Financial System Resilience in Uncertain Times



OCTOBER

2026

FINANCIAL STABILITY REPORT

Bank of Namibia

NAMFISA
NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

Preface

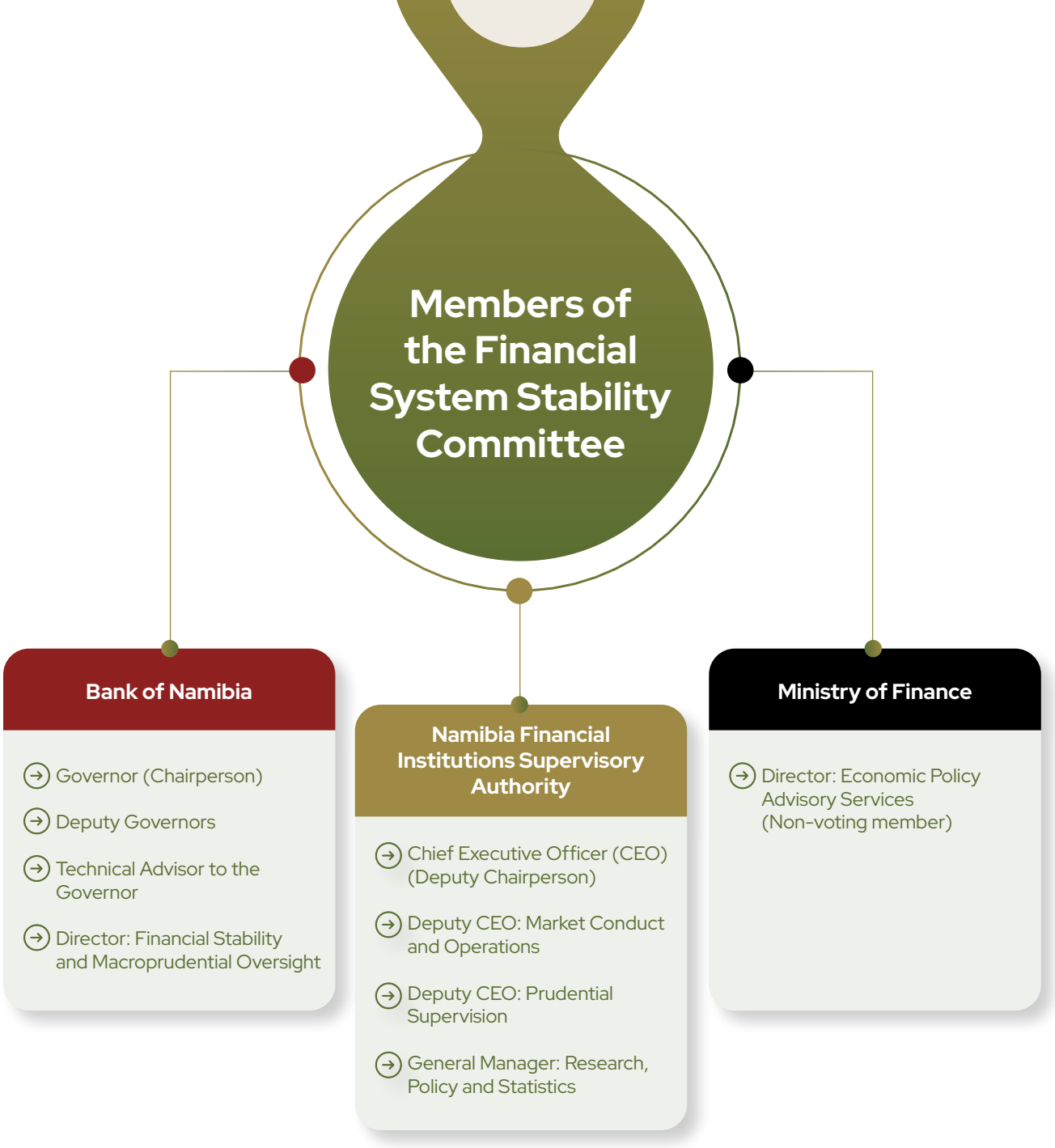
The purpose of this financial stability report is to identify risks and vulnerabilities in the financial system, assess the system's resilience to domestic and external shocks, and present recommended policy responses to the risks identified. Thus, such reports inform interested parties about the soundness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

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

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

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





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Corporate Charters

Bank of Namibia

NAMFISA
NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

Vision

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

Vision

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

Mission

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

Mission

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

Values

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

Values

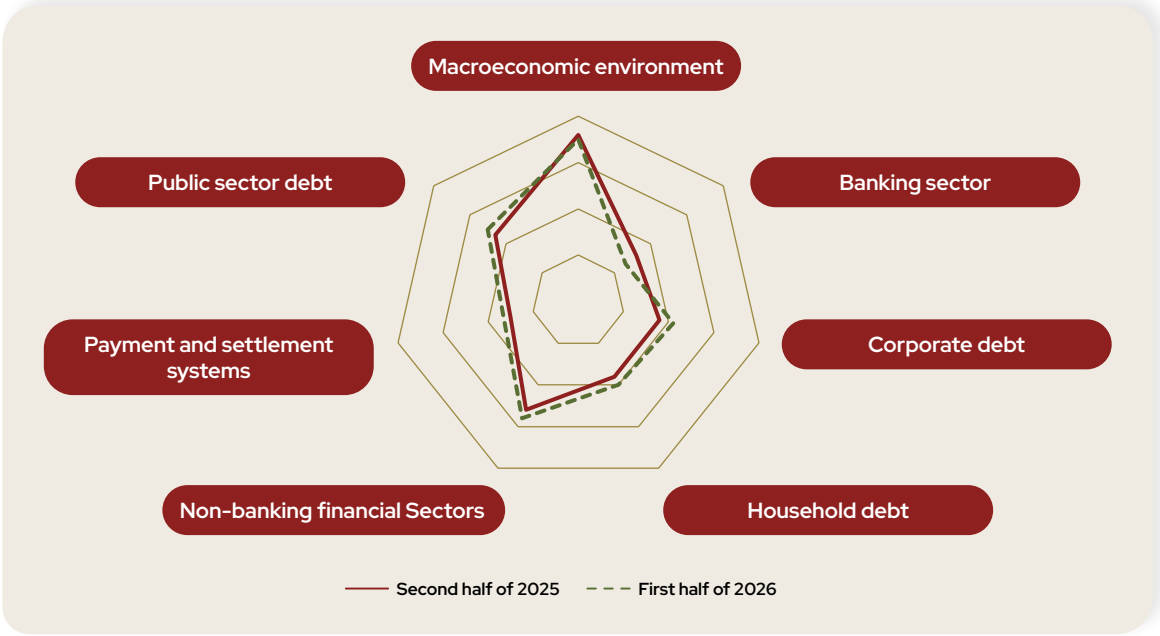
- We are committed to teamwork
- We are passionate about service
- We act with integrity
- We are accountable
- We are agile



FINANCIAL STABILITY KEY HIGHLIGHTS

FINANCIAL STABILITY KEY HIGHLIGHTS

The Namibian financial system remained resilient, despite persistent global uncertainty and evolving risks such as El Niño and the foot-and-mouth outbreak.



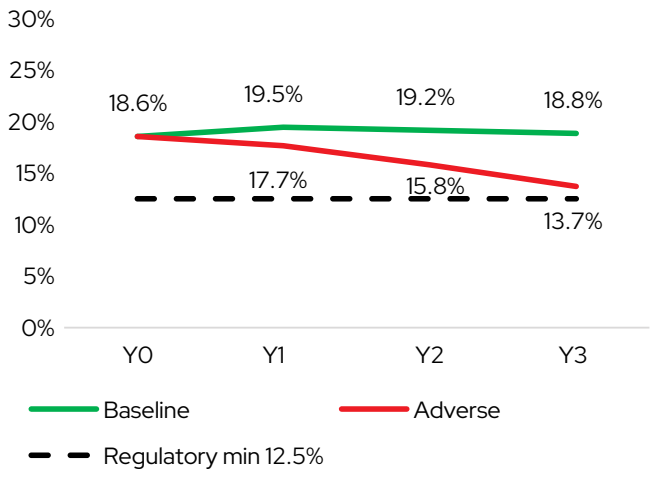
Idiosyncratic Risks

Cyber risks remain elevated, with a high probability that these risks will materialise.

Risk stemming from climate change increased with a high probability of materialising.

Risks associated with the sovereign–financial nexus increased, reflecting the banks' higher exposure to Government securities.

Stress Testing



The stress test results indicate that the banking sector remains adequately capitalised under various scenarios.

Banking sector

LCR

145.1% → Increased → 168.9%

CAR

17.3% → Increased → 18.6%

ROE

21.3% → Increased → 21.4%

ROA

2.8% → Declined → 2.7%

NPL

4.3% → Declined → 4.0%

The banking sector remained liquid, well-capitalised and profitable, with notable improvements in asset quality in the first half of 2026.

NBFI sector

The NBFI assets expanded by **4.0%** to **N$575.0 billion**

Funding position from **101.4%** to **101.2%**

Solvency position from **119.9%** to **123.2%**

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

Payments infrastructure and regulatory developments

The **NISS** recorded a **99.45%** availability rate.

This is slightly below the target of 99.90%

Macroprudential policy stance

The Macroprudential Oversight Committee (MOC) maintained the loan-to-value (LTV) regulation as the prevailing macrofinancial conditions did not warrant additional policy interventions. In addition, the MOC operationalised the countercyclical capital buffer (CCyB) framework through the BID 40 Determination in June 2026.

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1.

Executive Summary

1. EXECUTIVE SUMMARY

During the first half of 2026, the Namibian financial sector remained stable, sound, and resilient despite persistent global uncertainty and emerging risks. Global growth is projected to moderate, reflecting the effects of the war in the Middle East. Global headline inflation is expected to reach 4.7 percent in 2026, although inflation dynamics are likely to remain uneven across countries, due to differences in exchange rate pass-through, persistent services price pressures, labour market conditions, and country-specific factors. Domestic economic growth is, however, projected to improve in 2026, although risks to the outlook remain tilted to the downside, as external and domestic factors continue to weigh on Namibia's economic prospects. Notwithstanding the challenging macroeconomic environment, both the banking and non-bank financial institution sectors remained sound and maintained adequate capital and liquidity buffers to absorb potential shocks. The payment system infrastructure also continued to operate reliably and efficiently, supporting the smooth functioning of the financial system.

The banking sector remained well-capitalised, profitable and liquid during the first half of 2026, with notable improvement in asset quality. The banking sector's balance sheet expanded during the period under review, supported by increased lending activity and investment in securities. Banking sector profitability displayed mixed performance, despite growth in net income. The sector maintained adequate liquidity buffers, supported by sufficient holdings of high-quality liquid assets and stable funding profiles. Asset quality, as measured by the ratio of non-performing loans (NPLs) to total gross loans, continued to improve during the period under review. The stress test results confirm that, given its current level of capitalisation, the banking sector can absorb the assumed shocks even under adverse, yet plausible macrofinancial scenarios.

The non-bank financial institutions (NBFI) sector remained financially sound at mid-year 2026, with adequate baseline solvency and liquidity. Aggregate assets increased by 4.0 percent during the first half of 2026 to N$575.0 billion, confirming continued sectoral accumulation. Baseline resilience remained underpinned by long duration liabilities, substantial liquid and marketable assets, and sustained contractual savings. Retirement funds were fully funded at 101.2 percent, while long-term insurers' underwriting conditions improved, with the combined ratio declining from 103.9 percent in 2025 to 95.9 percent during the first half of 2026.

Overall, risks to the stability of the Namibian financial system remain low to moderate, with potential vulnerabilities arising from climate change. Based on the assessment of risks to financial stability in Namibia, most risks identified have a low to moderate probability of materialising during the second half of 2026, and a moderate impact on the financial system (Table 1). However, risks emanating from climate change have increased since the April 2026 Financial Stability Report (FSR), with a high probability of materialising during the fourth quarter of 2026. Macroeconomic risks are expected to remain broadly unchanged, with vulnerabilities mainly stemming from external factors.

The Financial System Stability Committee (FSSC) concluded that the Namibian financial system remained sound and resilient, while recognising the need for continued vigilance in view of evolving global and domestic risks. The Committee will continue to monitor emerging vulnerabilities and assess their potential transmission to the financial system. In addition, the Bank of Namibia's (BoN's) Macroprudential Oversight Committee (MOC) convened its first meeting of 2026 in July and concluded that the prevailing macroprudential policy stance remained appropriate, and that existing macroprudential policy measures, supported by microprudential regulation and ongoing supervisory actions, were considered sufficient to address the risks present in the macrofinancial environment.



2.

Assessment of Risks to Financial Stability

2. ASSESSMENT OF RISKS TO FINANCIAL STABILITY

This section presents a brief analysis of the main risks to the stability of the domestic financial system. The various risks are analysed and rated from low to high based on their probability of occurrence and their potential impact on financial stability in Namibia, should they materialise. Table 1 offers a summary of Namibia's risk position as determined by the FSSC, showing the direction of risks since the April 2026 FSR, as well as the probability and impact of the cited risks materialising. The subsequent sections in this report detail the developments in the external macroeconomic environment, trends in household and corporate debt, and the dynamics of the property market. The report further outlines trends in financial soundness indicators for domestic banking institutions, stress test simulations, developments in the NBFI sector, and the payment and settlement system. The final section outlines the macroprudential policy developments during the review period.

Table 1: Risks to financial stability in Namibia

Nature of risk	Direction of risk since April 2026[1]	Probability of risk materialising in the second half of 2026	Impact of risk materialising in the second half of 2026
Macroeconomic environment events/risk			
Global economic slowdown	Unchanged		
Global financial turbulence	Unchanged		
Domestic economic slowdown	Unchanged		
Inadequacy in foreign reserves	Unchanged		
Sovereign credit rating downgrade: Namibia	Unchanged		
Sovereign credit rating downgrade: South Africa	Down		
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	Up		
Banking sector risk			
Liquidity risk	Down		
Capital Adequacy	Down		
Credit risk	Down		
Payment system risk			
Security of retail payments	Unchanged		
Settlement in last window	Unchanged		



[1] Compared to the April 2026 FSR

Nature of risk	Direction of risk since April 2026[1]	Probability of risk materialising in 2026	Impact of risk materialising in 2026
Non-banking financial institution risk			
Liquidity and Redemption Risk [2]	Unchanged		
Demographic and structural challenges [3]	Unchanged		
Financial market volatility and interest rate risks [4]	Up		
System-wide solvency risk [5]	Unchanged		
Cyber risk	Up		
Sovereign-Financial Nexus	Up		
Climate risk	Up		



Key: Low | Medium | High

Global financial markets have remained resilient since the April 2026 Global Financial Stability Report (GFSR), although financial stability risks remain elevated. According to the International Monetary Fund (IMF) October 2026 GFSR, financial markets have been supported by strong corporate earnings, resilient economic activity and increased investment in artificial intelligence (AI), amid generally accommodative financial conditions. Nonetheless, vulnerabilities persist, particularly from potential corrections in AI-related asset valuations, rising sovereign bond yields amid elevated public debt levels, and increasing cyber threats as financial systems become more digitalised and interconnected. These risks could trigger financial market volatility and a sharp tightening of global financial conditions, with adverse implications for financial stability.

Risks to the global economy remain tilted to the downside, as in the July 2026 WEO update. A prolonged conflict in the Middle East could sustain elevated energy and food prices, intensify inflationary pressures and weaken global economic activity. In addition, disruptions to energy infrastructure, cyberattacks and extreme weather events could exacerbate existing vulnerabilities. A potential reassessment of the profitability and productivity gains associated with AI could trigger financial market corrections, dampen investment and tighten global financial conditions. Elevated fiscal vulnerabilities and renewed trade tensions pose additional downside risks to the outlook. On the upside, sustained investment in AI, stronger-than-anticipated productivity gains and improved trade relations could support global economic activity, while higher energy prices could encourage investment in alternative energy sources and strengthen energy security.

Policy priorities should focus on rebuilding fiscal buffers and ensuring debt sustainability, while monetary policy should remain responsive to country-specific inflation dynamics and economic conditions. Furthermore, strengthening energy security, enhancing AI readiness and promoting international trade cooperation remain essential to building economic resilience against future shocks.

Macroeconomic risks are expected to remain broadly unchanged, with vulnerabilities mainly stemming from external factors. During the review period, macroeconomic risks remained broadly stable, shifting from concerns over foreign reserves to weaker global demand and climate-related pressures. Key pressures include inflation risks stemming from geopolitical conflicts and subdued prices for mined diamonds, partly driven by weak global demand and increased supply of laboratory-grown diamonds. The probability of this risk materialising over the next six months is rated as medium, with an overall medium impact (Table 1).

Risks stemming from the banking sector moderated during the period under review, reflecting improvements across key financial soundness indicators. The banking sector maintained a strong liquidity position, supported by increased holdings of high-quality liquid assets and a stable funding profile. During the period under review, capital adequacy strengthened further, with banks maintaining sufficient buffers to absorb potential losses, while the sector remained profitable. Asset quality continued to improve, as reflected in the decline in the NPL ratio and the associated moderation in credit risk. Against this backdrop, the probability of banking sector risks materialising over the next six months is assessed as low, while their potential impact on financial system stability is assessed as medium.

Financial market and interest rate risk increased within the NBFI sector, as the policy rate environment turned less accommodative and regional asset performance became more differentiated. Higher rates create both income support and valuation risk across the sector. They raise yields on newly originated money market and fixed income instruments, benefiting the 53.9 percent of CIS AUM held in money market assets and supporting reinvestment returns for insurers and retirement funds. At the same time, they reduce the market value of existing longer duration bonds, raise discount rates and can weaken equity valuations and household demand for long-term savings products. The probability of a material market shock is assessed as Medium, while its impact remains High because exposures are correlated across subsectors. A simultaneous fall in equities and bonds would weaken retirement funding and insurer solvency together, reduce CIS net asset values and potentially raise redemptions.

[2] Relates to retirement funds, collective investment schemes and long-term insurers
[3] Relates to retirement funds
[4] Relates to retirement funds, collective investment schemes and long-term insurers
[5] Relates to retirement funds, long-term insurers, and CIS.

Demographic and structural risk in retirement funds remained elevated but unchanged in direction. Benefits of N$8.6 billion exceeded contributions of N$6.8 billion during the first half of 2026, producing a benefit-to-contribution ratio of 126.5 percent. The imbalance is consistent with a maturing retirement system and should not be interpreted as near-term liquidity distress, particularly because the sector remained fully funded and held substantial liquid assets.

The financial stability relevance lies in growing dependence on investment income and asset realisations over the medium term. If formal sector employment and contribution growth remain subdued while longevity and benefit payments rise, funds will rely increasingly on portfolio returns to preserve real asset values. A prolonged period of weak returns could therefore constrain asset accumulation and lengthen recovery from an adverse funding shock even when current benefits remain fully payable. Probability is assessed as high and impact as medium because the trend is structural, but liabilities mature over long horizons. The long liability profile provides time for investment recovery, contribution adjustment, sponsor support and fund specific recovery plans.

Liquidity and redemption risk remained broadly unchanged and low in probability, supported by highly liquid portfolios and long dated liabilities. Money market instruments represented 53.9 percent of CIS AUM and listed debt a further 22.7 percent, providing a substantial pool of marketable assets against redemptions. Retirement funds reported a liquidity ratio of 37.5 percent, while long-term insurers' liquid assets covered 63.5 percent of technical liabilities.

The most relevant liquidity vulnerability remains the concentration of CIS funding in corporate investors. Companies supplied N$50.1 billion, or about 39.0 percent of CIS AUM, and may redeem more rapidly than households in response to operating cash flow pressure or changes in relative yields. This creates a tail channel through which a corporate liquidity shock could generate coordinated withdrawals, even though the prevailing asset mix substantially mitigates forced-sale risk.

Retirement fund stress results support a maturity aware rather than bank-style interpretation of liquidity risk. Under the severe path, liquid assets decline from N$119.7 billion to N$99.3 billion at end 2026 and N$54.4 billion by end 2028 without breaching the modelled liquidity threshold. The probability rating is low and impact medium.

System-wide solvency risk remained unchanged and low in probability at June 2026, with no evidence of a current broad-based capital shortfall. Retirement funds remained fully funded at 101.2 percent, with funding and other prudential indicators classified as Normal. Long-term insurers reported solvency of 123.2 percent and positive underwriting profitability, while their liabilities declined relative to end 2025. These outcomes support a baseline assessment of adequate loss-absorption capacity.

The retirement fund severe scenario identifies valuation and recovery risk rather than immediate inability to meet benefits. The scenario reduces assets to N$265.6 billion and the funding ratio to 84.3 percent. Given the long duration of retirement liabilities, temporary underfunding can be managed through asset price recovery, portfolio rebalancing, contribution responses and fund-specific recovery plans; concern would intensify only if underfunding persisted alongside sustained negative cash flows, weak sponsor capacity or forced sales. Impact remains high because a common solvency shock would affect household wealth, insurance capacity and sovereign financing simultaneously. The probability is assessed as low under current conditions, but the concentration of assets in market sensitive subsectors means that a prolonged inflation and interest rate shock, combined with fiscal repricing and weak household cash flows, could erode buffers across institutions at the same time.

Risks associated with the sovereign–bank nexus increased during the period under review, reflecting banks' higher exposure to Government[6] securities. Banks' holdings of treasury bills and stocks, securities, bills and bonds issued by the Government increased from 14.6 percent of total banking sector assets at the end of December 2025 to 16.1 percent at the end of June 2026. The increase points to a strengthening of the direct financial link between the banking sector and the sovereign, thereby increasing the sector's exposure to potential sovereign-related shocks. Within the NBFI sector, the CIS domestic allocation rose from 56.5 percent at end 2025 to 59.8 percent at June 2026, while retirement funds' sovereign exposure reached 14.8 percent of assets, slightly above its historical upper quartile of 14.7 percent but still classified as Normal in the prudential dashboard. The movement is not an immediate prudential breach, but it deepens the common exposure of NBFIs to domestic yields, fiscal conditions and sovereign refinancing requirements. Accordingly, the probability of risks arising from the sovereign–financial nexus materialising over the next six months is assessed as medium, while the potential impact on financial system stability is assessed as high.

[6] All references to "Government" (vs. "government") refer to the Government of the Republic of Namibia.

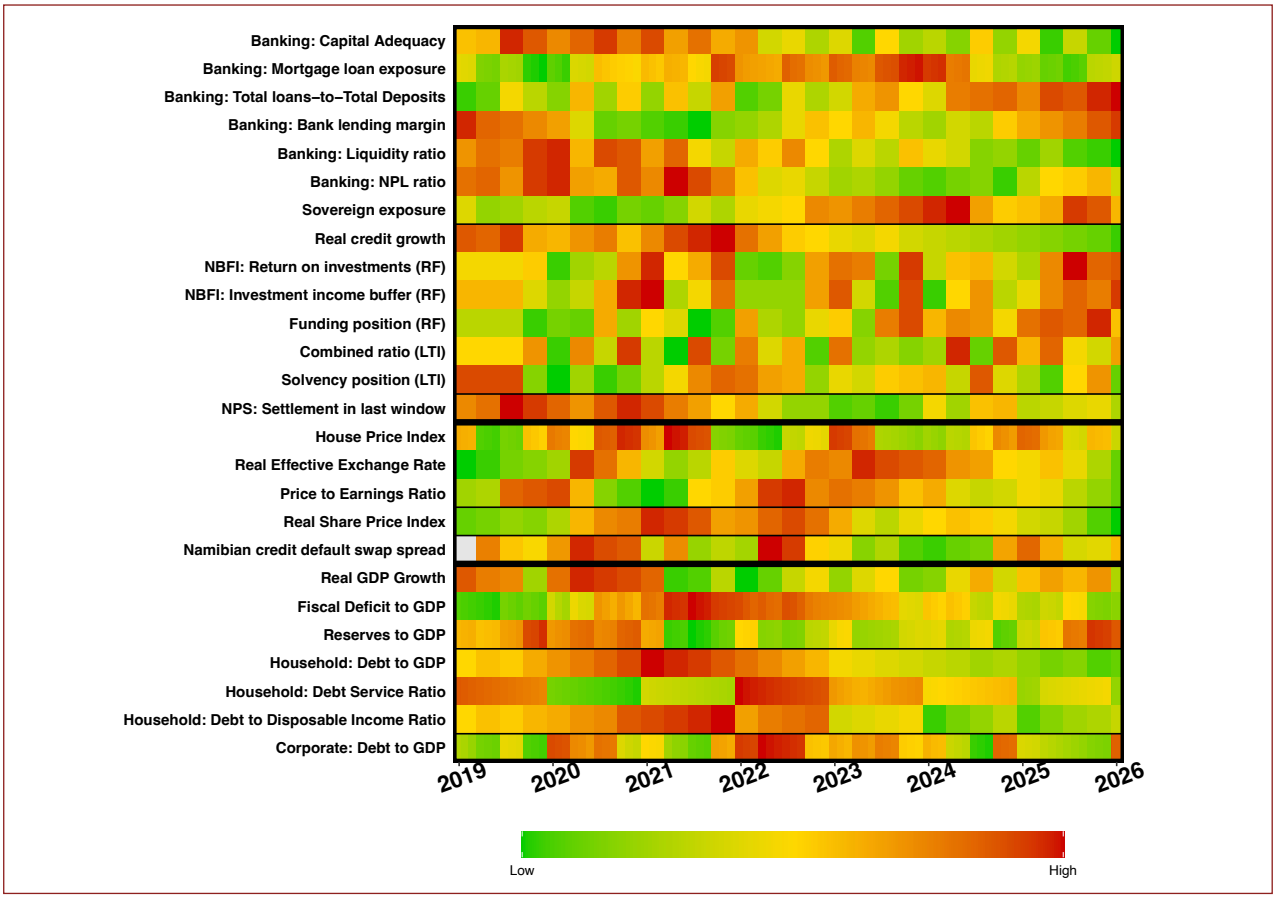
Risks emanating from climate change have increased since the April 2026 FSR, with a high probability of materialising during the fourth quarter of 2026. The risk is particularly significant in the context of the emerging El Niño episode, which is expected to strengthen during the latter part of 2026. The latest Southern African Development Community (SADC) seasonal outlook indicates a heightened probability of below-normal rainfall and above-normal temperatures across much of the southern and central SADC, including Namibia, during the 2026/27 rainy season. These conditions heighten the risk of drought, which, should it materialise, could reduce agricultural production, weaken the income and debt-servicing capacity of affected households and businesses, and ultimately increase credit losses within the banking sector. Although the sector's direct exposure, as a share of banks' total loans and advances, had declined from 5.1 percent in the fourth quarter of 2025 to 4.8 percent by the end of June 2026, indirect exposures may arise through interconnected sectors and broader effects on food prices, economic activity, and borrower affordability.

There is a high probability that cyber risk may materialise during the fourth quarter of 2026. Based on a Communication Regulatory Authority of Namibia cyber security report, detected cyber vulnerabilities increased during the second quarter of 2026 by 39 percent to 513,921. Similarly, cyber events increased by 56 percent to 109,593 over the same period. Considering this development, the probability of this risk materialising in the second half of 2026 is high, with the impact assessed as medium. Notwithstanding these risks, through the Financial Sector Cyber Security Council, financial institutions and relevant stakeholders across the financial sector will continue to strengthen measures to safeguard the safety, security and integrity of the financial system.

The risk associated with Namibia's inclusion on the Financial Action Task Force (FATF) greylist has subsided following the country's removal from the list in June 2026. This follows the successful remediation of all 13 strategic deficiencies identified by the FATF and the subsequent completion of the on-site assessment. As a result, the risk has been removed from Table 1, as the potential adverse implications of greylisting for the domestic financial system have significantly diminished. Nevertheless, continued adherence to international anti-money laundering and counter-terrorist financing standards remains important to prevent future vulnerabilities.

The FSSC uses a wide range of financial stability indicators that reveal a potential cyclical build-up of changes in the financial system which, if left unaddressed, could lead to vulnerabilities. Key developments are summarised in the financial stability heatmap presented in Figure 1. The heatmap is a tool that visually depicts the statistical transformation of a broad spectrum of financial stability indicators against their historical developments, thus flagging areas that require deeper analysis. Most of the indicators used in the heatmap are discussed throughout the report.

Figure 1: Financial stability heatmap



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



3.

