound financial stability in 2025, with solvency, liquidity and capital adequacy metrics within their normal historical ranges. Total assets expanded to N$97.1 billion in 2025, representing asset growth of 15.8 percent, an uplift from the 12.9 percent growth recorded in 2024, reflecting ongoing premium growth, strong investment returns, and the continued accumulation of policyholder reserves as the subsector absorbs both new business and the compounding of existing long-term obligations.

The balance sheet is dominated by long-duration policyholder obligations, underscoring the liability-driven nature of the business model and the central importance of asset-liability matching to solvency management. Policyholder liabilities expanded by 17.5 percent to N$79.8 billion in 2025. Capital and reserves stood at N$13.2 billion (13.6 percent of total assets), providing the primary loss-absorbing buffer against which the Capital Adequacy Requirement is assessed. The investment portfolio totalled N$88.9 billion, approximately 91.6 percent of total assets, consistent with the capital-intensive, investment-driven nature of long-term insurance. The domestic-versus-offshore allocation was broadly balanced at 49.2 percent domestic and 50.8 percent offshore, providing natural diversification against country-specific shocks while preserving meaningful exposure to domestic capital markets.

Premium income growth slowed marginally in 2025. Gross premium income was recorded at N$14.4 billion, reflecting a slight decrease of 0.1 percent compared with 2024. This marks a notable deceleration from the 26.8 percent growth recorded in 2024, with that year's elevated base being partly attributable to the transfer of retirement fund assets under management from a conventional asset manager to a long-term insurance provider. Reinsurance ceded remained low at N$666.0 million, translating to a cession ratio of 4.6 percent and confirming the significant proportion of investment-linked business within the portfolio, which carries limited underwriting risk.

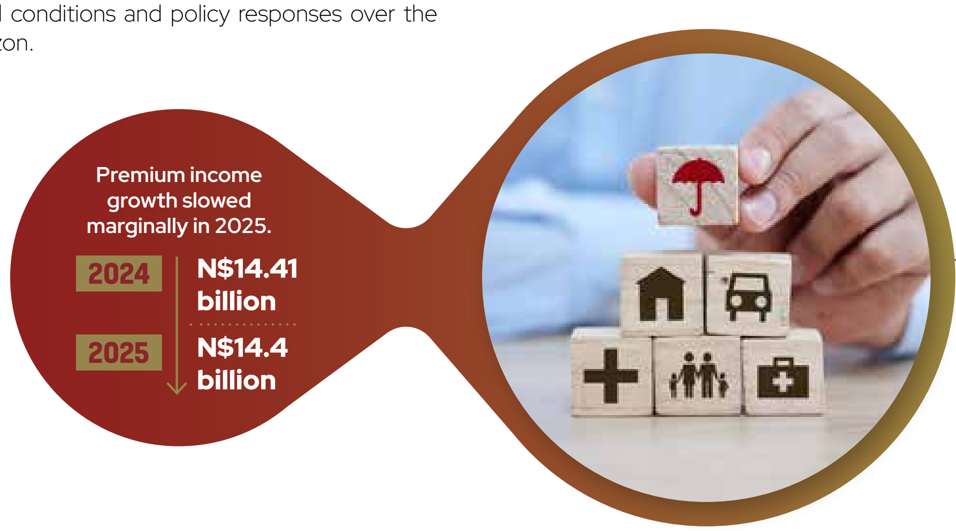
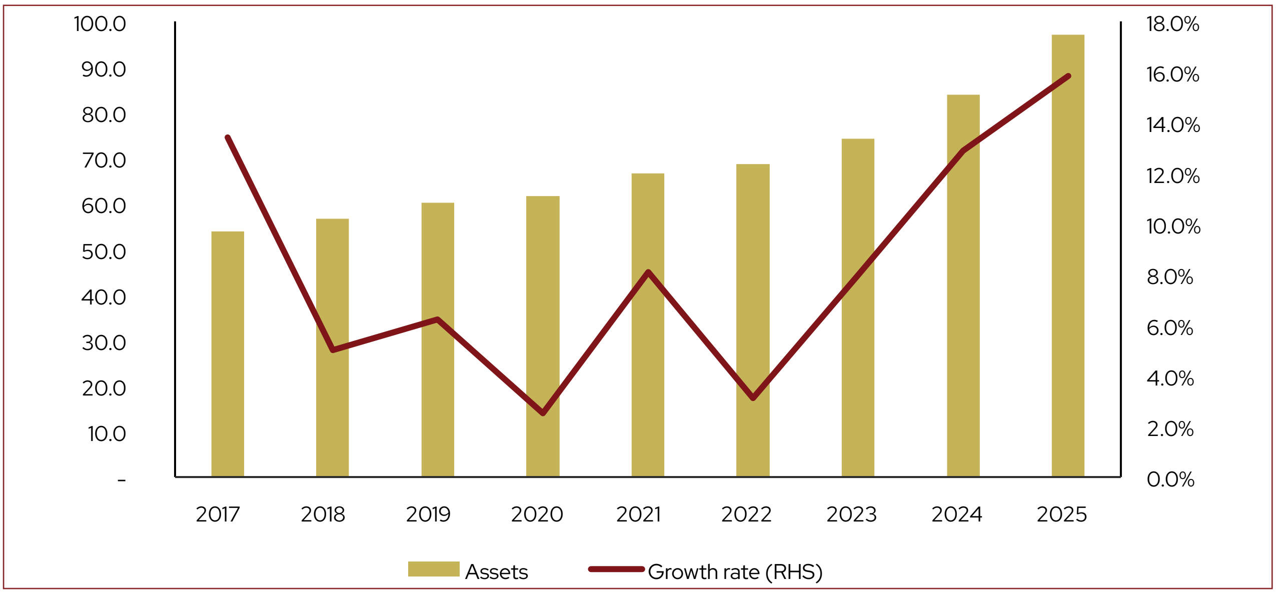


Figure 26: Long-term insurers' asset



Source: NAMFISA

Table 10: Long-term insurance subsectors: Prudential indicators 2025

Indicator	Latest	Median	P25	P75	Std. dist (IQR)	Trigger
Solvency ratio	119.9	121.8	120.9	123.4	-0.760	Normal
Combined ratio	103.9	87.0	77.9	101.1	0.728	Alert
Cession ratio	4.6	3.8	3.3	4.6	0.615	Normal
Underwriting profit margin	-108.5	-15.0	-53.6	4.7	-0.897	Alert
Return on assets	3.5	0.8	0.4	1.4	2.700	Normal
Investment yield	15.8	2.1	1.2	3.9	5.074	Normal
Liquid asset to technical liabilities	59.2	53.2	47.8	58.0	0.588	Normal
Current ratio	762.2	625.5	572.1	709.1	0.998	Normal
Liquidity mismatch ratio	41.1	37.6	22.9	41.8	0.185	Normal

Source: NAMFISA

Prudential indicators

The long-term insurance (LTI) subsector's prudential indicator dashboard presents a broadly stable picture. Solvency, liquidity and capital adequacy metrics are within their normal historical ranges, while underwriting profitability and portfolio risk composition indicators sit outside their historical norms and merit supervisory attention as part of ongoing engagement, assessed in the context of a subsector that remains solvent, liquid and profitable in aggregate. Total assets exceed technical liabilities by approximately 20 percentage points, providing a meaningful buffer against valuation shocks before policyholder obligations are impaired. The capital adequacy ratio (CAR) coverage reflects wide headroom above minimum capital thresholds, confirming that no solvency intervention is currently warranted on capital adequacy grounds.

Portfolio composition metrics reflect a growth-oriented investment stance that is consistent with the long-duration liability profile of the subsector. The risky-asset ratio, comprising equities, unlisted investments and other non-fixed-income instruments, registers above its historical median, reflecting a deliberate portfolio tilt toward assets with higher expected long-run returns, in line with the subsector's need to generate investment income sufficient to offset underwriting costs over the life of long-term policies. Equities constitute the largest single asset class at 39.5 percent of total investment assets, followed by unit trusts at 13.6 percent and unlisted investments at 12.0 percent. The above-median risky-asset ratio implies greater mark-to-market sensitivity than a more conservative allocation would carry; under adverse market conditions (including the equity-market correction scenario that an escalation of geopolitical fragmentation could precipitate), asset values would decline and the solvency buffer would narrow, though the current 19.9 percentage-point margin above 100 percent provides an initial cushion. Government bond exposure stands at 13.7 percent of total investment assets, a marginal 0.4 percentage points expansion relative to the preceding period, within the subsector's normal historical range; the systemic implications of this exposure are discussed in Box 2. Credit-risk exposures through state-owned enterprise and corporate bonds constitute 2.0 percent of assets, a modest level that does not generate standalone concern.

Geographic concentration and structural liquidity mismatch indicators are both within their normal historical ranges, confirming that the investment portfolio is broadly well-diversified and does not embed material near-term liquidity fragility. The domestic concentration ratio stands at 45.0 percent, reflecting a broadly balanced domestic-versus-offshore split that limits the feedback loop between LTI subsector solvency and a localised macroeconomic shock in Namibia. The liquidity mismatch ratio registers 41.1 percent against a historical median of 37.6 percent, indicating that the structural illiquidity embedded in the investment book is broadly proportionate to the long-dated nature of policyholder obligations. Domestic concentration and sovereign exposure appear at elevated levels in the one-year Monte Carlo horizon (8.2 percent and 8.6 percent of simulated paths, respectively). This exceeds current levels and suggests that these concentrations represent tail risks that, while not historically unprecedented, are elevated relative to normal conditions.

Underwriting performance, assessed on a full-cycle basis that appropriately accounts for the long-run maturity profile of LTI liabilities, reveals a structurally bifurcated book in which genuine risk-transfer classes carry underwriting losses while savings and investment classes generate accounting deficits that are artefacts of reserve accumulation rather than economic losses. The correct analytical lens is the full-cycle loss ratio, defined as net benefits paid plus change in policyholder liabilities divided by net premiums written, because benefit payments in any given period reflect policies accumulated over prior years and cannot be meaningfully compared with current-period premiums in isolation. On this basis, Credit Life and Funeral business operations are profitable, with full-cycle loss ratios of 22.5 percent and 50.2 percent respectively and combined ratios of 28.1 percent and 62.7 percent, confirming that short-duration, high-frequency risk classes generate adequate underwriting margins. By contrast, the Risk class operates at a full-cycle loss ratio of 93.8 percent, producing an underwriting loss of N$250.0 million, while the Fund Risk registers a full-cycle loss ratio of 296.1 percent and an underwriting loss of N$3.9 billion, driven by net benefits of N$2.4 billion and reserve strengthening of N$3.4 billion against net premiums of N$2.0 billion. Fund Risk is the dominant source of risk-transfer loss across the book, with its liabilities expected to crystallise over the long run as group schemes mature. In aggregate, the four true risk classes produce a full-cycle combined ratio of 128.9 percent and a total underwriting loss of N$3.0 billion. Individual Investment, Fund Investment and Income Drawdown policies carry no underwriting risk under the assumption that no investment guarantees are offered; their aggregate reported underwriting loss of N$4.6 billion is entirely attributable to reserve accumulation in respect of policyholder obligations that will be settled at a future date and must therefore be excluded from any economically meaningful assessment of underwriting performance. Life Annuities occupy a distinct hybrid category: the full-cycle loss ratio of 190.6 percent and combined ratio of 194.1 percent reflect reserve strengthening of N$2.3 billion for long-duration payment obligations, with the prudential consideration residing in the adequacy of those reserves against decades-long longevity and interest-rate exposures rather than in near-term liquidity. Stripping out the investment-class distortion, the economically meaningful underwriting loss across risk-transfer and life annuity classes amounts to N$5.1 billion, an outcome consistent with the global structural feature of long-term insurance business in which investment income is the primary driver of aggregate profitability and underwriting results are managed over the full policy lifecycle.

Profitability and investment return metrics are subdued relative to historical norms, but remain positive overall. The return on assets of 3.5 percent sits in the upper quartile of the subsector's historical distribution, reflecting the composition of earnings rather than a loss position. Profit before tax amounted to N$3.4 billion, supported by the N$15.3 billion in investment income generated during the year. The recovery in investment income was the principal factor underpinning aggregate profitability, consistent with the investment-income-led earnings structure characteristic of long-term insurance globally and directly linked to the equity market recovery and bond yield stabilisation that the macroeconomic easing cycle delivered in 2025. The investment yield of 15.8 percent sits above actuarial pricing assumptions, confirming that the portfolio is generating adequate returns relative to long-run liability cost assumptions. Liquidity indicators confirm adequate buffers: the liquid-asset-to-technical-liabilities coverage ratio of 59.2 percent is above the historical median of 53.2 percent, the current ratio of 7.62 times reflects substantial short-term asset coverage, and liquid assets of N$40.2 billion (post the application of a severe shock) provide a substantial absolute buffer.

Key vulnerabilities

A key prudential consideration for the LTI subsector is the structural composition of earnings, in which investment income is the primary driver of aggregate profitability, and, when assessed on a full-cycle basis, underwriting results remain negative for risk-transfer classes. This feature is shared by long-term insurance subsectors across comparable jurisdictions and is not in itself indicative of distress, but its relevance to financial stability lies in the sensitivity of the earnings structure to prolonged adverse investment conditions. A sustained period of compressed equity returns or elevated credit spreads (of the kind that geopolitical fragmentation and a disorderly rand depreciation could produce) would reduce investment income and, depending on severity and duration, could narrow the gap between income and underwriting costs to a point at which aggregate profitability turns negative. The 9.0 percent increase in capital and reserves to N$13.2 billion in 2025 represents a growth rate consistent with ongoing liability growth rather than a structural recalibration of actuarial assumptions. This shift suggests relative stability in the reserving basis, implying that the underlying claim incidence and valuation parameters have remained broadly aligned with long-run expectations. Notwithstanding this relative stability, the magnitude of the addition warrants a targeted review of assumption sensitivities, particularly claims experience, discount rates, and expense projections, to ensure that premium structures and reserve margins remain appropriately calibrated to the emerging experience and forecast liability trajectory over the medium-term horizon.

The above-median risky-asset ratio, in conjunction with the investment-income-dependent earnings structure, points to portfolio risk management as a standing area of supervisory interest. Equities and unlisted investments together constitute approximately 51.5 percent of total investment assets, embedding meaningful exposure to equity market cycles. At N$10.7 billion, unlisted investments merit particular attention from a valuation-integrity standpoint: because such assets are typically appraised periodically rather than marked to continuous market prices, their carrying values may not fully reflect current market conditions at any given reporting date. Under adverse conditions, valuation adjustments on unlisted assets tend to lag behind listed equity movements, affecting the timeliness of reported solvency positions. The current solvency buffer of 19.9 percentage points above 100 percent provides a meaningful cushion, and the expanding solvency trajectory under the baseline projection indicates that this buffer is expected to widen over the near-to-medium term. The prudential priority is to ensure that asset-liability-matching frameworks are robust and that portfolio composition remains appropriate relative to the duration and nature of policyholder obligations.

Stress testing under the severe scenario confirms that liquidity risk is contained within tolerable bounds, even as solvency risk rises. Under the severe stress, liquid assets decline from N$40.2 billion at the base period to approximately N$3.8 billion by 2028, with cumulative claim outflows totalling N$33.4 billion and the LCR falling from 13.2 times to 2.2 times, all without breaching regulatory liquidity thresholds. This result provides reassurance that, even under a conservative assumption of zero new premium inflows over a multi-year horizon, the sector retains sufficient liquid assets to service claim obligations without resorting to forced liquidation of illiquid instruments. The gradual erosion of the LCR over the stress horizon does, however, indicate that liquidity headroom would narrow progressively in a sustained stress event, reinforcing the importance of maintaining liquid-asset composition and avoiding further concentration in unlisted or illiquid instruments. From a prudential perspective, liquidity risk is not the primary concern, but its interaction with solvency risk under a prolonged stress warrants monitoring.

Subsector stability assessment

The LTI subsector's overall prudential stability assessment is one of adequate resilience, underpinned by a sound solvency position, strong liquidity buffers and positive aggregate profitability, with standard supervisory engagement remaining the appropriate response. Two forward-looking concerns define the proactive supervisory agenda: the structural earnings sensitivity to investment market conditions, and the projected turn to negative profitability from 2027 under the baseline scenario. The solvency ratio of 119.9 percent and CAR coverage are both within their normal historical ranges, and liquidity indicators confirm that the subsector can withstand a prolonged, zero-inflow stress scenario without breaching regulatory thresholds. The combined ratio of 104 percent and the underwriting loss of N$9.7 billion are consistent with an investment-income-led business model in which policy liabilities mature over the long run; assessed on a full-cycle basis, these figures reflect the normal operation of the LTI model rather than a departure from it.

