Safeguarding Financial Stability in a Changing Global Landscape

# FINANCIAL STABILITY REPORT

## OCTOBER 2025

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 make recommendations for policy responses to the identified risks. Reports of this nature thus inform interested parties about the soundness of the financial system and about actions being taken by the country's regulators and the Government to mitigate the identified risks. As such, 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 Namibia's Macroprudential Oversight Committee (MOC) thus include consulting with the Namibia Financial Institutions Supervisory Authority (NAMFISA) and "the Ministry administering matters relating to finance" (the Ministry of Finance) 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 and issued 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 (the Bank). The Committee also acts as a liaison between the Ministry of Finance, NAMFISA and the Bank on matters related to Namibia's financial system 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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# Corporate Charters

## 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

## NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

### 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 nonbanking financial sector and to promote consumer protection and provide sound advice to the Minister of Finance.

### VALUES

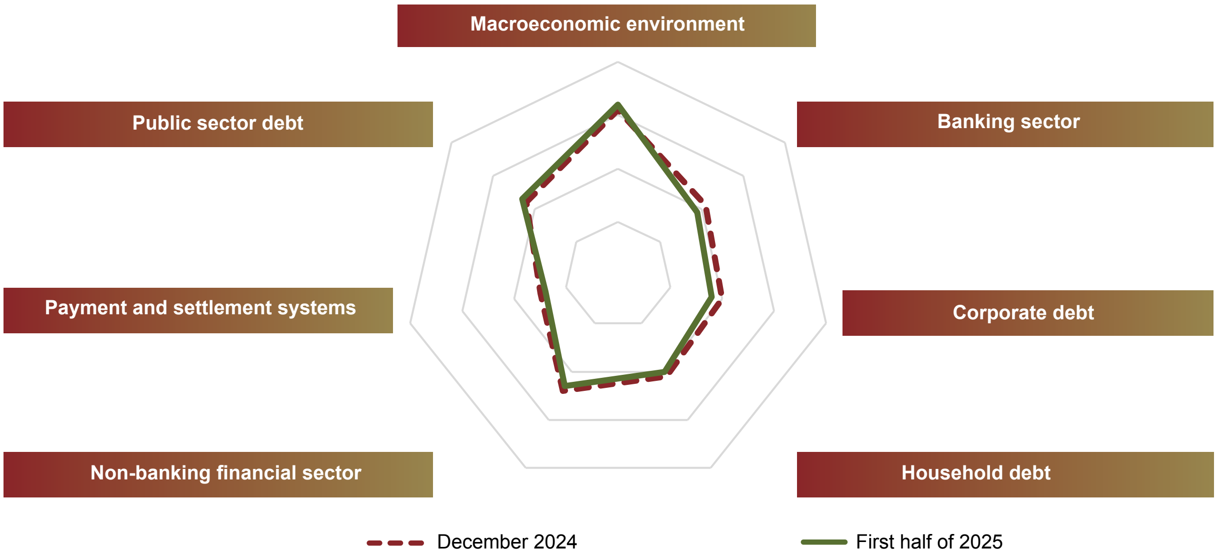
- We are committed to teamwork
- We are passionate about service
- We act with integrity
- We are accountable
- We are agile

# FINANCIAL STABILITY KEY HIGHLIGHTS

**The Financial System Stability Committee (FSSC) noted that Namibia's financial system remained resilient in the first half of 2025, despite global economic uncertainties.**

## Risks to financial stability in Namibia

**Risks to the financial system remained unchanged, with potential vulnerabilities emerging from the macroeconomic environment.**



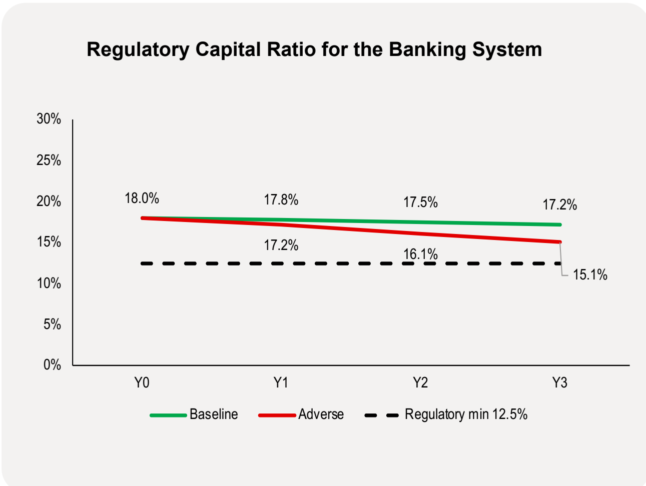

## Idiosyncratic risks

The rating for cyber risks remains elevated, with a high probability that these risks will materialise during the remainder of 2025

Since Namibia submitted its second progress report to the FATF in November 2024, Namibia has taken various key steps to improve its greylisting status.

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

## Stress Testing




The stress test results indicate that the banks remain well-capitalised under the adverse scenario.

## Banking sector

**ROE**
21.9% — Declined ↓ — 19.8%

**ROA**
2.7% — Declined ↓ — 2.6%

**Liquidity**
19.7% — Declined ↓ — 19.4%

**Capital Adequacy**
17.0% — Increased ↓ — 18.0%

**NPL**
5.6% — Improved ↓ — 4.9%

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

## NBFI sector

5.8%

The **NBFI** assets expanded by

N$501.7 billion

**Funding position**
101.3% ↓ 101.1%

**Solvency position**
116.9% ↑ 117.0%

This performance demonstrates the sector's resilience despite headwinds from global trade policy uncertainties and domestic economic challenges.

## Payments infrastructure and regulatory developments

THE NISS

The **NISS** recorded a → 99.96% → availability rate surpassing the set target of 99.90%

## Macroprudential policy stance

To strengthen the macroprudential policy framework, the MOC approved the countercyclical loan-to-value regulation that would eventually replace the existing unadjustable constant loan-to-value regulation.

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# 1. EXECUTIVE SUMMARY

**The Financial System Stability Committee (FSSC) noted in its October 2025 meeting that Namibia's financial system remained resilient despite increased vulnerabilities from the global economy.** The FSSC noted that both the banking and non-banking financial institution sectors remained sound with sufficient capital and liquidity buffers to absorb any potential losses. In addition, various stress tests confirmed that domestic banks would be resilient under the adverse scenario that considers deteriorating yet plausible macroeconomic conditions. Furthermore, the payment infrastructure and operations remained efficient. The current active macroprudential policy tools, alongside existing microprudential measures and ongoing risk assessments, were considered sufficient to support financial system stability.

**Global economic conditions remained challenging during the first half of 2025, as global factors continue to pose substantial challenges for the domestic economy.** These include depressed diamond prices and increased competition from laboratory-grown[1] diamonds. Furthermore, a surge in policy uncertainty, particularly the response to trade conflicts could further increase financial stability risk. These conditions contributed to market volatility globally in the first half of 2025.

**To safeguard financial stability in a changing global landscape, this edition of the Financial Stability Report (FSR) has identified and discussed some of the following key risks to financial stability:**

- Global conflicts and policy uncertainty
- Household indebtedness
- The sovereign–bank nexus
- Cyber risk, and
- Remaining on the Financial Action Task Force (FATF) 'grey list'

**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 macroprudential instruments to risks that could weaken the resilience of the domestic financial sector.

[1] Hereafter, the term laboratory-grown diamonds will be referred to as lab-grown diamonds.

# 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 be realised. Table 1 offers a summary of Namibia's risk position as determined by the FSSC, showing the direction of risks since the April 2025 FSR as well as the probability and impact of the cited risks materialising. The subsequent sections in this report details the developments from the external macroeconomic environment, trends in household and corporate debt and the dynamics of the property market. It further outlines the performance of the banking sector, stress test simulations, 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[2] since April 2025 | Probability of risk materialising in second half of 2025 | Impact of risk materialising in second half of 2025 |
|---|---|---|---|
| ***Macroeconomic environment events/risk*** | | | |
| Global economic slowdown | Unchanged | | |
| Global financial turbulence | Unchanged | | |
| Domestic economic slowdown | Unchanged | | |
| Inadequacy in international reserves | Up | | |
| Sovereign credit rating downgrade: Namibia | Unchanged | | |
| Sovereign credit rating downgrade: South Africa | Unchanged | | |
| Excessive Namibia Dollar/South African Rand (NAD/ZAR) depreciation | Unchanged | | |
| ***Public sector debt risk*** | | | |
| Increase in public sector debt | Unchanged | | |
| ***Household debt risk*** | | | |
| Excessive increase in household debt | Unchanged | | |
| ***Corporate debt risk*** | | | |
| Excessive increase in corporate debt | Unchanged | | |
| ***Banking sector risk*** | | | |
| Liquidity risk | Unchanged | | |
| Capital Adequacy | Down | | |
| Credit risk | Down | | |
| ***Payment system risk*** | | | |
| Security of retail payments | Unchanged | | |
| Settlement in last window | Unchanged | | |
| ***Non-banking financial institution risk*** | | | |
| Funding position[3] | Unchanged | | |
| Demographic and structural challenges[4] | Unchanged | | |
| Financial market volatility and interest rate risks[5] | Unchanged | | |
| Solvency position[6] | Unchanged | | |
| **Cyber risk** | Unchanged | | |
| **Anti-money laundering/combating the financing of terrorism and combating proliferation financing (AML/CFT/CPF): Grey-listing** | Unchanged | | |
| **Climate risk** | Unchanged | | |

**Key** — Low | Medium | High

[2] Compared with the April 2025 Financial Stability Report.
[3] Relates to retirement funds.
[4] Relates to retirement funds.
[5] Relates to retirement funds, collective investment schemes and long-term insurers.
[6] Relates to long-term insurers.

**The October 2025 International Monetary Fund (IMF) Global Financial Stability Report (GFSR) indicated that global financial conditions had eased since the April 2025 GFSR.** Market volatility has declined, despite persistently high trade and economic policy uncertainties. Following the release of April 2025 GFSR, major central banks have become more accommodative while the US dollar has weakened. Equity markets have rebounded sharply, while corporate and sovereign funding spreads have narrowed to historically low levels. Overall, global funding liquidity remains abundant, although macro-financial vulnerabilities persist. These include stretched asset valuations amid a slowing global economy and heightened concentration risks in certain market segments. Moreover, fiscal strains are mounting, as government debt continues to rise with expanding fiscal deficits driving higher sovereign bond issuance. Finally, the increasing interconnectedness between banks and nonbank financial institutions (NBFIs) warrants continued monitoring, as it could amplify the transmission of shocks across the financial system.

**Easing global financial conditions have implications for the domestic financial system.** The easing in global financial conditions supports improved capital flows and lower external borrowing costs, which could ease liquidity pressures in local markets. However, heightened global fiscal vulnerabilities and stretched asset valuations pose spillover risks to small open economies through exchange rate volatility, sovereign risk repricing, and capital flow reversals. Moreover, as Namibian financial institutions maintain close linkages with South African markets, any repricing of risk or liquidity tightening in advanced economies could transmit rapidly through regional funding and portfolio channels, underscoring the need for ongoing financial stability surveillance across the domestic financial system.

**Overall risks to the global economy remained tilted to the downside when compared with their assessment in the April 2025 FSR.** Downside risks to the global economy outlook are centred around prolonged trade policy uncertainty and protectionist trade measures. Further increases in trade policy uncertainty would weigh on firms' investment decisions and worsen the growth outlook. It would also hamper their ability to optimize inventories, potentially leading to short-term output volatility. Nonetheless, a breakthrough in trade negotiations by establishing a predictable framework could lead to a further decline in effective tariff rates based on the IMF October 2025 WEO.

**Risks from the macroeconomic environment remained broadly unchanged, with potential vulnerabilities emerging from foreign reserves adequacy.** Although these risks were broadly unchanged for the review period, their probability of materialising in the next 12 months is rated medium, with an overall medium impact (Table 1). Foreign reserves remained adequate to cover imports of goods and services, although pressure on foreign reserves is anticipated as the redemption of the Eurobond is set to take place during October 2025.

**The risk to the financial system remained mixed during the period under review.** The banking sector remained liquid, well-capitalised and profitable, with notable improvements in asset quality in the first half of 2025. In addition, risks from household and corporate sector debt remained unchanged during the reporting period. However, with the prevailing macroeconomic conditions, the probability of household and corporate debt risks materialising over the next 12 months is assessed as medium. In respect of the security of retail payments and settlement, the risks in the last window remained unchanged during the first half of 2025. Thus, the probability and impact of risks associated with the security of retail payments are determined as low for the second half of 2025. On the other hand, the probability and impact of the risk of settlement in the last window are determined as medium for the second half of 2025.

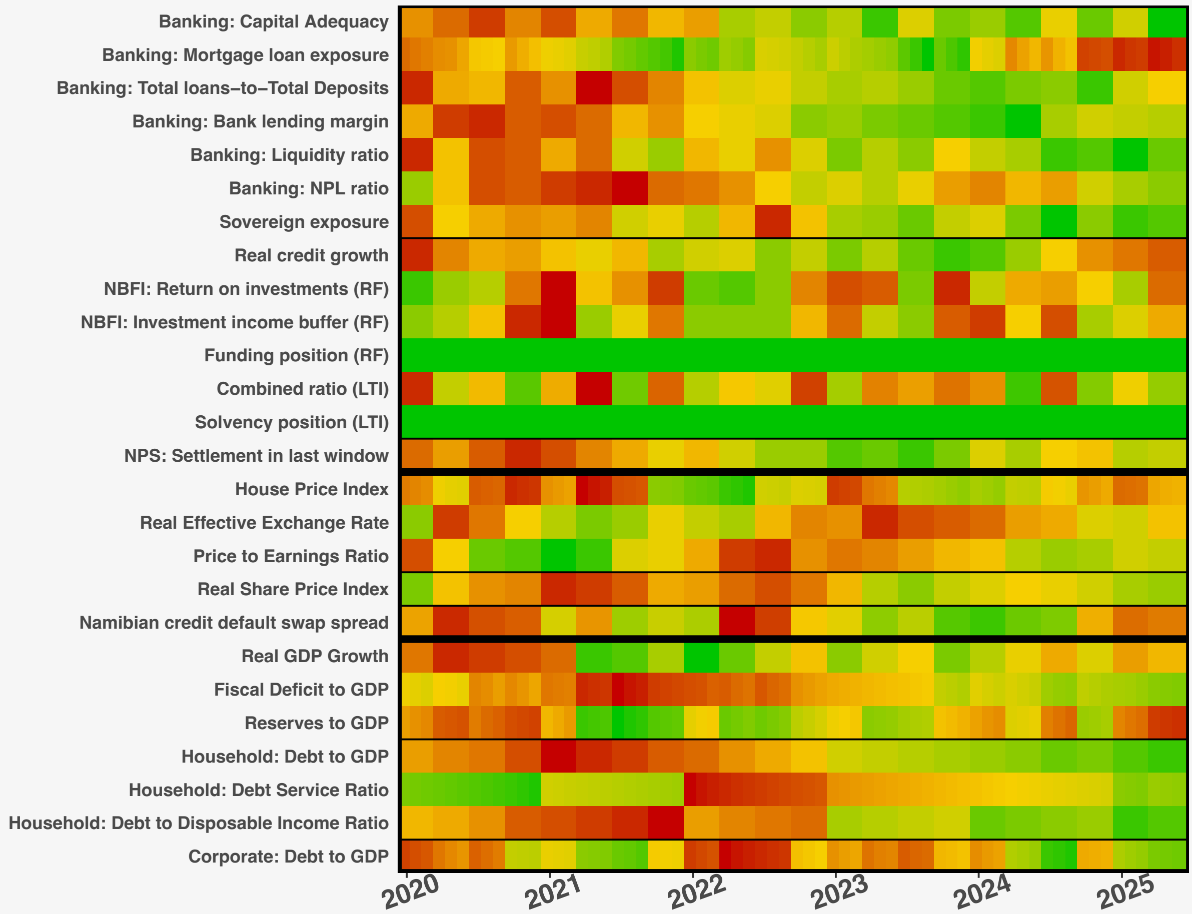
**Since Namibia submitted its second progress report to the FATF in November 2024, Namibia has taken various key steps to improve its greylisting status.** These initiatives, amongst others, include strengthening Namibia's AML/CFT/CPF risk-based supervision, enhancing preventative measures through inspections and outreach, increasing the filing of beneficial ownership information of legal persons and arrangements, and improving cooperation among law enforcement entities and the Financial Intelligence Centre. Given the progress made thus far, the probability of this risk materialising in the second half of 2025 is low, similar to what was reported in April 2025.

**Risks emanating from climate change remained broadly unchanged, with a medium risk of materialising during 2025.** Climate change has had a negative impact on the agriculture sector in Namibia, mainly on livestock. Considering the implication of climate change, the Bank has granted relief measures through BID-2 and BID-39 to the sector. Total relief granted under BID-39 amounted to N$41.5 million over the period under review. Going forward, climate change will continue to have asymmetric effects on financial stability.

**The rating for cyber risks remains elevated, with a high probability that these risks will materialise during the remainder of 2025.** The growing digitisation and reliance on third party service providers as increased banks' exposure to cyber risk.

**The Bank of Namibia (BoN) uses a wide range of financial stability indicators that show a potential build-up of cyclical changes in the financial system which, if left unattended, 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 risks in Namibia.

**Figure 1: Financial stability heatmap**




Note: GDP = gross domestic product; LTI = long-term insurance; NBFI = non-bank financial institution; NPL = non-performing loan; NPS = National Payment System
Source: Bank of Namibia (BoN)

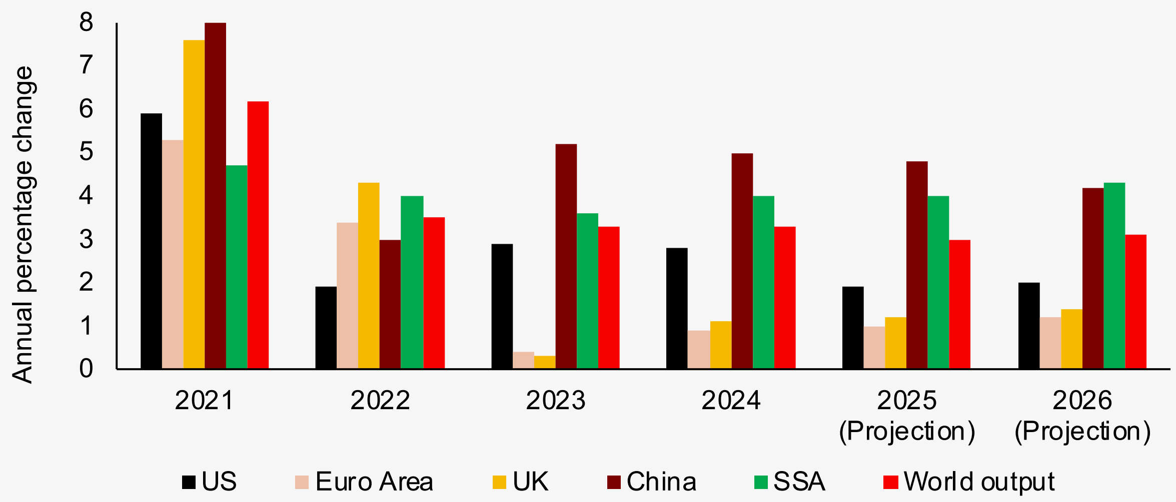
# 3. THE REAL ECONOMY AND FINANCIAL MARKETS

## Macroeconomic environment

### Global developments and risks

**Global growth is projected to decelerate in 2025 compared to 2024, remaining decisively below the pre-pandemic average.** The IMF's October 2025 WEO projected global growth to decelerate to 3.2 percent for 2025 compared to 3.3 percent reported in 2024 (Figure 2). The growth forecast was revised upwards when compared to the July WEO Update reflecting gradual adaptation to trade tensions but remains below the pre-pandemic average of 3.7 percent. Growth forecast for Advanced Economies decelerated to 1.6 percent in 2025 from 1.8 percent recorded in 2024. In the United States (US) growth is projected to slow to 2.0 percent in 2025 and remain steady at 2.1 percent in 2026. However, the projected growth in the US remained broadly the same as in the July 2025 WEO and improved slightly compared to the IMF's April 2025 WEO due to lower effective tariff rates and easing financial conditions. In the Euro area, growth is estimated to pick up modestly to 1.2 percent in 2025. Emerging Market and Developing Economies (EMDEs) were projected to grow by 4.2 percent in 2025 and 4.0 percent in 2026. When compared with the April 2025 WEO this is an upward revision of 0.6 percentage points and a much lower growth compared to the October 2024 WEO, reflecting low-income developing countries experiencing a larger downward revision than middle-income economies. In China for instance, growth was revised downward by 0.6 percentage points compared to the April 2025 WEO on the back of escalation of trade tensions between China and the US.

**Figure 2: Global real gross domestic product growth**

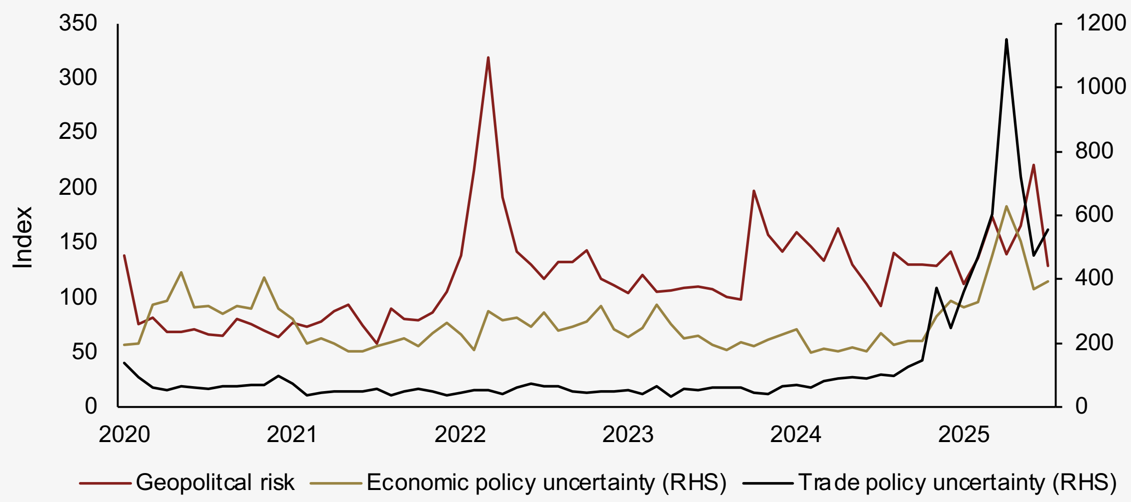



Source: IMF October 2025 WEO
Note: US = United States; UK = United Kingdom; SSA = sub-Saharan Africa

**The IMF's October 2025 WEO forecast global inflation to decline in 2025 and decelerate further in 2026.** Global inflation is estimated to decelerate to 4.2 percent in 2025 and to 3.7 percent in 2026. This path; however, varies across different economies. Inflation forecasts were revised upward when compared to the IMF's October 2025 WEO. Among advanced economies, the most notable cases are the United Kingdom (UK) and the US. In the UK, headline inflation, which started picking up in 2024, is expected to continue rising in 2025 partly because of changes in regulated prices. In the United States, inflation is expected to pick up beginning in the second half of 2025, as the impact of tariffs is no longer absorbed within supply chains and instead passed on to consumers. In some emerging market economies, inflation forecasts are revised downward reflecting lower-than-expected outturns, with food, energy, and administrative prices playing a vital role.

**Geopolitical conflicts have added to market volatility and contributed to elevated trade and economic policy uncertainty since early 2025.** Elevated policy uncertainty stemming from escalating trade tensions, coupled with new and ongoing military conflicts, has pushed global economic and trade policy uncertainty to record highs (Figure 3). The intensifying trade frictions have heightened fears of a slowdown, or even a reversal in globalisation. This increases the risk of a sharp contraction in global trade and a possible unwinding of gains achieved through decades of economic and financial integration. Financial stability could be affected through multiple channels, including weaker global growth, rising inflation and interest rates, greater investor risk aversion, and increased liquidity or solvency pressures on financial institutions. Moreover, geopolitical risks carry wide-ranging consequences for the global economy. Growing geo-economic fragmentation could restrict market access, increase costs, and limit the availability of funding, risk management, and diversification opportunities. Fragmentation could also weaken international cooperation on critical issues such as climate change, financial regulation, and global public health.

**Figure 3: Global economic and trade policy uncertainty indices**




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

**Risks to the global economy remain tilted to the downside, as in the IMF July 2025 WEO Update.** Downside risks to the global economy outlook are centred around prolonged trade policy uncertainty and protectionist trade measures. Further increases in trade policy uncertainty would weigh on firms' investment decisions and worsen the growth outlook. It would also hamper their ability to optimize inventories, potentially leading to short-term output volatility. Further intensification in tariffs could weigh negatively on activity in countries directly impacted by the trade measures. Other key risks include fiscal vulnerabilities, financial market fragilities, deterioration in labour supply from more stringent immigration policies in advance economies, repricing in new technologies and renewed spikes in commodity prices arise as a result of climate shocks. On the upside, a breakthrough in trade negotiations that establishes a more predictable framework could lower effective tariff rates and other protectionist measures, thereby improving economic prospects.