The Real Economy And Financial Markets

3. THE REAL ECONOMY AND FINANCIAL MARKETS

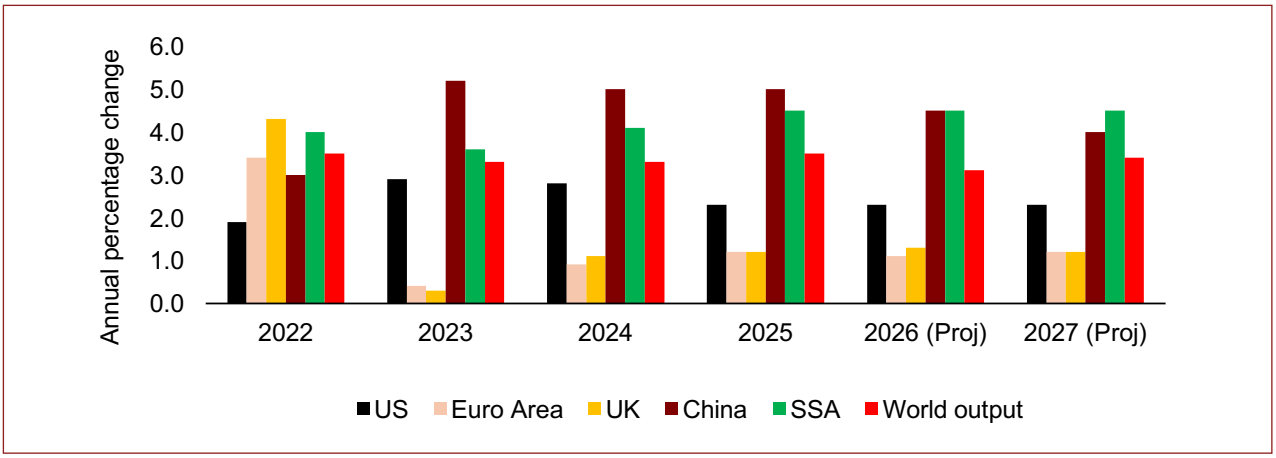
3.1 The macroeconomic environment

Global developments and risks

Global growth is projected to moderate in 2026, although the outlook has improved marginally compared to earlier projections. The October 2026 World Economic Outlook Update of the International Monetary Fund (IMF) projected global growth for 2026 at 3.1 percent, an upward revision of 0.1 percentage points from the July 2026 World Economic Outlook Update (Figure 2). The modest upward revision reflects the continued resilience of global economic activity, supported by investment in artificial intelligence (AI) and technology-related sectors, despite persistent geopolitical tensions, elevated energy prices and global economic uncertainty. Nonetheless, growth prospects remain uneven across economies, with energy-importing and lower-income countries facing relatively greater economic pressures.

Growth in advanced economies (AEs) is projected to increase to 2.1 percent in 2026, before decelerating to 1.8 percent in 2027. In the United States, growth is projected to remain broadly unchanged at 2.3 percent in both 2026 and 2027. This reflects continued support from fiscal policy, accommodative financial conditions, and technology-related business investment, all of which are expected to strengthen productivity. The impact of the war in the Middle East is expected to be limited, given the United States' status as a net energy exporter. Growth in the euro area is projected to be 0.2 percentage points higher than in the July WEO as the region has demonstrated greater resilience to elevated energy prices, partly supported by its transition towards renewable energy source. Furthermore, growth in emerging market and developing economies (EMDEs) is projected to slow to 3.7 percent in 2026, down from 4.5 percent in 2025. The moderation reflects the expected drag from higher global oil prices, prolonged uncertainty, and persistent structural headwinds, particularly in China.

Figure 2: Global real gross domestic product growth



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

Global inflation expectations have been revised upward, reflecting higher energy and food prices. Headline inflation for 2026 is now projected at 4.7 percent, unchanged from the level in July WEO but 0.3 percentage points higher than what was reported in the April 2026 WEO of the IMF. Inflation dynamics are expected to remain uneven across countries, shaped by differences in exchange rate pass-through, persistent services price pressures, labour market conditions, and country-specific factors. Core inflation is expected to return to target only gradually in several major economies: by end of 2027 in Japan and the United Kingdom, and by mid-2028 in the United States and the euro area. In China, inflation is expected to rise from low levels.

Domestic developments and risks

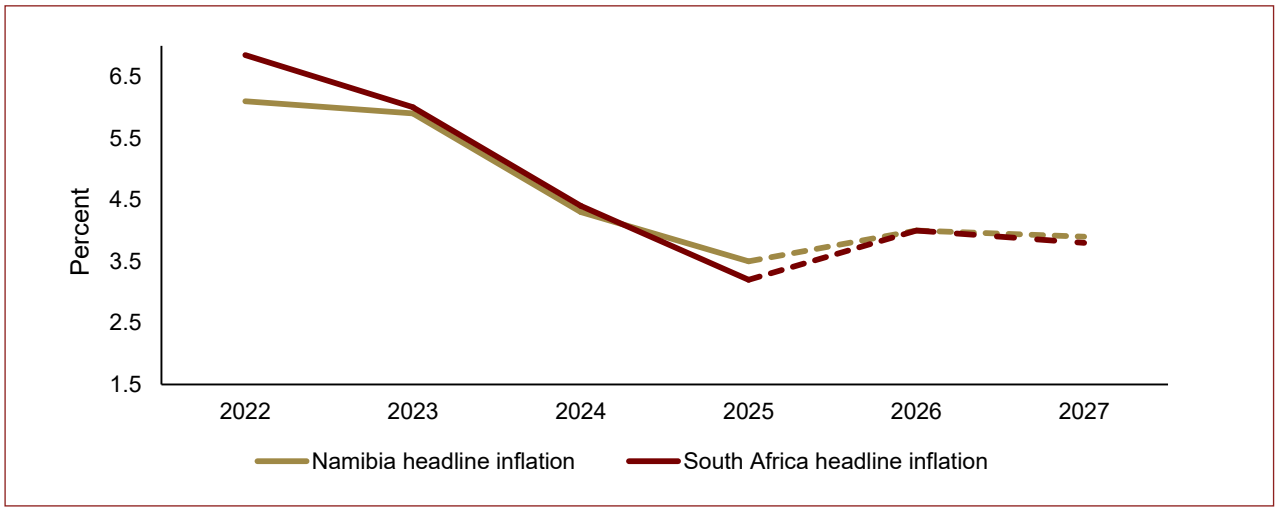
Activity in the domestic economy expanded during the second quarter of 2026, owing to growth in the wholesale and retail, agriculture, and health sectors. The Namibian economy expanded by 4.8 percent in the second quarter of 2026, up from 1.7 percent recorded in the corresponding quarter of 2025. This growth was driven by wholesale and retail trade, which expanded by 9.0 percent, supported by domestic conditions, including accommodative fiscal policy, less restrictive monetary policy, and easing inflation during the second quarter of 2026. The health sector similarly expanded significantly by 17.6 percent, driven by an increase in health personnel. Agriculture improved significantly during the review period by 17.8 percent, following a 2.7 percent contraction in the same quarter of 2025. The growth in agricultural activity was supported by strong cattle and small-stock marketing, as well as higher crop production following improved rainfall.

The Namibian economy is projected to improve marginally in 2026. Based on the August 2026 Domestic Economic Outlook, the economy is projected to grow by 2.1 percent in 2026, and by 2.8 percent in 2027. The recovery in 2026 will be underpinned by a rebound in agricultural output due to improved early-season rainfall, sustained growth in uranium production, and continued growth in wholesale and retail trade, electricity and water, and construction. However, diamond mining and metal ores continued to contract notably. Looking ahead, growth is projected to strengthen further in 2027 as primary industries narrow their contraction from 7.2 percent in 2025 to 2.5 percent in 2026 before recovering to a marginal growth of 1.7 percent. This momentum will be further reinforced by the manufacturing sector, which is projected to emerge from two consecutive years of contraction to expand by 1.7 percent in 2027.

Risks to the domestic economy remained tilted to the downside, as both external and domestic factors continued to weigh on Namibia's economic outlook. Externally, weaker global demand, particularly for mineral exports such as diamonds, poses a risk to export earnings and economic activity. Additionally, ongoing geopolitical tensions in the Middle East and evolving United States policies may contribute to commodity price volatility. These disruptions have increased the cost of key imported inputs, mainly fuel and sulphur. As a net importer, Namibia remains exposed to these elevated costs, which could add to inflationary pressures and raise overall production costs, while potential capital outflows could place additional pressure on foreign reserves. Domestically, climate-related risks remain a concern, particularly given the current strong El Niño episode, which typically increases the probability of drought conditions. In addition, foot-and-mouth disease was confirmed in the southern part of Namibia, and the Government has suspended the movement of cloven-hoofed animals nationwide. Although these risks warrant continued monitoring, their implications for financial stability remain contained at this stage.

Headline inflation accelerated in both Namibia and South Africa in September 2026. In Namibia, overall inflation rose to 5.4 percent in September 2026, up from 2.1 percent in March 2026, mainly driven by fuel (Figure 3). Transport inflation accelerated to 14.9 percent in September 2026 from a deceleration of 1.7 percent reported in March 2026. In South Africa, headline inflation increased to 4.4 percent from 3.1 percent over the same period, largely reflecting higher fuel costs. However, food inflation moderated, supported by good harvests and the fading effects of the foot-and-mouth disease outbreak in that country. Looking ahead, inflation in both countries is projected to average 4.0 percent in 2026, driven mainly by higher international crude oil prices. Although El Niño could affect food supply in 2027, this risk has not yet been incorporated in the inflation forecasts. Even though inflationary pressures have increased, the risk to financial stability remains low at this stage.

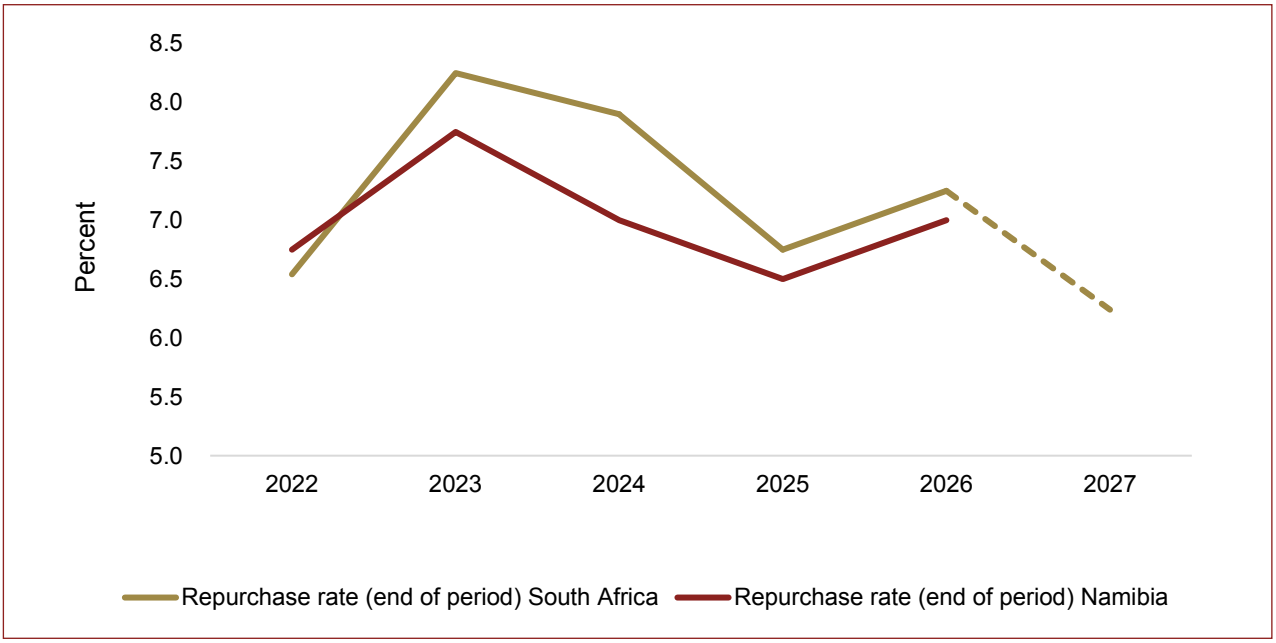
Figure 3: Headline inflation trends



Source: BoN and SARB

Since the publication of the April 2026 FSR, both the BoN and the South African Reserve Bank (SARB) have increased their policy rates. The BoN increased its repo rate by 25-basis-point to 7.0 percent at its latest meeting in October 2026 (Figure 4). This policy stance is deemed appropriate to safeguard the stock of international reserves and support the one-to-one link between the Namibia Dollar (NAD) and the South African Rand (ZAR). The SARB also increased the repo rate by 25 basis points to 7.25 percent in September 2026, on the back of fuel and services inflation. The SARB's Quarterly Projection Model forecast gradual repo rate cuts as inflation subsides, stabilising at around 6.0 percent at the end of 2027.

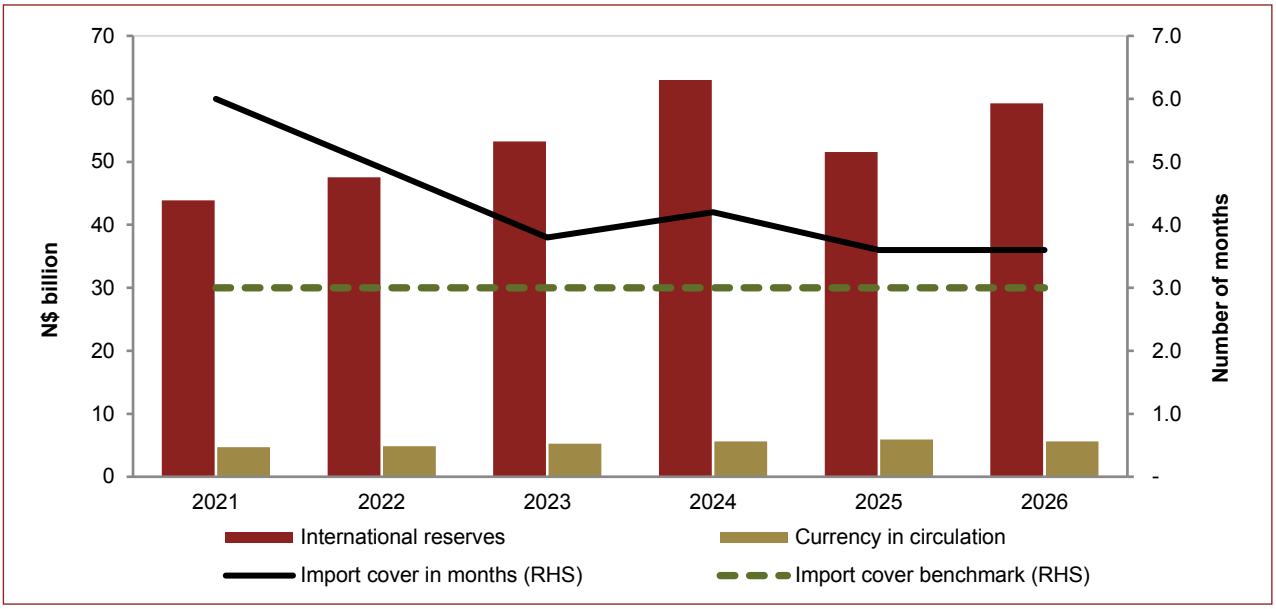
Figure 4: Policy expectations in Namibia and South Africa



Source: BoN and SARB

Since the April FSR, foreign reserves have improved, supported by monetary gold reserves and customer foreign currency placements. Official reserves rose by 14.6 percent from N$51.8 billion reported in March 2026 to N$59.3 billion at the end of September 2026 (Figure 5). The rise was partly ascribed to monetary gold reserve holdings and customer foreign currency placements. The stock of international reserves remained adequate, covering 3.6 months of imports of goods and services. This continues to support the NAD/ZAR peg and the country's short-term external obligations.

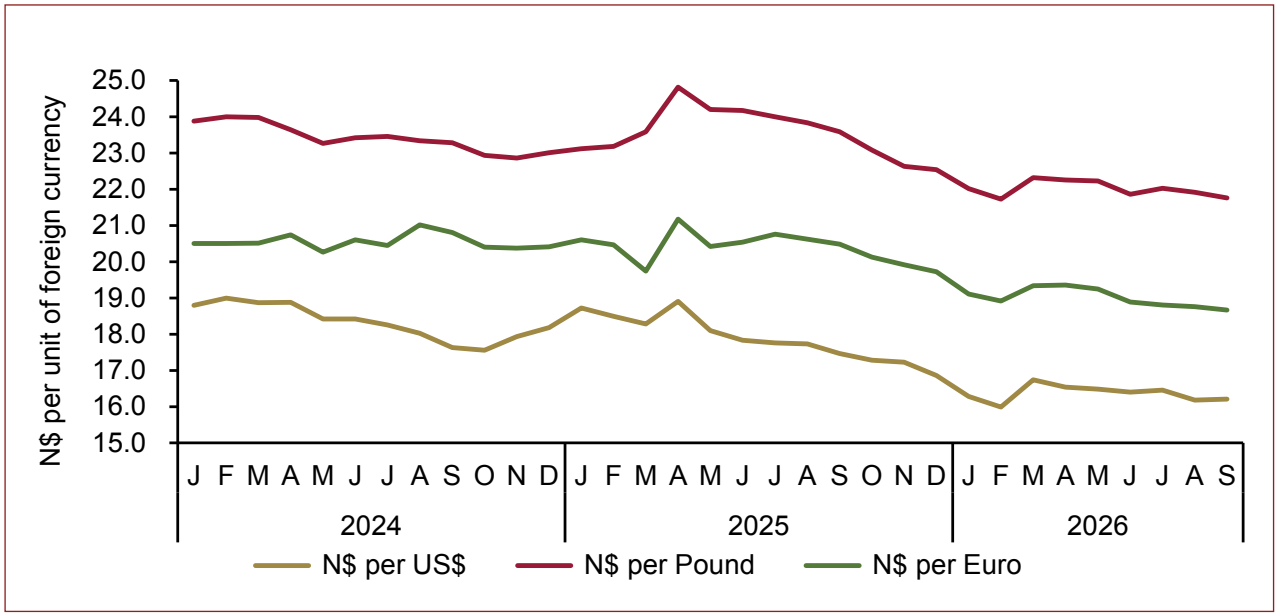
Figure 5: Foreign reserves



Source: BoN and SARB

During the third quarter of 2026, the ZAR/NAD appreciated marginally against all major currencies. The exchange rate averaged N$16.28 against the US dollar, strengthening from N$16.47 in the preceding quarter (Figure 6). This appreciation was supported by broad-based weakness in the US dollar amid uncertainty about US economic data and divisions among Federal Reserve policymakers over the future path of interest rates. Elevated prices for South Africa's key export commodities, particularly gold and other precious metals, also strengthened the country's trade balance and supported demand for the rand. In addition, investors periodically shifted towards higher-yielding emerging-market currencies as the perceived safety associated with holding US debt came under scrutiny amid heavy treasury issuance. South Africa's continued fiscal and structural stabilisation efforts, including inflation management and removal from international grey lists, further helped shield the rand from weaker-than-expected domestic indicators, such as manufacturing data.

Figure 6: Exchange rate developments against selected major currencies



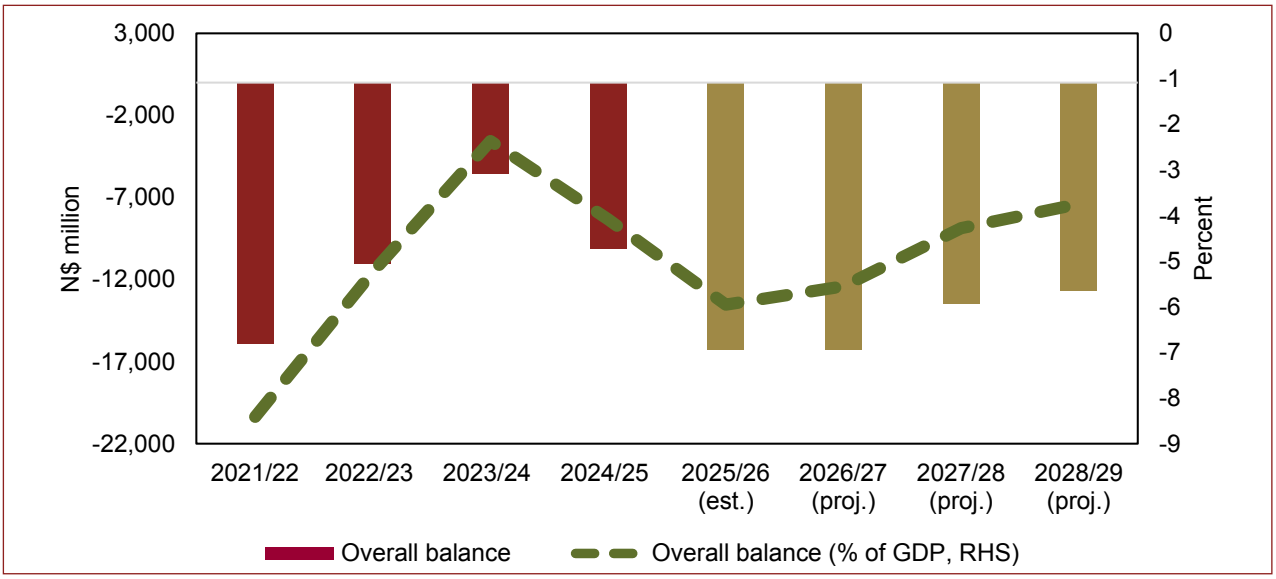
Source: BoN and SARB

Public finance

The Central Government budget deficit is projected to narrow during the 2026/27 fiscal year, partly due to higher Southern African Customs Union (SACU) receipts. The budget deficit is expected to narrow to 5.5 percent of gross domestic product (GDP) in FY2026/27, from 5.9 percent in the previous fiscal year (Figure 7). The narrowing in the budget deficit will be as a result of an increase in revenue coupled with muted expenditure. In this regard, Central Government revenue for FY2026/27 is estimated to increase by 0.8 percent to N$88.1 billion compared with the previous fiscal year.

Over the Medium-Term Expenditure Framework (MTEF) period, the deficit is projected to decline further, supported by stronger revenue growth. The deficit is projected to decline to 3.7 percent of GDP by the end of the 2028/29 fiscal year. The reduction in the deficit will be supported by an increase in Government revenue, which is expected to rise by an average of 5.0 percent per annum, outpacing projected expenditure growth of 0.7 percent per annum over the same period. Despite the expected narrowing of the deficit, Government debt is projected to continue rising during FY2026/27. Debt service costs are also expected to remain elevated, with debt servicing as a percentage of revenue increasing to 17.5 percent, mainly due to higher debt service costs and slower revenue growth (Figure 8).

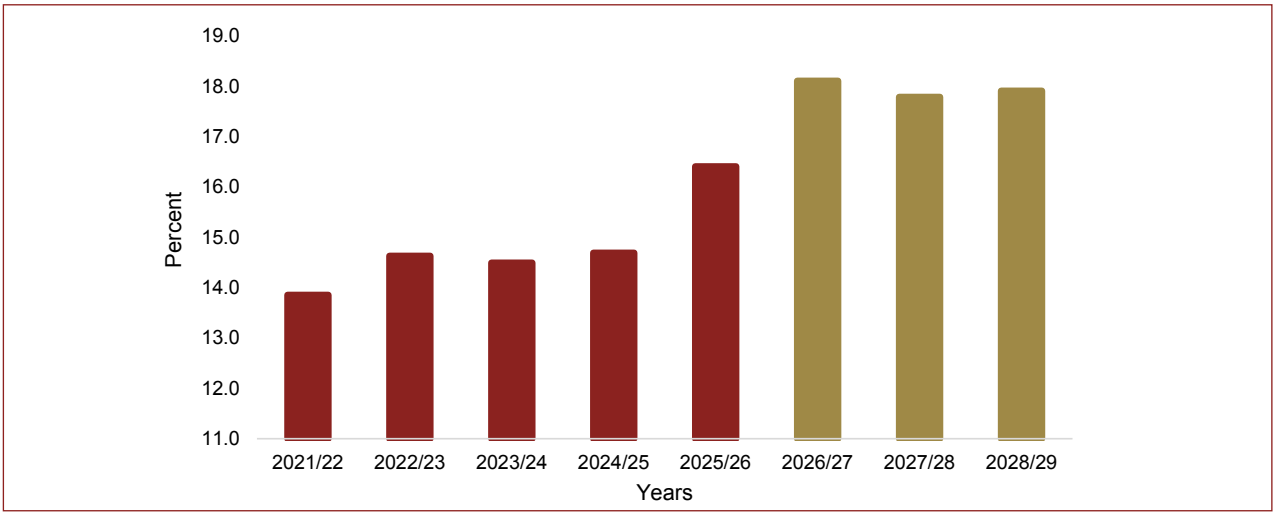
Figure 7: Public finance



Source: Ministry of Finance

Since the April FSR, Central Government debt has increased partly due to the higher issuance of Government securities. Total Government debt is expected to reach N$201.6 billion over the FY2026/27, rising by 12.3 percent year-on-year. The increase reflected higher issuance of Treasury Bills and Internal Registered Stock. As a share of GDP, Central Government debt is expected to slightly rise to 68.7 percent, up by 4.9 percentage points from a year earlier. Going forward, total debt is projected to increase to N$215.7 billion in FY2027/28 and to N$228.0 billion by FY2028/29, averaging 67.7 percent of GDP and remaining above the SADC convergence benchmark of 60.0 percent.

Figure 8: Government debt service to revenue



Source: Ministry of Finance

Namibia's sovereign credit ratings

Moody's Ratings affirmed Namibia's positive outlook in July 2026, reflecting improvements in fiscal performance and growth prospects. The outlook remains supported by expectations of stronger revenue administration, continued wage bill containment and a cyclical recovery in SACU receipts over the next three years, which should help restore primary surpluses. However, the structural decline in the diamond industry remains a key constraint, given that the sector accounts for up to 10 percent of GDP and approximately 20 percent of exports. Continued foreign direct investment in mining, alongside emerging opportunities in hydrocarbons and renewable energy, is expected to help partly offset the decline in diamond-related activity.

In May 2026, Fitch Ratings affirmed Namibia's rating with a stable outlook. This was supported by its strong governance indicators and institutional framework, as well as Namibia's fiscal financing flexibility. This flexibility is underpinned by a large non-banking financial sector with assets amounting to about 182 percent of GDP at the end of 2025 (Table 2), which balances against high fiscal deficits and Government debt relative to peers, large fiscal financing needs, and a rigid expenditure profile.

Table 2: Namibia's sovereign credit rating and outlook

Rating agency	Rating	Outlook	Date of update	Action
Moody's Ratings	B1	Positive	10 July 2026	Positive outlook
Fitch Ratings	BB-	Stable	15 May 2026	Rating affirmed with stable outlook

Source: Moody's and Fitch Ratings

Fitch Ratings upgraded South Africa's long-term foreign currency rating to 'BB' from BB- and maintained a stable outlook in June 2026. The upgrade reflects South Africa's prudent fiscal management and progress on fiscal consolidation, despite weak economic growth and domestic and external shocks. This, together with GDP revisions, leaves the government debt-to-GDP ratio well below the levels anticipated at the time of the rating downgrade to 'BB-' in 2020. This marks Fitch Ratings' first upgrade of South Africa in almost 21 years (Table 3).

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

Rating agency	Rating	Outlook	Date of update	Action
Fitch Ratings	BB	Positive	5 June 2026	Stable outlook

Source: S&P Global and Fitch Ratings

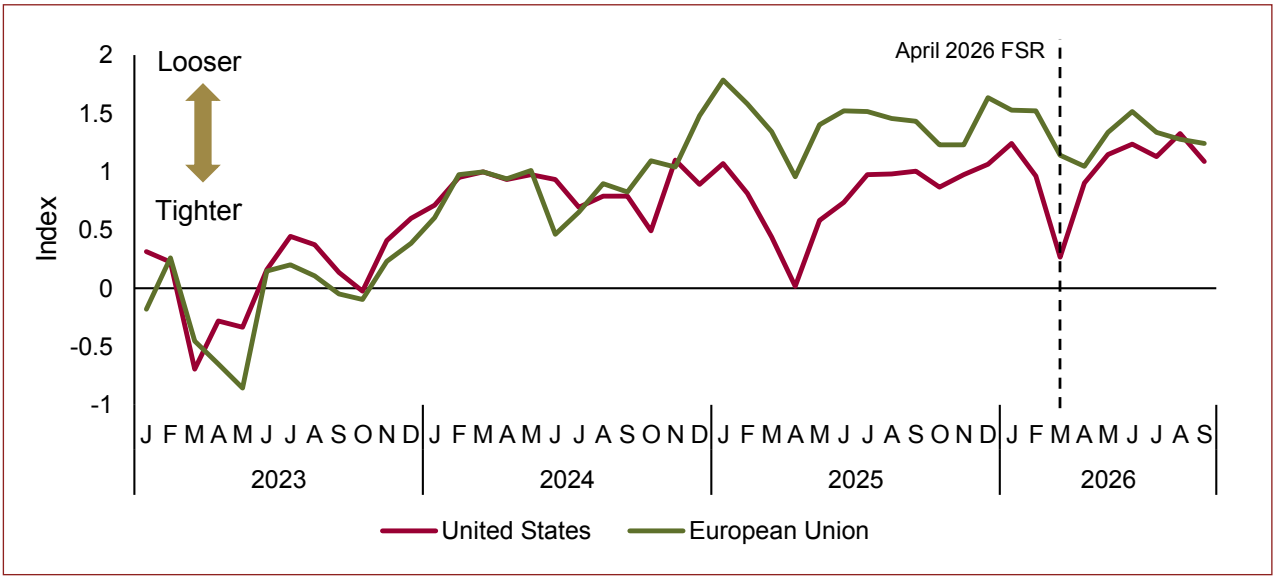
3.2 Developments in financial markets

International developments

Global financial conditions eased following the April 2026 FSR, before tightening moderately across major advanced economies by September 2026. Financial conditions in the US loosened considerably from April through June 2026 (Figure 9). This accommodative shift was underpinned by easing geopolitical tensions, the subsequent retreat in global crude oil prices, and the resumption of disinflationary momentum, which revived investor risk appetite. This easing trend paused in July 2026 as financial conditions tightened slightly, driven by a resurgence in benchmark sovereign bond yields, persistent concerns over sovereign fiscal deficits, and sticky services inflation, which led markets to scale back expectations of aggressive near-term policy rate cuts by the US Federal Reserve.

