Safeguarding Financial Stability in a Changing Global Landscape

FINANCIAL STABILITY REPORT APRIL 2025

Bank of Namibia

NAMFISA
NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

Preface

The purpose of this financial stability report is to identify risks and vulnerabilities in the financial system, assess the system's resilience to domestic and external shocks, and make recommendations for policy responses to the identified risks. Reports of this nature thus inform interested parties about the soundness of the financial system and about actions being taken by the country's regulators and the Government to mitigate the identified risks. As such, a financial stability report also functions as a communication tool.

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

The financial system in Namibia consists of financial markets, instruments, institutions and infrastructure. The regulatory structure, while not strictly a part of the financial system, plays an important role in regulating and monitoring the system.

Chapter 6 of the Bank of Namibia Act (1 of 2020) gives Namibia's central bank the explicit mandate of macroprudential oversight and of coordinating activities to safeguard financial stability in the country. The main functions of Namibia's Macroprudential Oversight Committee (MOC)[1] thus include consulting with the Namibia Financial Institutions Supervisory Authority (NAMFISA) and "the Ministry administering matters relating to finance" (the Ministry of Finance) to ensure that policies are in place to manage financial stability and to foresee and counter crises that could impact the entire financial system. The stability of Namibia's financial system is critical, as it provides important services to households, corporates and the real economy.

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

[1] More information is provided in the *Financial Stability and Macroprudential Oversight Framework*, which can be found on the Bank of Namibia website (bon.com.na).

Members of the Financial System Stability Committee

Bank of Namibia

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

Namibia Financial Institutions Supervisory Authority

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

Ministry of Finance

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

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Corporate Charters

BANK OF NAMIBIA

VISION

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

MISSION

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

VALUES

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

NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

VISION

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

MISSION

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

VALUES

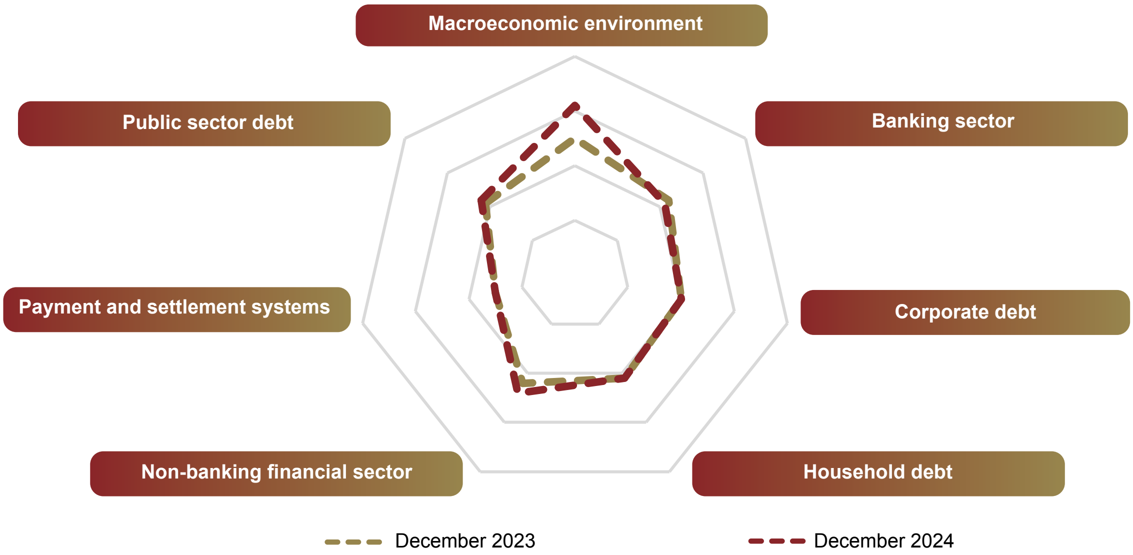
- We are committed to teamwork
- We are passionate about service
- We act with integrity
- We are accountable
- We are agile

FINANCIAL STABILITY KEY HIGHLIGHTS

Namibia's financial sector demonstrated resilience despite vulnerabilities arising from the global environment.

Risks to financial stability in Namibia

Global geopolitical risks remain elevated, raising concerns about their potential impact on the macrofinancial stability.



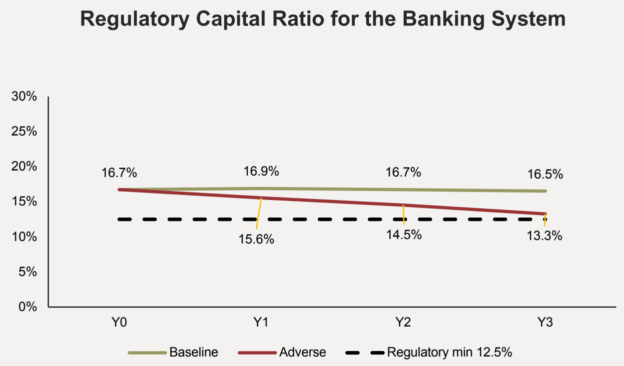
Idiosyncratic risks

Cyber risk remains elevated with a high probability of materialising during 2025.

Significant strides have been made to ensure that Namibia does not remain on the FATF greylisting.

Climate Change continues to have asymmetric effects on financial stability.

Stress Testing



The stress test results indicate that the banks remain well-capitalised in both the baseline and adverse scenarios.

FINANCIAL STABILITY KEY HIGHLIGHTS

Banking sector

Liquidity	19.7% ↑	17.3%
ROA	2.4% ↑	2.1%
ROE	19.9% ↑	18.3%
Capital Adequacy	16.7% ↓	16.9%

The banks remained liquid, profitable and well capitalised.

NBFI sector

14.3%

The **NBFI** assets expanded by

N$474.1 billion

Funding position	101.3% ↑	101.1%
Solvency position	116.9% ↑	116.5%

This expansion was due to favourable financial market conditions,declining interest rates, and moderating inflation that enhanced consumer purchasing power.

Payments infrastructure and regulatory developments

THE NISS

The **NISS** recorded a → 99.98% → availability rate surpassing the set target of 99.90%

Macroprudential policy stance

The MOC also approved the use of the growth-at-risk model to strengthen macroprudential surveillance in Namibia. These interventions reinforce the Bank's commitment to strengthening financial system stability and broader economic sustainability.

Contents

Tables

Figures

01 INTRODUCTION AND OVERVIEW

1. INTRODUCTION AND OVERVIEW

During 2024, the Namibian financial sector remained stable, sound, and resilient amid moderate economic conditions. The financial sector demonstrated resilience and stability throughout 2024 as the banks remained well-capitalised and liquid, while the non-bank financial institutions (NBFIs) continued to be a viable source of funds for the financial system. The payment system infrastructure also contributed reliably towards the efficiency of the financial system.

The Namibian economy expanded in 2024 although at slower pace relative to 2023. The domestic economy grew by 3.7 percent during 2024, compared to higher growth of 4.4 percent recorded in 2023. The slower growth resulted from a weak performance in the primary sector due to lower production of rough diamonds and crops. Despite the contraction in the primary sector, the growth momentum was sustained by improved performance in the secondary and tertiary sectors. Performance in the secondary sector was driven mainly by improved growth in the beverages, manufacturing, and construction sectors. The growth in the tertiary sector was led by the wholesale and retail trade sector, supported by refunds from the adjusted tax brackets and eased inflation.

During 2024, global growth remained stable and is estimated to slow in 2025. Global GDP growth remained stable at 3.3 percent in 2024, following an extended and challenging period of unprecedented shocks. According to the International Monetary Fund's (IMF's) World Economic Outlook (WEO) update for April 2025, global growth is projected to drop to 2.8 percent in 2025 before improving marginally to 3.0 percent in 2026, which remains below the historical average. Growth in advanced economies (AEs) is projected to ease to 1.4 percent in 2025 before slightly rising to 1.5 percent in 2026. The downward revision in the US and Euro area growth outlooks was on the account of greater policy uncertainty, trade tensions and tariffs. In emerging markets and developing economies (EMDEs), growth is projected to slow down to 3.7 percent in 2025 before slightly improving to 3.9 percent in 2026, as growth of countries affected by recent trade measures were subject to downward revisions. In terms of inflation, global headline inflation is expected to reach 4.3 percent in 2025 and 3.6 percent in 2026, with notable upward revisions for AEs and slight downward revisions for EMDEs in 2025.

Both domestic household and corporate debt in Namibia increased in 2024. Household debt growth increased by 0.7 percentage points, reaching 4.0 percent by the end of 2024. Despite this, the ratio of household debt to disposable income continued to decline, falling from 44.7 percent in 2023 to 43.2 percent in 2024, as income growth outpaced debt accumulation. Total corporate debt increased to N$191.4 billion, mainly due to mining companies securing loans from their foreign parent entities, coupled with higher foreign trade credit uptake by non-financial corporations. As a result, the corporate sector's debt-to-GDP ratio increased marginally from 73.0 percent in 2023 to 73.6 percent in 2024. Short-term financial stability risks from corporate debt remain moderate given the lower growth in corporate debt during 2024.

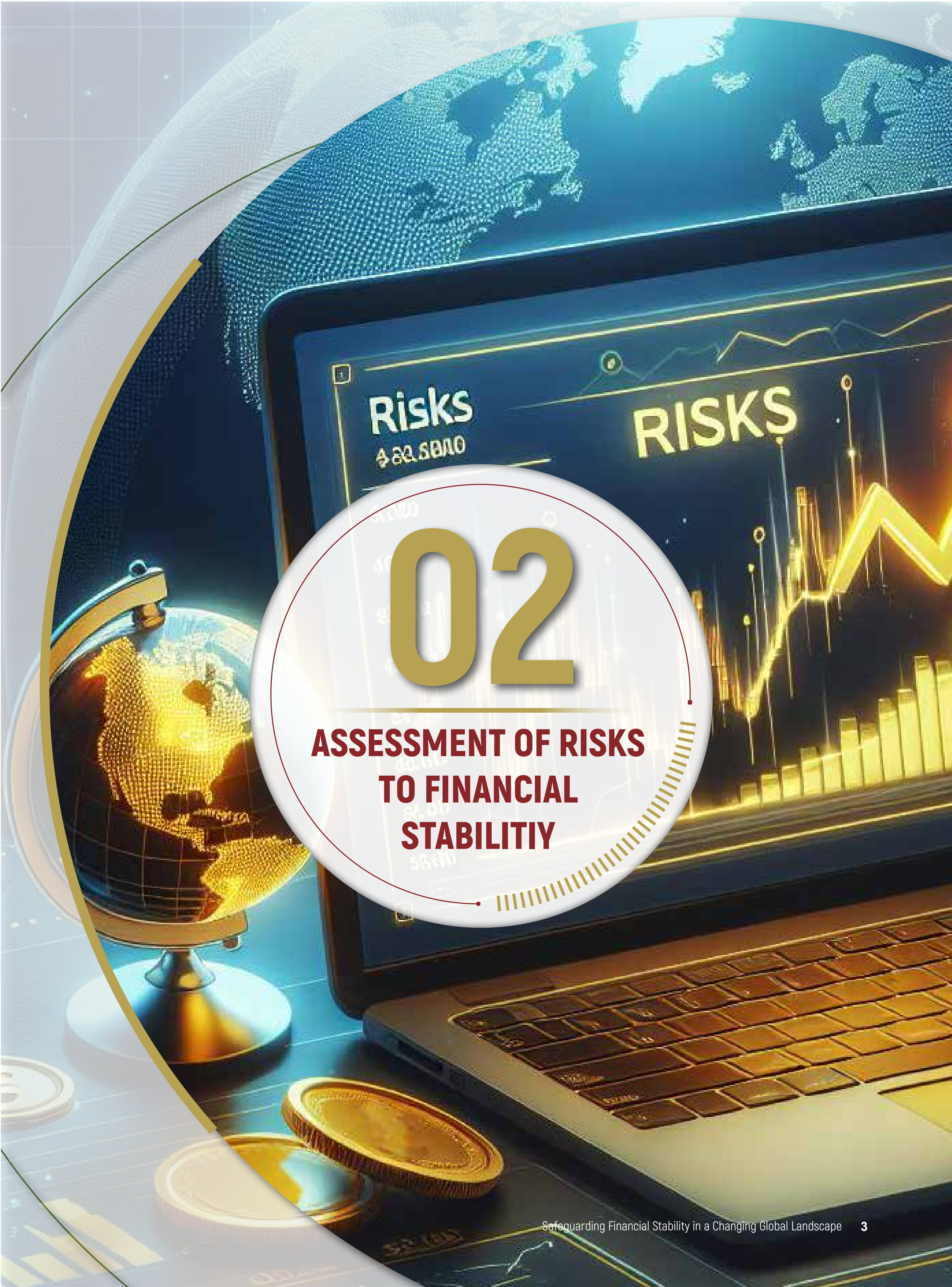
The banking sector remained well-capitalised, profitable and liquid in 2024, with notable improvement in asset quality. The banking sector's total asset growth remained positive, driven by an increase in short-term negotiable securities and net loans and advances. The profitability of the sector continued to be strong due to higher net income. The banks' liquid asset holdings remained adequate and above prudential requirements, ensuring their ability to meet near-term obligations. Asset quality, as measured by the non-performing loans-to- gross loans ratio, improved. This was primarily driven by growth in total loans and advances, which outpaced the growth in non-performing loans, as supported by accommodative monetary policy stances in the second half of 2024. In addition, the banks are well-positioned to manage loan defaults as they have sufficient provisions and adequate capital to absorb potential credit losses. Overall, the banking sector remained stable under the prevailing economic conditions and continued to extend credit to the real economy. The stress test results confirm that, given its current level of capitalisation, the banking sector can absorb the assumed shocks even under the severe adverse scenario.

The NBFI sector in Namibia demonstrated remarkable resilience in 2024, with aggregate assets growing by 14.3 percent to N$474.1 billion despite global economic challenges. This expansion was due to favourable financial market conditions, declining interest rates, and moderating inflation that enhanced consumer purchasing power. The sector plays a significant role in Namibia's fiscal stability. The retirement funds and long-term insurers constituted 30.0 percent of total outstanding government debt, amounting to N$48.4 billion in 2024. The NBFI sector faces several interconnected risks requiring vigilant monitoring. Geopolitical tensions and financial fragmentation could potentially disrupt supply chains and alter inflation and interest rate trajectories, impacting both NBFI product demand and investment performance in 2025. Additionally, demographic shifts present potential challenges to the retirement funds subsector, with emerging longevity risks indicating that some pensioners have already exceeded their initial life expectancy projections, while approximately two-thirds of retirement fund liabilities relate to members over 45 years old. Despite these challenges, the NBFI sector is expected to maintain its resilience throughout 2025. Demand for NBFI products will remain stable in alignment with anticipated economic growth in 2025. Overall, the NBFI sector is well-positioned to withstand short-term market volatilities while continuing its essential role in financial intermediation and capital allocation within the Namibian economy.

The Bank of Namibia (hereinafter "the Bank") continued to fulfil its regulatory mandate as the overseer of the National Payment System (NPS) in 2024, in line with the Payment System Management Act, 2023 (No. 14 of 2023). In light of the above regulatory mandate, the oversight function was accomplished through risk-based on-site and off-site oversight activities, licensing and regulatory reform. In addition, the Bank continued to provide interbank settlement services through the Namibia Interbank Settlement System (NISS) to authorised institutions.

In 2024, the Bank implemented key regulatory interventions to strengthen financial sector stability and resilience. The introduction of the Determination on Microfinance Banking Institutions (BID-38) established a clear regulatory framework for microfinance banks, enhancing financial inclusion while ensuring prudent operations. To support the agricultural sector amid financial difficulties caused by the ongoing drought, the Bank implemented drought relief measures (BID-39) which became effective on 23 October 2024, requiring banking institutions to provide loan restructuring, moratoriums, and emergency funding under preferential terms. The Bank issued Circular BIA 1/5, announcing the reinstatement of the Capital Conservation Buffer and the phase-out of unaudited profits. In addition, the Bank advanced preparations and industry consultations on the countercyclical capital buffer, reinforcing the resilience of the banking sector through a transparent and well-structured implementation process. The Bank also approved the use of the growth-at-risk model to strengthen macroprudential surveillance in Namibia. These interventions collectively contribute to financial stability, sectoral risk mitigation, and broader economic sustainability.

Overall, risks to the stability of the Namibian financial system remain low to moderate, with potential vulnerabilities arising from ongoing global uncertainty. Based on the assessment of risks to financial stability in Namibia, most risks identified have a low to moderate probability of materialising during 2025, and a moderate impact on the financial system (Table 1). However, cyber-related risks have intensified, with the probability of these risks materialising increasing in 2025. Uncertainty regarding trade policies and geopolitics, and a slowing growth outlook in China, a key trading partner for many emerging markets, could make preserving financial stability in emerging markets more challenging.



02

ASSESSMENT OF RISKS TO FINANCIAL STABILITIY

2. ASSESSMENT OF RISKS TO FINANCIAL STABILITIY

This section presents a brief analysis of the main risks to the stability of the domestic financial system. In line with sections 3 to 6 of this report, the analysis identifies risks arising from the external macroeconomic environment, and trends in household and corporate debt. Furthermore, the report outlines trends in the financial soundness indicators for domestic banking institutions, stress test simulations, and developments in the NBFI sector. In addition, the report analyses developments in the payment infrastructure and regulatory developments and concludes with macroprudential surveillance. The risks are analysed and rated from low to high, based on their probability of occurrence, as well as their potential impact on financial stability in Namibia, should they materialise. Table 1 summarises the risk position of the Financial System Stability Committee, illustrating the direction of risks since the April 2024 Financial Stability Report, as well as the probability and impact of the cited risks materialising.

Table 1: Risks to financial stability in Namibia

Nature of risk	Direction of risk[2] since April 2024	Probability of risk materialising in 2025	Impact of risk materialising in 2025
Macroeconomic environment events/risks			
Global economic slowdown	Up		
Global financial turbulence	Up		
Domestic economic slowdown	Up		
Inadequacy in international reserves	Up		
Sovereign credit rating downgrade: Namibia	Unchanged		
Sovereign credit rating downgrade: South Africa	Unchanged		
Excessive Namibia Dollar/South African Rand depreciation	Unchanged		
Public sector debt risk			
Increase in public sector debt	Unchanged		
Household debt risk			
Excessive increase in household debt	Unchanged		
Corporate debt risks			
Excessive increase in corporate debt	Unchanged		
Banking sector risks			
Liquidity risk	Down		
Capital Adequacy	Down		
Credit risk	Unchanged		
Payment System risks			
Security of retail payments	Unchanged		
Settlement in last window	Unchanged		
Non-banking financial institution risks			
Funding position[3]	Unchanged		
Demographic and Structural Challenges[4]	Up		
Financial Market Volatility and Interest Rate Risks[5]	Down		
Solvency position[6]	Unchanged		
Anti-money laundering/combatting the financing of terrorism and proliferation (AML/CFT/CPF) – grey-listing	Unchanged		
Cyber risk	Up		
Climate risk	Unchanged		

Key	***Low***	***Medium***	***High***

[2] Compared with the April 2024 Financial Stability Report.
[3] Relates to retirement funds.
[4] Relates to retirement funds.
[5] Relates to retirement funds, collective investment schemes and long-term insurers.
[6] Relates to long-term insurers.

According to the IMF's April 2025 Global Financial Stability Report (GFSR), global financial stability risks have increased, driven by tighter financial conditions and heightened economic policy uncertainty. The elevated risk stems from the recent geopolitical tensions, particularly the announcement of larger-than-expected tariffs by the US and retaliatory measures by other nations. This triggered a marked repricing of risk assets and elevated financial market volatility. The IMF's Growth-at-Risk model indicates that downside macro-financial risks to global growth have increased, especially for EMDEs. Investor sentiment has deteriorated amid weaker growth prospects and widening corporate bond spreads. Emerging markets face renewed capital outflow pressures, partly due to reduced carry trade returns as expectations for interest rate cuts gain momentum. In developing economies, earlier improvements in market conditions have been overshadowed by high yields and substantial upcoming debt maturities, raising refinancing risks.

Near-term vulnerabilities are compounded by three key risks. First, despite recent market volatility, asset valuations remain elevated in some equity and corporate bond markets, leaving room for further correction if macroeconomic indicators continue to surprise to the downside. Second, high leverage in hedge funds and non-bank financial intermediaries (NBFIs) has increased their interconnectedness with the banking sector, raising concerns over forced deleveraging and potential spillovers into the broader financial system. Third, the sovereign bond market may experience turbulence, particularly in economies with elevated public debt and exposure to leveraged trading strategies that could unwind abruptly under stress. Additional concerns include rising strains in corporate and household balance sheets. A large share of corporate debt is maturing at a time when refinancing costs have risen, and commercial real estate markets remain under pressure from declining values and high interest rates. Moreover, geopolitical risks particularly military conflicts are flagged as a potential trigger for further financial instability, with broad spillover risks through trade and financial channels.

In response to these elevated global risks, the IMF recommends that authorities stand ready to activate appropriate tools to manage market stress. This includes providing liquidity support and ensuring the smooth functioning of core financial markets. Strong prudential frameworks, comprehensive oversight of NBFIs, and full implementation of international standards such as Basel III remain crucial. Countries are also urged to enhance their stress testing and scenario analysis capabilities, particularly for geopolitical risk exposure. Given rising debt levels in most countries, proactive debt management and, where needed, early engagement with creditors is encouraged to prevent disorderly defaults. Finally, coordinated global efforts, including multilateral surveillance and strengthening of the global financial safety net, are seen as essential to contain systemic financial risks in this uncertain environment.

Risks from the macroeconomic environment increased in 2024, reflecting global economic uncertainties. Global financial turbulences intensified during 2024 with a high probability of materialising in the next twelve months, and a moderate impact on financial stability (Table 1). Similarly, global economic uncertainties increased, with a medium probability of materialising and impact on financial stability. The potential trade disruptions stemming from ongoing global conflicts could affect domestic growth prospects. Foreign reserves adequacy remained adequate to cover imports of goods and services; however, the key vulnerabilities include the pressure on foreign reserves through an anticipated increase in imports, the redemption of the Eurobond, and lower Southern African Customs Union (SACU) receipts expected in the 2025/26 fiscal year (FY) (hereinafter expressed as FY2025/26).

The risk to the financial system stemming from the banking and payments sector remained unchanged during the period under review. The banking sector remained liquid, well-capitalised and profitable, with notable improvements in asset quality in 2024. However, the probability of credit risk deteriorating further is medium. On the other hand, liquidity risk is anticipated to be low, with an overall medium impact on financial system stability. Risks from the household and corporate sector debt remained unchanged during the period under review. However, considering the prevailing macroeconomic conditions, the probability of household and corporate debt risks materialising over the next twelve months is assessed as medium. The risks from both the security of retail payments and settlement in the last window remained unchanged in 2024. The probability and impact of risks associated with the security of retail payments are determined as low for 2025. However, the probability and impact of the risk of settlement in the last window are determined as medium in 2025.

The NBFI sector faces several interconnected risks requiring vigilant monitoring. Geopolitical tensions and financial fragmentation could potentially disrupt supply chains and alter inflation and interest rate trajectories, impacting both NBFI product demand and investment performance in 2025. Additionally, demographic shifts present substantial challenges, with emerging longevity risks indicating that many pensioners have already exceeded their initial life expectancy projections, while approximately two-thirds of retirement fund liabilities relate to members over 45 years old. Despite these challenges, the NBFI sector is expected to maintain its resilience throughout 2025. Demand for NBFI products is expected to remain stable, in alignment with anticipated economic growth. The sector is well-positioned to withstand short-term market volatilities, while continuing in its essential role in financial intermediation and capital allocation within the Namibian economy.

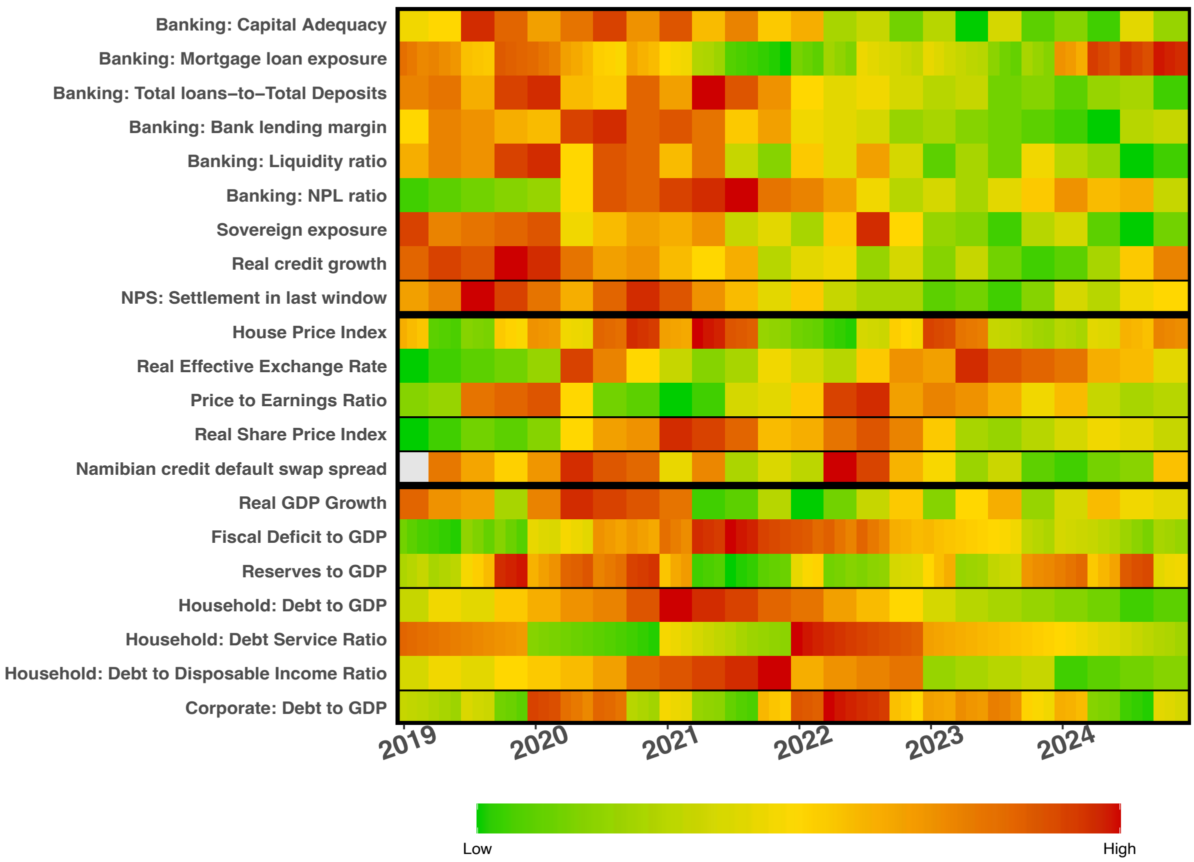
Notable progress has been achieved in relation to the grey-listing by the Financial Action Task Force (FATF) during 2024. This includes the submission of the second progress report to the FATF, in November 2024, since the adoption of its action plan in February 2024. Namibia has taken key steps to improve its AML/CFT/CPF regime, in addition to its ongoing implementation of the FATF action plan to address strategic deficiencies. These initiatives, amongst others, include strengthening Namibia's AML/CFT/CPF risk-based supervision, enhancing preventative measures through inspections and outreach, increasing the filing of beneficial ownership information of legal persons and arrangements, and improving cooperation among law enforcement entities and the Financial Intelligence Centre. Given the significant progress made thus far, the probability of this risk materialising in 2025 is low.