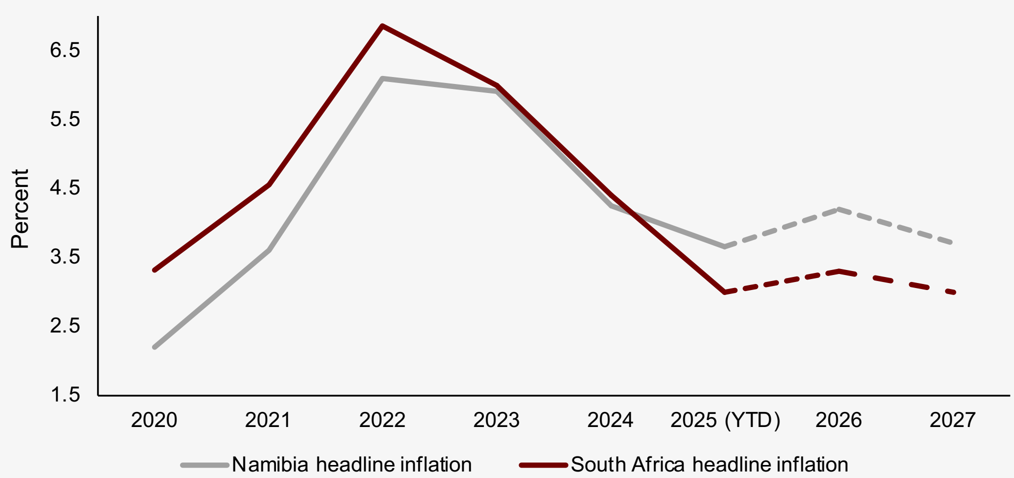
## Domestic developments and risks

**Activity in the domestic economy slowed substantially during the second quarter of 2025, owing to the manufacturing, fishing and agriculture sectors.** The Namibian economy registered a slower growth of 1.6 percent in the second quarter of 2025, from 3.3 percent recorded in the corresponding quarter of 2024. This marks the slowest growth rate since the contraction in the first quarter of 2021. The contractions were registered in manufacturing, fishing and fish processing on board, and in the agriculture subsectors. Among the primary industries, only mining registered a positive growth on the back of the uranium subsector. The secondary industries showed mixed results, with manufacturing declining due to lower cement and blister copper production, while the construction, as well as electricity and water subsectors, increased, driven partly by government infrastructure projects. The tertiary industries continued with a positive growth, sustained by wholesale and retail trade, tourism, communication, financial services, education, and public administration and defence.

**The Namibian economy is estimated to decelerate in 2025, with contractions mainly observed in the primary industry.** As per the August 2025 Domestic Economic Outlook, the economy is projected to grow by 3.5 percent in 2025, marginally below the 3.7 percent recorded in 2024. The deceleration is primarily attributed to a contraction in primary industries, mostly the livestock subsector, which continues to be adversely affected by the drought conditions experienced in 2024. In addition, the diamond industry is expected to continue declining, reflecting weak global demand, imposition of trade tariffs and intensifying competition from lab-grown diamonds. The manufacturing sector is also expected to exert downward pressure on growth, with notable contractions anticipated in meat processing and basic non-ferrous metals. However, growth is forecast to recover to 3.9 percent in 2026, underpinned by a rebound in agricultural activity, sustained momentum in construction and higher output in uranium and metal ores.

**Overall risks to the Namibian economy remained moderate, mainly reflecting both global and domestic factors.** Global factors such as prolonged policy uncertainty could dampen consumption and investment, whereas the escalation of protectionist measures disrupts supply chains and reduces productivity growth. Moreover, other factors include depressed diamond prices and increased competition from lab-grown diamonds, which pose a significant risk to the Namibian economy as they can potentially weaken export earnings, lower government revenues, and increase the country's external balance sheet. Domestically, risks stem from water supply interruptions in the coastal towns and lower Southern African Customs Union (SACU) receipts in the 2025/26 fiscal year (FY). Due to these risk factors, it is imperative to continuously monitor their implications for financial stability and identify proactive measures to support sustainable economic development.

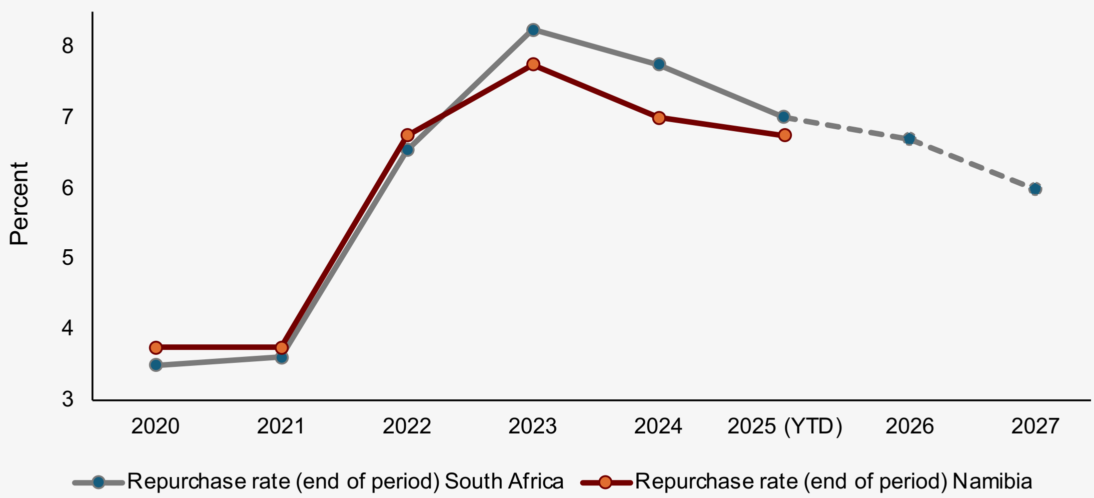
**Figure 4: Headline inflation trends**




Source: BoN

**Namibia's headline inflation eased during the first eight months of 2025, improving consumers' purchasing power.** Since the April 2025 FSR, inflation has eased in Namibia, decelerating from 4.2 percent to 3.6 percent year-to-date (Figure 4). The downward trend in inflation was observed primarily in housing, alcoholic beverages as well as transport inflation. In South Africa, headline inflation decelerated by 1.4 percentage points to an average of 3.0 percent year-to-date due to easing goods inflation and a modest deceleration in prices of services. Headline inflation for Namibia and South Africa is expected to average 3.8 percent and 3.3 percent, respectively, in 2025. Inflation is further expected to accelerate to 4.2 percent in Namibia while remaining broadly unchanged for South Africa during 2026.

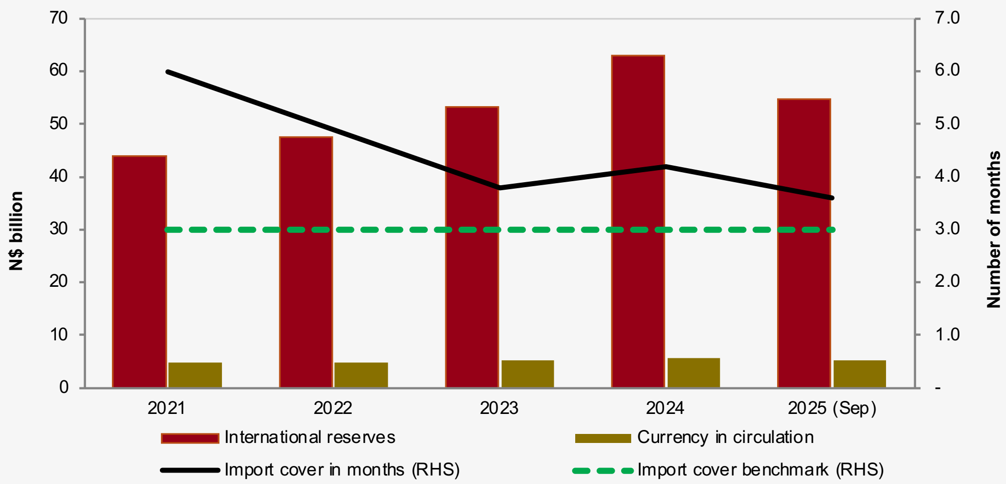
**Figure 5: Policy expectations in Namibia and South Africa**




Source: BoN and South African Reserve Bank (SARB)

**Since the April 2025 FSR, both BoN and SARB has reduced its repo rate.** The BoN has reduced its repo rate by 25 basis points to 6.50 percent at its latest meeting in October 2025 (Figure 5). This was supported by domestic inflation that remained subdued, while private sector credit extension showed signs of improvement. This rate was maintained to continue safeguarding the peg between the Namibia Dollar and the South African Rand, while supporting the domestic economy. The SARB's repo rate was reduced by 50 basis points during the period under review, reaching 7.0 percent, as near-term inflation remained well contained. South Africa's headline inflation eased to 3.3 percent in August from 3.5 percent reported in July. Inflation is projected to average 3.4 percent for the year in South Africa. Considering this inflation level, the SARB decided to keep the policy rate unchanged at its September 2025 meeting. The SARB also forecast that the repo rate would drift marginally lower over the next few years, stabilising at 6.0 percent in 2027.

**Figure 6: International reserves**

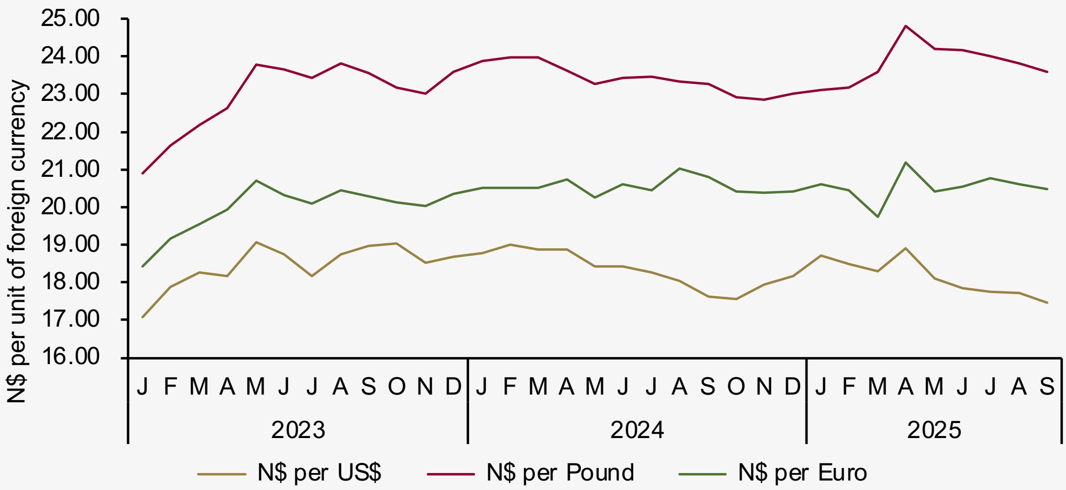



Source: BoN

**At the end of September 2025, the stock of international reserves declined when compared with the end of December 2024, partly due to higher outflows related to trade payments and revaluation losses.** The stock of foreign reserves stood at N$54.7 billion, reflecting a 13.2 percent decline compared with what was reported in the April 2025 FSR (Figure 6). The decline was primarily driven by substantial net outflows from commercial banks related to trade payments. The decline was further amplified by revaluation losses as the Namibia Dollar/South African Rand appreciated against the US Dollar. In addition, higher foreign government payments, such as the principal repayment on the IMF's Rapid Financing Instrument loan, contributed to the decline observed. Nonetheless, despite the decline, foreign reserves remained adequate to support import obligations by at least 3.6 months. Going forward, foreign reserves are estimated to decline further after the Eurobond is redeemed in October 2025, but they will still remain adequate to support import payments.

**The Namibia Dollar/South African Rand strengthened against a weaker US Dollar during the second quarter of 2025, although it remained susceptible to twists in the global trade war.** The Namibia Dollar/South African Rand appreciated by 1.6 percent to an average of N$18.26 against the US Dollar (Figure 7) during the second quarter of 2025. The rally in the Rand was fuelled by weaker-than-expected US economic data, which showed a marginal contraction in the first quarter of 2025 real GDP. The Namibia Dollar, however, depreciated against the Euro and British Pound during the review period owing to stronger European economic performance, including fiscal stimulus in Germany and encouraging economic data from the United Kingdom (UK). The Rand's trajectory is affected by global risk sentiment such as the trade war but also by South African economic fundamentals, especially its domestic growth prospects. In September 2025, the Namibia Dollar continued to appreciate against all major trading currencies when compared to the second quarter average, boosted by a rebound in gold prices.

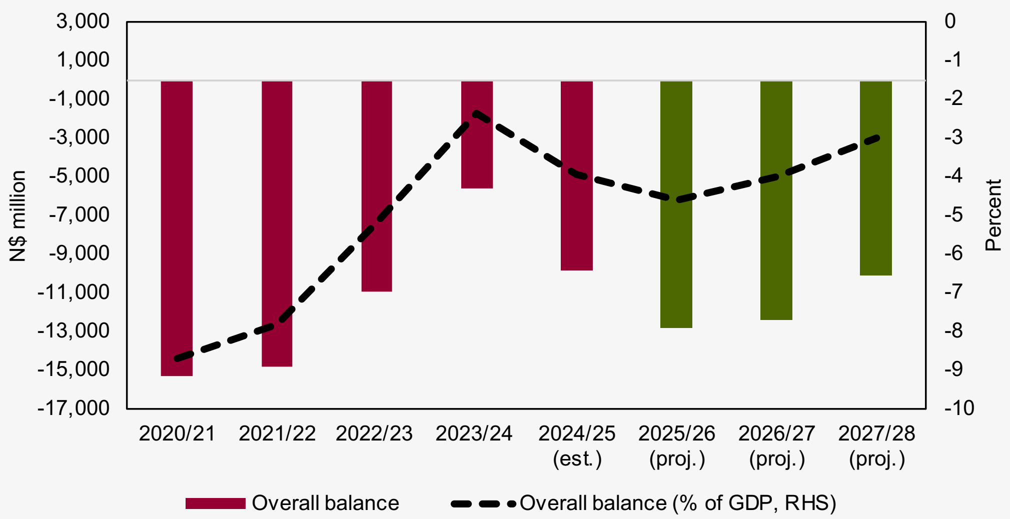
**Figure 7: Exchange rate developments against selected major currencies**




Source: BoN and SARB

## Public finance

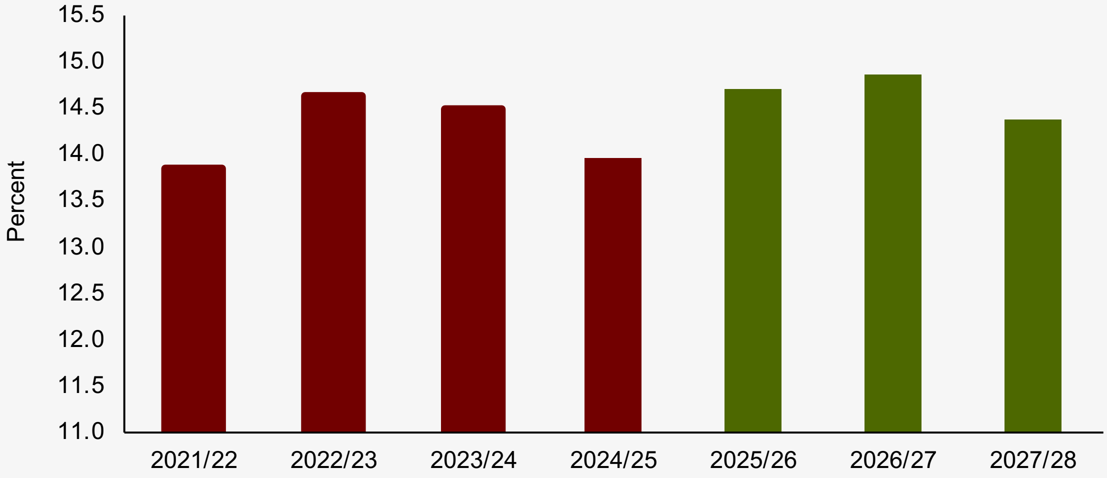
**Figure 8: Public finance**




Source: Ministry of Finance

**The Central Government budget deficit is estimated to widen in the 2025/26 fiscal year, compared to the previous fiscal year.** The government's overall budget deficit is projected to widen to 4.6 percent of GDP for the entire 2025/26 fiscal year compared to 3.9 percent recorded in 2024/25 (Figure 8). The deficit was primarily due to the growth of government expenditure outpacing the growth in revenue. Government expenditure is estimated to rise by 4.9 percent, reaching N$106.3 billion, whereas revenue is projected to increase by 1.9 percent to N$92.6 billion. Over the MTEF, expenditure is expected to moderate as the government strives to reduce the deficit and stabilise the debt stock by maintaining a positive primary balance. Meanwhile, the subdued performance in the diamond industry and expected lower SACU receipts will put a strain on government finances.

**Figure 9: Government debt service to revenue**




Source: Ministry of Finance

**The Central Government debt stock increased over the year to the end of June 2025.** Total government debt was recorded at N$171.5 billion at the end of June 2025, representing an annual increase of 8.8 percent. The rise was driven by a boost in the issuance of both Treasury Bills and Internal Registered Stock. Meanwhile, external debt decreased during the review period, mainly due to the principal repayment of the Rapid Financing Instrument from the IMF coupled with the exchange rate appreciation. Total debt as a percentage of GDP was 61.7 percent at the end of June 2025, reflecting a 1.0 percentage point decline on a yearly basis. The total debt stock is expected to decrease with the Eurobond redemption in October 2025, but it is projected to rise gradually again to N$172.4 billion over the Medium-term Expenditure Framework period, translating into 62.0 percent of GDP. This means that the total debt stock will remain above the Southern African Development Community (SADC) benchmark of 60.0 percent of GDP (Figure 9).

**In May 2025, Fitch Ratings affirmed Namibia's stable outlook, supported by strong governance indicators.** Relative to its rating peers, the Fitch affirmation was due to strong governance indicators and a robust institutional framework as well as fiscal financing flexibility supported by Namibia's large NBFI sector (Table 2). This rating is balanced against high fiscal deficits and government debt relative to Namibia's peers, the country's large fiscal financing needs and a rigid expenditure profile. Similar to what was reported in the April 2025 FSR, Moody's outlook remained positive, reflecting significant prospects of discoveries.

**Table 2: Namibia's sovereign credit rating and outlook**

| Rating agency | Rating | Outlook | Date of update | Action |
|---|---|---|---|---|
| Fitch Ratings | BB- | Stable | 23 May 2025 | Rating affirmed and stable outlook |
| Moody's | B1 | Positive | 26 September 2025 | Rating affirmed and positive outlook |

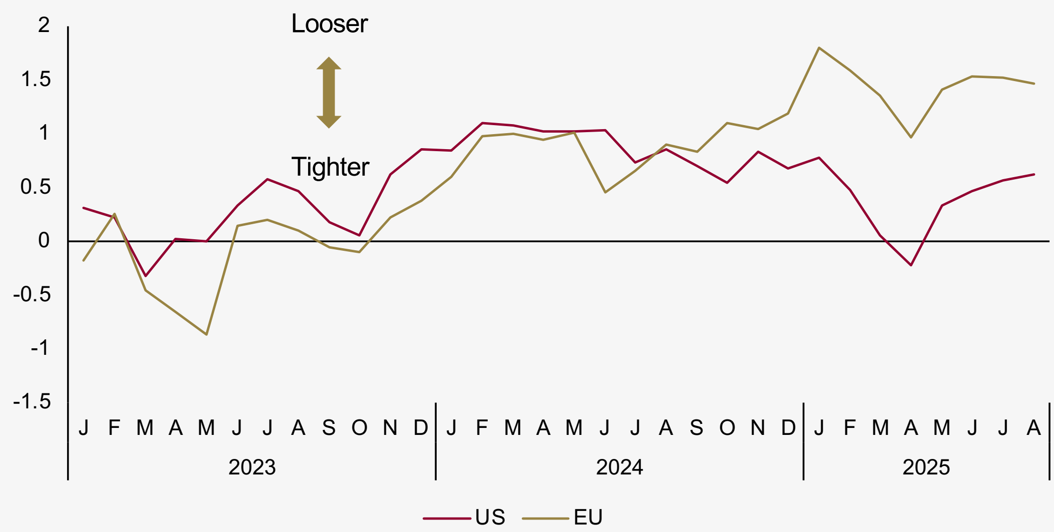
Source: Moody's Ratings and Fitch Ratings

# Developments in financial markets

## International developments

**So far in 2025, the Bloomberg Financial Conditions Index revealed that the European Union (EU) financial environment remained notably more accommodative than that of the US.** This divergence reflects the European Central Bank's ongoing rate cuts, with a total of six reductions initiated since June 2024, compared with the US Federal Reserve's decision to hold rates steady into 2025 (Figure 10). EU markets thus experienced lower funding costs and improved liquidity, while US conditions tightened due to elevated volatility, geopolitical and tariff-related risks and policy uncertainty. Global markets sold off sharply in early April, with conditions tightening considerably – particularly in the US, as shown by the sharp downturn in Figure 10. Since then, optimism around trade negotiations, reduced policy uncertainty and expectations of rate cuts have helped conditions improve heading into the second half of the year. If inflation remains contained through to the year end, the global easing cycle could continue, further supporting financial conditions domestically and abroad.

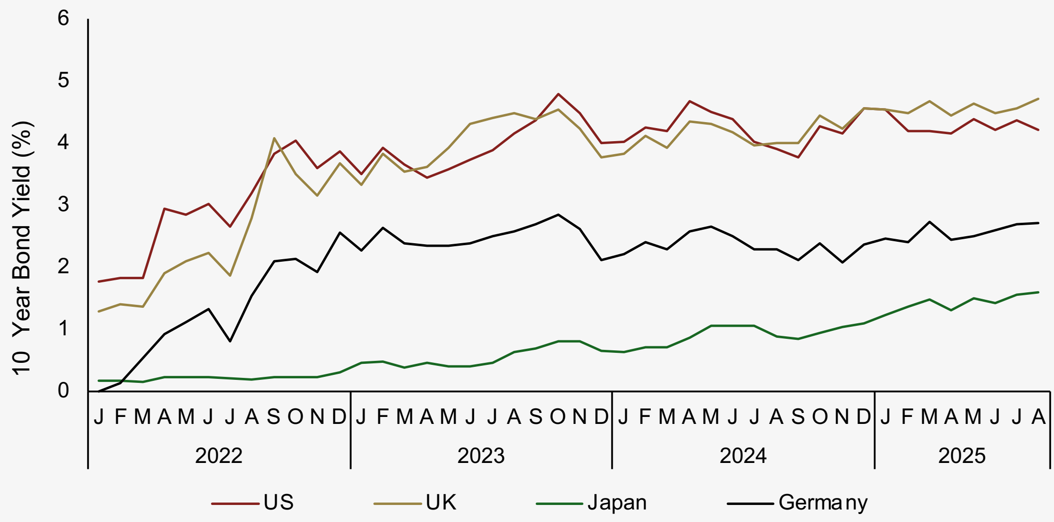
**Figure 10: Financial conditions indices**




Source: Bloomberg

**During the first eight months of 2025, global 10-year sovereign bond yields generally trended higher from 2024 year-end levels, reflecting political uncertainty, fiscal risks and diverging central bank trajectories.** Global bond yields have shown a mixed but generally elevated trend thus far, reflecting the interplay of persistent inflation concerns from tariff uncertainty and shifting monetary policy expectations (Figure 11). In the U.S., long-term yields, albeit still elevated when compared to historical levels, trended at lower levels than the highs observed during 2024, easing to around 4.2 percent by August 2025 as markets priced in future Fed cuts. Germany's Bund yields climbed to a 17-month high of 2.7 during March 2025, driven by fiscal stimulus expectations and, after fluctuating in subsequent months, returned to 2.7 percent by August 2025. In Japan, the 10-year yield surged to a 17-year high of 1.60 percent in August, reflecting political uncertainty following Upper House elections and external pressures, including US tariffs on Japanese imports.

**Figure 11: Selected 10-year global bond yields**

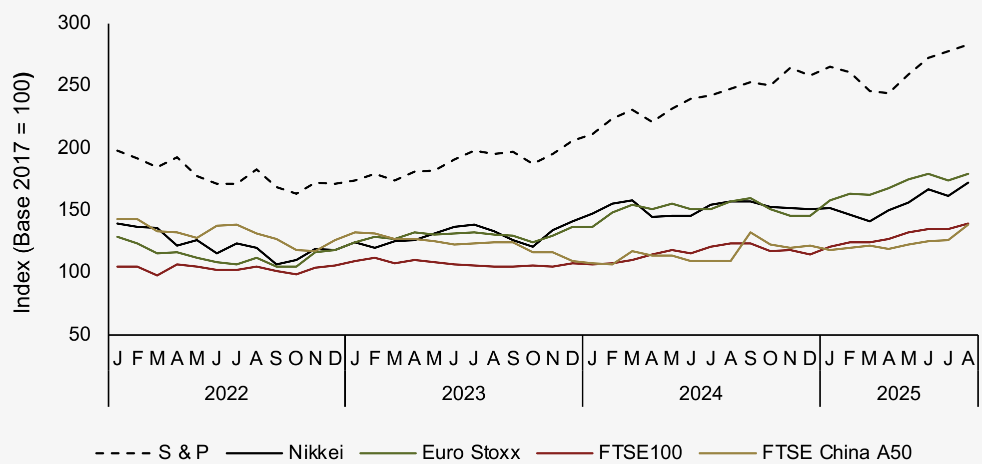



Source: Bloomberg

**Despite early-year turbulence from US tariff announcements, equity markets worldwide staged a swift recovery, with new record highs across major indices.** The sharp sell-off and volatility following the 2nd of April 2025 tariff announcement were quickly reversed as revisions to the tariff proposals and resilient corporate earnings restored investor confidence, particularly from the second quarter of 2025 onward. US equities surged to new highs in July, with the Standard and Poor's (S&P) 500 topping 6,400 index points and the Nasdaq 100 Index setting 14 new records in July (Figure 12). Technology-driven momentum remained strong, supported by optimism around trade, resilient macro data and belief in a soft economic landing.