The deterministic baseline projection reflects continued growth in assets and a gradually improving solvency position. Total LTI assets are projected to grow from N$97.1 billion in 2025 to N$106.3 billion in 2026, N$114.4 billion in 2027 and N$124.8 billion by end-2028, with the solvency ratio improving from 119.9 percent to 127.7 percent over the same horizon. On the income statement, gross premiums are projected to increase to N$15.0 billion in 2026 and remain at that level through 2027 and 2028. This constancy is a deliberate model feature rather than a limiting assumption. It reflects an expectation that demand for long-term insurance products will not materially deteriorate over the projection horizon, providing a stable revenue base against which liability maturation can be assessed. Investment income is similarly held constant at N$19.5 billion per annum during the projection horizon. The Monte Carlo analysis, in which approximately 25 to 29 percent of simulated paths produce solvency outcomes as adverse as the defined severe scenario across the one, two- and three-year horizons, indicates that the stress scenario lies within the range of plausible macro-financial outcomes without being a central expectation. The prudential signal across all horizons is one of no immediate systemic concern.

While this represents an optimistic stance, it is defensible on methodological grounds. Investment income is among the most volatile components of the LTI income statement, exhibiting sensitivity to equity valuations, interest rate movements, and global risk appetite, all of which resist reliable point projection over a multi-year horizon. Holding it constant therefore reflects a conservative modelling discipline that avoids compounding projection uncertainty with speculative return assumptions. As a result, structural underwriting losses are expected to widen materially from N$12.4 billion in 2026 to N$17.2 billion in 2027 and N$20.6 billion in 2028, as long-run liabilities in risk-transfer and life annuity classes continue to mature. Notwithstanding these losses, profit before tax is expected to remain positive at N$4.6 billion in 2026, supported by the investment income base, before turning negative at N$202.8 million in 2027 and deteriorating further to negative N$3.7 billion in 2028, as the drag from maturing liabilities progressively overwhelms investment returns. The divergence between an improving solvency path and a tightening earnings path is the defining structural feature of the LTI outlook.

Balance sheet strength continues to accrue through asset appreciation over the long run, supported by the sustained investment income base underpinning the projection. Period-level earnings, however, are increasingly sensitive to the timing of liability maturation in risk-transfer and life annuity classes, and to the realisation of investment returns that the model, by design, holds at a fixed optimistic level. Should investment income underperform that assumption, as historical volatility suggests is plausible, the deterioration in profitability would be more pronounced and would arrive sooner than the baseline implies. Actuarial assumption robustness and investment risk governance therefore remain the key ongoing supervisory focus areas.

Table 11: Long-term insurance subsector: Funding ratio scenario plausibility (500 simulations) 2025

Horizon	Pathsatthreshold	Classification	Supervisory signal
1-year	25.6%	Moderately adverse	Routine oversight adequate; close monitoring of leading indicators advised
2-year	25.0%	Moderately adverse	Routine oversight adequate; close monitoring of leading indicators advised
3-year	28.8%	Moderately adverse	Routine oversight adequate; close monitoring of leading indicators advised

Source: NAMFISA

Cross-sectoral comparative analysis

Common asset exposures and correlated vulnerabilities

A common feature of both the retirement funds and long-term insurance subsectors is their substantial and growing exposure to domestic equities and Namibian government bonds. Moreover, this structural alignment creates a correlated solvency and liquidity vulnerabilities under severe macro-financial shocks and amplifies the systemic importance of sustained financial market stability to the NBFI sector's overall resilience. About 73.9 percent of retirement fund investment assets were channelled into equities and bonds in 2025, a portfolio orientation mirrored in the LTI subsector, where equities (at 39.5 percent) and listed debt together dominate the investment book. A simultaneous adverse shock, of the type that an escalation of geopolitical tensions, a disorderly currency depreciation, or a global financial dislocation could produce, would compress the funding position and solvency ratio of both subsectors in tandem, removing the diversification benefit that would otherwise moderate aggregate system-wide stress. Retirement funds hold N$46.1 billion in Namibian government bonds, while long-term insurers hold N$17.7 billion (15.3 percent and 18.3 percent of their respective total assets), and the CIS subsector holds N$30.1 billion in Treasury bills. The fiscal stability implications of this concentrated holding are examined in Box 2.

Structural trends across all three subsectors

Across all three subsectors, driven by regulatory minimum domestic asset requirements and the investment logic of long-horizon liability-matching, is the defining cross-sectoral development of 2025. This has implications for both fiscal stability and the bidirectional contagion channels between the sovereign and the NBFI sector. The increase in CIS domestic allocation from 54.1 percent in 2024 to 56.5 percent during the review period, the growth in retirement fund government bond holdings from N$38.4 billion to N$46.1 billion, and the appreciation of LTI sovereign holdings from N$10.0 billion to N$12.2 billion collectively confirm that the prescription of domestic assets framework is achieving its policy objectives while simultaneously deepening the interconnectedness between the sector's financial soundness and the health of public finances. This interconnectedness is, in the current operating environment, a source of mutual stabilisation: the government benefits from a large, stable domestic investor base, while NBFI entities benefit from the low-risk, domestic-currency returns that sovereign paper provides. The sustainability of this arrangement is, however, contingent on the maintenance of sound fiscal management and credible sovereign creditworthiness.

Sectoral outlook

Deterministic baseline projections

Under baseline macroeconomic assumptions, the NBFI sector is projected to sustain broad-based asset growth over the 2026-to-2028 horizon. These assumptions include moderate GDP growth for Namibia, gradual interest-rate normalisation, stable exchange rates and continued positive but moderating equity returns in regional markets. Solvency and liquidity indicators are expected to remain within normal ranges and no immediate prudential intervention is warranted, subject to the realisation of the baseline conditions. The deterministic path implies a benign environment in which geopolitical risks remain contained, regional growth stabilises, inflation converges towards central bank targets, and financial-market volatility remains within historical norms.

The retirement funds subsector is projected to expand assets from N$304.7 billion in 2025 to N$323.2 billion in 2026, N$341.8 billion in 2027 and N$413.1 billion by end-2028. The escalating benefit-to-contributions ratio, projected to reach 142 percent in 2026, 155 percent in 2027 and 167 percent in 2028, introduces a structural headwind that limits asset accumulation and requires persistent high real returns to sustain the projected funding-position improvement. The sharp uptick in projected asset growth for 2028 warrants scrutiny, as it is driven by model-compounding assumptions rather than by structural fundamentals and may prove to be optimistic if any of the supporting conditions were to reverse.

The LTI subsector baseline reflects continued growth in both assets and policyholder liabilities, with asset growth modestly outpacing liability growth and producing a gradually improving solvency position. Total LTI assets are projected to grow from N$97.1 billion in 2025 to N$106.3 billion in 2026, N$114.4 billion in 2027, and N$124.8 billion by end-2028, with the solvency ratio improving from 119.9 percent to 127.7 percent. The divergence between an improving solvency path and a tightening earnings path, with profit before tax projected to turn negative from 2027, reflects the structural character of the LTI business model and underscores the importance of actuarial and pricing discipline over the projection horizon.

Scenario likelihood assessment

The Monte Carlo analysis across all three projection horizons consistently classifies the severe stress scenarios as presenting plausible rather than remote risks. This finding, while supporting continued standard supervisory engagement given the long liability horizons and adequate current solvency buffers, reinforces the importance of proactive governance, actuarial discipline and strategic asset-liability management as the primary lines of defence against the materialisation of tail risks. For retirement funds, approximately 47 percent of simulated paths produce outcomes at least as adverse as the severe scenario, an ostensibly paradoxical finding of high probability of adverse outcomes paired with a moderate supervisory response, resolved by three reinforcing considerations: the slimness of the current surplus, the long-dated liability recovery horizon, and the soundness of current governance frameworks that collectively justify continued standard supervision rather than crisis-mode intervention.

For long-term insurers, the consistent classification of the severe stress scenario as moderately adverse across all three projection horizons, with 25.6 percent, 25.0 percent and 28.8 percent of simulated paths producing outcomes at least as severe at the one , two- and three-year horizons respectively, indicates that the scenario lies within the range of plausible macro-financial outcomes without being a central expectation. The median solvency ratio across simulated paths rises over the projection horizon, reflecting the dominance of positive expected investment returns in the central tendency of outcomes. Liquidity stress materialises across a majority of simulated paths – 91.0 percent at one year, 81.6 percent at two years and 73.8 percent at three years – but in this context reflects mark-to-market sensitivity of the investment portfolio rather than near-term cash flow shortfalls. The combined probabilistic and deterministic evidence supports continued standard supervisory engagement, with the improving baseline solvency trajectory providing a constructive starting position and actuarial assumption robustness and investment risk governance remaining the key ongoing supervisory focus areas.

The interplay between these factors will require careful monitoring and strategic management. The escalating geopolitical tensions and financial fragmentation identified in this report could cause supply chain disruptions and exchange rate pressures that might alter the trajectory of inflation and interest rates, potentially impacting both the demand for NBFI products and investment asset performance throughout 2026 and beyond.

BOX 1: **NAMFISA'S INTEGRATED STRESS TESTING MODEL – A FRAMEWORK FOR PRUDENTIAL SURVEILLANCE**

NAMFISA's Integrated Stress Testing Model (ISTM) is a purpose-built prudential surveillance tool designed to assess the resilience of Namibia's NBFIs under adverse economic and financial conditions. The model serves two primary functions: first, to identify vulnerabilities at the individual registrant and subsector level that may not be visible through conventional supervisory metrics; and second, to assess the capacity of the NBFI sector in aggregate to absorb shocks without generating systemic instability or adverse spillovers to the broader financial system.

Scenario design

The ISTM applies a Conditional Value at Risk methodology to construct two stress scenarios for the asset side of the balance sheet: an intermediate scenario calibrated at the 5 percent significance level, defined as the expected loss conditional on outcomes in the worst 5 percent of the historical distribution; and a severe scenario calibrated at the 1 percent significance level. On the income side, Conditional Value at Risk at 10 percent and 5 percent significance levels is applied to premium and contribution income, while a Value-at-Growth methodology at corresponding confidence levels captures adverse upside tail risk on the expenditure side. Three historical market episodes serve as anchoring analogues: the dot-com correction (2000–2002); the Global Financial Crisis (2007–2009); and the COVID-19 market shock (2020), collectively spanning credit-driven and liquidity-driven market dislocations, ensuring that the stress parameters reflect a diverse range of historical crisis pathologies.

Projection engine

The ISTM operates on a 24-quarter (6-year) forward projection horizon. Projections are generated through an ensemble of time-series forecasting models, with model selection governed by the corrected Akaike Information Criterion. A univariate architecture is preferred over VAR (Vector Autoregression) or VECM (Vector Error Correction Models) specifications, reflecting the limited historical sample length available for Namibian NBFI data and the structural breaks associated with the COVID-19 episode.

Early warning system

The ISTM incorporates a heatmap-based early warning system that positions current observations of prudential indicators against their respective historical distributions. Each indicator is classified as Normal, Elevated or Stressed, enabling rapid visual identification of emerging vulnerabilities and providing supervisory decision-makers with a consolidated dashboard view of systemic risk accumulation across multiple dimensions simultaneously.

Contagion and spillover framework

The ISTM includes a bidirectional contagion module modelling financial stability transmission between the NBFI sector and the broader financial system, including banking institutions, capital markets, and the sovereign, capturing both NBFI-to-financial-system spillovers (e.g., forced asset sales depressing market prices) and financial-system-to-NBFI feedback (e.g., sovereign credit deterioration impairing government bond valuations). Future enhancements will incorporate network centrality analysis and Granger causality testing to more precisely quantify the directional intensity of cross-sectoral spillovers and identify systemically important institutions within the NBFI sector.

BOX 2: **NBFI SECTOR EXPOSURE TO NAMIBIAN GOVERNMENT BONDS – FISCAL ANCHOR, POLICY OUTCOME, AND SYSTEMIC INTERCONNECTEDNESS**

A defining structural feature of Namibia's NBFI sector is its substantial and growing exposure to Namibian government bonds, an exposure that simultaneously reflects deliberate regulatory policy, serves as a stabiliser of sovereign financing conditions, and creates channels of bidirectional systemic interconnectedness that are integral to the prudential assessment of the sector.

Scale and trajectory

During 2025, retirement funds held N$46.1 billion in Namibian government bonds, representing 15.3 percent of total investment assets and a 19.8 percent increase from N$38.4 billion in 2024. Long-term insurers held N$12.2 billion in domestic government bonds, equivalent to 18.3 percent of total assets, up from N$10.0 billion in the preceding period. The CIS subsector's N$30.1 billion in Treasury bill holdings during the review period represents an increment of 39.8 percent from 2024. The growth trajectory is structural: the share of government bonds in retirement fund total investment assets has risen from approximately 10.0 percent in 2015 to 15.3 percent in 2025, with a corresponding upward trend in LTI sovereign allocation from approximately 10.5 percent to 18.3 percent over the same period. Forward projections from the ISTM indicate continued growth in both ratios through 2028, with retirement fund sovereign exposure projected to approach 19 percent of total assets by 2028.

Policy context

The increase in NBFI domestic sovereign holdings is in significant part an intended outcome of the prescription of domestic assets regulatory framework, under which eligible retirement funds and long-term insurers are required to maintain specified minimum proportions of their portfolios in domestically issued assets, with government bonds qualifying as a core eligible instrument. The policy rationale is to deepen domestic capital markets, reduce the government's dependence on external finaancing (which carries foreign exchange risk and exposes the sovereign to volatile international investor sentiment), and redirect a greater share of long-term institutional savings toward the domestic economy. The evidence from 2025 confirms that the framework is achieving its objectives: both subsectors have steadily increased their government bond allocations since the mid-2010s, providing the government with a reliable, cost-effective, institutionally stable pool of long-term financing that is insulated from the cross-border capital-flow volatility and the reputational headwinds that the FATF grey-listing period imposed, and from the AGOA-related external uncertainty that characterised 2025.

Fiscal stability implications

A sovereign primarily financed by domestic long-term savings institutions is structurally insulated from the abrupt capital flow reversals and risk-premium spikes that afflict sovereigns dependent on foreign portfolio investors during periods of global risk aversion. Domestic retirement funds and insurers are not subject to currency repatriation incentives or portfolio-level risk limits that drive rapid exit in stress scenarios; their long-duration liability structures create a natural alignment between their investment horizon and the maturity profile of government debt. This structural alignment moderates bond market volatility, contributes to stable and competitive government borrowing conditions, and effectively insulates the sovereign from the external financing pressures that have tested several regional sovereigns in recent years. The retirement funds subsector's holding of government bonds, representing approximately 15.3 percent of its total assets, alongside the LTI subsector's 18.3 percent, collectively constitute a material and growing fiscal stabilisation function embedded in the architecture of Namibia's long-term savings system.

Bidirectional contagion considerations

While the stabilising benefits of this structural exposure are significant and well-documented, a complete prudential framework requires acknowledgment of the contagion channels that this concentration creates, without overstating their immediate severity. From the NBFI-to-sovereign direction: a scenario in which retirement funds or LTI entities are compelled to liquidate government bond holdings at scale, through regulatory action, benefit payment pressure, or a loss of investor confidence, could generate selling in the sovereign bond market that elevates yields, increases the government's refinancing cost, and creates a feedback loop through the mark-to-market impact on the remaining bond portfolios of other NBFI entities. From the sovereign-to-NBFI direction: a deterioration in the government's fiscal position or creditworthiness would directly impair the value of the single largest domestic asset class in both the retirement fund and LTI portfolios, simultaneously compressing funding ratios and solvency buffers. These feedback mechanisms are structural features of any financial system in which large institutional investors hold significant proportions of sovereign paper; they are not unique to Namibia and do not represent an immediate systemic vulnerability at current indicator levels. However, they do reinforce the importance of maintaining fiscal discipline, a credible medium-term debt management framework, and diversification of the government's creditor base.

Prudential assessment

The current level of NBFI sovereign exposure is assessed as appropriate and consistent with the prescription of domestic assets regulatory framework and the prudential objectives of prudential oversight. Sovereign exposure ratios for both retirement funds and long-term insurers remain within their normal historical tolerance bands. As part of the ongoing prudential surveillance cycle, NAMFISA will continue to monitor the evolution of aggregate NBFI sovereign exposure relative to total government debt, the concentration of sovereign holdings within individual institutions, and the interaction between sovereign credit dynamics and NBFI solvency buffers.