In the euro area, financial conditions loosened significantly into June 2026 before experiencing a gradual tightening from July through September 2026. Following an initial period of tightening driven by external spillover effects and imported energy cost pressures, financing conditions improved through mid-year (Figure 9). This loosening reflected the European Central Bank's supportive monetary policy stance amid subdued economic activity, alongside the drop in global crude oil prices, which provided vital relief to the energy-dependent region and stabilised inflation expectations. Tightening sovereign bond spreads and resilient liquidity in the banking sector further supported regional funding terms. However, from July through September 2026, financing conditions had tightened marginally as European sovereign bond yields rebounded and structural weakness in the industrial sector persisted. Overall, despite the slight tightening in July, global financial conditions remained substantially more accommodative than the restrictive levels observed in early 2026.

Figure 9: Financial conditions indices

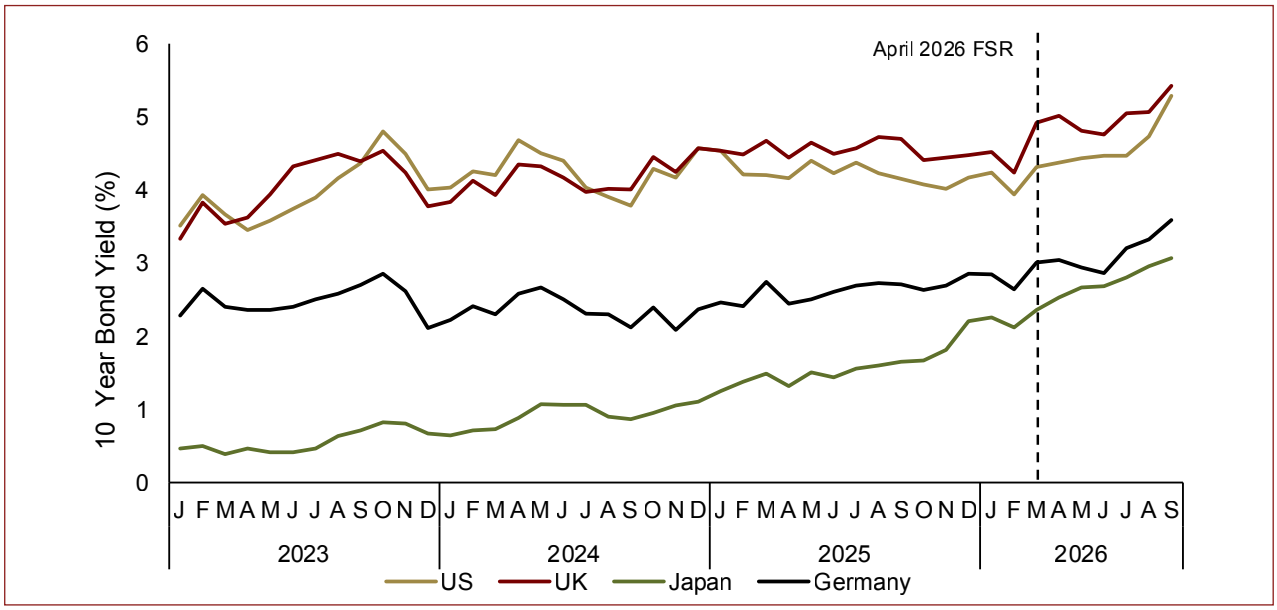


Source: Bloomberg

Global sovereign bond yields in Europe fluctuated notably during the second quarter of 2026 before surging steadily through September 2026. The German 10-year Bund and UK 10-year Gilt yields declined in June 2026, with Bund yields softening to 2.85 percent and Gilt yields declining to 4.72 percent (Figure 10). This temporary easing reflected market relief following the de-escalation of Middle East tensions and falling oil prices, which alleviated near-term imported inflation pressures and spurred expectations that central banks would maintain supportive monetary stances amid fragile growth. However, this downward trend reversed abruptly in July, with German and UK yields climbing to reach 3.59 percent and 5.42 percent, respectively, by the end of September. In Germany, this late-quarter surge was further propelled by the European Central Bank's decision to hike its deposit rate by 25 basis points to 2.50 percent, whereas in the UK, yields were driven higher by market expectations of a rate hike alongside persistent core inflation pressures.

In contrast, the 10-year sovereign bond yields in the US and Japan maintained an uninterrupted upward trajectory throughout the review period. In the US, Treasury yields rose from 4.30 percent in March to 5.28 percent by September 2026. This increase was propelled by a strong domestic economy and energy-driven inflationary pressures, prompting the Federal Reserve to increase the federal funds rate by 25 basis points to 4.00 percent in September 2026. Furthermore, heavy borrowing by the US government meant the Treasury had to offer higher returns to attract investors. Similarly, Japanese government bond yields climbed steadily from 2.35 percent to 3.07 percent over the same period. This steady rise reflected the Bank of Japan's ongoing policy normalisation, as the central bank raised its benchmark interest rate to 1.25 percent in September and scaled back its government bond purchases. The upward pressure on Japanese yields was further compounded by heightened domestic debate surrounding sovereign debt sustainability and fiscal financing requirements. Overall, these elevated global yields continue to tighten external financing conditions and pose refinancing risks for emerging and developing economies.

Figure 10: Selected global bond yields



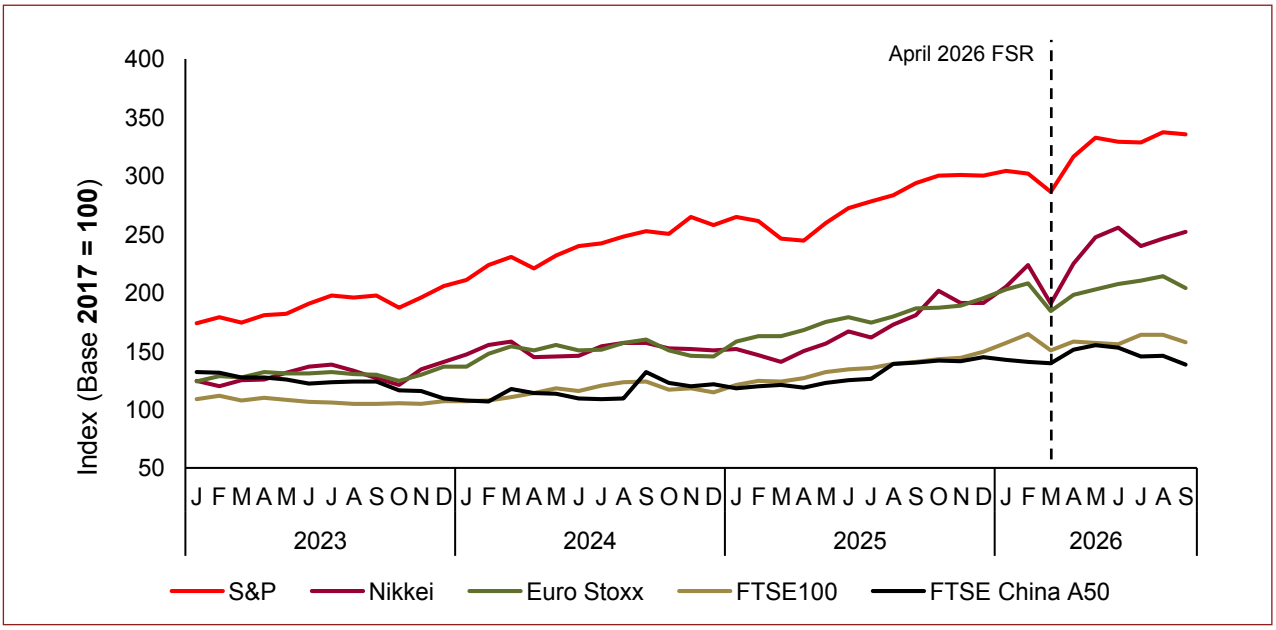
Source: Bloomberg

Global equity markets rebounded robustly, recording strong gains and reaching new historic highs by mid-year. In the US, the S&P 500 index reversed its first-quarter losses and extended its upward trajectory, reaching a peak of 7,686 index points at the end of August (Figure 11). This renewed rally was largely supported by the stabilisation of global energy supply chains following the US-Iran framework agreement, which revived broader investor sentiment. Furthermore, the upward momentum remained heavily concentrated in mega-cap technology firms, driven by sustained market optimism surrounding the commercialisation of artificial intelligence. While this concentration has propelled index valuations to record levels, it continues to pose structural risks, as any significant reassessment of AI-related earnings growth could transmit abrupt volatility across global equity markets.

In Europe, equity markets mirrored this recovery, maintaining a generally positive trajectory through the review period. The Euro Stoxx index recovered steadily from the March sell-off, benefiting primarily from the decline in global oil prices, which provided significant relief to the energy-dependent region, and effectively counterbalanced the dampening effects of highly subdued regional economic growth.

Asian equity markets exhibited highly divergent developments during the period under review. In Japan, the Nikkei index recorded exceptional gains following the March dip, breaching the 70,000-index-point level and reaching a historic high of 72,366.34 index points at the end of June 2026 (Figure 11). This unprecedented rally was underpinned by a surge in the AI-powered semiconductor sector and substantial foreign capital inflows. Notably, this equity market strength persisted even as the Bank of Japan shifted toward a more restrictive monetary policy stance, raising its benchmark interest rate to 1 percent in June and 1.25 in September, the highest level since 1995, signalling the country's gradual emergence from long-term deflation. In contrast, Chinese equity markets remained fundamentally subdued and failed to participate in the broader global rally. Investor sentiment towards Chinese equities remained heavily constrained by deep, persistent weaknesses in the domestic property sector and sluggish domestic consumer demand, which offset the broader macroeconomic impact of state-led high-tech and infrastructure investments. By July 2026, momentum across Asian markets moderated slightly, reflecting localised profit-taking and a cautious recalibration of risk as investors digested the prolonged high-interest-rate environment and uncertain external demand.

Figure 11: Global equity prices



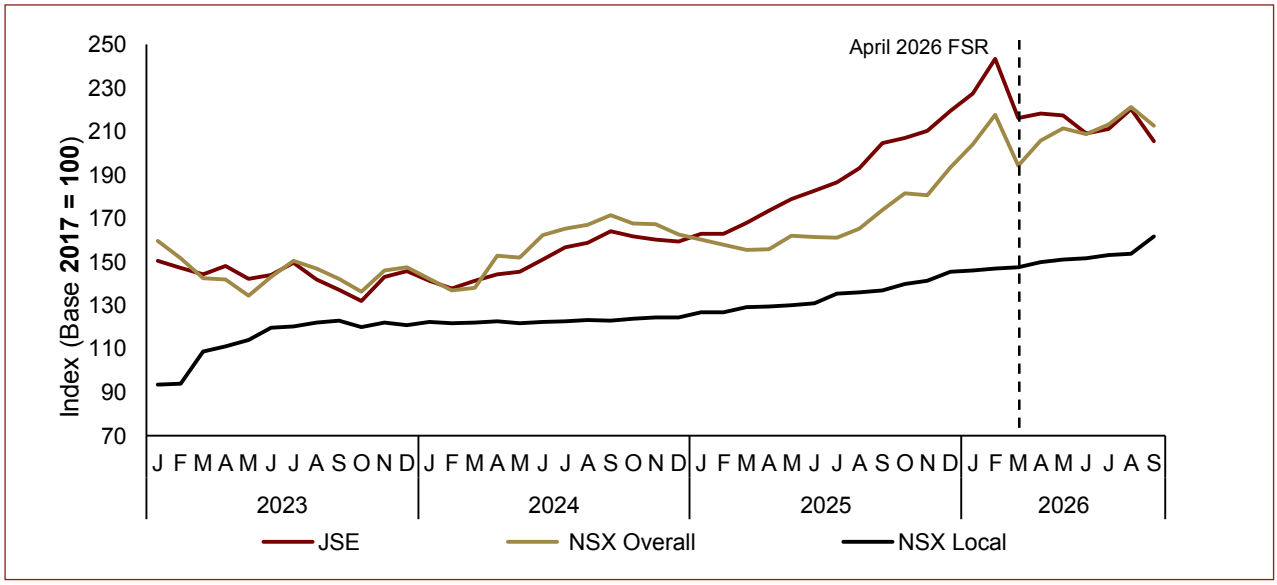
Source: Bloomberg

Financial market developments in Namibia and South Africa

The domestic equity market demonstrated resilience and continued recovery between March and July 2026. This was driven primarily by strong performance in dual-listed resource counters and defensive local stocks. The Namibia Securities Exchange (NSX) Overall Index rebounded strongly from the global market correction, increasing by 13.82 percent from 2,151.37 index points in March 2026 to 2448.68 index points at the end of August 2026 (Figure 12). This upward momentum was underpinned by the basic materials sector, as favourable global prices across key industrial and precious commodities bolstered earnings expectations for dual-listed mining giants. Concurrently, the NSX Local Index maintained its steady upward trajectory, rising by 9.58 percent from 819.05 index points in March 2026 to 897.54 index points at the end of September 2026. The performance of the local index continued to be anchored by the stability of the domestic financial sector, solid banking profitability, and steady demand from institutional investors complying with domestic asset requirements, demonstrating once again the local market's relative insulation from external global shocks.

In contrast, the Johannesburg Stock Exchange (JSE) All Share Index experienced moderate downward pressure following the first-quarter volatility. The JSE All Share Index decreased by 4.87 percent, falling from 114,067.6 index points in March 2026 to 108506.9 index points at the end of September 2026 (Figure 12). This softening in South African equities reflected a more challenging domestic macroeconomic backdrop, characterised by lower economic growth and the dampening effect of the SARB's monetary tightening, which raised the repo rate to 7.25 percent in September. The higher interest rate environment and lower domestic growth forecasts weighed heavily on broader domestic equities, more than offsetting earlier resource sector gains. Consequently, the performance of the JSE and NSX Overall diverged during the review period.

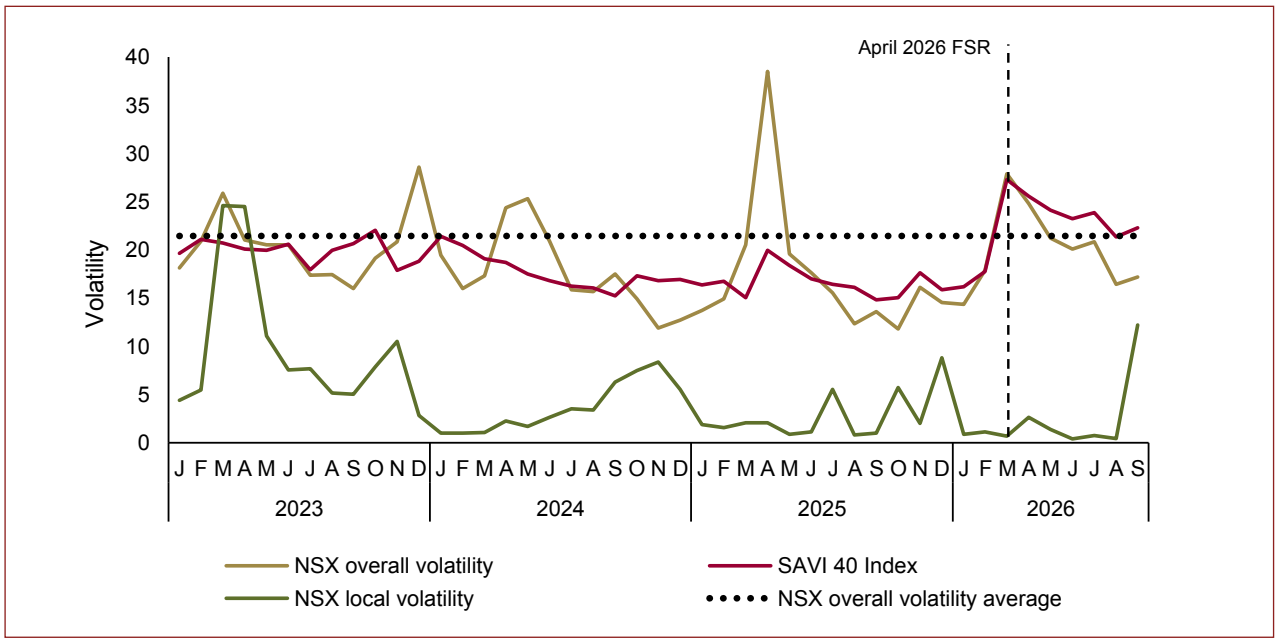
Figure 12: Performance of NSX Local Index, NSX Overall Index, and JSE



Source: Bloomberg and BoN

Equity market volatility in Namibia and South Africa subsided notably following the sharp spike recorded in March 2026, gradually returning towards historical averages. After declining from its March peak, volatility in the NSX Overall Index continued downward in August 2026 to reach approximately 16.5 points, before edging up to 17.3 points in September, remaining comfortably below its historical average of approximately 21 points (Figure 13). Similarly, the SAVI 40 (South African Volatility Index Top 40) retreated from its first quarter high of 27.5 points, moderating to 21.3 points over the same period. This synchronised decline in volatility across the NSX Overall and JSE indices was primarily driven by the easing of geopolitical risk premia in the Middle East, the stabilisation of global oil markets, and the broader recovery in international risk sentiment, which collectively reduced price swings in dual-listed and resource-heavy equities. In contrast, volatility in the NSX Local Index remained low and subdued near zero through August, before experiencing an uptick to 12.4 points in September 2026 driven by isolated price adjustments and end-of-quarter portfolio rebalancing. This persistent divergence reaffirms that heightened volatility in the Overall Index is an imported phenomenon driven by global market shocks, whereas purely domestic equities remain insulated and stable, anchored by captive institutional demand and long-term buy-and-hold investment strategies.

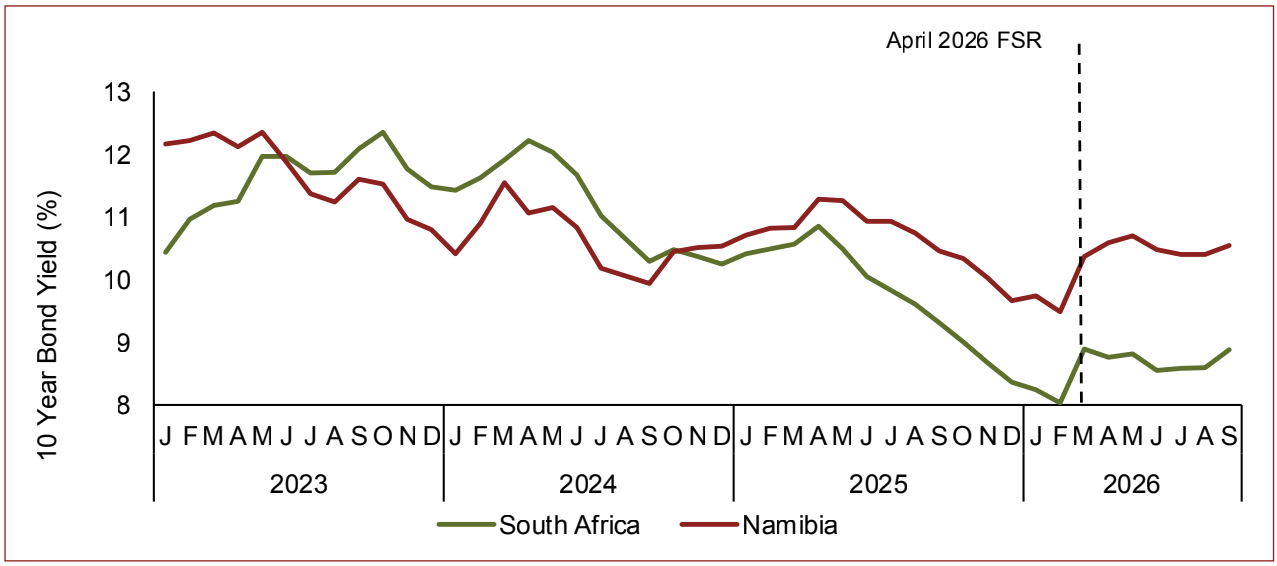
Figure 13: Namibian and South African equity market volatility



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

Following the sharp reversal observed in March 2026, both Namibian and South African 10-year government bond yields surged, before stagnating at elevated levels through mid-year. In South Africa, local currency bond yields increased from approximately 8.0 percent in February 2026 to trade in an elevated range, before rising to peak near 8.9 percent in September (Figure 14). This upward repricing was primarily driven by the resurgence of inflationary pressures stemming from global energy market volatility, which prompted the SARB to hike its policy rate to 7.25 percent to anchor inflation expectations. Namibian bond yields mirrored this trajectory, climbing steeply from 9.5 percent in February to peak at 10.7 percent in May, before easing slightly to hover near 10.4 percent from June through August and edging back up to 10.6 percent in September 2026. The elevated level of domestic yields reflected imported inflation dynamics and the Bank's decision to raise the repo rate by 25 basis points to 6.75 percent in June 2026, and to 7.00 percent in October 2026. executed to defend the currency peg, manage external stability, and mitigate potential capital outflows in response to the SARB's actions. While earlier monetary tightening helped stabilise near-term inflation fears, persistent long-term inflation risks and significant sovereign fiscal deficits sustained high term premia. Consequently, the Namibia–South Africa 10-year yield spread remained persistently wide, as investors continued to demand a substantial risk premium for holding Namibian government securities.

Figure 14: Namibian and South African bond yields



Source: Bloomberg and BoN

3.3 The non-financial sector

Household debt to disposable income

Household indebtedness moderated during the first half of 2026. Household debt growth slowed to 1.8 percent at the end of June 2026, compared to 2.1 percent recorded at the end of December 2025 (Table 4). Consistent with the April 2026 FSR, the moderation was primarily driven by developments in the microlending segment, which contracted by 5.1 percent during the period under review. In contrast, lending by the banking sector to households increased by 2.4 percent, driven predominantly by mortgage loans. Consumption-based lending, such as overdraft, instalments and leasing, also contributed to household indebtedness increasing by a collective N$761 million in the first half of 2026. The composition of credit suggests that households continue to rely on short-term borrowing to meet immediate consumption needs, reflecting ongoing pressure on disposable income and cash flow positions. Overall, these developments suggest that risks to financial stability are beginning to increase slightly.

Table 4: Ratio of disposable income to household debt

Disposable income and household debt	N$ million				
	2022	2023	2024	2025	2026Q2
Total credit extended to households/individuals (N$ million)	64,723	66,648	68,688	70,570	72,299
Adjusted credit to households/individuals* (N$ million)	71,465	73,805	76,760	78,121	79,464
Total credit extended to households (% of GDP)	31.5	28.9	27.5	26.2	26.3
Adjusted credit of households (% of GDP)	34.8	32.0	30.7	29.0	29.0

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

Corporate debt

Namibia's total corporate debt stock had increased by the end of June 2026, primarily driven by higher foreign borrowing. Total corporate debt rose by 10.3 percent to N$219.3 billion at the end of June 2026, from N$198.9 billion at the end of 2025 (Table 5). The increase was largely underpinned by foreign corporate debt, which expanded by 13.1 percent to N$164.4 billion during the period under review. This increase was primarily driven by higher direct investment intercompany borrowing, particularly among companies operating in the mining sector. The increased uptake of trade credits by corporates in other sectors, together with higher non-resident currency and deposits with domestic banks, also contributed to the rise in foreign debt. Domestic corporate debt increased by 2.8 percent to N$54.9 billion at the end of June 2026, mainly reflecting higher credit uptake by corporates. In particular, instalment and leasing credit increased by 11.1 percent, while overdrafts and other loans and advances rose by 4.7 percent and 3.5 percent, respectively. Overall, developments in corporate debt during the first half of 2026 were characterised by a stronger increase in external funding relative to domestic borrowing, with intercompany lending remaining the main driver of the increase in foreign debt.

Table 5: Domestic and external corporate debt (corporates and SOEs)

Debt category	N$ million				
	2022	2023	2024	2025	2026Q2
Domestic debt	46,173	47,351	50,067	53,448	54,935
Local corporate debt	45,808	45,979	48,442	51,748	53,186
Local state-owned enterprise (SOE) debt	365	1,372	1,624	1,700	1,749
Foreign debt	111,672	129,073	144,890	145,406	164,397
Foreign corporate debt	102,276	120,700	136,088	136,457	155,029
Foreign SOE debt	9,636	8,373	8,802	8,949	9,368
Total SOE debt	10,001	9,745	10,427	10,649	11,118
Total debt	157,845	176,424	194,957	198,854	219,332
Nominal GDP	205,584	230,985	250,025	269,768	279,406
Corporate debt as a % of GDP	72.0	72.2	73.8	69.8	74.5
Foreign corporate debt as a % of GDP	49.7	52.3	54.4	50.6	55.5
Foreign debt as a % of total debt	70.7	73.2	74.3	73.1	75.0

Source: BoN and NSA

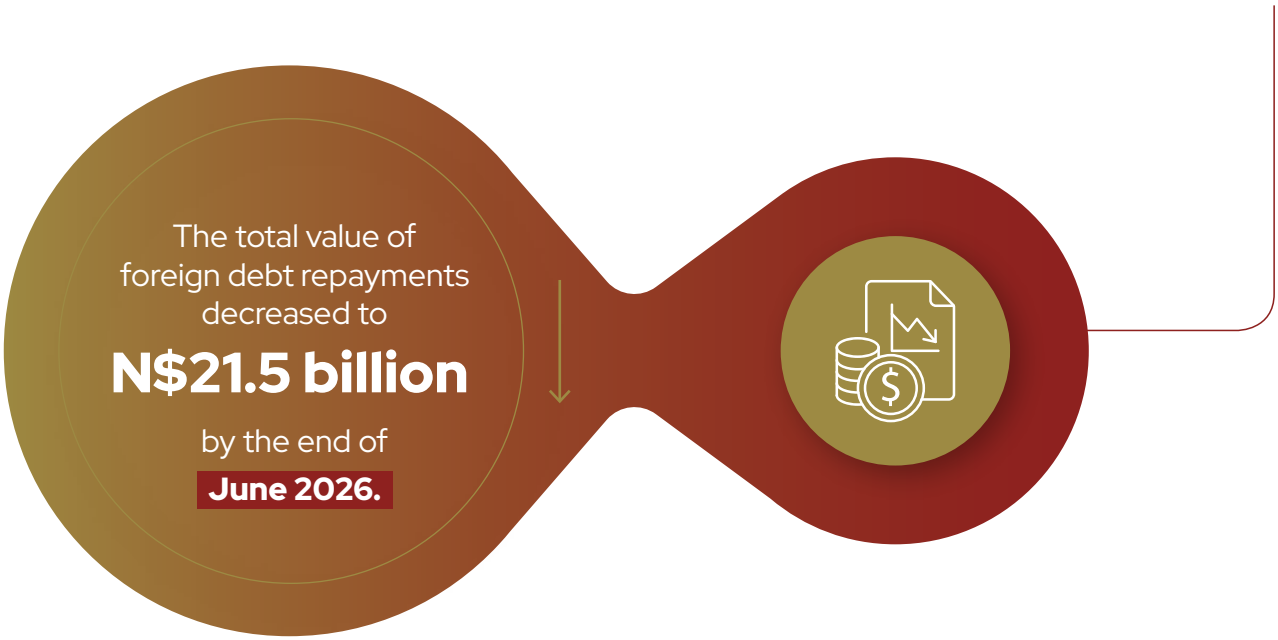
Corporate debt as a percentage of GDP increased during the first half of 2026, mainly driven by external corporate debt. Namibia's corporate debt-to-GDP ratio rose from 69.8 percent at the end of 2025 to 74.5 percent at the end of June 2026, largely reflecting an increase in direct investment intercompany lending, particularly among companies operating in the mining sector. Consequently, the foreign corporate debt-to-GDP ratio increased from 50.6 percent to 55.5 percent over the same period. Domestic corporate borrowing remains of relatively less concern, as it is largely associated with sectors supporting economic activity. However, the continued rise in foreign corporate debt warrants close monitoring, as greater reliance on external borrowing increases corporates' exposure to exchange rate risk. A sustained depreciation of the Namibia Dollar could increase the domestic-currency cost of servicing foreign-denominated debt, weaken corporate balance sheets and repayment capacity, and potentially increase demand for foreign currency. These pressures could, in turn, have implications for foreign exchange reserves and broader financial stability.

Total foreign private-sector debt servicing declined during the first half of 2026 compared with the corresponding period of 2025. The total value of foreign debt repayments decreased to N$21.5 billion by the end of June 2026, from N$23.7 billion recorded at the end of the corresponding period of 2025 (Table 6). The decline largely reflected a high base effect associated with a sizeable repurchase agreement repayment by resident deposit-taking corporations in the first half of 2025, as well as lower repayments on trade credits within the other sectors category during the period under review.