Cyber risk remains elevated, with a high probability of materialising during 2025. Cyber threats in the form of phishing, spoofing, and over-reliance on third-party service providers remain key concerns. To address these risks, the Cyber Security Council made several recommendations, including increasing awareness campaigns to combat phishing, strengthening firewall standards, implementing multifactor authentication to counter spoofing, and enhancing procurement policies and due diligence procedures to manage third-party risks. The banks are required to continuously enhance their cyber risk management practices.

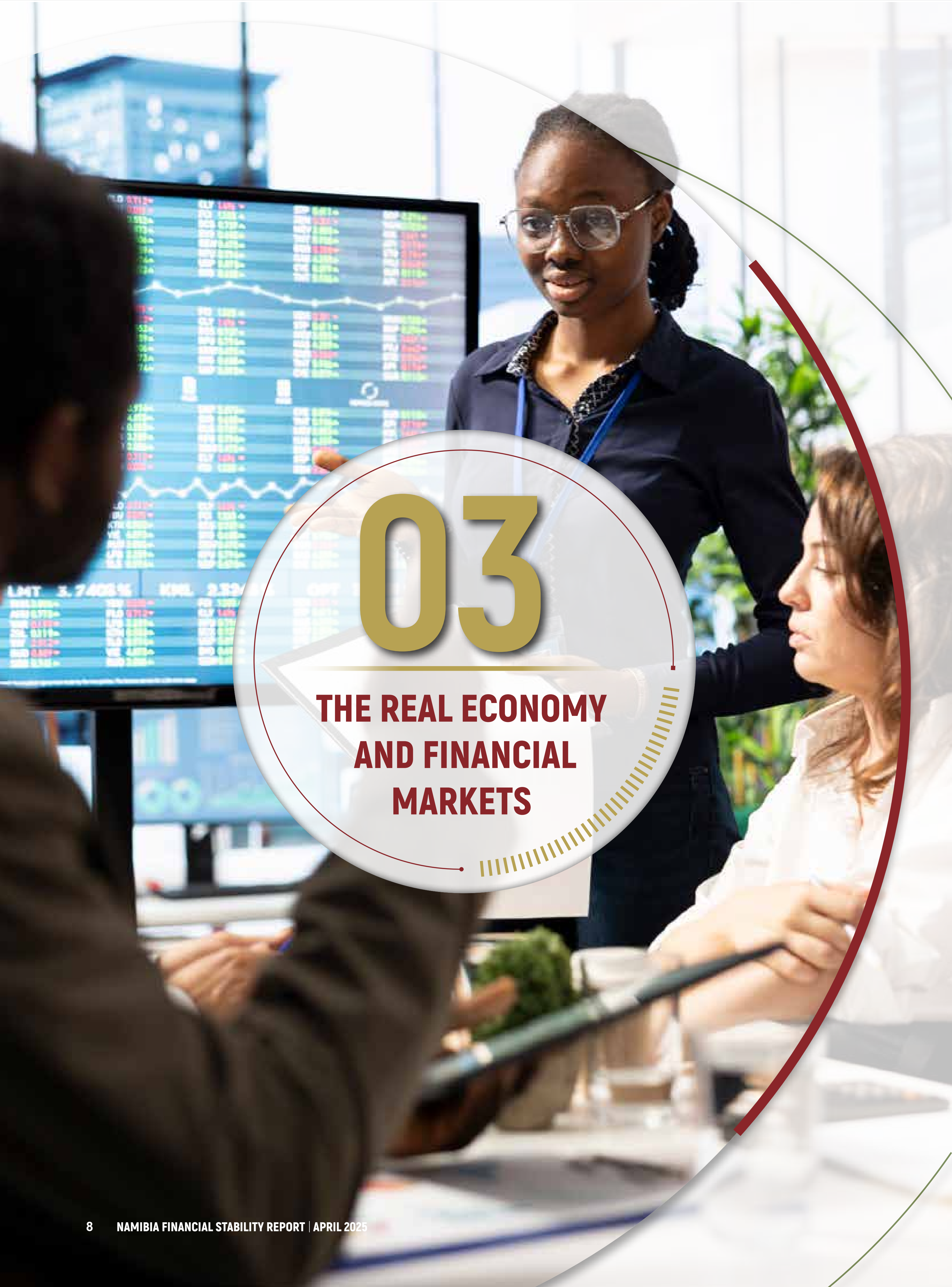
Risks emanating from climate change remain broadly unchanged, with a medium risk of materialising during 2025. Climate change has had a negative impact on the agriculture sector, which recorded a contraction of 2.7 percent during 2024. Considering the poor performance of the agriculture sector and its potential impact on financial stability, both the Bank and the Government of Namibia have imposed mitigation measures. The former issued BID-39, which provides relief measures to the agricultural sector, while the latter introduced the drought relief programme worth N$825 million. Going forward, climate change continues to have asymmetric effects on financial stability.

The Bank uses a wide range of financial stability indicators that show potential build-up of cyclical changes in the financial system which, if left unattended, could lead to vulnerabilities. A snapshot of all material developments is communicated through the financial stability heatmap in Figure 1 below. The heatmap visually depicts the statistical transformation of a wide range of financial stability indicators against their historical developments. Thus, the tool flags areas that require deeper analysis and further scrutiny. Most of the indicators used in the heatmap are discussed throughout the report, particularly those that are relevant to financial stability risks in Namibia.

Figure 1: Financial stability heatmap



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



03

THE REAL ECONOMY AND FINANCIAL MARKETS

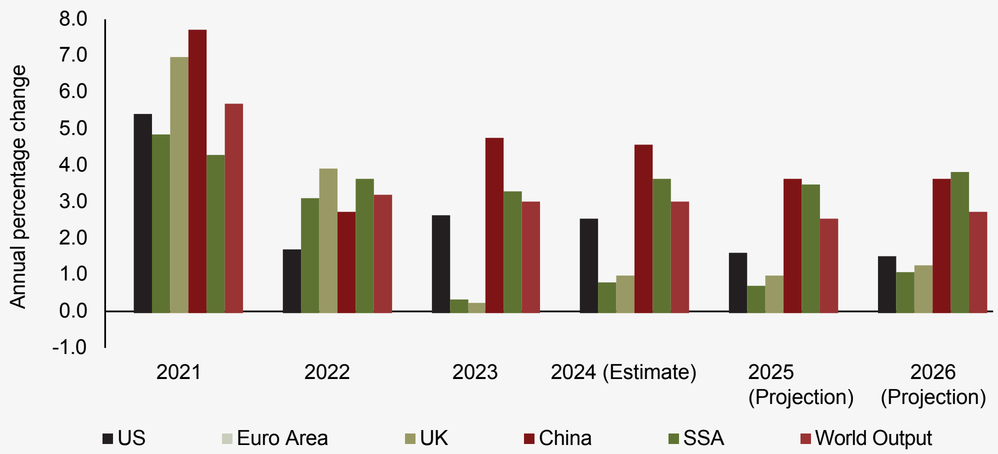
3. THE REAL ECONOMY AND FINANCIAL MARKETS

Macroeconomic environment

Global Economy

According to the April 2025 IMF WEO, global growth is expected to remain stable albeit subdued. In the near term, global growth is projected to fall from 3.3 percent in 2024 to 2.8 percent in 2025, before recovering to 3.0 percent in 2026. This forecast is lower than the IMF's January 2025 WEO update, by 0.5 percentage point for 2025 and 0.3 percentage point for 2026, and remains lower than the historical average of 3.7 percent (2000-2019). These downgrades are widespread across various countries, primarily due to the direct impact of new trade policies. Indirect trade effects such as disrupted trade links, increased uncertainty, and worsening business sentiment have also contributed to the downward revision. Growth projections vary among advanced economies, with US growth for 2025 expected to slow to 1.8 percent which is 0.9 percentage points lower than the growth projected in the January 2025 WEO update (Figure 2). This is due to increased policy uncertainty, trade tensions, and a weaker demand outlook driven by slower-than-anticipated consumption growth. In the Euro area, growth is projected to edge down to 0.8 percent in 2025, with a modest rebound to 1.2 percent anticipated in 2026. The weak growth in 2025 is largely driven by increased policy uncertainty and the impact of tariffs. However, a slight recovery in 2026 is expected, supported by stronger consumer spending fuelled by rising real wages and anticipated fiscal easing in Germany.

Figure 2: Global real GDP growth- history and projections



Source: IMF January 2025 World Economic Outlook Update

Growth in the EMDEs is projected to decline in 2025, partly due to trade measures. Following growth of 4.3 percent in 2024, growth in EMDEs is projected to drop to 3.7 percent in 2025, before slightly improving to 3.9 percent in 2026. Growth of countries directly affected by the tariffs were revised downwards, particularly China. The growth for China was revised downwards from 4.6 percent reported in the January 2025 WEO update to 4.0 percent. This is due to the implementation of tariffs that offset the 2024 growth momentum and fiscal expansion in the budget. In Sub-Saharan Africa, growth is expected to decline slightly by 0.2 percentage points to 3.8 percent in 2025. The growth for South Africa was revised downwards by 0.5 percentage points for 2025, partly attributed to a weaker-than-anticipated growth in 2024, heightened policy uncertainty, and increased protectionist policies.

The inflation outlook has improved but has not yet fully returned to pre-pandemic patterns and is still subject to high uncertainty. After peaking at 9.4 percent year-over-year in the third quarter of 2022, global headline inflation is expected to decline to 4.3 percent in 2025 and to 3.6 percent in 2026, converging back to target earlier in AEs compared with EMDEs. In comparison to the IMF's January 2025 WEO update, inflation forecasts have been revised upwards for both the US and UK, by 1.0 percentage point and 0.7 percentage point respectively. The upward revision for the US reflects persistent price dynamics in the services sector as well as a recent uptick in core inflation, in conjunction with the supply shock from recent tariffs. In the UK, it primarily reflects one-off regulated price changes. Among EMDEs, the outlook is mixed, as inflation in China is expected to remain subdued, while forecasts for Russia and Ukraine have been revised upward for 2025. The inflationary impact of recently introduced tariffs is expected to vary across countries, depending on whether the tariffs are perceived as short-term or long-lasting and the extent to which firms adjust margins to offset increased import costs. Overall, inflation expectations remain above central bank targets.

Overall, risks to the outlook are tilted to the downside in both the short and medium term. Downside risks include the escalating trade measures and prolonged trade policy uncertainty, which could negatively affect global GDP growth, though with differences across countries. Rising geopolitical tensions could also open up the possibility of sudden changes in the international monetary system, which may negatively affect macro-financial stability. Interest rates may also remain at higher levels than anticipated due to inflation gaining upward momentum. This could result in capital outflows due to interest rate differentials as well as tighter financial conditions, especially in EMDEs. Furthermore, the structural pressure on long-term yields could constrain the already limited fiscal space, especially in high-debt countries. Rising social discontent and the increasing challenges to international cooperation could pose further downside risks to the outlook. Despite the growing number of downside risks, there are potential upside factors that could improve the outlook. These include the advancement of next-generation trade agreements and efforts to resolve ongoing conflicts. Greater regional cooperation and integration could stimulate investment, enhance productivity, raise potential growth, and strengthen countries' resilience to external shocks. Similarly, resolving conflicts could ease global commodity prices and allow resources to be redirected toward more productive uses. In addition, momentum in structural reforms could further significantly boost growth whilst the optimism surrounding Artificial Intelligence (AI) could boost productivity and consumption, as well as drive innovation.

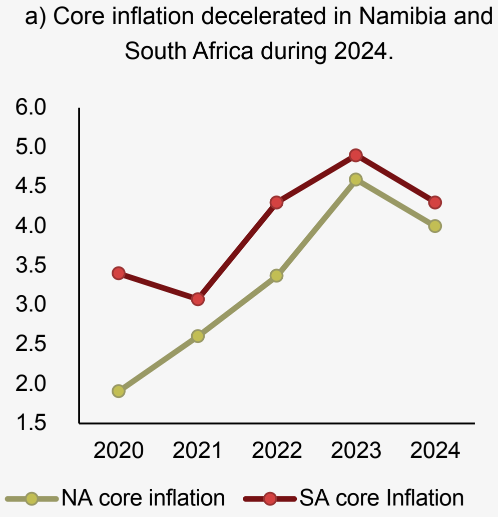
Domestic economy

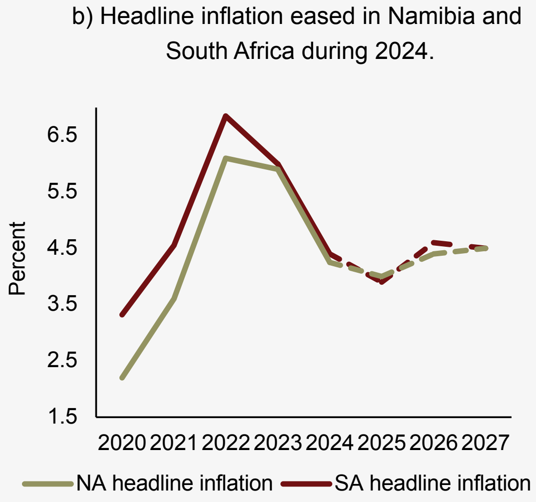
Output and outlook

Activity in the domestic economy expanded in 2024, although at a slower pace than in 2023 due to weak performance in the primary industry. The Namibian economy grew by 3.7 percent during 2024, compared to higher growth of 4.4 percent recorded in 2023. The slower economic growth was attributed to weak performance in primary industries, predominantly in the production of rough diamonds and crops. The positive growth was, however, sustained by improved performance in the secondary and tertiary sectors. The improved growth in the manufacturing and construction sectors was the main driver of the performance of the secondary sector. The growth in the tertiary sector was led by the wholesale and retail trade sector, boosted by refunds from the adjusted tax brackets, the easing of inflation, and an accommodative monetary stance. Other sectors, including transport, finance, health, and public administration and defence, also showed strong performance, contributing to the overall tertiary industry growth. As per the December 2024 Domestic Economic Outlook, the economy is projected to grow by 4.0 percent in 2025, as some primary industries are estimated to recover while the secondary and tertiary industries continue to report positive growth.

The domestic economy's risks remained moderate, mainly reflecting global factors. Potential risks to the domestic economy include depressed diamond prices and increased pressure from lab-grown diamonds. This commodity poses a risk to the Namibian economy, as it can potentially weaken export earnings and increase the country's external balance sheet. The Namibian Government is also expected to receive lower SACU receipts in FY2025/26. Adverse climate conditions could affect infrastructure and cause water supply interruptions in some towns. Furthermore, prolonged trade policy uncertainty could have implications for the growth prospects. Considering these risk factors, it is imperative to continuously monitor their implications for financial stability and identify proactive measures to be taken to support sustainable economic development.

Figure 3: (a-b): Core and headline inflation trends

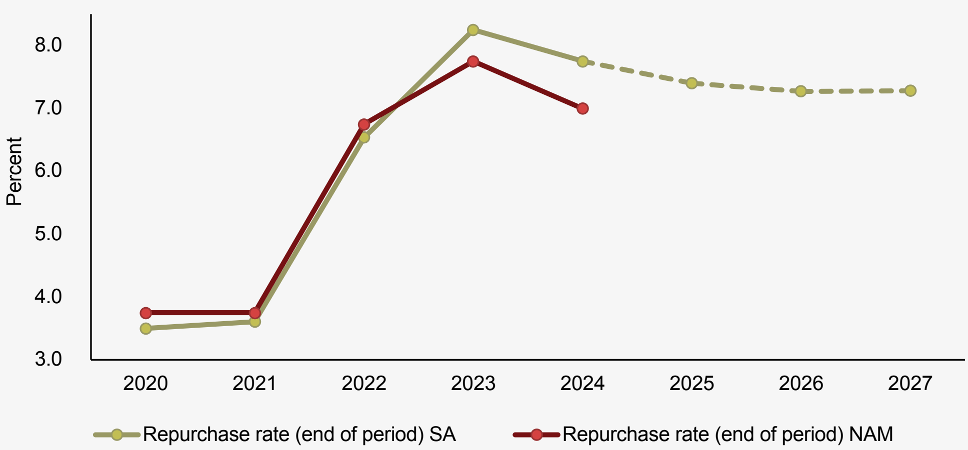




Source: BoN and SARB

Namibia's headline inflation eased during 2024 compared to 2023, improving consumers' purchasing power. Overall inflation for Namibia declined from 5.9 percent reported in 2023 to an average of 4.2 percent during the review period (Figure 3b). The deceleration in inflation was observed in food and transport inflation. The decline was reflected in food categories such as bread and cereals, meat, milk, cheese, and eggs. Meanwhile, the decline in transport inflation was mainly reflected in the operation of personal transport equipment, reflecting softer fuel prices, which were kept unchanged or adjusted downwards for the greater part of the year. In South Africa, headline inflation decelerated by 1.6 percentage points to an average of 4.4 percent due to easing goods, price inflation and a modest deceleration in services price inflation. Core inflation decelerated for Namibia and South Africa, suggesting subdued domestic inflationary pressures amid weak consumer demand (Figure 3a). Notably, the slowdown in consumer price inflation led to monetary policy easing, and inflation is projected to decelerate over the projected period, which will offer some relief to households' purchasing power.

Figure 4: Policy expectations in South Africa and Namibia



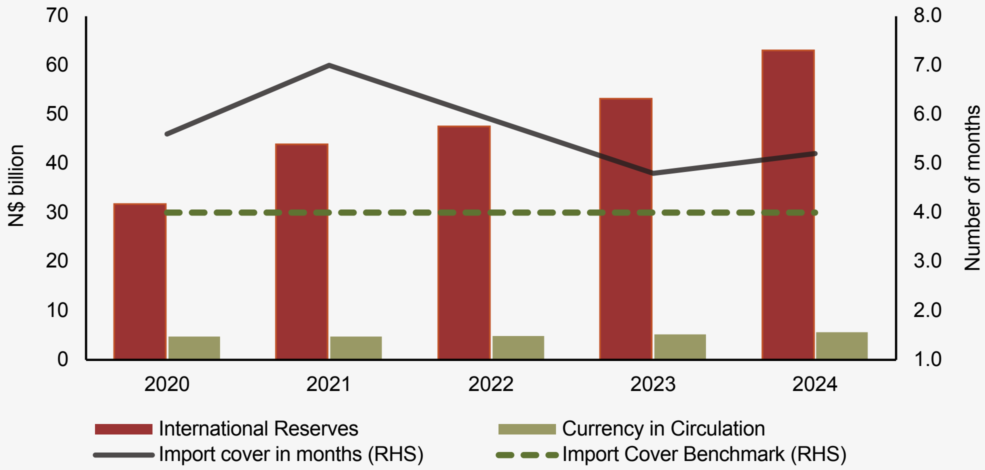
Source: BoN and SARB

During 2024, the Bank and the South African Reserve Bank (SARB) reduced their monetary policy rates. The Bank reduced the repo rate by an accumulated 75 basis points to 7.00 percent in 2024 (Figure 4). During the review period, the slowdown in domestic consumer price inflation contributed to an accommodative monetary stance. This adjustment was also to support the domestic economy, in light of the slow pace of growth in credit extension. Following a reduction in February 2025, the Bank opted to maintain the repo rate at 6.75 percent at its April 2025 meeting. This policy stance will continue to support domestic economic activity amid heightened global policy uncertainty and safeguard the one-to-one link between the Namibia Dollar and the South African Rand. The SARB's repo rate was reduced by 25 basis points in January 2025 to 7.5 percent, as near-term inflation remains well contained. At the March 2025 meeting, the SARB maintained the repo rate at 7.5 percent as inflation remained within the target range amidst global economic uncertainty. The SARB forecasts the repo rate to drift marginally lower over the next few years, stabilising at 7.25 percent based on their Quarterly Projection Model.

International reserves

By the end of December 2024, the official stock of foreign reserves held by the Bank had risen on an annual basis, mainly due to foreign government borrowing and higher SACU receipts. The stock of foreign reserves rose to N$63.0 billion, reflecting an 18.4 percent increase on a yearly basis (Figure 5). The increase was supported by higher SACU receipts during 2024, coupled with foreign borrowing by the Namibian Government. At this level, the foreign reserves remain adequate to cover 4.2 months of imports of goods and services, compared to 3.9 months of import coverage reported a year ago. Going forward, the stock of foreign reserves is projected to remain adequate to cover an estimated 3.4 months of import cover by the end of 2025.

Figure 5: International reserves

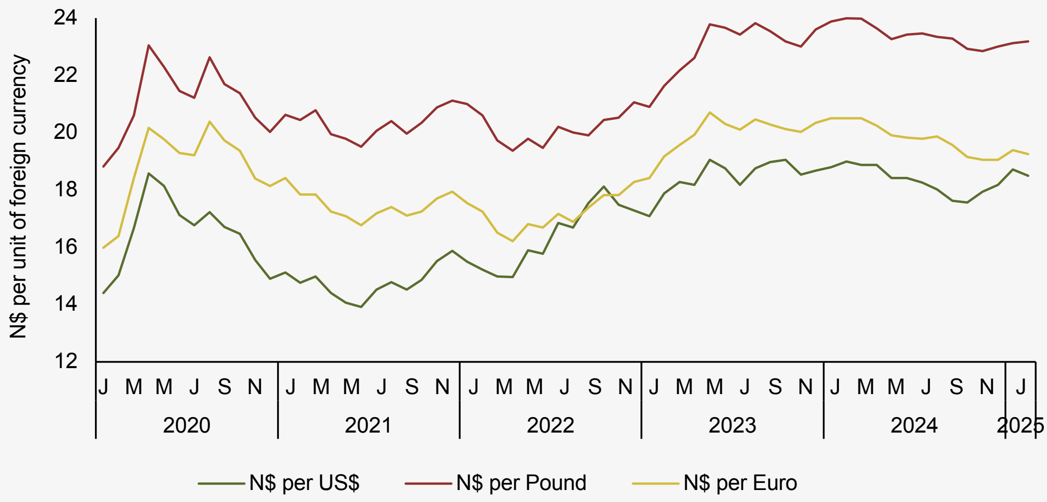


Source: BoN

Exchange rate developments

Supported by economic developments in South Africa, the Namibia Dollar/South African Rand strengthened marginally against the US Dollar and the Euro during 2024. During the review period, the Namibia Dollar/South African Rand appreciated marginally against the US Dollar and the Euro by 0.7 percent and 0.6 percent, respectively (Figure 6). The appreciation was largely attributed to the projection of a primary budget surplus in the Medium-Term Budget Policy Statement, coupled with the improved electricity availability and the stabilised logistics system in the South African economy. Moreover, the Namibia Dollar gained strength following the interest rate easing by the US Federal Reserve, European Central Bank and the Bank of England, shifting investor interest towards emerging market assets. Global financial markets also demonstrated more positive sentiment towards South Africa's economy following the formation of the Government of National Unity, which contributed to the strengthened South African Rand (ZAR).

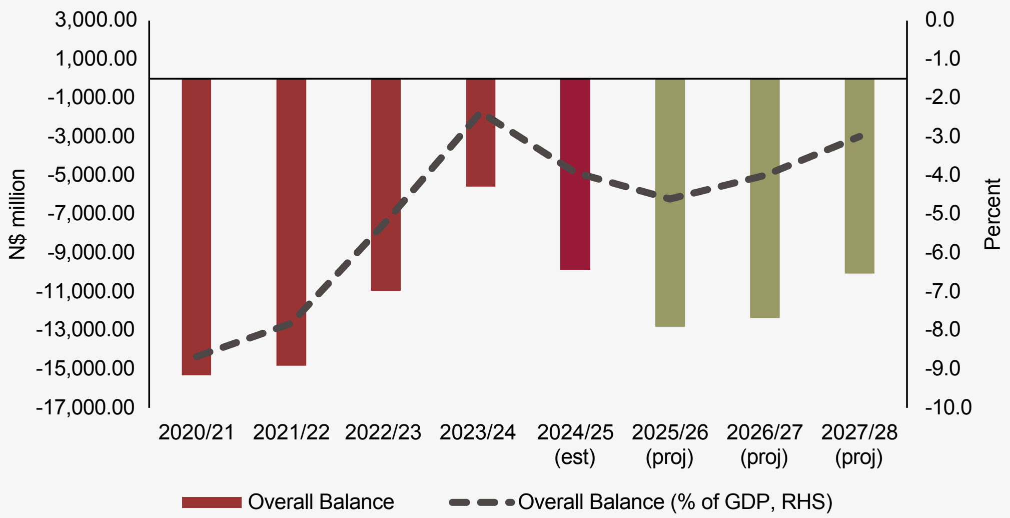
Figure 6: Exchange rate developments against selected major currencies



Source: Bloomberg

Public finance

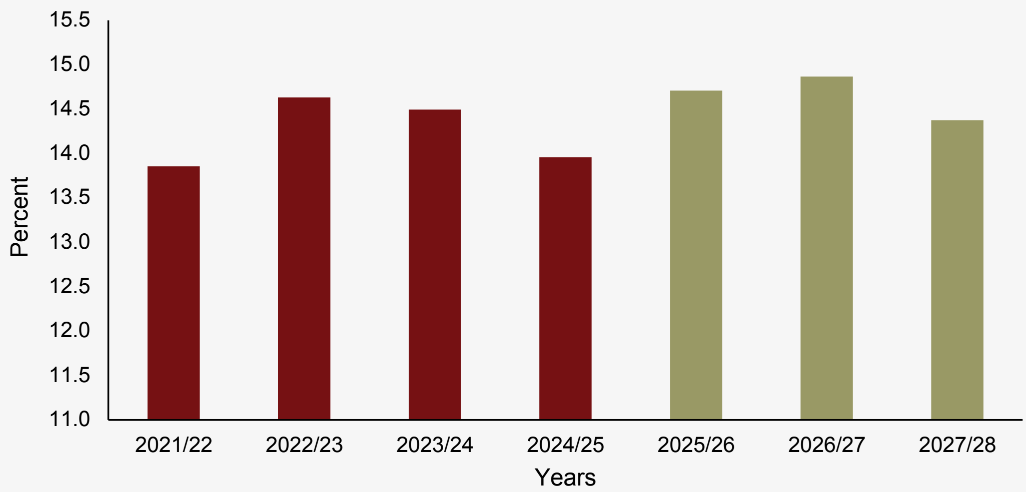
Figure 7: Overall balance



Source: MFPE

During FY2024/25, the Central Government budget deficit is estimated to have widened due to an increase in expenditure. Based on the budget statement tabled in March 2025 by the Ministry of Finance, the Central Government budget deficit for FY2024/25 increased to 3.9 percent of GDP from the 2.4 percent of GDP reported during the preceding fiscal year (Figure 7). The FY2024/25 increase in the budget deficit was ascribed to a more pronounced increase in government expenditure (which is estimated to have increased by N$13.4 billion in absolute terms) relative to the increase in revenue (which is estimated to have increased by N$9.4 billion). The expenditure is accounted for by unforeseen and unavoidable costs, including those associated with the drought relief programme, the University of Namibia, and the Namibia Students' Financial Assistance Fund. Despite tax refunds and relief measures, government revenue rose on the back of the collection of income tax on individuals, higher SACU revenue, and VAT receipts. Over the Medium-term Expenditure Framework (MTEF) period, the budget deficit as a percentage of GDP is projected to widen to 4.6 percent in FY2025/26. Debt servicing as a percentage of revenue decreased to 14.2 percent in FY2024/25, mainly driven by an increase in revenue collection, and it is anticipated that it will increase over the MTEF (Figure 8).