4.3 Payments infrastructure and regulatory developments

Introduction and summary

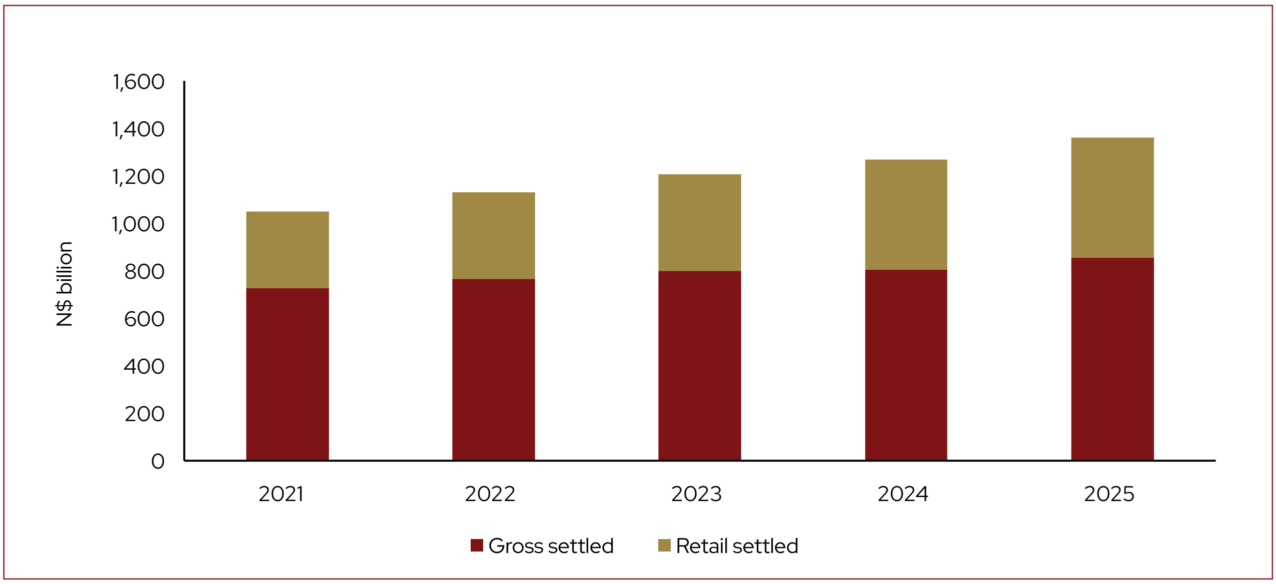
As the sole regulator of the National Payment System (NPS), the Bank of Namibia (hereinafter "the Bank") continued to execute its mandate in 2025, in accordance with the Payment System Management Act, 2023 (No. 14 of 2023). In discharging this mandate, the Bank continued to apply a comprehensive risk-based oversight framework that includes on-site and off-site supervisory activities, licensing, and continuous regulatory reforms. In addition, the Bank continued in its role of facilitating interbank settlement services for authorised institutions via the Namibia Interbank Settlement System (NISS), thereby underpinning the safe, sound, and efficient operation of the NPS.

Payments infrastructure and regulatory developments

The NPS progressed significantly in 2025 through enhanced oversight, strengthened collaboration, and ongoing modernisation. Key initiatives included the establishment of coordinated fraud mitigation efforts, increased public awareness campaigns, and the continued oversight of payment service providers through risk-based inspections. In parallel, regulatory reforms were undertaken to ensure a smart and enabling framework that supports innovation while safeguarding the NPS. Infrastructure modernisation was advanced through the successful migration of the NISS to the ISO 20022 Standard, enhancing data quality, transparency, and efficiency, alongside the onboarding of the Central Securities Depository onto the NISS. On 26 March 2026, the Bank launched the NPS Vision and Strategy (2026–2030), setting the strategic roadmap for the continued modernisation of the NPS.

During 2025, the Bank maintained its provision of interbank settlement services to authorised institutions through the NISS. Total interbank settlement value reached N$1.36 trillion, generated from 109,002 transactions, averaging 438 transactions per settlement day. This marked a year-on-year growth of 7.3 percent in settlement value and 8.4 percent in transaction volume compared to 2024. Transactions within the NISS were predominantly driven by bilateral (gross) settlements among system participants, which amounted to N$855.75 billion and constituted 62.84 percent of the total value settled. Retail payment transactions cleared by Namclear contributed N$505.97 billion, equivalent to 37.16 percent of the total value settled (Figure 28).

Figure 27: Value of payments processed in the NISS

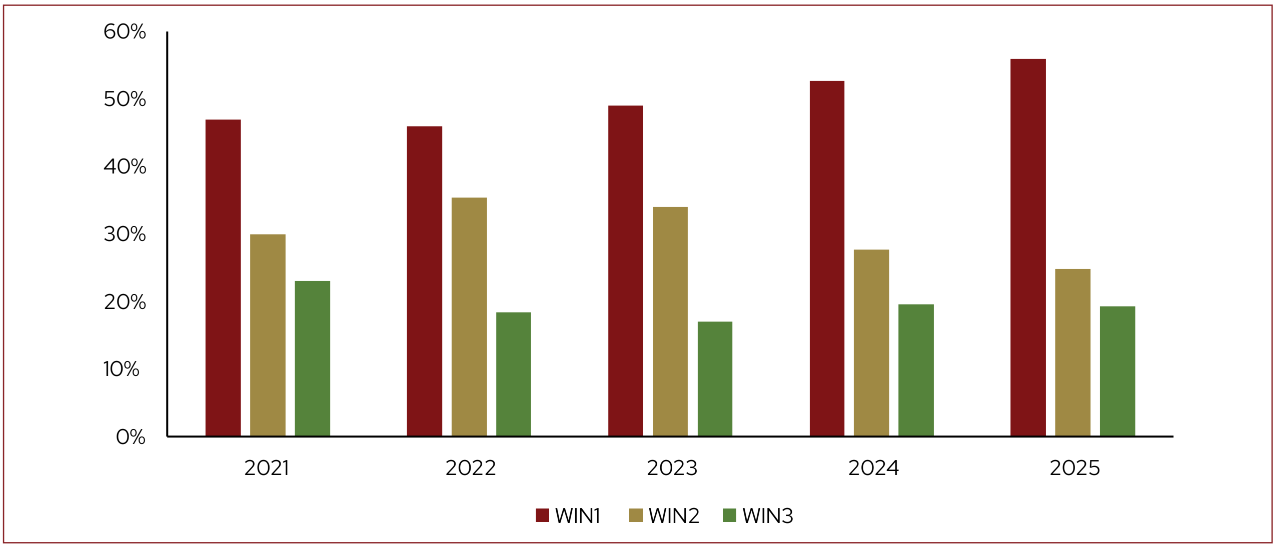


Source: BoN

NISS settlement windows

The operational and settlement risks within the NISS remained at a moderate level during 2025. To mitigate these risks, it is recommended that the majority of settlement obligations be completed during the earlier settlement windows. This approach allows system participants sufficient time to meet their obligations promptly. As illustrated in Figure 28, this recommendation was largely observed during 2025, with 80.73 percent (N$1,099.3 billion) of total transaction values in the NISS settled during windows 1 and 2, while Window 3 accounted for 19.27 percent (N$262.40 billion).

Figure 28: Proportions of payments settled in each NISS settlement window



Source: BoN

Disruptions to the NISS

During 2025, the NISS maintained a high level of system availability, although it was marginally below the designated system availability threshold. The NISS recorded an availability rate of 99.56 percent, compared to the target of 99.90 percent, primarily due to system migration activities.

The NISS exhibited strong operational resilience throughout 2025, supported by two scheduled business continuity exercises and one announced disaster recovery test. All exercises were completed successfully, with the system consistently achieving the targeted recovery time objective of two hours, thereby demonstrating the effectiveness of contingency arrangements and the Bank's readiness to manage operational disruptions.

Security of retail payments

During the review period, the total value of fraudulent transactions increased significantly compared to 2024. The industry reported a notable rise of N$52 million in EFT fraud (up from N$32 million in 2024) and N$1 million in electronic money (e-money) fraud (up from N$451 thousand in 2024), while card fraud decreased to N$19 million (down from N$21 million in 2024).

The decline in card fraud value is largely driven by enhanced industry interventions. These interventions include enhanced fraud and transaction monitoring systems, as well as proactive merchant blocking. Notwithstanding this decline in value, card fraud continues to record the highest transaction volumes relative to other payment channels, primarily driven by card-not-present incidents on online or e-commerce platforms. Card-not-present fraud typically occurs when card details are used for transactions without the physical card being present, often in instances where multifactor authentication (MFA) is not applied. During the period under review, a notable Bank Identification Number-related attack was also observed. In response, the industry has intensified measures such as enhanced fraud monitoring, improved detection capabilities, and increased consumer awareness initiatives across multiple platforms.

EFT fraud remained the most common type of fraud during the period under review. This was largely driven by social engineering attacks, including phishing, vishing (voice phishing), and smishing (SMS phishing). These attacks involve fraudsters impersonating legitimate institutions to deceive clients into divulging sensitive banking information, resulting in account compromise and unauthorised fund transfers. This method is commonly used by fraudsters, as it relies on the manipulation of human behaviour and can be executed with relative ease, often involving higher transaction values associated with the EFT channel. In addition, incidents involving rogue merchants, where merchants exploit payment service channels to process unauthorised debit collections, were observed.

Cybersecurity continues to pose an evolving risk to the safety and integrity of the NPS. During 2025, a limited number of cybersecurity-related incidents were observed across industry participants, including those affecting system environments and external technology dependencies. These incidents were effectively contained and did not result in any widespread disruption to the NPS.

Collaboration across the financial sector has been further strengthened in 2025. This has been supported through the Financial Sector Cyber Resilience and Fraud Mitigation Council, which established the Industry Fraud Working Group to coordinate efforts aimed at reducing digital fraud losses. Ongoing engagements continue to bring together key stakeholders to enhance information sharing, improve coordination, and support a unified response to fraud risks across the financial ecosystem.

In collaboration with the Bankers Association of Namibia, the Bank hosted a Fraud and Cybersecurity Risk Awareness Summit in November 2025. The summit brought together various industry stakeholders to discuss emerging fraud trends and effective communication and prevention strategies, as well as case studies from other jurisdictions to inform Namibia's approach to combating fraud.

The Bank strengthened public education and awareness initiatives during 2025. During the review period, the Bank advanced efforts to promote awareness of fraud risks and virtual asset service providers through digital and broadcast media, stakeholder engagement, and industry collaboration. These initiatives included the development of educational content, targeted outreach sessions, and a joint Fraud Awareness and Cybersecurity Campaign conducted in collaboration with the Bankers Association of Namibia.

The Bank continued to strengthen oversight of payment service providers during the period under review. To effectively manage risks and ensure compliance, the Bank conducted both off-site and on-site supervisory activities, closely monitoring authorised payment service providers. These activities included assessments based on information submitted by regulated institutions within the NPS, supported by data analysis, compliance reviews, and performance evaluations. During the period, the Bank carried out 17 risk-based inspections across various payment service providers and five pre-opening inspections. The assessments further highlighted the need for payment service providers to continuously strengthen their controls and enhance their infrastructure in alignment with the Bank's legal and oversight frameworks.

Developments in payment and settlement systems

During the year, the Bank revised elements of its regulatory framework to ensure alignment with the Payment System Management Act. Key reforms included the issuance of the revised *Determination on Interchange Rates and Off-us ATM Withdrawal Fees (PSD-11),* which repeals the 2022 determination and establishes applicable interchange rates and fees for interbank card and instant payment transactions. The Bank also revised the *Determination on the Licensing and Authorisation of Payment Service Providers (PSD-1)* to enhance a future-fit, risk-based framework that supports innovation and financial inclusion; the revised determination was gazetted in January 2026. The Bank further undertook a comprehensive reform of the fees and charges framework for payment services through revisions to the *Determination on the Standards for a Basic Bank Account and Cash Deposit Fees within the National Payment System (PSD-5)* and the *Determination on Standards for Fees and Charges for Payment System Services within the National Payment System (PSD-10),* with the objective of consolidating and harmonising standards across payment services while promoting competition, efficiency, and consumer protection. The revised PSD-10, which repealed and replaced the previous determinations, was finalised and gazetted in December 2025. In addition, the Payment System Notice was revised to update capital adequacy requirements for payment facilitation service providers, revise licensing and renewal fees, and establish requirements governing access to financial products through e-money wallets, in support of the revised the *Determination on the Issuing of Electronic Money (PSD-3).*

In 2025, the Bank published the Namibian Open Banking Standards and the Namibian Quick Response Code Standards to contribute to a more resilient and inclusive financial ecosystem. These standards establish common frameworks for secure data sharing and interoperable QR-code payments, respectively. The Bank issued a Guidance Note on the operationalisation of the NAMQR Code Standards within the National Payment System, and a consultative process will be undertaken during 2026 to support the operationalisation of the Standards.

During the period under review, the Bank issued the Directive on E-Money Interoperability through the Implementation of the *Instant Payment Switch (IPS) in the National Payment System (PSDIR-11).* This establishes the IPS as a national public utility to enable seamless and interoperable e-money transactions across participating institutions by November 2026. Industry participants are progressing implementation efforts to operationalise the PSDIR-11 to realise e-money interoperability and expand digital financial services.

The National Payment System Vision and Strategy 2030, initiated in 2025, sets a timely direction for the continued modernisation of Namibia's payments ecosystem. This process was informed by a review of progress achieved, insights from a Payments Thought Leadership Event, consumer payment behaviour research, and industry workshops. On 26 March 2026, the Bank, the Payments Association of Namibia, and the broader payments industry officially have launched the NPS Vision and Strategy 2026–2030 under the theme "Inclusive Payments, Shared Prosperity: Charting the Next Era". The NPS Vision and Strategy 2026–2030 is anchored on five strategic themes: User-Centricity; Trust and Resilience; Digital Enablement; Strategic Foresight and Innovation; and Knowledge Communities, in order to collectively position the NPS not only as critical national infrastructure, but also as a catalyst for shared prosperity and inclusion.

As part of its settlement system modernisation agenda, in December 2025 the Bank successfully onboarded the Central Securities Depository as a settlement participant. This milestone marked the transition from paper-based securities settlement to a secure, fully electronic environment conducted in central bank money, enabling effective delivery-versus-payment arrangements, reducing settlement and operational risk, and strengthening integration between payment and securities settlement infrastructures. Preparatory work is also underway to onboard the Instant Payment System, which will support real-time payments and enhance interoperability across the national payments ecosystem.

In 2025, the Bank completed the migration of the NISS from SWIFT MT to ISO 20022 MX messages, well ahead of the global SWIFT deadline of 22 November 2025. This transition significantly enhanced straight-through processing, reduced operational risk, improved data quality, and strengthened interoperability with regional and global payment systems. The adoption of ISO 20022 further enhances transparency, monitoring, and risk management, reinforcing the resilience and future-readiness of Namibia's settlement infrastructure.

The Bank continued its participation in the SADC real-time gross settlement (SADC-RTGS) system. The is a regional settlement platform that facilitates time-critical and high-value payments among participating SADC countries. As at the end of the 2025 reporting period, the system comprised 88 participants, namely registered banking institutions and central banks, from 15 SADC countries. Of these, five participants, including the Bank of Namibia, were based in Namibia. During 2025, total payments processed through the SADC-RTGS amounted to R2.8 trillion. Namibian banks accounted for R708 billion, representing 25 percent of the total value processed. This performance demonstrates the effective utilisation of the SADC-RTGS by Namibian banks in advancing regional payments integration, in line with the Finance and Investment Protocol.

The SADC-RTGS Operator, in collaboration with the SADC Bankers Association, continued to support the adoption of ISO 20022 messaging standards for cross-border payments within the SADC region during 2025. In line with the global directive issued by the Society for Worldwide Interbank Financial Telecommunications (SWIFT), which requires all financial institutions to migrate from MT messaging standards to ISO 20022 by November 2025, engagements were undertaken at both regional and domestic levels to ensure readiness and compliance. In November 2025, the SADC-RTGS version 5 upgrade was successfully implemented, with the majority of regional participants, including all Namibian participants, migrating to the enhanced platform. All domestic banks participating in the SADC-RTGS, together with the SADC-RTGS Operator, have migrated to ISO 20022 standards. As part of its oversight responsibilities, the Bank will continue to monitor and promote compliance with international payment and messaging standards to support interoperability, efficiency, and resilience within the NPS.

The Bank issued the *Directive on the Regularisation of Cross-border Low-value EFTs within the Common Monetary Area (CMA) (PSDIR-10)* in line with regional initiatives towards the development and adoption of a dedicated solution for low-value cross-border payments within the CMA. The CMA Cross-Border Payments Oversight Committee issued a position paper requiring all low-value cross-border EFT transactions to migrate from the SADC RTGS to a designated regional retail payment system, such as the Transactions Cleared on an Immediate Basis payment scheme, by 31 March 2027.

In line with the forthcoming regulatory transition, regional implementation efforts have commenced to ensure that both industry participants and the scheme operator are fully prepared to comply with the prescribed regulatory deadlines for low-value CMA EFTs. Ongoing regional coordination and readiness activities are aimed at strengthening operational capacity and ensuring a smooth transition to the Transactions Cleared on an Immediate Basis payment scheme as the designated regional retail payment system for low-value cross-border transactions.

5.

Stress Testing

5. STRESS TESTING

This chapter provides a quantitative assessment of the banking sector's resilience through stress test scenarios, using the Čihák Stress Test Model and the Dynamic Bank Balance Sheet Tool. The stress scenarios are not forecasts of macroeconomic and financial conditions; however, they are hypothetical, coherent, tail-risk scenarios designed specifically to assess the sector's resilience to a hypothesised deterioration in macroeconomic conditions.