Table 6: Foreign private-sector debt and debt servicing

Debt/debt servicing category	N$ million				
	2022	2023	2024	2025	2026Q2
Total foreign private-sector debt	111,912	129,073	144,890	145,406	164,397
Total foreign private-sector debt servicing	27,398	40,091	50,623	49,761	21,545

Source: BoN





4.

The Financial Sector

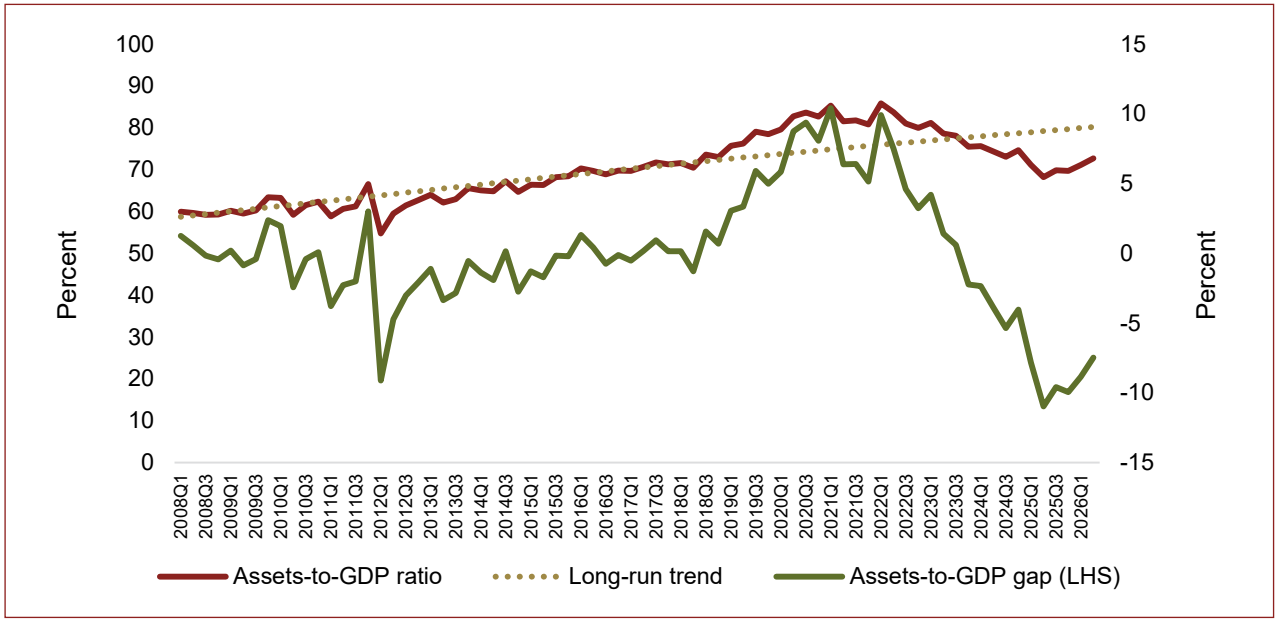
4. THE FINANCIAL SECTOR

4.1 The banking sector

The banking sector's balance sheet expanded during the period under review, supported by increased lending activity and investment in securities. Total assets grew by 7.8 percent from the end of the fourth quarter of 2025 to N$202.8 billion at the end of June 2026. This growth was driven mainly by increases in short-term negotiable securities, net loans and advances, and cash and balances with banks. Short-term negotiable securities rose by N$6.6 billion to N$35.9 billion at the end of June 2026, largely reflecting increased investment in treasury bills, which grew by 30.0 percent to N$29.8 billion. Net loans and advances remained the largest component of banking sector assets, accounting for 64.5 percent of total assets and increasing by 4.3 percent to N$130.8 billion over the period under review. The expansion was supported by stronger demand for instalment sales, which grew by 9.1 percent, as well as increases in other loans and advances and overdrafts, with the latter rising by 6.8 percent to N$12.1 billion. Balance sheet growth was further supported by held-to-maturity securities, which increased by N$829.0 million from N$50.9 million at the end of December 2025, primarily reflecting increased holdings of fixed-income instruments. Overall, these developments point to a broad-based expansion in banking sector assets, underpinned by a recovery in credit activity and higher investment in securities.

Banking sector assets remained below their long-term trend relative to the size of the economy, despite the expansion in the sector's balance sheet during the review period. The assets-to-GDP ratio increased during the first half of 2026, reversing some of the decline observed since 2022. Nevertheless, the ratio remained below its estimated long-run trend, resulting in a negative assets-to-GDP gap (Figure 15). The gap has remained negative since 2023 and widened considerably during 2024 and 2025, as nominal economic activity expanded faster than banking sector assets. While the recent narrowing of the negative gap points to a recovery in balance sheet growth relative to economic activity, its continued position below trend suggests that the current expansion in banking sector assets does not reflect an excessive build-up relative to the size of the economy. This development therefore points to limited balance sheet-related vulnerabilities at this stage, although continued monitoring remains warranted as financial and business cycle conditions evolve.

Figure 15: Banking sector assets-to-GDP ratio and gap



Source: BoN

Risk analysis

The FSSC assesses the resilience of the domestic financial system to a range of internal and external shocks, including economic, financial, political and other potential disruptions. The primary purpose of these assessments is to identify potential vulnerabilities in the banking sector and determine appropriate mitigation measures. Accordingly, it is important to evaluate credit, liquidity and concentration risks within the banking sector. The identified risks subsequently inform the design and severity of stress-testing scenarios used to assess whether the banking sector has sufficient buffers to withstand plausible adverse shocks.

Credit risk

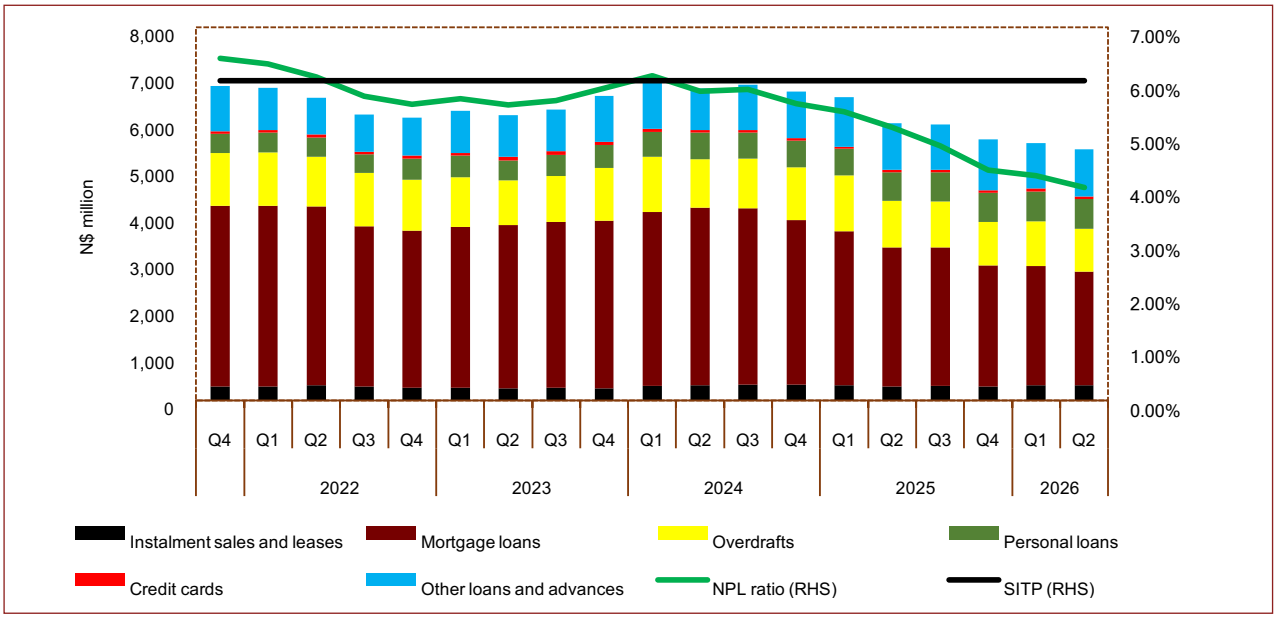
Credit risk arises from the possibility that borrowers may fail to meet their financial obligations, resulting in potential losses for banks. Given that loans to households and corporates constitute over 60 percent of banking sector assets, deterioration in borrowers' repayment capacity can adversely affect the quality of banks' loan portfolios. An increase in defaults typically results in higher NPLs and associated credit losses, which may reduce profitability through increased provisioning and ultimately weaken banks' capital positions. Banks are therefore required to maintain adequate capital buffers against credit risk to ensure that potential losses can be absorbed without compromising their solvency. Assessing developments in asset quality is consequently important in determining the banking sector's resilience to adverse credit shocks.

Asset quality

Asset quality, as measured by the ratio of NPLs to total gross loans, continued to improve during the period under review. Since the publication of the April 2026 FSR, the ratio of NPLs to total gross loans had declined to 4.0 percent at the end of the second quarter of 2026 (Figure 16), supported by a reduction in NPLs (3.8 percent) alongside an increase in total loans and advances (4.0 percent). At the loan-category level, developments were mixed, with NPLs on instalment loans and leases (10.1 percent), overdrafts (0.2 percent), and personal loans (0.5 percent) increasing, while those on mortgage loans and other loans and advances declined. The improvement in mortgage NPLs was particularly notable, declining by 6.6 percent to N$2.4 billion during the first half of 2026, mainly due to repayments and write-offs. As a result, the share of mortgage NPLs in total NPLs decreased from 46.4 percent at the end of December 2025 to 45.1 percent at the end of June 2026.

The outlook for asset quality remains broadly stable, although the shift in the interest rate cycle and sector-specific pressures could weigh on borrowers' repayment capacity. Following the easing cycle observed during 2025, the recent increase in interest rates marks a shift towards tighter monetary conditions, which could gradually raise debt-servicing costs for households and corporates. The impact on asset quality is expected to materialise with a lag as higher borrowing costs filter through to borrowers. In addition, ongoing pressures in the diamond industry, the outbreak of foot-and-mouth disease, and the emerging El Niño episode could place further pressure on household incomes and corporate earnings, particularly among borrowers directly or indirectly exposed to the affected sectors. Accordingly, developments in interest rates, household income and corporate earnings will remain important determinants of asset quality going forward. The NPL ratio is expected to remain below the supervisory intervention trigger point of 6.0 percent in the near term.

Figure 16: NPLs ratio and category distribution

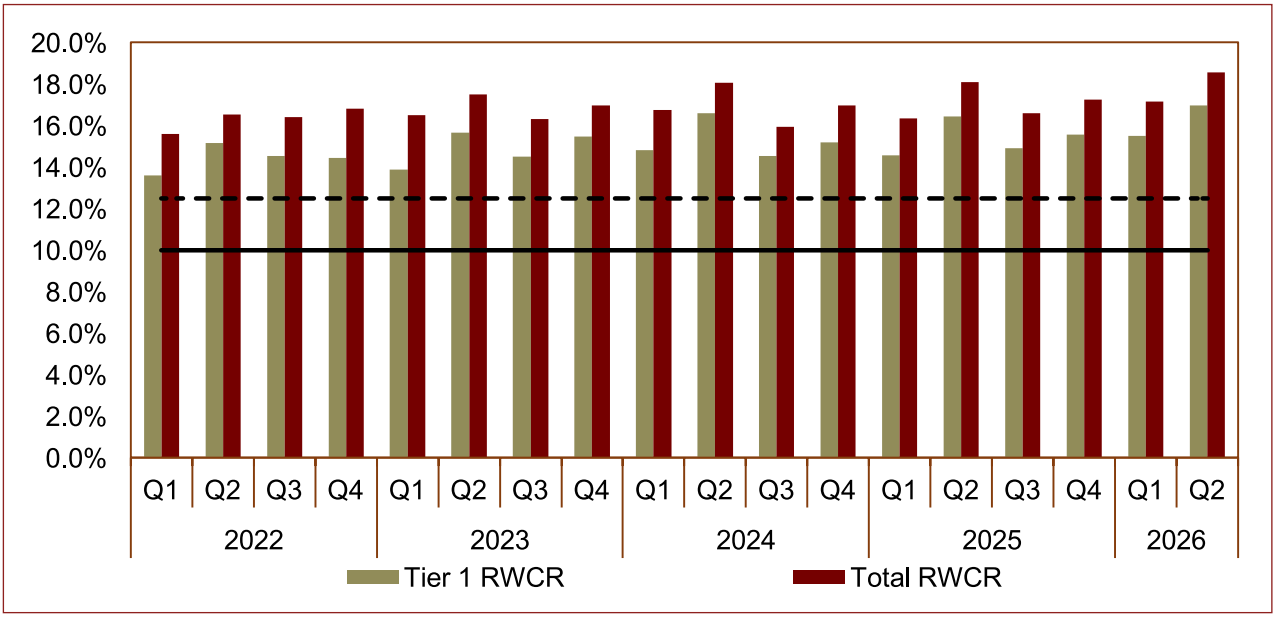


Source: BoN

Capital adequacy

The banking sector remained adequately capitalised during the first half of 2026, maintaining capital buffers well above the minimum prudential requirements. Both the total risk-weighted capital ratio (RWCR) and Tier 1 RWCR remained above their respective regulatory thresholds of 12.5 percent and 10.0 percent. Since the April 2026 FSR, total eligible capital increased by N$2.2 billion to N$24.4 billion at the end of June 2026 (Figure 17), largely supported by higher retained earnings following lower dividend payments during the first half of the year. Consequently, the total RWCR increased by 1.3 percentage points to 18.6 percent over the six-month review period, while the Tier 1 RWCR rose by 1.4 percentage points to 17.0 percent. At 18.6 percent, the total RWCR also remained above its 10-year average of 15.9 percent. The prevailing capital position indicates that the banking sector continues to maintain sufficient buffers to absorb potential losses while supporting credit intermediation, thereby reinforcing its resilience to potential shocks.

Figure 17: Capital adequacy



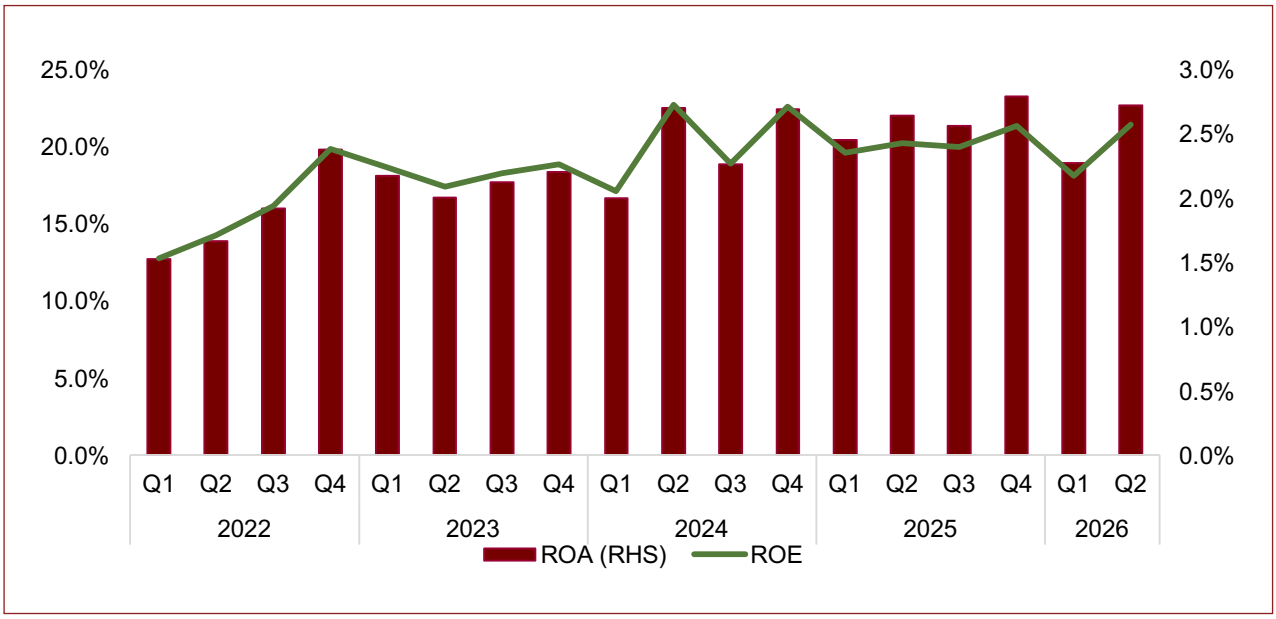
Source: BoN

Profitability

Banking sector profitability displayed mixed performance during the period under review, despite growth in net income. The return on assets declined from 2.8 percent at the end of the fourth quarter of 2025 to 2.7 percent in the second quarter of 2026, as the 7.8 percent expansion in total assets outpaced the 5.2 percent increase in net income after tax. In contrast, the return on equity increased marginally by 0.1 percentage point to 21.4 percent over the same period (Figure 18), reflecting growth in net income after tax relative to the increase in capital. The improvement in profitability was supported by higher net trading income and lower provisioning and operating expenses. Net trading income increased by 7.6 percent, as reflected by an increase in banks' holdings of government-issued treasury bills. Provisioning expenses also declined, with specific provisions falling by N$161.6 million, consistent with the improvement in asset quality observed during the review period. A reduction in other operating expenses provided further support to earnings. These positive developments were partly offset by lower other operating income, largely reflecting a 7.0 percent decline in fee income.

The outlook for banking sector profitability remains broadly positive, although the evolving interest rate environment may influence earnings performance going forward. The recent shift towards a rising interest-rate cycle may support interest income on banks' interest-bearing assets, while also increasing funding costs and potentially affecting credit demand and borrowers' debt-servicing capacity. The extent of these effects will depend on banks' ability to manage their funding costs and adjust their asset and liability structures, while growth in lending activity, non-interest income, and continued cost efficiencies could provide further support to earnings. Overall, banking sector profitability is expected to remain resilient over the near term, although the impact of higher interest rates on margins, credit demand and asset quality will remain important to the outlook.

Figure 18: Profitability



Source: BoN

Adequacy of provisions

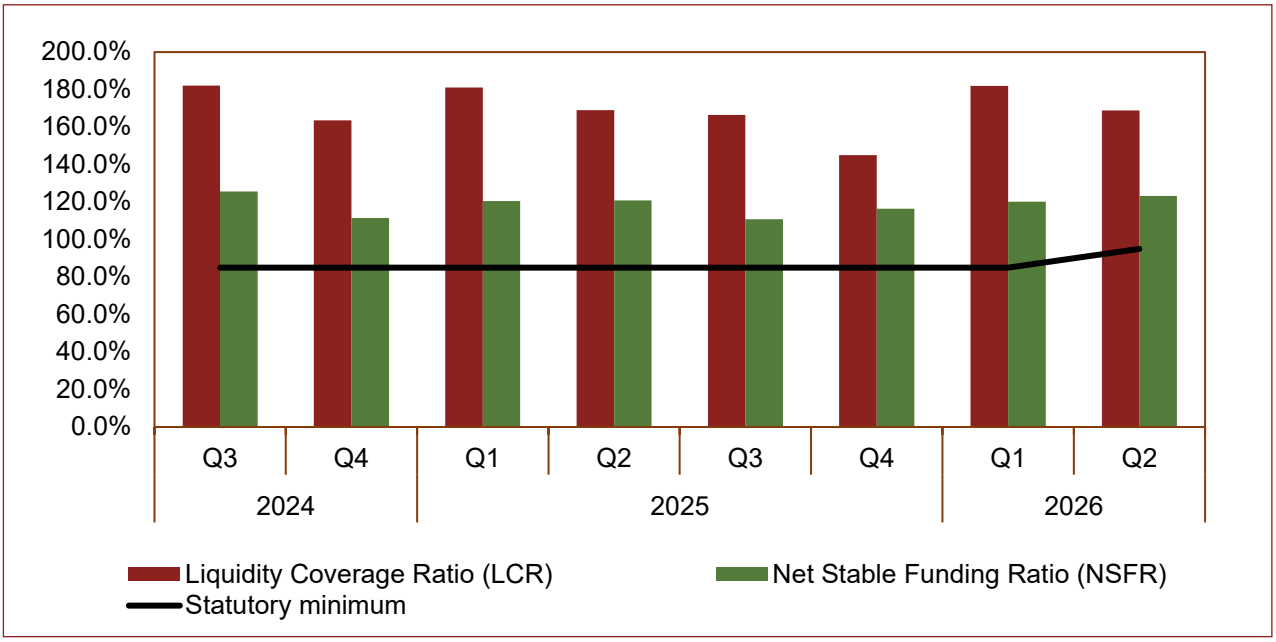
The improvement in asset quality during the review period was accompanied by a decline in provisioning levels across the banking sector. Total provisions decreased by 5.1 percent from the level reported in the April 2026 FSR to N$3.0 billion at the end of June 2026. General provisions accounted for the larger decline, falling by 8.1 percent to N$1.1 billion, while total loans and advances increased by 4.0 percent over the same period. Specific provisions also declined by 3.8 percent to N$1.9 billion, which is consistent with the reduction in NPLs recorded during the period under review. The lower level of provisions, together with the improvement in NPLs, reflects the favourable asset quality developments observed during the first half of 2026. Nonetheless, banks are expected to maintain sufficient provisions to cushion against potential credit losses, particularly in view of evolving macrofinancial conditions. Credit risk was therefore assessed as low during the first half of 2026 and is expected to remain broadly contained during the second half of the year, with a medium impact assessment.

Liquidity risk

The banking sector maintained a strong liquidity position during the first half of 2026, supported by increased holdings of high-quality liquid assets and stable funding. Both the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) remained comfortably above the applicable transitional regulatory minimum of 95 percent. The LCR increased from 145.1 percent at the end of 2025 to 168.9 percent in the second quarter of 2026 (Figure 19), reflecting higher holdings of high-quality liquid assets alongside lower net cash outflows. The increase in liquid assets was largely supported by greater investment in treasury bills, which rose by 29.0 percent between December 2025 and June 2026 to an average of N$21.6 billion. The NSFR also strengthened, rising from 116.5 percent to 123.2 percent over the same period, as available stable funding grew faster than the required stable funding. These developments indicate that banks maintained sufficient liquidity buffers to meet short-term obligations while sustaining stable funding profiles.

Liquidity conditions are expected to remain favourable over the near term, with banks maintaining sufficient buffers ahead of the full implementation of the regulatory requirements. The minimum requirements for both the LCR and NSFR are scheduled to increase from 95 percent to 100 percent by April 2027. Given the prevailing levels of both ratios, the banking sector remains well positioned to meet the fully phased-in requirements. Continued holdings of high-quality liquid assets, together with stable funding conditions, are expected to support liquidity positions over the remainder of 2026. Nevertheless, developments in funding conditions and banks' liquidity buffers will remain important as the sector transitions towards full compliance.

Figure 19: Liquid assets and liquidity ratio



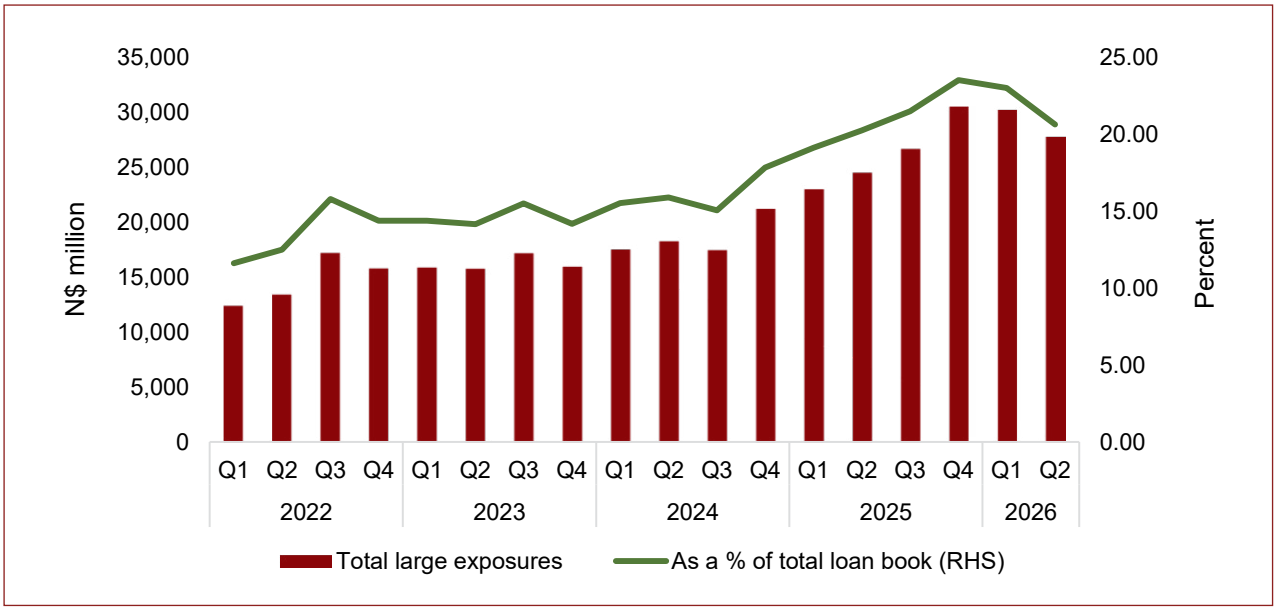
Source: BoN

Funding conditions in the banking sector remained favourable during the first half of 2026, with both the loan-to-deposit and loan-to-funding ratios remaining below 100 percent. The loan-to-deposit ratio declined from 87.1 percent at the end of 2025 to 82.4 percent in the second quarter of 2026, as deposit growth of 10.0 percent outpaced the 4.1 percent increase in loans and advances over the same period. The stronger growth in deposits provided banks with additional capacity to fund lending activities without increasing their reliance on other sources of funding. Similarly, the loan-to-funding ratio decreased from 82.6 percent to 79.1 percent, indicating that a smaller proportion of available funding was channelled towards lending during the review period. This development coincided with an increase in banks' holdings of liquid assets and the improvement observed in the sector's overall liquidity position. The prevailing levels of both ratios, therefore, point to comfortable funding conditions and limited liquidity pressures in the banking sector. Looking ahead, the probability of liquidity risk deteriorating during the second half of 2026 is assessed as low, with a minimal potential adverse impact on financial system stability.

Concentration risk: Large exposures

Large exposures in the banking sector declined during the first half of 2026 compared with the end of 2025. Total large exposures declined by 8.7 percent to N$27.8 billion at the end of June 2026 (Figure 20). The decline was primarily driven by a reduction in exposures to the mining sector, following the settlement of a sizeable exposure worth N$1.9 billion during the first half of the year. Furthermore, large exposures to companies operating in the agriculture sector remained broadly unchanged during the period under review. As a result, large exposures as a share of total loans and advances declined from 23.5 percent at the end of December 2025 to 20.6 percent at the end of the second quarter of 2026. The lower share indicates a moderation in the banking sector's exposure to large counterparties relative to its overall loan book. Concentration risk remained contained, with large exposures remaining within the single-borrower regulatory limit of 25.0 percent. Accordingly, the prevailing level of large exposures is not expected to pose a material risk to financial system stability.

Figure 20: Total large exposures



Source: BoN

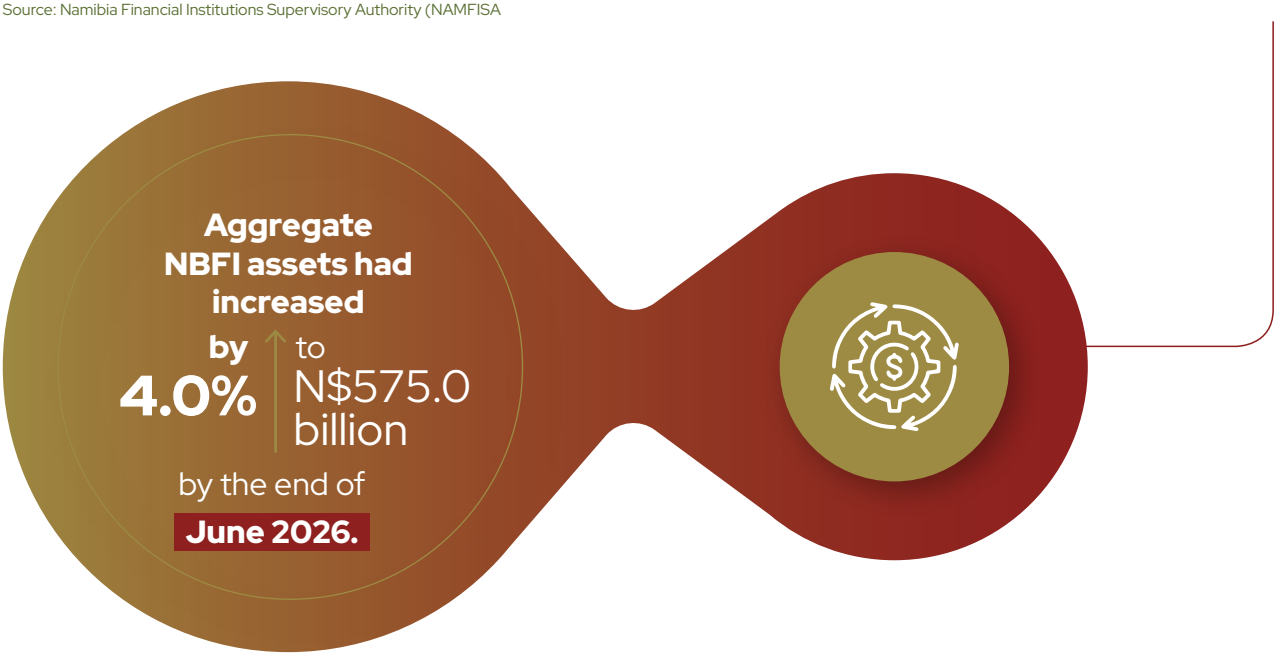
4.2 Non-bank financial institutions

The NBFI sector remained resilient during the first half of 2026, although the macrofinancial environment became less uniformly supportive than the valuation-led conditions that prevailed in 2025. Against this backdrop, aggregate NBFI assets had increased by 4.0 percent to N$575.0 billion by the end of June 2026. The sector's financial stability position therefore remained broadly sound at mid-year, but the configuration of risk had changed. Strong liquidity and prudential positions continued to limit the probability of near-term institutional distress, while the recovery in domestic output supported contribution, premium and savings flows. At the same time, rising interest rates, uneven sectoral growth and renewed cost-of-living pressures increased the potential for policy lapses and corporate redemption activity to emerge with a lag. The growing domestic orientation of institutional portfolios also deepened the two-way relationship between NBFIs and the sovereign: domestic institutional investment provides a stable source of government financing, but simultaneously increases the sensitivity of sector-wide valuations to fiscal conditions and changes in domestic yields.