UK equities were among the best performers globally, with the Financial Times Stock Exchange (FTSE) 100 passing the 9,000 index points mark for the first time since its launch in 1984 as sentiments improved mid-year amid Germany's substantial fiscal announcement and broader rate cut anticipation. Chinese equities also advanced so far during 2025, aided by an extension of the US tariff pause, which eased pressure on technology and manufacturing sectors while encouraging retail investors to shift from gold exchange-traded funds into equities. Overall, while US technology firms continued to dominate the rally, global equities have gained ground as valuations outside the US become increasingly attractive with improving sentiments.

**Figure 12: Selected global equity market indices**



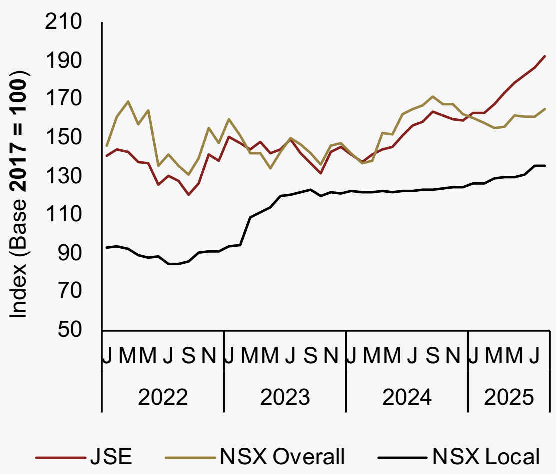

Note: FTSE = Financial Times Stock Exchange; S&P = Standard and Poor's
Source: Bloomberg

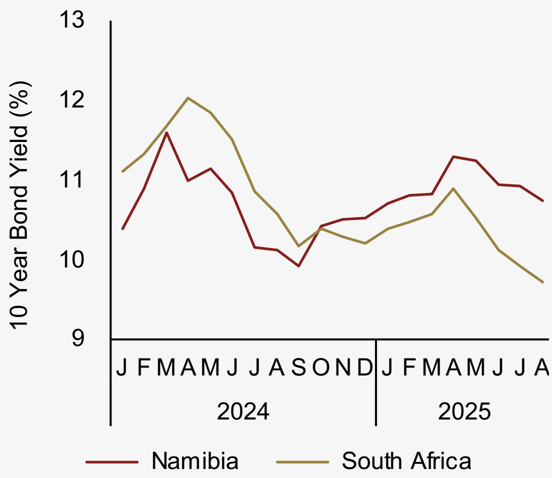
## Financial market developments in Namibia and South Africa

**Equity markets in Namibia and South Africa remained resilient despite heightened global uncertainty.** For Namibian assets, the impact of shifting global dynamics were relatively muted. The Namibia Securities Exchange (NSX) overall index closed at 1,829.85 index points at the end of August 2025, up slightly from 1,801.18 points in December 2024, marking a gain of 1.59 percent so far during 2025 (Figure 13a). In contrast, the NSX local index showed stronger momentum in the year to date, gaining 9.13 percent to reach 754.49 index points in August 2025 from 691.32 points in December 2024. Gains were largely driven by financial and telecommunications firms, with several listings reaching all-time highs and implementing higher payout ratios. In South Africa, the Johannesburg Stock Exchange performed well year-to-date, with the All-Share index surging 21.09 percent in August 2025 and surpassing the 100,000-point milestone for the first time. This rally was fuelled by a resurgent resources sector, complemented by strong performance in financials and industrials. Additional support came from the SARB's 2025 rate cuts, which eased financial conditions and improved access to finance. Together, these dynamics highlighted the relative resilience of South African equity markets within a challenging global backdrop.

**In terms of bond yields, both the Namibian and South African 10-year yields trended downwards since the April 2025 FSR.** The 10-year yields in both Namibia and South Africa have rallied since April and have ended August 2025 at 10.74 percent and 9.73 percent, respectively (Figure 13b) . South Africa's 10-year yields have traded below that of Namibia throughout 2025, reversing the 2024 relationship. The lower bond yields reflect stabilising domestic and global uncertainty as well as lower inflation in Namibia and South Africa, which provides a stabilising outlook to monetary policy and increased demand, driving bond prices up and yields down. In addition, this also reflects subdued economic activity and softer expectations for medium- to long-term inflation, which reduce the pressure on yields.

**Figure 13 (a-b): Equity market and bond yields**

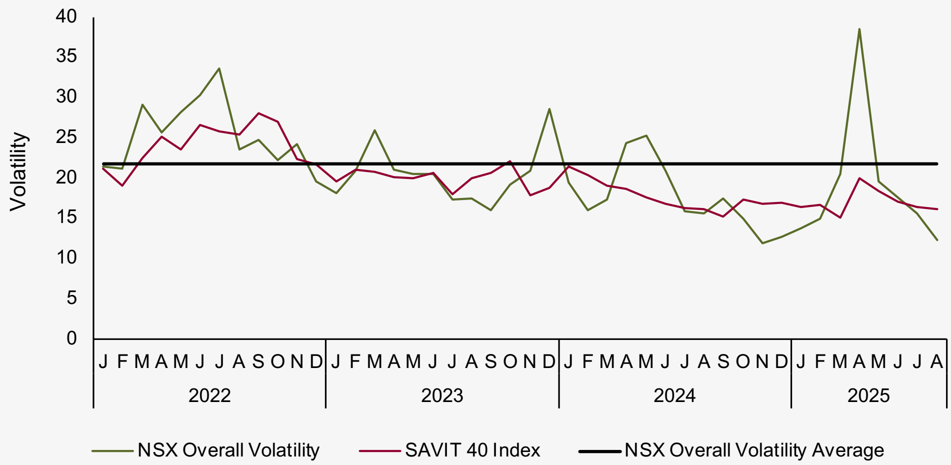



Source: Bloomberg

**Following the sharp volatility spike in April 2025 triggered by the initial US tariff announcements, equity market volatility in Namibia and South Africa has since stabilised.** The surge in April reflected the global equity sell-off and heightened uncertainty, but conditions normalised in subsequent months (Figure 14). Despite the spike in April, volatility in Namibian equity markets remained below its historical average for most of the year to date, boding well for financial stability. In contrast, South African equity market volatility, as measured by the South African Volatility Index (SAVIT) Top 40, has followed a steadier year-to-date path, ranging between 15–20 index points. This divergence highlights the deeper liquidity and diversification in South African markets, which cushion volatility relative to Namibia. Overall, both markets have demonstrated resilience, with contained volatility supporting investor confidence despite global turbulence.

**Figure 14: Namibian and South African equity market volatility**




Source: Bloomberg

# The non-financial sector

## Household debt

**Growth in household indebtedness slowed notably in the first half of 2025.** Household debt increased only marginally, rising by 0.3 percent to N$77.0 billion by the end of June 2025 (Table 3). Unlike the April 2025 FSR, in which microlending drove household credit growth, that category declined by 3.4 percent during the period under review. The modest increase in household credit came instead from the banking sector, which grew by 0.7 percent, driven predominantly by consumption-based lending such as other loans and advances as well as instalment and leasing facilities. While overall credit expansion slowed, short-term lending continued to dominate over long-term credit, reflecting persistent pressure on household cash flows. Although this subdued growth may ease concerns about excessive household leverage, the reliance on short-term consumer-oriented borrowing still poses potential risks to financial stability.

**Table 3: Household debt**

| Household debt | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| Total credit extended to households/individuals (N$) | 61,791 | 64,723 | 66,648 | 68,688 | 69,201 |
| Adjusted credit to households/individuals* (N$) | 69,107 | 71,465 | 73,805 | 76,760 | 76,995 |
| Total credit extended to individuals/households (% of GDP) | 33.7 | 31.5 | 29.1 | 28.0 | 26.9 |
| Adjusted credit of households/Individuals (% of GDP) | 37.7 | 34.8 | 32.2 | 31.3 | 29.9 |

* This category includes credit extended to households by both banking and non-bank financial institutions.

Source: BoN

## Corporate debt

**Namibia's total corporate debt stock increased marginally during the second quarter of 2025, mainly due to increased domestic debt.** The total debt increased marginally by 0.7 percent to N$192.4 billion in the second quarter of 2025 when compared to the end of 2024 (Table 4). The increase in total debt was mainly due to an increase in domestic debt, which rose by 4.5 percent to N$52.3 billion during the period under review. The increase in domestic debt was primarily attributable to higher credit uptake in the categories of other loans and advances, as well as overdrafts by corporates operating in the manufacturing, energy, construction, mining, and financial sectors. On the contrary, foreign debt declined by N$1.3 billion to N$131.2 billion between 31 December 2024 and 30 June 2025. The decline in foreign debt was mainly attributed to the decrease in foreign deposits under the repurchase agreement by a deposit-taking corporation, along with the settlement of foreign trade credits by the private non-banking sector. This was further supported by the appreciation of the domestic currency against major trading currencies during the period under review.

**Table 4: Domestic and external corporate debt (corporates and state-owned enterprises)**

| Debt category | N$ million | | | | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025Q2 |
| Domestic debt | 44,874 | 46,173 | 47,351 | 50,066 | 52,328 |
| Local corporate debt | 44,258 | 45,808 | 45,979 | 48,442 | 50,889 |
| Local state-owned enterprise (SOE) debt | 616 | 365 | 1,372 | 1,624 | 1,439 |
| Foreign debt | 94,671 | 111,672 | 129,434 | 141,077 | 140,101 |
| Foreign corporate debt | 87,078 | 102,520 | 121,062 | 132,353 | 131,183 |
| Foreign SOE debt | 9,470 | 9,636 | 8,373 | 8,724 | 8,918 |
| Total SOE debt | 10,086 | 10,001 | 9,745 | 10,348 | 10,356 |
| Total debt | 139,545 | 157,845 | 176,785 | 191,144 | 192,429 |
| Nominal gross domestic product (GDP) | 183,292 | 205,584 | 228,887 | 245,097 | 257,120 |
| | | | | | |
| Corporate debt as a % of GDP | 71.7 | 72.1 | 73.0 | 73.8 | 70.8 |
| Foreign corporate debt as a % of GDP | 47.5 | 49.9 | 52.9 | 54.0 | 51.0 |
| Foreign debt as a % of total debt | 67.8 | 70.7 | 73.2 | 73.8 | 72.8 |

Source: BoN and Namibia Statistics Agency

**Corporate debt as a percentage of GDP declined during the first half of 2025, mainly due to a reduction in foreign debt.** Namibia's corporate debt as a percentage of GDP declined from 73.8 percent at the end of 2024 to 70.8 percent at the end of the second quarter of 2025, driven largely by an increase in nominal GDP coupled with a reduction in foreign corporate debt. This was as a result of an appreciation of the Namibia Dollar against the US Dollar. In this regard, the ratio of foreign corporate debt to GDP declined from 54.0 percent to 51.0 percent over the same period. While the growth in domestic corporate debt is not a major concern, as it stems from sectors that drive economic expansion, the easing of foreign debt is a welcome development for financial stability. It reduces exposure to exchange rate fluctuations. This is particularly important because a depreciation of the Namibia Dollar could otherwise amplify repayment burdens, exerting pressure on foreign exchange reserves and increasing systemic risk.

**Total foreign private sector debt servicing increased during the first half of 2025 when compared to the same period last year.** The total value of repayments on Namibia's foreign private sector debt increased to N$22.0 billion during the first half of 2025, compared to N$16.6 billion during the same period last year (Table 5). The increase was predominantly driven by a reduction in deposit liabilities by a deposit-taking corporation, following the settlement of external repurchase agreement transactions. This was further driven by the repayment of foreign trade credits.

**Table 5: Foreign private-sector debt and debt servicing**

| Debt and debt servicing category | N$ million | | | | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025Q2 |
| Total foreign private-sector debt | 94,671 | 111,672 | 129,434 | 141,077 | 140,101 |
| Total foreign  private-sector debt servicing | 16,114 | 25,429 | 37,491 | 35,211 | 22,040 |

Source: BoN

# 4. THE FINANCIAL SECTOR

## The banking sector

**The banking sector's balance sheet contracted during the period under review, reversing the expansion reported in the April 2025 FSR.** Total assets declined by 4.1 percent to N$179.1 billion by the end of June 2025 compared with their level at the end of the fourth quarter of 2024. This decline was primarily driven by the decrease observed in the *cash and balances* category. The latter decrease, worth N$7.5 billion, was attributed to reduced balances at commercial banks, particularly those denominated in local currency. Balances maintained with the Bank of Namibia fell by a further N$3.4 billion in comparison with their April 2025 FSR level. The decline in assets during the period under review was mirrored by a notable reduction in funding on the liabilities side. This reduction was largely ascribed to a N$5.4 billion decline in non-bank funding and a N$4.9 billion drop in intragroup deposits.

## 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 simultaneously determine how best 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

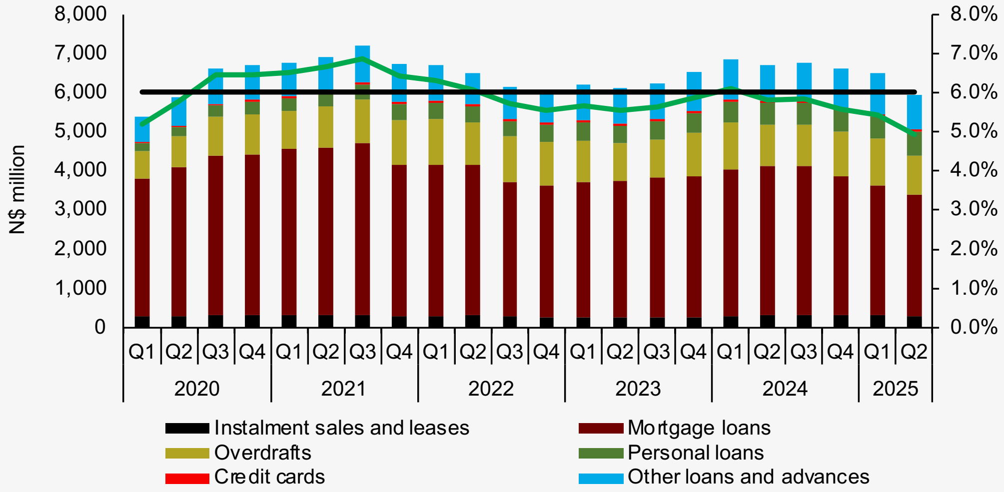
**Credit risk is defined as the risk of default by borrowers and its potential impact on profitability and capital adequacy.** Banking sector assets are comprised mainly of loans granted to households and corporates. The interest earned on these assets, which is a significant component of banks' income 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 rate of default, 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 hold more capital when their asset quality deteriorates. This measure is intended to cover the related credit risk while also accounting for higher provisions in the event of a loss which will impact profitability.

## Asset quality

**Asset quality, as measured by the ratio of non-performing loans (NPLs) to total gross loans, improved during the period under review, indicating reduced credit risk in the banking sector.** Since the release of the April 2025 Financial Stability Report (FSR), the NPL ratio declined to 4.9 percent at the end of the second quarter of 2025 (Figure 15). This improvement was driven by both a reduction in NPLs and an increase in total loans and advances. With the exception of personal loans and credit card advances, NPLs across all other loan categories declined. Mortgage loans, for example, which accounted for 52 percent of total NPLs, recorded the largest decrease of 12.6 percent. The drop in this category of NPLs was attributable mainly to a combination of repayments and write-offs during the first half of 2025, which totalled over N$300 million. Moreover, NPLs in the overdraft category also contributed to the improvement in asset quality, falling by 12.0 percent by the end of June 2025. In addition, NPLs in instalment sales and leases as well as in other loans and advances collectively declined by N$134.5 million over the same period. From a sectoral perspective, therefore, individuals continue to dominate NPL exposures, accounting for 62.1 percent of the total.

**Asset quality is expected to improve over the next 12 months.** The improvement in NPLs stems from monetary policy becoming less restrictive, providing relief to households and corporates by easing the servicing of their debts. The reduced spread between the repo and prime rates by 25 basis points is also expected to stimulate credit demand, supporting a rebound in total loans and advances, which will further contribute to improved asset quality. In addition, continued supervisory actions are likely to reinforce prudent lending and risk management practices. Overall, the expected improvement in asset quality is a positive development for financial stability, with the NPL ratio anticipated to remain below the supervisory intervention trigger point of 6.0 percent over the next 12 months.

**Figure 15: Non-performing loans ratio and category distribution**

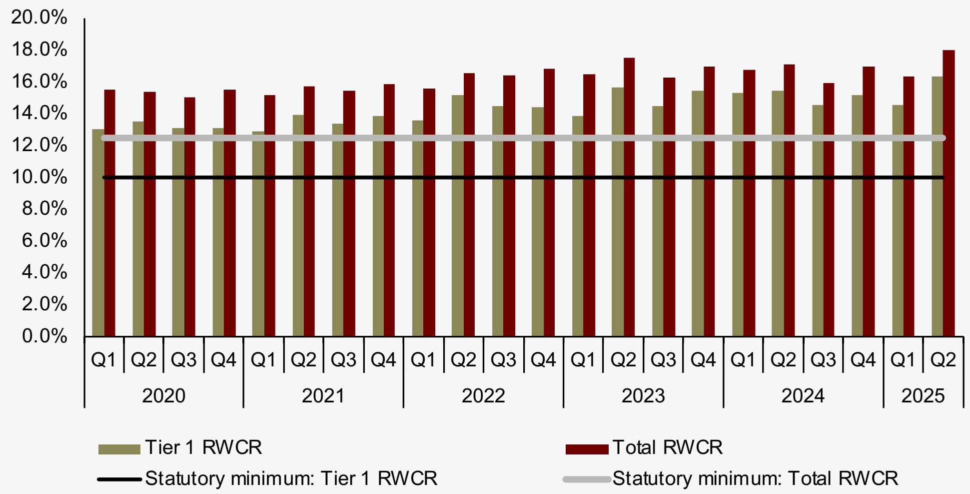



Source: BoN

## Capital adequacy

**The banking sector remained adequately capitalised during the first half of 2025, maintaining a capital position well above the prudential requirements.** The total risk-weighted capital ratio (RWCR) and Tier 1 RWCR exceeded their respective minimum regulatory thresholds of 12.5 percent and 10.0 percent, respectively. Since the April 2025 FSR, total eligible capital increased by N$2.0 billion to N$22.7 billion at the end of June 2025 (Figure 16). Consequently, the total RWCR increased by 1.0 percentage points to 18.0 percent during the six-month period under review. This increase was primarily due to growth in total eligible capital outpacing the rise in risk-weighted assets. Similarly, the Tier 1 RWCR rose by 1.1 percentage points to 16.3 percent during the period under review, driven mainly by higher retained earnings and an increase in reserves. Overall, the banking sector's strong capital buffers enhance its capacity to absorb unexpected losses and sustain credit provision, reinforcing confidence in the stability of the financial system.

**Figure 16: Capital adequacy**

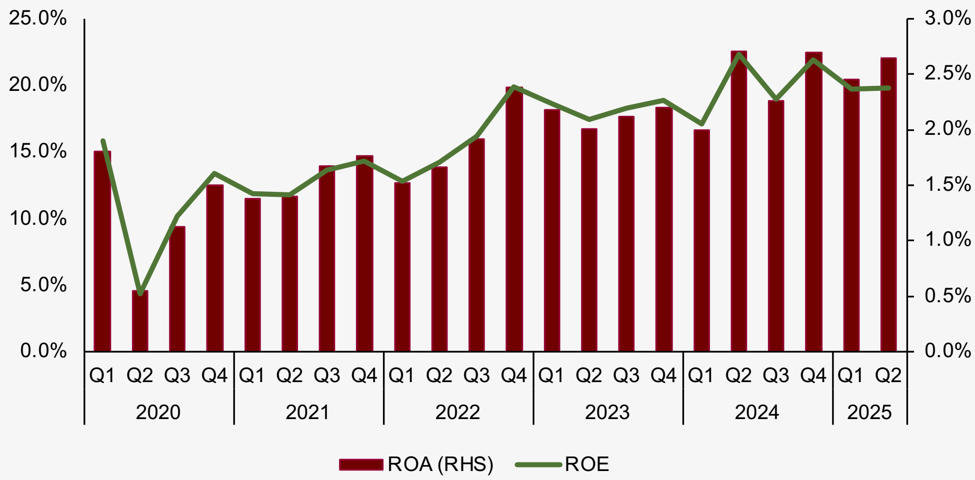



Source: BoN

## Profitability

**Profitability, as measured by the return-on-assets (ROA) and return-on-equity (ROE) ratios, declined on the back of lower net interest income.** The ROA ratio decreased to 2.6 percent in the second quarter of 2025 from 2.7 percent in the fourth quarter of 2024 despite the banking sector assets contracting by 4.1 percent during the review period. Similarly, the ROE trended downwards from 21.9 percent during the fourth quarter of 2024 to 19.8 percent in the second quarter of 2025 (Figure 17). The decline in profitability was driven by a reduction in both net interest income and operating income. Net interest income, which accounts for over 50 percent of total income, fell by N$58.4 million to N$2.2 billion in the second quarter of 2025, reflecting lower cash and balances with banks due to a drop in intragroup and commercial deposits. Operating income also fell, primarily due to lower fee income, which decreased by N$198.1 million to N$1.2 billion over the same period. The lower level recorded for fee income is partly explained by seasonal spending patterns, as activity typically peaks in December and moderates in subsequent quarters of the year. Although the current interest rate environment could help sustain net interest income in the near future, the directive to narrow the spread between the repo and prime rates may reduce interest margins. Nonetheless, any resulting increase in credit demand could partly offset this effect and support overall profitability.

**Figure 17: Profitability**




Source: BoN

## Adequacy of provisions

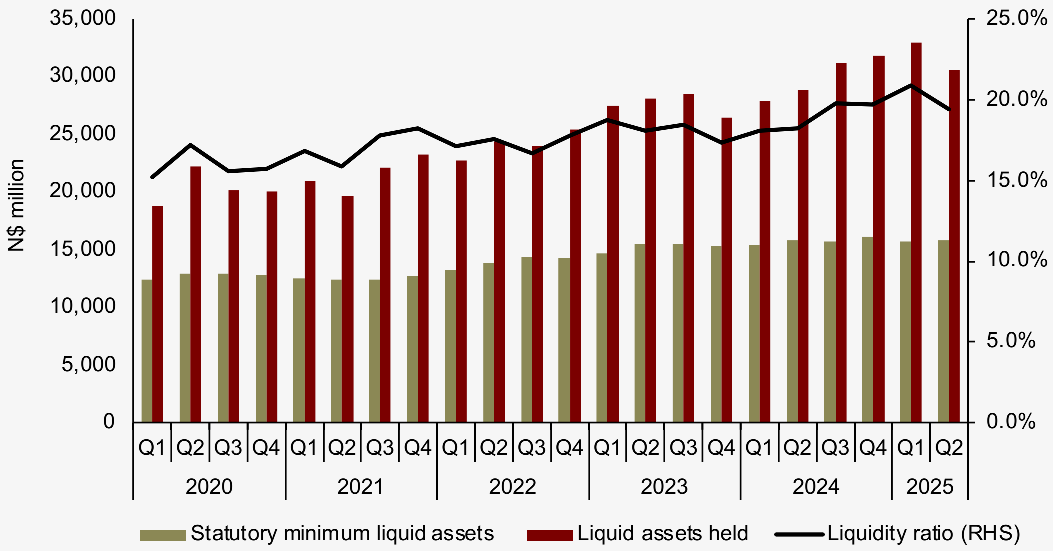
**Total provisions declined during the first half of 2025 relative to the end of 2024, consistent with the improvement in asset quality.** Since the release of the April 2025 FSR, total provisions fell by 13.4 percent to N$3.3 billion. This was primarily driven by an 18.8 percent reduction in specific provisions, which stood at N$2.4 billion at the end of 2024, reflecting the corresponding decline in NPLs during the review period. General provisions also decreased in relation to the fourth quarter of 2024, namely by 4.0 percent, to register at N$1.3 billion by the end of second quarter of 2025, further contributing to the overall decline. Given the prevailing NPL levels, banks are expected to maintain adequate provisioning buffers to safeguard against potential losses and to manage credit risk effectively. Overall, credit risk to the financial system remained moderate in the first half of 2025 and is expected to stay at similar levels in the second half, with a medium impact assessment.

## Liquidity risk

**The liquidity position in the banking sector remained strong, although it declined marginally during the period under review.** The banking sector's liquid assets declined by 3.8 percent from N$31.8 billion at the end of fourth quarter of 2024 to N$30.6 billion in second quarter of 2025, driven by some government-issued instruments maturing (Figure 18). Specifically, investments in Treasury

Bills declined by 6.3 percent since 31st December 2024, reaching an average of N$17.1 billion by the end of the first half of 2025, primarily because several of these instruments fell due. Consequently, the sector's liquidity ratio decreased to 19.4 percent in second quarter of 2025, down slightly from 19.7 percent reported for the fourth quarter of 2024, yet remaining well above the 10-year long-term average of 15.8 percent. This pattern is further illustrated in the heatmap (Figure 1), which highlights the banking sector's consistently elevated liquidity position. This elevated liquidity is also supported by the fact that the domestic systemically important banks (DSIBs) reported values of over 100 percent in respect of their liquidity coverage and net stable funding ratios, which remained fully compliant with the minimum regulatory requirement of 85 percent for both ratios. Thus, liquidity levels are expected to remain healthy throughout 2025, supported in part by increased government funding requirements.