Figure 8: Government debt service to revenue



Source: MoF

By the end of December 2024, the stock of Central Government debt had risen relative to the previous year, driven by higher levels of domestic debt. The total Government debt stock rose by 10.2 percent to N$164.0 billion, driven by domestic debt issuance in the form of treasury bills and Internal Registered Stock. The total debt as a percentage of GDP stood at 65.3 percent at the end of December 2024, above the SADC benchmark of 60 percent of GDP. Going forward, the total debt stock is expected to rise to N$166.7 billion by the end of FY2024/25, which translates to 62.0 percent of GDP and is expected to stabilise at 61.4 percent of GDP over the MTEF.

Namibian and South African sovereign credit ratings

Table 2: Namibia's sovereign credit rating and outlook

Rating agency	Rating	Outlook	Date of update	Action
Moody's Ratings	B1	Positive	2 April 2025	Rating affirmed and positive outlook
Fitch Ratings	BB-	Stable	17 December 2024	Rating affirmed and stable outlook

Source: Moody's Ratings and Fitch Ratings

During April 2025, Moody's Ratings affirmed Namibia's positive outlook. According to Moody's ratings, the positive outlook reflects Namibia's prospect of significant new hydrocarbon and renewable energy resource developments over the remainder of this decade that could prove transformational for the economy (Table 2). Moody's further highlighted that the outlook reflects the increased likelihood that new industry developments, supported by the adoption of a transparent resource management framework, will help bolster growth in other sectors while helping to sustain primary budget surpluses and a continued decline in the debt-to-GDP ratio.

In December 2024, Fitch Ratings affirmed Namibia's stable outlook, supported by its strong governance indicators. According to Fitch Ratings, Namibia's rating was supported by governance indicators, institutional frameworks, and fiscal financing flexibility, which were reinforced by its large non-banking financial sector (Table 2). Namibia's rating was weighed against a high fiscal deficit, a rigid spending structure, and elevated government debt compared to its peers. Fitch supports a stable outlook with the view that the government debt-to-GDP ratio will stabilise over the medium term due to positive growth prospects.

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

Rating agency	Rating	Outlook	Date of update	Action
S&P Global Ratings	BB-	Positive	15 November 2024	Rating affirmed and positive outlook
Fitch Ratings	BB-	Stable	13 September 2024	Rating affirmed and stable outlook

Source: S&P Global Ratings and Fitch Ratings

S&P Global Ratings revised its outlook on South Africa to positive from stable and affirmed in November 2024. The positive outlook was primarily due to the anticipated stronger economic growth and the potential stabilisation of government debt, provided that the new coalition government successfully accelerates economic reforms while addressing infrastructure and fiscal challenges (Table 3). The rating was further reinforced by increased political stability following the general elections earlier in 2024, as well as reforms aimed at boosting private investment and economic growth. Furthermore, the rating benefited from the sizable and sophisticated financial system that provides a deep funding base for the South African Government.

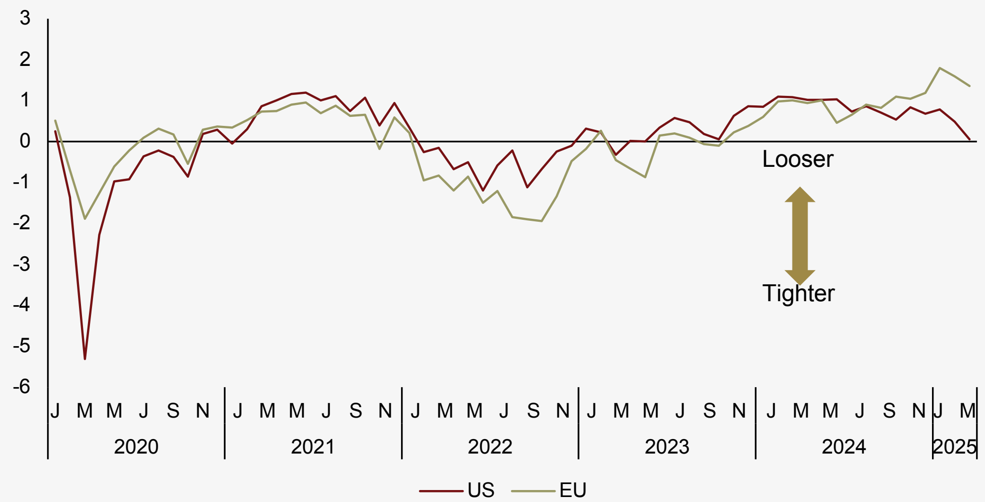
Fitch affirms South Africa at BB- with a stable outlook informed by a favourable debt structure with long maturities. During September 2024, Fitch Ratings affirmed a BB- rating with a stable outlook, supported by favourable debt restructuring with long maturities and a low share of foreign currency-denominated debt. Moreover, strong institutions and a credible monetary policy framework also contributed to the rating. Other important considerations included weak GDP growth projected for 2024, 2025 and 2026, and the progress made by the Government of National Unity to continue with the reform programme.

Developments in financial markets

International developments

Since mid-2024, global financial conditions have generally remained accommodative, but has tightened during the first quarter of 2025 amid turbulence in financial markets. Financing conditions in the European Union (EU) have become more accommodative than those in the US – a shift not seen for an extended period (Figure 9). This development follows the European Central Bank's 25 basis points rate cut at its first meeting in 2025, the sixth reduction since it started lowering borrowing costs in June 2024, while the US Federal Reserve maintained steady policy rates at its first 2025 meeting. The broad-based strengthening of the US Dollar, driven primarily by expectations of new tariffs and higher interest rates in the US, has kept financial conditions tighter compared to the EU. With global headline inflation expected to decline to 4.3 percent in 2025 and 3.6 percent in 2026, the global easing cycle could continue, potentially improving financial conditions both internationally and domestically. However, following the accommodative financial market conditions during 2024, financing conditions tightened significantly during the first quarter of 2025. This was on the back of the combination of increased economic uncertainty, turbulence in financial markets, a new wave of reciprocal tariffs imposed on numerous countries, and inflation concerns which led to increased market volatility, tightening financing conditions.

Figure 9: Financial Conditions Index



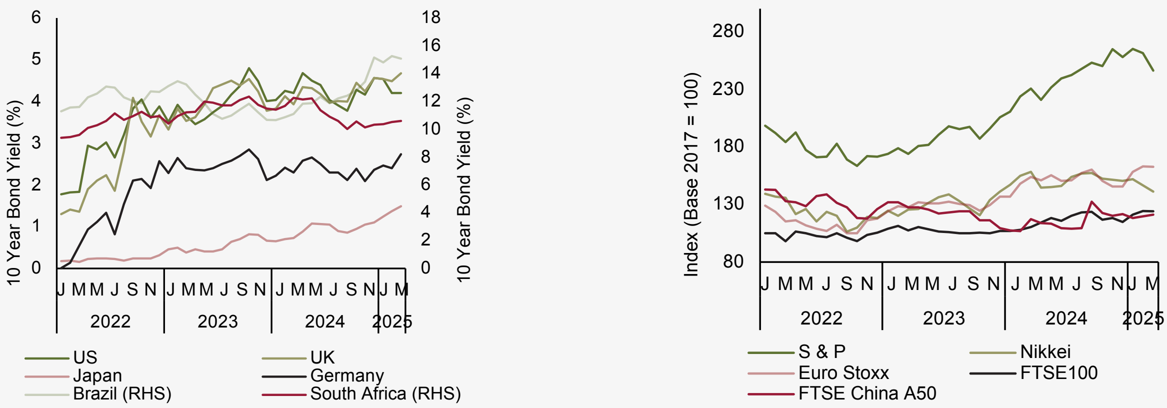
Source: Bloomberg

Since the elections of several governments in 2024 and 2025, financial markets have adjusted to anticipated fiscal policies, including higher tariffs and expansive fiscal measures expected in 2025. These expectations have contributed to a rise in long-term bond yields in 2024 in most countries. Market participants have also reacted to ongoing trade tensions, anticipating that businesses may increase prices to offset the cost of import tariffs, potentially disrupting the global disinflation trend. This expectation of rising inflation played a key role in the increase in bond yields observed between October and November 2024, reversing the mid-year decline seen earlier in the year (Figure 10a). While the US administration initially imposed tariffs primarily on China, the broad rise in bond yields across multiple economies, including Japan, the United Kingdom and Germany toward the end of 2024 and during the first quarter 2025 suggests that markets expect further tariff actions, which could elevate inflation expectations. In the US, however, government bond yields fell during the first quarter of 2025 due to continued safe haven buying. Looking ahead, if global monetary easing continues throughout 2025 and inflation remains contained, ongoing rate cuts could stimulate a bond market rally, benefiting fixed-income markets and securities. In addition, lower bond yields will come as a welcome development for highly indebted countries, as it will translate into lower borrowing costs and ease the burden of servicing their debt.

Figure 10 (a-b) Selected global bond yields and stock market indices

a) Higher future inflation expectations led to bond yields increasing.

b) The 2025 equity market outlook remains broadly positive.



Note: Base index period = January 2017 to allow for equal comparison across periods.

Source: BoN

During 2024, global equity markets maintained an upward trajectory, buoyed by monetary easing, improving investor sentiment, and optimism surrounding technological advancements. Major stock indices reached record highs in 2024, with the S&P 500 significantly outperforming all other global indices. The S&P 500 index increased to 5 881.6 index points in December 2024 from 4 769.8 index points observed in December 2023, amounting to an annual increase of 23.3 percent (Figure 10b). This was mainly driven by strong gains in the technology sector, particularly in artificial intelligence (AI), as well as eased financial conditions. Other major indices such as the Chinese Financial Times Stock Exchange (FTSE) China A50, Japan's Nikkei 225 and the United Kingdom's FTSE 100 had annual returns of 14.1 percent, 6.8 percent and 3.7 percent, respectively, during the period under review. This major difference in returns between US equities and the rest of the world has largely been fuelled by the American technology giants, pushing valuations in US equities far beyond investor expectations.

More recently, global stocks have had more attractive valuations than expensive US equities. Notably, the last time international stocks outperformed US equities was during the 2000s, mainly due to the dot-com crash and global financial crises. However, European stocks have been outperforming US stocks so far during the first quarter of 2025. European stocks, as measured by the FTSE 100 and Euro Stoxx 50 indices returned 8.3 percent and 12.0 percent during the first quarter of 2025, compared to -4.6 percent for the S&P 500, which was its worst quarterly performance since Q3 2022. Notably, the announced spending plans by Germany not only ignited a bond market sell-off but also boosted German equities and the Euro. An historic global trade war, a proposed $1.2 trillion European fiscal stimulus, and the emergence of China as a technology race leader are upending global flows of money, marking a potential turning point for investor capital away from the United States. The contraction observed in US equities during the first quarter of 2025 could partly be attributed to businesses having imported more goods before the new tariffs took effect, which may have temporarily inflated economic activity in late 2024, leading to a contraction in early 2025. The improved growth outlook for the Euro area and the worsening outlook for the US in the shadow of tariffs could lead to a reallocation out of the US market.

Going forward, strong corporate earnings, especially in the tech sector, are likely to continue supporting market performance. The US administration's pro-growth policies, including corporate tax cuts, deregulation, and infrastructure investment, may further stimulate economic activity and boost equities. Furthermore, the widespread adoption of generative AI could help increase productivity, and in the process reduce costs and boost profit margins. Overall, in 2025, investor confidence in global equities is rising, further driven by optimism over China's economic recovery even with tariff uncertainties still persisting and strong stock market gains in Europe.

While the 2025 equity market outlook remains broadly positive, risks that could challenge sustained growth persist. High tariffs and tax cuts under the US administration could fuel inflation, potentially prompting central banks to pause or reverse rate cuts, negatively impacting equities. Hence, the key themes shaping the markets include US trade policies, and inflation concerns prompting central bank actions, as well as developments in geopolitics and AI. Further escalation of geopolitical tensions could reduce economic activity, increase inflation, and heighten volatility in global financial markets. High valuations in many technology stocks, especially in the US, and concerns about the lingering uncertainty over the direction of inflation, could lead to most investors taking a more neutral view of the market outlook, especially in the first half of 2025. Furthermore, shocks caused by cyber events, especially cyber-attacks, may propagate through the financial system through complex interdependencies among financial institutions, market infrastructure, and service providers.

Financial market developments in Namibia and South Africa

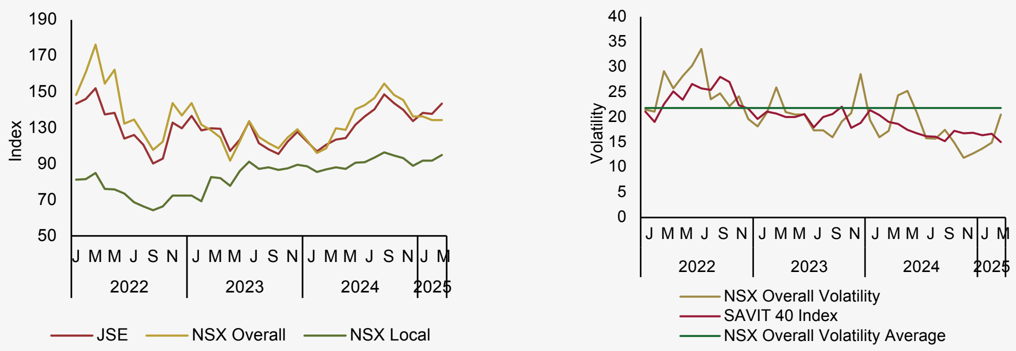
Namibian equity indices experienced sustained growth for most of 2024, followed by reduced momentum at the beginning of 2025. The Namibian Stock Exchange (NSX) Overall Index increased to 1 801.2 index points in December 2024 from 1 633.3 index points recorded in December 2023, reflecting an annual price increase of 10.3 percent (Figure 11a). In contrast, the NSX Local index saw more modest growth, edging up by 2.9 percent over the same period to reach 691.3 index points in December 2024, slightly up from the 671.7 index points recorded in December 2023. The NSX Local Index experienced lower trading volumes than the Overall Index during 2024. However, the NSX Local Index has outperformed the NSX Overall Index in the first quarter of 2025, gaining 3.6 percent, while the Overall Index declined by 4.5 percent over the same period.

The NSX Local Index lagged behind the NSX Overall Index in 2024, as dual-listed stocks outperformed primary listings. The underperformance of the NSX Local Index compared to the Overall Index was impacted by price declines in its highest-weighted stocks, particularly in financial services and manufacturing sectors. Whilst parts of the financial sector delivered low returns, certain consumer goods stocks segment recorded negative returns. In contrast, some financial services stocks were among the top performers, with a few reaching new all-time highs. These gains were supported by strong operating income growth in Sub-Saharan markets and solid earnings across subsidiaries of listed groups.

Figure 11 (a-b) Selected financial market indicators

a) The Namibian equity market experienced strong growth throughout most of 2024, with the JSE All Share remaining resilient.

b) Volatility in Namibian and South African markets remain below historical averages, boding well for financial system stability.



Source: BoN

Note: Base index period = January 2017 to allow for equal comparison across periods.

Total trading volumes on the NSX Overall Index in 2024 reached their lowest cumulative value in over a decade. During 2024, total value traded on the NSX Overall Index amounted to N$6.2 billion, compared to N$8.2 billion exchanged during 2023. Trading activity in 2023 was the third lowest in the past decade, narrowly surpassing 2014 and 2019. In 2024, persistently low trading volumes contributed to subdued volatility in the NSX Overall Index, as reduced market participation and lower trading activity typically result in decreased price fluctuations.

Following the subdued trading activity in 2024, market conditions improved slightly in the first quarter of 2025, with a notable pick-up in trading volumes. Total value traded on the NSX Local Index increased to N$128.7 million in the first quarter of 2025, up from N$123.8 million recorded during the final quarter of 2024. Similarly, during the first quarter of 2025, a total of N$1.5 billion was traded on NSX Overall Index. However, despite the increased volumes, trading activity is still off to a slow start thus far. This could be attributed to several factors, including global uncertainty surrounding tariffs and the potential impacts on domestic markets, the new policies of the elected political regime, and heightened geopolitical risks. This could potentially delay major investment decisions and dampen overall market participation, as investors may adopt a wait-and-see approach to fully gauge the market's direction.

During 2024, the NSX Overall Index volatility remained below its historical average, indicating a relatively stable market environment that is conducive to financial stability. Volatility in the NSX Overall Index dropped to 12.7 index points in December 2024, a sharp decline from the 28.6 index points observed in December 2023 (Figure 10b). This decline reflects the subdued trading activity during 2024. However, volatility in the NSX Overall Index increased marginally during the first quarter of 2025, reaching 20.51 index points in March 2025. This correlates with the uptick in trading volumes, with a total of N$971.5 million being traded during March 2025, as well as the increased geopolitical and economic uncertainty. Despite this uptick, volatility remains below historical averages. Similarly, volatility in the South African equity market, as measured by the South African Volatility (SAVI) Top 40 Index, remained relatively subdued throughout 2024 in comparison with the previous two years (Figure 11b). Concerns over potential economic disruptions emerged following the US's decision to cut aid to South Africa, the return of load shedding, and the impact of reciprocal tariffs. However, despite these developments, volatility in Namibian and South African equity markets does not signal any cause for concern, as volatility remains broadly contained and below historical averages. This suggests that the market is neither overly complacent nor excessively volatile, which bodes well for financial stability.

South African stocks, as reflected in the Johannesburg Stock Exchange (JSE) All Share Index, have remained resilient despite tariffs and global uncertainty. The JSE All Share index rose to 84 095.1 index points in December 2024, up from 76 893.2 points in December 2023, reflecting an annual price increase of 9.4 percent (Figure 11a). This growth was driven by a combination of factors including market diversification, re-rating, and a commodities surge led by mining companies. Furthermore, the South African economy is showing signs of improvement, supported by reduced inflation, lower interest rates, and improved energy stability. The formation of a coalition government has further supported market sentiment, contributing to a cautiously optimistic outlook, and driving the JSE All Share Index to a 5.4 percent return in the first quarter of 2025

Gold benefitted from heightened geopolitical uncertainty following the change in the US administration, subsequently pushing prices to new all-time highs. The precious metal has gained more than 19 percent during the first quarter of 2025, remaining near record highs as investors seek refuge in the safe-haven asset. This rally has been driven by a combination of safe-haven risk-off buying due to economic and geopolitical uncertainty, as well as by robust central bank purchases and inflows into gold-backed exchange traded funds. Going forward, gold prices are likely to increase further as concerns over potential tariff retaliatory measures from US trading partners could further escalate global trade tensions.

The Non-Financial Sector

Household debt to disposable income

A higher growth rate for household indebtedness was reported for 2024 relative to 2023. Annual household debt growth had risen to 4.0 percent by the end of 2024, up from 3.3 percent at the end of 2023 (Table 4). This was underpinned by a modest increase in credit extended by banking institutions, along with a once-off injection of N$609.0 million into the microlending sector through a loan book acquisition. Excluding this once-off transaction, growth in microlending slowed, indicating that the overall increase in household debt was largely supported by the banking sector's continued lending activity. Of the total N$76.8 billion in credit extended to households, banking institutions accounted for 89.5 percent, while microlenders contributed 11.5 percent (Table 4). Credit extended by banking institutions remained relatively stable, recording a modest increase of 3.1 percent in 2024, compared to 3.0 percent in 2023. Meanwhile, microlenders continue to play an important role in addressing the short-term financing needs of households who may not qualify for conventional bank credit. Excluding the impact of the once-off loan book purchase transaction, growth in the microlending loan book moderated to 4.3 percent in 2024, down from 6.2 percent in 2023.

Table 4: Ratio of disposable income to household debt

Disposable Income and household debt	2020	2021	2022	2023	2024
Disposable income (N$)	138,328	134,362	147,977	165,054	177,842
Ratio of credit to disposable income (%)	43.7	46.0	43.7	40.4	38.6
Total credit extended to households/Individuals (N$)	60,518	61,791	64,723	66,648	68,688
Adjusted credit to households/individuals* (N$)	66,573	69,107	71,465	73,805	76,760
Growth rate in household debt (%)	4.4	3.8	3.4	3.3	4.0
Adjusted credit of households/Individuals-to-disposable income** (%)	48.1	51.4	48.3	44.7	43.2

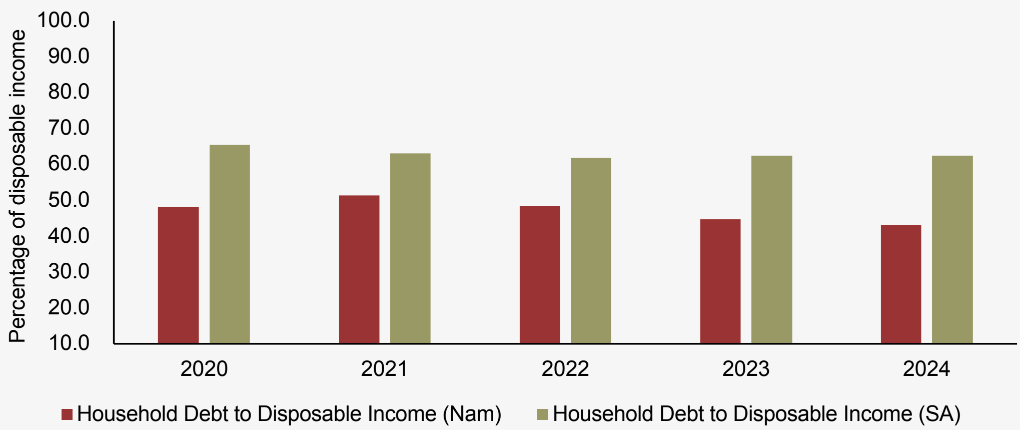
Source: BoN

*The ratio of household debt to disposable income is calculated based on data received from the National Accounts.

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

Namibia's household debt-to-disposable income ratio has declined steadily over the past four years, largely driven by consistent growth in disposable income. Namibia's household debt-to-disposable income ratio fell by 8.2 percentage points, from 51.4 percent in 2021 to 43.2 percent in 2024 (Table 4). The decline in the ratio during 2024 was primarily due to disposable income growth outpacing the 4.0 percent increase in adjusted household debt. In contrast, household debt as a percentage of nominal disposable income in South Africa remained broadly unchanged at 62.4 percent in 2024, as household disposable income and debt increased at the same pace during the period under review.

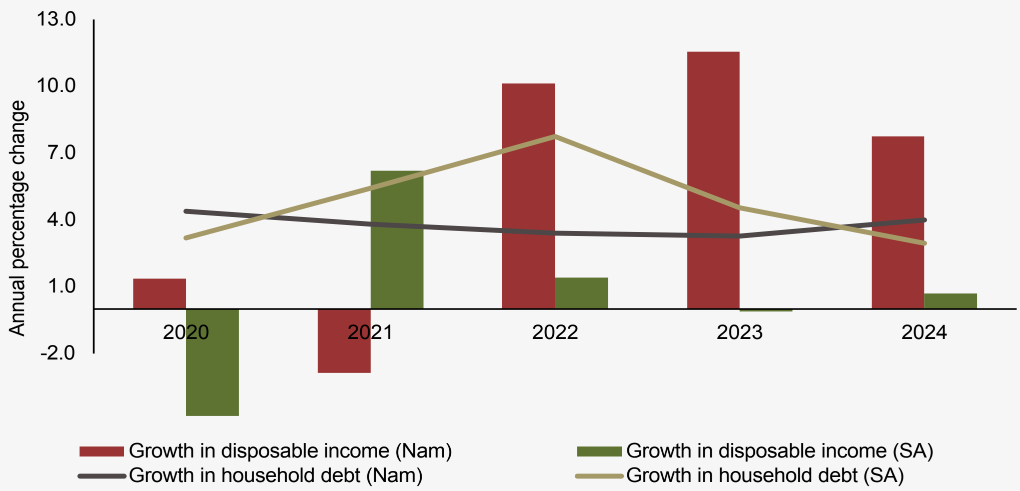
Figure 12: Household debt to disposable income (Namibia and South Africa)



Source: BoN and SARB

The annual growth in household disposable income declined in Namibia during 2024. The growth rate of household disposable income in Namibia slowed during 2024, declining by 3.8 percentage points to 7.7 percent, down from 11.5 percent in 2023 (Figure 12). This deceleration was mainly driven by slower growth in Net operating surplus and Current transfers to households, and Non-profit institutions serving households (NPISH). However, the category of Primary income receivable provided some support to disposable income, increasing by N$4.9 billion in 2024, compared to N$2.1 billion in 2023. By contrast, in South Africa, real household disposable income grew by 0.7 percent in 2024, following a marginal contraction of 0.1 percent in 2023 (Figure 13).

Figure 13: Growth in household debt and disposable income



Source: Namibia Statistics Agency (NSA), BoN and SARB

Corporate debt

Namibia's total corporate debt stock increased during 2024, mainly due to increased foreign debt. Total debt increased from N$176.8 billion at the end of 2023 to N$191.4 billion at the end of 2024 (Table 5). While the growth in total debt was driven mainly by foreign debt, domestic debt also rose by N$2.7 billion during the period under review. The increase in domestic debt was due to increased demand for credit by corporates operating in the mining and fishing sectors. The significant increase of N$11.9 billion in foreign debt was attributed mainly to mining companies securing loans from their foreign parent entities, coupled with a higher foreign trade credit uptake by non-financial corporations.

Table 5: Domestic and external corporate debt (corporate and parastatals)

N$ million	2020	2021	2022	2023	2024
Domestic debt	**44,842**	**44,874**	**46,173**	**47,351**	**50,066**
Local corporate debt	44,307	44,258	45,808	45,979	48,442
Local debt of SOEs	535	616	365	1,372	1,624
Foreign debt	**82,435**	**94,671**	**111,672**	**129,434**	**141,349**
Foreign corporate debt	74,431	87,078	102,520	121,062	131,875
Foreign debt of SOEs	10,068	9,470	9,636	8,373	9,474
Total SOE debt	10,603	10,086	10,001	9,745	11,098
Total debt	**127,277**	**139,545**	**157,845**	**176,785**	**191,415**
Nominal GDP	174,243	183,292	205,584	228,887	245,097
Corporate debt as a % of GDP	68.1	71.7	72.1	73.0	73.6
Foreign corporate debt as a % of GDP	42.7	47.5	49.9	52.9	53.8
Foreign debt as a % of total debt	64.8	67.8	70.7	73.2	73.8

Source: BoN and NSA

Corporate debt as a percentage of GDP increased marginally in 2024, mainly due to increased foreign debt. Namibia's corporate debt as a percentage of GDP edged higher from 73.0 percent in 2023 to 73.6 percent in 2024, driven largely by an increase in foreign corporate debt. In this regard, the ratio of foreign corporate debt to GDP rose from 52.9 percent to 53.8 percent over the same period. While the growth in domestic corporate debt is not a major concern, as it stems from sectors that drive economic expansion, the rising foreign debt warrants close monitoring due to its susceptibility to exchange rate fluctuations. A sustained depreciation of the Namibia Dollar (NAD) could amplify repayment burdens, posing potential risks to financial stability through the demand for foreign exchange reserves.