Table 7: Asset size of the NBFI sector

Subsectors	2022	2023	2024	2025	Mid-2026
	Total assets (N$ million)				
Long-term insurance	68,757	74,260	83,837	97,120	97,438
Short-term insurance	7,200	7,745	9,121	10,207	11,363
Medical aid funds	2,001	2,097	2,796	3,596	3,772
Pension funds	205,817	237,145	262,777	303,465	318,985
Collective investment schemes*	60,974	68,424	80,027	97,555	101,645
Investment managers*	14,654	17,888	27,453	33,257	34,672
Friendly societies	2	2	3	3	3
Microlenders	6,743	7,157	8,071	7,551	7,165
Total	**366,149**	**414,811**	**474,084**	**552,755**	**575,043**
Annual growth	**-1.2%**	**13.3%**	**14.3%**	**16.6%**	**4.0%**

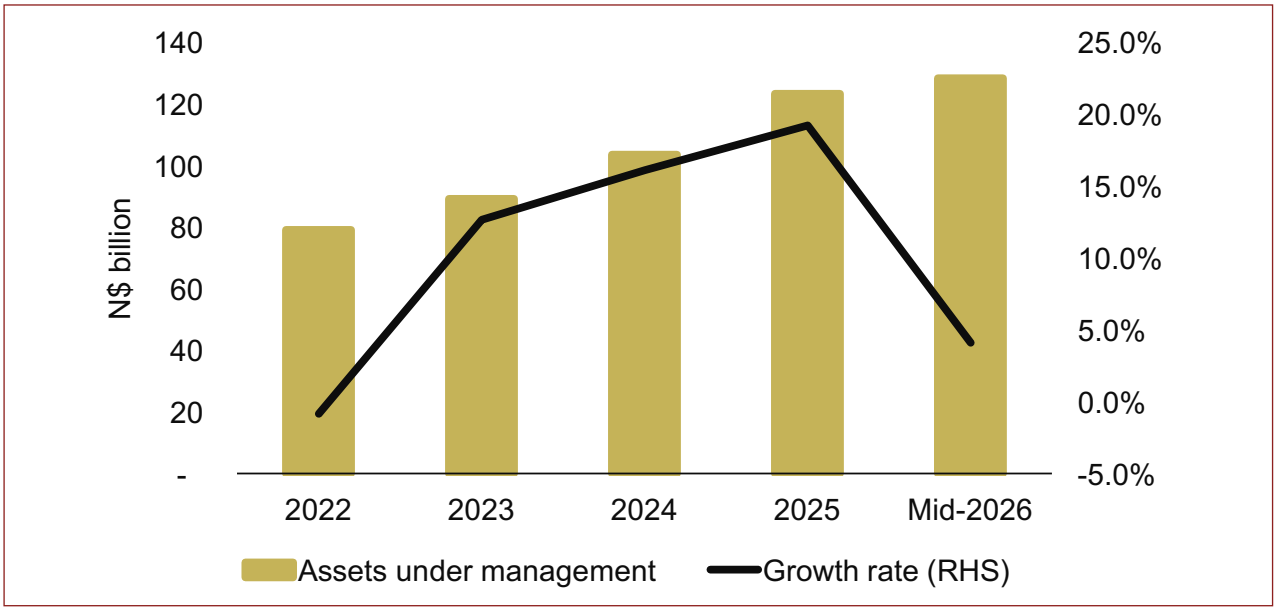
Note: The assets under the two subsectors' management were recalculated, deducting funds managed on behalf of the other NBFI subsectors. This correction serves to guard against double counting in the determination of aggregate NBFI assets.
Source: Namibia Financial Institutions Supervisory Authority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



Collective investment schemes

Collective investment scheme assets under management (AUM) increased by 4.1 percent to N$128.4 billion during the first half of 2026. The subsector's asset composition positioned it to benefit from the prevailing rate environment: money-market instruments represented 53.9 percent of assets under management and listed debt a further 22.7 percent, allowing portfolios to capture higher short-term yields while retaining substantial liquidity. The June policy rate increase therefore supports nominal income on newly repriced money-market assets, although it may also shift investor preferences between cash, bonds and other fund categories.

Figure 21: Collective investment schemes: Assets under management

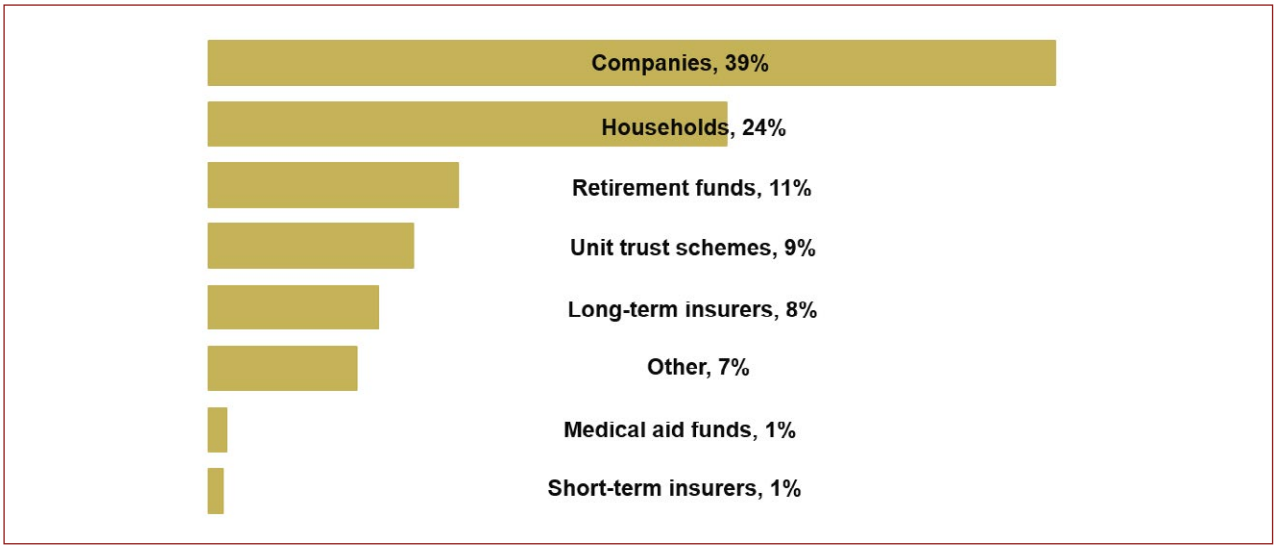


Source: NAMFISA

Sources and allocation of funds

Companies remained the largest source of funds at N$50.1 billion, equivalent to approximately 39.0 percent of assets under management, while households contributed N$30.7 billion, or 23.9 percent. The concentration in funds sourced from corporates is stability-relevant, because corporate investors tend to manage liquidity more actively than households and may redeem rapidly in response to interest-rate differentials, tax obligations or operating cash-flow pressures. This redemption sensitivity is mitigated by the high share of money-market and listed-debt instruments, but it warrants monitoring as tighter monetary conditions alter the relative attractiveness of bank deposits, treasury bills and collective investment scheme products.

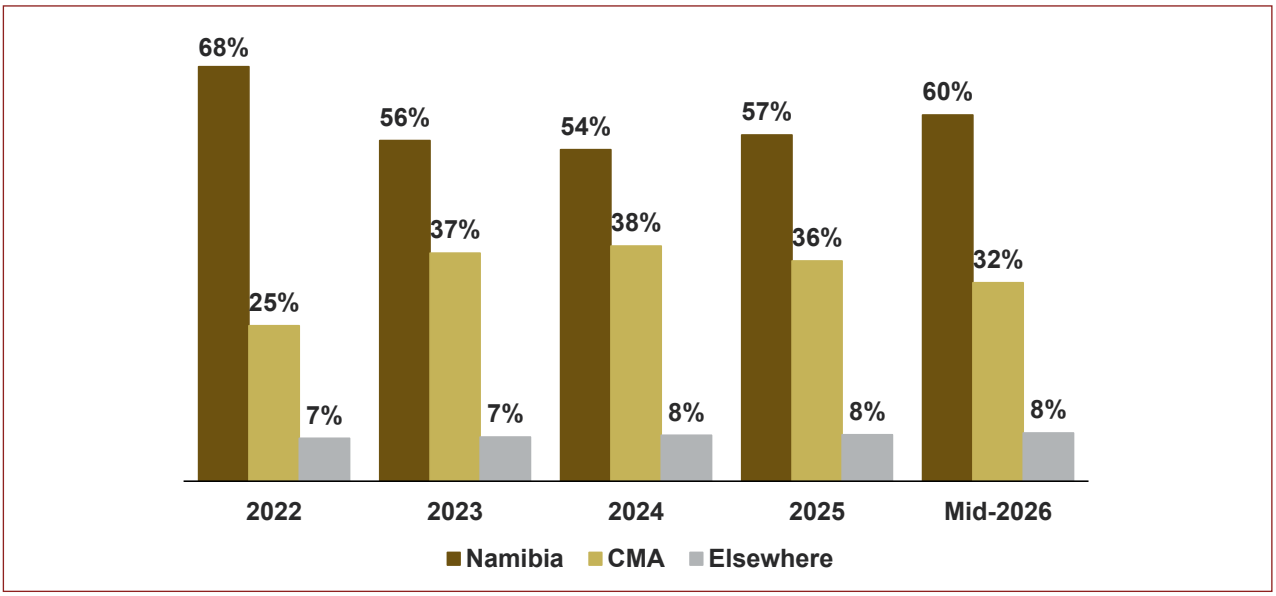
Figure 22: Collective investment schemes: Sources of funds



Source: NAMFISA

The domestic allocation increased from 56.5 percent at the end of 2025 to 59.8 percent at the end of June 2026, while the Common Monetary Area (CMA) share declined from 35.9 percent in 2025 to 32.4 percent during the review period. This strengthens the subsector's contribution to domestic financial intermediation and limits direct exposure to external capital-flow volatility, but it also raises correlated exposure to Namibia's fiscal position, domestic interest rates, and sovereign refinancing conditions. Financial Action Task Force delisting should improve the longer-term environment for cross-border investment and transactions, although no immediate June balance-sheet effect should be inferred.

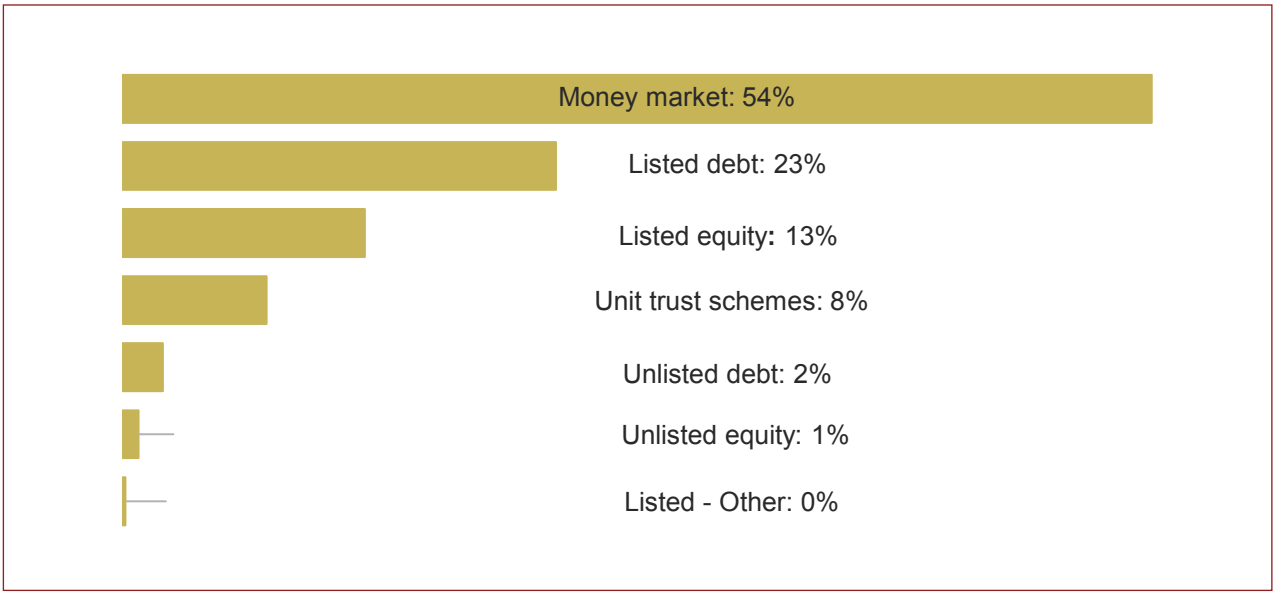
Figure 23: Collective investment schemes: Geographic allocation



Source: NAMFISA

Money market instruments dominated the subsector's portfolio, at 53.9 percent of total assets under management (N$69.2 billion). This composition preserves the subsector's capacity to meet near-term redemption demands without recourse to the forced liquidation of less liquid positions, a fundamental liquidity stability attribute, while channelling short-term institutional savings into instruments that support domestic monetary transmission and sovereign short-term financing.

Figure 24: Allocation of assets under management

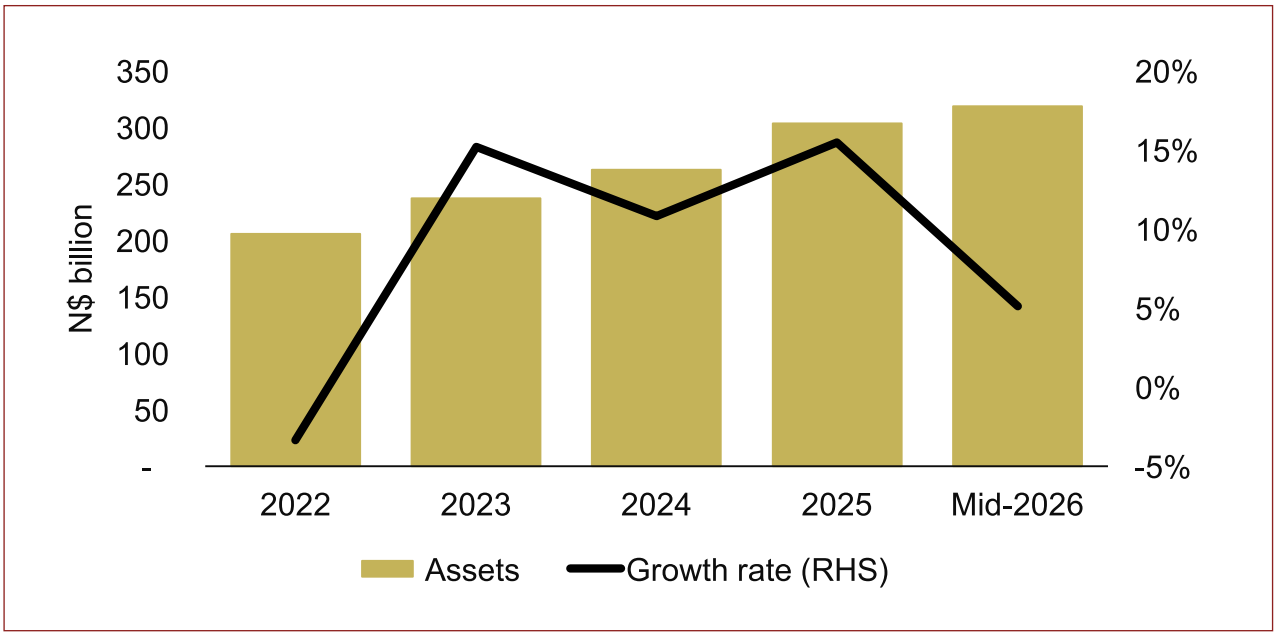


Source: NAMFISA

Retirement funds subsector

Retirement fund assets increased by 5.1 percent during the first half of 2026 to N$319.0 billion, notwithstanding materially less supportive equity market conditions than those recorded in 2025. Investment income amounted to N$18.4 billion and the portfolio generated a nominal return of 5.9 percent during the six-month period. Performance was supported by the recovery in regional fixed-income markets during the second quarter and by the diversification of retirement fund portfolios across domestic, CMA and offshore assets, which reduced dependence on any single market cycle.

Figure 25: Retirement funds: Total assets



Source: NAMFISA

Prudential indicators

Table 8: Retirement funds subsector: Prudential indicators Mid-2026

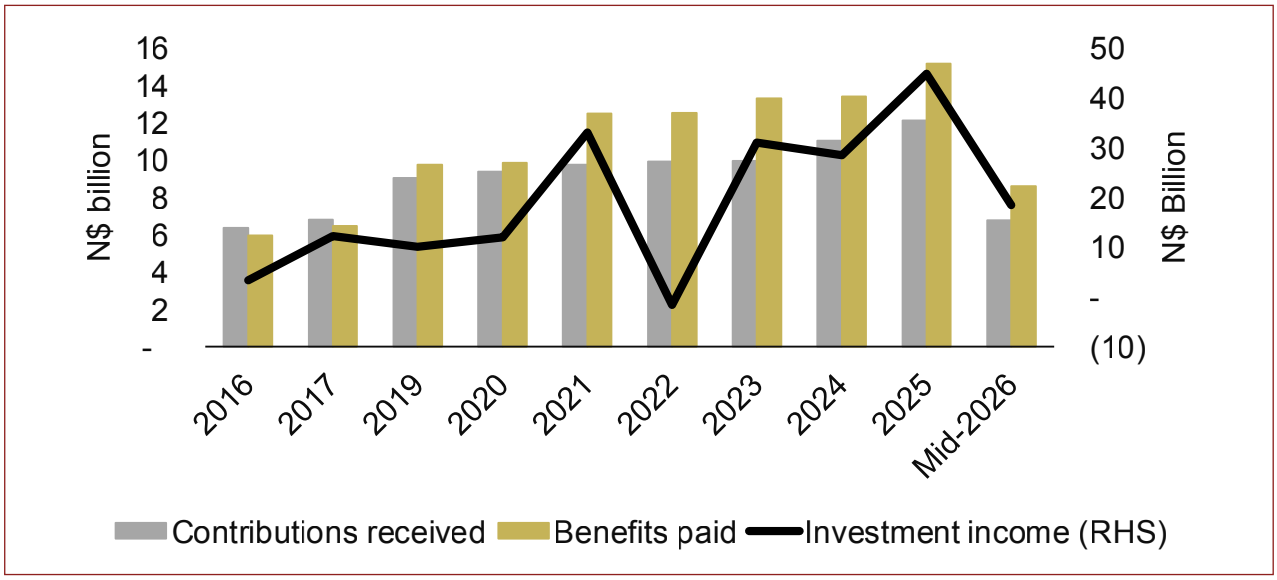
Indicator	Latest	Median	P25	P75	Std. dist (IQR)*	Trigger
Funding ratio	101.2	101.2	101.0	101.6	0.044	Normal
Liquidity ratio	37.5	37.3	36.2	40.6	0.050	Normal
Domestic concentration	50.4	49.6	48.3	50.6	0.337	Normal
Risky-asset ratio	42.8	44.8	44.5	47.2	-0.767	Normal
Credit-risk ratio	9.6	9.3	7.9	9.6	0.168	Normal
Sovereign exposure share	14.8	14.0	12.8	14.7	0.459	Normal
Liquidity mismatch ratio	43.0	43.4	41.7	44.5	-0.136	Normal

Note: Standardised Distance of the Interquartile Range
Source: NAMFISA

The subsector's prudential indicator dashboard affirms that it remained fully funded while preserving sufficient liquidity to meet current benefit obligations. Funding, liquidity, risky-asset exposure, and domestic concentration indicators remain within their historically normal ranges, signalling no material build-up of vulnerabilities or immediate risks to financial stability that would justify enhanced supervisory intervention.

Benefits paid amounted to N$8.6 billion, exceeding contributions of N$6.8 billion and producing a benefit-to-contribution ratio of 126.5 percent. This is consistent with the progressive maturation of the retirement system and does not, in isolation, indicate liquidity stress. Its macroprudential relevance lies in the gradual increase in dependence on investment income and asset realisations as the system matures; weaker formal employment growth would constrain contributions, while prolonged adverse market returns could reduce the income available to finance the structural cash-flow deficit.

Figure 26: Retirement funds: Contributions, benefits and investment income

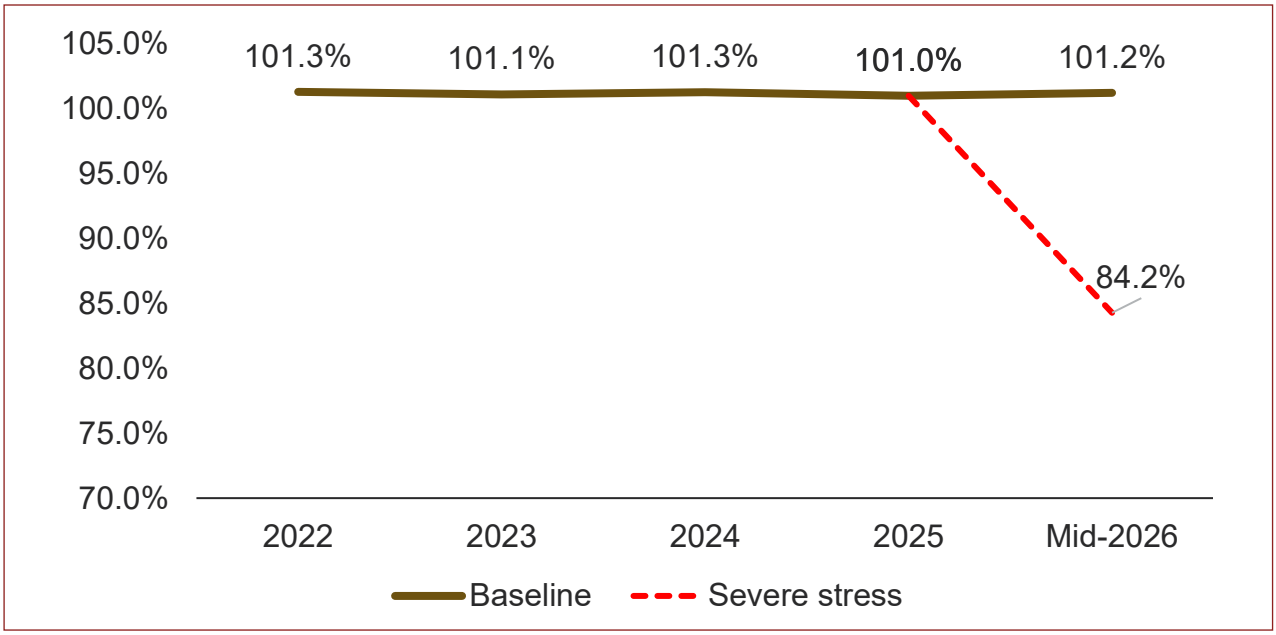


Source: NAMFISA

Key vulnerabilities

The severe valuation scenario reduces total assets to N$265.6 billion and by extension the funding ratio to 84.3 percent. A severe market shock may temporarily reduce the aggregate funding ratio below full funding, but the long maturity of pension liabilities provides time for asset-price recovery, contribution adjustments, portfolio rebalancing and fund-specific recovery plans. The financial stability concern would arise if underfunding persisted alongside sustained negative cash flows, deteriorating sponsor capacity or forced asset sales, and not merely from a temporary market price decline. The liquidity stress results remained supportive: liquid assets decline from N$119.7 billion to N$99.3 billion by end-2026 and N$54.4 billion by end-2028 in the severe path, without breaching the modelled liquidity threshold.

Figure 27: Retirement funds: Funding position



Source: NAMFISA

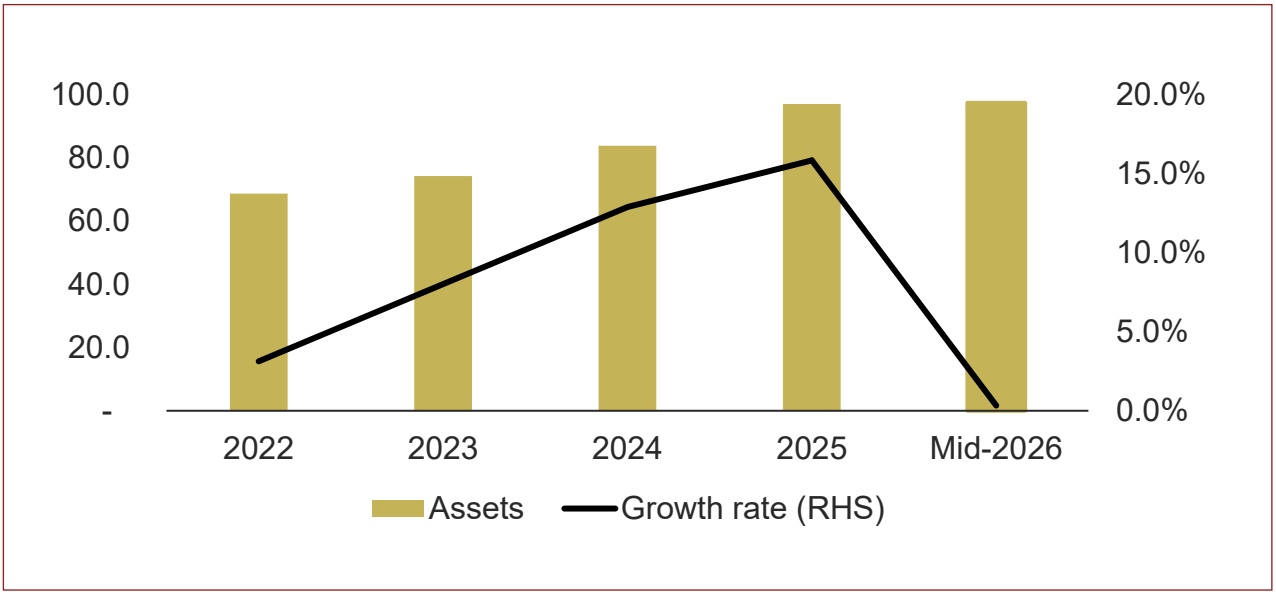
Subsector stability assessment

The retirement fund subsector is assessed as sound, with adequate aggregate funding and strong liquidity for its liability structure. The principal vulnerabilities are structural and medium term: persistently negative net contribution flows, dependence on investment returns to sustain real asset growth and longevity uncertainty, and common exposure to domestic sovereign and capital-market risk. None of these amounts to an immediate liquidity concern. Standard supervisory engagement remains appropriate, supplemented by fund-level recovery horizon analysis, cash flow projections by maturity cohort and sensitivity testing of actuarial assumptions.

Long-term insurance subsector

Long-term insurer assets remained broadly unchanged at N$97.4 billion during the first half of 2026 (N$97.1 billion at end-2025), following growth of 15.8 percent in 2025. The moderation is consistent with a less favourable valuation environment: regional equities weakened toward the end of the period, while fixed-income markets experienced substantial intra-period volatility. Correspondingly, liabilities declined to N$82.4 billion from N$83.9 billion, resulting in excess assets increasing to N$15.1 billion, lifting asset coverage to 123.2 percent. The movement strengthens the reported solvency position.