**Figure 18: Liquid assets and liquidity ratio**



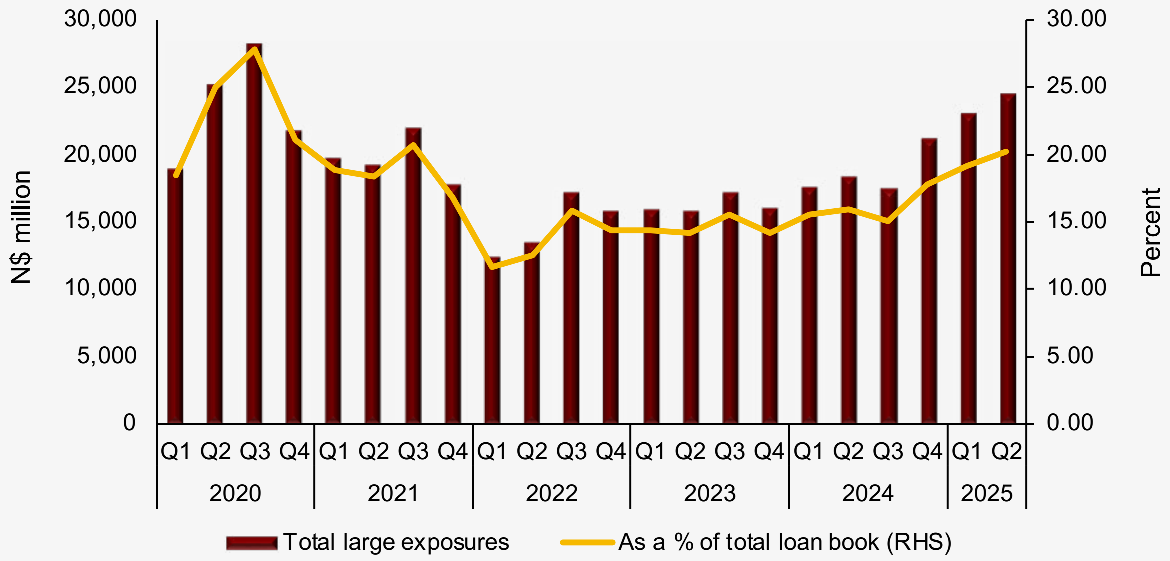

Source: BoN

**Both the loan-to-deposit and loan-to-funding ratios remained below 100 percent during the first half of 2025.** A loan-to-deposit ratio above 100 percent indicates that some banks rely on borrowed funds to finance part of their lending activities. Similarly, a high loan-to-funding ratio limits banks' capacity to further expand their loan books while prudently managing liquidity risk. The loan-to-deposit ratio rose from 78.4 percent in 2024 to 85.5 percent in the first half of 2025, reflecting a 6.5 percent contraction in deposits alongside a 1.9 percent increase in loans during the period under review. Similarly, the loan-to-funding ratio increased from 74.4 percent in 2024 to 80.9 percent in the second quarter of 2025, indicating that a larger proportion of total funding was allocated to lending rather than being held as liquidity, consistent with the decline observed in overall liquidity. Overall, both ratios remained manageable, supporting financial stability in the banking sector. The probability of liquidity risk deteriorating in the second half of 2025 remains low, with minimal adverse impact on financial system stability.

## Concentration risk: Large exposures

**The banking sector's large exposures increased notably during the first half of 2025 compared with their level at the end of 2024.** Since the release of the April 2025 FSR, large exposures rose by 15.4 percent to N$24.5 billion, driven mainly by new credit disbursements to companies in the mining and quarrying sector as well as the energy (electricity, oil and gas) and water sectors. These disbursements outweighed repayments made by other companies operating in the same industries (Figure 19). The growth in large exposures was largely underpinned by banks' increasing appetite to finance companies involved in Namibia's oil and gas activities, reflecting a strategic shift to capitalise on opportunities in this emerging sector, alongside continued credit demand in mining and quarrying. As a result, large exposures as a share of total loans and advances increased from 17.8 percent at the end of 2024 to 20.2 percent during the first half of 2025. Nonetheless, concentration risk remains contained, as all large exposures continued to fall within the single-borrower limit of 25.0 percent, posing no threat to the overall stability of the financial system.

**Figure 19: Total large exposures**




Source: BoN

[7] 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.

## BOX ARTICLE 1:

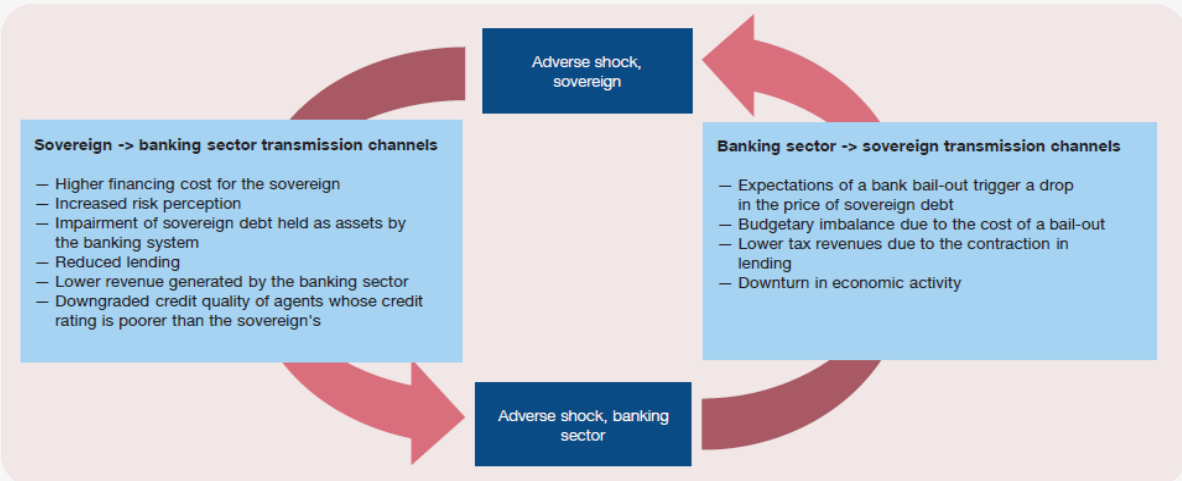
## THE SOVEREIGN–BANK NEXUS IN NAMIBIA: TRENDS, RISKS AND IMPLICATIONS FOR FINANCIAL STABILITY

**The sovereign–bank nexus captures the two-way dependence between sovereigns and domestic banks, where vulnerabilities in one sector can rapidly spill over to the other.** At its core, the nexus operates through a set of reinforcing channels that transmit shocks bi-directionally (BA1 Figure 1). Banks are typically large holders of sovereign securities, exposing them to valuation and liquidity risks when sovereign borrowing costs rise or fiscal concerns intensify. At the same time, sovereigns are expected to act as ultimate guarantors for domestic banks in times of stress, but the credibility of this backstop depends on the fiscal space and buffers of the government. On the macroeconomic front, linkages tie the financial health of banks and sovereigns to the performance of the broader economy. Weaker growth simultaneously undermines bank asset quality and reduces sovereign revenues, while sovereign credit ratings amplify shocks by raising financing costs for both sectors.

**At moderate levels, this relationship can be beneficial, supporting financial sector deepening.** Banks provide a stable funding source for governments by purchasing its instruments, while governments act as an ultimate backstop for banks (Feyen and Zuccardi, 2019; Borio et al., 2023). However, when exposures grow too large, the nexus can become a source of vulnerability. Emerging market and developing economies (EMDEs) have seen rapid increases in bank holdings of government debt in recent years, as governments borrowed heavily during the Covid-19 pandemic while foreign investors withdrew from local debt markets (GFSR, 2022). At the same time, regulatory standards designed to capture the risks that banks take often do not account for the tail risk of a local currency government-debt default, which is significant in some EMDEs, facilitating the accumulation of these exposures.

**While sovereign debt is often treated as risk-free, its safety ultimately depends on fiscal health.** High public debt can heighten the vulnerability of banks to fiscal shocks, transmitting sovereign stress directly to bank balance sheets. Farhi and Tirole (2018) describe this interdependence as a “deadly embrace”: in good times it benefits both parties, but in distress it can spiral into what they term a “doom loop”, where sovereign weakness threatens banks, and banking sector instability in turn undermines fiscal balances (BA1 Figure 1). The experience of Silicon Valley Bank (SVB) in the United States illustrates these risks. In 2023, the SVB’s large investment in long-dated government bonds, which made up roughly about half its balance sheet, suffered heavy mark-to-market losses as interest rates spiked. When depositors rushed to withdraw funds, the bank was forced to realise these losses by selling these securities at depressed prices, triggering a bank run and eventual collapse.

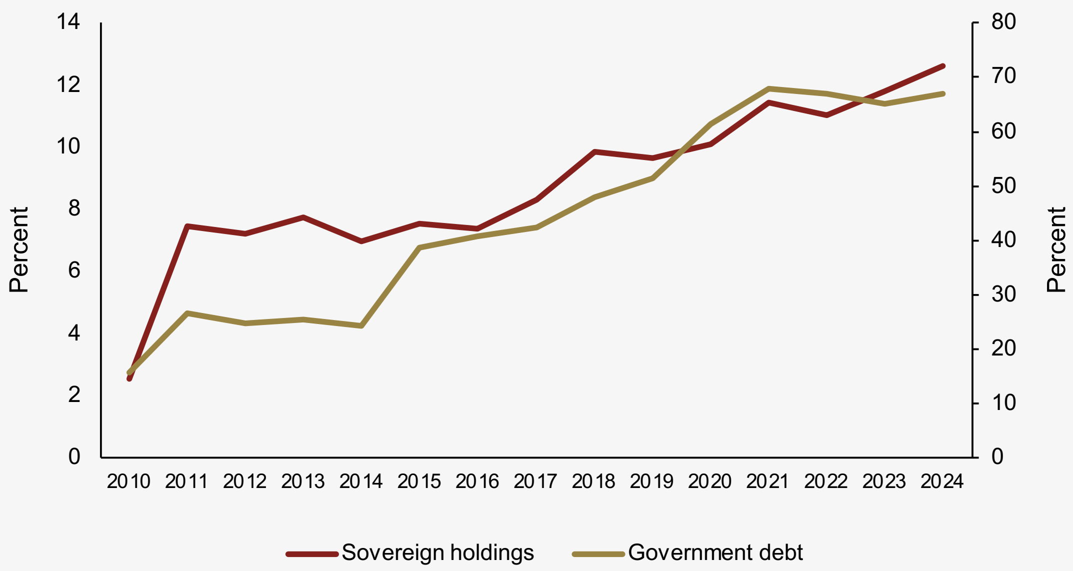
**BA1 Figure 1: Sovereign–bank nexus or doom loop**




Source: Banco de España

**In Namibia, banks' exposure to domestic sovereign debt has risen significantly over the past decade.** The share of bank assets held in government securities proxied by treasury bills grew by about 5.7 percentage points between 2014 and 2024, reaching 12.6 percent of total assets (BA1 Figure 2). Between 2019 and 2025 alone, this share rose by 3.3 percentage points, from 9.8 percent to 13.1 percent. This trend reflects both the perceived safety and attractive returns of government securities relative to other domestic investments, as well as the government's continuous reliance on domestic financing. Public debt increased from 24.8 percent of GDP in 2015 to 66.3 percent in 2024, bringing about concerns around long-term debt sustainability and amplifying the link between fiscal policy and financial stability. BA1 Figure 2 shows the steady rise in public debt alongside banks' holdings of government securities and confirms a fairly strong link between the two variables.

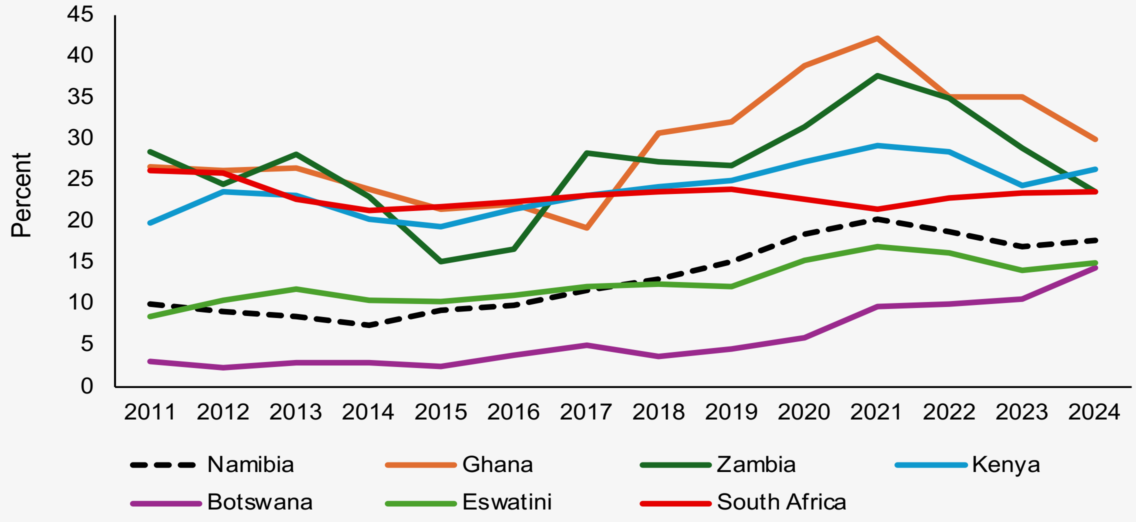
**BA1 Figure 2: Namibian banks' sovereign debt holdings and government debt, 2010–2024**




Source: BoN

**Namibia's sovereign exposure remains moderate by regional standards, yet it reflects structural factors common to many EMDEs.** The sovereign exposure of Namibian banks as proxied by depository corporations claims on central government average 13.0 percent between 2011 and 2024 (BA1 Figure 3). When compared to some of the peers in the region, that experienced sovereign stress such as Zambia, Ghana, and Kenya, Namibia's exposure remains relatively low, however; it's above Eswatini and Botswana. This pattern reflects structural factors common to many EMDEs, where governments increasingly rely on domestic banks for financing due to limited external borrowing options (Deghi et al., 2022). In addition, capital markets in these economies are generally less developed, leaving banks with few investment options beyond loans to the private sector and government securities. This interdependence creates mutual interests between governments and banks.

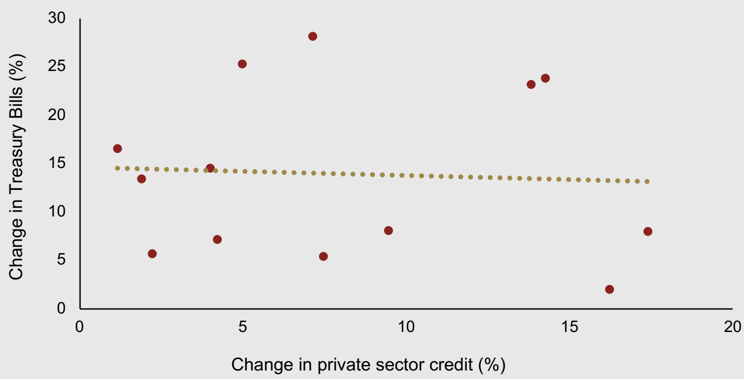
**BA1 Figure 3: Depository corporations claim on central government**




Source: IMF (except South Africa, which is sourced from SARB)

**Despite the growth in banks' investment in treasury bills, there is no clear evidence of crowding out private sector credit extension.** Evidence from Namibia over the period 2012–2024 shows a weak inverse relationship between private-sector credit growth and banks' holdings of Treasury Bills (BA1 Figure 4). Although the fitted line slopes slightly downward, indicating that banks may marginally increase sovereign exposure when private-sector credit growth slows, the wide dispersion of data points suggests that this relationship is neither strong nor systematic. These findings imply that Namibian banks have not consistently reallocated resources away from private sector lending toward government securities - or vice versa - in response to changing credit conditions. Instead, their holdings of government securities appear to be influenced primarily by liquidity management considerations, regulatory requirements, and the government's issuance pattern, rather than by any significant trade-off with private lending. While the "crowding-out" effect is a theoretical concern, the Namibian data does not provide clear evidence that banks' sovereign exposures have constrained credit to the private sector in a material way.

**BA1 Figure 4: Changes in banks' holdings of sovereign debt and private sector credit growth, 2012–2024**




Source: BoN

**Despite rising holdings of government securities by Namibian banks and the overall impact on financial stability and private sector lending remaining limited, continued vigilance is necessary.** Overall, the evidence suggests that, while Namibian banks' exposure to sovereign debt has increased in recent years, it remains lower than that in some regional peers and has not materially constrained credit to the private sector. Nonetheless, the rising level of public debt highlights the need for continued vigilance. Strengthening risk assessment practices, enhancing supervisory monitoring of sovereign exposures, and ensuring that prudential frameworks capture potential fiscal vulnerabilities would help maintain financial stability. A balanced sovereign–bank relationship, where government financing needs are met without undermining the capacity of banks to support private sector growth, remains essential to safeguard the resilience of the financial system.

## Non-bank financial institutions

**The NBFI sector sustained its growth trajectory into mid-2025, with aggregate assets increasing by 5.8 percent in the first six months of the year to reach N$501.7 billion (Table 6).** This performance, which translates to an annualised growth rate of 12.0 percent, demonstrates the sector's resilience despite headwinds from global trade policy uncertainties and domestic economic challenges. The sector's growth was underpinned by several favourable developments. These included an accommodative monetary policy stance, with the repo rate held steady at 6.75 percent throughout the first half of 2025, and declining inflation, which averaged 3.7 percent in that period compared with 4.2 percent in 2024.

**Table 6: Non-bank financial institution (NBFI) sector: Asset size**

| NBFI subsector | N$ million | | | | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | Mid-2025 |
| Long-term insurance | 66,672 | 68,757 | 74,260 | 83,837 | 88,999 |
| Short-term insurance | 7,188 | 7,200 | 7,745 | 9,121 | 9,659 |
| Medical aid funds | 2,287 | 2,001 | 2,097 | 2,796 | 3,091 |
| Retirement funds | 212,909 | 205,817 | 237,145 | 262,777 | 275,937 |
| Collective investment schemes* | 61,622 | 60,974 | 68,424 | 80,027 | 87,280 |
| Investment managers* | 12,584 | 14,654 | 17,888 | 27,453 | 28,907 |
| Friendly societies | 2.0 | 2.3 | 2.5 | 3.0 | 3.0 |
| Microlenders | 7,316 | 6,743 | 7,157 | 8,071 | 7,794 |
| **Total** | **370,582** | **366,149** | **414,811** | **474,084** | **501,669** |
| **Annual growth** | **13.5%** | **-1.2%** | **13.3%** | **14.3%** | **5.8%** |

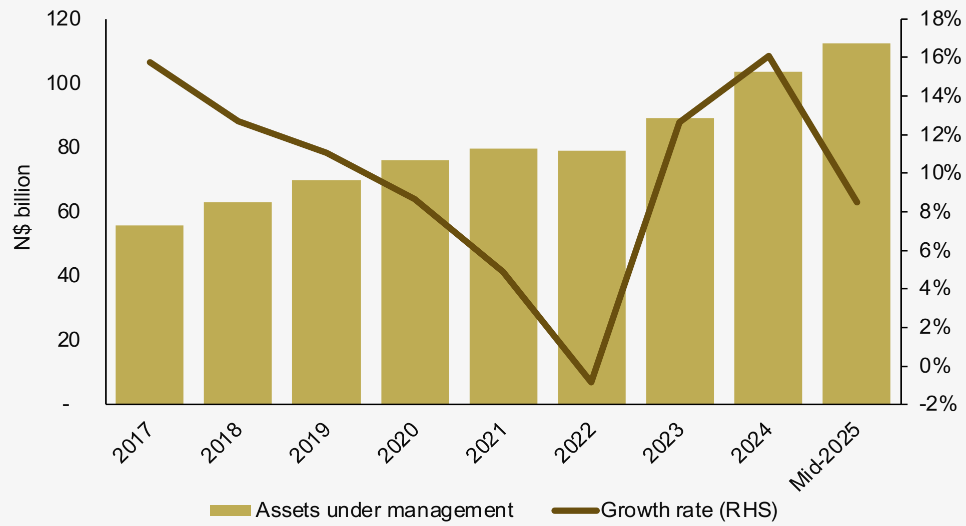
Source: Namibia Financial Institutions Supervisory Authority (NAMFISA)

* The assets under these two subsectors 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.

### Collective investment schemes

**Collective investment schemes maintained their robust growth momentum in the first half of 2025, with assets under management expanding to N$112.3 billion, representing an 8.5 percent increase from 2024 levels (Figure 20).** The subsector's continued expansion reflects sustained investor confidence despite the uncertain global environment, supported by the sector's strategic positioning in both domestic and regional markets.

Figure 20: Collective investment schemes – Assets under management

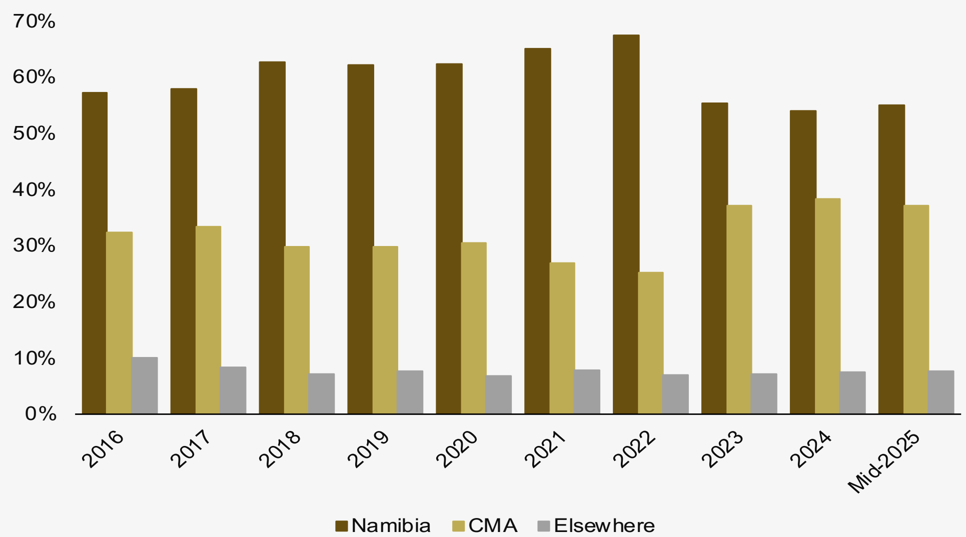



Source: NAMFISA

## Sources and allocation of funds per location

**The geographic allocation of collective investment scheme assets showed greater stability in the first half of 2025, reflecting the impact of regulatory measures (Figure 21).** Following the Bank of Namibia's implementation of its Determination on the Conduct of Electronic Funds Transfer Transactions within the National Payment System (PSD-9), as amended, and its regulations governing electronic funds transfer (EFT) transactions within the Common Monetary Area (CMA), capital outflows to South Africa have moderated significantly. The proportion of domestically held assets, which declined from 67.6 percent in 2022 to 54.1 percent in 2024, showed signs of stabilisation in the first half of 2025, being recorded at 55.4 percent as at 30 June. This stabilisation is paramount for the continued injection of liquidity into the domestic economy.

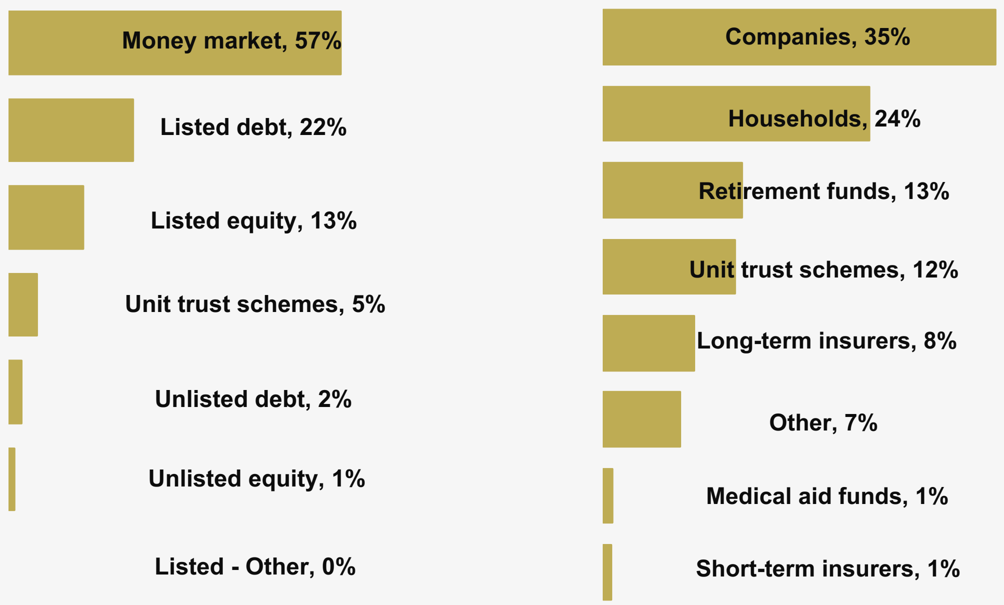
Figure 21: Collective investment schemes – Geographic allocation




Source: NAMFISA

**The subsector's investment strategy, which continues to emphasise money market instruments, supports its role in capital preservation and liquidity provision to the broader financial system.** Companies and households remain the primary sources of funds, respectively contributing 35.2 percent and 23.8 percent to total assets under management (Figures 22a and 22b). The continued preference for money market instruments reflects the subsector's conservative approach in an uncertain global environment, while providing essential liquidity to support domestic financial stability.