The total state-owned enterprise (SOE) debt stock increased in 2024, mainly due to increased foreign debt. The SOE debt increased to about N$11.1 billion by the end of 2024, up by 13.9 percent from N$9.7 billion at the end of 2023 (Table 6). The increase observed in the SOE debt category was mainly driven by the increase observed in the foreign debt component. In this regard, foreign SOE debt increased by 13.2 percent to N$9.5 billion by the end of 2024 compared to 2023. This was mainly due to increased borrowing by parastatals operating in the finance sector, and the electricity, oil, gas and water sector.

Total foreign private sector debt servicing declined in 2024, reflecting reduced repayments by foreign-owned subsidiaries in the mining sector. The total value of repayments on Namibia's foreign private sector debt declined to N$35.6 billion in 2024, 5.1 percent lower than in the previous reporting period (Table 6). This was mainly driven by lower debt servicing to their foreign parent enterprises by foreign-owned subsidiaries operating in the mining sector, which declined by 13.4 percent to N$14.3 billion during the period under review.

Table 6: Foreign private sector debt and debt servicing

N$ million	2020	2021	2022	2023	2024
Total foreign private sector debt	82,435	94,671	111,672	129,434	141,349
Total foreign private sector debt servicing	15,764	16,114	25,429	37,491	35,567

Source: BoN

04 THE FINANCIAL SECTOR

4. THE FINANCIAL SECTOR

Performance of the banking sector

The banking sector's balance sheet growth remained positive during the period under review. The growth of the banking sector's total assets remained positive, outpacing the prevailing inflation rate with a growth rate of 7.1 percent at the end of December 2024. This increase was primarily driven by growth in short-term negotiable securities, and net loans and advances. The increase observed in the short-term negotiable securities was mainly due to the sectors' investment in treasury bills. However, the exposure to sovereign debt remained relatively low, with investments in treasury bills averaging 12.6 percent of total assets in 2024. Net loans and advances, which account for a share of over 60.0 percent of total assets, increased by 5.6 percent to N$113.9 billion at the end of December 2024. This increase was mainly driven by higher demand for instalment sales and fixed-term loans. On the liabilities side, total capital and liabilities were primarily supported by non-bank funding, particularly commercial deposits in the form of demand deposits, as well as fixed and notice deposits.

Risk Analysis

The Financial System Stability Committee analyses the resilience of the domestic financial system to internal and external shocks, be they economic, financial, political, or otherwise. The main objective is to identify potential risks in the banking sector, while simultaneously determining how best to mitigate such risks. It is therefore important to analyse credit, liquidity, and concentration risks in the banking sector. These risks further inform the scope of stress tests that are conducted, which are part of the overall analysis of the resilience of the banking sector.

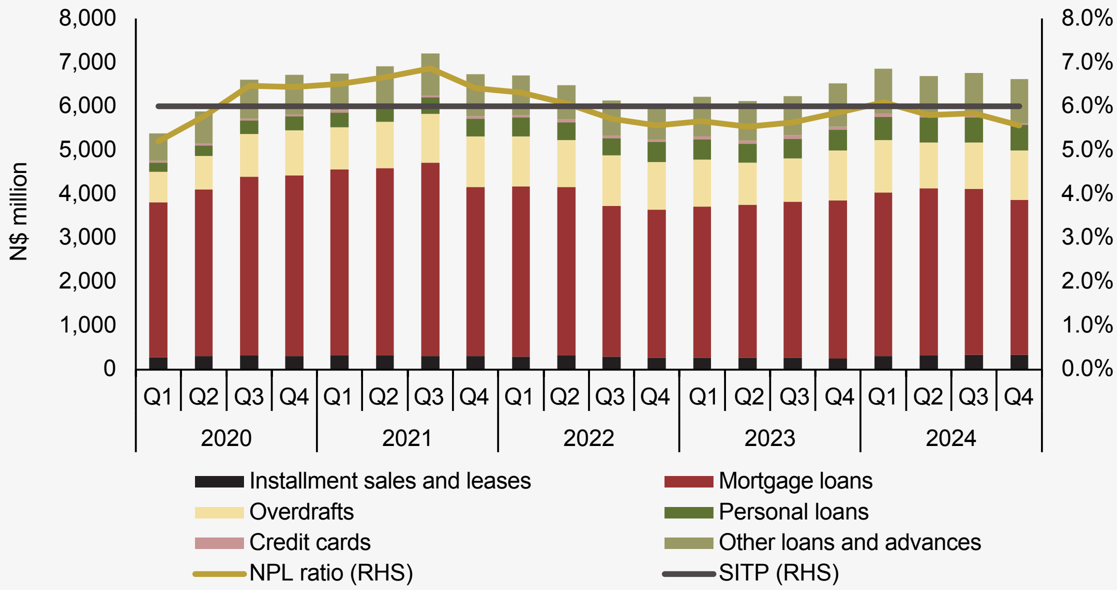
Credit risk

Credit risk is defined as the risk of default by borrowers and the potential impact on profitability and capital adequacy. Banking sector assets are comprised mainly of loans granted to households and corporates. The interest earned on these assets is a significant component of banks' income and profit but is subject to the risk of borrowers defaulting on their loans. Thus, the risk of default determines the quality of the assets, i.e., the higher the rate of default, the lower the quality of the assets concerned; conversely, the lower the credit risk, the higher the asset quality. Therefore, banks are required to hold more capital when their asset quality deteriorates. This is to cover the related credit risk while also accounting for higher provisions in the event of a loss, thus impacting profitability.

Asset quality

Asset quality, as measured by the ratio of non-performing loans (NPLs) to total gross loans, improved due to increased total loans and advances. The NPL ratio declined to 5.6 percent at the end of 2024 from 5.9 percent in 2023 (Figure 14). The decline in the NPL ratio was driven by the growth in total loans and advances, which outpaced the growth in non-performing loans. The increase in the NPL levels was primarily driven by growth in specific loan categories, with instalment sales and leases increasing by 27.8 percent, personal loans by 19.5 percent, and other loans and advances by 1.8 percent. In contrast, NPLs in the mortgage loan category, which accounts for 53.4 percent of total NPLs, improved, declining by 1.7 percent in 2024 compared to 2023. The individuals sub-sector continued to dominate the sectoral distribution of NPLs, accounting for over 50.0 percent of total NPLs. Going forward, asset quality is expected to improve over the next 12 months as monetary policy becomes less restrictive, providing relief to households and corporates by easing the servicing of their debts. This improvement in asset quality will further be supported by the decline observed under the overdue loans, particularly those in the two-to-three-month time bucket. These are the loans that are next in line to be classified as non-performing by virtue of not being serviced for 90 days, which could signal an improvement in the NPL ratio in the next quarter should total loans and advances remain in the current trajectory or showcase some improvement. Overall, the observed improvement in asset quality is a positive development for financial stability, with the NPL ratio remaining below the supervisory intervention trigger point of 6.0 percent.

Figure 14: Non-performing loans ratio and category distribution



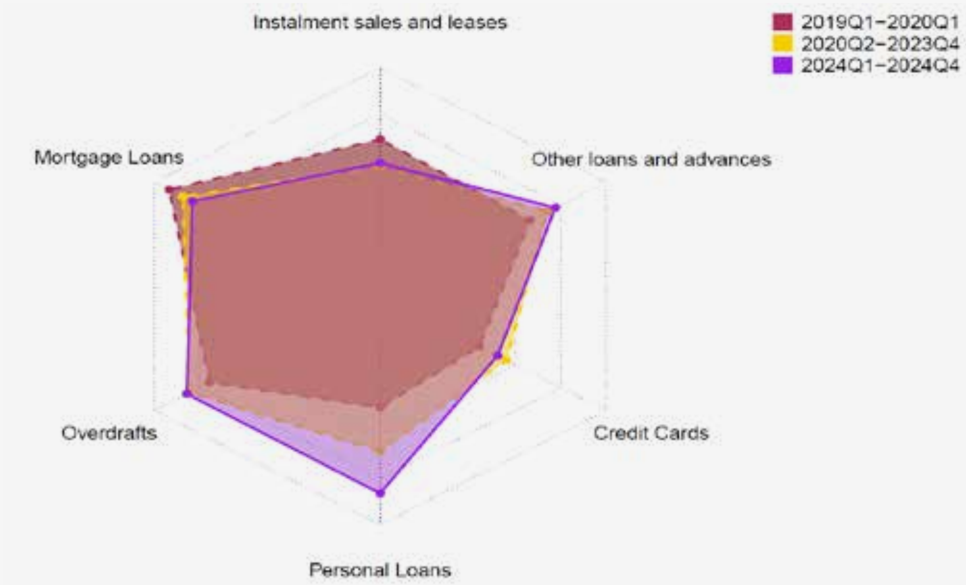
Source: BoN

BOX ARTICLE 1: SHIFTING RISKS

HOW NON-PERFORMING LOANS TRANSFORMED PRE-, DURING, AND POST-COVID-19

Understanding shifts in NPLs is essential for assessing financial stability and credit risk exposure. The composition of NPLs has evolved over time, reflecting changed credit risk appetite coupled with financial pressures on households and businesses. This assessment examines three periods: pre-Covid-19 (2019Q1 - 2020Q1), during the pandemic (2020Q2 - 2023Q4), and post-pandemic (2024Q1 - 2024Q4). The most notable trend is the decline in mortgage NPLs, while distress increased in personal loans, overdrafts, and other loans and advances, all of which are unsecured[7] credit, suggesting increased reliance on short-term borrowing. In this regard, the average share of mortgage NPLs declined from 64.2 percent pre-pandemic to 55.2 percent post-pandemic, with a share of 58.9 percent during the pandemic period. Meanwhile, the share of personal loans and overdrafts increased by 4.7 and 2.5 percentage points, respectively, between the pre- and post-Covid-19 periods, highlighting a shift in financial distress toward unsecured lending (Figure BA1 1).

Figure BA1 1[8]: Distribution of NPLs pre, during and post Covid-19



Source: BoN

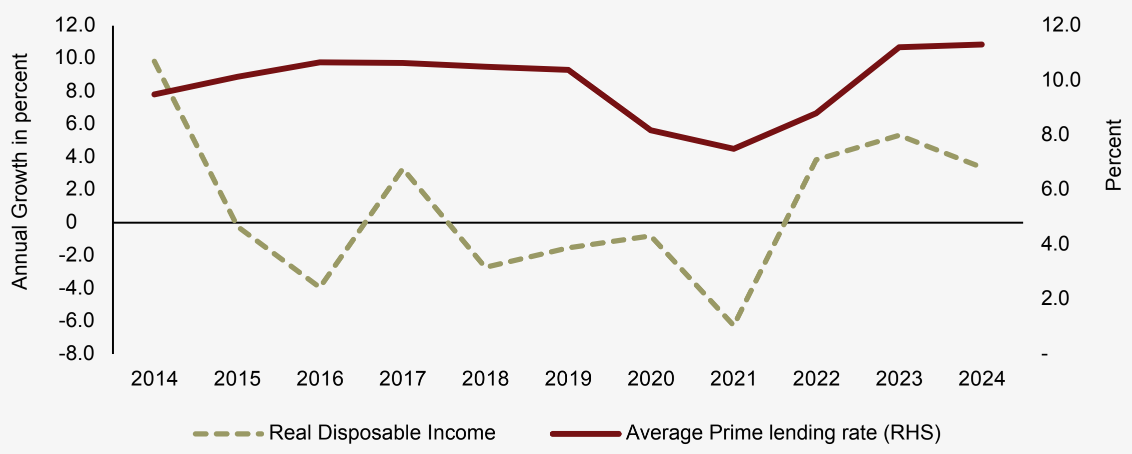
[7] Secured credit includes instalment sales, leasing finance and mortgage advances, while unsecured credit includes overdrafts, general loans and advances, and credit cards. Secured lending is pledged against an asset such as a house or a car, while unsecured lending is based on a client s credit history, loan term and amount, as well as their personal circumstances.

[8] The figure illustrates the share of each NPL category as a proportion of total NPLs across three periods. A point further from the center indicates a higher share of that category in total NPLs, while a point closer to the center reflects a lower share. Changes in the shape of the polygons highlight shifts in the composition of NPLs over time.

The Bank released relief measures under the Determination on Policy Changes (BID-33) in response to economic and financial stability challenges following the fallout of the Covid-19 pandemic to manage credit risk and ensure financial system stability. The Covid-19 pandemic posed unprecedented challenges to the global economy, which necessitated swift and robust policy responses. In Namibia, the Bank introduced the Determination on Policy Changes in response to economic and financial stability challenges following the fallout of the Covid-19 pandemic (BID-33) in 2020, to mitigate the economic impact on the banking sector and maintain financial stability. Following its first issuance in 2020, BID-33 was extended and amended in March 2023, effective 1 April 2023, to continue supporting economic recovery before coming to an end on the 1st of April 2024. These relief measures were welcomed and favourably taken up, thus playing an important role in stabilising secured loans such as mortgages, while simultaneously preventing a significant surge in mortgage related defaults. However, as these relief measures phased out, financial strain persisted, impacting households and businesses' ability to honour their debt obligations.

The shift in NPL composition reflects the financial strain households faced amid declining real disposable income and higher borrowing costs. Real disposable income contracted between 2019 and 2021 due to stunted turnover, job losses, wage cuts and economic uncertainty, reducing households' ability to meet financial obligations. In this regard, real disposable income contracted by an average of 2.9 percent between 2019 and 2021 (Figure BA1 2). With income levels stretched, households and businesses turned to costly short-term credit to cover essential expenses, contributing to the increase in unsecured NPLs. This was further exacerbated by the post pandemic increase in interest rates. Unlike mortgages, these credit lines often have higher interest rates and shorter repayment periods, making them more vulnerable to macroeconomic shocks. This shift in NPL composition indicates an evolving risk appetite for banks, as unsecured loans typically have higher default probabilities and lower recovery rates compared to collateralised lending.

Figure BA1 2: Growth in real disposable income and lending rate



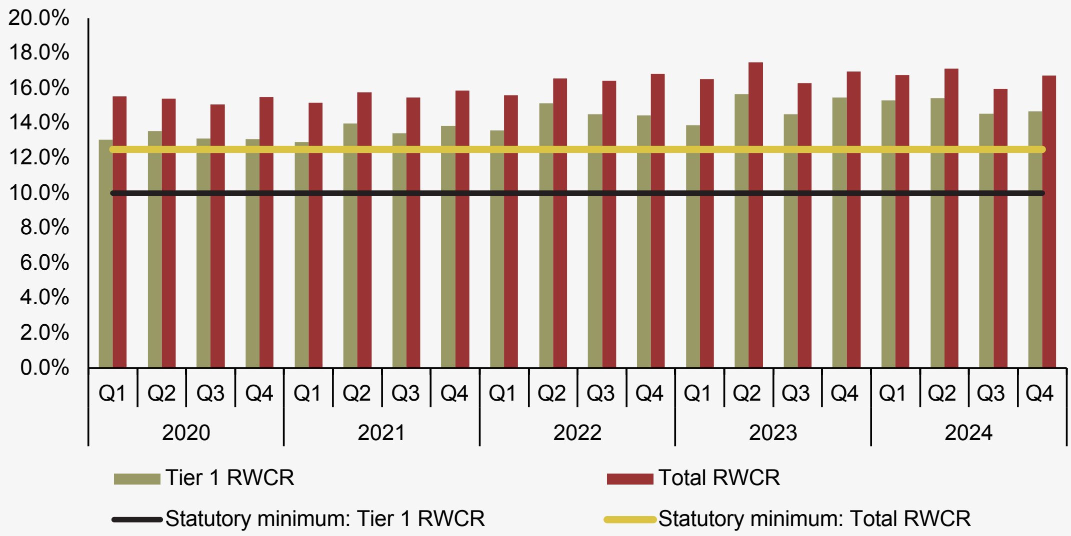
Source: BoN

The shift in NPL stress from secured to unsecured loans underscores the importance of monitoring consumer credit trends and implementing proactive credit risk management strategies. While the relief measures helped sustain mortgage performance during the pandemic, the lingering effects of economic shocks have manifested in the unsecured lending categories. Going forward, while the shift from secured to unsecured lending does not necessarily indicate weaknesses in underwriting standards or heightened systemic risk, financial institutions should continue to maintain adequate risk buffers. This is particularly important given the higher provisioning requirements for unsecured products and the evolving regulatory landscape under Basel III, which encourages greater alignment between the maturity of assets and liabilities.

Capital adequacy

The banking sector remained adequately capitalised in 2024, maintaining a capital position well above the prudential requirements. The total risk-weighted capital ratio (RWCR) and Tier 1 RWCR exceeded their respective minimum regulatory thresholds of 12.5 percent and 10.0 percent, respectively. Total eligible capital increased from N$19.6 billion in 2023 to N$20.4 billion in 2024 (Figure 15). Despite this increase, the total RWCR edged down by 0.2 percentage points to 16.7 percent 2024. This decline was primarily due to increased risk-weighted assets, which grew faster than total eligible capital. Similarly, the Tier 1 RWCR fell by 0.4 percentage to 14.7 percent, reflecting the combined effects of higher risk-weighted assets and dividend payouts during the year. Overall, the banking sector's strong capital position against potential losses and risks associated with the banking sector's resilience in 2024 supported its ability to manage credit risks effectively, contributing to overall financial system stability.

Figure 15: Capital adequacy

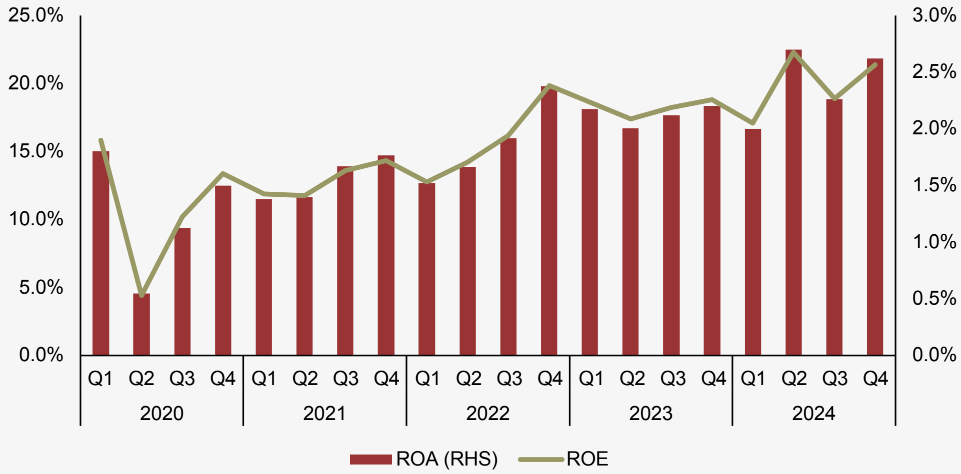


Source: BoN

Profitability

As measured by the return on assets (ROA) and return on equity (ROE) ratios, profitability improved in 2024 relative to 2023, primarily due to higher net interest income. The ROA ratio increased to 2.4 percent in 2024 from 2.1 percent in 2023 despite an average asset growth rate of 4.3 percent during the review period. Similarly, the ROE increased from 18.3 percent in 2023 to 19.9 percent in 2024 (Figure 16). The improvement in profitability was driven by growth in both net interest income and operating income. Net interest income, which accounts for over 50 percent of total income, rose by N$874.1 million to N$8.7 billion in 2024, in line with the growth in total loans and advances. Additionally, the improved operating income was primarily attributed to higher fee income, which increased by N$482.8 million to N$4.8 billion in 2024. Going forward, the prevailing interest rate environment may continue to positively impact the banks' net interest income. Downside risks persist, however, particularly from slower credit growth and challenging macroeconomic conditions, which could affect profitability.

Figure 16: Profitability



Source: BoN

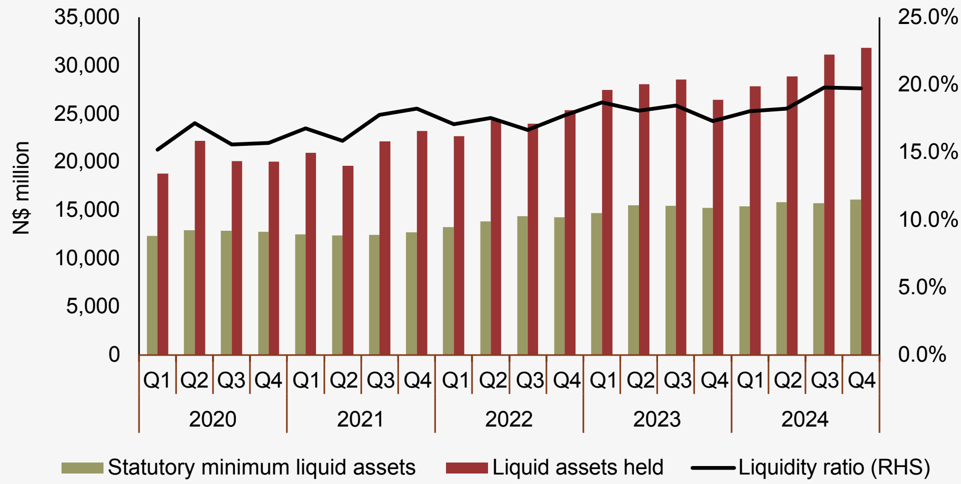
Adequacy of provisions

Total provisions increased marginally in 2024 compared to 2023, aligning with the increase observed in the nominal value of NPLs. During the review period, total provisions grew by 2.7 percent year-on-year to reach N$3.8 billion. This increase was primarily driven by a 7.9 percent rise in specific provisions, which stood at N$2.5 billion at the end of 2024. In contrast, general provisions declined by 5.4 percent year-on-year to N$1.4 billion. Considering the prevailing NPL levels, banks are expected to maintain adequate buffers to safeguard against potential losses and manage credit risk effectively. Overall, credit risk to the financial system remained moderate in 2024 and is expected to remain as such in 2025, with medium impact.

Liquidity risk

The liquidity position of the banking sector remained strong, driven primarily by higher investments in government-issued instruments, mainly treasury bills, stocks, securities, bills, and bonds. The banking sector's liquid assets increased by 20.2 percent from N$26.5 billion in 2023 to N$31.8 billion in 2024, driven by higher investments in government-issued instruments (Figure 17). Specifically, investments in treasury bills increased by 14.9 percent, reaching an average of N$18.2 billion by the end of 2024, while investments in other government-issued securities grew by 22.3 percent. As a result, the sector's liquidity ratio increased to 19.7 percent in 2024, significantly above the 17.3 percent reported in 2023 and well above the 10-year long-term average of 15.5 percent. This trend is further illustrated in the heatmap (Figure 1), which highlights the sector's elevated liquidity position. This reflects a consistently strong liquidity position in the banking sector. Going forward, liquidity levels are expected to remain healthy in 2025, supported in part by higher funding needs on the part of the Government.

Figure 17: Liquid assets and liquidity ratio



Source: BoN

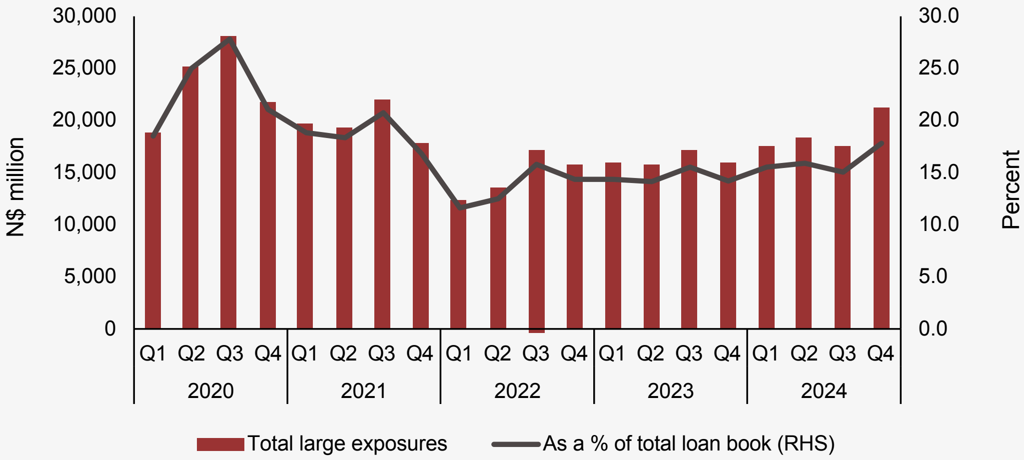
Both the loan-to-deposit and loan-to-funding ratios remained below 100 percent in 2024. A loan-to-deposit ratio over 100 percent implies that some banks rely on borrowed funds to fund some of their loans. Similarly, a high loan-to-funding ratio limits banks' ability to expand their loan book further while managing their liquidity risk. The loan-to-deposit ratio declined from 80.1 percent in 2023 to 78.4 percent in 2024, as deposit growth (7.7 percent year-on-year) outpaced loan growth (5.5 percent year-on-year). Similarly, the loan-to-funding ratio declined marginally, from 75.0 percent in 2023 to 74.4 percent in 2024, indicating that a slightly smaller proportion of total funding was allocated to lending, with banks opting to hold more liquidity or invest in government securities. Overall, both ratios remained manageable, supporting financial stability in the banking sector. The probability of liquidity risk deteriorating in the banking sector in 2025 remains low, with minimal adverse impact on financial system stability.

Concentration risk: Large exposures

The banking sector's large exposures[9] increased significantly in 2024 relative to 2023. Large exposures increased notably by 32.7 percent, from N$16.0 billion in 2023 to N$21.2 billion in 2024, driven primarily by new credit disbursements to companies operating in the mining and quarrying sector, as well as electricity, oil, gas and water sector (Figure 18). However, some repayments were made by companies operating in the manufacturing, trade, and accommodation sectors. The significant growth in large exposures is a positive development, reinforcing that business credit demand is gaining momentum. Large exposures as a percentage of total loans and advances increased from 14.2 percent in 2023 to 17.8 percent in 2024. Concentration risk remains contained and does not pose a threat to the overall stability of the financial system, as all large exposures remained within the single borrower limit of 25.0 percent.