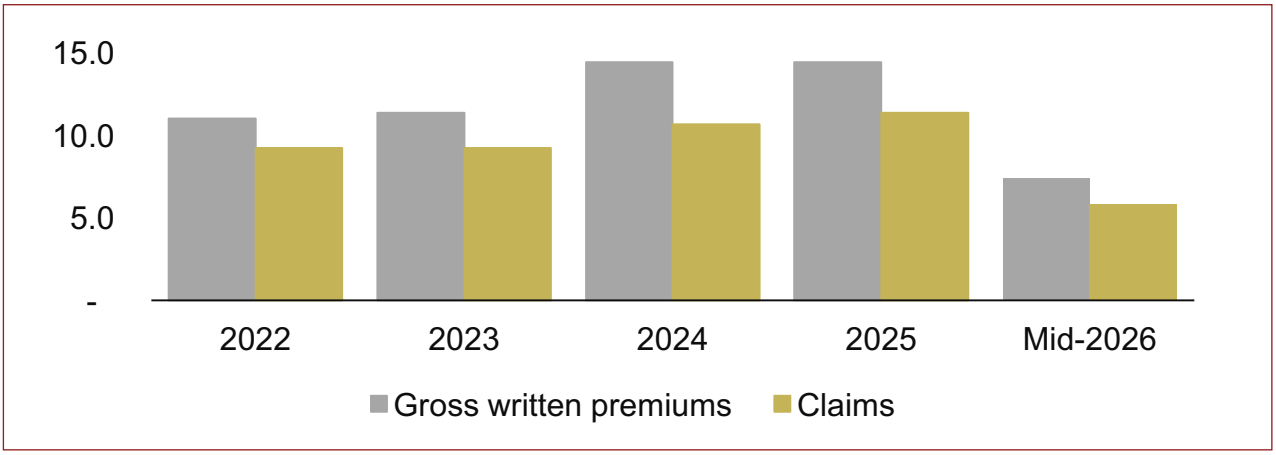
Figure 28: Long-term insurance: Total assets



Source: NAMFISA

Business volumes nevertheless remained resilient. Gross written premiums reached N$7.4 billion during the first six months, equivalent to just over half of the N$14.4 billion recorded during 2025, while the number of policies increased by 2.2 percent to approximately 2.39 million. This suggests that the subdued growth in total assets cannot be interpreted simply as a contraction in insurance demand. Instead, the assessment must separate new-business and premium performance from investment valuation, benefit payments, reserve movements, and the maturity profile of policyholder liabilities. Moreover, the renewed rise in inflation has mixed implications for the subsector. Higher nominal interest rates can improve reinvestment yields and, depending on liability duration, reduce the present value of long-term obligations; however, higher transport and living costs may increase policy lapses. Equity-market weakness also matters because the subsector's investment-dependent earnings model requires portfolio returns to offset the long-run cost of policyholder liabilities and underwriting expenses.

Figure 29: Long-term insurance: Gross written premiums–claims



Source: NAMFISA

Prudential indicators

Table 9: Long-term insurance subsector: Prudential indicators in Mid-2026

Indicator	Latest	Median	P25	P75	Std. dist (IQR)*	Trigger
Solvency ratio	123.2	121.8	120.8	123.3	0.564	Normal
Combined ratio	95.9	87.5	78.2	101.5	0.360	Watch
Cession ratio	4.9	3.9	3.3	4.6	0.807	Normal
Underwriting profit margin	17.1	-12.1	-51.5	7.2	0.497	Normal
Return on assets	2.6	0.9	0.4	1.4	1.826	Normal
Liquid asset / technical liability coverage	63.5	54.4	47.9	58.8	0.836	Normal
Current ratio	596.5	625.5	572.2	708.9	-0.212	Normal
Liquidity mismatch ratio	41.2	38.7	23.0	41.5	0.136	Normal

Note: * StandardiSed Distance of the Interquartile Range
Source: NAMFISA

The long-term insurance subsector remains broadly resilient, supported by adequate solvency, strong liquidity and positive profitability. The solvency ratio of 123.2 percent indicates that assets exceed technical liabilities by approximately 23 percent, providing a meaningful buffer against valuation and underwriting shocks. Liquidity conditions are similarly sound: liquid assets cover 63.5 percent of technical liabilities, above the historical upper quartile, while the current ratio and liquidity-mismatch ratio remain within normal ranges.

Underwriting performance improved materially, with the combined ratio declining from 103.9 percent at end-2025 to 95.9 percent during the review period. A ratio below 100 percent indicates that premiums are sufficient to cover claims and operating expenses; however, the reading remains above its historical median of 87.5 percent and is consequently classified as "Watch". This warrants continued monitoring of claims experience and expense pressures, but does not presently signal material stress, particularly given the positive underwriting margin of 17.1 percent and return on assets of 2.6 percent. Overall, the dashboard points to contained financial stability risks, with no immediate solvency or liquidity concerns, although underwriting efficiency should remain under supervisory review.

Overall assessment

System-wide NBFI risk remained contained at mid-2026, but the balance of vulnerabilities shifted toward macrofinancial, sovereign-concentration and household-affordability channels. Aggregate assets increased by 4.0 percent during the first half of the year to N$575.0 billion, while the principal prudential indicators for retirement funds and long-term insurers remained within broadly sound ranges. The six-month growth rate should not be compared mechanically with the 16.6 percent full-year expansion recorded in 2025; it confirms continued accumulation rather than demonstrating a like-for-like deceleration.

The principal system-wide vulnerability is the potential for a common macrofinancial shock to affect several subsectors simultaneously. Retirement funds, collective investment schemes and long-term insurers accounted for approximately 89.8 percent of the sector's assets at end-June 2026. Their shared exposure to domestic and regional bonds, equities and sovereign instruments means that inflation, interest-rate and fiscal shocks can simultaneously transmit through valuation losses, weaker household cash flows, redemption pressure and reduced premium or contribution growth.

The overall risk stance is assessed as stable, with elevated monitoring warranted rather than broad-based supervisory escalation. Baseline solvency and liquidity risks remain low, but high-impact tail risks persist because of the size of the sector, its role in household savings and insurance, and its importance as a source of domestic sovereign funding. Supervisory attention should therefore concentrate on common exposures, recovery horizons, corporate redemption concentration, policy persistency and emerging borrower stress.

4.3 Payments infrastructure and regulatory developments

A resilient and efficient National Payment System (NPS) remains a key pillar of financial stability. During the first half of 2026, the Bank continued to oversee the NPS in accordance with the Payment System Management Act (Act No. 14 of 2023), with a focus on mitigating payment system risks and strengthening the resilience of the payments ecosystem amid ongoing technological and regulatory changes. This was achieved through risk-based oversight, licensing, and targeted regulatory reforms. The Bank also continued to provide interbank settlement services through the Namibia Interbank Settlement System (NISS), ensuring the safe and final settlement of transactions and supporting confidence in the financial system.

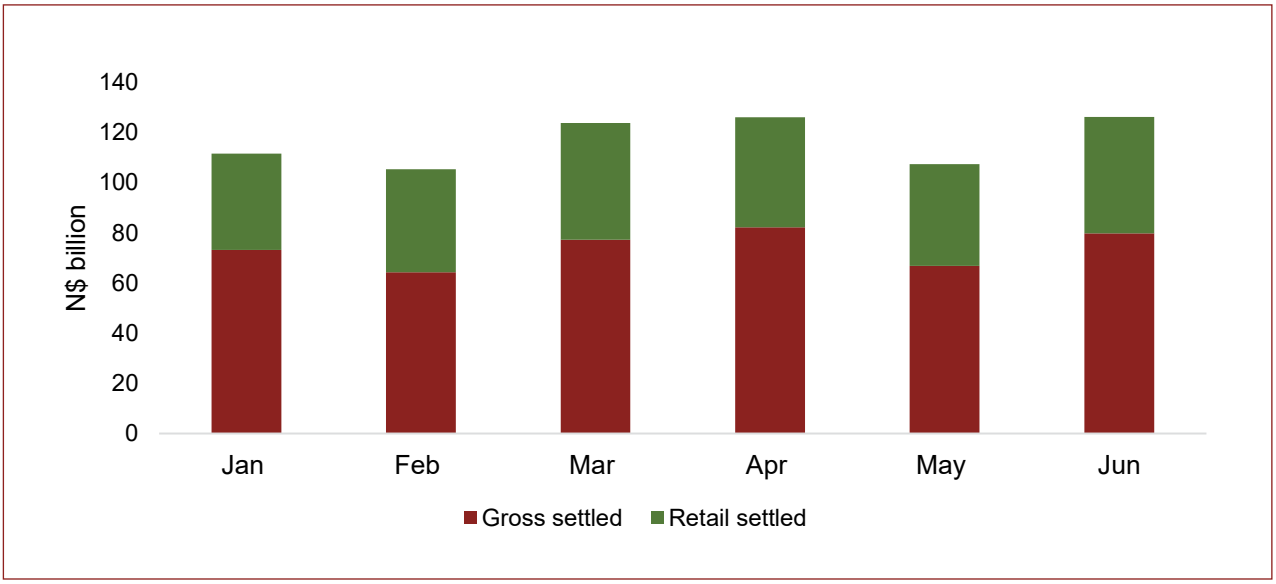
Payments infrastructure and regulatory developments

The first half of 2026 was characterised by continued progress in strengthening the regulatory, operational and strategic foundations of the NPS. Key developments included enhancements to the regulatory framework through the revision of the Determination on Operational and Cybersecurity Standards within the National Payment System (PSD-12), ongoing implementation of the Payment System Management Act, and the licensing and authorisation of payment and virtual asset service providers. The Bank also advanced several strategic modernisation initiatives, including the operationalisation of the Namibia Quick Response (NAMQR) Code Standards, the publication of the Guidance Note on the Operationalisation of Open Banking Standards in the National Payment System, and industry preparations for e-money interoperability through the Instant Payment Switch. Furthermore, implementation of the National Payment System Vision and Strategy 2026–2030 commenced, supported by a dedicated Action Plan to guide the achievement of the Strategy's objectives. Collectively, these initiatives are expected to strengthen interoperability, innovation, resilience and efficiency within the NPS, while supporting broader financial stability objectives and the development of a more inclusive and future-ready digital payments ecosystem.

Namibia Interbank Settlement System

During the first half of 2026, the NISS processed 60,022 transactions with a total value of N$700 billion, supporting the safe and efficient settlement of interbank transactions. Compared to the corresponding period in 2025, the value and volume of transactions settled increased by 21.93 percent and 9.96 percent, respectively. Real-time gross settlement transactions accounted for 63.3 percent (N$443.4 billion) of the total value settled, while retail payment bulk settlement transactions represented 36.7 percent (N$256.7 billion) (Figure 30).

Figure 30: Value of payments processed in the NISS

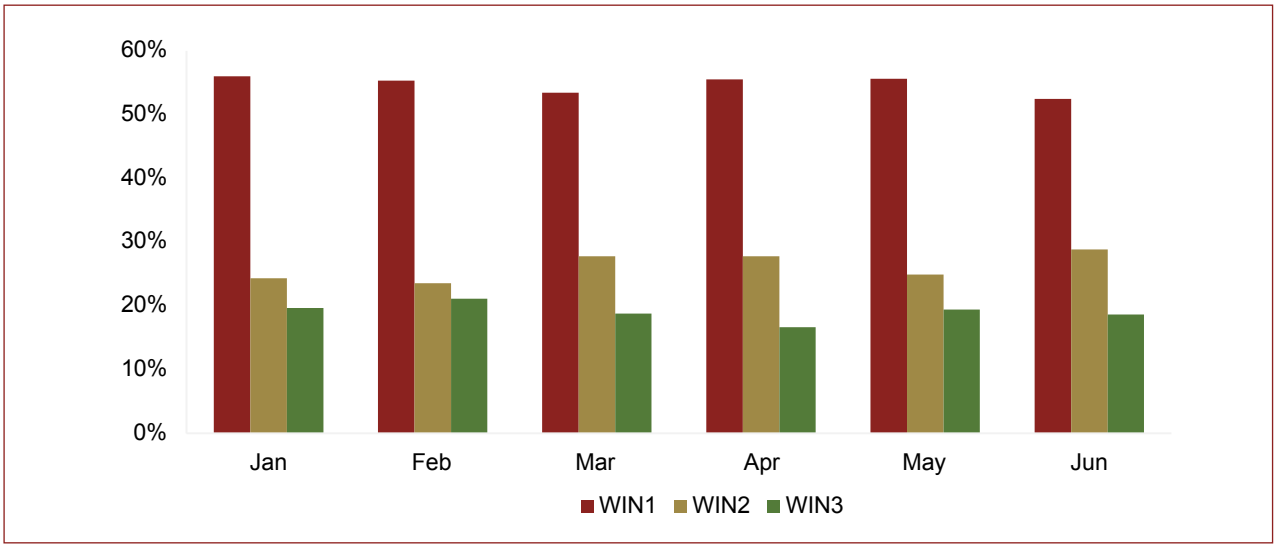


Source: BoN

NISS settlement windows

During the first half of 2026, operational and settlement risks within the NISS remained moderate, supported by the settlement of a significant share of transactions during the earlier settlement windows. Specifically, 54.7 percent (N$382.8 billion) was settled in Window 1 (08h00 to 12h00), 26.4 percent (N$184.5 billion) in Window 2 (12h00 to 15h00), and 19.0 percent (N$132.8 billion) in Window 3 (15h00 to 16h40) (Figure 31). The predominance of settlements during the earlier windows enhances overall system resilience by reducing the probability of settlement delays and providing participants with sufficient time to address potential liquidity constraints before the end of the business day.

Figure 31: Proportions of payments settled in each NISS settlement window



Source: BoN

Business continuity and availability of the NISS

The NISS maintained adequate availability during the first two quarters of 2026, although performance was marginally below the designated system availability threshold. The NISS recorded an availability rate of 99.45 percent, slightly below the target of 99.90 percent. The NISS availability rate being below the target is mainly attributed to system stabilisation activities related to post ISO 20022 Standard migration.

As part of its operational resilience activities, the Bank successfully conducted business continuity management and NISS disaster recovery exercises. In both cases, the NISS recovery and failover procedures were executed successfully, and the switchback to the primary site was completed without incident. All systems were fully restored and continued to operate as expected.

Security of retail payments

During the review period, total reported fraud losses within the NPS increased compared to the corresponding period in the previous year. Although total reported fraud losses declined from N$46.61 million in S2 2025 to N$32.45 million in S1 2026, representing a decrease of 30.4%, this trend should be interpreted in the context of seasonal variations, as fraud typically increases towards the latter part of the calendar year. A comparison with the corresponding period in S1 2025 therefore provides a more meaningful assessment of the year-on-year trend. Compared with S1 2025, total reported fraud losses increased by 18.9%, from N$27.29 million to N$32.45 million in S1 2026. This increase was primarily driven by EFT fraud, which rose by 47.3%, from N$14.85 million to N$21.87 million. In contrast, card fraud losses declined by 9.7%, from N$11.47 million to N$10.36 million, while e-money fraud losses decreased substantially by 72.5%, from N$835 thousand to N$229 thousand. The year-on-year increase in total fraud losses, particularly those associated with EFTs, highlights the need for continued strengthening of fraud prevention, detection and mitigation measures across the NPS.

Despite the decline in total fraud losses compared with the previous semester, a year-on-year comparison shows an increase in overall fraud losses, primarily driven by EFT fraud. Card and e-money fraud losses, however, declined compared with the corresponding period in S1 2025. Card fraud losses decreased by 9.7%, from N$11.47 million in S1 2025 to N$10.36 million in S1 2026. Nevertheless, card-not-present fraud remains a key concern, particularly where merchants do not implement 3-D Secure authentication, increasing exposure to disputed transactions and unauthorised payments. The continued growth in digital payments reinforces the need to strengthen authentication controls and security measures across digital payment channels to safeguard consumers and maintain confidence in these services.

In contrast, EFT fraud losses increased significantly by 47.3%, from N$14.85 million in S1 2025 to N$21.87 million in S1 2026, making EFT fraud the primary driver of the overall year-on-year increase in fraud losses. Reported EFT fraud incidents have been associated with phishing and vishing i.e. social engineering, in which fraudsters impersonate banking personnel or other trusted organisations to obtain sensitive customer information, leading to account takeovers and unauthorised transactions. This increase highlights the need for continued strengthening of fraud monitoring, customer awareness and preventive controls across the industry. E-money fraud losses declined substantially by 72.5%, from approximately N$835 thousand in S1 2025 to N$229 thousand in S1 2026. Reported incidents have primarily involved social engineering tactics, including technical support and lottery scams, as well as the impersonation of banking personnel to induce customers to disclose their wallet PINs. Continued industry engagement on fraud risk management, together with the Bank's oversight and monitoring of e-money wallet services, remains important to sustaining this reduction. The year-on-year increase in fraud losses underscores the need for sustained industry efforts to strengthen fraud prevention, detection and mitigation, particularly in EFTs, while continuing to address persistent risks in card-not-present transactions and social engineering schemes affecting digital payment services. Public education remains essential to reinforce safe digital payment practices, encourage consumers to safeguard their personal and financial information, and remain vigilant against phishing, impersonation and other social engineering scams.

The protection of financial data improved during the review period, as industry participants continued to implement the Payment Card Industry Data Security Standard. Compliance with the standard supports the consistent protection of cardholder data and strengthens the industry's ability to prevent data breaches and fraud. The continued adoption of the PCI DSS framework has further enhanced payment security across the NPS.

The increasingly cross-sectoral nature of fraud and scam-related activities continued to necessitate a coordinated response among regulators, financial institutions, telecommunications providers, and other stakeholders. In response, the Bank reinforced collaboration and awareness efforts through engagements conducted under the Cyber, Operational Resilience and Fraud Mitigation Council, and by hosting the National Fraud Seminar in February 2026. The seminar provided a platform for discussions on emerging fraud trends and sector-wide mitigation strategies. The Bank also collaborated with key stakeholders, including the Communications Regulatory Authority of Namibia, mobile network operators, and NAMFISA, to strengthen coordinated responses to fraud- and scam-related activities.

In addition, the BoN partnered with the Government Institutions Pension Fund to deliver fraud awareness initiatives in various towns, educating vulnerable communities on payment fraud risks such as phishing, vishing and account-takeover schemes, thereby enhancing consumer awareness and resilience against financial crime.

During the review period, the BoN maintained oversight of payment service providers and other regulated entities through a combination of off-site monitoring and on-site supervisory activities. Off-site supervision included the continuous assessment of regulatory returns, compliance obligations, risk exposures and operational performance. In addition, the Bank commenced with one risk-based inspection and completed a pre-opening inspection of Instant Payment Namibia, a payment system operator, as part of its ongoing supervisory mandate. The BoN also undertook two pre-opening inspections of payment service providers and finalised inspection engagements initiated in previous reporting periods, including a risk-based inspection and a pre-opening inspection of a virtual asset service provider. Furthermore, regulated entities continued to address findings arising from inspections conducted in previous semesters, while the BoN monitored the implementation of agreed remedial actions and corrective measures to support the timely resolution of supervisory findings and ongoing compliance with the applicable regulatory framework.

Developments in payment and settlement systems

During the first half of the year, the BoN continued to enhance its regulatory framework to ensure alignment with the Payment System Management Act. Key reforms included the issuance of the revised *Determination on Operational and Cybersecurity Standards within the National Payment System* (PSD-12), which was gazetted in July 2026, to strengthen resilience across the NPS through enhanced requirements relating to proactive information security management, operational resilience, third-party risk management, cloud computing arrangements, and fraud risk management. The revised determination seeks to ensure that regulated entities maintain effective governance, controls and risk management practices to safeguard payment infrastructure and services against evolving operational and cyber threats. The Bank is further developing guidelines on the conduct and operations of instant payments in Namibia which will provide for minimum requirements aimed at promoting the safe, efficient and interoperable provision of instant payment services, while supporting consistent industry practices and broader accessibility of instant payments across the NPS.

As part of its regulatory mandate, the Bank oversees the licensing and authorisation of payment service providers and virtual asset service providers under the *Payment System Management Act and the Virtual Assets Act (No. 10 of 2023),* respectively. During the first half of 2026, one payment system operator was granted full authorisation. Furthermore, five payment service providers received provisional authorisation, while one virtual asset service provider was granted provisional authorisation.

During the first half of 2026, the Bank continued to advance key initiatives aimed at modernising the NPS and promoting a more interoperable, efficient and resilient digital payments ecosystem. Following the publication of the Guidance Note on the Operationalisation of the NAMQR Code Standards in the National Payment System in December 2025, the Bank progressed the operationalisation of the NAMQR Code Standards. In collaboration with the Payments Association of Namibia and industry participants, the BoN commenced with the development of the NAMQR Scheme Rules, Functional Specification and Test Framework, Operating Guidelines, and Go-to-Market Strategy, which will establish the governance, operational and implementation framework for standardised and interoperable NAMQR-based payments in Namibia. The operationalisation work also includes the identification and appointment of a Scheme Operator to support the implementation and broader adoption of interoperable NAMQR-based payments across the NPS.

The Bank also advanced the operationalisation of Open Banking in Namibia through the publication of the Guidance *Note on the Operationalisation of Open Banking Standards in the National Payment System in January 2026.* The Guidance Note outlines the key implementation milestones, including an industry pilot programme to assess Open Banking use cases and the associated operational, technical and regulatory considerations. The outcomes of the pilot will inform the development of a regulatory framework to support the safe and effective implementation of Open Banking, thereby fostering a more innovative, competitive and interoperable financial ecosystem and supporting the resilience and efficiency of the financial system.

During the period under review, the Bank continued to oversee industry implementation of the *Directive on E-Money Interoperability through the Instant Payment Switch* (PSDIR-11), ahead of the compliance deadline of 30 November 2026. Industry participants are progressing the necessary technical and operational arrangements to enable interoperable e-money transactions through the Instant Payment Switch. The implementation of PSDIR-11 represents an important step towards strengthening interoperability within the NPS, enabling seamless transfers between e-money wallets and bank accounts, and supporting broader access to efficient digital payment services. Furthermore, enhanced interoperability is expected to deepen the adoption and usage of digital payments by providing consumers and businesses with greater convenience and a wider range of payment options. This will enhance the efficiency and accessibility of digital payment services while contributing to a more integrated, inclusive and resilient payments ecosystem that supports broader financial stability objectives.

Following the launch of the *National Payment System Vision and Strategy 2026–2030* on 26 March 2026, the Bank commenced with its implementation to advance a resilient, inclusive, efficient and future-ready payments ecosystem. As part of this process, an Action Plan has been developed to translate the strategic priorities of the Vision into targeted initiatives and deliverables over the strategic period. The Action Plan provides a coordinated roadmap for implementation across the NPS and will guide key initiatives aimed at strengthening payment system resilience, advancing digital enablement and interoperability, promoting innovation, and enhancing the safety and efficiency of payment services. Implementation will be undertaken in collaboration with the Payments Association of Namibia and the broader payments industry, with progress monitored against the strategic objectives of the NPS Vision and Strategy.

The Bank continued its participation in the SADC Real-Time Gross Settlement (SADC-RTGS) system during the review period. The SADC-RTGS serves as a regional settlement platform for time-critical and high-value payments among participating SADC member states. As at the end of June 2026, the system comprised 15 SADC countries and five Namibian participants, including the Bank of Namibia. Between January and June 2026, payments processed through the system amounted to R1.38 trillion, of which Namibian participants accounted for R388.4 billion, representing 28.2 percent of the total value settled. The continued utilisation of the SADC-RTGS by Namibian participants demonstrates its importance in advancing regional payments integration in line with the SADC Finance and Investment Protocol, while supporting the efficient, secure and resilient settlement of cross-border transactions.

During the period under review, the Bank continued to advance the implementation of the *Directive on the Regularisation of Cross-border Low-value Electronic Funds Transfers (EFT) within the Common Monetary Area (CMA)* (PSDIR-10). In support of this initiative, industry participants are preparing to migrate low-value cross-border EFT transactions to the Transactions Cleared on an Immediate Basis payment scheme by 31 March 2027. The transition is expected to improve the efficiency, reliability, and convenience of low-value cross-border payments for individuals and businesses that send and receive money within the Common Monetary Area. Regional implementation and industry readiness activities are underway to support a smooth migration to the payment scheme and ensure compliance with the prescribed regulatory deadlines. Once implemented, the new arrangement will provide a payment solution for low-value cross-border transactions, while strengthening regional payment integration and enhancing the resilience of the cross-border payments ecosystem.



5.

Stress Testing

5. STRESS TESTING

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

5.1 Čihák Stress Test Model

The Čihák Stress Test Model was used to assess the resilience of the domestic systemically important banks (DSIBs) to credit and liquidity risks through a scenario-based approach. The scenarios are modelled to focus on interest rate, credit and liquidity risks 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 materialise, and to suggest policy options to minimise the impact of potential shocks on the banking sector and the overall economy. The Čihák Model was used to stress-test the DSIBs' solvency position 12 months into the future, as well as in respect of a five-day liquidity rundown.

Credit risk

Global and domestic economic developments in Namibia affect interest rate developments and, thus, credit risk. Global growth is expected to moderate to 3.1 percent in 2026, an upward revision from the July 2026 WEO. Risks to the outlook are still tilted to the downside. Domestically, economic activity showed mixed performance across sectors during the first half of 2026.[8]

The SARB and the BoN both increased their respective repo rates at their latest Monetary Policy Committee meetings. At its September 2026 meeting, the SARB increase the repo rate by 25-basis points to 7.25 percent. The decision reflected continued uncertainty surrounding the inflation outlook, with risks remaining tilted to the upside and headline inflation expected to remain above 5.0 percent until early 2027. Similarly, the BoN increased the repo rate by 25-basis points to 7.0 percent at its October 2026 meeting.

The prevailing monetary policy stance was considered appropriate to safeguard the stock of international reserves and support the one-to-one link between the Namibia Dollar and the South African Rand. From this level, the following repo rate scenarios are considered:

baseline scenario:

increase the repo rate by 25 basis points over the next 12 months;

intermediate scenario:

increase the repo rate by 50 basis points over the next 12 months; and

severe scenario:

increase the repo rate by 100 basis points over the next 12 months.

The NPL ratio declined during the second quarter of 2026, reflecting an improvement in banking sector asset quality. The NPL ratio decreased from 4.2 percent in the first quarter of 2026 to 4.0 percent in the second quarter. Despite the recent improvement, downside risks to asset quality remain over the next 12 months. In particular, the recent tightening of monetary policy, amid upward pressures on the inflation outlook, could increase debt-servicing costs and place pressure on the repayment capacity of households and corporates. A deterioration in borrowers' repayment capacity could, in turn, result in higher NPLs and adversely affect banks' solvency positions. Against this backdrop, the stress test assesses the resilience of the banking sector to a potential reversal in the recent improvement in asset quality. Intermediate and severe scenarios are therefore applied to determine whether banks would maintain adequate solvency positions should credit risk increase over the next 12 months. The following trajectories for the NPL ratio are assumed under each scenario:

baseline scenario:

a 0.2 percentage point increase in the banking sector NPL ratio;

intermediate scenario:

a 1.0 percentage point increase in the banking sector NPL ratio; and

severe scenario:

a 3.0 percentage point increase in the banking sector NPL ratio.

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

Liquidity risk

Liquidity risk reflects the ability of banks to meet their financial obligations as they fall due without incurring significant losses. During the second quarter of 2026, the DSIBs maintained strong liquidity positions, with the LCR and NSFR standing at 168.9 percent and 123.2 percent, respectively, well above the regulatory minimum requirement of 95 percent. Demand deposits, comprising current account, call and savings deposits, increased by 8.6 percent on a quarterly basis to N$98.1 billion, mainly driven by growth in current account and call deposits within the commercial deposits category. While the prevailing liquidity indicators point to sufficient short- and longer-term funding buffers, banks remain susceptible to unexpected deposit outflows during periods of heightened market uncertainty. The liquidity stress test therefore assesses whether the banking sector could withstand a sudden and significant withdrawal of deposits while continuing to meet its obligations. Accordingly, the following withdrawal assumptions are applied to retail and wholesale deposits under the respective stress scenarios:

baseline scenario:

10 percent of demand deposits (equivalent to 6.23 percent of total deposits) withdrawn over five days

intermediate scenario:

30 percent of demand deposits (equivalent to 18.69 percent of total deposits) withdrawn over five days; and

severe scenario:

60 percent of demand deposits (equivalent to 37.38 percent of total deposits) withdrawn over five days.