5.1 Čihák Stress Test Model

The Čihák Stress Test Model was used to assess the resilience of the domestic systemically important banks (DSIBs) to credit and liquidity risks through a scenario-based approach. The scenarios are modelled to focus on interest rate risk, credit risk, and liquidity risk to estimate the solvency and liquidity position of the banking sector, holding other factors constant. The first scenario is a baseline approach that follows the current policy environment domestically, regionally and globally. The intermediate and severe scenarios apply increasingly adverse shocks. The ultimate objective of the stress test is to quantify the impact on solvency and liquidity should the identified scenarios ensue, and to suggest policy options to minimise the impact of potential shocks on the banking sector and the overall economy. The Čihák Model was used to stress-test the DSIBs' solvency position 12 months into the future, as well as in respect of a five-day liquidity rundown.

Credit risk

Global and domestic economic developments in Namibia affect interest rate movements and, thus, credit risk. Global growth is expected to moderate to 3.1 percent in 2026, from 3.4 percent in 2025. The global outlook remains vulnerable, with risks skewed to the downside. Domestically, growth faces headwinds from weaker diamond export earnings, as price pressures and increased competition from lab-grown diamonds may dampen mining output.7

Both the SARB and the BoN maintained the repo rate at their latest Monetary Policy Committee (MPC) meetings. At its March 2026 meeting, the SARB MPC kept the policy rate unchanged at 6.75 percent. The decision to do so reflected heightened uncertainty, with the MPC noting that it is still early in the crisis, and that further time is needed to assess its implications for inflation, which is currently judged to be tilted to the upside. Similarly, the BoN opted to keep the repo rate unchanged at 6.50 percent at its April 2026 meeting.

This policy rate will continue to support domestic economic activity and safeguard the one-to-one link between the NAD and the ZAR. From this level, the following repo rate decisions are assumed:

- **baseline scenario:** increase the repo rate by 25 basis points over the next 12 months;
- **intermediate scenario:** increase the repo rate by 50 basis points over the next 12 months; and
- **severe scenario:** increase the repo rate by 75 basis points over the next 12 months

The NPL ratio declined during the fourth quarter of 2025. As measured by the NPL ratio, asset quality declined from 4.8 percent in the third quarter of 2025 to 4.3 percent in the fourth quarter of 2025. Furthermore, asset quality is expected to improve somewhat in the coming 12 months as monetary policy becomes less restrictive, and may provide much-needed relief to enable households and corporates to service their debt. Although these developments indicate strengthening asset quality, it remains essential to assess how the banking sector would perform if conditions were to deteriorate. Stress testing under intermediate and severe scenarios provides insight into whether solvency positions would remain sound even if the current positive trend were to reverse. In the stress test, the following trajectory is assumed for each scenario over the next 12 months:

- **baseline scenario:** a 0.3 percentage point decrease in the banking sector NPL ratio;
- **intermediate scenario:** a 1.0 percentage point increase in the banking sector NPL ratio; and
- **severe scenario:** a 3.0 percentage point increase in the banking sector NPL ratio.

[7] Refer to the section on the macroeconomic environment in chapter 3 for further context.

Liquidity risk

Liquidity risk measures the banks' ability to honour their financial obligations on time. Banks are required to maintain a minimum LCR and NSFR of 85 percent. During the fourth quarter of 2025, the DSIBs recorded an LCR of 145.6 percent and an NSFR of 116.5 percent, both well above the regulatory minimum. This indicates that banks remained resilient to short-term liquidity stress while maintaining stable longer-term funding structures. Similarly, demand deposits, which comprise current account, call, and savings deposits, increased by 3.0 percent on a quarterly basis to N$90.9 billion at the end of the fourth quarter of 2025. The increase was mainly driven by growth in the current account and call deposits within the commercial deposits category. Market conditions can trigger unscheduled deposit withdrawals; therefore, it is pertinent that the banks maintain adequate liquidity levels throughout economic cycles. The Bank of Namibia's concern, therefore, is whether commercial banks would be able to withstand a liquidity shock due to a sudden withdrawal of funds from the banking system, despite being liquid, well-capitalised, profitable and solvent. Consequently, for the stress test, the following assumptions regarding withdrawals by depositors were made for both retail and wholesale deposits:

- **baseline scenario:** 10 percent of demand deposits (equivalent to 6.30 percent of total deposits) withdrawn over five days;
- **intermediate scenario:** 30 percent of demand deposits (equivalent to 18.89 percent of total deposits) withdrawn over five days; and
- **severe scenario:** 60 percent of demand deposits (equivalent to 37.78 percent of total deposits) withdrawn over five days.

A summary of the stress test scenarios is presented in Table 12.

Table 12: Summary of the stress test scenarios

Variable	Stress test scenario		
	Baseline	Intermediate	Severe
Interest rate assumption – repo rate	Increase rate by 25 basis points	Increase rate by 50 basis points	Increase rate by 75 basis points
Credit risk – NPL ratio	0.3 percentage point decrease	1.0 percentage point increase	3.0 percentage point increase
Liquidity risk	10 percent of demand deposits withdrawn over five days (6.30% of total deposits)	30 percent of demand deposits withdrawn over five days (18.89% of total deposits)	60 percent of demand deposits withdrawn over five days (37.78% of total deposits)
Other variables	• 30 percent for baseline, 35 percent for intermediate and 40 percent for severe; haircut applied to collateral. • 50 percent assumed provisioning of the new NPLs.		

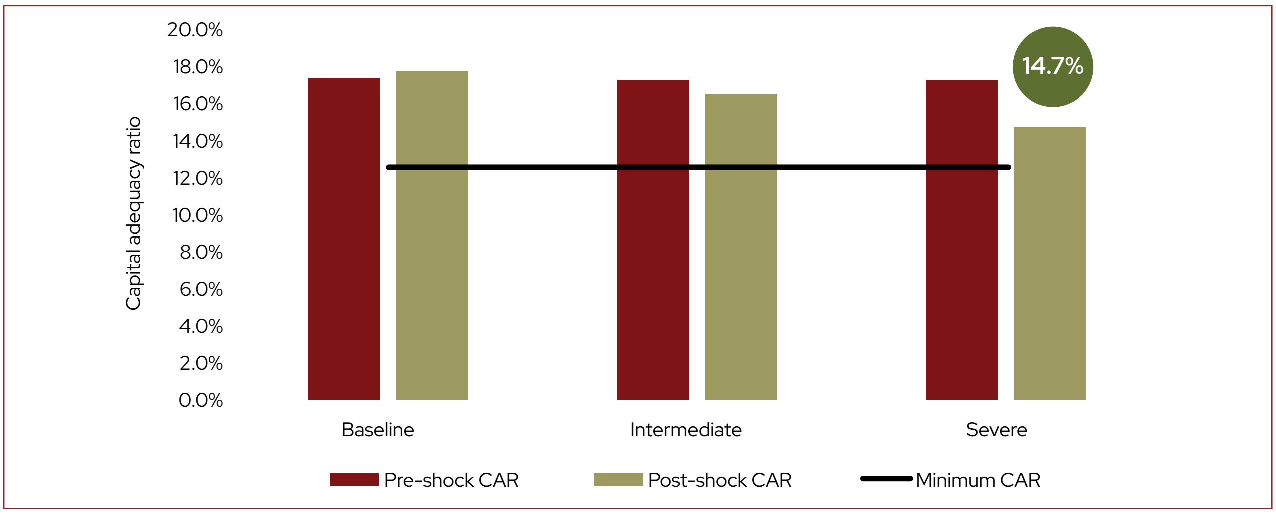
Source: BoN

5.2 Stress test results

Solvency

The Čihák stress test results indicate that the banking sector remained solvent in all three scenarios, despite interest rate and credit risk shocks. The pre-shock CAR, based on the current CAR positions of commercial banks in Namibia, stood at 17.2 percent. In the baseline scenario, the post-shock CAR declined to 17.1 percent, i.e. 4.6 percentage points higher than the statutory minimum requirement of 12.5 percent. In the intermediate scenario, the CAR dropped to 16.5 percent, while in the severe scenario, it fell to 14.7 percent, which is still 2.2 percentage points above the minimum threshold (Figure 29). Overall, the results suggest that the banking sector's capital buffers remain sufficient to absorb severe but plausible shocks, including those associated with a deterioration in asset quality. Nevertheless, vulnerabilities are not evenly distributed across institutions. Under the severe scenario, one DSIB would breach the minimum regulatory capital requirement and would therefore require a timely capital injection of approximately N$201.3 million to restore compliance.

Figure 29: Solvency stress test results

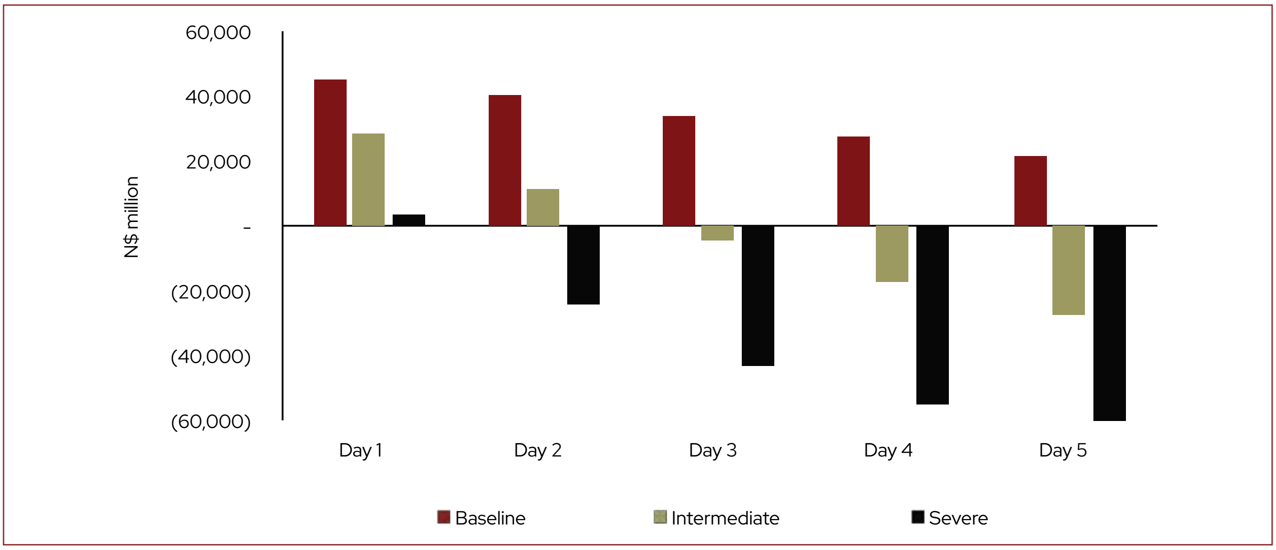


Source: BoN

Liquidity

The banking sector's liquidity position would remain sound under a baseline liquidity shock but would deteriorate significantly in the intermediate and severe scenarios. In the baseline scenario, liquidity is shown to be adequate, although it declines over a five-day horizon (Figure 30). The intermediate scenario shows a similar initial trend, but turns negative on Day 3, requiring additional liquidity funding of N$4.6 billion. The severe scenario moves into negative territory as early as Day 2. These results indicate that banks could meet payment obligations only under the baseline scenario, whereas liquidity shortfalls would arise by Day 3 and Day 2 under the intermediate and severe shocks, respectively. However, banks have contingency plans in place to guide their response in the event of such shocks.

Figure 30: Liquidity stress test results



Source: BoN

5.3 Dynamic Bank Balance Sheet Tool

The Dynamic Bank Balance Sheet Tool (DBBST) allows for a multi-year stress test by incorporating historical macroeconomic trends and projecting longer-term impacts. While the tool can capture a five-year horizon, a three-year horizon (2026–2028) is more practical for assessing risk buildup and minimising uncertainties related to macroeconomic variables and the banks' balance sheets. In addition to the variables used in the Čihák Model, the DBBST also requires real GDP, inflation, sovereign bond yields (2- and 10-year yields), the repo rate, the prime rate, house prices, and the exchange rates. The Bank utilises the DBBST to quantitatively assess financial sector resilience under different macro-financial risk scenarios as part of its financial stability analysis, with a focus on solvency.

Calibration of the DBBST scenarios

Two scenarios were considered, namely a baseline and an adverse scenario. The baseline scenario ("business as usual") was aligned with the Bank of Namibia's macroeconomic forecast published in its December 2025 Economic Outlook Report, along with consensus forecasts from external sources such as the SARB's March 2026 MPC projections. In contrast, the adverse scenario incorporated identified financial stability risks to the Namibian banking system, calibrated to reflect a hypothetically severe, yet plausible, shock.

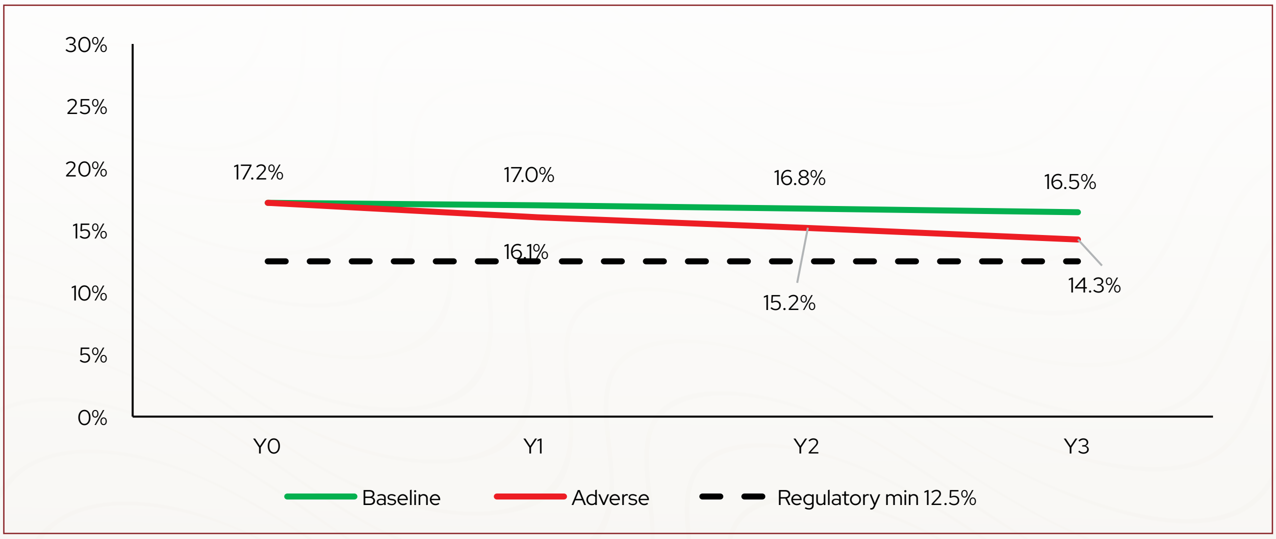
The adverse scenario represents severe but plausible shocks designed to assess the resilience of the financial sector under stressed macroeconomic conditions. The scenario assumes a global supply shock similar to that outlined in the October 2025 FSR driven by heightened geopolitical tensions, rising commodity prices and renewed supply-chain disruptions. These developments lead to higher-than-expected inflation across both AEs and EMDEs. As inflationary pressures intensify, inflation expectations rise, prompting monetary authorities to tighten policy by increasing interest rates to restore price stability. In South Africa, the resulting capital outflow pressures and initial currency depreciation lead the SARB to raise interest rates to stabilise financial conditions. Consequently, in view of the peg arrangement, the Bank of Namibia is expected to respond broadly in tandem with the SARB. Under this scenario, the NAD is assumed to depreciate against the USD by 20.0 percent at its peak, while the NAD's nominal effective exchange rate declines by approximately 10.0 percent.

The model assumes a significant deterioration in macroeconomic conditions under the adverse scenario. Real GDP is projected to contract by 4.0 percent by the end of 2026. Consistent with weaker economic activity, credit growth is assumed to slow markedly over the stress-testing horizon, reflecting subdued lending demand and tighter credit conditions. Inflation, however, is projected to increase significantly and reach double-digit levels over the three-year horizon, largely reflecting exchange rate depreciation and supply-side pressures. In addition, the scenario assumes heightened concerns regarding the sustainability of public debt. These concerns lead to increased market interest rate expectations, resulting in a sharp repricing in debt markets and elevated government bond yields. Furthermore, the weaker economic outlook places downward pressure on asset prices, with real estate prices assumed to decline significantly. As a result, the financial sector experiences higher credit losses and declining profitability as collateral values fall and the debt-servicing capacity of both households and corporates deteriorates.