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

Figure 18: Total large exposures



Source: BoN

The sectoral distribution of total loans and advances remained broadly diversified across sectors during the period under review. The sectoral distribution of total loans and advances was dominated by the individuals sector, with a share of 42.1 percent, followed by loans extended to the real estate sector, with a share of 8.2 percent. In this regard, loans extended to the individuals sector declined by 1.8 percentage points from the 43.9 percent reported in 2023. The following sectors' share of total loans and advances remained relatively unchanged: fishing (2.1 percent), business services (6.0 percent), and electricity, oil, gas and water (2.1) percent. The shares of total loans and advances of the following sectors declined, to reach their respective shares of sectoral distribution during the period under review: manufacturing (3.0 percent); construction (3.2 percent); trade and accommodation (7.7 percent); finance and insurance (5.6 percent); and other (2.0 percent). However, the shares of total loans and advances of the following sectors increased to the indicated levels: agriculture, hunting and forestry (5.6 percent); mining and quarrying (2.4 percent); transport, storage and communication (2.4 percent); real estate (10.0 percent); government services (4.0 percent); and individuals (43.9 percent). The banking sector's large exposures thus remain adequately diversified and pose minimal concentration risk to the financial system.

The ratio of large exposures to private sector credit extension (PSCE) increased significantly during the period under review. With the nominal value of total large exposures outpacing the credit extended to the private sector, the share of large exposures as a percentage of total PSCE increased significantly, by 3.9 percentage points to 18.1 percent during the period under review (Table 7). Similarly, large exposures as a percentage of credit extended to businesses experienced a more pronounced increase of 9.0 percentage points, reaching 43.7 percent at the end of 2024 compared to 2023.

Table 7: Large exposures in relation to PSCE

	2020	2021	2022	2023	2024
Total large exposures	21 726	17 741	15 811	15 959	21 183
Total PSCE	104 825	106 049	110 531	112 627	117 130
PSCE to businesses	44 307	44 258	45 809	45 979	48 442
Large exposures as a % of PSCE	20.7	16.8	14.4	14.2	18.1
Large exposures as a % of business PSCE	49.0	40.1	34.5	34.7	43.7

Source: BoN

Non-bank financial institutions (NBFIs)

The combination of economic stabilisation and financial market momentum reinforced the non-bank financial institution (NBFI) sector's resilience, despite global uncertainties. During the review period, the macroeconomy was characterised by moderating inflation rates, registering at 5.9 percent in 2023 and 4.2 percent in 2024. This contributed to the enhancement of household purchasing power and the stimulation of demand for NBFI products. Furthermore, financial market performance catalysed the sector's growth, in particular equity markets, given that NBFIs are particularly exposed to this market segment. Accordingly, the sector's assets increased by 14.3 percent in 2024 to reach N$474.1 billion. Therefore, the sector's structural importance as a source of funds and distributor of risks in the domestic economy continued to expand alongside its growing asset base.

Performance of the NBFI sector

The NBFI sector experienced growth, with aggregate assets increasing by 14.3 percent to N$474.1 billion in 2024. Headwinds resulting from the grey-listing by the FATF and uncertainty associated with the national elections, as well as in key global economies, were offset by favourable developments in financial markets, and cooling interest and inflation rates. The sector's growth has far-reaching implications for national fiscal stability and financial intermediation, with several subsectors playing pivotal roles in capital allocation and investment management.

Diplomatic relations between South Africa and the United States have deteriorated in recent months. The US African Growth and Opportunity Act is scheduled to expire in September 2025, and its renewal by the U.S. Congress remains uncertain. Additionally, questions persist about whether South Africa will meet the eligibility criteria to continue benefiting from the Act, if it is extended. Losing the benefits it confers could lead to reduced exports, a depreciating rand, rising inflation, and ultimately weaker economic growth, ceteris paribus. Given Namibia's close trade ties with South Africa and their currency peg, these economic challenges are likely to have direct spillover effects on Namibia's economy. The escalating geopolitical tensions and financial fragmentation are therefore likely to cause supply chain disruptions, potentially altering the trajectory of inflation and interest rates. This intricate dynamic could, in turn, impact the demand for NBFI products and affect the performance of their investment assets throughout 2025.

Table 8: Non-bank Financial Institutions (NBFI) sector – Asset size

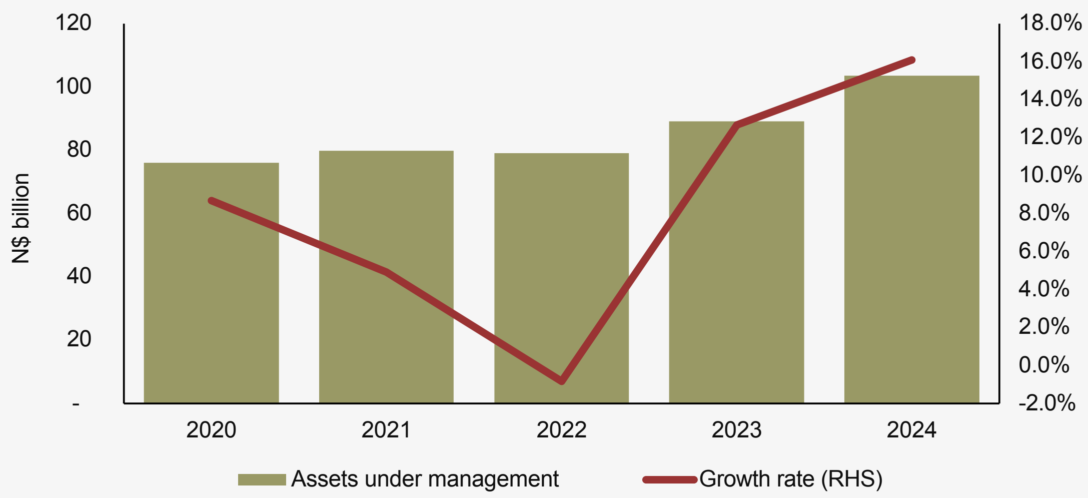
Total Assets per subsector (N$ Million)	2020	2021	2022	2023	2024
Long Term Insurance	61,681	66,672	68,757	74,260	83,837
Short Term Insurance	6,055	7,188	7,200	7,745	9,121
Medical Aid Funds	2,359	2,287	2,001	2,097	2,796
Pension Funds	182,234	212,909	205,817	237,145	262,777
Collective Investment Schemes	59,390	61,622	60,974	68,424[10]	80,027
Investment Managers	8,775	12,584	14,654	17,888	27,453
Friendly Societies	1.9	2.0	2.3	2.5	3.0
Microlenders	6,055	7,316	6,743	7,157	8,071
Total	**326,551**	**370,582**	**366,149**	**414,811[11]**	**474,084**
Annual growth	**4.4%**	**13.5%**	**-1.2%**	**13.3%**	**14.3%**

Source: NAMFISA

Collective Investment Schemes

Collective investment schemes' assets under management expanded by 16.1 percent in 2024, reaching N$103.5 billion (Figure 19). The subsector sustained investor confidence in the face of uncertain macroeconomic conditions characterised by the erosive effects of price increases within the broader economy.

Figure 19: Collective investment schemes – assets under management



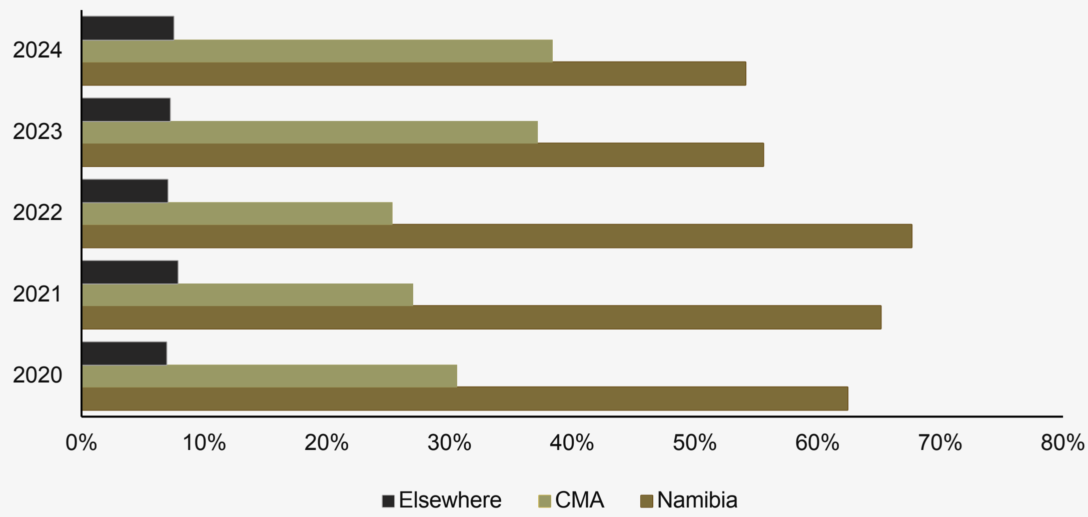
Source: NAMFISA

[10] Restated post publication of the April 2024 FSR.
[11] Recalculated in line with restatement above.

Sources and allocation of funds per location

On the back of regulations prescribing minimum domestic holding requirements, the proportion of capital channelled into the domestic economy initially exhibited a steady upward trajectory, peaking in 2022 (Figure 20). In 2022, 67.6 percent of the aggregate assets under management were held in Namibia. Due to interest rate differentials between Namibia and South Africa, the proportional allocations of assets to Namibia declined by 12.0 percentage points to 55.6 percent in 2023. The decline occurred as collective investment schemes sought to optimise returns. The proportion of domestically held assets declined further by a slower 1.5 percentage points in 2024, settling at 54.1 percent. The marked deceleration in capital outflows coincided directly with the Bank of Namibia's implementation of the PSD-9 (Determination on the Conduct of Electronic Fund Transfer Transactions within the National Payment System) regulations. The reclassification of transactions within the Common Monetary Area (CMA) therefore had a measurable stabilising effect on capital movements from Namibia to South Africa.

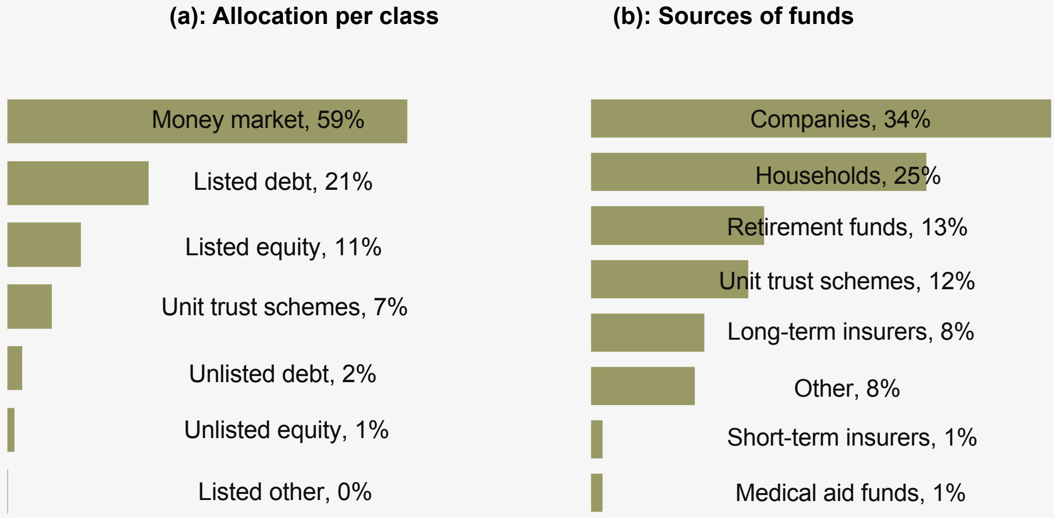
Figure 20: Collective investments schemes – geographic allocation



Source: NAMFISA

Assets under management were primarily channelled into money market instruments which involve short-term debt instruments such as treasury bills and negotiable certificates of deposit as shown in figure 21(a). The aforesaid underscores the subsector's role of preserving net savers' capital, while providing the broader financial system with liquidity. Companies and households remained the primary sources of funds, contributing 33.7 percent and 24.6 percent, respectively.

Figure 21: a-b

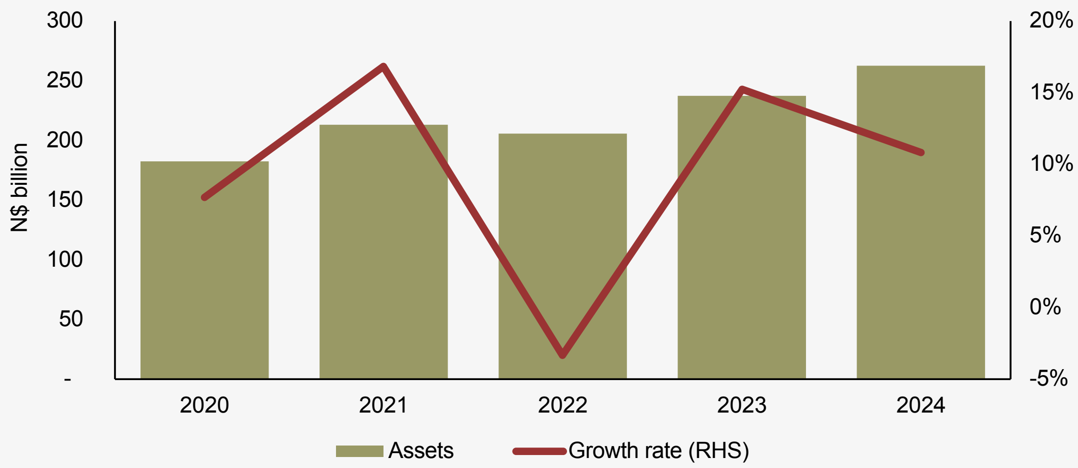


Source: NAMFISA

Retirement Funds Subsector

The retirement funds subsector demonstrated notable growth and resilience in 2024, expanding by 10.8 percent to reach N$262.8 billion (Figure 22). Participation in Namibian retirement funds is primarily conditional on employment. Demand for retirement funds is therefore expected to remain stable and resilient in 2025, in line with expectations for the expansion of the economy.

Figure 22: Retirement funds – Total assets



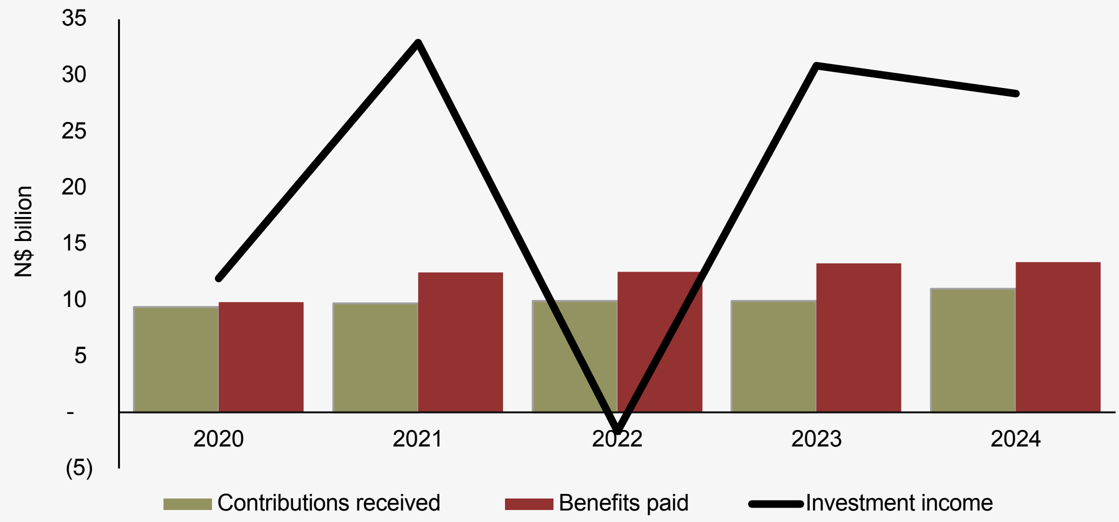
Source: NAMFISA

Contributions and benefits analysis

The combination of weak economic growth and an increasingly elderly membership base has created a situation where the retirement funds subsector is paying out more in benefits than it is collecting in contributions. The subsector disbursed benefits amounting to N$13.4 billion in 2024 (Figure 23). Contributions received increased by 10.8 percent on the back of increased government spending and slowing inflation rates to reach N$11.0 billion, while the investment income during the same period was recorded at N$28.4 billion.

In the defined benefit subset of the subsector, investment returns function as the primary counterbalance to the growing gap between contributions received and benefits paid. In the short-to-medium term, investment returns are expected to continue to compensate for the contribution deficits. However, the continued divergence between contribution and benefit payment growth rates presents a significant structural challenge. Therefore, in the long run, the reliance on investment performance creates vulnerability, especially during periods of market volatility or economic downturn.

Figure 23: Retirement funds – Contributions vs benefits & investment income

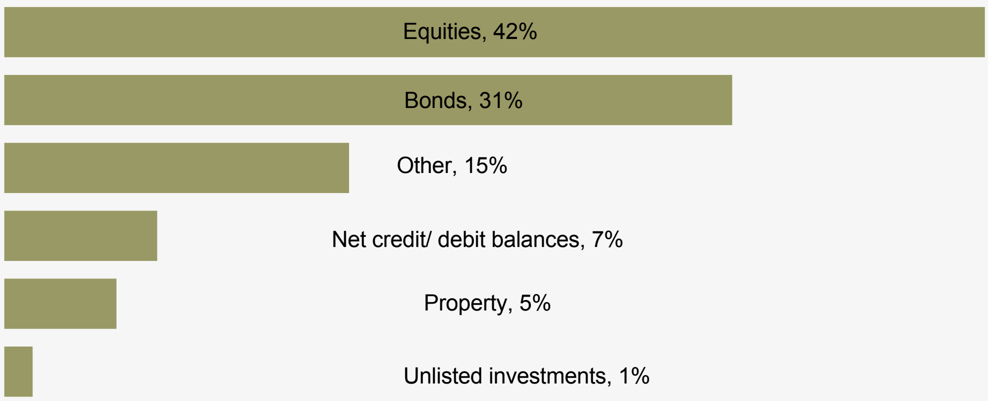


Source: NAMFISA

Allocation of Investment Assets

The retirement funds subsector maintains a strategic focus on equities and bonds, to align with its long-term obligations. Three-quarters of the subsector's assets were channelled into equities and bonds in 2024 (Figure 24).

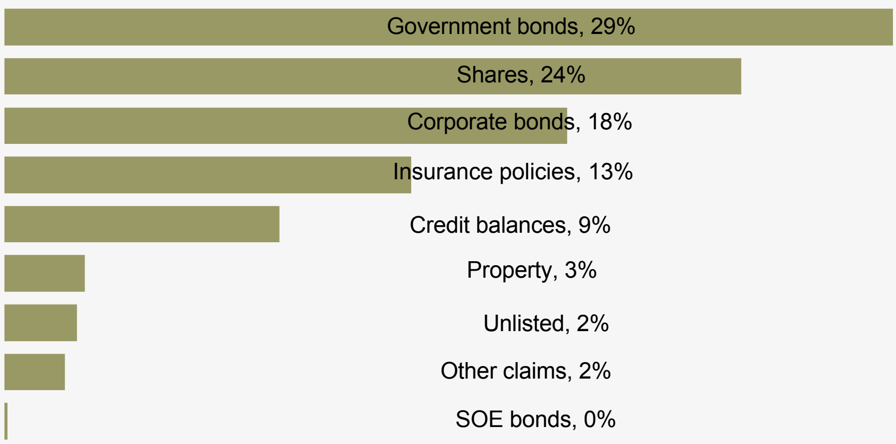
Figure 24: Retirement funds – Allocation per asset class



Source: NAMFISA

The subsector channelled N$133.3 billion of its investment assets domestically in 2024, of which N$38.4 billion was invested in government bonds. The government bond holding represents approximately one-quarter of outstanding government debt, demonstrating the subsector's critical role in supporting national fiscal stability. The retirement funds thus insulate the Government against external pressures such as foreign exchange volatility, *ceteris paribus.*

Figure 25: Retirement funds – Domestic asset allocation per asset class

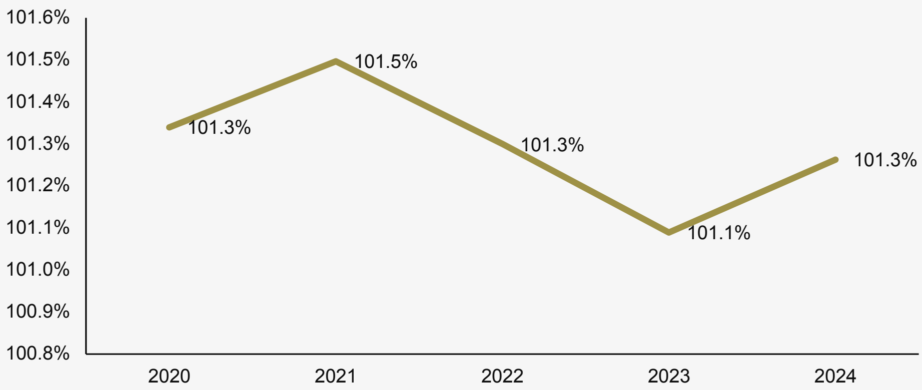


Source: NAMFISA

Funding Position

Despite fluctuations in asset values, the subsector maintained a sound funding position on the back of stable demand, coupled with moderating inflation rates and an expansionary fiscal policy. The subsector's funding position improved moderately by 0.2 percentage points to 101.3 percent in 2024. Supported by a somewhat less restrictive monetary policy, it is expected that the subsector will withstand short-run volatilities and remain viable in 2025. There are, however, some interconnected challenges threatening the subsector's long-term sustainability. Emerging longevity risks show that at least 8.2 percent of pensioners have already surpassed their initial life expectancy projections. Moreover, approximately two-thirds of the N$259.5 billion total liabilities relate to members older than the age of 45 years.

Figure 26: Retirement funds – Funding position

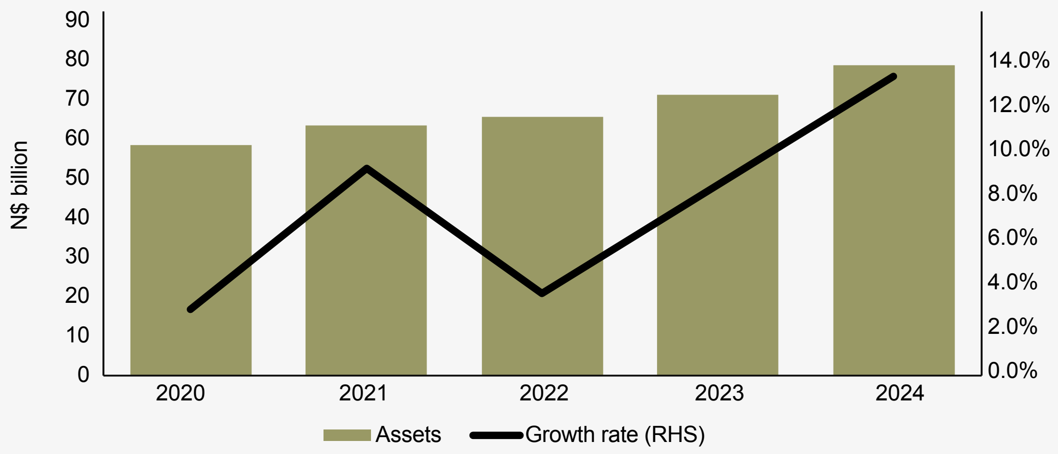


Source: NAMFISA

Long-Term Insurance Subsector

The long-term insurance subsector's assets have exhibited a consistent upward trajectory over the last decade, indicating resilience amid challenging economic conditions. Long-term insurers' assets expanded by 12.9 percent in 2024 to reach N$83.8 billion (Figure 27), supported by favourable financial market developments and stable demand for long-term insurance products.

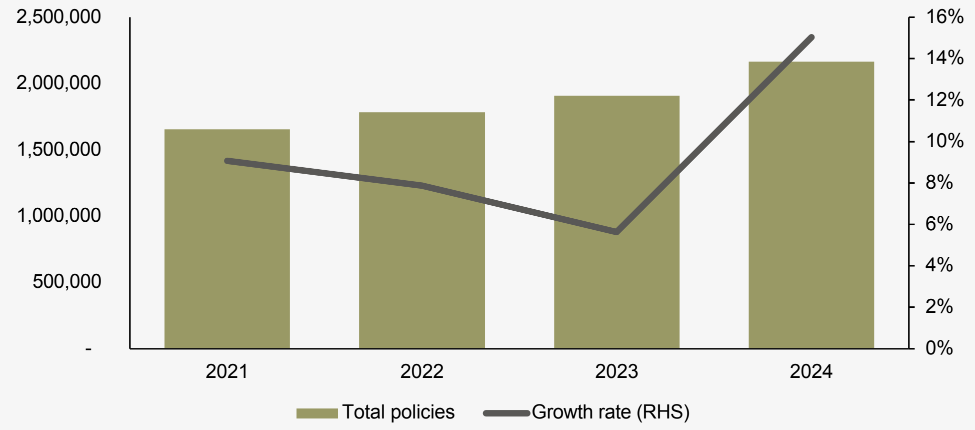
Figure 27: Long-term insurers – Assets



Source: NAMFISA

The stable demand for long-term insurers' products is affirmed by the subsector's policy statistics. The subsector reported a sustained upward trend in total policies over the period 2020 to 2024, with total policies increasing by 15.0 percent in 2024 to reach 2.2 million (Figure 28). The consistent growth in total policies reflects increased financial awareness following the Covid-19 pandemic, expanded product accessibility through digital platforms, and strengthened regulatory efforts by NAMFISA. Greater focus on financial inclusion, insurer retention strategies and employer-driven group life policies also contributed to the growth. Moreover, the resilient demand for long-term insurers' products underscores the subsector's role in providing financial security, promoting economic stability, and fostering investment. The demand for long-term insurance products is expected to remain resilient in 2025, in line with the expected economic expansion.

Figure 28: Long-term insurers – Policy statistics



Source: NAMFISA

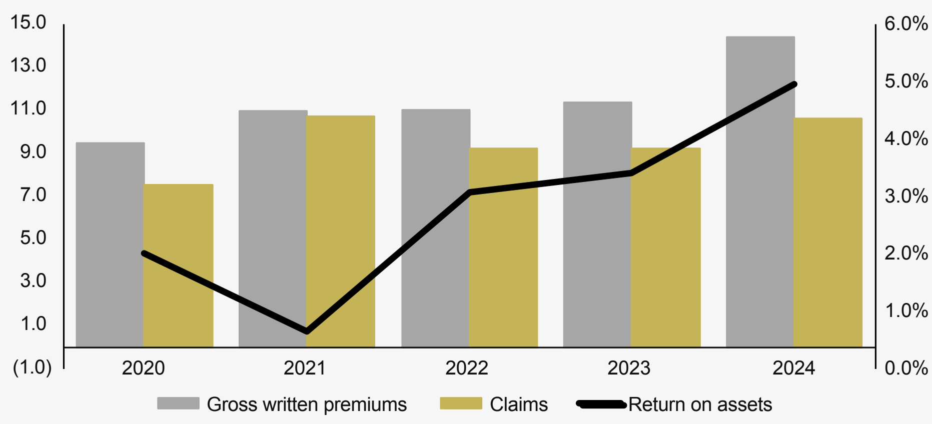
Profitability

Gross written premiums surged to N$14.4 billion in 2024, representing a 26.8 percent increase. The growth in gross written premiums can be attributed to several key factors. These include increased uptake of life-, funeral- and investment-linked policies driven by heightened risk awareness and a growing middle-income population. Product diversification, and improved distribution channels (including digital platforms), have further contributed to premium growth. The growth in gross written premiums was also partly attributable to the transfer of retirement fund assets under management from a conventional asset management company to a long-term insurance provider.