A summary of the stress test scenarios is presented in Table 10

Table 10: Summary of the stress test scenarios

Variable	Stress test scenario		
	Baseline	Intermediate	Severe
Interest rate assumption – repo rate	Increase rate by 25 basis points	Increase rate by 50 basis points	Increase rate by 100 basis points
Credit risk – NPL ratio	0.2 percentage point increase	1.0 percentage point increase	3.0 percentage point increase
Liquidity risk	10 percent of demand deposits withdrawn over five days (6.23% of total deposits)	30 percent of demand deposits withdrawn over five days (18.69% of total deposits)	60 percent of demand deposits withdrawn over five days (37.38% of total deposits)
Other variables	Haircut applied to collateral: 30 percent for baseline, 35 percent for intermediate and 40 percent for severe 50 percent assumed provisioning of the new NPLs		

Source: BoN

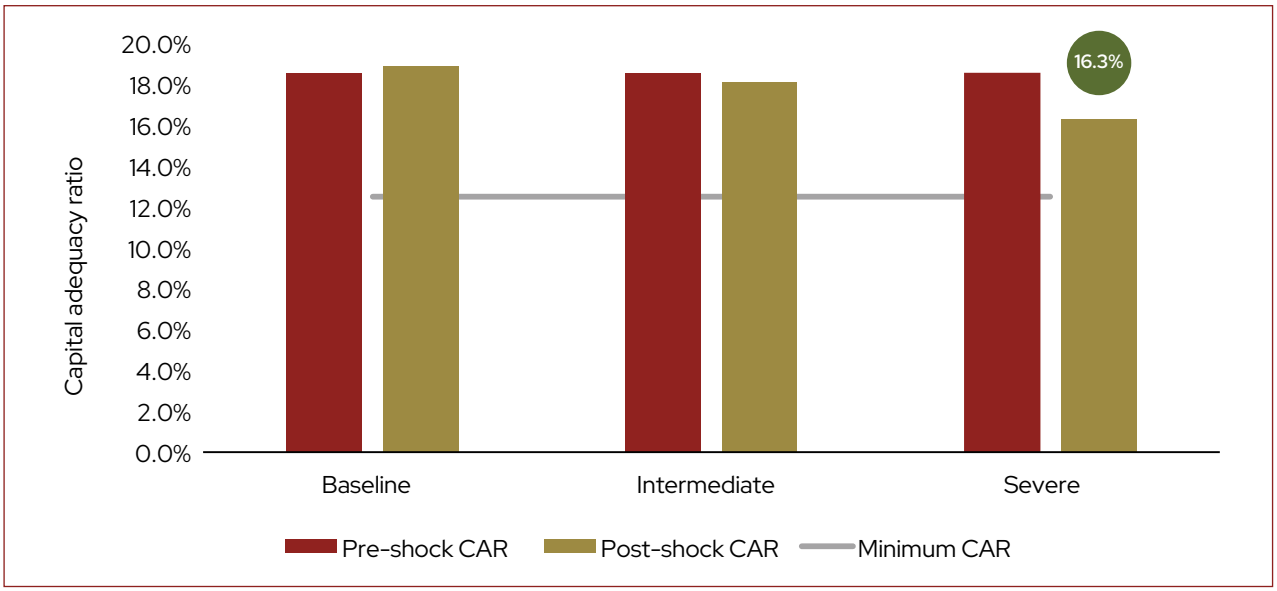
5.2 Stress test results

Solvency

The Čihák stress test results demonstrate that the banking sector remains resilient at the aggregate level under all three scenarios, although some institution-specific vulnerabilities emerge under the severe scenario. The DSIBs entered the stress test with a pre-shock capital adequacy ratio (CAR) of 18.6 percent. Under the baseline scenario, the post-shock CAR increased to 18.9 percent, remaining 6.4 percentage points above the statutory minimum requirement of 12.5 percent. The improvement was largely supported by strong profits before loan-loss provisions, together with the positive impact of the 25-basis-point increase in the repo rate on net interest income. Given the positive short-term repricing gap between interest-sensitive assets and liabilities, the interest rate increase generated an estimated N$60.2 million in additional interest income.

As the severity of the shocks increases, the DSIBs' capital position weakens, with the post-shock CAR declining to 18.1 percent under the intermediate scenario, and further to 16.3 percent under the severe scenario (Figure 32). Despite the deterioration, the aggregate CAR under the severe scenario remains 3.8 percentage points above the regulatory minimum, indicating that existing capital buffers are sufficient to absorb the combined effects of the assumed interest rate and credit risk shocks. Resilience is, however, uneven across institutions. Under the severe scenario, one DSIB records a post-shock CAR of 11.4 percent, falling below the minimum regulatory requirement and resulting in an estimated capital shortfall of N$83.7 million. The results therefore highlight the importance of maintaining adequate institution-specific capital buffers, notwithstanding the resilience observed at the aggregate banking sector level.

Figure 32: Solvency stress test results

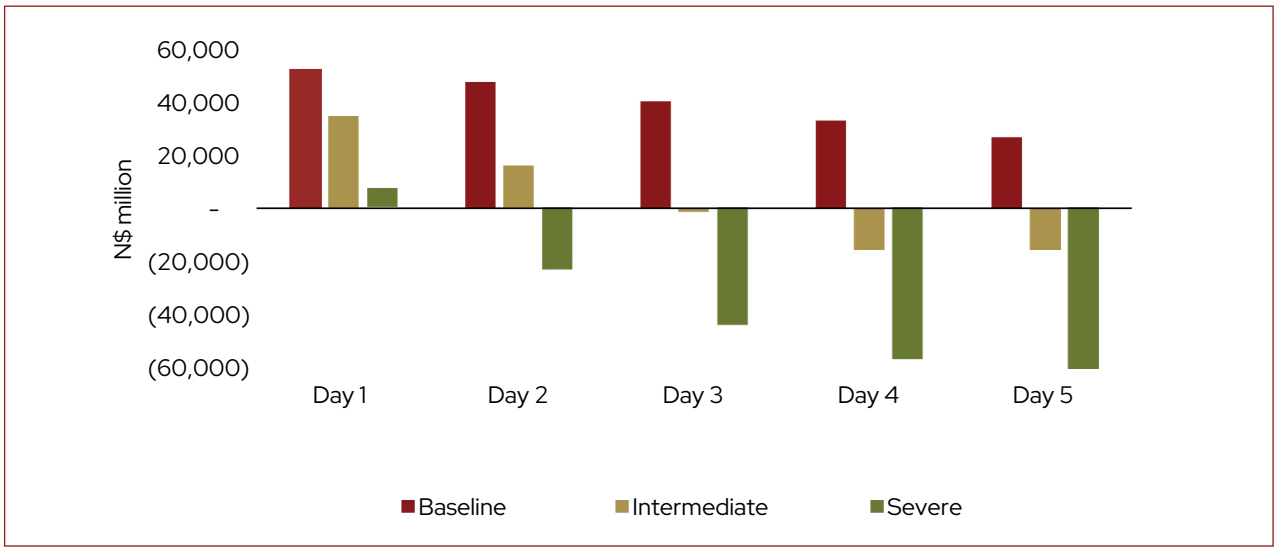


Source: BoN

Liquidity

The liquidity stress test indicates that the banking sector would maintain adequate liquidity under the baseline scenario, while funding pressures would emerge under more severe shocks. Under the baseline scenario, banks remain able to meet their liquidity needs throughout the five-day stress horizon, despite a progressive decline in available liquidity (Figure 33). Under the intermediate scenario, liquidity buffers are depleted more rapidly, resulting in a shortfall from Day 3 and an additional liquidity funding requirement of N$1.4 billion. The impact is more pronounced under the severe scenario, with the DSIBs recording a liquidity shortfall as early as Day 2. The results therefore indicate that while existing liquidity buffers provide sufficient protection against the baseline shock, larger and more rapid deposit withdrawals could exhaust available liquidity within a relatively short period. Importantly, banks maintain contingency funding plans that identify alternative funding sources and mitigating actions to support liquidity resilience during periods of significant funding stress. The effectiveness of these measures will, however, depend on their timely activation and the availability of the identified funding sources under stressed market conditions.

Figure 33: Liquidity stress test results



Source: BoN

5.3 Dynamic Bank Balance Sheet Tool

The Dynamic Bank Balance Sheet Tool (DBBST) provides a forward-looking assessment of banking sector resilience by incorporating historical macrofinancial relationships and projecting their impact on banks' balance sheets over a multi-year horizon. Although the DBBST can accommodate a five-year stress-testing horizon, a three-year horizon (2026–2028) was adopted to adequately capture the buildup and transmission of macrofinancial risks while limiting the uncertainty associated with longer-term projections. In addition to the variables incorporated in the Čihák Model, the DBBST includes real GDP, inflation, short- and long-term sovereign bond yields, the repo and prime lending rates, house prices, and exchange rates. The BoN uses the DBBST as part of its financial stability assessment to quantify the resilience of the banking sector, particularly its solvency position, under different macrofinancial scenarios.

Calibration of the DBBST scenarios

Two scenarios were considered, namely a baseline and an adverse scenario. The baseline scenario represents the expected evolution of the domestic economy under prevailing macroeconomic conditions and is aligned with the BoN's macroeconomic projections published in the August 2026 Economic Outlook Report. The baseline also incorporates relevant external assumptions, including projections from the SARB September 2026 MPC. The adverse scenario, by contrast, reflects the materialisation of key financial stability risks facing the Namibian banking system and is calibrated to represent a severe but plausible deterioration in macrofinancial conditions.

The adverse scenario assumes a global supply shock stemming from heightened geopolitical tensions, rising commodity prices, and renewed disruptions to global supply chains. The shock results in stronger-than-expected inflationary pressures across advanced economies and EMDEs, accompanied by an increase in inflation expectations. In response, major central banks tighten monetary policy to contain inflation and restore price stability. In South Africa, capital outflow pressures and an initial depreciation of the rand result in inflationary pressures which prompt the SARB to raise interest rates to stabilise financial conditions. Given Namibia's exchange rate peg to the South African rand, the Bank of Namibia is expected to respond broadly in tandem with the SARB. Against this backdrop, it is assumed that the Namibia dollar depreciates against the US dollar by 20.0 percent at its peak, while the nominal effective exchange rate depreciates by approximately 10.0 percent.

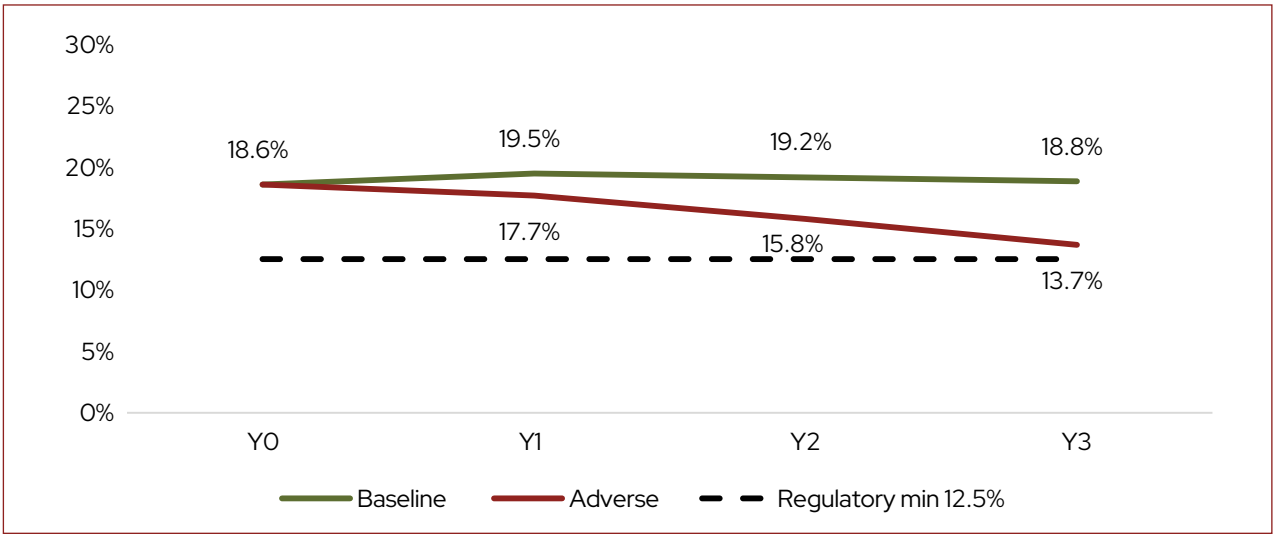
Domestic macroeconomic conditions deteriorate substantially under the adverse scenario, reflecting the transmission of the external shock to the Namibian economy. Real GDP is assumed to contract cumulatively by 11.4 percent by the end of the stress-testing horizon, broadly comparable to the severe contraction experienced during the Covid-19 period. The weakening in economic activity is accompanied by a marked slowdown in credit growth as lending demand declines and credit conditions tighten. At the same time, inflation rises sharply and reaches double-digit levels over the stress-testing horizon, driven primarily by exchange rate depreciation and persistent supply-side pressures.

The deterioration in economic conditions is further amplified by heightened sovereign risk and declining asset prices. Increased concerns about public debt sustainability result in higher risk premia and a sharp repricing in domestic debt markets, leading to elevated government bond yields. At the same time, the weaker economic environment places downward pressure on the property market, resulting in a significant decline in real estate prices. These developments adversely affect the banking sector through several channels, including higher credit losses, weaker profitability and reduced collateral values. The deterioration in household and corporate debt-servicing capacity further increases credit risk, thereby placing additional pressure on banks' capital positions over the stress-testing horizon.

Results

The stress test results indicate that the commercial banking sector remains adequately capitalised under both the baseline and adverse scenarios. The sector's CAR stood at 18.6 percent at the end of June 2026. Under the baseline scenario, the CAR increases marginally to 18.8 percent by the end of the three-year stress-testing horizon (Figure 34), reflecting the sector's ability to maintain its capital position under expected macroeconomic conditions. Under the adverse scenario, however, the CAR declines to 13.7 percent by the end of the stress-testing horizon, mainly due to higher credit losses and weaker income generation, particularly from net trading and other operating income. Despite the notable deterioration in capital adequacy under the adverse scenario, the banking sector remains resilient to the assumed but plausible severe shocks, with the CAR remaining above the minimum prudential requirement throughout the stress-testing horizon.

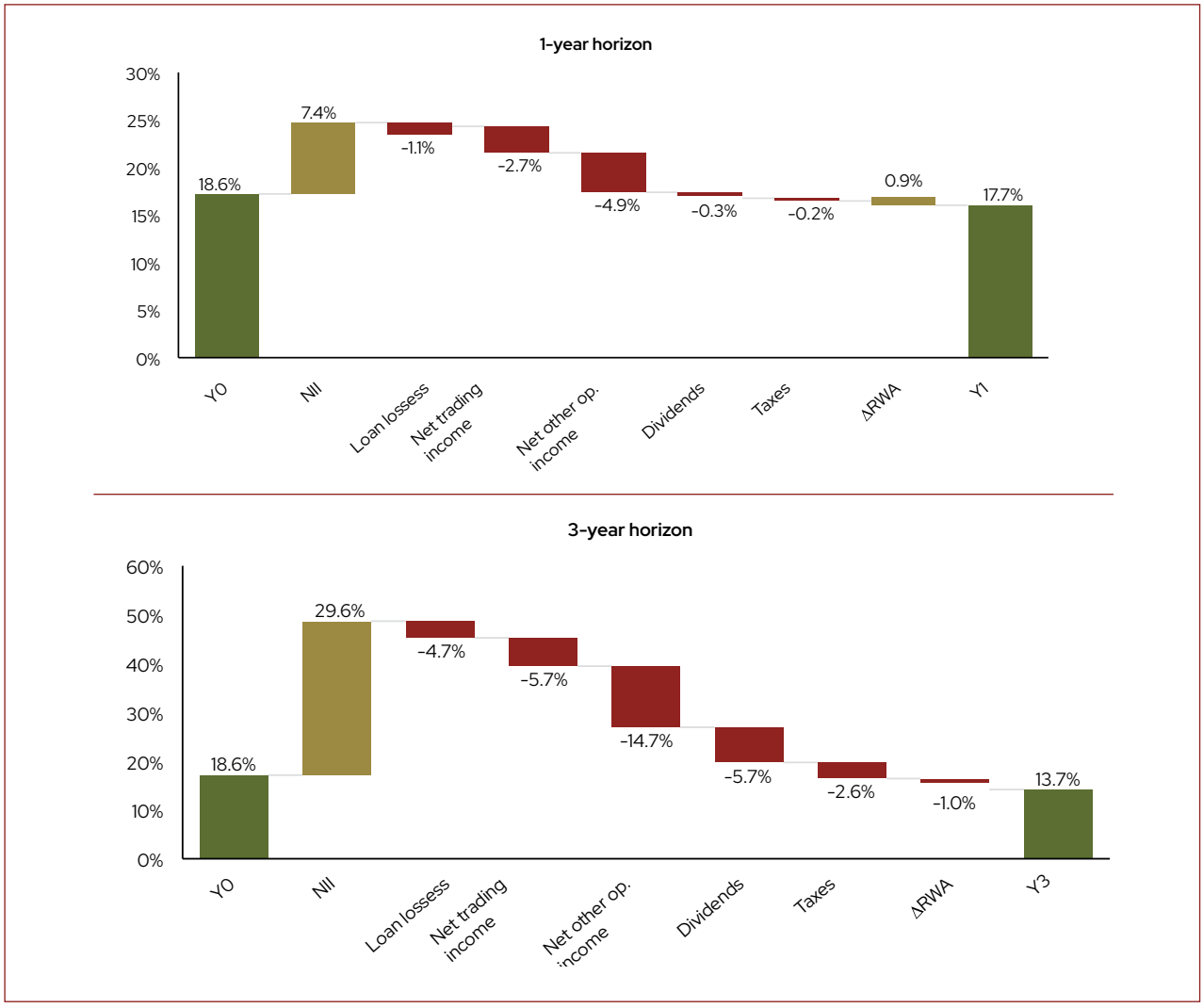
Figure 34: Regulatory capital ratio for the banking system



Source: BoN

The deterioration in the banking sector's capital adequacy under the adverse scenario is largely driven by weaker non-interest income and higher credit losses. Net other operating income is the largest negative contributor, reducing the CAR by 14.7 percentage points over the stress-testing horizon (Figure 35), primarily due to lower fees and commission income. This reflects the significant slowdown in economic activity, which reduces transaction volumes and other fee-generating activities. Net trading income represents the second-largest negative contributor, lowering the CAR by 5.7 percentage points, largely due to the sharp increase in government bond yields and the associated valuation effects. Higher loan losses further reduce the CAR by approximately 4.7 percentage points, reflecting the deterioration in borrowers' debt-servicing capacity under the adverse macroeconomic conditions. In contrast, net interest income provides a significant buffer against the deterioration in capital adequacy, contributing 29.6 percentage points to the CAR over the three-year stress-testing horizon. This positive contribution partially offsets the adverse effects of weaker non-interest income and higher credit losses. The model further assumes that profitable banks continue to distribute dividends throughout the stress-testing horizon. Consequently, dividend payouts reduce capital adequacy under both the baseline and adverse scenarios, although the impact is smaller under the adverse scenario due to weaker profitability and, consequently, lower dividend distributions.

Figure 35: Contribution to the CAR over the adverse stress test horizons



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

Overall, the stress test results indicate that the Namibian banking sector remains resilient to severe but plausible macrofinancial shocks. Despite the deterioration in economic conditions, higher credit losses, and pressures on key income sources under the adverse scenario, the sector maintains capital levels above the minimum prudential requirements throughout the stress-testing horizon, supported by the relatively strong capital buffers held by banks. While the impact of the assumed shocks varies across individual institutions, the aggregate results suggest that the banking sector remains sufficiently capitalised to absorb the simulated losses. Accordingly, the results do not point to an immediate need for additional policy intervention. Nevertheless, continued supervisory monitoring and prudent risk management remain important to ensure the early identification of emerging vulnerabilities and to preserve the resilience of the financial system.



6.

Property Market Analysis

6. PROPERTY MARKET ANALYSIS

Namibia's residential property market remained broadly resilient during the second quarter of 2026. The resilience was supported by strengthening collateral buffers despite subdued mortgage credit growth. House prices increased by 1.2 percent quarter-on-quarter (q-o-q) and 7.4 percent year-on-year (y-o-y) in June 2026, raising the 12-month national weighted average house price to N$1.46 million. Rising property values contributed to improved borrower equity and lowered the banks' loss-given default. The equity coverage ratios increased to 93.4 percent for primary residences and 116.2 percent for non-primary residences on an outstanding value basis. Mortgage market composition remained stable, with primary residences accounting for 88.8 percent of total residential mortgages (Table 11). This underscores the predominantly owner-occupied nature of the market and the limited presence of speculative activity, consistent with the LTV regulation. Notwithstanding these positive developments, persistent housing affordability pressures and the limited supply of serviced land remain key vulnerabilities in the residential property market.

6.1 Mortgage credit developments

Mortgage loans remain the dominant component of total banking sector loans and advances, though their relative share has declined consistently year-on-year. Total mortgage loans declined to 47.7 percent of total loans and advances in June 2026, from 49.2 percent in the corresponding period of 2025. This trend is mirrored across both household and corporate segments, with household mortgage loans accounting for 64.8 percent of total household credit, while corporate mortgage loans represented a considerably lower share of 24.5 percent of total corporate credit (Table 11). Overall, the continued gradual decline in the share of mortgage loans in the banks' balance sheets reflects subdued mortgage credit uptake, coupled with a composition shift in other credit categories such as instalment and leasing which are expanding at a faster pace.

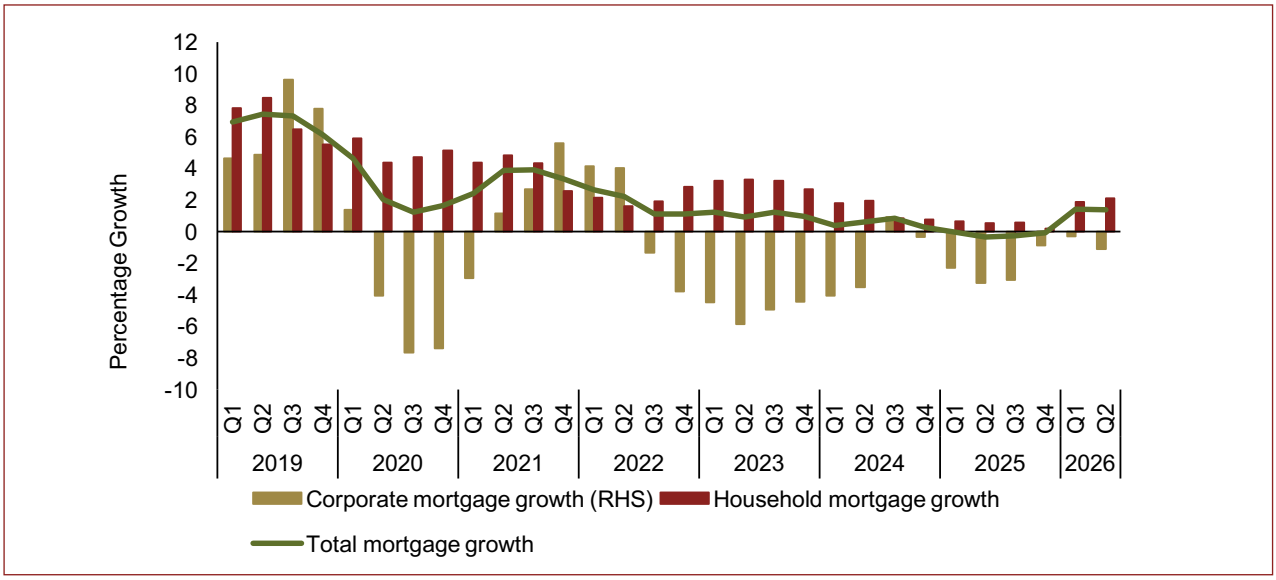
Table 11: Household and corporate mortgage credit share as a percentage of total household and corporate loans and advances

Credit category and percentage share of total credit	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
Household credit					
Total household credit	62,517	65,811	67,585	69,201	72,299
Mortgage credit	43,373	44,796	45,668	45,917	46,878
Household mortgage credit % share	69.4	68.1	67.6	66.4	64.8
Corporate credit					
Total corporate credit	45,840	45,778	46,019	50,889	53,186
Mortgage credit	14,992	14,110	13,611	13,169	13,025
Corporate mortgage credit % share	32.7	30.8	29.6	25.9	24.5
Total credit					
Total credit	108,357	111,590	113,605	120,09	125,485
Total mortgage credit	58,364	58,906	59,278	59,086	59,903
Total mortgage loans % share	53.9	52.8	52.2	49.2	47.7

Source: BoN

Total mortgage credit growth remained positive in the second quarter of 2026, led by stronger household mortgage credit extension. Overall, total mortgage credit recorded a y-o-y growth of 1.38 percent in June 2026, which represents a solid recovery from the negative growth of 0.32 percent recorded in June 2025 (Figure 36). The improvement in mortgage credit extension was primarily driven by stronger growth in household mortgage lending, which increased by 2.1 percent, up from 0.55 percent during the corresponding period in 2025. Although household mortgage credit has remained in positive territory, its growth remains below the levels observed during the Covid-19 pandemic. This reflects persistent affordability constraints stemming from a combination of factors, including elevated unemployment, irregular and non-permanent income sources, and house price growth that continues to outpace real wage growth. These factors may constrain households' ability to meet mortgage lending requirements and access to housing finance.

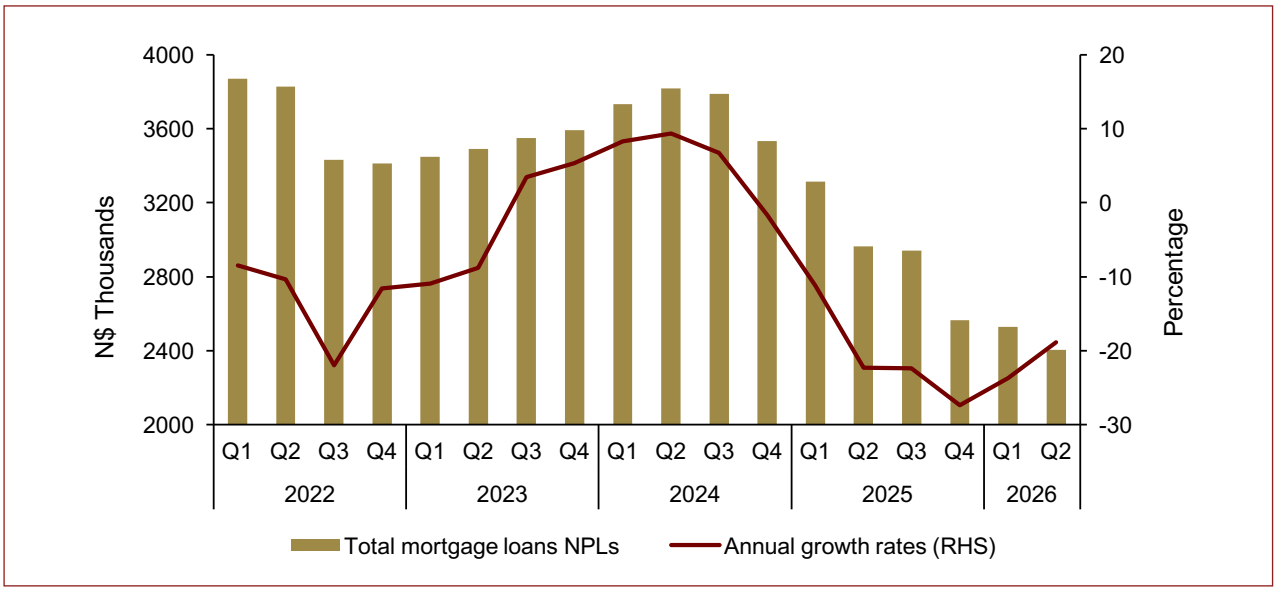
Figure 36: Mortgage credit growth



Source: BoN

The nominal value of non-performing mortgage loans continued to improve both q-o-q and y-o-y. Nominal NPLs in the mortgage loans category improved by 4.9 percent and 18.9 percent q-o-q and y-o-y, respectively (Figure 37). Similarly, the mortgage NPL ratio declined by 20.0 percent y-o-y and by 5.1 percent q-o-q in June 2026. The improvement in the NPL ratio is attributable to a write-off in the loan loss category, coupled with improved loan repayments amid an accommodative interest rate environment. This contributes to the resilience of the financial system, as it pertains to credit risk and fosters a more supportive lending environment.

Figure 37: Mortgage NPLs (nominal and y-o-y growth)

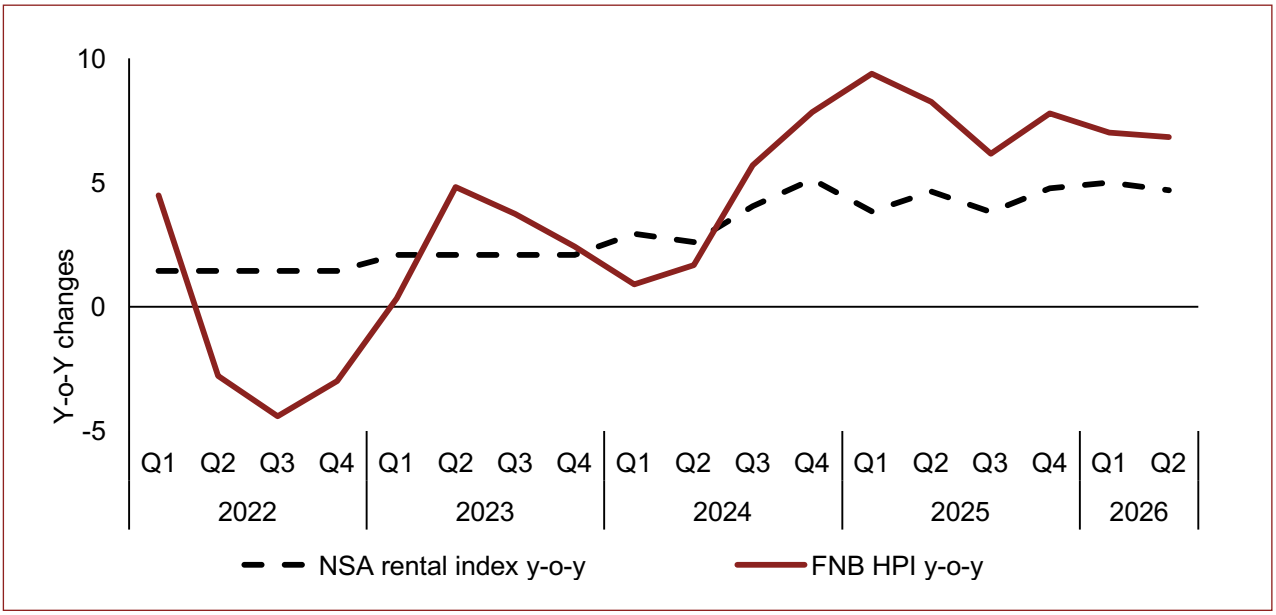


Source: BoN

6.2 Price developments

The house price index continued to increase on both quarterly and annual bases during the second quarter of 2026. The house price index increased by 7.4 percent y-o-y in June 2026, from 7.1 percent recorded in March 2026. Similarly, house prices increased by 1.20 percent on a quarterly basis to reach 128.77 index points in June 2026, from 127.24 points observed in the previous quarter (Figure 38). The 12-month national weighted average house price stood at N$1.46 million in June 2026, a significant increase from N$1.36 million during the same period in 2025. From a regional perspective, the central and coastal regions recorded annual growth of 8.9 percent and 11.9 percent, respectively, while the northern and southern regions declined by 0.7 percent and 5.2 percent y-o-y, respectively, in June 2026. High housing demand and continued supply-side related constraints, specifically, the national backlog of plots that still require servicing, as well as high input costs, added upside pressure to house prices.