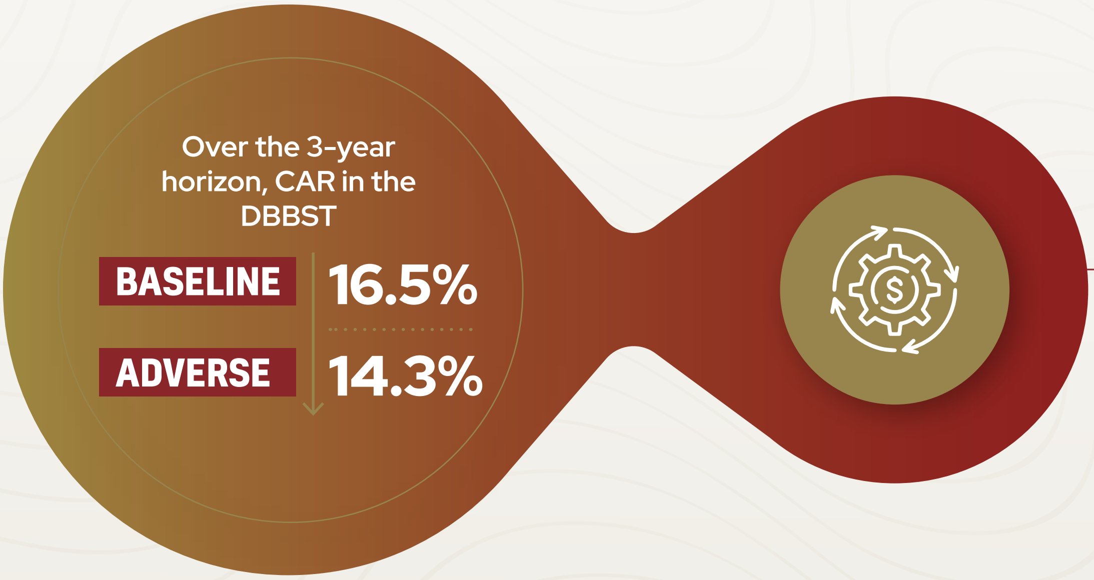
Results

The stress test results indicate that the commercial banks remain adequately capitalised under both the baseline and adverse scenarios. As a starting point, the CAR of the banking sector stood at 17.2 percent at the end of 2025. Under the baseline scenario, the CAR declines moderately to 16.5 percent by the end of the three-year stress-testing horizon (Figure 31). In the adverse scenario, the CAR declines further to 14.3 percent, mainly reflecting higher credit losses and reduced income generation, particularly from net trading income and other operating income. Despite this deterioration, the banking sector remains broadly resilient to the assumed shocks, with all banks maintaining CARs above the minimum prudential requirement throughout the stress-testing period.

Figure 31: Regulatory capital ratio for the banking system

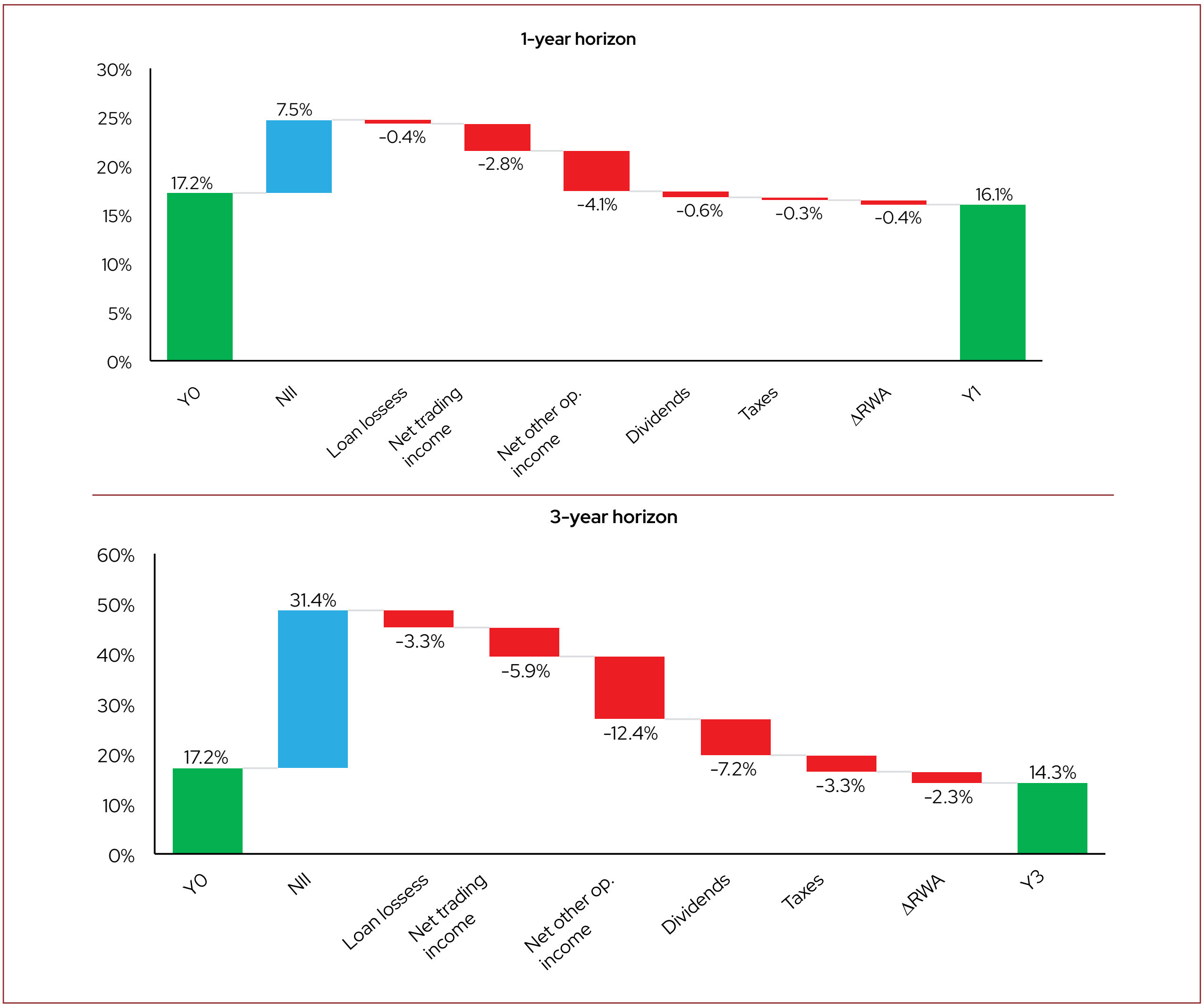


Source: BoN



The decline in the banking sector's capital adequacy under the adverse scenario is primarily driven by pressures on banks' income sources. In particular, lower levels of other operating income, higher loan losses, and weaker net trading income contribute significantly to the downward pressure on capital. The largest contributor to the decline in capital adequacy is net other operating income, largely reflecting a reduction in fees and commission income over the stress horizon (Figure 32). This development is consistent with weaker economic activity, which results in lower transaction volumes and reduced fee-generating activities. Net trading income is the second-largest contributor, accounting for a decline of 5.9 percentage points in the CAR, mainly due to elevated government bond yields over the three-year period. Loan losses also contribute to the reduction in capital, lowering the CAR by approximately 3.3 percentage points over the stress horizon. In contrast, net interest income provides a stabilising effect, contributing positively to capital adequacy by 31.4 percentage points over the three-year horizon under the adverse scenario. This partly offsets the negative impact from other income sources and credit losses. In addition, the model assumes that profitable banks continue to distribute dividends. As a result, dividend payouts exert a negative effect on capital adequacy in both the baseline and adverse scenarios. However, the impact is somewhat smaller in the adverse scenario, reflecting weaker profitability and consequently lower dividend distributions.

Figure 32: Contribution to CAR over the adverse stress test horizons



Note: Y0 = Current capital position; ΔRWA = Change in risk-weighted assets; Y1 and Y3 = show the respective capital positions over one-year and three-year horizons
Source: BoN

Overall, the stress test results indicate that the Namibian banking sector remains resilient to severe but plausible macrofinancial shocks. Despite the simulated deterioration in economic conditions, elevated credit losses, and pressures on income sources, the sector maintains capital levels above the minimum prudential requirements throughout the stress-testing horizon. This reflects the relatively strong capital buffers currently held by the banks. While the results highlight that vulnerabilities may not be evenly distributed across institutions, the overall resilience of the sector suggests that the banking system remains well positioned to absorb adverse shocks. At this stage, the stress test results do not indicate the need for additional policy intervention. Nonetheless, continued supervisory monitoring and prudent risk management practices remain essential to ensure that emerging risks are identified early and that the resilience of the financial system is preserved.

6.

Property Market Analysis

6. PROPERTY MARKET ANALYSIS

Namibia's residential property market remained broadly resilient during the fourth quarter of 2025, supported by rising house prices and improving collateral buffers, even as mortgage credit growth remained subdued. House prices increased by 2.98 percent quarter-on-quarter and 7.79 percent year-on-year in December 2025, with the 12-month national weighted average increasing to N$1.42 million. The continued improvement in house prices continues to support borrowers' equity and banking sector loss-absorption capacity, with equity coverage increasing to 86.14 percent (primary) and 113.16 percent (non-primary) on a value-outstanding basis. In addition, mortgage market composition remained stable, with primary mortgages accounting for an average of 88.8 percent of total residential mortgages in Q4 of 2025, underscoring the predominantly owner-occupied nature of the market, which tends to be associated with lower speculative risk.

Notwithstanding the resilience in the property market, affordability remains a concern. Total mortgage credit recorded a slight annual contraction of 0.06 percent in December 2025, driven by weaker corporate mortgage credit, while household mortgage credit recorded a marginal growth rate of 0.19 percent year-on-year. Residential plot sales growth contracted by 33.15 percent (12-month moving average) in December 2025, reinforcing the persistent shortage of serviced land, against the estimated backlog of approximately 300,000 plots requiring servicing. Looking ahead, recent micro-developments, including changes affecting property repossession processes, the rollout of pension-backed housing finance, and easing borrowing costs, may influence both demand and mortgage credit risk dynamics. Although there are no immediate property-market risks warranting macroprudential intervention by the MOC, it remains imperative to continuously carry out early warning analysis and monitor ongoing developments (Table 13).

Table 13: Key property market themes and potential risk transmissions

Theme	Context	Risk transmission
Affordability and rental market pressures	While house price appreciation can strengthen collateral buffers and support borrower equity in the short term, persistent house price growth that outpaces real wage growth erodes affordability and constrains mortgage credit uptake, especially for first-time buyers. Improved land servicing (increased supply) is a key upside scenario for affordability and rental pressures.	Lower affordability > weaker mortgage demand/credit growth > greater reliance on renting > potential increase in household vulnerability if rental inflation persists
Pension-backed home loan scheme and other financing innovations	Although the initiative of pension-backed home loans is well received, it poses a risk that there could be a migration of mortgage loans from commercial banks to NBFIs, thereby creating shadow banking activity. The current macroprudential regulations do not extend beyond the banking sector, and as a result, the loan-to-value (LTV) regulation may be rendered ineffective. A need would thus arise to either expand the regulation or to introduce a new similar regulation that covers the NBFI sector.	Increased access > higher demand > potential uplift in transactions and construction; however, if supply-side constraints remain > further pressure on house prices > potential overvaluation
Repossession and recovery process changes	A lengthening recovery process can raise loss-given-default and extend resolution timelines, even when collateral buffers are strong.	Longer recovery timelines > higher administrative costs and delayed collateral realisation > potential tightening of underwriting standards > slower credit growth
Banking sector resilience remaining supported by strong equity coverage ratios	Equity coverage ratios remain strong and improved further in Q4 of 2025, supporting resilience in the face of shocks. Sustained house price growth increases the market value of properties, which positively impacts the price that may be obtained should there be a fire sale.	Stronger equity buffers > lower loss given default > reduced systemic risk from mortgage concentration

Source: BoN

6.1 Mortgage credit developments

Mortgage loans remain the dominant component of total banking sector loans and advances, though their relative share has declined consistently year-on-year. Total mortgage loans declined to 48.7 percent of total loans and advances in December 2025, down from 50.9 percent in the corresponding period of 2024 (Table 14). This declining trend is mirrored across both household and corporate segments, with household mortgage loans accounting for 65.1 percent of total household credit, while corporate mortgage loans represented a considerably lower share of 26.4 percent of total corporate credit. There has been a gradual decline in the concentration of mortgage loans in the commercial banks' balance sheets, reflecting a weak uptake of overall mortgage credit. Importantly, the declining mortgage share is not solely a reflection of weak mortgage credit uptake, but is equally due to a composition shift in which other credit categories such as instalment and leasing are expanding at a faster pace, which dilutes the mortgage's share with respect to total loans and advances.

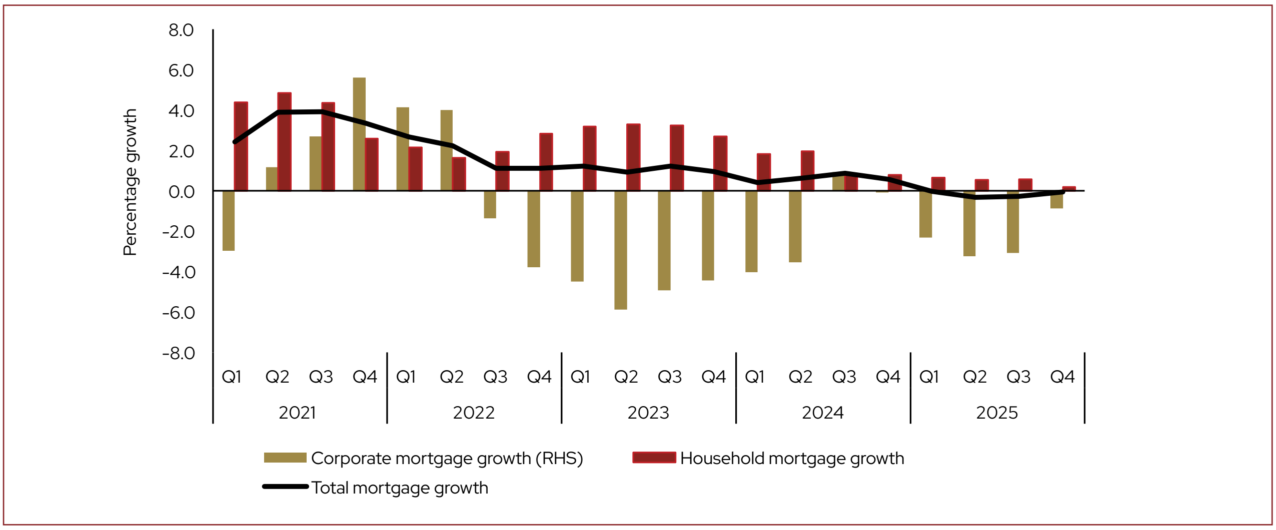
Table 14: Household and corporate mortgage credit share as a percentage of total household and corporate loans and advances

Credit category and percentage share of total credit	Dec 2021	Dec 2022	Dec 2023	Dec 2024	Dec 2025
Household credit					
Total household credit (N$ million)	61,791	64,723	66,648	68,688	70,570
Mortgage credit (N$ million)	43,056	44,271	45,467	45,824	45,910
Household mortgage credit (% share)	69.7	68.4	68.2	66.7	65.1
Corporate credit					
Total corporate credit (N$ million)	44,258	45,809	45,979	48,442	51,748
Mortgage credit (N$ million)	14,979	14,413	13,773	13,760	13,640
Corporate mortgage credit (% share)	33.8	31.5	30.0	28.4	26.4
Total credit					
Total credit (N$ million)	106,049	110,531	112,627	117,130	122,318
Total mortgage credit (N$ million)	58,036	58,684	59,240	59,584	59,551
Total mortgage loans (% share)	54.7	53.1	52.6	50.9	48.7

Source: BoN

Total mortgage credit extension declined during December 2025, following subdued household and corporate mortgage credit extension. Overall, total mortgage credit recorded a year-on-year decline of 0.06 percent in December 2025, down from 0.58 percent growth recorded during the corresponding period of 2024 (Figure 33). This was mainly due to the negative year-on-year growth observed in the corporate subsector, which declined by 0.87 percent, while recording a quarterly improvement of 1.93 percent. The year-on-year contraction in the corporate subsector mainly reflects increased repayments rather than new investments, on the back of accommodative monetary policy that eases debt servicing capacity. Conversely, household mortgage credit recorded a marginal year-on-year growth of 0.19 percent in December 2025, lower than the growth of 0.79 percent recorded during the corresponding period of 2024. Although household mortgage credit has remained in positive territory, supported by the economic recovery and the gradual easing of interest rates, its growth has moderated over the recent quarters and has been on a weakening trend over the past two years. This reflects affordability constraints amid a persistently high unemployment rate and persistent house price growth.