Claims patterns during this period reflect the lingering impacts of the pandemic and other risk factors. After peaking at N$10.7 billion in 2021, claims moderated to N$9.2 billion in both 2022 and 2023, indicating more normalised claims activity following the Covid-19-related surge. The stabilisation in claims during 2022–2023 provided insurers with a more predictable environment for implementing corrective measures that would ultimately contribute to improved profitability. The subsector's gross claims incurred expanded by 15.2 percent to N$10.6 billion in 2024.

The subsector's profit before tax continued its upward trajectory in the aftermath of the Covid-19 pandemic, culminating in N$4.2 billion profit in 2024. Correspondingly, the subsector's return on assets recovered from a pandemic low of 0.7 percent in 2021 to 3.1 percent in 2022. The subsector's return on assets continued to improve in 2023 to reach 3.4 percent, and peaked at 5.0 percent in 2024, demonstrating that the recovery was not merely a correction, but part of a sustained growth trend.

Figure 29: Long-term insurers – Underwriting profits

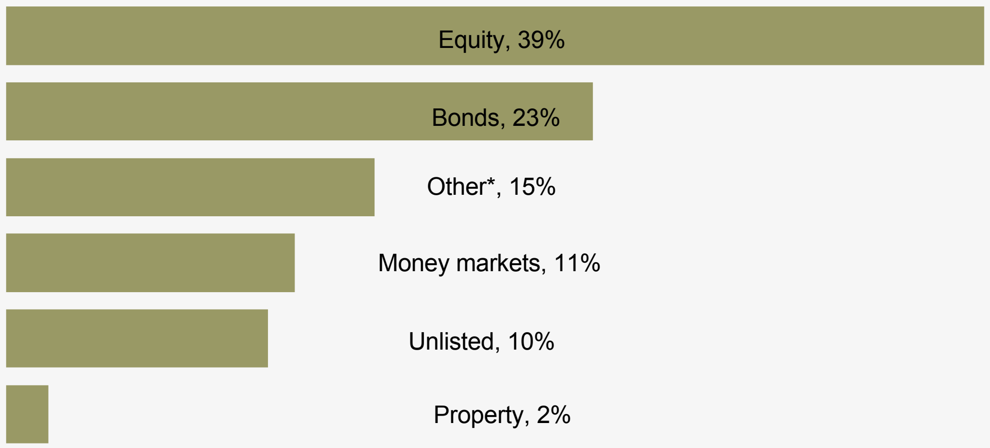


Source: NAMFISA

Allocation of Investment Assets

Similar to the retirement funds subsector, the long-term insurance subsector maintains a strategic focus on equities and bonds to align with its long-term obligations. Sixty-two percent of the subsector's investment assets were held in bonds and equities during the reporting period (Figure 30).

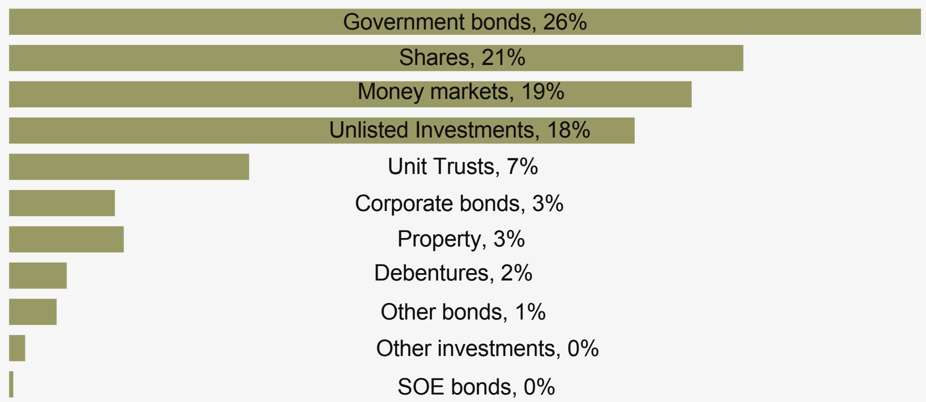
Figure 30: Long-term insurers – Allocation per asset class



Source: NAMFISA

The subsector held N$38.9 billion of its investment assets domestically in 2024, of which N$10.0 billion was invested in government bonds. In addition to its indirect importance for fiscal stability due to interconnectedness, the long-term insurers' domestic government bond holding represented approximately 6.0 percent of outstanding government debt. Therefore, in conjunction with retirement funds, the subsector contributes to the insulation of the Government against external financing pressures.

Figure 31: Long-term insurers – Domestic asset allocation per asset class



Source: NAMFISA

Solvency position

The long-term insurance subsector continues to maintain a robust solvency position, sustained by persistent profits and substantial capital reserves. In 2024, while long-term insurers' assets expanded by 12.9 percent to reach N$83.8 billion, liabilities grew by 12.5 percent to reach N$71.7 billion. As a result of assets growing faster than liabilities, the subsector's free assets grew from N$9.5 billion in 2020 to N$12.1 billion in 2024. Therefore, supported by sustained profits and substantial capital reserves, it is expected that the subsector will withstand short-run volatilities and remain viable in 2025.

The NBFI sector's significant expansion in 2024 underscores its resilience and adaptability in the face of complex economic conditions. Despite headwinds from the FATF grey-listing and uncertainty surrounding domestic and global elections, the sector achieved growth across all the major subsectors. The strategic significance of the NBFI sector extends beyond its asset base to its crucial role in supporting national fiscal stability. Retirement funds and long-term insurers collectively hold approximately 30.0 percent of outstanding sovereign debt. This domestic investment effectively insulates the Government against external financing pressures. By reducing dependence on foreign borrowing, these institutions help to limit the risk premiums that would otherwise be demanded by international investors, thereby contributing to more favourable borrowing conditions for the Government and enhancing overall financial stability.

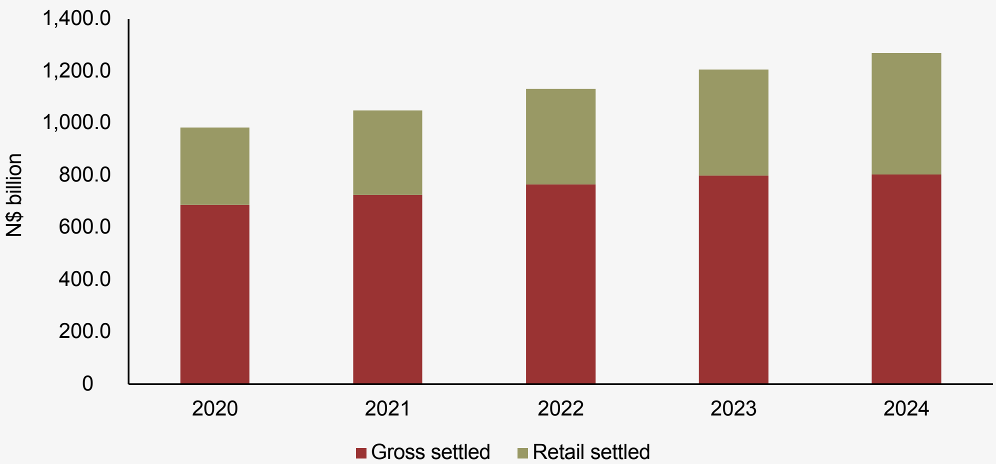
Looking ahead to 2025, the NBFI sector is expected to maintain its resilience, supported by projected economic expansion and relatively stable demand for its products and services. However, the escalating geopolitical tensions and financial fragmentation mentioned in this report could cause supply chain disruptions that might alter inflation and interest rate trajectories, potentially impacting both demand for NBFI products and investment asset performance. The interplay between these factors will require careful monitoring and strategic management. Despite these challenges, the subsectors maintained strong solvency positions and adequate capital reserves, suggesting that they are well-positioned to withstand short-term volatilities while continuing to fulfil their essential roles in Namibia's financial system.

Payments infrastructure and regulatory developments

Significant progress was made during the review period in enhancing and regulating the NPS. There have been developments in regulatory frameworks aimed at fostering a secure, efficient, and inclusive financial ecosystem. Key activities, initiatives, and milestones achieved include various onsite and offsite risk assessments (both risk-based and thematic), the authorisation of virtual asset providers, updates to regulatory frameworks to align to the Payment System Management Act (14 of 2023), and the successful upgrade of the NISS, in preparation for migration to ISO 20022 messaging standards. The focus for 2024 was to ensure seamless integration, improve service delivery, promote financial inclusion, and safeguard the integrity of the NPS. Through strategic collaborations with industry players, innovative solutions, and continued regulatory oversight, the Bank has addressed emerging trends and challenges while enhancing the resilience of the payment ecosystem. During the review period, the Bank conducted 14 risk-based inspections of different payment service providers (PSP).

In 2024, the Bank provided interbank settlement services to authorised institutions through the NISS. During 2024, the Bank observed a slight increase in both the volume and value of interbank settlements. The total interbank settlement value amounted to N$1 269.14 billion, with a volume of 100 571 transactions, translating to an average of 333 transactions per settlement day. The aggregate interbank settlement value and volume increased by 5.25 percent and 5.27 percent, respectively, compared to 2023. Bilateral (gross) transactions processed through the NISS between system participants accounted for N$804.66 billion, representing 63.40 percent of the total value settled. Meanwhile, retail payment transactions cleared by Namclear contributed N$464.47 billion, equivalent to 36.60 percent of the overall value settled in the NISS (Figure 32).

Figure 32: Value of payments processed in the NISS

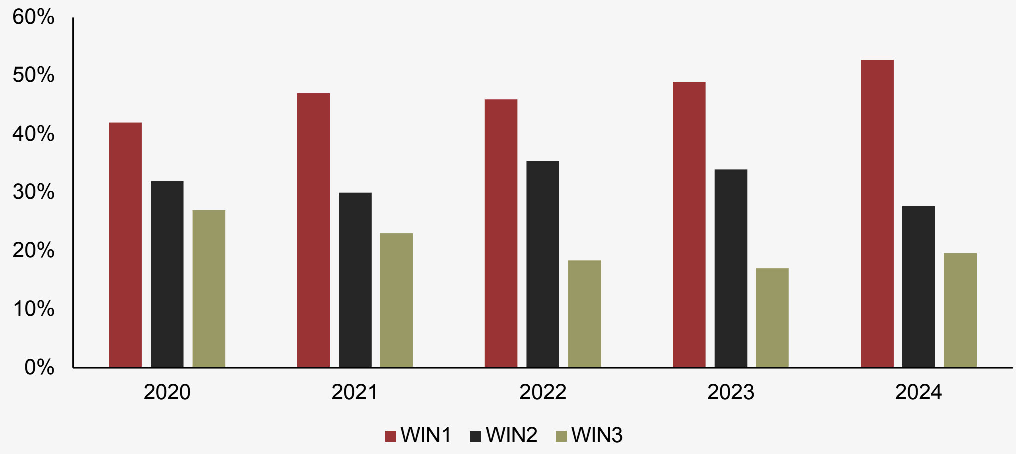


Source: BoN

NISS settlement windows

To mitigate settlement risks, it is recommended that the majority of settlement obligations be completed during the earlier windows. This strategy allows participants sufficient time to fulfil their settlement obligations promptly. Figure 33 shows that, in line with this advice, settlement of 80.40 percent (N$1 017.4 billion) of the total transactions settled in the NISS took place in the earlier windows (i.e., Windows 1 and 2), while Window 3 accounted for 19.60 percent (N$248.6 billion).

Figure 33: Proportions of payments settled in each NISS settlement window



Source: BoN

Disruptions to the NISS

During 2024, the NISS maintained a high level of system availability that was within the designated system availability target. The NISS recorded an availability rate of 99.98%, surpassing the set target of 99.90%.

During 2024, the Bank conducted two scheduled business continuity management exercises, both of which achieved the target of the two-hour recovery time objective.

Security of retail payments

During the review period, the total value of fraudulent transactions increased significantly from the 2023 value. The industry reported rises of N$19 million in card fraud (up from N$18 million in 2023) and N$29 million in EFT fraud (up from N$17 million in 2023), but a decrease of N$2.7 million in e-money fraud (down from N$11 million in 2023). The decline in e-money fraud can be attributed to improved controls for electronic wallets and increased consumer awareness regarding phone call scams, driven by heightened regulatory focus following last year's high fraud values.

Conversely, payment card fraud has grown moderately, mainly due to an increase in card-not-present incidents on e-commerce platforms. These incidents occur when a customer uses their card at an unsecured merchant, where transactions are not authenticated with a one-time password (OTP), meaning the customer does not have to confirm the transaction with an OTP. In response to the rising frequency of card-not-present fraud, the industry has implemented several proactive measures, including enhanced monitoring of fraudulent transactions and the blocking of e-commerce sites identified as sources of fraud. Card issuers are now more vigilant, and awareness campaigns aimed at educating clients have significantly increased across various platforms.

Improvements have also been made to protect financial data from being compromised, as the industry continues to implement standards like the Payment Card Industry Data Security Standard. This set of security guidelines ensures that all stakeholders handling card information follow strict protocols to protect cardholder data, helping to prevent data breaches, fraud, and the theft of sensitive payment information.

EFT fraud has risen notably during this period, largely due to phishing attacks. Ongoing awareness campaigns aim to inform clients of the importance of keeping their data confidential and are expected to intensify over the next reporting period. The Bank has engaged with the industry to emphasise the need for enhanced controls in managing client data securely. Additionally, industry platforms such as the Cybersecurity Council have been mobilised to stress the importance of security against payment fraud.

As part of its ongoing commitment to public education, the Bank implemented several initiatives in 2024 to enhance awareness of cybersecurity and virtual assets in Namibia. In March 2024, the Bank released a newsletter titled "A Guide to Understanding Cybersecurity and Virtual Assets in Namibia." It offered guidance on preventing cyber threats and underscored the importance of the regulated institutions adhering to the Determination of the Operational and Cybersecurity Standards within the NPS (PSD-12). The publication detailed virtual assets services, and licensing under the Virtual Assets Act (1 of 2020), including license classifications for virtual asset service providers. To further engage the public, the Bank shared a creative animation and a radio interview on social media to enhance understanding of secure practices in the digital financial landscape. In conjunction with the industry, the Bank aims to raise awareness of fraudulent activities with committees and structures such as the Financial Services Sector Cyber Resilience and Fraud Mitigation Council.

To effectively oversee the risks and compliance levels of PSPs, the Bank conducted off-site and on-site activities, closely monitoring authorised PSPs. This monitoring involved a combination of assessments based on information provided by the regulated institutions in the NPS. The off-site inspections included data analysis, compliance checks, and performance evaluations. During the review period, the Bank conducted 14 risk-based inspections of different PSPs. The findings from these assessments were shared with the respective providers and are being addressed following agreed timelines. The recommendations from the assessments emphasised the need for PSPs to continuously update their controls and enhance their infrastructure in alignment with the Bank's legal and oversight policy frameworks.

The Bank comprehensively reviewed the Determination on Issuing of Electronic Money in Namibia (PSD-3). The revised PSD-3 is designed to enhance the availability and adoption of e-money, improve wallet interoperability, promote financial inclusion, foster competition, and drive innovation in financial products and services. Notably, the revision expands the scope of e-money wallets by permitting both banks and non-bank financial institutions to offer a broader range of financial products, including savings, credit, insurance, and investment products, through e-money wallets. To mitigate potential risks, non-bank financial institutions offering these services will be required to establish formal agreements with banks or licensed financial institutions authorised by the relevant authorities. This ensures that services such as savings, investments, credit, and insurance are provided in compliance with regulatory standards. The revised PSD-3 was officially gazetted on 27 September 2024, marking a significant shift in the landscape of electronic financial services in Namibia, with careful attention to the management of associated risks.

Developments in payment and settlement systems

The Bank issued the Determination on the Designation of Systemically Important Systems and Authorisation of Financial Market Infrastructures in Namibia (PSD-13). PSD-13 stipulates the criteria and relevant factors that the Bank will consider in determining whether an authorised payment service provider or payment system should be designated as a systemically important system and/or be authorised as a financial market infrastructure, subjecting such an entity to enhanced oversight by the Bank. PSD-13 was gazetted on 26 November 2024.

The Bank is responsible for licensing payment service providers and virtual asset service providers under the Payment System Management Act (14 of 2023) and the Virtual Assets Act (10 of 2023), respectively. During 2024, the Bank granted provisional authorisation to two entities to provide payment services in Namibia. In addition, the Bank also granted two entities provisional authorisation to operate as virtual asset service providers under the Virtual Assets Act.

Open Banking Standards strengthen financial stability by securing data access, supporting a safe and efficient financial ecosystem. In line with the NPS Vision and Strategy (2021–2025), the Bank, in collaboration with the industry, commenced with the development of the Namibian Open Banking Standards in 2024. Open Banking enables third-party and financial service providers to access and share customer data, subject to customer consent, to offer value-added financial services. The Open Banking Standards will drive payment system modernisation by enabling secure data sharing between banks, fintechs, and third-party providers, fostering innovation, enhancing interoperability, and promoting competition. The Open Banking Standards were finalised during March 2025.

The Standardisation of Namibian QR Codes promotes financial stability by facilitating secure, efficient, and low-cost digital transactions, which helps reduce reliance on cash and informal payment systems. Standardised QR payment systems enhance interoperability, minimise fraud risks, and improve transaction transparency, fostering greater trust in digital payments. By advancing financial inclusion and lowering the costs associated with cash handling, standardised QR codes contribute to a more resilient and stable financial ecosystem. The Namibian QR Code Standards are expected to be finalised by April 2025.

As part of the settlement system modernization agenda, the Bank successfully upgraded the NISS during the fourth quarter of 2024. This latest upgrade is necessary to prepare the NISS for migration to the ISO 20022 payment messaging standard and for ease of facilitation towards straight-through processing, marking significant progress in the modernisation of Namibia's NPS. The adoption of these advanced capabilities enhances the efficiency, interoperability, and security of payment processing, aligning with international best practices and supporting the evolving needs of the financial sector. This significant progress underscores the Bank's commitment to fostering safe, efficient, and effective functioning of the country's settlement system.

The Bank remained a participant in the SADC Real-Time Gross Settlement (SADC-RTGS) system. The SADC-RTGS is a regional settlement system that processes time-critical or high-value payments between participating SADC countries. At the end of the 2024 reporting period, there were 88 participants (i.e., registered banking institutions, as well as central banks within the respective SADC jurisdictions) from 15 countries of which five, including the Bank, were Namibian. During 2024, the total value of payments processed through the SADC-RTGS amounted to R2.6 trillion. Namibian banks accounted for R693 billion, representing 26 percent of the total. This reflects the optimal utilisation of the SADC-RTGS by Namibian banks in supporting regional payment integration in accordance with the Finance and Investment Protocol.

The Bank has mandated the regularisation of electronic fund transfer (EFT) transactions through the issuance of PSD-9 (Determination on the Conduct of Electronic Fund Transfer Transactions within the National Payment System), which took effect on 30 September 2024. This determination establishes the regulatory framework for processing EFT payments within Namibia and for cross-border transactions between Namibia and other SADC countries, including the CMA. To comply with this regulation, the industry has adopted the SADC-RTGS as an interim solution for processing low-value CMA EFT transactions. Additionally, the Bank issued the Directive on User Fees and Charges and Speed of Cross-Border Common Monetary Area (CMA) Low Value Transactions (PSDIR-9) to regulate transaction speed, fees, and charges, in order to minimise potential impacts on customers. After the implementation of this interim solution, several challenges arose, including incomplete beneficiary information and incorrect balance of payments codes. These issues adversely affected straight-through processing and customer experience, leading to transaction delays. In response, CMA regulators are actively working to resolve these problems. Furthermore, efforts are underway to develop or adopt a permanent regional payment solution that will better serve all CMA countries. Accordingly, on 31 July 2024, the CMA Cross-Border Payments Oversight Committee released a position paper announcing that by 31 March 2027, all cross-border low-value EFT transactions must transition from the SADC RTGS system to a designated retail payment system, such as the Transactions Cleared on an Immediate Basis (TCIB) system.

The TCIB Payment Scheme was developed in collaboration with the SADC regulators as an industry initiative, to maintain and manage the immediate, cross-border transfer of funds between participants in the SADC, with the objective of reducing the time and complexity of cross-border money transfers. TCIB is operated by BankservAfrica, as the appointed Regional Clearing and Settlement Operator for the SADC region. TCIB offers a real-time clearing switch facilitating clearing payment instructions among its participants across the SADC region. Namibia currently has one participant onboarded and using TCIB for real-time low-value cross-border transactions.

"The payment system infrastructure contributed reliably towards the efficiency of the financial system."

05

STRESS TESTING

5. STRESS TESTING

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

Cihák stress test model

The Cihák 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 focusing on interest rate risk, credit risk, and liquidity risk to estimate the solvency and liquidity position of the banking sector, holding other factors constant. The first scenario is a baseline approach that follows the current policy environment domestically, regionally and globally. The intermediate and severe scenarios apply increasingly adverse shocks. The ultimate objective of the stress test is to quantify the impact on solvency and liquidity should the identified scenarios ensue, as well as to suggest policy options to minimise the impact of potential shocks on the banking sector and the overall economy. The Cihák model was used to stress test the solvency position of the DSIBs 12 months into the future, as well as a five-day liquidity rundown.

Credit risk

Global and domestic economic developments affect interest rate movements in Namibia and thus affect credit risk. Global growth is projected to drop to 2.8 percent in 2025 before improving marginally to 3.0 percent in 2026. Intensification of downside risks dominate the global economic outlook. The risks faced by domestic growth are primarily a result of the impact of the drought on agricultural production.[12]

Both the SARB and the Bank maintained the repo rate at the latest Monetary Policy Committee (MPC) meetings. At its March 2025 meeting, the SARB MPC kept the policy rate unchanged at 7.5 percent after reducing the repo rate by 25 basis points at its January 2025 meeting. The SARB noted that whilst inflation is still in the bottom half of its target, it has edged higher over the past few months. Headline inflation in South Africa is projected at 3.6 percent for 2025 and 4.5 percent for 2026, with risks to this forecast on both the upside and downside, with the balance of risks in the medium term skewed to the upside. Similarly, the Bank opted to keep the repo rate unchanged at 6.75 percent at its April 2025 meeting. This policy rate will continue to support domestic economic activity amid heightened global policy uncertainty and safeguard the one-to-one link between the Namibia Dollar and the South African Rand. As a result, in all three scenarios, the starting point is the current repo rate of 6.75 percent. From this level, the following repo rate decisions are assumed.

» **Baseline Scenario:** Decrease the repo rate by 25 basis points over the next 12 months.

» **Intermediate scenario:** Increase the repo rate by 25 basis points over the next 12 months

» **Severe scenario:** Increase the repo rate by 100 basis points over the next 12 months.

The NPL ratio declined during the fourth quarter of 2024. The NPL ratio declined from 5.8 percent in the third quarter of 2024 to 5.6 percent in the fourth quarter of 2024, signalling an improvement in asset quality. Furthermore, asset quality is expected to improve further in the coming 12 months as monetary policy becomes less restrictive and may provide relief to households and corporates to service their debt. It is therefore important to consider the potential ramifications to the banking sector's solvency position if this risk were to materialise. In the stress test, the following trajectory is assumed under each scenario over the next 12 months:

» **Baseline scenario:** A 0.5 percentage point decrease in the banking sector NPL ratio

» **Intermediate scenario:** A 2.5 percentage point increase in the banking sector NPL ratio

» **Severe scenario:** A 4.5 percentage point increase in the banking sector NPL ratio

Liquidity risk

Liquidity risk measures the banks' ability to honour their financial obligations in a timely manner. Banks are required to keep liquid assets of 10.0 percent of average

[12] Refer to the section on the Macroeconomic Environment in chapter 3 for further context.

total liabilities to the public. Liquid assets increased by 2.1 percent, from N$31.2 billion in the third quarter of 2024 to N$31.8 billion in the fourth quarter of 2024. However, the liquidity ratio declined marginally by 0.1 percentage point to 19.7 percent during the fourth quarter of 2024, compared to the third quarter of 2024. The improvement in the nominal liquidity position was partly due to increased clearing account balances held with the Bank by the commercial banks. Market conditions can trigger unscheduled deposit withdrawals; therefore, it is pertinent that the banks maintain adequate liquidity levels throughout economic cycles. The concern of the Bank is whether commercial banks would be able to withstand a liquidity shock due to a sudden withdrawal of funds from the banking system, despite the banks being liquid, well-capitalised, profitable, and solvent. Therefore, the following assumptions on withdrawals by depositors are assumed in the stress test:

» **Baseline scenario:** 10 percent of demand deposits (equivalent to 6.3 percent of total deposits) withdrawn over five days

» **Intermediate scenario:** 30 percent of demand deposits (equivalent to 18.1 percent of total deposits) withdrawn over five days

» **Severe scenario:** 60 percent of demand deposits (equivalent to 36.2 percent of total deposits) withdrawn over five days

Table 9: Summary of the stress test scenarios

Variable	Baseline	Intermediate	Severe
Interest rate assumption – repo rate	Decrease rate by 25 basis points	Increase rate by 25 basis points	Increase rate by 100 basis points
Credit risk – NPL ratio	0.5 percentage point decrease	2.5 percentage points increase	4.5 percentage points increase
Liquidity risk	10% of demand deposits withdrawn over 5 days (6.3% of total deposits)	30% of demand deposits withdrawn over 5 days (18.1% of total deposits)	60% of demand deposits with-drawn over 5 days (36.20% of total deposits)
Other variables: 30% for baseline, 35% for intermediate, and 40% for severe; haircut on collateral 50% assumed provisioning of the new NPLs			

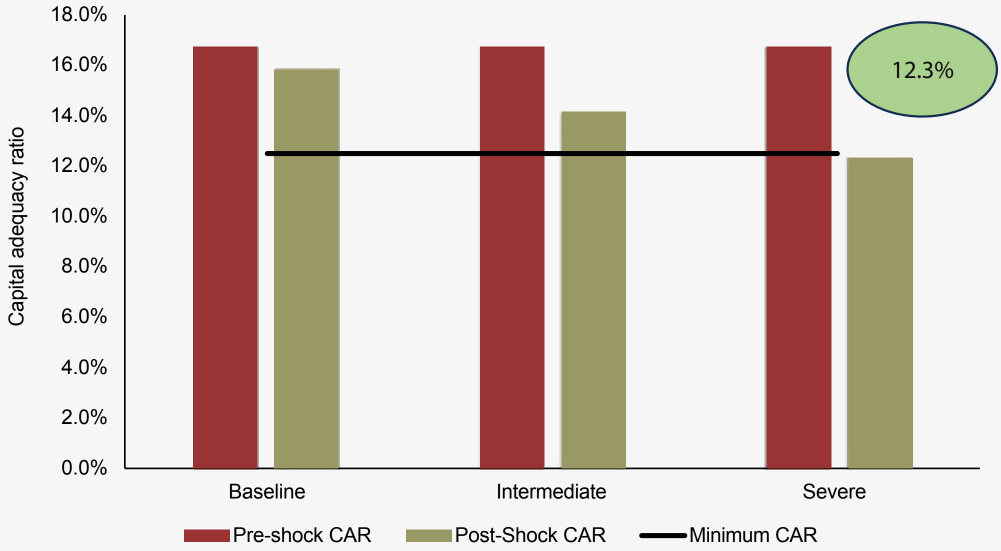
Source: BoN

Stress test results

Solvency

The stress test results indicate that the banking sector remains solvent under the baseline and intermediate scenarios but falls below the statutory requirement in the severe scenario. The pre-shock capital adequacy ratio (CAR) derived from the current CAR position of commercial banks in Namibia, as per the Cihák Model, stood at 16.7 percent. In the baseline scenario, the post-shock CAR fell to 15.9 percent, 3.4 percentage points higher than the statutory minimum requirement of 12.5 percent. In the intermediate scenario, the CAR dropped to 14.1 percent, while in the severe scenario, it fell to 12.3 percent, dipping 0.2 percentage points below the minimum threshold (Figure 34). Despite this, the capital base remains sufficient to absorb credit risk shocks under less extreme conditions.