Figure 38: House and rental price index



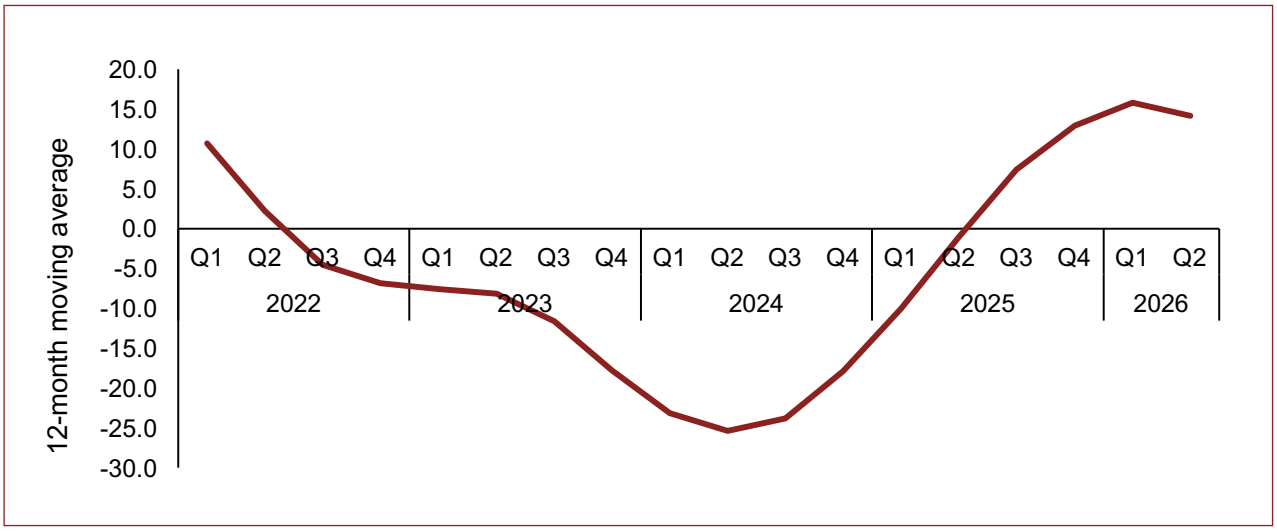
Source: BoN

Rental prices continued to increase q-o-q and y-o-y in June 2026, driven by high demand for rental space, high house prices and utility costs. The rental index increased by 4.7 percent y-o-y to 149.5 index points in June 2026, from 142.8 index points observed in the corresponding period of 2025 (Figure 38). The increase is mainly attributable to annual increases observed in housing utilities such as electricity, gas, water supply, sewerage services and refuse collection. Sustained increases in rental prices could lead homeowners and investors to prioritise buy-to-let investments, which could, in turn, put pressure on the already constrained housing supply, further driving up house prices. This reinforcing cycle could lead to average Namibian households being priced out of the housing market, shifting demand for property towards rentals, and encouraging speculative demand in the housing market and rental inflation.

6.3 National transaction volumes

The growth in transaction volume slowed in June 2026, compared with the significant increase observed in 2025. The annual transaction volume grew by 14.1 percent y-o-y in the second quarter of 2026, a significant decline from the sharp increase observed in 2025 (Figure 39). Following a good recovery in transaction volume in 2025, the slowdown observed during the review period signals mounting pressure on affordability amidst rising property and land prices. Regionally, transaction activity continued to grow, with the central and coastal regions recording 4.0 percent and 7.4 percent y-o-y growth, respectively. The transaction activities in the northern and southern regions remained flat during the review period.

Figure 39: National transaction volume growth rates



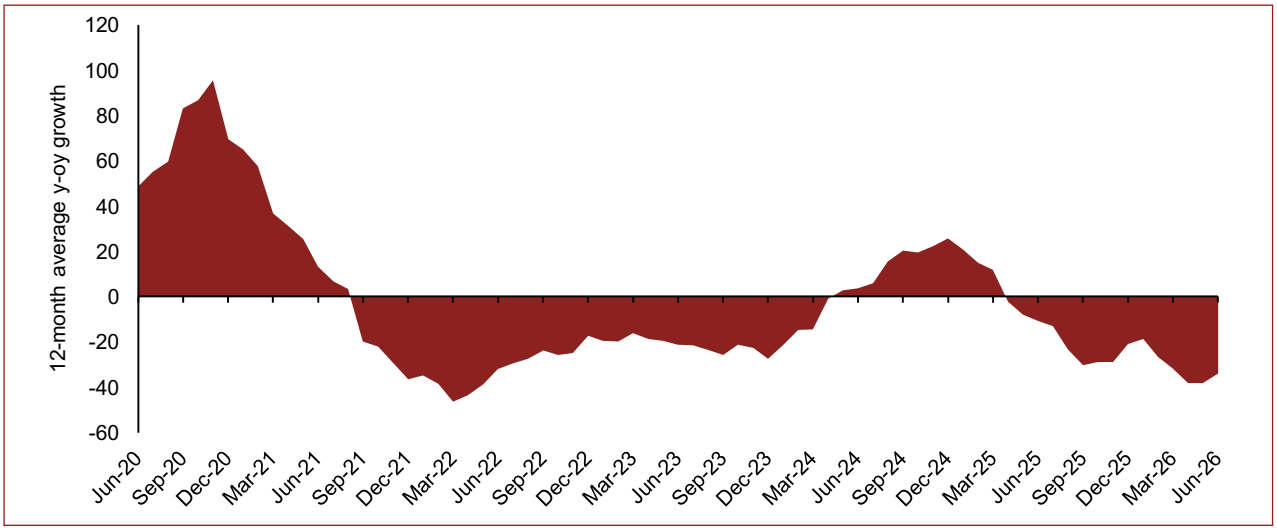
Source: BoN

6.4 Supply-side factors

Land delivery (plots sold)

Land delivery has continued to contract since April 2025, reinforcing the view that there is a shortage of serviced land. Residential plot sales growth contracted by 34.1 percent on a 12-month moving average basis in June 2026, up significantly from the 10.9 percent contraction during the corresponding period of 2025 (Figure 40). Total plots sold declined from 97 in the second quarter of 2025 to 74 in the same period of 2026, representing a 23.7 percent annual decline. The northern region accounted for more than half of this decline. These trends highlight supply-side constraints in the housing market, where fewer plots are being sold, reflecting the impact of rising housing and plot prices driven by a shortage of serviced land.

Figure 40: New plot sales

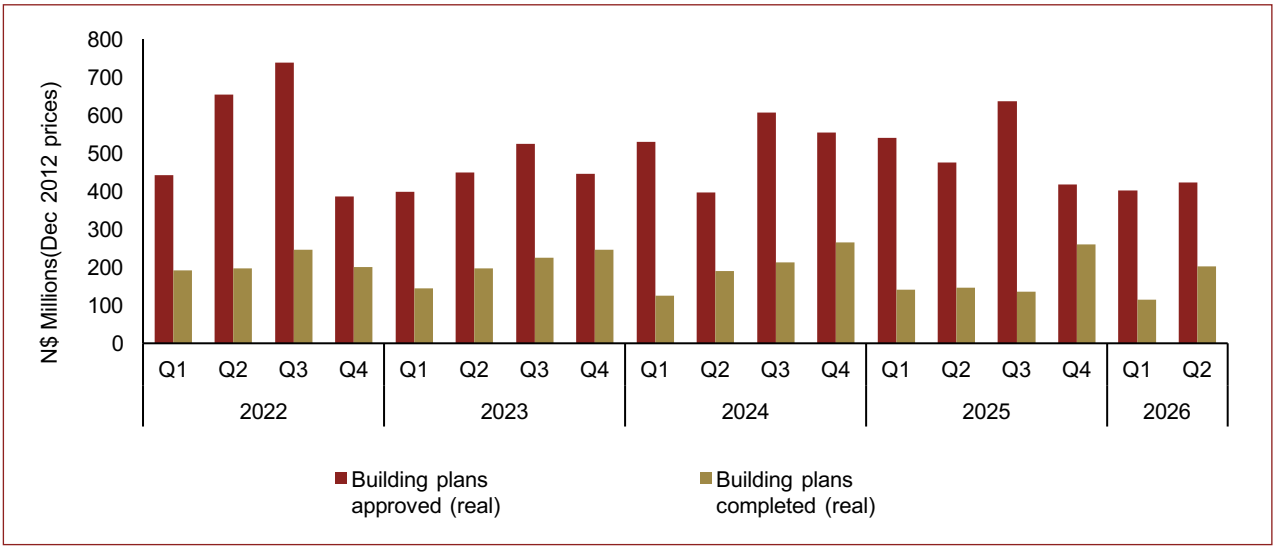


Source: BoN

Building plans approved

Building plans approved declined annually, whilst building plans completed showed a significant increase on both annual and quarterly bases. Total building plans approved decreased by 11.0 percent y-o-y in June 2026 while building plans completed increased by 38.0 percent and 75.3 percent y-o-y and q-o-q, respectively (Figure 41). The high rate of completed plans may reflect a combination of factors, such as high construction costs and seasonality.

Figure 41: Total building plans approved and completed (real)



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

6.5 Summary

The residential property market remained broadly resilient through Q2 of 2026. This was supported by strengthening collateral buffers despite subdued mortgage credit growth. Rising property values contributed to improved borrower equity and lowered the banks' loss-given default.

Looking ahead, evolving micro-developments may shape the medium-term outlook. Changes to property repossession processes could lengthen recovery timelines for the banking institutions. In addition, the rollout of the new housing financing schemes from the NBFIs among others may influence developments in the housing market.



7.

Macroprudential Surveillance

7. MACROPRUDENTIAL SURVEILLANCE

Macroprudential surveillance focuses on safeguarding Namibia's financial system by identifying the build-up of systemic risk across the financial sector. The Bank's early warning surveillance and analytical tools are used to assess emerging vulnerabilities over the financial cycle. These assessments support the identification and calibration of appropriate macroprudential policy responses aimed at mitigating and containing systemic risk to strengthen the resilience of the financial system.

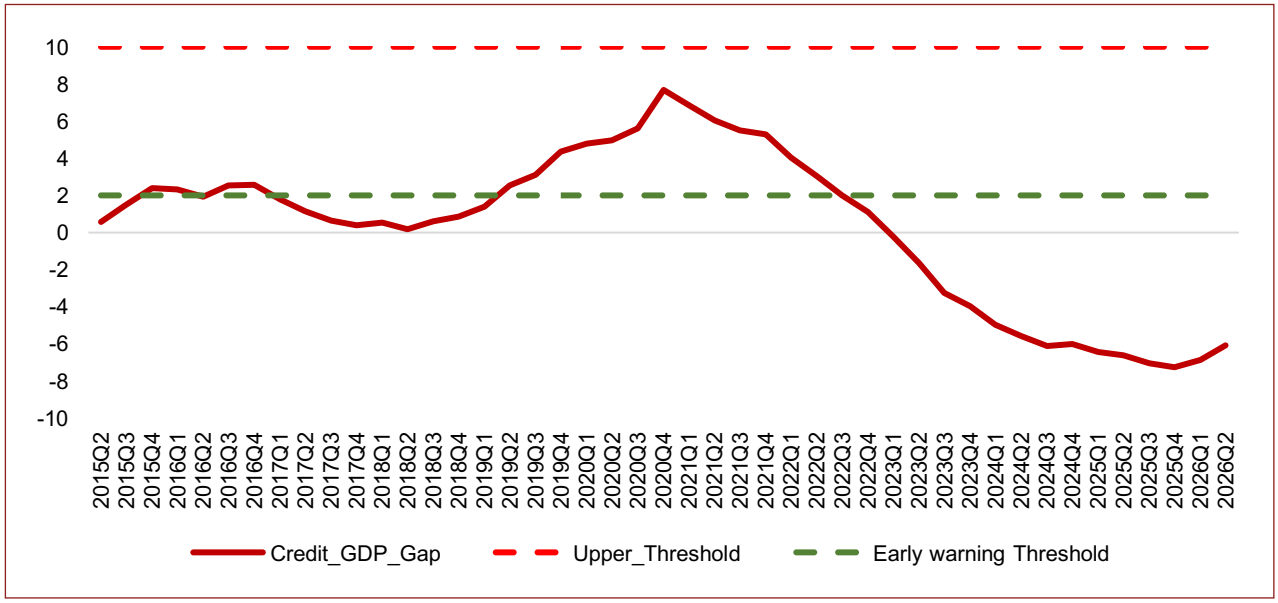
This section provides an update on early warning surveillance following the April 2026 FSR and the July 2026 MOC assessments, further highlighting the key emerging risks and vulnerabilities over the review period. The current assessments indicate a moderate increase in downside risk to future GDP growth, while credit conditions remain below the early warning threshold that would warrant an increase in the countercyclical capital buffer (CCyB). The loan-to-value (LTV) regulation remains appropriate and continues to support prudent mortgage lending. In addition, the Bank, through the MOC has operationalised the CCyB policy tool through the issuance of the Determination on the Countercyclical Capital Buffer (BID-40). The Bank continues to enhance and position the macroprudential toolkit in line with emerging developments and vulnerabilities to ensure policy readiness, while simultaneously strengthening the monitoring and surveillance of identified vulnerabilities.

7.1 Early warning indicators

Credit-to-GDP gap analysis

The estimated credit-to-GDP gap remained negative in the second quarter of 2026, reflecting subdued credit conditions relative to economic activity. The credit-to-GDP gap has remained negative since 2023, mainly due to subdued credit growth relative to economic conditions. Using the Bank of Namibia's 2026 annual GDP forecast, the credit-to-GDP gap is estimated to have remained negative in the second quarter of 2026, although it improved from the low levels recorded towards the end of 2025. The gradual narrowing of the gap is also supported by the gradual recovery in private sector credit extension, which grew by 4.25 percent and 4.49 percent in 2026Q1 and 2026Q2, respectively. Despite the estimated improvement, the credit-to-GDP gap remained well below the early warning threshold of 2 percent, indicating limited build-up of cyclically related vulnerabilities and no immediate signal to justify an adjustment of the CCyB. However, policymakers continue to interpret the credit-to-GDP gap alongside other complementary macrofinancial indicators and surveillance tools. This will ensure that the BoN remains well-positioned to respond proactively should the credit cycle turn and the gap move toward or above the CCyB activation thresholds.

Figure 42: Credit-to-GDP gap



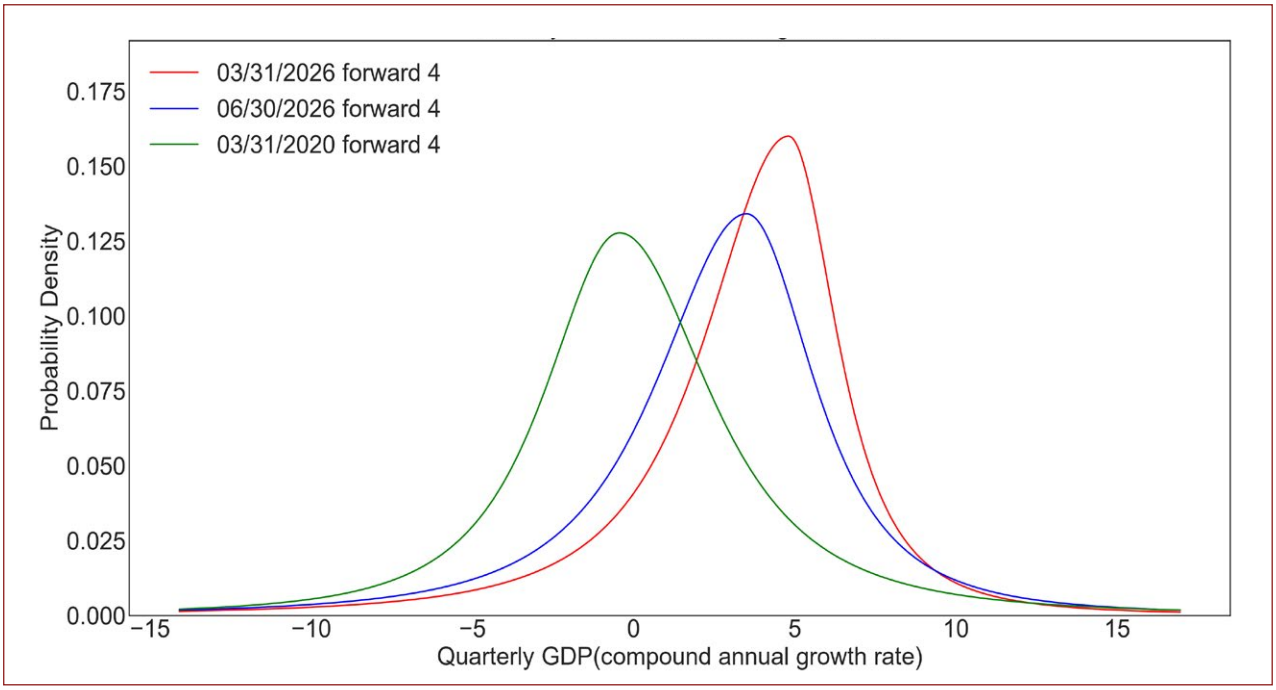
Source: BoN 2026

Growth-at-Risk analysis

The Growth-at-Risk (GaR) model plays an important role in shaping macroprudential policy because it links financial stability to macroeconomic performance. By highlighting potential downside risks to future growth, the model strengthens the case for pre-emptive policy action even when there are no immediate signs of economic distress, thereby supporting overall financial system stability. Three partitions which capture a distinct dimension of macrofinancial risk are constructed using quarterly data from Q1 2005 to Q2 2026. The first partition, domestic financial conditions, includes indicators that reflect the price of risk embedded in asset prices, as well as the ease of obtaining financing. The second partition, leverage, comprises credit measures focused on total private sector credit extension. The third partition captures external conditions by incorporating external indicators, including South African macroeconomic and financial indicators, reflecting the interconnectedness between the Namibian and South African economies.

The latest four-quarter horizon GaR estimates indicate a moderate increase in downside risks to future GDP growth, although the overall risk profile remains significantly more favourable than during the Covid-19 period. Based on macrofinancial conditions as of 30 June 2026, the second quarter GaR results estimate a 5 percent probability that GDP growth could fall below -5.96 percent (blue T-skew in Figure 43), compared with 5.75 percent in the March 2026 assessment (red T-skew in Figure 43). Similarly, the probability of GDP growth falling below zero increased from 16.05 percent to 20.72 percent, while the conditional mean declined from 2.79 percent to 2.47 percent. These developments point to a gradual increase in downside risk to future GDP growth during the second quarter of 2026, although risk remains lower than that observed during the Covid-19 period.

Figure 43: Quarterly T-Skew forecast for growth rate



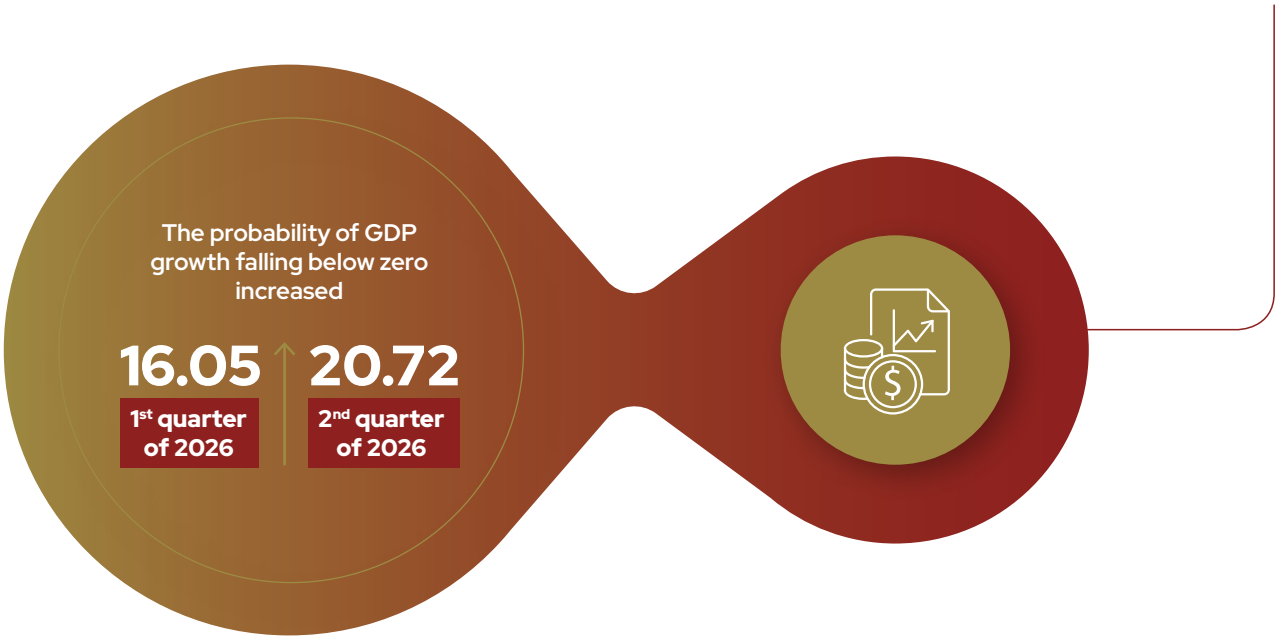
Source: BoN 2026

The historical distribution of the probability of growth falling below zero suggests that Namibia's recession risk has generally been concentrated around periods of pronounced macrofinancial stress. The probability increased sharply during the 2008- 2009 global financial crisis, reaching its highest level, and again increased significantly during the 2020 Covid-19 shock, reflecting severe disruptions to domestic and global economic activity (Figure 44). The probability of GDP growth falling below zero increased from 16.05 percent in the first quarter of 2026 to 20.72 percent in the second quarter, which is consistent with the deterioration observed in the latest GaR assessment (Figure 44). Nevertheless, the current probability level remains considerably below the peaks observed during the global financial crisis and Covid-19 periods. This suggests that while downside risks to growth have increased in the first half of 2026, the likelihood of a contraction remains materially lower than during previous episodes of severe macrofinancial stress.

Figure 44: Growth below zero probability



Source: BoN 2026

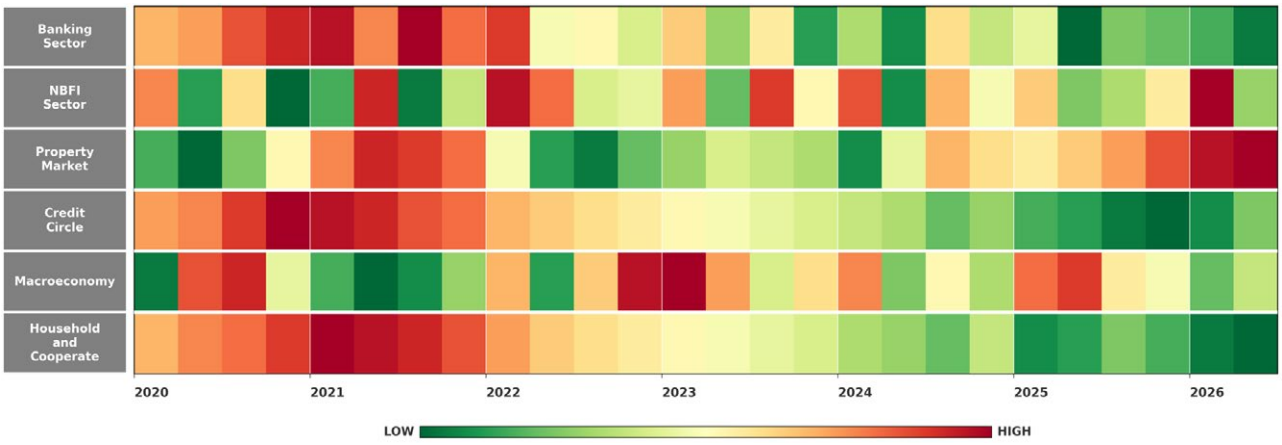


Financial stability sectoral heatmap

The heatmap visually depicts the statistical transformation of a wide range of financial stability indicators against their historical developments. It provides a consolidated view of the build-up of risks across a range of financial stability indicators covering various sectors of the financial system. It is not designed to predict the timing or severity of a financial crisis, but to identify the build-up of underlying vulnerabilities that require deeper analysis and monitoring.

The heatmap shows that systemic risks remained broadly contained across the financial system during the second quarter of 2026. Vulnerabilities across the banking and NBFI sectors, the credit cycle and macrofinancial conditions remained in a relatively low-to-medium risk environment over the review period. Emerging vulnerabilities, however, remain concentrated in the property market, mainly due to rising affordability pressures as house prices continue to increase (Figure 36). This is coupled with structural constraints such as limited land supply, rising housing demand and high unemployment. Despite these vulnerabilities, there is currently no immediate cause for concern from a financial stability perspective, as mortgage credit growth has remained subdued and banking sector exposure to the housing market continues to decline. Through the MOC, the BoN has intensified surveillance of developments in the property market, particularly emerging housing financing schemes by NBFIs, to assess the potential implications of these developments for financial stability.

Figure 45: Early warning indicator heatmap



Source: BoN 2026

7.2 Macroprudential policy development

The MOC maintained the current macroprudential policy stance and further strengthened the macroprudential policy toolkit through the operationalisation of the CCyB. Based on the overall developments and assessment, the MOC, in its first meeting of 2026, maintained the current LTV regulation and the CCyB stance, as prevailing macrofinancial conditions did not warrant additional policy interventions. The MOC also operationalised the CCyB framework through the Determination on the Countercyclical Capital Buffer (BID-40), which was gazetted in June 2026 and became effective in July 2026. These developments officially establish the CCyB as an active macroprudential policy tool.



8.

Concluding Remarks and Policy Implications

8. CONCLUDING REMARKS AND POLICY IMPLICATIONS

Namibia's financial system remained stable and resilient during the first half of 2026, despite heightened vulnerabilities stemming from the macroeconomic environment. Risks to the domestic economy remained tilted to the downside as both external and domestic factors continued to weigh on Namibia's economic outlook. Global factors, including weaker demand for minerals such as diamonds, pose a risk to export earnings and economic growth. Higher energy and fertiliser prices could also add to inflationary pressures by raising production costs. Domestically, climate-related risks remain a concern, particularly given expectations of an El Niño episode, which typically increases the probability of drought conditions.

The banking sector demonstrated resilience, remaining profitable, well-capitalised and liquid throughout the first half of 2026. Furthermore, the stress test results highlighted the fact that the banking sector remained well-positioned to absorb shocks across various scenarios, providing reassurance that it will remain resilient in the event of an economic downturn. The residential property market remained broadly resilient, supported by strengthening collateral buffers despite subdued growth in mortgage credit. The NPS and financial market infrastructure remained stable and efficient, supporting transaction reliability and contributing to overall financial system stability.

The NBFI sector remained resilient during the first half of 2026 although the macro-financial environment became less supportive than the valuation-led conditions that prevailed in 2025. The sector's financial stability position remained broadly sound during the first half of the year, supported by strong asset growth. Baseline resilience remained underpinned by long-duration liabilities, substantial liquid and marketable assets, and sustained contractual savings. Performance in retirement fund assets was supported by the recovery in regional fixed-income markets and by portfolio diversification, which reduced dependence on any single market cycle. The sector's growing asset base underscores its increasing systemic importance, particularly through its role in intermediating household savings and providing a stable source of domestic funding to the sovereign.

Following its assessment of the prevailing macrofinancial conditions in the second quarter of 2026, the MOC maintained the current macroprudential policy stance. Based on overall developments and assessments, the MOC, at its first meeting of 2026, maintained the current LTV regulation and the CCyB stance, as prevailing macrofinancial conditions did not warrant additional policy interventions. The MOC will continue to closely monitor global, regional and domestic economic and financial conditions and stand ready to deploy appropriate macroprudential policy measures, should conditions warrant a policy response.

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