Figure 22: Collective investment schemes – Allocation and source of funds

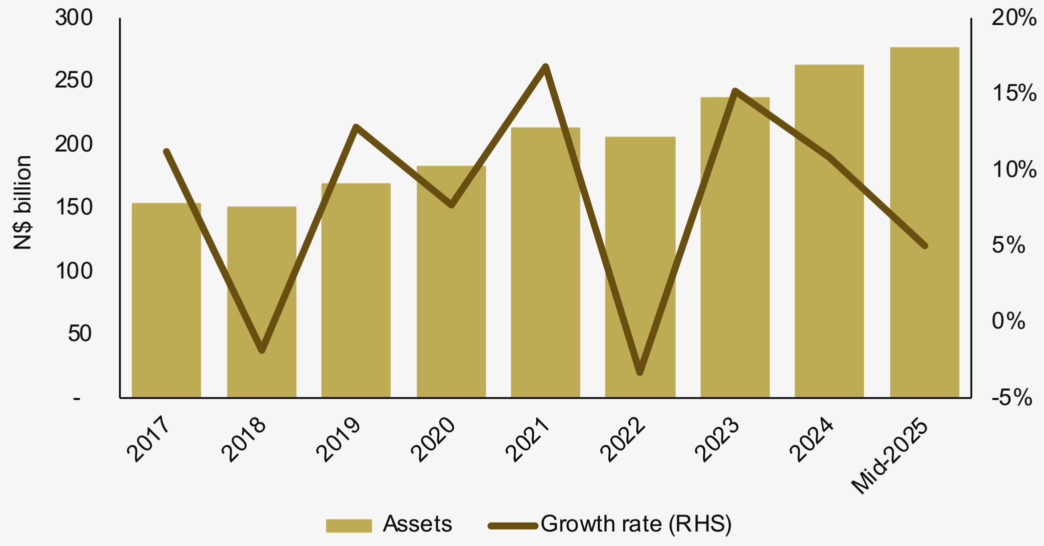



Source: NAMFISA

## Retirement funds

**The retirement funds subsector demonstrated steady growth in the first half of 2025, reaching N$275.9 billion, an increase of 5.0 percent from 2024 levels (Figure 23).** While this represents a moderation from the 10.8 percent growth achieved in 2024, the annualised growth rate of 10.3 percent for the first half of 2025 indicates continued resilience. The subsector's performance reflects the stable employment conditions and the continued expansion of formal sector participation, despite the broader economic challenges facing the domestic economy.

Figure 23: Retirement funds – Total assets

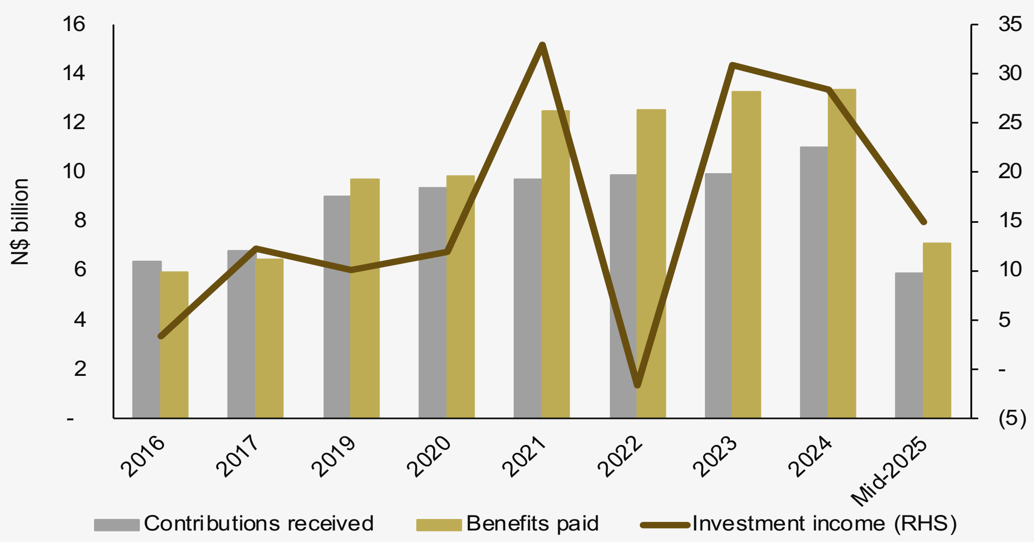



Source: NAMFISA

## Contributions and benefit analysis

**The structural challenge of benefits exceeding contributions has persisted into 2025, with the gap likely to have widened further, given demographic trends and economic conditions.** The subsector disbursed N$7.1 billion in benefits during the review period while receiving N$5.9 billion in contributions, creating a deficit of N$1.2 billion that was offset by investment income of N$14.9 billion (Figure 24). Based on current demographic trends and the continued ageing of the membership base, this gap is expected to expand in the second half of 2025, placing greater reliance on investment performance to maintain the subsector's financial stability.

Figure 24: Retirement funds – Contributions, benefits payments and investment income

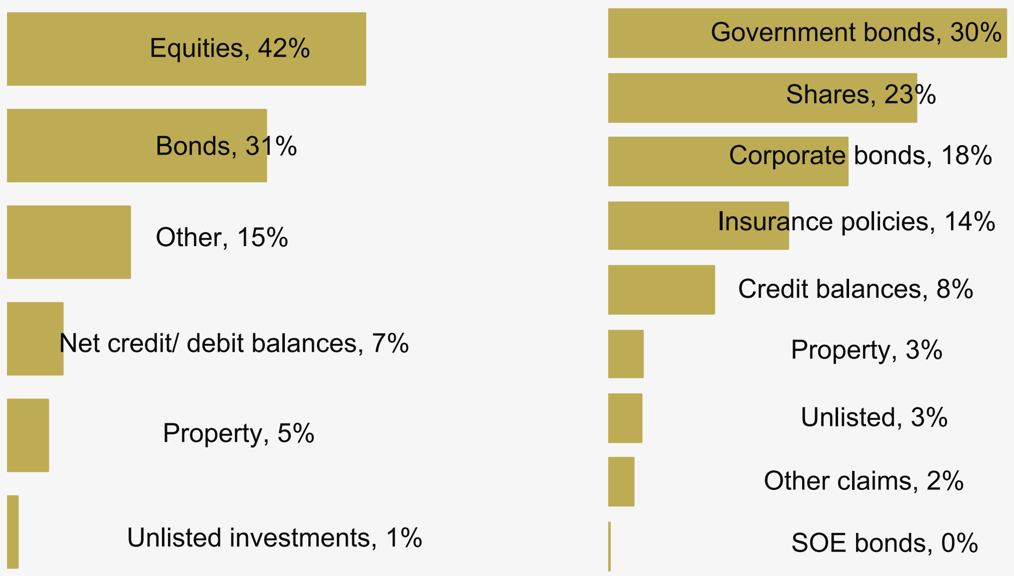



Source: NAMFISA

## Allocation of investment assets

**The retirement funds subsector's asset allocation remained heavily weighted toward long-term instruments, with three-quarters of assets held in equities and bonds.** The subsector held N$135.4 billion of its investment assets domestically, with N$40.6 billion in government bonds (Figures 25a and 25b). This reinforces the subsector's buffering role against external shocks such as exchange rate pressures as far as fiscal stability is concerned.

**Figure 25: Retirement funds – Allocations per asset class**

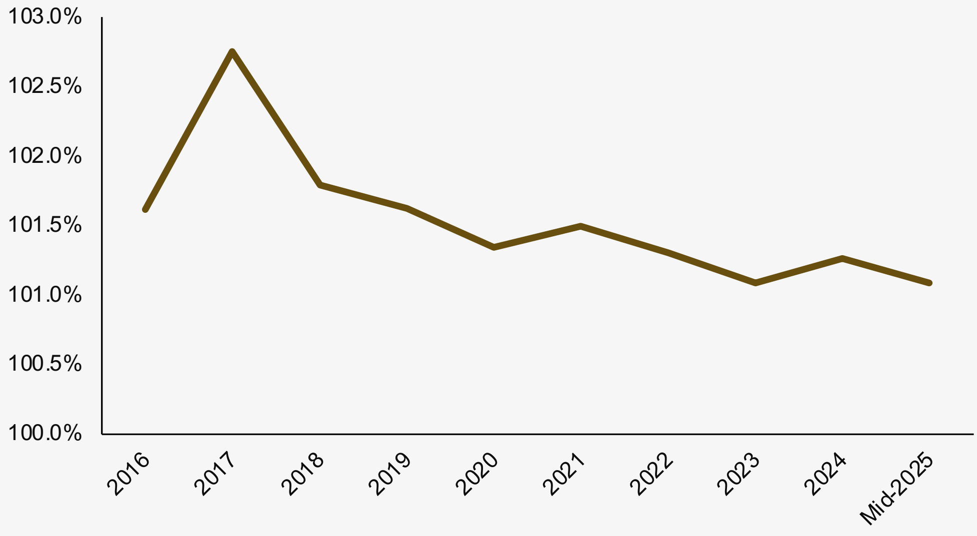



Source: NAMFISA

## Funding position

**Despite ongoing fluctuations in global asset values owing to global trade tensions, the subsector maintained a sound funding position during the six-month review period in 2025.** The subsector's funding position moderated to 101.1 percent in the first half of 2025, 0.2 percentage points lower than what was recorded in 2024 (Figure 26). Specific factors threatening long-term sustainability were identified and are being closely monitored. The subsector is expected to continue meeting its obligations in the short to medium term.

Figure 26: Retirement funds – Funding position

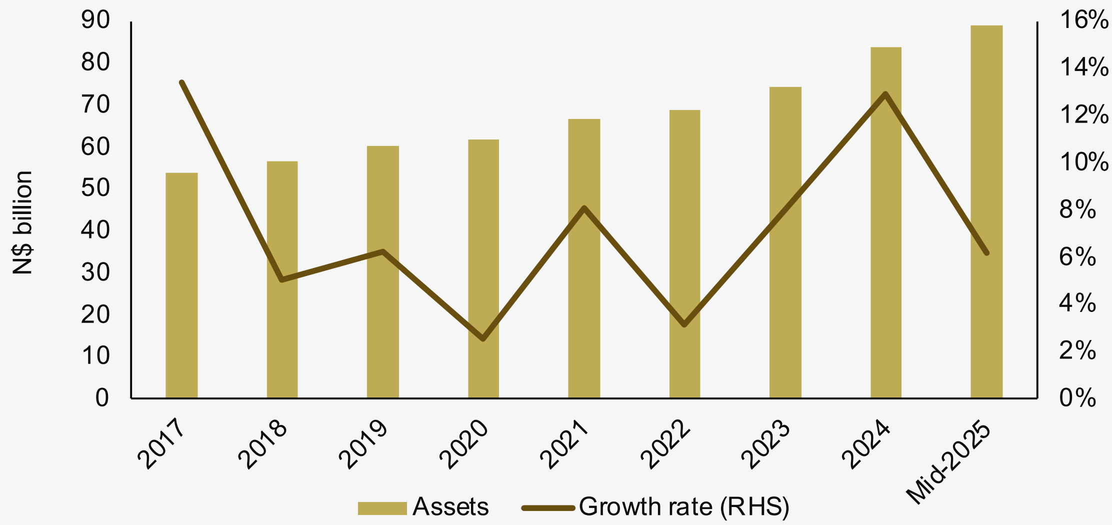



Source: NAMFISA

## Long-term insurance

**The long-term insurance subsector sustained its growth trajectory into mid-2025, with assets expanding to N$89.0 billion, representing a 6.2 percent increase in the first six months of the year compared with the asset level registered on 31 December 2024 (Figure 27).** This increase translates to an annualised growth rate of 12.7 percent, closely matching the 12.9 percent growth achieved in 2024. The subsector's consistent performance reflects the stability of demand for long-term insurance products, supported by continued financial awareness and expanded product accessibility through digital platforms. Furthermore, growth is partly driven by annual inflationary premium adjustments on policies where the sum insured increases each year in line with inflation.

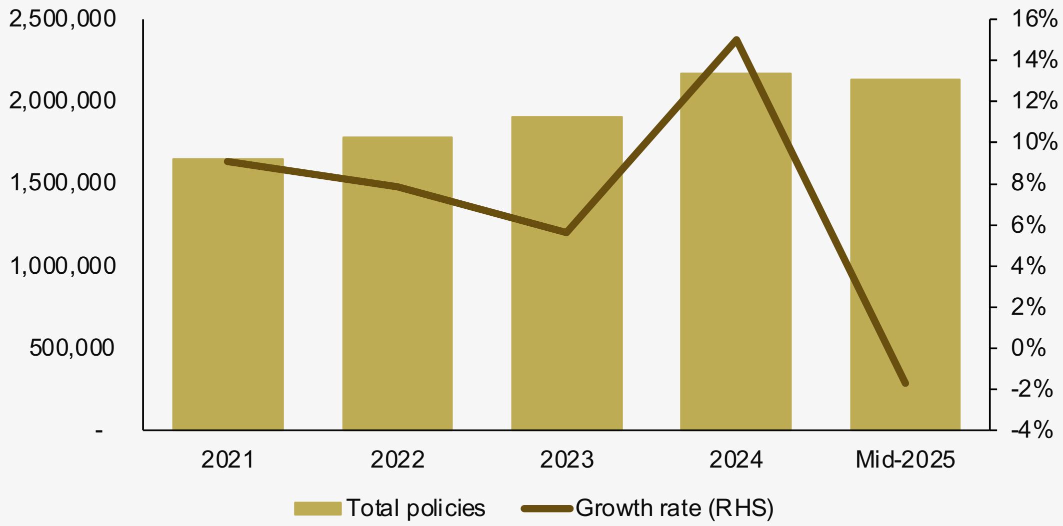
Figure 27: Long-term insurers – Assets




Source: NAMFISA

**Policy statistics for the first half of 2025 affirm continued strong demand for long-term insurance products.** In comparison with the total policies registered as at 31 December 2024, the subsector saw a marginal moderation of 1.7 percent in the period under review to reach 2.1 million policies (Figure 28). The resilient demand underscores the subsector's role in providing financial security and fostering economic stability through long-term investments.

**Figure 28: Long-term insurers – Policy statistics**




Source: NAMFISA

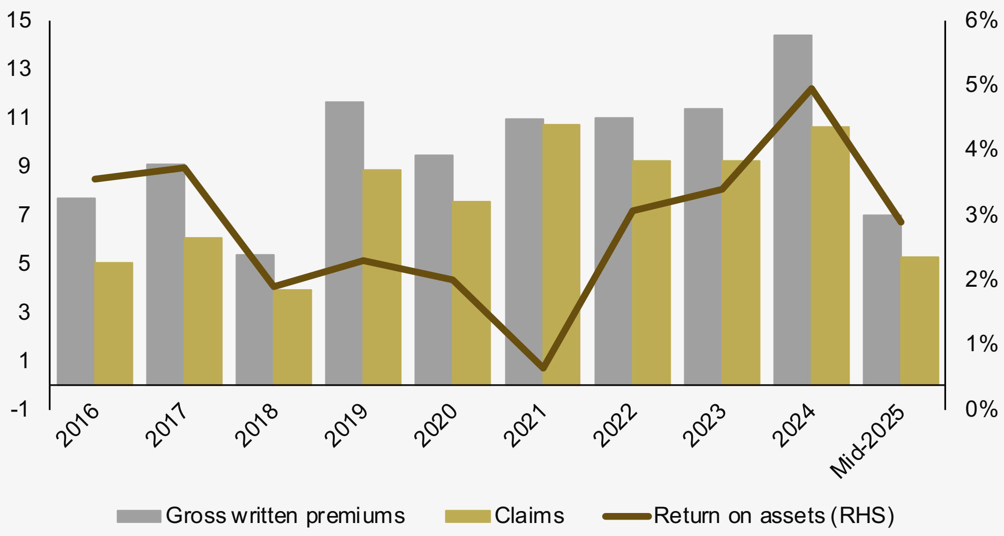
## Profitability

**The long-term insurance subsector maintained strong profitability momentum throughout the first semester of 2025.** This momentum is built on the performance achieved in 2024, when gross written premiums surged to N$14.4 billion. The stability of the six-month gross written premiums reflects multiple converging factors. These include inflationary linked hikes; increased uptake of life, funeral and investment-linked policies, driven by heightened risk awareness; expansion of the middle-income population; and successful product diversification strategies. The enhanced distribution capabilities, particularly through digital platforms, have proven increasingly important as traditional sales channels face constraints from changing consumer preferences and economic pressures.

**The claims experience through mid-2025 continued to reflect the stabilisation pattern established in the post-COVID-19 pandemic period, providing a predictable foundation for sustained profitability.** Following the claims surge relating to the pandemic, which peaked at N$10.7 billion in 2021, the sector stabilised to N$9.2 billion in both 2022 and 2023, before claims expanded by 15.2 percent to N$10.6 billion in 2024 (Figure 29). This normalisation of claims activity has provided insurers with enhanced predictability for implementing strategic initiatives and maintaining profitability margins through the challenging global environment.

**The subsector's positive return on assets was maintained through the first half of 2025, supported by continued premium growth and stable claims experience.** This sustained profitability demonstrates that the sector's recovery represents a fundamental improvement in operational efficiency and strategic positioning rather than merely being a cyclical correction.

Figure 29: Long-term insurers – Underwriting profits



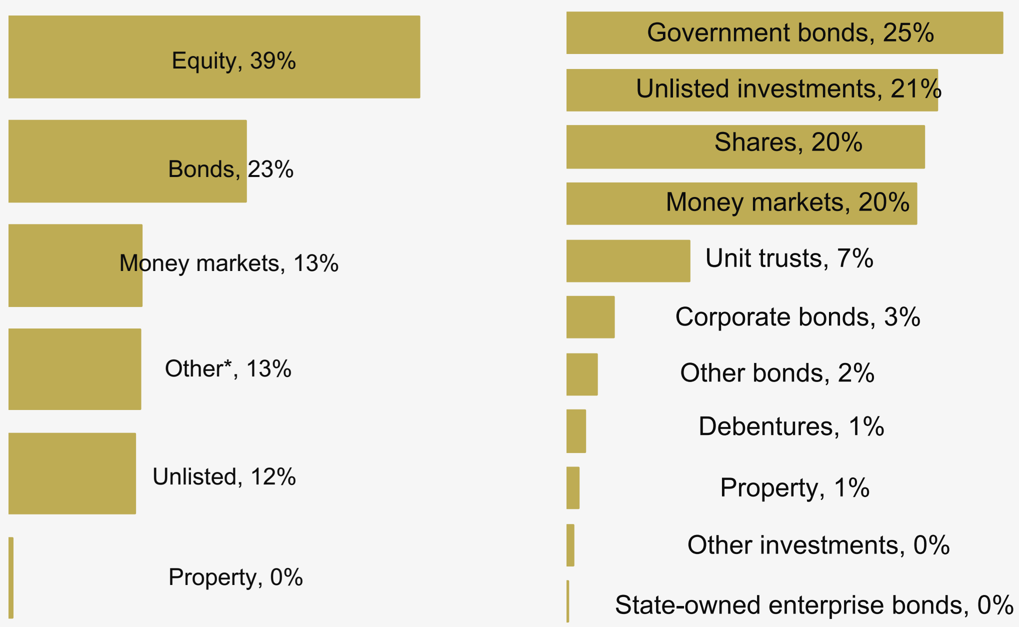

Source: NAMFISA

## Allocation of investment assets

**The subsector's investment allocation strategy continued to emphasise equities and bonds to align with long-term obligations.** With 62 percent of investment assets held in bonds and equities, the subsector maintained its strategic focus on instruments that match its liability profile.

The long-term insurance subsector's domestic investment of N$41.9 billion in the first half of 2025, including N$10.4 billion in government bonds, reinforced its contribution to national fiscal stability alongside that provided by the retirement funds subsector (Figure 30).

Figure 30: Long-term insurers – Allocations per asset class




Source: NAMFISA

## Solvency position

**The long-term insurance subsector continued to maintain a robust solvency position from 1 January to 30 June 2025, sustained by persistent profitability and substantial capital reserves, and augmented by positive financial markets performance.** The subsector's unencumbered assets, which had grown to N$12.6 billion between 2023 and 2024, expanded further to N$13.9 billion during the six-month review period in 2025. The positive trajectory in these assets represents a growing buffer, enhancing the subsector's capacity to withstand market volatility and economic uncertainties.

## Overall sectoral outlook and implications

**The NBFI sector's significant expansion through mid-2025 reinforces its critical role in supporting Namibia's financial stability and economic development.** The sector's combined assets of N$501.7 billion embody a substantial portion of domestic financial intermediation, with retirement funds and long-term insurers collectively holding approximately 30 percent of outstanding sovereign debt.

Looking ahead to the second half of 2025, the sector faces both opportunities and challenges from evolving global and domestic conditions. The anticipated expiration of the African Growth and Opportunity Act without renewal could create supply chain disruptions and alter inflation trajectories, potentially impacting both demand for NBFI products and investment asset performance. However, the sector's strong solvency positions, adequate capital reserves and strategic domestic focus provide substantial resilience against these potential headwinds.

**The interplay between monetary policy normalisation and global trade uncertainties will require careful management through the remainder of 2025.** With the Bank of Namibia maintaining its accommodative stance and with inflation being well-contained, the sector is positioned to benefit from continued stable demand for its products and services. The strategic significance of the NBFI sector in supporting domestic capital formation and government financing will become even more critical as Namibia navigates the potential loss of preferential trade access and increased global economic fragmentation.

**The sector's continued growth trajectory also supports broader financial system stability and economic resilience.** Despite the challenges posed by global trade tensions, demographic pressures and market volatility, the NBFI sector's robust performance from January to June 2025 demonstrates its fundamental strength and adaptability. The sector's capacity to maintain growth while supporting government financing needs and providing essential financial services to households and businesses underscores its vital role in Namibia's economic architecture and its role in contributing to long-term financial stability and inclusive economic expansion.

# Payments infrastructure and regulatory developments

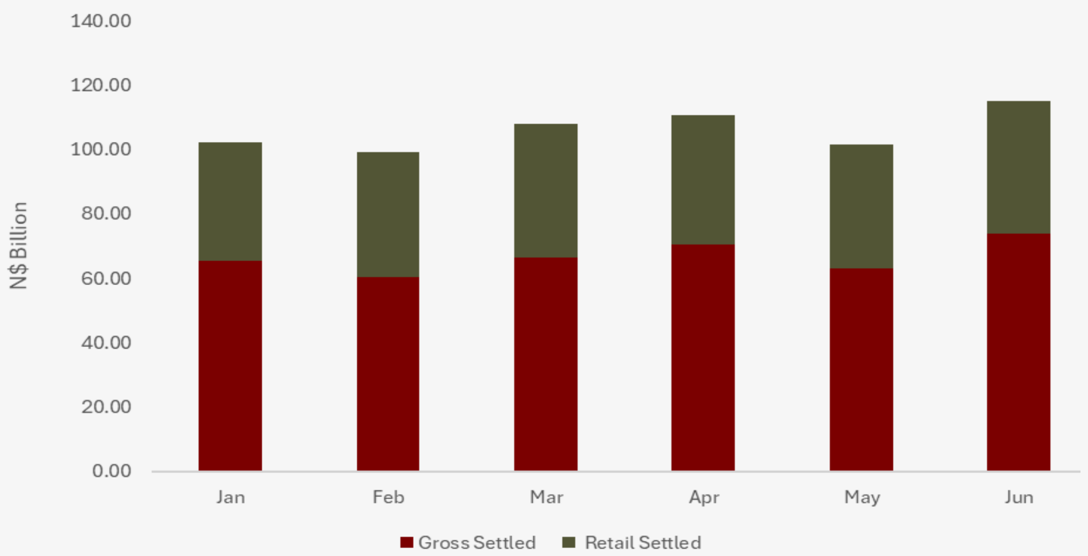
## National Payment System

**The six-month review period in 2025 was marked by significant progress in enhancing the safety, efficiency and efficacy of the National Payment System (NPS).** Key regulatory and operational milestones were achieved, including the successful migration to International Organization for Standardization (ISO) 20022 messaging standards, updates to frameworks aligning with the Payment System Management Act, 2023 (No. 14 of 2023), and targeted on-site and continuous off-site risk assessments. Guided by the strategic objectives of promoting financial inclusion, improving service delivery and safeguarding systemic integrity, the Bank of Namibia advanced its implementation through continued regulatory oversight and strategic collaboration with industry stakeholders. This concerted effort continues to strengthen the resilience of the payment ecosystem against emerging challenges. As part of this enhanced oversight, the Bank of Namibia conducted two risk-based inspections of payment service providers during the six-month review period.