Figure 34: Solvency stress test results

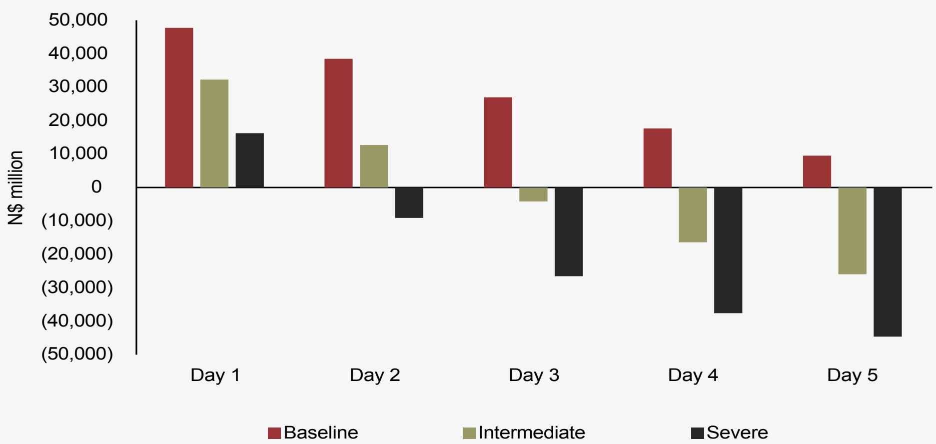


Source: BoN

Liquidity

The banking sector's liquidity position would remain sound under a baseline liquidity shock but deteriorate significantly in the intermediate and severe scenarios. In the baseline scenario, the liquidity position of the banking sector remained sound but declined gradually over the five days (Figure 35). The intermediate scenario follows a similar pattern but turns negative from Day 3, while the severe scenario enters negative territory as early as Day 2. This suggests that banks could meet payment obligations only under the baseline scenario, while in the intermediate and severe scenarios, liquidity shortfalls would emerge by Days 3 and 2, respectively. The banks have contingency plans in place that serve as a guide in the event of a shock.

Figure 35: Liquidity stress test results



Source: BoN

Dynamic Bank Balance Sheet Tool

The Dynamic Bank Balance Sheet Tool (DBBST) allows for a multi-year stress test by incorporating historical macroeconomic trends and projecting longer-term impacts. While the tool can capture a five-year horizon, a three-year horizon (2025-2027) is more practical for assessing risk buildup and minimising uncertainties related to macroeconomic variables and the banks' balance sheets. In addition to the variables used in the Cihák model, the DBBST also requires real GDP, inflation, sovereign bond yields (2- and 10-year), the repo rate, the prime rate, house prices, and the exchange rates. The Bank utilises the DBBST to quantitatively assess financial sector resilience under different macro-financial risk scenarios as part of its financial stability analysis, with a focus on solvency.

Calibration of the DBBST scenarios

Two scenarios were considered, namely, the baseline and the adverse scenario. The baseline scenario ('business as usual') was aligned with the Bank's macroeconomic forecast published in the December 2024 Economic Outlook Report, along with consensus forecasts from external sources such as the SARB's March 2025 MPC projections. In contrast, the adverse scenario incorporated identified financial stability risks to the Namibian banking system, calibrated to reflect a hypothetically severe, yet plausible, shock.

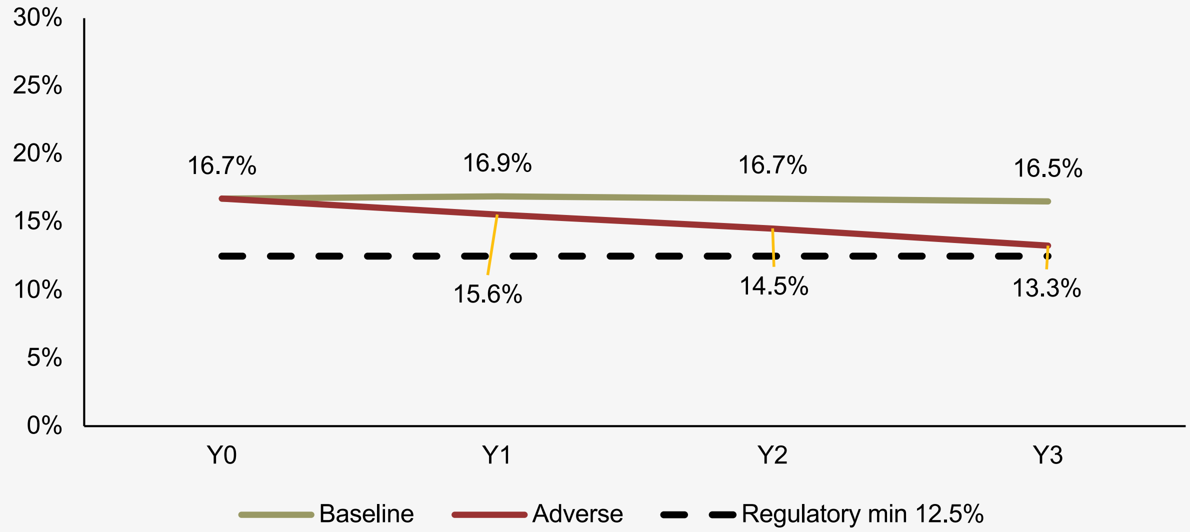
The adverse scenario represents severe but plausible shocks to provide insights into the financial sector's resilience under stressed macroeconomic conditions. The Basel Committee on Banking Supervision stress-testing principles emphasise that scenarios should be 'sufficiently severe but plausible' to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

The model assumes an annual contraction in GDP. A 4.6 percent contraction is thus assumed by 2026. Credit growth dynamics under the adverse scenario are aligned with developments in GDP growth, which translates into lower loan growth over the stress test horizon. Conversely, inflation is expected to increase to double digits over the three-year period following the supply shock, amplifying cost pressures on households and businesses. The scenario also raises moderate concerns about public debt sustainability, driving up market interest rate expectations. This leads to a sharp repricing in debt markets and elevated government bond yields. Additionally, a weaker economic outlook is expected to cause a significant decline in real estate prices. As a result, the financial sector faces increased credit losses and shrinking profits, mainly due to a reduced debt-servicing capacity among households and businesses.

Results

The stress test results indicate that the banks remain well capitalised in both the baseline and adverse scenarios. As a starting point, the CAR of the banking sector stood at 16.7 percent in 2024. In the baseline scenario, the banking sector maintained a high CAR of 16.5 percent at the end of the three-year stress test period. However, the CAR deteriorates in the adverse scenario, though it remains above the prudential threshold (Figure 36). The start-to-trough decline of 3.4 percentage points is primarily driven by higher credit losses and weaker income generation, thus reducing retained earnings and eroding capital. Despite this deterioration, the banking sector is resilient to the assumed shocks. However, the results indicate that two DSIBs, accounting for 34.7 percent of the total banking sector assets, would require additional capital injections by the second year of the stress horizon if the adverse scenario materialises.

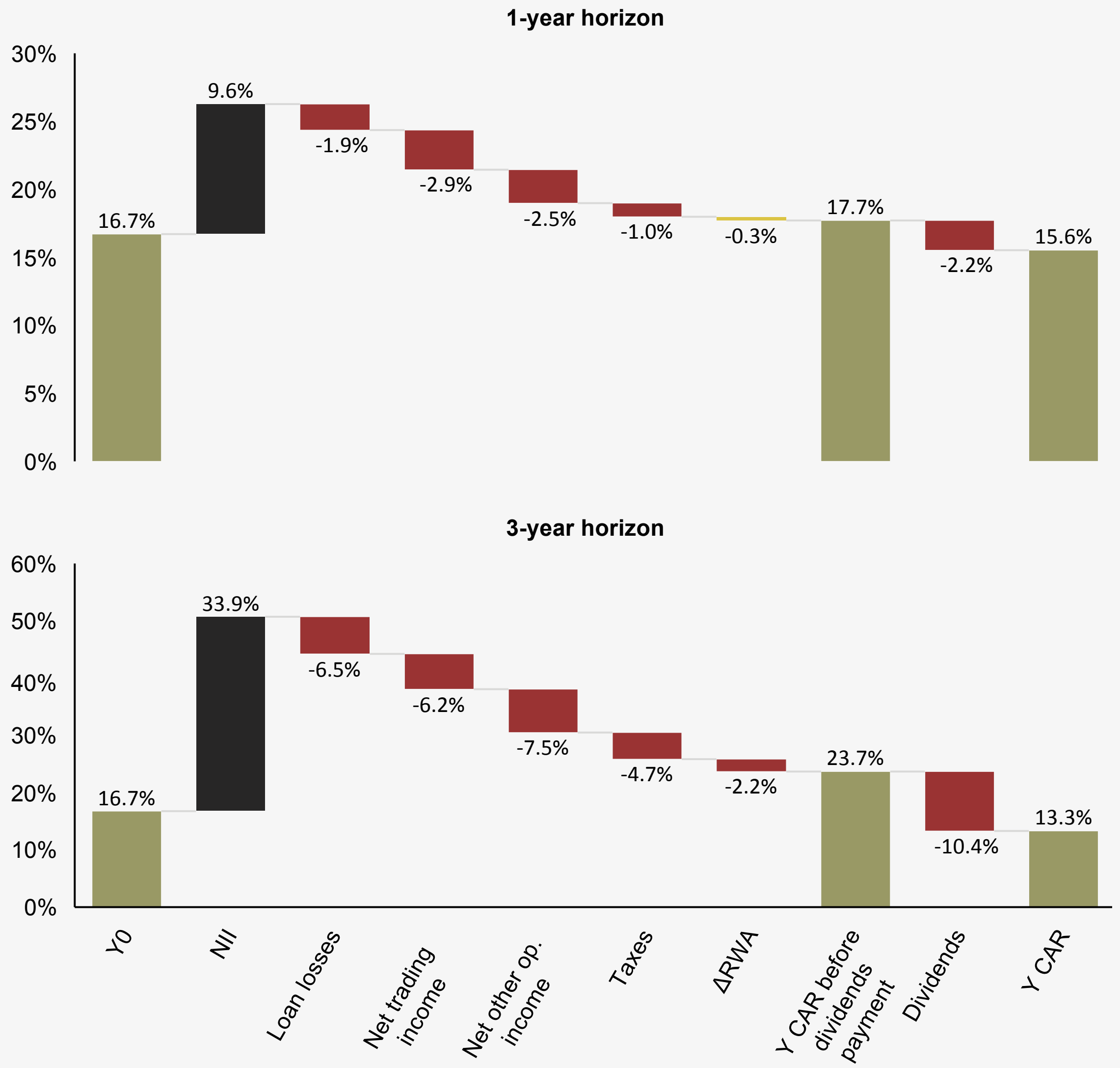
Figure 36: Regulatory Capital Ratio for the Banking System



Source: BoN

The decline in the banking sector's capital adequacy under the adverse scenario is primarily driven by pressures on income sources. In addition, other operating income, loan losses, and net trading income exerted the most significant downward effects. The most significant source of capital erosion is net other operating income, primarily driven by a decline in fees and commission income, which substantially reduces the CAR over the stress horizons (Figure 37). This reflects weaker economic activity, leading to lower fee-generating transaction volumes. Loan losses constitute the second-largest contributor to capital deterioration, particularly from the corporate loans and mortgage portfolios, thus reducing the CAR by 1.9 percentage points by Year 1 and 6.5 percentage points by Year 3. In addition, net trading income also contributes to capital erosion, drawing down the CAR by 6.2 percentage points over the three years. In contrast, net interest income (NII) plays a critical stabilising role, contributing positively to capital adequacy by 9.6 percentage points in Year 1 and 33.9 percentage points by Year 3 under the adverse scenario. Furthermore, as the stress test assumes that profitable banks continue to pay dividends, dividend payouts exert a negative impact on the CAR over both adverse stress horizons.

Figure 37[13]: Contribution to CAR over the adverse stress test horizons



[13] Y0 = Current capital position, RWA = Change in risk-weighted assets and Y CAR = Shows 1 year and 3-year horizon, respectively.

Source: BoN

The 2024 stress test results confirm that the DSIBs would remain well-capitalised and resilient, withstanding the severe yet plausible shocks simulated under the adverse scenarios. The resilience of banks' solvency positions largely stems from their substantial initial capital and profitability levels, enabling them to absorb most potential credit and market losses. Under the adverse scenario, the DSIBs' profitability deteriorates due to lower income from fees and commissions and higher credit losses, which are partially offset by higher net interest income. The stress test results from the Cihák Model indicate that, while the banking sector remains solvent under the baseline and intermediate scenarios, it falls below the statutory capital adequacy requirement in the severe scenario. Regarding liquidity, the Cihák stress test shows that the banks can meet their payment obligations in the baseline scenario, but liquidity shortfalls emerge from Day 2 in the severe scenario. However, banks could access alternative funding sources to mitigate a liquidity crisis. Overall, the stress test results indicate that the banking sector remains resilient and stable, with no immediate need for policy intervention.

“The stress test results indicate that the banks remain well-capitalised in both the baseline and adverse scenarios.”

06

MACROPRUDENTIAL SURVEILLANCE

6. MACROPRUDENTIAL SURVEILLANCE

Property market analysis

Although mortgage loans as a percentage of total household loans declined in 2024, they continued to dominate the banking sector's total loans and advances. Residential housing constituted two-thirds (66.7 percent) of households' total credit at the end of 2024. This is lower than the 68.2 percent recorded at the end of 2023. On the other hand, mortgage credit for the corporate subsector accounted for 28.4 percent in 2024, lower than the 30.0 percent reported in 2023 (Table 10). Additionally, mortgage advances constituted approximately 50.9 percent of the banking sector's total loans and advances, lower than the 52.6 percent observed in 2023. Meanwhile, the NPLs of mortgage loans as a share of total loans and advances declined to 54.8 percent in 2024, compared to 56.5 percent in 2023. Although the mortgage NPLs remained elevated, the improved asset quality during the review period bodes well for financial stability, reducing both credit risk for the banks and supporting a conducive lending environment.

Table 10: Household and Corporate mortgage credit share as a percentage of total household and corporate loans and advances

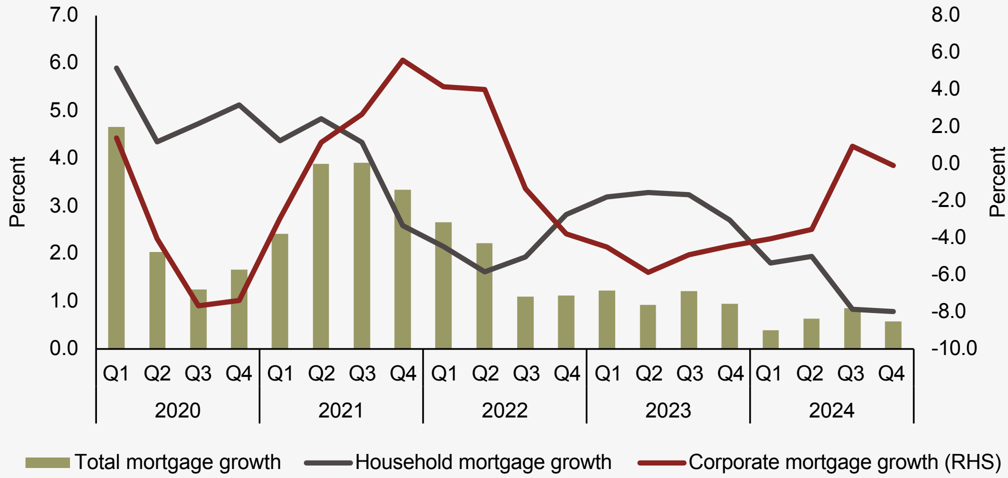
Credit category and percentage share of total credit	N$ million				
	2020	2021	2022	2023	2024
Household credit					
Total household credit	60,518	61,791	64,723	66,648	68,688
Mortgage credit	41,872	42,959	44,271	45,467	45,824
Household mortgage credit share (% of total household loans and advances)	69.2	69.5	68.4	68.2	66.7
Corporate credit					
Total corporate credit	44,307	44,258	45,808	45,979	48,442
Mortgage credit	12,363	13,086	14,413	13,773	13,760
Corporate mortgage credit share (% of total corporate loans and advances)	27.9	29.6	31.5	30.0	28.4

Source: BoN

Credit developments

Total mortgage credit extension continued to record modest growth in 2024; however, corporate mortgage credit returned to negative territory. Overall, total mortgage credit extension recorded annual growth of 0.6 percent in 2024, lower than the 0.9 percent growth in 2023 (Figure 38). Although household mortgage credit remained in positive territory, its growth has been slowing since the third quarter of 2023, reflecting sustained weaker demand and affordability constraints. This is largely due to the elevated interest rate environment observed post-Covid-19. Notwithstanding the slight improvement in the uptake of corporate mortgage credit at the end of 2024, compared to the end of 2023, growth remained relatively subdued and in negative territory. The low uptake of corporate credit aligns with the decline in the outstanding value of non-primary residential mortgages, which suggests a reduced appetite for new loans and increased loan repayments. Going forward, the positive economic prospects coupled with the accommodative monetary policy stance are expected to improve mortgage credit growth.

Figure 38: Annual mortgage credit extension

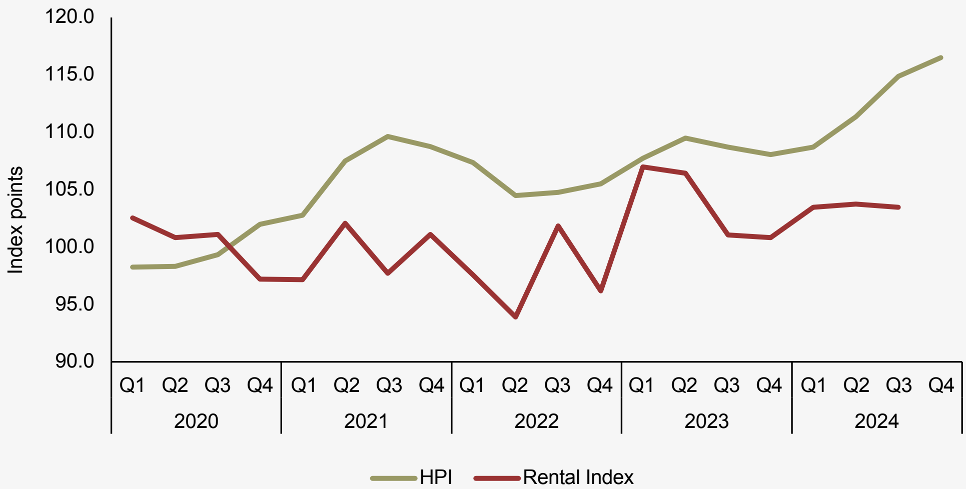


Source: BoN

House price developments

The Namibian House Price Index increased during the period under review due to improved property sales. The House Price Index continued to exhibit notable growth, at a rate of 7.8 percent on an annual basis to reach 116.5 index points at the end of 2024, from 108.1 index points at the end of 2023 (Figure 39). This was mainly ascribed to the growth recorded across property values in the central, coastal, and northern regions, whilst that of the southern region declined. The growth in house prices is attributable to demand and supply factors such as eased monetary policy and a lack of serviced land, which are reflected in the marginal growth observed in the demand for household mortgage credit.

Figure 39: House and rental price indices



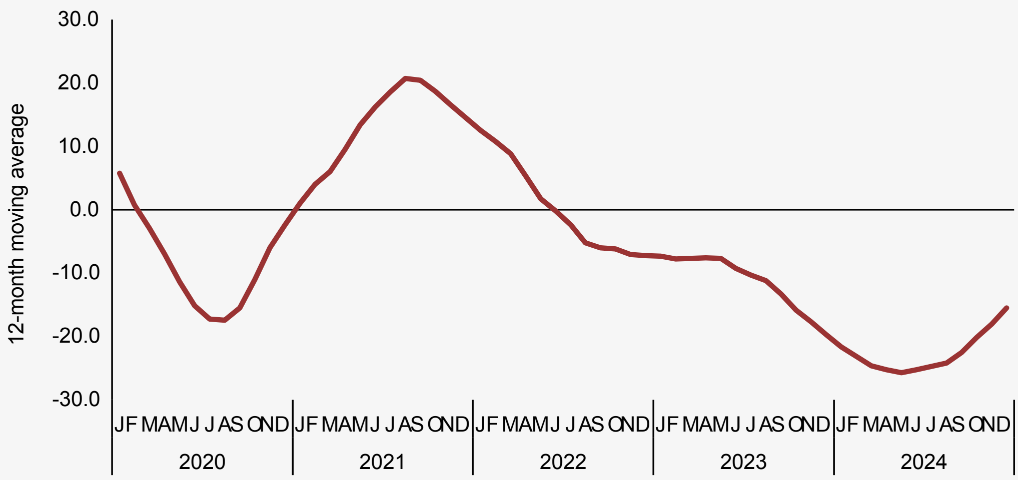
Source: FNB

Growth in rental prices increased in 2024, remaining above pre-pandemic levels. The rental index increased by 2.4 percent on an annual basis in the third quarter of 2024 to reach 103.5 index points, compared to 100.8 index points at the end of 2023 (Figure 39). The rentals of the three-bedroom and the more-than-three-bedroom rental categories continue to drive growth in the rental index. The rental index, though below the peaks of 2023 and early 2024, remains above the pre-pandemic levels, which could be attributable to affordability constraints associated with property acquisition leading consumers to opt for renting over homeownership. From a homeowner's perspective, the growth in rental prices bodes well for their ability to service the home loan; however, from the tenant's perspective, the growth in rental prices may become unsustainable amidst declining real incomes.

Property sales

The growth in property sales volumes improved in 2024 but remained in negative territory. During the period under review, the sale of properties in Namibia improved by 4.2 percent, reaching -15.5 percent in December 2024 compared to -19.7 percent in 2023 (Figure 40). Despite this, property sales remained in negative territory, thus reflecting ongoing affordability challenges and weak market sentiment. This is underscored by the low growth in mortgage credit, attributable to structural macroeconomic factors such as high unemployment. The central region moved out of the contraction phase and posted growth of 4.4 percent at the end of 2024. Similarly, the coastal and southern regions saw improvements of 2.3 percent and 40.0 percent, respectively. The strong growth in the southern region may be attributed to increased economic activity, driven by an influx of inhabitants seeking property amid rising oil and gas prospects in the region. It is anticipated, however, that property sales will improve in 2025 following the accommodative monetary policy stance of the MPC. Additionally, the effects of the downward tax adjustments, the increase in civil servant salaries, and housing subsidy adjustments may promote land and property acquisition.

Figure 40: National Volume Index (sales)

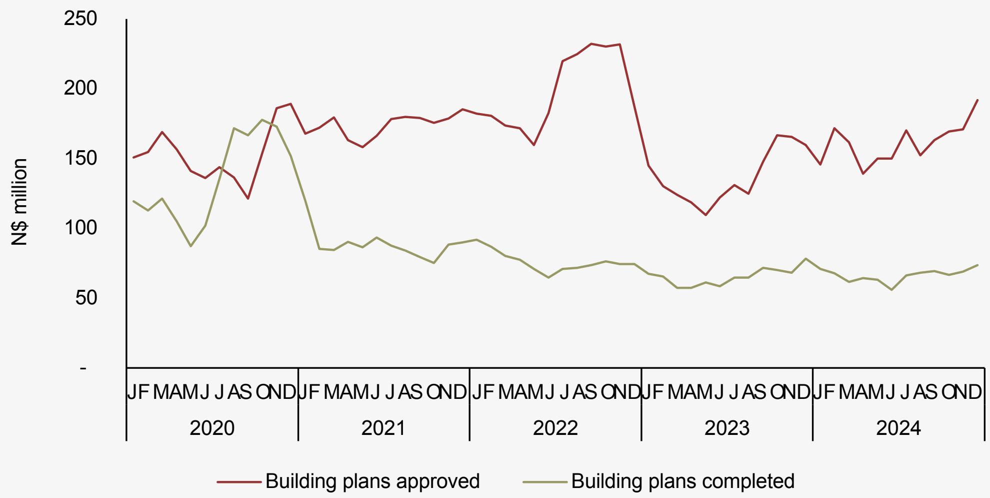


Source: FNB

Supply side developments

Building activity improved in 2024, in line with the recovery in the construction sector. The total number of approved building plans increased by 20.3 percent on an annual basis. This brought the total value of approved projects to N$191.9 million in 2024, while completed projects amounted to N$ 73.5 million (Figure 41). The increase in building plans approved reflects growing investor confidence and aligns with the construction sector's expansion in 2024, which was mainly driven by increased government-led infrastructure projects. The ratio of completed projects to approved projects stood at 38.3 percent, highlighting that less than half of the approved developments were finalised during the review period. This suggests delays in project execution, which coincides with the low uptake of mortgage credit, particularly corporate mortgage credit. However, while this gap indicates short-term challenges, the construction sector's recovery is a positive development.