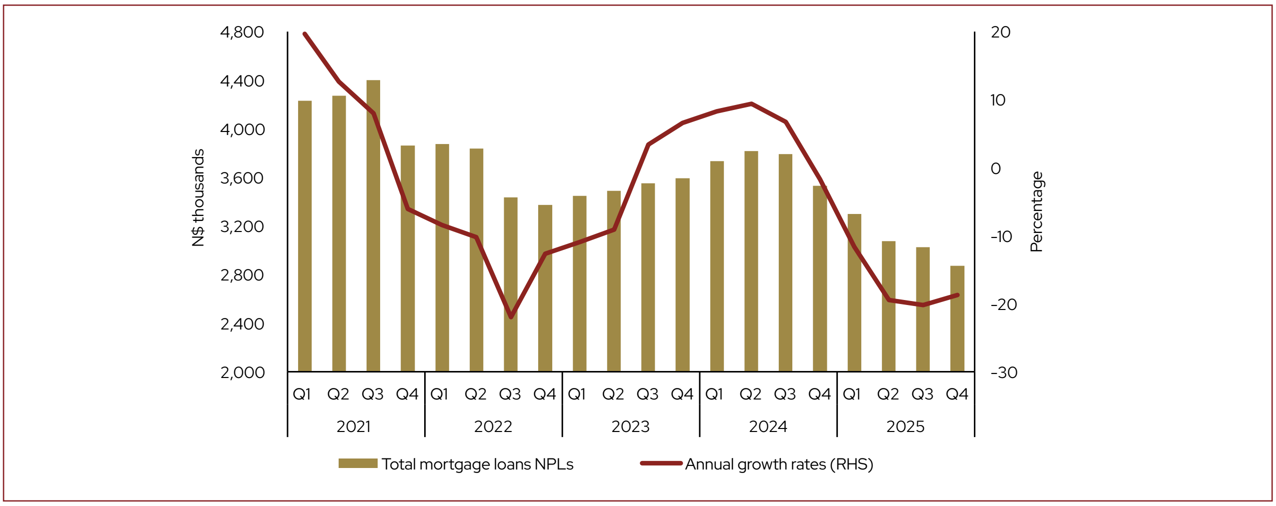
Figure 33: Annual mortgage credit growth



Source: BoN

The nominal value of non-performing mortgage loans declined on both a quarterly and an annual basis, boding well for financial stability amidst high loan concentration. Nominal NPLs in the mortgage loans category improved by 5.04 percent and 18.71 percent quarter-on-quarter and year-on-year, respectively (Figure 34). First National Bank Namibia remains the largest driver of mortgage NPLs, followed by Bank Windhoek, Standard Bank Namibia, and Nedbank Namibia. First National Bank, Standard Bank and Nedbank recorded significant improvements in their asset quality, with year-on-year declines of 35.20 percent, 21.26 percent, and 24.04 percent in total mortgage NPLs at December 2025, respectively. This is attributed to write-offs within the loan loss category, coupled with improved loan repayments following the more accommodative interest rate environment in 2025. The overall improvement in NPLs contributes positively to financial stability by lowering credit risk and fostering a more supportive lending environment.

Figure 34: Mortgage NPLs (nominal and year-on-year growth)

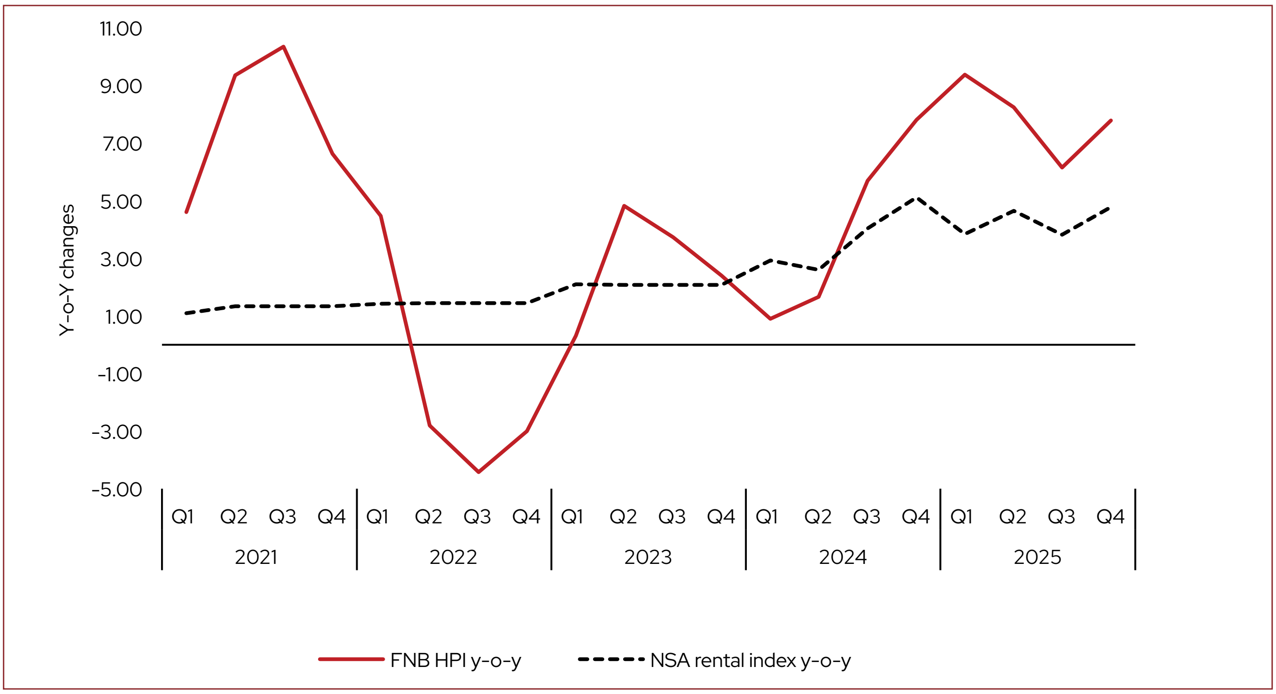


Source: BoN

6.2 Price developments

The house price index increased on both quarterly and annual bases during the final quarter of 2025. The house price index increased by 2.98 percent to reach 125.57 index points in December 2025 from 121.93 points observed in September 2025 (Figure 35). Similarly, house prices increased by 7.79 percent year-on-year at December 2025, marginally lower than the 7.82 percent growth recorded during the same period in 2024. The 12-month national weighted average house price was recorded at N$1.42 million during December 2025, a marginal increase from N$1.32 million during December 2024. From a regional perspective, all regions recorded annual growth, with the northern regions leading with year-on-year growth of 9.5 percent followed by the central region with growth of 7.9 percent during December 2025. Continuing supply-side constraints, specifically the national housing backlog of 300,000, as well as high input cost related to land servicing, all put upward pressure on house prices. In addition, the limited supply of homes to meet the rising demand continues to create a mismatch between demand and supply which further amplifies the increases in national house prices.

Figure 35: Annual growth in house and rental price indices



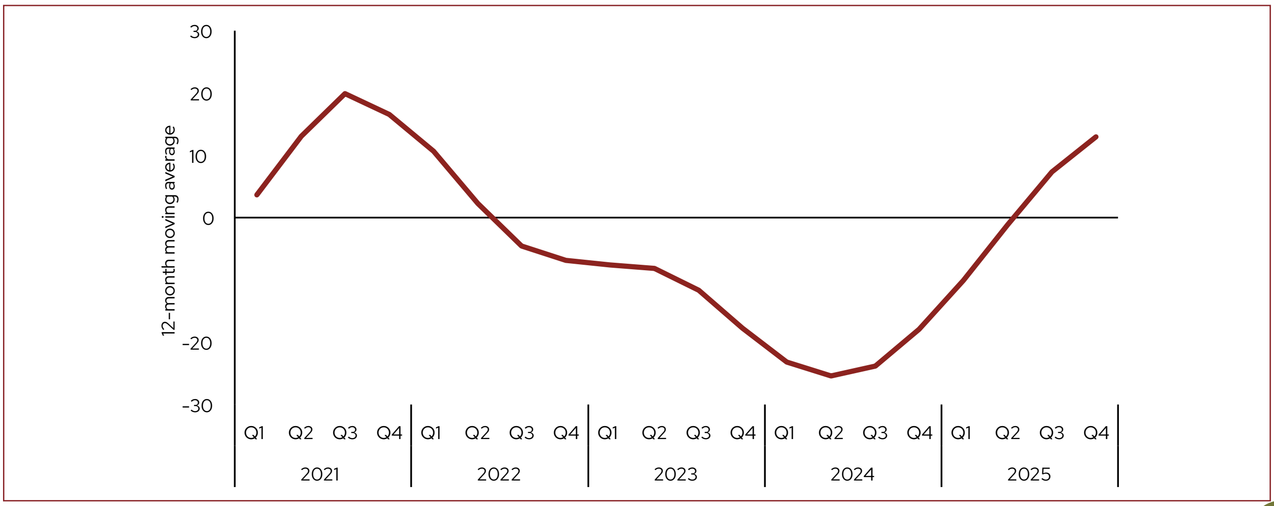
Source: BoN

Growth in rental prices increased quarter-on-quarter and year-on-year during December 2025. The rental index recorded an increase of 4.80 percent year-on-year to 146.5 index points in December 2025, from 139.80 index points observed in the corresponding period of 2024 (Figure 35). The increase is mainly attributable to the annual increases observed in housing utilities such as electricity, gas, water supply, sewerage services and refuse collection. Sustained increases in rental prices could lead to homeowners and investors prioritising buy-to-let investment decisions, which could in turn put pressure on the already constrained supply of housing, further driving up house prices. This reinforcing cycle could lead to average Namibians being priced out of the housing market, shifting the demand for property towards rentals, and thereby encouraging speculative demand in the housing market and rental inflation.

6.3 National transaction volumes

The growth in transaction volume continued to improve during 2025, after significant pressure observed from 2022 to 2024. Annual transactions volume grew by 13.0 percent year-on-year during the final quarter of 2025, which is significantly above the negative growth of 17.9 percent during the corresponding period of 2024 (Figure 36). Following the prolonged negative growth in transactions volume, the consecutive rebound during 2025 signals a gradual recovery in buying activity within the property market, pointing to sustained consumer demand amidst rising property and land prices. Sustained growth in transactions volume is expected to persist throughout 2026, following the stable and rising demand for property, as well as efforts to address the lack of un-serviced land.

Figure 36: National volume of sales index – year-on-year growth



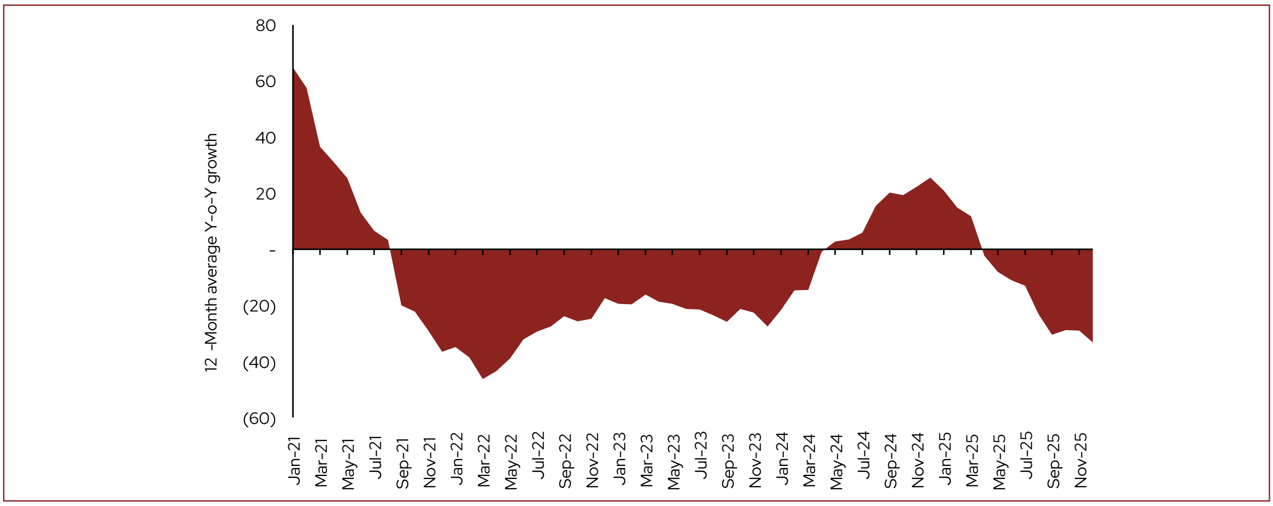
Source: BoN

6.4 Supply-side developments

Land delivery (plots sold)

Land delivery growth fell back into contraction from April 2025, reinforcing the notion of a lack of serviced land. Residential plot sales growth contracted by 33.15 percent on a 12-month moving average basis by December 2025, compared to growth of 25.57 percent during the corresponding period of 2024 (Figure 37). A total of 132 plots were sold during Q4 of 2025, lower than the 150 sold during the corresponding period of 2024 but slightly higher than the 114 sold during Q3 of 2025. The annual slowdown during the quarter under review was due to a broad-based slowdown across most regions, with the coastal region experiencing the sharpest contraction of 21.11 percent on a 12-month moving average basis. These trends highlight the supply-side constraints in the housing market, where fewer plots are being sold, reflecting the impact of rising housing and plot prices driven by a shortage of serviced land.

Figure 37: Land delivery

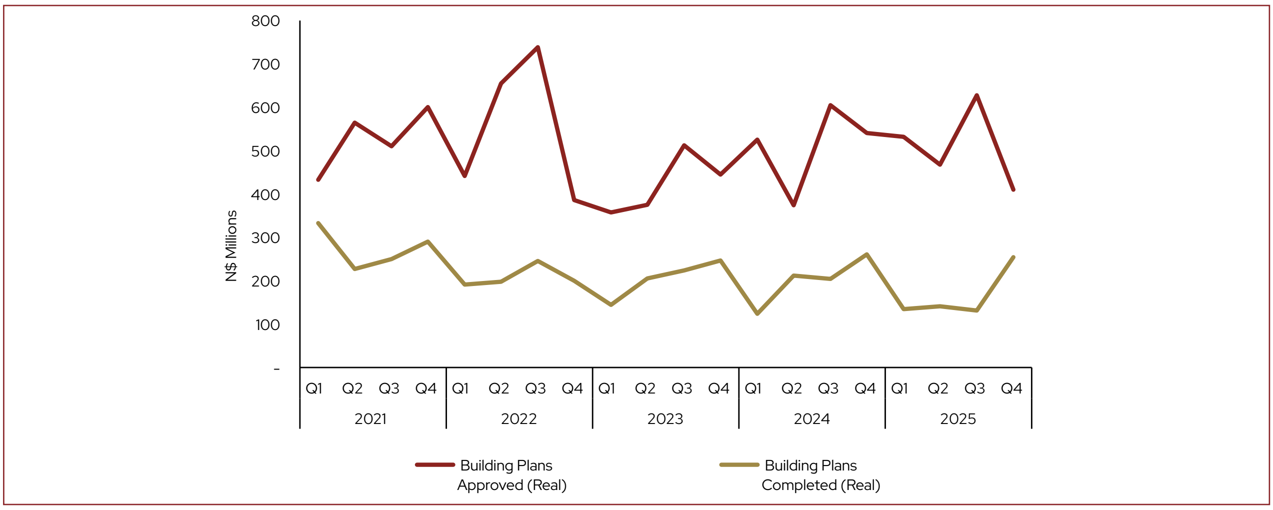


Source: BoN

Building plans

Although building plans approved and completed decreased year-on-year during the review period, building plans completed improved quarter-on-quarter. Total building plans approved and building plans completed decreased by 24.23 percent and 2.34 percent year-on-year during the final quarter of 2025, respectively (Figure 38). The decline in approvals is partly due to seasonality, as administrative processes typically slow during the festive season (November–December), thus delaying approvals. Conversely, there was a stronger follow-through of building plan completions at the end of the year, with a quarterly growth rate of 93.87 percent in December 2025. The building plans completed to approved ratio also increased to 62.09 percent during the final quarter, compared to 48.17 percent during the corresponding period of 2024, signalling a stronger follow-through of approved projects. These improvements represent incremental progress in addressing housing shortages but remain modest relative to the estimated backlog of 300,000 plots requiring servicing.

Figure 38: Total building plans approved and completed (real)



Note: Constant prices deflated by Namibia Consumer Price Index (Dec. 2012 = 100)
Source: BoN

6.5 Resilient property market

The residential property market remained broadly resilient through Q4 of 2025. This was underpinned by continued house price growth and strengthening collateral buffers across DSIB mortgage portfolios. Equity coverage ratios improved further during the quarter, indicating that banks remain well-cushioned against mortgage credit losses in the event of borrower distress. Notwithstanding these favorable buffers, structural affordability constraints continue to weigh down mortgage credit expansion, with overall mortgage credit growth remaining subdued. In addition, persistent supply-side constraints, particularly the shortage of serviced land, may continue to place upward pressure on house prices.