## Namibia Interbank Settlement System

**In the first two quarters of 2025, the Namibia Interbank Settlement System (NISS) recorded a total settlement value of N$636.7 billion across 50,866 transactions.** The settlement value and volume recorded in the NISS during Q1 and Q2 of 2025 increased by 4.9 percent and 6.1 percent, respectively, compared with the value and volume levels for the same periods in 2024. In this regard, the share of real-time gross settled transactions accounted for 62.7 percent, or N$399.4 billion, while the retail payment bulk settled transactions constituted 37.3 percent, or N$237.2 billion, of the total value settled in the NISS (Figure 31).

Figure 31: Value of payments processed in the NISS

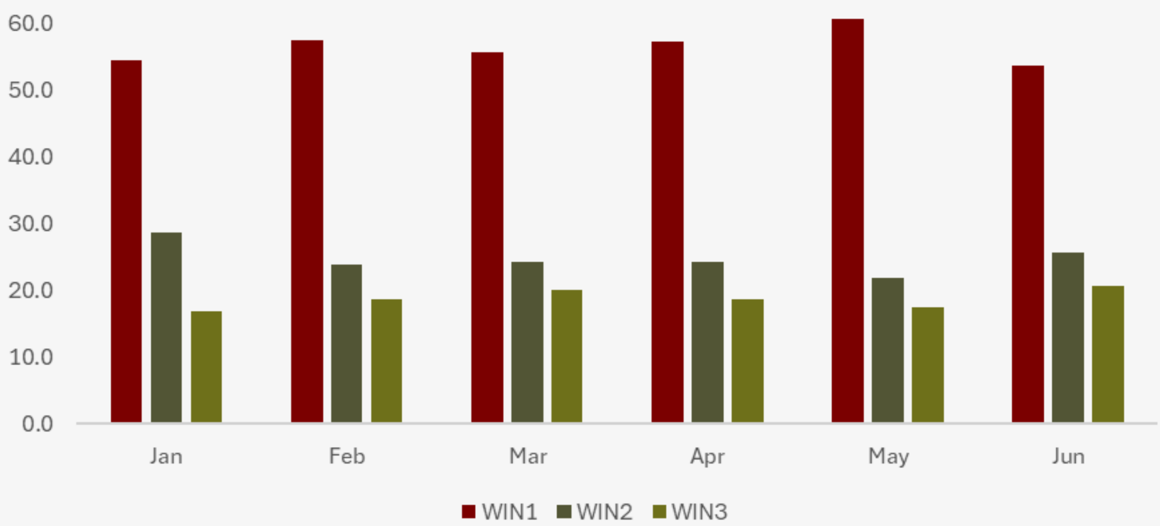



Source: BoN

## NISS settlement windows

**The operational and settlement risks within the NISS remained at a moderate level during the first six months of 2025.** This status was attributed primarily to a substantial portion of the payments being settled within earlier windows. NISS payment settlement statistics show that 56.57 percent (N$359.7 billion) was settled in Window 1 (08:00 to 12:00), 24.73 percent (N$157.5 billion) in Window 2 (12:00 to 15:00), and 18.70 percent (N$119.4 billion) in Window 3 (15:00 to 16:40) (Figure 32). To mitigate settlement and operational risks, the majority of settlement obligations ought to be completed during the earlier windows. This strategy would allow participants sufficient time to fulfil their settlement obligations promptly.

Figure 32: Proportions of payments settled in each NISS settlement window




Source: BoN

## Business continuity and availability of NISS

**The NISS's availability was well above the designated target level during the first two quarters of 2025.** From a customer/front-end perspective, NISS availability for the first semester of 2025 was 99.96 percent, which is well above the required availability ratio of 99.90 percent.

**During Q1 2025, the Bank successfully conducted a Business Continuity Management exercise.** However, the NISS did not achieve the two-hour recovery-time objective during the failover. This was mainly due to issues relating to information technology, which have since been resolved. The switchback to the primary site was completed without any issues, however, and all systems were fully restored.

## Security of retail payments

**During the review period, the total value of fraudulent transactions decreased significantly from that of the previous semester.** The industry reported decreases of N$12 million in card fraud (down from N$16 million in 2024) and N$13 million in EFT fraud (down from N$20 million in 2024). However, the first semester of 2025 also recorded an increase to N$835,000 in e-money fraud (up from N$149,000 in 2024). The observed decline in card fraud in the first semester of 2025 is largely attributable to a reduction in bank identification number (BIN) attacks.[8] This trend mirrors a similar decrease in EFT fraud during the same period. Both improvements are direct outcomes of strengthened security controls, which were enacted by the industry following regulatory engagements prompted by elevated fraud levels in 2024.

**Although overall card fraud declined between 31 December 2024 and June 2025 due to a significant reduction in BIN attacks, this positive trend was partially offset by a steady underlying increase in card-not-present fraud on e-commerce platforms where merchants did not require multi-factor authentication.** Conversely, while EFT fraud reduced over the same period, it remains a persistent concern, primarily driven by account takeovers facilitated through social engineering. In response to these evolving threats, industry awareness campaigns were intensified to educate clients on protecting their confidential data. Furthermore, under guidance from the Bank of Namibia, the industry mobilised platforms such as the Financial Services Sector Cyber Resilience and Fraud Mitigation Council to emphasise enhanced data security controls and a unified stance against payment fraud.

**Protecting financial data from being compromised was also improved, as the industry continued to implement guidelines such as the Payment Card Industry Data Security Standard (PCI DSS).** Adherence to these security guidelines ensures all stakeholders follow rigorous, standardised protocols to protect cardholder data, significantly strengthening Namibia's collective defence against data breaches and fraud. The industry made substantial strides in such implementations, with widespread adoption of the PCI DSS framework forming a robust foundation for ongoing security enhancements.

**A multi-stakeholder, multilingual public awareness strategy was deployed from October 2024 to January 2025 to proactively combat rising digital banking fraud and educate consumers on emerging financial risks.** This initiative was carried out through a series of scripted jingles on Namibia's popular radio station Energy100 FM. To maximise reach, the jingles were translated into languages widely spoken across the population. During the first semester of 2025 the Bank of Namibia also broadened its engagement by raising public awareness on virtual asset services in Namibia on various social media platforms. Furthermore, the Bank collaborated with the Government Institutions Pension Fund to educate vulnerable community members in various towns in respect of payment systems fraud, such as vishing, phishing and account takeovers. In the next reporting period, the strategy aims to adopt various other awareness-raising methods to reach vulnerable members of the community.

**During the 2025 review period, the Bank of Namibia maintained oversight of Payment Service Providers' (PSP) risk and compliance levels through off-site monitoring and on-site assessments.** This exercise involved assessing data and documentation provided by regulated institutions. The off-site activities entailed continuous monitoring, including data analysis, compliance verification and operational performance reviews. Furthermore, two risk-based on-site inspections were conducted. The findings will be communicated to the respective PSPs along with recommendations on the continuous enhancement of controls and infrastructure in line with the Bank's regulatory frameworks. In addition, the Bank performed digital maturity assessments of targeted PSPs during the six-month review period. The institutions concerned are currently considering and addressing the recommendations according to mutually agreed timelines.

[8] *A bank identification number attack* is a type of card fraud where cybercriminals use brute-force methods to guess valid combinations of card information, including the card number, expiration date, and card verification value (CVV) to commit card-not-present fraud.

## Developments in payment and settlement systems

**Open Banking and Standardised Quick Response (QR) Code Standards were finalised and published in the first half of 2025.** The publication of these standards represents a significant milestone in advancing the objectives of the NPS Vision and Strategy 2021–2025. These developments reaffirm the Bank of Namibia's commitment to promoting consumer-centric innovation, strengthening interoperability and fostering an inclusive digital financial ecosystem. The next phase will focus on the operationalisation of both the Open Banking and Standardised QR Code Standards. Doing so will position Namibia at the forefront of payment innovation, driving economic growth, enhancing competitiveness and empowering society.

**On 16 June 2025, the Bank of Namibia issued the Directive on E-money Interoperability through the Implementation of the Instant Payment Switch in the National Payment System (PSDIR-11).** PSDIR-11 aims to ensure seamless interoperability of electronic money, enhance access to affordable and fast digital payments, deepen financial inclusion, and support financial stability. In doing so, PSDIR-11 seeks to eliminate payment system fragmentation, improve liquidity flows and strengthen trust within the NPS. The Directive became effective on 16 June 2025, with a regulatory compliance deadline of 26 February 2026.

**The Bank of Namibia is responsible for licensing providers of both payment and virtual asset services under the Payment System Management Act, 2023 (No. 14 of 2023) and the Virtual Assets Act, 2023 (No. 10 of 2023), respectively.** During the six-month review period in 2025, the Bank authorised two entities to provide payment services in Namibia. Authorising non-bank PSPs strengthens financial stability by expanding regulated, secure and efficient payment services; reducing systemic risks; and fostering innovation within a controlled framework.

**As part of its agenda to modernise the settlement system, the Bank of Namibia successful migrated the NISS to the ISO 20022 Global Payment Messaging Standard, effective as from 12 May 2025.** ISO 20022, which is an internationally recognised standard for financial payment messaging, is being adopted by financial institutions worldwide. The transition to ISO 20022 brings several notable benefits to the Namibian payment system, including the straight-through processing of payments, enhanced processing capabilities and improved liquidity management for financial institutions. The rich data format enabled by ISO 20022 supports better monitoring and fraud detection, thereby strengthening global efforts to prevent illicit transactions.

**Throughout the six-month reporting period, the Bank of Namibia continued its membership in the SADC Real-Time Gross Settlement (SADC-RTGS) system.** This critical regional infrastructure facilitates the settlement of high-value and urgent payments across SADC's member states. As at 30 June 2025, the system's membership entailed 87 participants, constituting commercial and central banks from 15 SADC jurisdictions. Five of these members are from Namibia and include the Bank of Namibia. The total value processed through the SADC-RTGS reached R1.7 trillion (N$1.7 trillion), of which Namibian banks accounted for R412 billion (N$412 billion), or 25%. This substantial share underscores the effective and optimal use of the system by Namibian banks to foster regional payment integration in line with the SADC Finance and Investment Protocol.

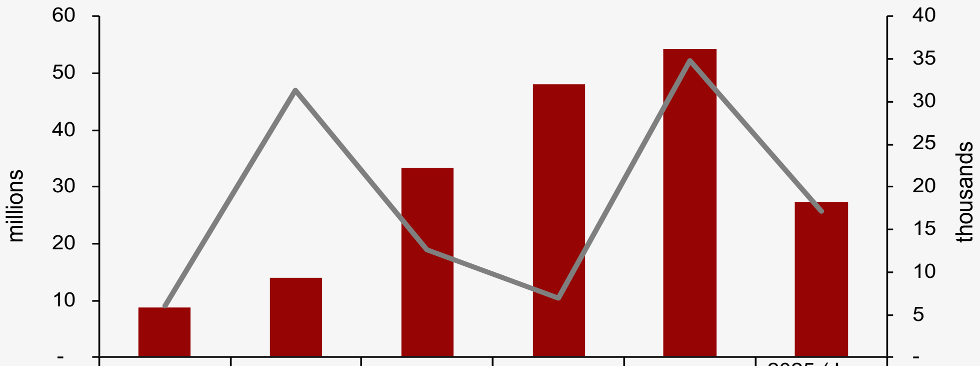
**The Bank of Namibia mandated the regularisation of EFT transactions via its Determination on the Conduct of Electronic Funds Transfer Transactions within the National Payment System PSD-9, which took effect on 30 September 2024.** PSD-9 established the regulatory framework for processing EFT payments within Namibia and for cross-border transactions between Namibia and other SADC countries, including the CMA. To comply with this regulation, the industry adopted the SADC-RTGS as an interim solution for processing low-value CMA EFT transactions. On 31 March 2025, the Bank issued its Directive on the Regularisation of Cross-border Low-value Electronic Funds Transfers (EFT[s]) within the Common Monetary Area (CMA) (PSDIR-10). This Directive mandated the migration of all low-value cross-border EFTs within the CMA from the current temporary SADC-RTGS arrangement to the Transactions Cleared on an Immediate Basis (TCIB) scheme. The transition commenced with immediate effect, with migration expected to be completed by 1 April 2027. Developed collaboratively by SADC regulators as an industry initiative, the TCIB Payment Scheme is designed to streamline immediate cross-border fund transfers within the region. Its primary objective is to reduce the time and complexity associated with these transactions. Operated by the appointed Regional Clearing and Settlement Operator, BankservAfrica, TCIB provides a real-time clearing switch for payment instructions between participants. While Namibia currently has only one participant onboarded, the implementation of PSDIR-10 is expected to significantly increase adoption for real-time, low-value cross-border transactions. The objective is to ensure that these transactions are processed efficiently, transparently and cost-effectively, without adversely affecting users or businesses.

# BOX ARTICLE 2:

## BUILDING A FORTIFIED FUTURE: STRATEGIC PILLARS FOR NAMIBIA'S PAYMENT ECOSYSTEM RESILIENCE

**Namibia's rapid digitisation continues to advance financial inclusion and improve the efficiency of payments.** Alongside these positive developments, the payment system is also experiencing greater exposure to evolving fraud risks, reflecting broader global trends in digital finance. Thus, sophisticated criminal networks are turning the payment landscape into a new frontline for financial crime. Recent analysis highlights a critical trend: both the number of fraud incidents and the associated financial losses have risen sharply (BA2 Figure 1). This surge, fuelled by advanced threats such as social engineering, coordinated bank identification number (BIN) attacks and account takeovers, signals an urgent need to evolve Namibia's defences from isolated institutional actions to a coordinated, ecosystem-wide resilience strategy.

**BA2 Figure 1: Total fraud per year, 2020–2025**




| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 (Jan - Jun) |
|---|---|---|---|---|---|---|
| Val | 8,744,073 | 13,905,807 | 33,425,527 | 48,004,989 | 54,240,496 | 27,289,816 |
| Vol | 6,076 | 31,362 | 12,570 | 6,945 | 34,822 | 17,187 |

Source: BoN

**Safeguarding national economic security and public trust demands strategic and immediate enhancements to the country's collective fraud risk framework.** Building a more resilient payment ecosystem requires a focus on four key pillars, which could be characterised by the following statements:

1. **Resilience hinges on uniformity.** Establishing industry-wide minimum fraud risk management standards and deploying advanced artificial-intelligence-driven detection systems are essential for eliminating weak links and creating a consistently high security baseline that criminals cannot exploit.

[9] *A bank identification number attack* is a type of card fraud where cybercriminals use brute-force methods to guess valid combinations of card information, including the card number, expiration date, and card verification value (CVV) to commit card-not-present fraud.

[10] For example, ISO 37003:2025, titled *Fraud control management systems – Guidance for organizations managing the risk of fraud,* provides structured guidance for establishing, implementing, maintaining and continually improving fraud control management systems around the world.

2. **Siloed defence is a relic of the past.** Establishing formal platforms for sharing data in real time among various stakeholders (e.g. banks, regulators, mobile network operators and law enforcement officers) is essential for a unified front, allowing Namibia to anticipate threats, dismantle criminal networks and fortify the nation's collective security.

3. **Future-proof regulation is non-negotiable.** Mandating regulatory frameworks that evolve from a compliance- and IT-centric focus to a proactive, intelligence-led holistic risk management approach is vital. This approach needs to encompass cyber, fraud, third-party, operational and emerging risks comprehensively to maintain a robust and responsive financial environment.

4. **The most critical line of defence is a vigilant citizenry.** Launching a sustained, multilingual national awareness campaign constitutes more than consumer protection: it is a fundamental risk control measure that equips every user with the capacity to recognise and avoid sophisticated scams.

Thus, a resilient ecosystem is founded upon a framework of industry-wide cohesion, real-time intelligence-sharing, proactive regulatory oversight and widespread citizen awareness. By adopting this coordinated approach, Namibia can shift from merely reacting to threats to proactively creating a safer, more trustworthy and prosperous digital financial environment. The success of this strategy will be measured by way of the trend in BA2 Figure 1 being reversed, securing Namibia's digital economic future.

**Key takeaway:** The era of isolated defence is over. Ecosystem-wide collaboration is the new imperative for financial security.

# 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 settings designed specifically to assess the sector's resilience to a hypothesised deterioration in macroeconomic conditions.

## Čihák Stress Test Model

**The Čihák Stress Test Model was used to assess the resilience of the 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 affect interest rate developments in Namibia and, thus, affect credit risk.** Global growth is expected to ease to 3.2 percent in 2025 and to 3.1 percent in 2026. 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 laboratory-grown diamonds may dampen mining output.[11]

**The South African Reserve Bank (SARB) maintaned its repo rate at its latest meeting, while Bank of Namibia (BoN) reduced the repo rate.** At its September 2025 meeting, the SARB kept the policy rate unchanged at 7.0 percent after reducing the repo rate by 25 basis points at its July 2025 meeting. The move was primarily driven by the assessment that risks to the inflation outlook remain balanced, with inflation expected to rise in the near term and peak at around 4 percent, before gradually reverting to around 3 percent by averaging 3.6 percent in 2026 and 3.1 percent in 2027. BoN, on the other hand, opted to reduce the repo rate by 25 basis points, to 6.50 percent at its October 2025 meeting. This policy rate will continue to support domestic economic activity and safeguard the one-to-one link between the Namibia Dollar and the South African Rand. As a result, in all three scenarios, the starting point is the current repo rate of 6.50 percent. From this level, the following repo rate decisions are assumed:

- **Baseline scenario:** Decrease the repo rate by 25 basis points over the next 12 months
- **Intermediate scenario:** Increase the repo rate by 25 basis points over the next 12 months, and
- **Severe scenario:** Increase the repo rate by 100 basis points over the next 12 months.

**The non-performing loans (NPL) ratio declined during the second quarter of 2025.** Asset quality, as measured by the NPL ratio declined from 5.4 percent in the first quarter of 2025 to 4.9 percent in the second quarter of 2025. 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 under each scenario over the next 12 months:

- **Baseline scenario:** A 0.2 percentage point decrease in the banking sector NPL ratio
- **Intermediate scenario:** A 2.0 percentage point increase in the banking sector NPL ratio, and
- **Severe scenario:** A 4.0 percentage point increase in the banking sector NPL ratio.

## Liquidity risk

**Liquidity risk measures the banks' ability to honour their financial obligations on time.** Banks are required to keep liquid assets to the equivalent of 10.0 percent of their average total liabilities to the public. In this regard, liquid assets declined by 7.1 percent, from N$32.9 billion in the first quarter of 2025 to N$30.6 billion in the second quarter. Consequently, the liquidity ratio decreased from 20.9 percent to 19.4 percent over the same period. This deterioration in liquidity mainly reflects reductions in clearing account balances held with the Bank of Namibia as well as lower investments by banks in Bank of Namibia securities.

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

However, since market conditions can trigger unscheduled deposit withdrawals, it is imperative that commercial 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 there being liquid, well-capitalised, profitable and solvent. Consequently, for the stress test, the following assumptions on withdrawals by depositors were assumed for both retail and wholesale deposits:

- **Baseline scenario:** 10 percent of demand deposits (equivalent to 6.22 percent of total deposits) withdrawn over five days
- **Intermediate scenario:** 30 percent of demand deposits (equivalent to 18.66 percent of total deposits) withdrawn over five days, and
- **Severe scenario:** 60 percent of demand deposits (equivalent to 37.33 percent of total deposits) withdrawn over five days.

A summary of the stress test scenarios is presented in Table 7.

**Table 7: Summary of the stress test scenarios**

| Variable | Stress test scenario | | |
|---|---|---|---|
| | Baseline | Intermediate | Severe |
| Interest rate assumption – Repo rate | Decrease rate by 25 basis points | Increase rate by 25 basis points | Increase rate by 100 basis points |
| Credit risk – NPL ratio | 0.2 percentage point decrease | 2.0 percentage point in-crease | 4.0 percentage point in-crease |
| Liquidity risk | 10 percent of demand deposits withdrawn over five days (6.22% of total deposits) | 30 percent of demand deposits withdrawn over five days (18.66% of total deposits) | 60 percent of demand deposits withdrawn over five days (37.33% of total deposits) |
| Other variables<br>• 30 percent for baseline, 35% for intermediate and 40% for severe; haircut on collateral<br>• 50 percent assumed provisioning of the new NPLs | | | |

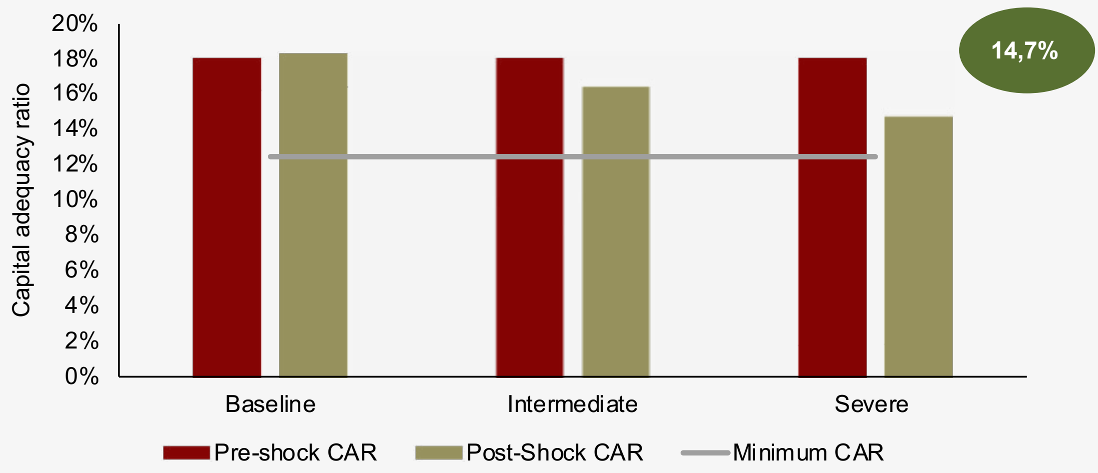
Source: BoN

# Stress test results

## Solvency

**The stress test results indicate that the banking sector remained solvent in all three scenarios, despite interest rate and credit risk shocks.** The pre-shock capital adequacy ratio (CAR) derived from the current CAR position of commercial banks in Namibia, as per the Čihák Model, stood at 18.0 percent. In the baseline scenario, the post-shock CAR increased to 18.2 percent, i.e. 5.7 percentage points higher than the statutory minimum requirement of 12.5 percent. In the intermediate scenario, the CAR dropped to 16.4 percent, while in the severe scenario, it fell to 14.7 percent, although still 2.2 percentage points higher than the minimum threshold (Figure 33). These results demonstrate that the banking sector's capital base is sufficient to absorb potential shocks, including those related to asset quality deterioration.

**Figure 33: Solvency stress test results**

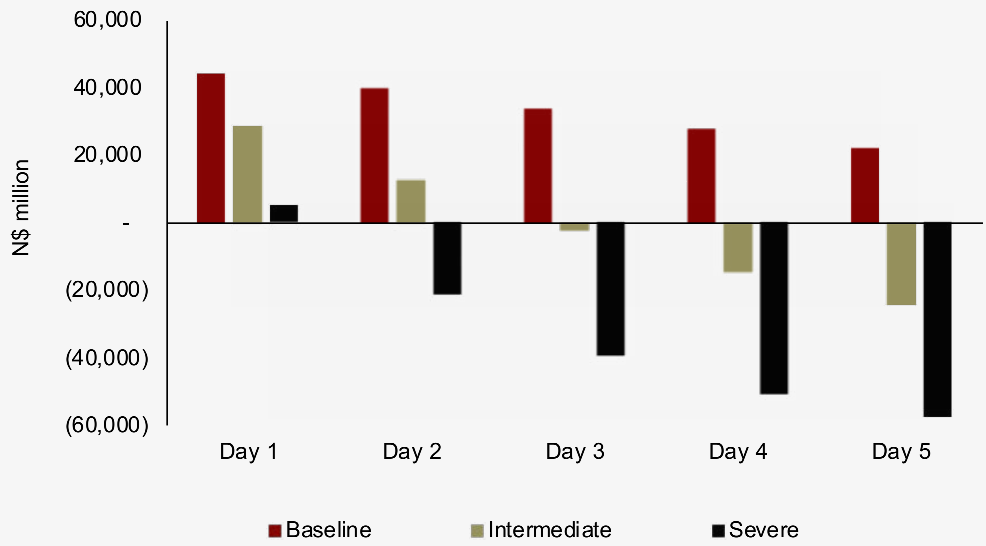



Source: BoN

## 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 revealed to be adequate, but it declines over a five-day horizon (Figure 34). The intermediate scenario shows a similar initial trend, but it turns negative from Day 3, while 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. Nonetheless, banks have contingency plans in place to guide their response in the event of such shocks.

**Figure 34: Liquidity stress test results**




Source: BoN

# 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 (2025-2027) 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 August 2025 Economic Outlook Report, along with consensus forecasts from external sources such as the SARB's September 2025 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.