Looking ahead, evolving micro-developments may shape the medium-term outlook. Changes to repossession processes could lengthen recovery timelines, while easing borrowing costs and new financing channels (including the pension-backed housing finance scheme) may support demand. However, if supply constraints persist, demand-supporting measures may intensify affordability pressures through higher prices.

7. Macroprudential Surveillance

7. MACROPRUDENTIAL SURVEILLANCE

Macroprudential surveillance remains focused on safeguarding Namibia's financial system by identifying emerging risks early and strengthening resilience over the financial cycle. Macroprudential surveillance involves analysing risks and vulnerabilities that could impact the entire financial system, with the aim of designing and implementing appropriate policy responses to mitigate the impact of the risk. This includes the monitoring and analysis of economic or political shocks that may emanate, either from the domestic or external environment, and may pose a systemic risk. Current assessments indicate an easing in downside risks to future GDP growth, with credit conditions remaining subdued and the credit cycle well below the thresholds that would warrant an increase in the countercyclical capital buffer (CCyB). Loan-to-value (LTV) limits remain appropriate and continue to support prudent mortgage lending. Furthermore, the Bank continues to advance work on operationalising the CCyB determination and enhancing the broader macroprudential policy toolkit to ensure readiness should systemic risks rise over the cycle.

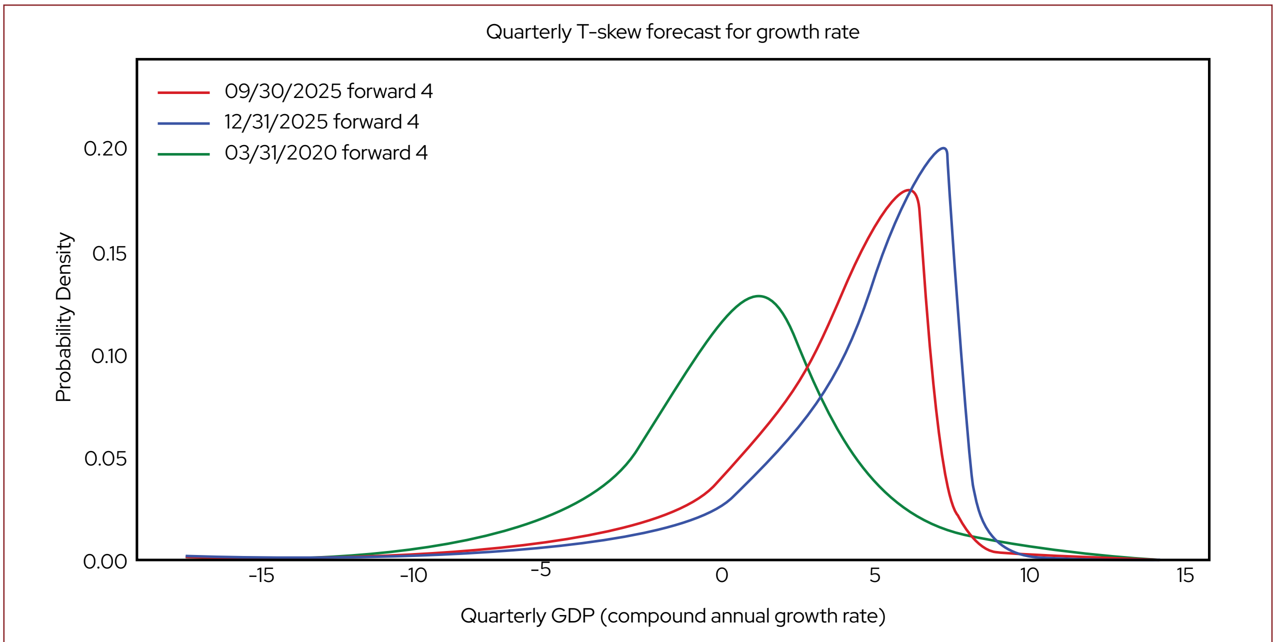
7.1 Early warning indicators

Growth-at-Risk model

The Growth-at-Risk (GaR) model plays an important role in shaping macroprudential policy because it links financial stability to macroeconomic performance. By highlighting potential downside risks to future growth, the model strengthens the case for pre-emptive policy action even when there are no immediate signs of economic distress, thereby supporting overall financial system stability. To relate macrofinancial indicators, based on quarterly data from Q1 of 2005 to Q4 of 2025, to the full distribution of future economic growth, three partitions are constructed. Each partition captures a distinct dimension of macrofinancial risk. The first partition, domestic financial conditions, includes indicators that reflect the price of risk embedded in asset prices as well as the ease of obtaining financing. The second partition, leverage, comprises credit measures focused on total private sector credit extension. The third partition captures external conditions by incorporating South African macroeconomic and financial indicators, reflecting the strong interconnectedness between the Namibian and South African economies.

The latest four-quarter horizon GaR estimates indicate an ease in downside risks to future GDP growth. The 2025 fourth quarter GaR Model results forecasted a 5 percent probability that GDP growth could fall below -5.11 percent (blue T-skew in Figure 39), compared to -7.02 percent recorded during the September 2025 assessment (red T-skew in Figure 39). The improvement suggests that the severity of downside risks to future GDP growth has lessened over the period, although the lower tail of the distribution remained below zero. The easing of downside risks was due to broad-based improvements in indicators across all three partition groups. Domestic financial conditions loosened on the back of rallying yields, a tighter credit spread and a lower deposit-to-prime spread. Leverage dynamics remained relatively constant whereas external conditions, which largely consider fundamentals in South Africa, improved. In particular, USD:ZAR volatility reduced significantly, accompanied by resilient JSE All Share Index returns and a lower credit default swap rate in South Africa, improving the balance of risks and thus reducing potential spillovers to the Namibian economy.

Figure 39: Growth-at-risk T-skew distribution

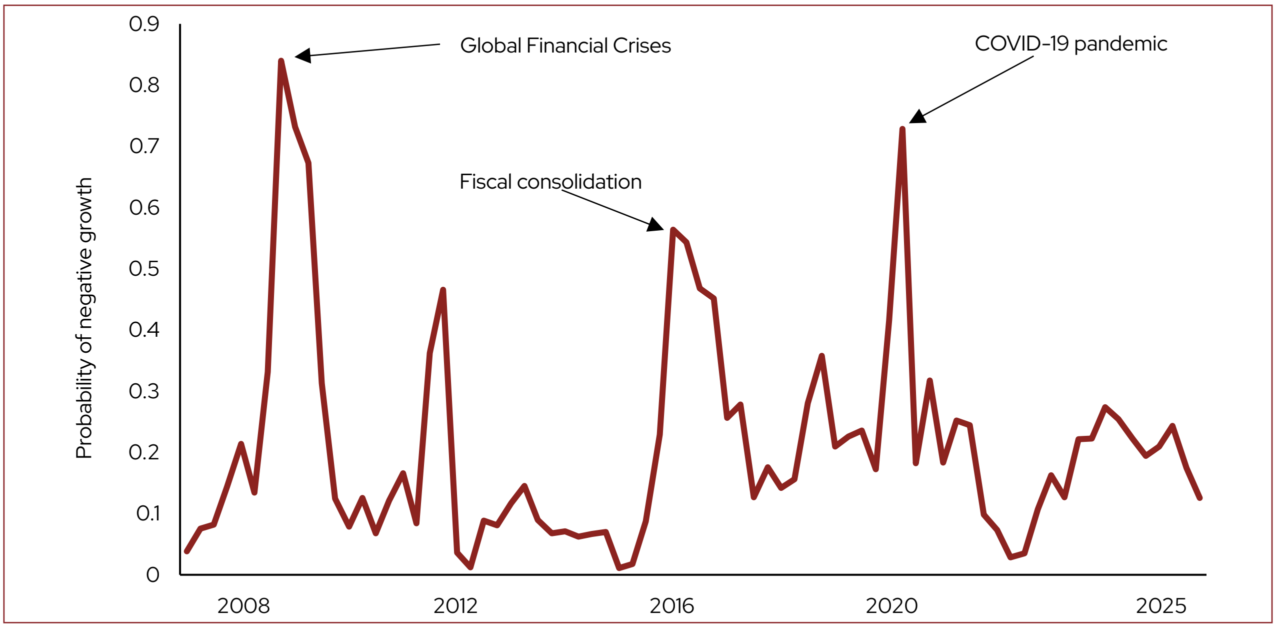


Source: BoN

The historical distribution of the probability of growth falling below zero suggests that Namibia's recession risk has been concentrated around periods of pronounced macrofinancial stress. The indicator rose sharply during the 2008–2009 Global Financial Crisis, reaching its highest historical levels, and increased again during the 2020 COVID-19 shock, reflecting the severe disruption to domestic and global economic activity (Figure 40). These episodes highlight the extent to which Namibia's growth outlook is vulnerable to large external and systemic shocks. In particular, the GaR of 5 percent was most pronounced (negative) during these periods, signalling heightened downside risks. In contrast, current levels remain well below the peaks observed during those crisis periods. This indicates that although downside risks to growth persist, the likelihood of an outright contraction is materially lower than during earlier episodes of macrofinancial stress.

Overall, this points to a more stable macrofinancial environment, even as growth remains exposed to lingering vulnerabilities. Among these are the current geopolitical tensions between the US/Israel and Iran, which has the potential to escalate severely and weigh on global growth and, through spillovers, affect Namibia. Particularly, a conflict-driven oil price spike would raise Namibia's import costs and inflation, while heightened uncertainty could trigger currency weakness and tighter financing conditions. This would fatten the left tail of the GaR distribution, raising the probability of negative growth.

Figure 40: Growth below zero probability

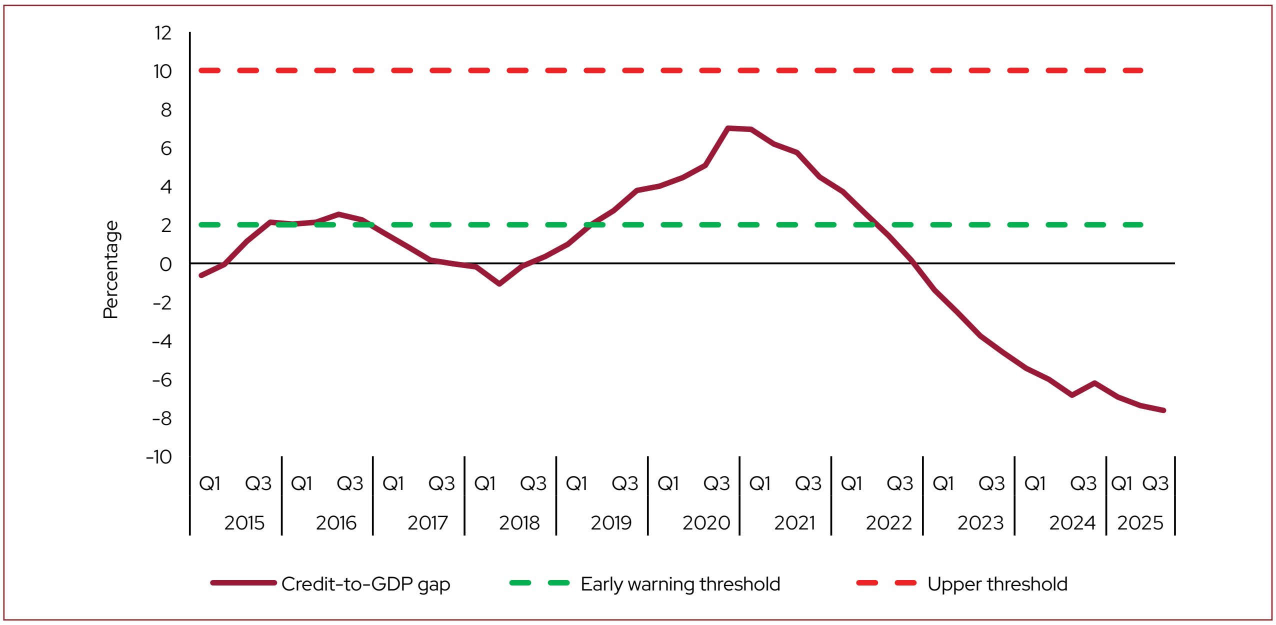


Source: BoN

Credit-to-GDP gap

The credit-to-GDP gap remained well below its long-term trend in Q3 of 2025, continuing to signal an absence of excessive credit growth in the current macrofinancial environment. The gap remained deeply negative at -7.63 percent during September 2025, implying that the credit-to-GDP ratio continues to run below its long-run trajectory rather than indicating a credit boom (Figure 41). This places the credit cycle well below the lower guide threshold of 2 percent, and far from the upper threshold of 10 percent that is typically associated with elevated cyclical leverage pressures. As an early warning indicator used to guide CCyB considerations, the persistently negative credit-to-GDP gap therefore does not support activating or increasing capital buffers at this stage. Instead, it remains imperative that policymakers continue to interpret the credit-to-GDP gap alongside other complementary indicators. This will ensure that the Bank remains able to proactively respond, should the credit cycle turn and the gap move toward or above the CCyB activation thresholds.

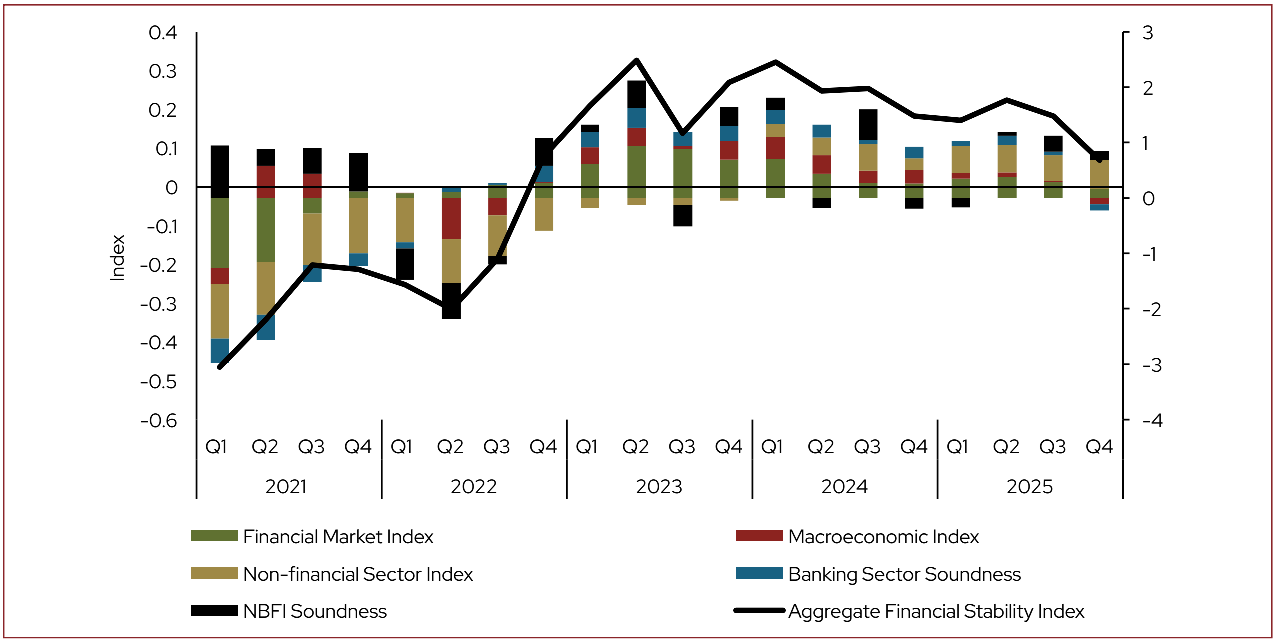
Figure 41: Namibia's credit-to-GDP gap



Source: BoN

The Aggregate Financial Stability Index (AFSI) quantifies financial stability in Namibia. The index effectively captures the impact of major events, particularly the Covid-19 outbreak in 2020, when the index fell sharply into negative territory, reflecting heightened financial system pressures (Figure 42). During this period, the macroeconomic, non-financial sector, and banking sector soundness sub-indices were the primary contributors to the decline in the AFSI. Financial stability improved markedly thereafter, with the index turning positive from the fourth quarter of 2022 and reaching its highest level in Q2 2023 since the review period began. The recovery was broad-based across sub-indices, supported by a stronger banking sector and NBFI soundness alongside improvements in the financial market and non-financial sector sub-indices, consistent with the general economic recovery in Namibia.

Figure 42: Aggregate financial stability index and decomposition



Source: Bank of Namibia

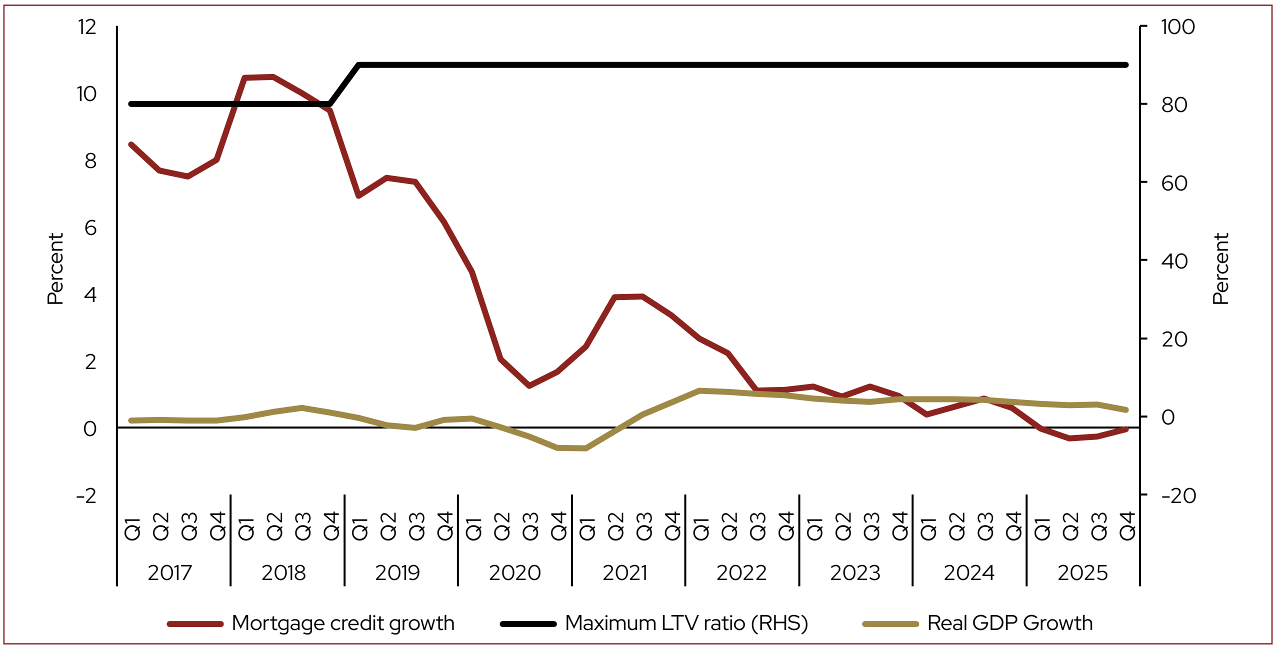
Although moderated, the financial system conditions remained resilient in 2025, amid evolving macro-financial developments. Although it remained in positive territory, the AFSI edged lower in 2025, mainly reflecting an increase in the banking sector exposure to the sovereign, driven by the redemption of the Eurobond in 2025. The moderation in AFSI was further influenced by developments in other macro-financial indicators, including the growing price pressure in the housing market, fluctuations in foreign exchange reserves, and subdued real credit and economic growth in the last quarter of 2025. Notwithstanding these developments, the aggregate index remains above zero, supported by strong capital buffers in both the banking and NBFIs sectors, affirming that overall financial system conditions remain resilient and continue to be broadly stable.

7.2 Macroprudential policy developments

Loan-to-value ratio

Namibia's LTV ratio limits were introduced as a macroprudential measure to manage systemic risk in the housing market. The LTV cap directly limits the share of a property's value that can be financed by a bank loan, thereby requiring borrowers (especially investors in additional properties) to hold more equity. This policy was first implemented in 2017 in response to rapid house price increases and concerns about banks' heavy mortgage exposure. Under the current framework, which was kept constant at the November 2025 MOC meeting, banks may lend up to 100 percent of the value of a first and second property, but only up to 90 percent for any additional properties (Figure 43). The most recent data suggests the LTV measure is working as intended, as the composition of new mortgage lending has shifted towards primary home loans, while loans for secondary/investment properties have declined as a share of total mortgages. This indicates that the 90 percent LTV limit on additional properties has been effective in containing speculative behaviour without impeding credit to first-time homebuyers. However, the MOC remains ready to adjust the limits if signs of excessive credit growth or house price inflation emerge. This comes as the economy is forecast to gradually improve, with anticipated boosts from sectors such as oil and gas, as well as innovative financing strategies from NBFIs and commercial banks which may drive demand for new housing. At present, the MOC is expected to keep the LTV ratios unchanged, with no policy adjustment deemed necessary.

Figure 43: Growth in mortgage credit and real GDP versus LTV ratio trends



Source: BoN

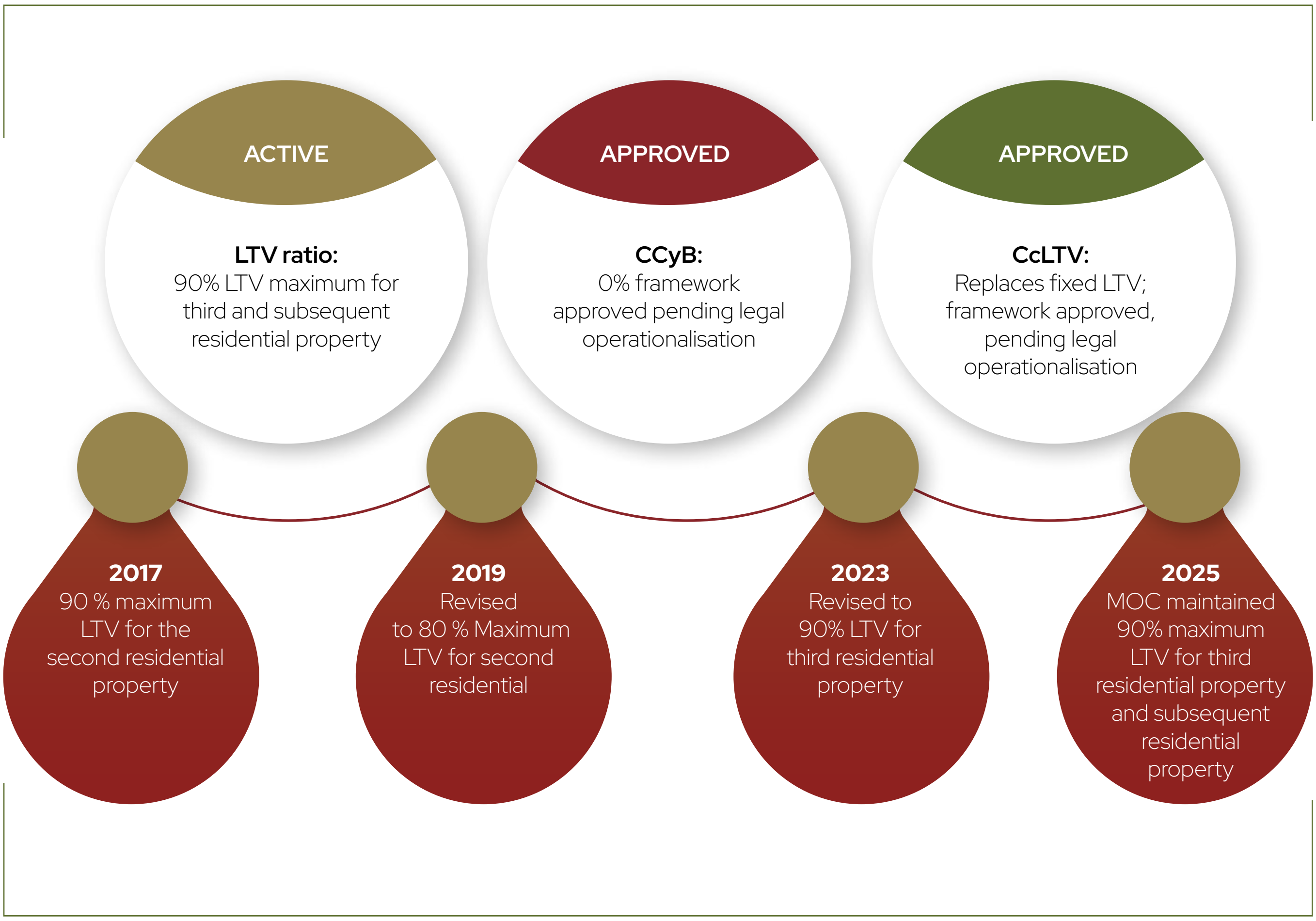
Countercyclical loan-to-value ratio

In addition, the Bank is preparing to introduce a countercyclical loan-to-value (CcLTV) ratio to strengthen the current static LTV framework. While the existing LTV limits provide an important safeguard, a countercyclical approach allows the Bank to respond more effectively as conditions change over time. In simple terms, the CcLTV would be tightened during periods of strong housing-market activity to discourage excessive borrowing, and eased during weaker periods to avoid unnecessarily constraining access to housing finance. This flexibility is expected to support a more stable housing-credit cycle and further strengthen financial stability. The CcLTV framework was approved by the MOC during the November 2025 meeting, and the Bank is currently finalising the supporting regulation.

Countercyclical capital buffer

The MOC approved the countercyclical capital buffer (CCyB) framework in 2025, and the Bank continues to operationalise it to strengthen the banking sector's resilience over the financial cycle. The CCyB is designed to build additional capital buffers when credit growth becomes excessive. This helps banks to absorb losses and sustain lending during downturns. However, the early warning indicators, including the persistently negative credit-to-GDP gap and the improvement in GaR estimates, do not signal excessive credit growth or heightened downside risks at this stage. Therefore, an increase in the CCyB is not warranted at present. The Bank continues to finalise the CCyB determination and the legal operationalisation process while engaging the industry to support transparency and preparedness (Figure 44).

Figure 44: Operational status of active and approved macroprudential policy instruments



Source: BoN

BOX 3: **NAMIBIA'S CRISIS PREPAREDNESS AND MANAGEMENT**

1. Introduction

Maintaining confidence in the financial system requires strong crisis preparedness arrangements to identify vulnerabilities early, respond effectively to periods of financial distress, and minimise disruption in the event of a financial institution failure. Financial safety net players in Namibia continued to enhance its early warning systems, crisis management arrangements, resolution powers, and deposit protection framework to safeguard the financial system against emerging risks and potential crises. In support of broader crisis preparedness, a comprehensive Crisis Management Framework is in place to guide coordinated action by financial safety net players during periods of financial distress. It seeks to ensure timeous and effective response to safeguard financial stability and minimise the broader economic costs of a crisis. The framework is complemented by the Tripartite Agreement between the BoN, NAMFISA and the Ministry of Finance, which provides a basis for cooperation, information sharing and coordination among the key domestic authorities responsible for preserving financial stability.

2. Deposit Insurance

The Namibia Deposit Guarantee Authority was established by the Namibia Deposit Guarantee Act (No. 16 of 2018). The main objective of the scheme includes the protection of a high percentage of depositors against the loss of their deposits by providing compensation in the event of bank failures; and the enhancement of financial stability as a portion of total deposits are insured. The Namibia Deposit Guarantee Authority is an important component of Namibia's crisis management arrangements. The collaboration and cooperation between the supervisory authority, the resolution authority and the Namibia Deposit Guarantee Authority is therefore a prerequisite for effective crisis management. It is important that there is an agreement for sharing of information between the NDGA and the relevant authorities that enhances crisis preparedness and enable the NDGA to execute timely compensation of depositors in an event of a bank failure.

3. Bank Resolution

In accordance with section 70 of the Banking Institutions Act 13 of 2023, the Bank is empowered to exercise resolution powers over failing banking institutions, microfinance banking institutions, and controlling companies. Additionally, under section 70(2), the Bank may, with the concurrence of the Namibia Financial Institutions Supervisory Authority (NAMFISA), apply the resolution options outlined in section 70(3) to non-banking institutions that are part of a group involving a banking institution, microfinance banking institution, or controlling company. When resolving a controlling company that holds shares in non-bank financial institutions, the Bank will work in close collaboration with NAMFISA, in line with existing bilateral and tripartite agreements, to ensure that such resolution does not compromise financial system stability. The Bank shall implement crisis resolution measures through a combination of restructuring, reorganisation, and, where necessary, the provision of liquidity or other forms of support. These actions aim either to restore the financial health and stability of a troubled institution, enabling it to continue operating, or to ensure its orderly wind-down and exit from the financial system.

4. Crisis Simulation Exercise

One effective mechanism to test the resilience and readiness of a financial system to shocks is through conducting regular crisis simulation exercises. The primary objective of a Crisis Simulation is to make authorities aware of how crisis-ready they are, before the crisis arises. This exercise gives authorities a clear overview of the preparedness to manage a crisis. It is thus a tool for testing the functionality of the existing crisis response and management frameworks with the aim of enhancing such for greater preparedness.

The Bank conducted a tabletop Crisis Simulation Exercise (CSE) during 2025 involving the financial safety net players to further strengthen operational readiness. The exercise simulated a realistic crisis scenario and tested the readiness of the participating authorities to coordinate and respond effectively under stressed conditions. The exercise highlighted the importance of timely interagency communication, clear escalation procedures, coordinated decision-making, and robust frameworks for assessing institutional viability and systemic significance.

5. Collaboration Among Financial Safety Net Players

Collaboration among financial safety net players is critical for effective crisis preparedness and management. In the Namibian financial system, the financial safety net players include: (i) the Bank, (ii) NAMFISA, (iii) the Namibian Deposit Guarantee Authority (NDGA) and (iv) the Ministry of Finance. As embedded in its Crisis Management Framework, The Bank of Namibia prioritises the collaboration with other financial safety net players to effectively manage financial crises in pursuit of safeguarding financial stability.

6. Conclusion

Optimal institutional arrangement and enhanced collaboration among key safety-net players is critical for effective crisis preparedness and management. Ongoing macroprudential surveillance, regular stress testing, resolution planning, interagency coordination, international cooperation, and depositor protection are key pillars of Namibia's crisis preparedness and management framework. These measures enhance the resilience of the financial system and strengthen the ability of the financial safety net players to respond timeously and effectively to periods of financial distress.

8. Concluding Remarks and Policy Implications

8. CONCLUDING REMARKS AND POLICY IMPLICATIONS

Namibia's financial system remained stable and resilient during the second half of 2025, despite heightened vulnerabilities stemming from the macroeconomic environment. The domestic economy contracted in Q4 of 2025, primarily driven by a decline in primary industries. At the global level, economic activity was shaped by geopolitical tensions, with global growth revised downward. The banking sector demonstrated resilience, remaining profitable, well-capitalised, and liquid throughout the period under review. Furthermore, the stress test results, as depicted by the two models, highlighted that the banking sector remained well-positioned to absorb shocks under various stress scenarios, providing reassurance that the banking sector will remain resilient in the event of an economic downturn. Growth in household debt slowed notably during the second half of 2025, largely reflecting a contraction in the microlending segment. In the property market, no immediate risks were identified that would warrant macroprudential intervention; however, affordability challenges and supply-side constraints remain key vulnerabilities requiring continued monitoring. The NPS and financial market infrastructure remained stable and efficient, supporting the reliability of transactions and contributing positively to overall financial system stability.

The NBFI sector remained resilient and continued to expand in 2025, supported by a more accommodative monetary policy environment, improving domestic demand, and recovering regional financial markets. The sector recorded strong asset growth, while maintaining sound solvency, liquidity, and capital adequacy positions across all subsectors. The moderation in inflation and the end of the monetary tightening cycle further supported asset valuations and strengthened the demand for savings and insurance products. The sector's growing asset base underscores its increasing systemic importance, particularly through its role in intermediating household savings and providing a stable source of domestic funding to the sovereign. Overall, financial stability within the NBFI sector remained intact, with no material vulnerabilities identified during the period under review.

Since the release of the October 2025 FSR, overall risks to the Namibian financial system have remained broadly unchanged, with the exception of the macroeconomic environment which has increased. Risks in the macroeconomic environment have increased, largely due to heightened geopolitical tensions in the Middle East. Similarly, risks associated with the Sovereign–Financial nexus have edged higher, driven by the growing interdependence between the sovereign and the financial sector, although the probability of this risk materialising in 2026 remains low. Most other risk indicators remained relatively stable during the period under review. Risks within the banking sector remain broadly unchanged, with notable improvements observed in credit risk. Similarly, risks in the NBFI sector have remained broadly stable, although the sector continues to be linked to ongoing demographic and structural challenges. Cyber risk remains elevated, with a high probability of materialising through the remainder of 2026. The FSSC remains committed to closely monitoring these risks to financial stability and, where necessary, will recommend appropriate policy interventions to the MOC.

Following its assessment of the prevailing macrofinancial conditions in the second half of 2025, the MOC concluded that the Namibia financial system remained sound, stable and resilient. Against this backdrop, the current active macroprudential policy tools such as the LTV limit, which was maintained at its current level at the December 2025 MOC meeting, are considered sufficient. These developments, coupled with the existing microprudential measures as well as ongoing risk assessments, are sufficient for the prevailing macrofinancial environment. The MOC have further approved the operational framework of both the CCyB and the CcLTV, which are currently being legally operationalised. Once actively implemented, these will enhance the MOC's capacity to respond to cyclical systemic risk. The MOC will continue to closely monitor global, regional and domestic economic and financial conditions and stand ready to deploy appropriate macroprudential policy measures, should conditions warrant a policy response.

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