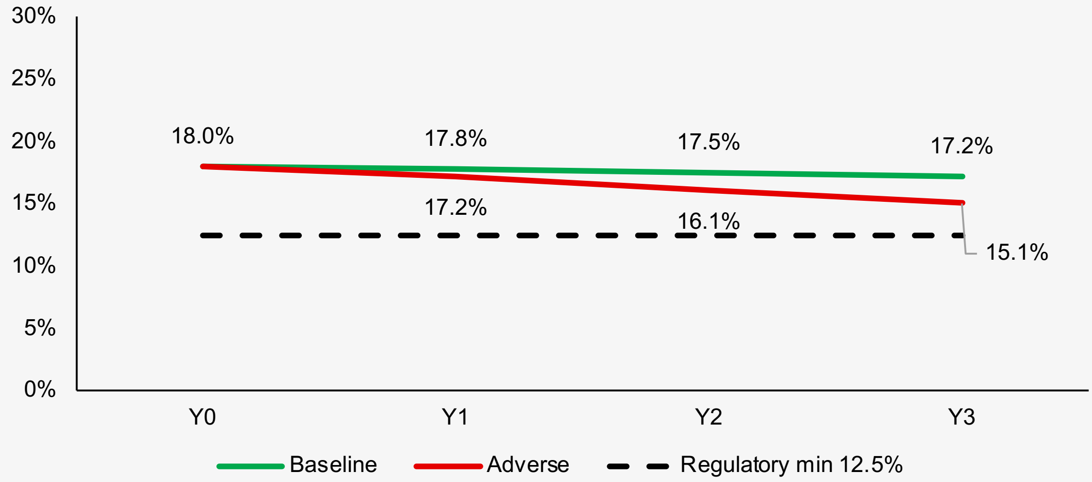
**The adverse scenario represents severe but plausible shocks to provide insights into the financial sector's resilience under stressed macroeconomic conditions.** The Basel Committee on Banking Supervision stress-testing principles emphasise that scenarios should be 'sufficiently severe but plausible' to generate meaningful insights. The adverse scenario assumes a global supply shock similar to the April 2025 FSR, driven by heightened geopolitical tensions, rising commodity prices, and supply-chain disruptions. These factors lead to higher-than-expected inflation across Advanced Economies and EMDEs. In response, inflation expectations rise, prompting policymakers to tighten monetary policy by increasing interest rates to restore inflation to target levels. In South Africa, initial currency depreciation and capital outflow pressures are counteracted by the SARB increasing the interest rates. Given the fixed exchange rate between the Namibia Dollar and the South African Rand, the former depreciates against key international currencies. Consequently, the Bank of Namibia faces pressure to act in tandem with the SARB and raise its repo rate, which results in the prime lending rate increasing. In this scenario, the Namibia Dollar/US Dollar exchange rate is projected to depreciate by 30.0 percent at its peak, while the Namibia Dollar's effective exchange rate would decline by approximately 10.0 percent.

**The model assumes an annual contraction in GDP annually by the end of 2026.** A 4.2 percent contraction is thus assumed. Credit growth dynamics under the adverse scenario are aligned with developments in GDP growth, which translates into lower loan growth over the stress test horizon. Inflation, on the other hand, is expected to increase to double digits over the three-year horizon. Furthermore, the adverse scenario assumes a moderate concern about the sustainability of public debt, accompanied by increased market interest rate expectations, leading to a sharp repricing in debt markets and elevated government bond yields. Moreover, due to an anticipated slower economic outlook, real estate prices would drop considerably. Consequently, the financial sector faces higher credit losses and shrinking profits as collateral value and debt servicing capacity decline in both households and businesses.

## Results

**The stress test results indicate that the commercial banks remain well-capitalised in both the baseline and adverse scenarios.** As a starting point, the CAR of the banking sector stood at 18.0 percent in 2025. In the baseline scenario, the CAR declines modestly to 17.2 percent by the end of the three-year stress test horizon (Figure 35). Under the adverse scenario, the CAR falls further to 15.1 percent, primarily driven by elevated credit losses and reduced income generation, which compress retained earnings and erode capital buffers. Despite this deterioration, the banking sector remains generally resilient to the assumed shocks, with all banks maintaining CARs above the prudential threshold throughout the stress test period.

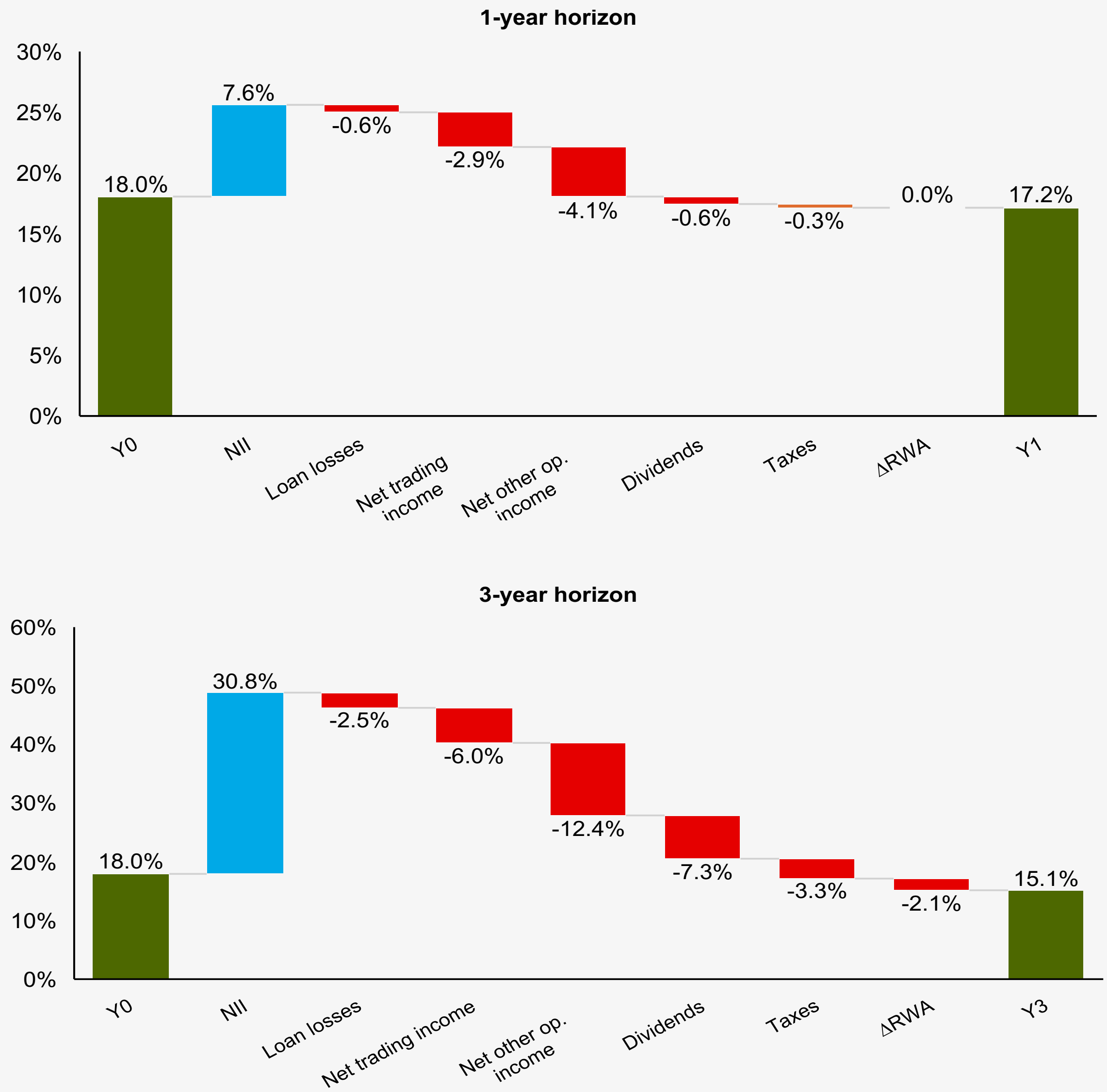
**Figure 35: Regulatory capital ratio for the banking system**




Source: BoN

**The decline in the banking sector's capital adequacy under the adverse scenario is primarily driven by pressures on income sources.** Other operating income, loan losses, and net trading income are the largest contributors to the downward pressure. The most significant source of capital erosion is net other operating income, largely due to a decline in fees and commission income, which substantially reduces the CAR over the stress horizon (Figure 36). This reflects weaker economic activity, resulting in lower fee-generating transaction volumes. Net trading income is the second-largest contributor, accounting for 6.0 percentage points of capital decline, primarily due to elevated bond yields over the three-year period. Loan losses also play a role, reducing the CAR by 2.5 percentage points over the stress horizon. In contrast, net interest income (NII) provides a stabilising effect, contributing positively to capital adequacy by 9.6 percentage points in Year 1 and 30.8 percentage points by Year 3 under the adverse scenario. Additionally, as the stress test assumes that profitable banks continue to pay dividends, dividend payouts exert a negative impact on the CAR across both adverse stress horizons.

**Figure 36[12]: Contribution to CAR over the adverse stress test horizons**




Source: BoN

**The second-quarter of 2025 stress test results confirm that the DSIBs remain well-capitalised and resilient, able to withstand the severe yet plausible shocks simulated under the adverse scenario.** The resilience of banks' solvency positions largely stems from their substantial initial capital and profitability levels, enabling them to absorb most potential credit and market losses. Under the adverse scenario, the DSIBs' profitability deteriorates due to lower income from fees and commissions and higher credit losses, which is partially offset by higher net interest income. The stress test results from the Čihák Model indicate that the banking sector remained solvent in all three scenarios. Regarding liquidity, the Čihák stress test shows that the banks can meet their payment obligations in the baseline scenario, but liquidity shortfalls emerge from Day 2 in the severe scenario. Nonetheless, banks could draw on alternative funding sources to alleviate such pressures. Overall, the stress test results indicate that the banking sector remains resilient and stable, with no immediate need for policy intervention.

[12] Y0 = Current capital position, ΔRWA = Change in risk-weighted assets and Y CAR = respectively show a one-year and three-year horizon.

# 6. PROPERTY MARKET ANALYSIS

## Credit developments

**Mortgage loans as a percentage of total household loans decreased during the first half of 2025.** However, they continued to dominate the banking sector's total loans and advances. Total mortgage loans constituted 49.2 percent of total loans and advances during June 2025, which is lower than the 52.2 percent observed in the corresponding period of 2024 (Table 8). This reduction was mainly due to affordability constraints as well as structural issues within the housing market, such as limited serviced land and slow housing delivery. Moreover, residential housing constituted 66.4 percent of households' total credit during the second quarter of 2025. This is lower than the 67.6 percent recorded in June 2024. In contrast, corporate mortgage credit accounted for 25.9 percent of total corporate credit in June 2025, following a decline from 29.6 percent in the corresponding period in 2024. This was mainly due to corporate mortgage credit growth being in negative territory since the start of 2025, largely driven by higher repayments from corporates, which have outweighed new borrowing. Meanwhile, mortgage NPLs as a percentage of total NPLs decreased marginally to 53.4 percent during the first half of 2025, compared to 58.2 percent during the corresponding period in 2024. This is a favourable development for financial stability as it reduces both credit risk for the banks and supports a conducive lending environment.

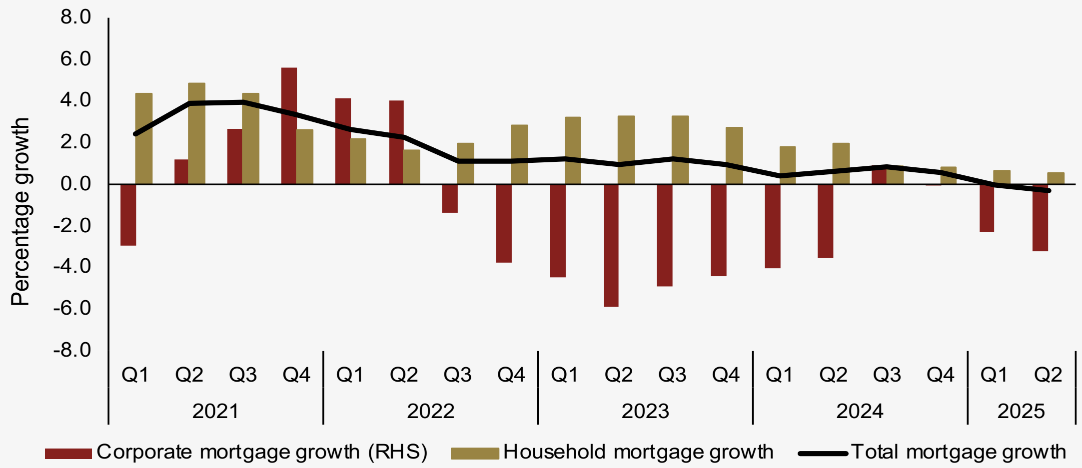
**Table 8: Household and corporate mortgage credit share as a percentage of total household and corporate loans and advances**

| Credit category and percentage share of total credit | Jun-21 | Jun-22 | Jun-23 | Jun-24 | Jun-25 |
|---|---|---|---|---|---|
| **Household credit** | | | | | |
| Total household credit (N$ million) | 61,280 | 62,517 | 65,811 | 67,585 | 69,201 |
| Mortgage credit (N$ million) | 42,681 | 43,373 | 44,796 | 45,668 | 45,917 |
| Household mortgage credit (% share) | 69.6 | 69.4 | 68.1 | 67.6 | 66.4 |
| **Corporate credit** | | | | | |
| Total corporate credit (N$ million) | 43,455 | 45,840 | 45,778 | 46,019 | 50,889 |
| Mortgage credit (N$ million) | 14,414 | 14,413 | 14,110 | 13,611 | 13,169 |
| Corporate mortgage credit (% share) | 33.2 | 31.4 | 30.8 | 29.6 | 25.9 |
| **Total credit** | | | | | |
| Total credit (N$ million) | 104,735 | 108,357 | 111,590 | 113,605 | 120,090 |
| Total mortgage credit (N$ million) | 57,095 | 57,786 | 58,906 | 59,278 | 59,086 |
| Total mortgage credit (% share) | 54.5 | 53.3 | 52.8 | 52.2 | 49.2 |

Source: BoN

**The total mortgage credit extension declined during June 2025, mainly due to subdued corporate mortgage credit demand.** Overall, total mortgage credit recorded an annual decline of 0.32 percent in June 2025, lower than the growth of 0.63 percent recorded during the corresponding period of 2024 (Figure 37). This is mainly due to the negative annual growth observed in the corporate sub-sector, which recorded declines of 3.30 percent and 0.91 percent on an annual and quarterly basis, respectively. The contraction in the corporate sub-sector mainly reflects repayments rather than new investments by businesses. Conversely, albeit still subdued, household mortgage credit recorded positive annual growth of 0.55 percent during June 2025, lower than the growth of 1.95 percent recorded during the corresponding period of 2024. Although household mortgage credit has remained in positive territory, supported by the economic recovery and gradual easing of interest rates, its growth has been slowing since the third quarter of 2023, reflecting weaker demand and affordability constraints amid a persistently high unemployment rate.

Figure 37: Annual mortgage credit extension

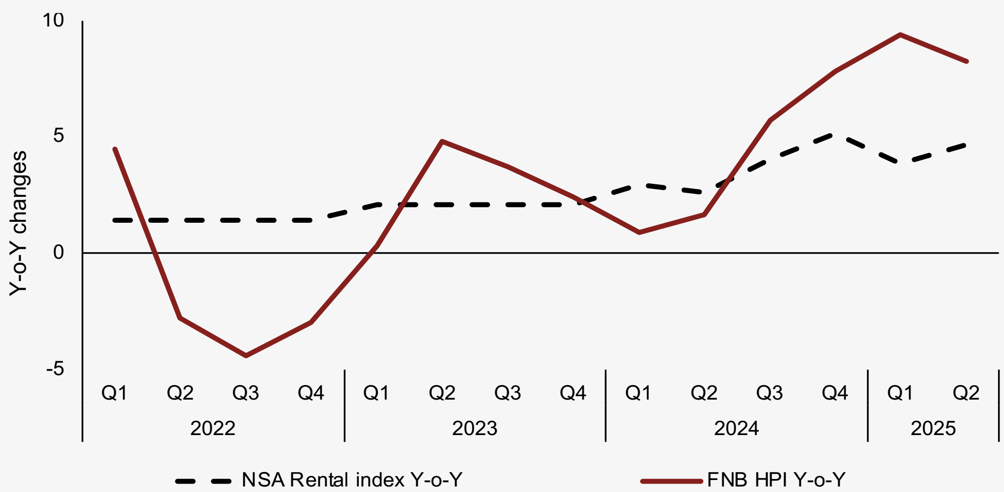



Source: BoN

## Price developments

**The House Price Index (HPI) increased both on a quarterly and annual basis during the second quarter of 2025.** During the second quarter of 2025, the HPI increased by 1.37 percent to reach 120.50 index points from 118.90 index points observed in March 2025. On an annual basis, house prices increased by 8.25 percent in June 2025, marginally lower than the 9.38 percent growth recorded during the first quarter (Figure 38). The 12-month national weighted average house price was recorded at N$1.36 million during June 2025, a marginal increase from N$1.35 million during the first quarter. From a regional perspective, most regions recorded growth, with the southern region ranking highest at 14.6 percent followed by the northern region at 14.4 percent and the central region at 6.0 percent. However, house price growth in the coastal region contracted by 0.3 percent during the second quarter of 2025. The sustained growth in the FNB HPI is underpinned by continued momentum in buying activity and elevated housing prices. Supply side constraints, specifically the national backlog of 300,000 plots that still require servicing, also adds upside pressure to house prices, given the limited supply of homes to meet the rising demand, especially in the urban areas given the increase in urbanization.

Figure 38: Annual growth in house and rental price indices[13]




Source: First National Bank of Namibia and Namibia Statistics Agency

[13] The rental price index analysed for the period under review is obtained from the National Statistics Agency.

**Growth in rental prices increased on a quarterly and annual basis during June 2025.** The rental index recorded an annual increase of 4.64 percent to 142.80 index points in June 2025, from 136.47 index points observed in the corresponding period of 2024 (Figure 38). The increase is mainly ascribed to the annual increases observed in housing utilities such as electricity, gas, water supply, sewerage services, and refuse collection. Property owners generally increase rental prices in line with increases in the cost of maintaining the property. This development reflects high rental demand driven by affordability constraints, prompting consumers to opt for renting over ownership.

## Property sales

**Growth in the volume of transactions further improved during the second quarter of 2025, maintaining the positive trajectory.** Annual transactions volume growth rose to 15.2 percent during June 2025, which is significantly above the 6.30 percent growth recorded during March 2025 and the contraction of 20.30 percent during the corresponding period of 2024 (Figure 39). Following the prolonged negative growth in transactions volume, the consecutive rebound during the first two quarters of 2025 signals a gradual recovery in the property market. The sales volumes are anticipated to improve further in 2025 due to improved financial conditions driven by the more accommodative monetary policy. Additionally, the effects of the downward tax adjustments, housing subsidy adjustments, pension backed home loans and market led innovations such as FNB's collective home buying scheme may further improve access to property, boosting transaction volumes.

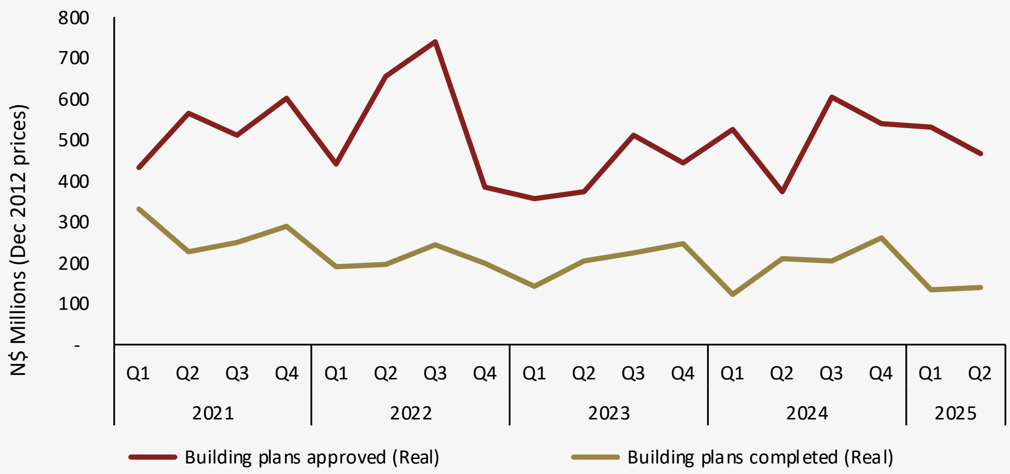
**Figure 39: National Volume of sales Index – Year-on-year growth**


Source: First National Bank of Namibia

## Supply-side developments

**Building plans approved increased on an annual basis, whereas building plans completed declined during the review period.** The total value of building plans approved rose by 13.3 percent on an annual basis, whereas total building plans completed declined by 7.1 percent during the same period (Figure 40). Although building plan approvals remained relatively stable year-on-year, the decline in completions suggests persistent challenges in project execution, likely stemming from cost pressures, limited availability of serviced land, and labour constraints. Nevertheless, the steady volume of approvals signals continued investor interest in property development, particularly in residential housing. Looking ahead, construction activity is expected to gain momentum, particularly if financing conditions remain supportive and cost pressures subside.

Figure 40: Building plans approved and completed




Source: BoN

## Property market risk heatmap analysis

**The heatmap analysis reveals that the main challenges in the property market continue to stem from sluggish credit growth.** The heatmap developments signal that mortgage credit demand for both the household and corporate sector remains a concern. Both household and corporate mortgage credit growth continue to be subdued, relatively below historical averages. This is attributable to the high household indebtedness, which impacts on affordability, coupled with structural challenges. The lagged effects of the elevated interest rates could also still be filtering through, prompting households to adjust their leverage behavior.

**The heatmap further shows low to medium risks to the overall Namibian property market.** The recent monetary policy easing has improved debt servicing conditions, resulting in reduced risk from elevated home loan rates filtering through to debt servicing (Figure 41). House price growth continues to be positive and is reflected as low risk, given that increasing house prices improve the equity position of the DSIBs, boding well for financial stability. Following the prolonged negative growth in transactions volume, the consecutive rebound during the first two quarters of 2025 led to the overall reduction in risk rating of this indicator. Similarly, land delivery growth has also picked up and does not pose a risk to the property market currently. Overall, the heatmap reveals that risks to financial stability remain low to moderate. Going forward, the property market is expected to improve on the back of accommodative monetary conditions, fiscal support and a gradual domestic economic recovery.

**Figure 41: Property market risk heatmap**


Source: First National Bank of Namibia

# 7. MACROPRUDENTIAL SURVEILLANCE

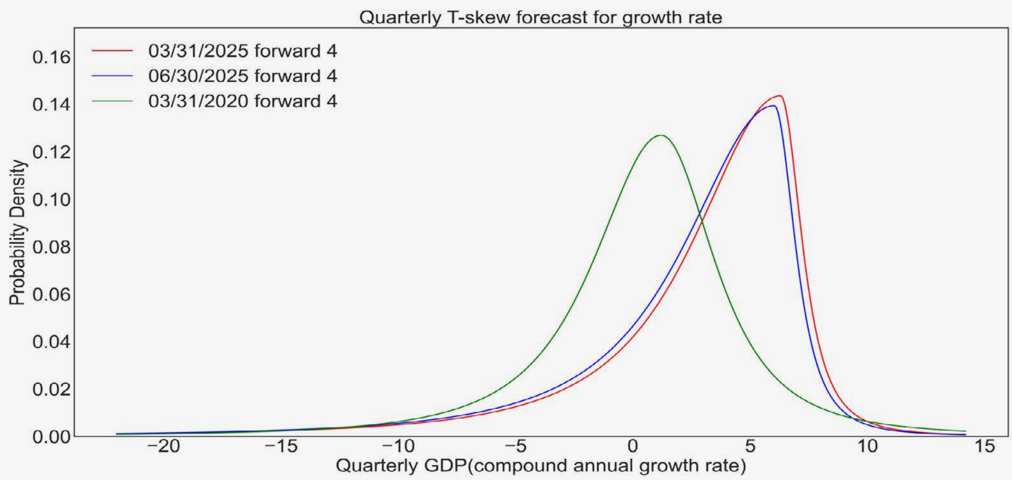
## Early warning indicators

### Growth-at-risk model

**The latest four-quarter horizon growth-at-risk (GaR) estimates indicate a marginal deterioration in downside risks to future GDP growth.** Based on macro-financial conditions as at June 2025, the GaR results suggest that downside risks to GDP growth have worsened slightly relative to March 2025. This outcome is primarily driven by the significantly weaker GDP growth recorded during the second quarter of 2025, which increased the probability of growth falling below zero. In addition, a quarterly deterioration in leverage dynamics which is reflected in a rise in the loan-to-deposit ratio—contributed to a marginal increase in downside risks. This occurred despite an improvement in most indicators across the three partition groups over the same period. Nevertheless, the quarter-on-quarter deterioration is not material and was largely anticipated, given the weaker growth outturn in the second quarter.

**Overall, the deterioration in short-term downside risk is representative of the heightened uncertainty experienced on a global scale, as well as the lower growth in June compared to March 2025.** Following these developments, the 2025 second quarter GaR Model results forecast a 5 percent probability that GDP growth could fall below -9.69 percent (blue T-skew in Figure 42), compared to -8.73 percent recorded during the March 2025 assessment (blue T-skew in Figure 42). However, the current downside risk as at June 2025 is significantly lower than that recorded in the March 2020 GaR assessment, reflecting a significant improvement in downside risk and a lower probability of negative growth. In March 2020, the GaR distribution indicated significant elevated downside risks to growth – which accurately forecasted the sharp economic contraction that soon followed because of the COVID-19 pandemic. This historical simulation illustrates the model's forward-looking nature and its potential to support timely macroprudential policy responses.

**Figure 42: Forecast for growth rate**

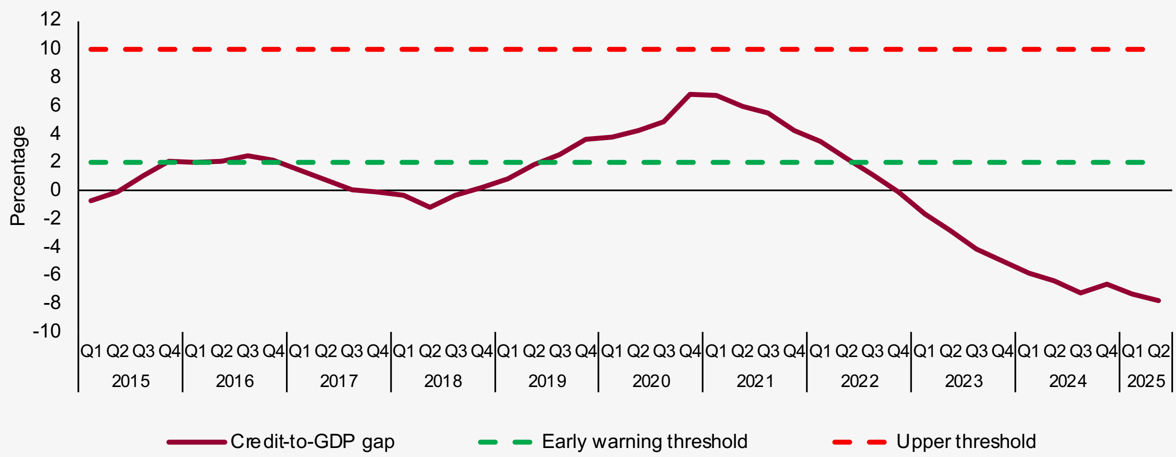



Source: BoN

## Credit-to-GDP gap

**The credit-to-GDP gap remains well below its long-term trend, signalling an absence of excessive credit growth in the current macrofinancial environment.** During the second quarter of 2025, the credit-to-GDP gap contracted to -7.81 percent compared to -6.38 percent during the corresponding period in 2024 (Figure 43). The ratio of private sector credit to GDP decreased by 0.40 percentage point to 46.70 percent in June 2025 from 47.10 percent recorded in the preceding quarter. Although total private-sector credit extension increased during the second quarter of 2025 compared to the corresponding period of 2024, growth remained subdued, particularly within the household subsector. The widening credit-to-GDP gap suggests that credit growth is still moderate and not excessive relative to economic growth – the latter having retained its upward momentum during the second quarter of 2025. This assessment is supported by the GaR Model results, which together demonstrate that accommodative financial conditions and increased leverage through higher credit uptake are positively associated with short-term GDP growth, particularly at the lower quantiles. Furthermore, the negative credit-to-GDP gap highlights that the current credit dynamics remain below levels associated with systemic risk. Overall, the credit-to-GDP gap kept well below the lower early warning threshold of the countercyclical capital buffer (CCyB) add-on, implying that the current growth in private credit extension was not excessive, and did not warrant MOC intervention.

**Figure 43: Namibia's credit-to-GDP gap**



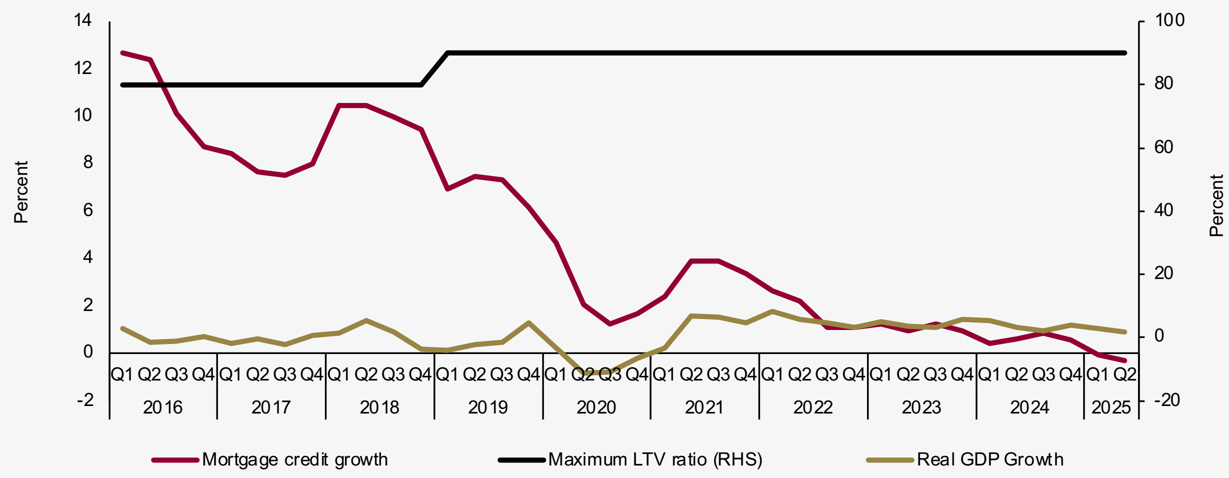

Source: BoN

# Macroprudential policy developments

## Loan-to-value ratio

**During the first half of 2025, the value of primary residential mortgages increased while that of non-primary residential mortgages decreased.** The current loan-to-value (LTV) ratios – 100 percent for primary residential properties and 90 percent for non-primary (third and subsequent) residential mortgages – are consistent with the observed lending dynamics (Figure 44). The share of primary mortgages to total mortgage lending has continued to rise during the period under review, while the share of non-primary mortgages declined. However, the average value at initiation of mortgage loans increased for both primary and non-primary categories during the first 6 months of 2025. While these trends are consistent with the intended effect of the LTV measure in containing speculative behaviour, they also reflect broader macroeconomic conditions. In particular, interest rates remained contained, with the Monetary Policy Committee keeping the policy rate unchanged since February 2025. However, looking ahead, loan repayments are expected to improve as financial conditions ease, and prospective investors may have greater financial flexibility to refinance existing loans – either to secure better terms or to fund additional property investments. Consequently, mortgage lending is expected to improve – also in line with improved economic activity driven by the oil and gas sector and a concomitant increase in the demand for housing.

**Figure 44: Growth in mortgage credit and real GDP versus Loan-to-Value ratio trends**




Source: BoN

## Countercyclical capital buffer

**The MOC approved the CCyB framework and continues to make significant progress in strengthening the resilience of the banking sector.** The CCyB framework provides the Bank of Namibia with the required means to change the capital requirements for commercial banks so that the financial system can be protected from the boom-and-bust phases of the financial cycle. Although the approved CCyB framework does not yet require banks to hold the stated buffer, it nonetheless serves as a policy guide for future CCyB decisions. Significant progress was also made in operationalising the CCyB. In the period ahead, the focus will be on finalising the CCyB determination, which is already at an advanced stage. To this end, the Bank of Namibia has begun engaging with the banking industry to ensure transparency, alignment with best practice and adequate preparedness within the sector

# BOX ARTICLE 3:

## THE USE OF THE COUNTERCYCLICAL LOAN-TO-VALUE (CcLTV) RATIO AS A MACROPRUDENTIAL POLICY INSTRUMENT IN NAMIBIA

### Background and objectives of the CcLTV ratio

**The centre of many financial crises has been housing market booms, fuelled by over-leveraged households and banks.** These crises revealed the limitations of microprudential regulation in addressing systemic risks, as the unwinding of excessive leverage, particularly within the housing market, exposed vulnerabilities. This subsequently underscored the importance of macroprudential policies working in conjunction with microprudential measures to ensure a comprehensive approach to financial stability. In response, the Basel III framework devised by the Bank for International Settlements incorporated macroprudential regulation as an overlay to existing microprudential tools. In addition to capital buffer requirements, leverage, and liquidity ratios, Basel III included the countercyclical capital buffer, which raises capital requirements during economic upswings and reduces them during downturns.

**Policymakers and the IMF have since explored borrower-based measures, as macroprudential tools to manage housing market risks.** Within the macroprudential policy toolkit, the main housing-related measures include LTV ratios, the debt-service-to-income ratio, the loan-to-income ratio, imposition of higher risk weights on mortgage loans in the calculation of capital adequacy ratios, increased loan-loss provisions on mortgage loans, and housing or land-related taxation. More specifically, several jurisdictions, including Hong Kong, China, England, Singapore, Nigeria, Turkey and Sweden, have employed constant LTV ratios to contain overheating in their housing markets. The implementation of these measures varies across jurisdictions, reflecting diverse approaches to managing housing market imbalances. Moreover, financial systems often mirror the business cycle, with risk perceptions and asset valuations fluctuating alongside economic conditions. During expansions, increased optimism leads to higher risk-taking and asset bubbles, exacerbating economic overheating. Therefore, LTV ratios can either be deployed cyclically when credit risks emerge, or remain constant as part of the regulatory framework, ensuring prudent lending standards are maintained. While such constant LTV ratios may prevent some procyclicality during boom periods, they are not strictly countercyclical, as they are not adjusted to the varying risk levels throughout the business cycles. If constant LTV ratios are not relaxed in a timely manner, they may even amplify financial instability and the fluctuations of the business cycle.

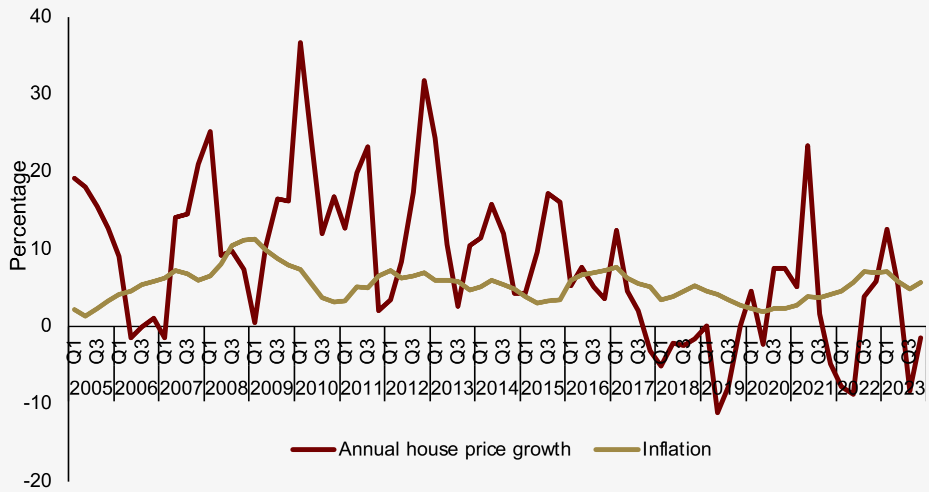
**To address concerns regarding the constant LTV ratio, the Bank is exploring countercyclical measures aimed at mitigating systemic risks stemming from excessive credit growth and financial sector procyclicality.** One such measure is the CcLTV ratio, which tightens LTV ratios during economic upswings to temper excessive credit growth and prevent asset bubbles. Conversely, during downturns or periods of low credit demand, the LTV ratio is relaxed to support lending and economic activity. These adjustments make the LTV ratio a more effective countercyclical tool that can be used to 'lean against the wind' of potential risks. Several jurisdictions have therefore already implemented CcLTV ratios to enhance their financial stability. In Namibia, while there is a constant LTV ratio in place, the use of a CcLTV has not yet been explored. Thus, to bridge this regulatory gap, the Bank of Namibia assessed the impact of the current constant LTV ratio on financial stability and proposed the adoption of a CcLTV ratio as a macroprudential policy tool for the country. Implementing a CcLTV regulation that responds to changing economic conditions will contribute to the Bank's mandate to ensure financial system stability.

**The MOC will therefore use the proposed CcLTV regulation as a key macroprudential policy tool to attenuate the procyclicality of the credit market, particularly in the property market.** Such a regulation will seek to dampen excessive credit growth during periods of economic expansion and support credit access during economic downturns, through dynamic adjustments of the LTV ratio. Thus, the CcLTV regulation is deemed to be more robust than the current unadjustable constant LTV regulation; as such, therefore, it would reduce systemic risk caused by financial sector procyclicality in a timely and effective manner. This will ultimately promote financial system resilience and prudent household borrowing practices.

## Implementation of the constant LTV regulation in Namibia

**In 2016, the Bank proposed introducing a constant LTV regulation that would restrict the proportion of mortgage lending by domestic financial institutions.** This was in response to the rapid growth in house prices and to contain the risk of credit concentration in the commercial banks' loan books, particularly for mortgage loans. The regulatory measure primarily targeted non-primary mortgages to curb speculative activity and prevent house prices from outpacing inflation (BA3 Figure 1). At the time, mortgage loans accounted for over half of banks' total loan books, while 2015 had seen the annual increase in house prices averaging at 11.2 percent, supported by favourable interest rates and strong economic activity. While the introduction of a constant LTV ratio aimed to curb excessive credit growth, its static nature meant that it did not adapt to changing market conditions. Conversely, had a CcLTV ratio been implemented during this period, it could have provided a more flexible response to emerging imbalances in the housing market. Be that as it may, the constant LTV ratio implemented in March 2017 contributed to cooling the overheated property market. By the end of 2017, the climb in house prices had slowed by 3.1 percent, after registering at 12.5 percent in the first quarter (Q1) of 2017. Besides the new LTV regulation, the significant subsequent decline in house prices was also due to the poor economic performance at the time, which was consistent with fiscal consolidation measures, amongst other macroeconomic fundamentals.

**BA2 Figure 1: House price growth and inflation, 2005-2023**




Source: BoN

**Furthermore, vulnerabilities were noted in the housing market at the time, coupled with elevated interest rates and subdued economic growth.** The contraction in house price growth since 2017 persisted, reaching a significant decline of 11.1 percent by the second quarter of 2019. To correct the sharp drop in the demand for credit, house prices and rapid deleverage in the banking sector, the LTV regulation was revised later in 2019. Despite the eased LTV ratios, however, the housing market continued to perform poorly, and economic growth remained subdued. These developments underscore the use of a CcLTV ratio to stimulate not only investment in the property market, but also economic activity. This is aligned with the Bank of Namibia's internal Guidance note to reconsider LTV ratios for Namibia, which suggests that Namibia's LTV ratios are too restrictive.

**Following a period of stagnation in 2022, house prices witnessed a notable improvement in 2023 despite elevated interest rates and subdued economic activity. Concurrently, overall growth in total mortgage credit improved during 2023 compared with 2022.** This growth aligned with the increase in house prices – albeit at a slower pace – and reflected the heightened uptake of mortgage credit by the household sector. Nonetheless, despite the positive momentum, the uptake of mortgage credit remained subdued. Thus, in response to challenges facing the property market, the Bank intervened in October 2023 by implementing less strict LTV ratios to stimulate demand.

## Model calibration

**To evaluate the impact of the constant LTV ratio and the CcLTV ratio on financial stability and to propose the use of a CcLTV ratio as a macroprudential policy tool in Namibia, the Bank developed a structured dynamic stochastic general equilibrium (DSGE) model with financial frictions.** The model developed for the CcLTV regulation consists of patient households (savers), impatient households (borrowers), entrepreneurs (corporates), banks, and a macroprudential authority. The macroprudential authority adjusts the LTV ratio in a countercyclical manner to promote both financial and macroeconomic stability. To investigate the impact of the two policy regimes (constant LTV and CcLTV ratios), as well as the transmission mechanisms through which the objective of macroprudential policy could be achieved, impulse response functions (IRFs) following technological, financial, and housing-demand shocks were conducted. Further, an efficiency policy frontier (EPF) was conducted to assess the trade-off between macroeconomic and financial stability. In this regard, the volatility of credit was used as a measure of financial stability, while the volatility of output was employed as a measure of macroeconomic stability. Lastly, a welfare analysis was conducted to assess the optimal benefits and trade-offs of the two policy interventions.

## Calibration of the CcLTV Model

**The model was calibrated to the Namibian economy using quarterly data for the period Q1 2000 to Q4 2023.** The variables employed in the model are household mortgage credit, corporate mortgage credit, aggregate credit, real GDP, house prices, household consumption, household deposits, the prime lending rate, and the maximum LTV ratios for households[14] and businesses, respectively. The parameters in the model were calibrated using real data to match the steady-state ratios of the variables to aggregate output, and other parameters are adopted from the literature. BA3 Table 1 presents these calibrated parameters for the model.

**BA3 Table 1: Calibrated parameters**

| Parameter | Symbol | Value | Parameter | Symbol | Value |
|---|---|---|---|---|---|
| Discount factor (Patient household/HH) | $\beta_s$ | 0.98 | Income share (Impatient HH) | $\sigma$ | 0.43 |
| Discount factor (Impatient HH) | $\beta_b$ | 0.96 | Labour supply parameter | $\tau$ | 1 |
| Discount factor (Entrepreneur) | $\beta_e$ | 0.96 | Loan to HH adj cost (Bank) | $\emptyset_{b,f}$ | 0.25 |
| Discount factor (Bank) | $\beta_f$ | 0.91 | Loan to Entrepreneur. adj. cost (Bank) | $\emptyset_{e,f}$ | 0.05 |
| Habit persistence ($\boldsymbol{i = b, s, e. f}$ ) | $\eta_i$ | 0.70 | Risk weight (Impatient HH's loan) | $w_b$ | 1 |
| Housing preference | $j$ | 0.10 | Risk weights (Entrepreneur's loan) | $w_e$ | 1 |
| Steady-state LTV ratio (Impatient HH) | $m_b$ | 0.90 | Autocorr.technology shock | $\rho_z$ | 0.95 |
| Steady-state LTV ratio (Entrepreneur) | $m_e$ | 0.70 | Autocorr. housing demand shock | $p_a$ | 0.97 |
| Steady-state capital requirement ratio | $k$ | 0.105 | Autocorr. financial (loan loss) $\boldsymbol{i = \{b, e\}}$ | $\rho_{\varsigma i}$ | 0.90 |
| Housing share in production | $v$ | 0.05 | | | |

Source: BoN

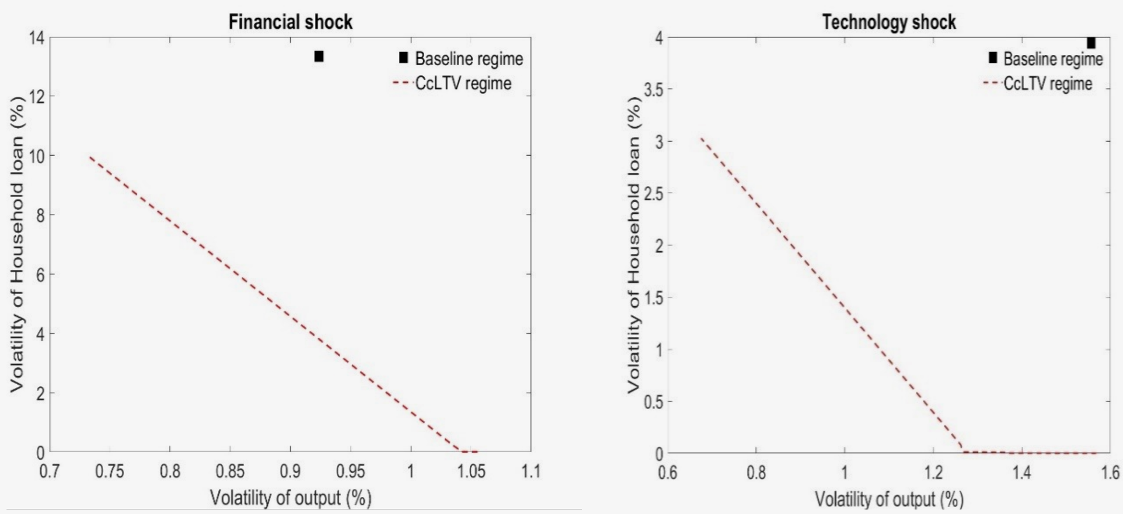
[14] The maximum LTV ratio for the households is the current applicable LTV ratio as set by the Bank of Namibia, whereas the maximum LTV ratio for corporates is a proxy for the LTV ratio applicable to corporates as set by the commercial banks.

## Assessment of the constant and CcLTV policy regimes

**The impulse response functions revealed key distinctions between the two policy regimes in dealing with various shocks.** The impulse response function analysis revealed that a positive technology shock affected the economy more uniformly under the constant LTV regime, while the CcLTV regime allowed for flexibility, resulting in varied outcomes across different economic agents. In contrast, when faced with a financial shock, the CcLTV regime proved more effective than the constant LTV regime in mitigating the adverse impacts of loan-loss shocks on most variables. Similarly, in response to a positive housing demand shock, the CcLTV regime effectively dampened the expansionary impact, resulting in lower fluctuations in both house prices and aggregate loans in comparison with the constant LTV regime.

**The EPF presents the outcome of the trade-off between household loans and output volatility for the financial and technology shock.** The EPF for the CcLTV regime shows the locus of the volatility of household loans and output calculated at each set of optimal policy coefficients that are obtained for different combinations of loss function weights. Moving from left to right in BA3 Figure 2, the weight on the volatility of household loans increases from 0 to 1, while that on the volatility of output decreases from 1 to 0. The EPF results indicate that policymakers need to consider the balance between financial and macroeconomic stability very carefully, as efforts to stabilise one policy objective may have adverse effects on another (BA3 Figure 2). In terms of the implementation of the two regimes, the proposed CcLTV regime has the potential to deliver on both financial and macroeconomic stability mandates.

**BA2 Figure 2: Financial and technology shocks**




Source: BoN

**In terms of the welfare analysis, the differences across agents under the technology and housing demand shocks reveal similar patterns of gains and losses across banks, borrowers, savers, and entrepreneurs.** The welfare analysis indicates that savers and banks benefit from the CcLTV ratio regime, while borrowers and entrepreneurs find the constant regime more favourable due to its stabilising effects on welfare and reduced financial risk exposure. These findings suggest that the constant LTV ratio regime promotes financial stability by reducing risk exposure for borrowers and entrepreneurs, although savers and banks benefit more under the CcLTV ratio regime.

**Overall, the assessment of the constant LTV and CcLTV policy regimes demonstrate that, while constant LTV ratios provide stability in certain contexts, the CcLTV ratio regime is a more effective tool for addressing sector-specific risks, particularly in periods of financial distress.** Following these findings, the Bank of Namibia's MOC approved the implementation of the CcLTV regulation at its first meeting on 7 July 2025. The CcLTV measure will further strengthen the macroprudential policy framework, by providing an additional macroprudential policy tool that the MOC will be using to attenuate the procyclicality of the credit market, particularly in the property market. Its implementation will seek to dampen excessive credit growth during periods of economic expansion and to preserve credit access during economic downturns, through dynamic adjustments of the LTV ratio. Accordingly, the ratio will be tightened during periods of rapid credit growth and rising housing market pressures and eased during economic slowdowns to support lending and economic activity. The MOC will be responsible for setting and communicating the CcLTV ratio as and when deemed necessary. To this end, the Bank will commence drafting the CcLTV operational framework, which will define the key indicators and conditions guiding its adjustments.

# 8. CONCLUDING REMARKS AND POLICY IMPLICATIONS

**Namibia's financial system remained stable and resilient during the first half of 2025 despite an uncertain macroeconomic environment.** The domestic economic activity slowed during the second quarter of 2025, amidst elevated global policies and trade tensions. The banking sector demonstrated resilience, as the sector remained profitable, well-capitalised, and liquid during the first half of 2025. 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 comfort that the banking sector will remain resilient in the event of an economic downturn. Growth in household debt slowed notably during the first half of 2025, as reflected in repayments made to microlenders. The property market remained broadly stable over the same period, with marginal improvements observed in key indicators such as the volume and average prices of houses sold as well as rental prices. The payment system and infrastructure remained stable and contributed efficiently to ensuring reliability in payments, thus facilitating financial system stability within the country.

**The NBFI sector sustained its growth trajectory into mid-2025 despite headwinds from the macroeconomic environment.** This performance reflects the sector's ability to navigate a complex macroeconomic environment characterised by moderating inflation rates, stable monetary policy with the Bank of Namibia maintaining its repo rate at 6.75 percent since February 2025, and continued global uncertainties, including the impending expiration of the African Growth and Opportunity Act in September 2025. The sector's expansion continues to reinforce its structural importance as a critical source of domestic capital formation and risk distribution, now representing an even larger share of the financial system's contribution to economic stability.

**Going forward, risks to the Namibian financial system are expected to remain broadly at a medium level, with risks stemming primarily from global policy uncertainty.** Overall, risks to financial stability have remained largely unchanged, with notable improvements, particularly within the banking, NBFI, and the property market sectors. Risks to financial system stability have shifted from credit risks, FATF greylisting, and climate change to global factors such as uncertainty in economic policies, trade tensions and cyber risks. The economic policy uncertainty includes, amongst others, tariffs that target major US trading partners and could upend trading relations, creating significant uncertainty in the global economy. Although cyber risk has not had a material impact on the financial sector during the period under review, it could pose an acute threat to macro-financial stability through a loss of confidence. Therefore, the Financial System Stability Committee will continue to monitor risks to financial stability and, when necessary, recommend policy interventions to the MOC.

**Following its assessment, the MOC concluded that the financial system remains sound, stable and resilient despite the prevailing macroeconomic conditions.** The current active macroprudential policy tools, alongside existing microprudential measures and ongoing risk assessments, are considered sufficient for the current macro-financial environment. To further strengthen the macroprudential policy framework, the MOC approved the countercyclical loan-to-value regulation that would eventually replace the existing unadjustable constant loan-to-value regulation. Apart from the continuous enhancements to the macroprudential policy tools, the Committee has determined that no additional macroprudential policy intervention is required at this stage. The MOC will continue to closely monitor both the global and domestic economic and financial conditions and stand ready to deploy appropriate macroprudential policy measures should conditions warrant a policy response.

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