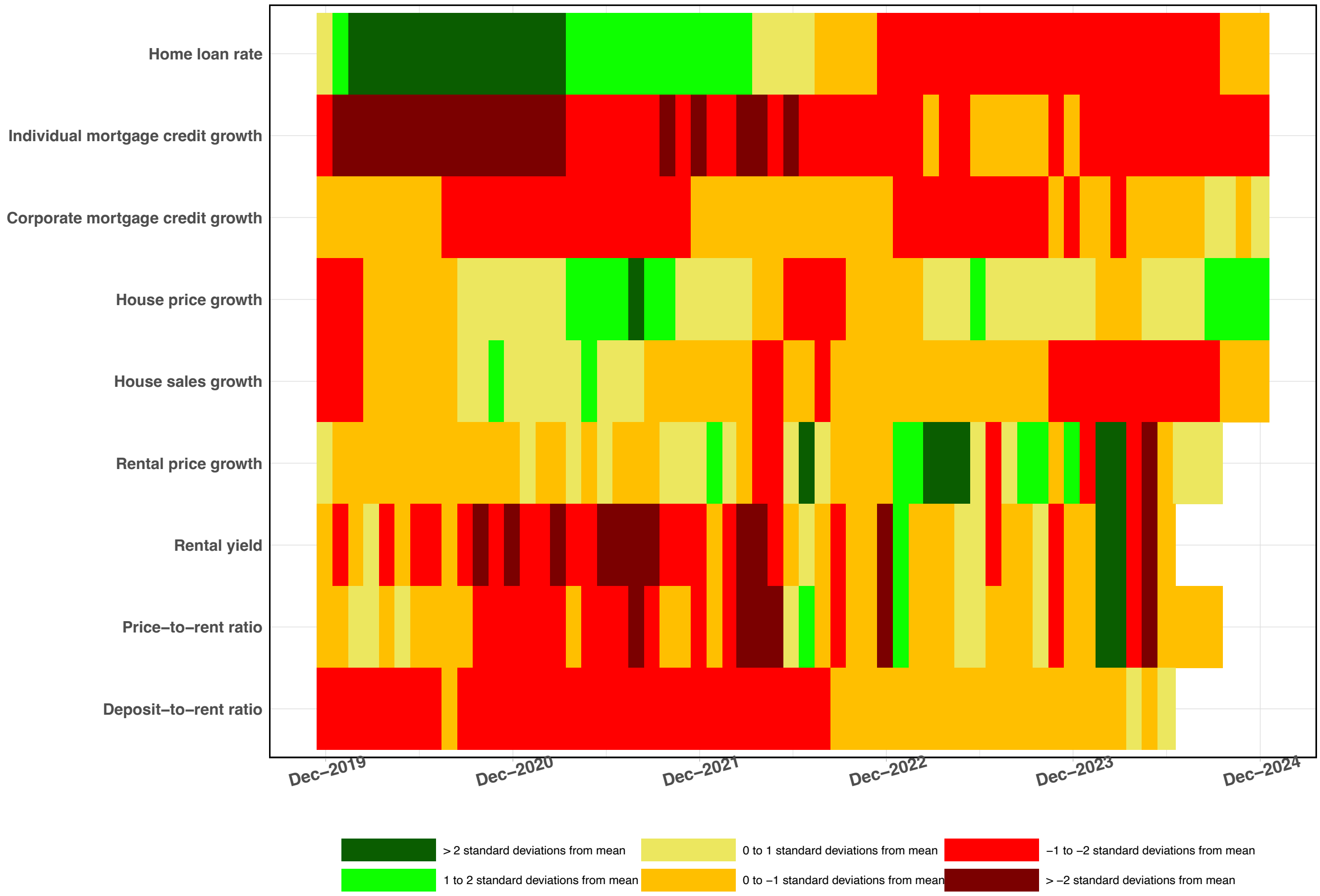
Figure 41: Building plans approved and completed (12-month moving average)



Source: BoN

Property Market Risk Heatmap

Figure 42: Property Market Risk Heatmap



Source: BoN[14]

The heatmap analysis reveals that the main challenges in the property market emanate from sluggish credit growth.[15] The heatmap signals that mortgage credit demand for both the household and corporate sectors remains a concern (Figure 42). The risk is mainly pronounced in the household mortgage sub-sector, where credit remains relatively subdued compared to its long-term historical trend (2015–2024). The subdued credit growth may reflect the combined effect of high borrowing costs and affordability constraints. The heatmap further shows improvements in key indicators, suggesting signs of market recovery. The recent monetary policy easing has contributed to a decline in home loan rates, signalling reduced vulnerabilities. The deposit-to-rent and price-to-rent ratios also reflect low-to-moderate risk levels, indicating that the rental market remained relatively resilient.

[14] The heatmap analysis for 2024 remains incomplete due to data availability constraints for the rental indicators from the third-party provider.
[15] Inverse variables imply higher (red) risks when they increase, and lower (green) risks when they decrease. In addition, deviations (Z-Score) are calculated as a rolling 5-year average.

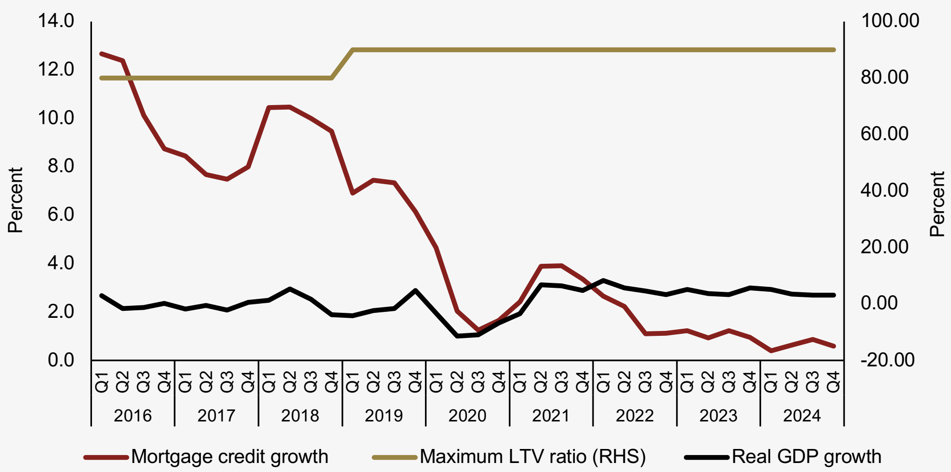
Macroprudential policy developments

Macroprudential analysis of the domestic financial sector and its counterparts is a crucial part of monitoring and assessing the stability of the financial system. Macroprudential policy plays an important role in maintaining the stability and resilience of the financial system by addressing systemic risks and mitigating potential vulnerabilities and risks that could threaten financial stability. Macroprudential analysis employs both microprudential and macro-financial indicators, which serve as key measures of the financial system's health. This helps to identify broad patterns and vulnerabilities that often precede financial instability. The section provides an overview of the macroprudential policy developments following the Macroprudential Oversight Committee (MOC) meeting held on 5 December 2024.

Loan-to-value ratio

The loan-to-value (LTV) ratio, though borrower-based, aims to strengthen both bank and borrower resilience. Following the easing of the LTV ratio in 2023 to 90 percent for third and subsequent non-primary residential mortgages, both the value at initiation and share of non-primary residential mortgages declined in 2024 compared to 2023. This reflects the reduced demand for second and subsequent properties despite the lower interest rates following monetary policy easing interventions. Trends in mortgage lending are affected by various factors, and hence the revision of the LTV ratio might not have been sufficient to counter the broader macroeconomic challenges such as subdued economic activity, coupled with high unemployment (Figure 43). Additionally, the cautious lending by the banks – intended to improve their NPL levels – could potentially have further countered the expected impact of the eased LTV ratio. With the easing financial conditions, loan repayments are expected to improve, and prospective investors may have greater financial flexibility to refinance existing loans, either to secure better terms or to fund additional property investments.

Figure 43: Growth in mortgage credit and real GDP versus LTV ratio trends[16]



Source: BoN

[16] The maximum LTV ratio is the applicable LTV ratios as set by the Bank during the periods under review.

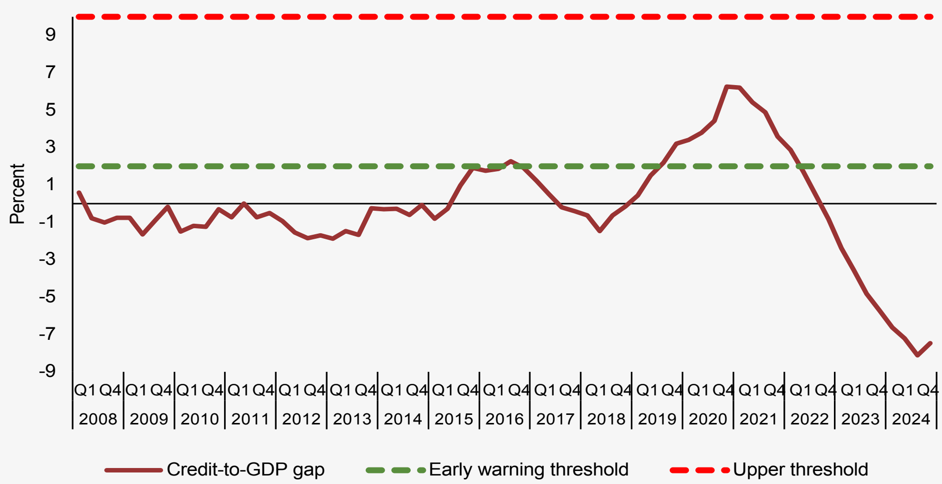
Countercyclical capital buffer

The MOC approved the countercyclical capital buffer (CCyB) framework and continues to make significant progress in strengthening the banking sector's resilience. The CCyB framework provides the Bank with an instrument to adjust capital requirements for banks to protect the financial system from the boom-and-bust phases of the financial cycle. The approved CCyB framework, while not requiring banks to hold the CCyB at present, serves as a policy guide for future CCyB decisions. In addition, the Bank advanced preparations and consultations with industry regarding the CCyB, ensuring transparency and a comprehensive understanding of its eventual implementation. By utilising the CCyB, the Bank's objective is to build resilience within the banking system, thereby supporting the sustainable provision of credit to the real economy throughout the financial cycle. This objective requires the buffer to be built up during the good times to cushion against potential systemic risks during unfavourable times. The CCyB directly affects the banking system's resilience as it increases the loss-absorbing capacity of banks and the financial system at large.

Credit-to-GDP gap calibration

The credit-to-GDP[17] gap remained below its long-term average. The credit-to-GDP gap was negative from 2008Q2–2015Q2, as well as from 2017Q3–2018Q4, and turned negative again from 2022Q4–2024Q3, widening from essentially zero to -8.1 percent in the third quarter of 2024 (Figure 44). Although the credit-to-GDP gap remained below its long-term trend, the gap narrowed at the end of 2024. While credit extension by banks to households and corporates continues to grow at a slow pace, the upturn in the credit-to-GDP gap reflects the positive economic activity observed in 2024, and improved credit demand, when compared to 2023. The credit-to-GDP gap is expected to continue narrowing, driven by the projected economic growth for 2025, which is likely to stimulate credit uptake. Overall, the credit-to-GDP gap remained below the lower early warning threshold of the CCyB add-on for Namibian banks.

Figure 44: Namibia's credit-to-GDP gap



Source: BoN

[17] The credit-to-GDP gap is the main indicator used in determining the CCyB and is expressed as the difference between the aggregate private sector credit-to-GDP ratio, and its long-term trend.

BOX ARTICLE 2

THE USE OF THE GROWTH-AT-RISK (GAR) MODEL FOR FINANCIAL STABILITY AND MACROPRUDENTIAL POLICY SURVEILLANCE: A NAMIBIAN PERSPECTIVE

Introduction

On 5 December 2024, at its second Macroprudential Oversight Committee (MOC) meeting, the Bank approved the use of the Growth-at-Risk (GaR) model to strengthen macroprudential policy surveillance in Namibia. The model estimates the expected distribution of GDP growth conditional on financial market and macroeconomic conditions (hereafter, macro-financial conditions). By connecting financial market conditions with expected GDP growth, the model provides an assessment of the real-sector implications of the build-up of systemic risk. The GaR assessment complements the Bank's early warning surveillance indicators and will be used by the MOC to deliver on its mandate of managing systemic risk in the financial system. This Box Article outlines the conceptual framework of the GaR model and discusses the GaR results estimated for Namibia.

Growth-at-risk conceptual framework

Downside risks to real GDP growth are often associated with volatile financial conditions. While upside risks are generally stable over time, the evolution of macro-financial vulnerabilities can be informative about downside risks. Financial vulnerabilities such as elevated asset prices, a rapid increase in borrowing by households and businesses, excessive risk-taking in the financial sector, and accommodative monetary policy weaken the financial system's ability to withstand negative shocks and unravelling financial imbalances. This, in turn, can tilt future economic growth to the downside, potentially leading to an economic downturn or a more severe recession.

To model these risks to growth, the International Monetary Fund (IMF) developed a top-down approach known as the GaR model. The GaR links current macro-financial conditions to the probability distribution of future real GDP growth. This analysis focuses on downside risks and goes beyond traditional point forecasts, allowing policymakers to assess the likelihood of severe economic downturns. From a macroprudential perspective, the model analyses the key drivers of future GDP growth, including their relative importance, which changes across the growth distribution and the forecasting horizon. The GaR is a valuable tool for determining whether changes (i.e., tightening or easing) in macro-financial conditions are significant and could jeopardise financial stability and future growth.

The GaR model serves as a forward-looking risk assessment tool and is essential in shaping macroprudential policies, as it links financial stability and economic performance. Although the GaR analysis is not structural and thus cannot ascertain causal links, it helps quantify the macroeconomic impact of systemic risk. Highlighting the potential downside risks strengthens the case for pre-emptive measures, even without immediate economic distress, contributing to overall financial system stability. For instance, if the model indicates increased downside risks to growth due to current financial conditions, policymakers may consider tightening macroprudential measures, such as increasing capital buffers or instituting stricter lending standards to mitigate the risks identified.

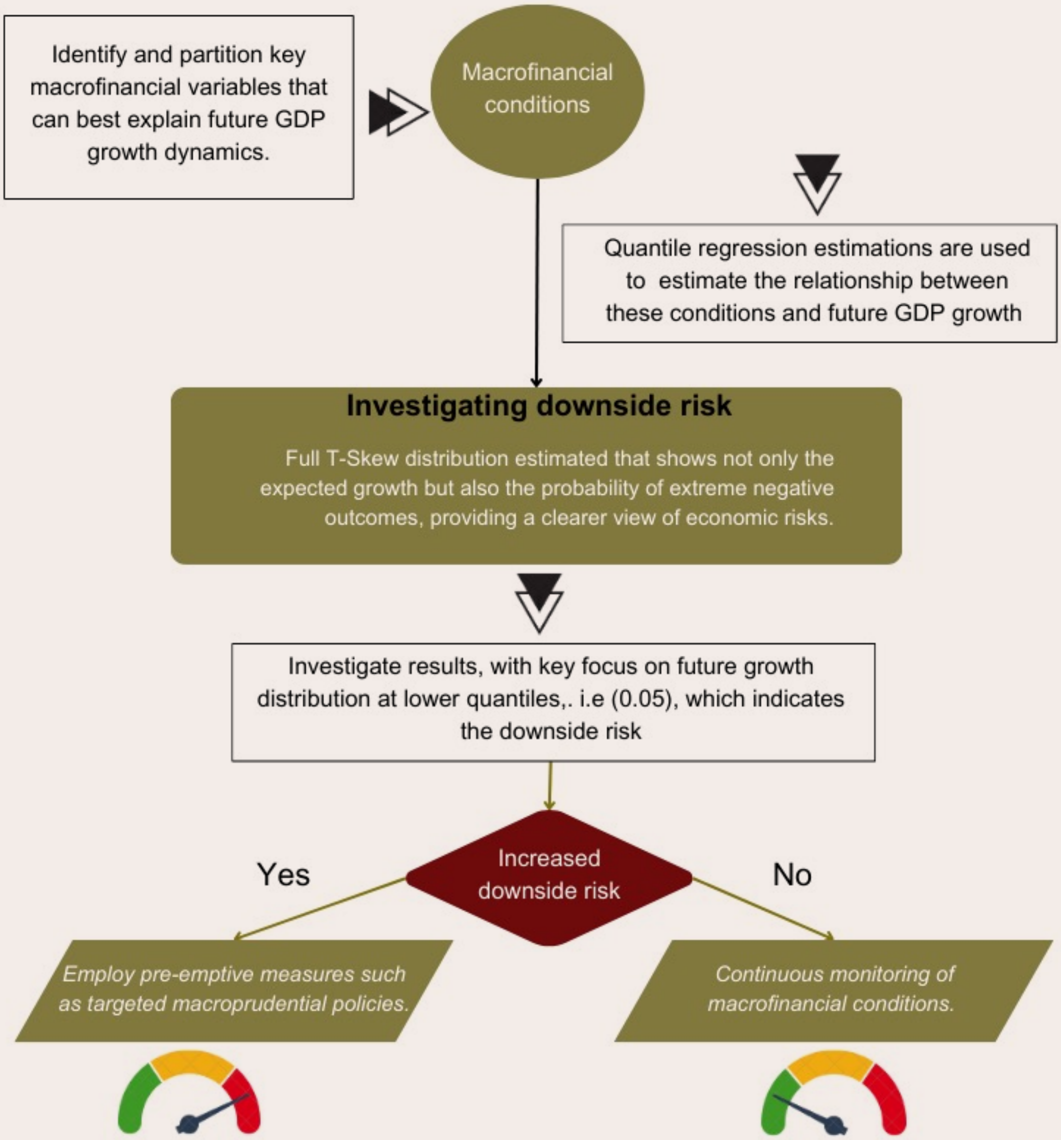
GaR methodology

A GaR estimation entails three key steps. The first step pertains to the identification of macro-financial variables that best explain GDP growth dynamics. Secondly, quantile regressions are used to capture the potentially non-linear relationship between these variables at different points of the future GDP growth distribution. The third step entails constructing the probability density function (pdf), which provides an overview of the expected GDP growth and the likelihood of extreme downturns (Figure BA2 1). The GaR concept is denoted as:

$$\textit{Probability}\,(growth_{b,h} \leq GAR_{b,h}(\alpha|\Omega_t)) = \alpha, \qquad \ldots (1)$$

where $GAR_{b,h}(\alpha|\Omega_t)$ is growth-at-risk for country b in h quarters in the future at an α probability, with Ω_t denoting the information set available at time t.

Figure BA2 1: GaR methodological framework



Source: BoN

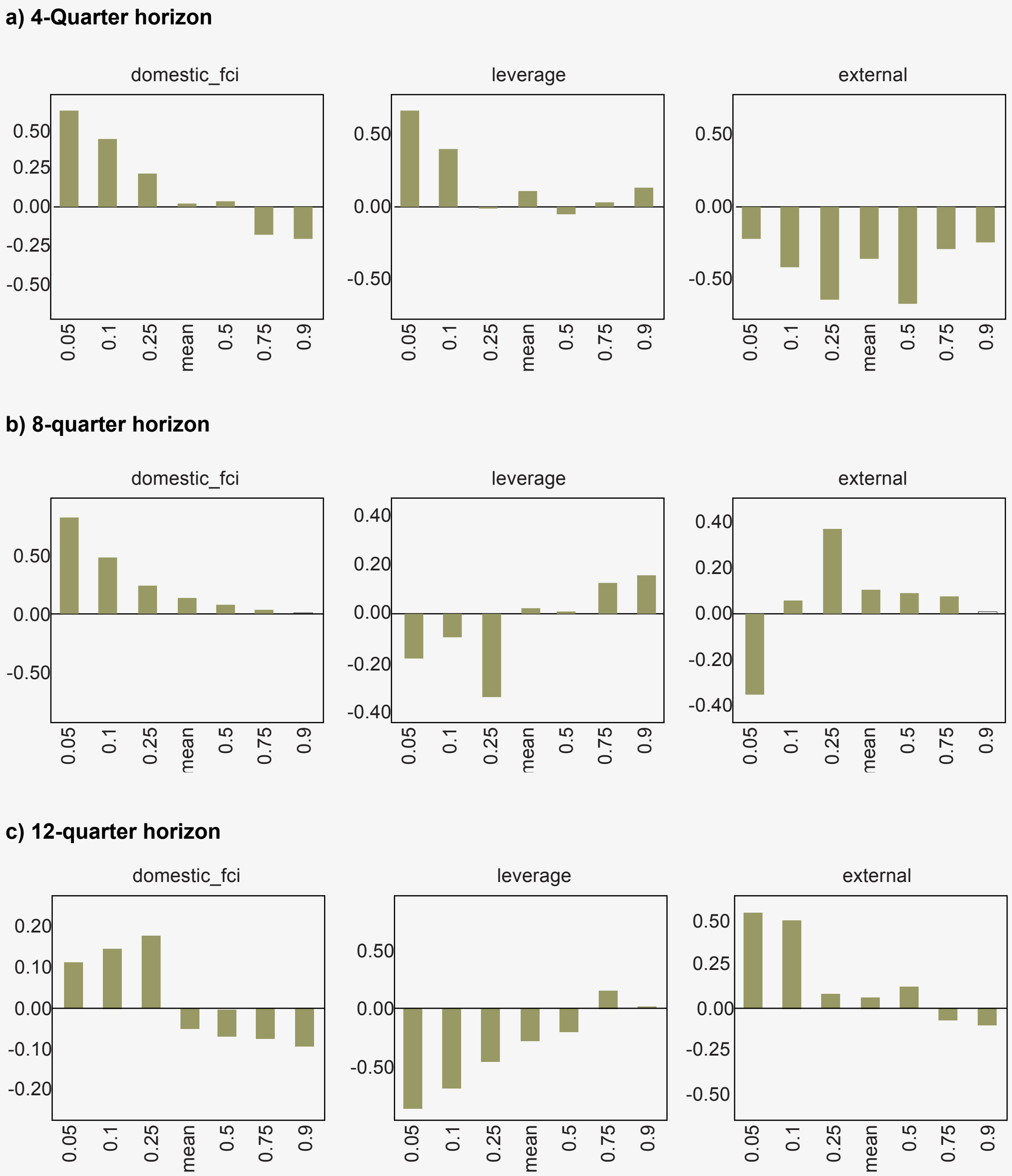
Estimating GaR for Namibia

To strengthen financial stability and macroprudential policy surveillance, the Bank has commenced with the implementation of the GaR tool. The GaR analysis follows the methodology proposed by the IMF, though customised for the Namibian financial system to fit the several idiosyncratic characteristics of the financial system. To link the macro-financial indicators to the entire distribution of future real GDP growth, the GaR was estimated for the Namibian economy using quarterly data for the period 2005Q1 to 2024Q4. Three partitions are constructed using the projection on latent structures method, a supervised data reduction partitioning method where target variables are chosen to control the extracted signal. The first partition, domestic financial conditions, contains variables that capture the price of risk embedded in asset prices, and the ease of obtaining financing. The second partition, leverage, includes credit measures centred around total PSCE. As the Namibian economy is interconnected with the South African economy, South African macroeconomic and financial conditions are included in the third partition, namely external conditions.

Quantile regression coefficient results

Figure BA2 2 shows the estimated quantile regressions for four, eight and twelve quarters ahead, with each coefficient representing the macro-financial linkage between the partition and the future growth at different points of the future growth distribution. The x-axis represents the GDP growth quantiles corresponding to each coefficient, whose scale is depicted on the y-axis.

Figure BA2 2 (a–c): Quantile regression coefficient results



Source: BoN

Domestic financial conditions and leverage have a positive impact on future real GDP growth over the short horizon, especially at lower quantiles. Under the current macro-financial conditions, looser domestic financial conditions and higher leverage in the shorter horizon (4 quarters) positively affect future real GDP growth in most of the lower quantiles (tail risk). Looser financial conditions translate to easier access to financing and increased risk-taking. This implies that when the economy is experiencing weak growth (lower quantiles), loose financial conditions lead to increased leverage through excessive credit growth. During times of high leverage in the economy, asset prices will increase over the short term, leading to higher expected GDP growth.

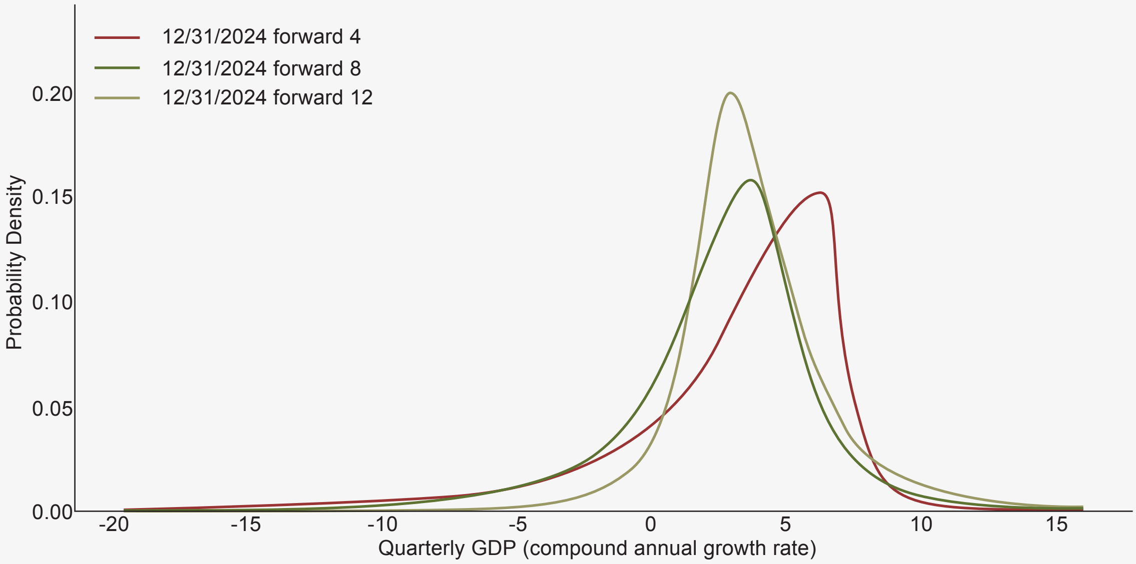
In the medium to longer term, it is evident that persistent loose financial conditions and high leverage negatively affect GDP growth. Persistent loose financial conditions and excessive risk-taking through increased leverage in the short term can create long-run vulnerabilities, amplifying shocks in bad times and exacerbating downturns. The build-up of risks is associated with increasingly stretched asset valuations and rising leverage. The quantile regression results indicate that the domestic financial conditions and leverage partition coefficients turn negative in the medium to long term. This is more evident for domestic financial conditions 12 quarters ahead. These results highlight the trade-off between short-term economic stimulus from loose financing conditions and long-term vulnerabilities from financial easing and excessive leverage. A prolonged build-up of financial vulnerabilities could negatively impact financial stability, increasing the likelihood of defaults and triggering broader financial distress in the long run. The downside risk that persistent loose financial conditions pose to future GDP is more pronounced in the higher quantiles, indicating that when the economy is booming significantly, the vulnerabilities built up in the shorter horizons may materialise, amplified by the already high leverage.

External conditions provide valuable information about downside risks to domestic growth over the entire projection horizon. In the short-term, external conditions are more volatile, and spillovers are potentially more severe, hence the consistent negative impact on future GDP growth. In the longer term, external conditions have slightly more positive effects on future GDP growth across most quantiles, although this is more pronounced at lower quantiles. After the negative impact of external conditions on the economy in the short-run, the economy converges to equilibrium, bringing positive effects in the lower quantiles in the long run (Figure BA2 2c). The stabilisation of external factors provides some relief to the economy, thus stimulating growth.

Estimating GDP growth distributions

The results from the GDP growth distribution show that, all things equal, downside risks to future real GDP are negative. The t-skew distribution indicates that based on the current macro-financial conditions and holding all other things constant, future GDP growth is estimated to have a 5 percent probability of being negative across all forecasted horizons (Figure BA2 3). The risk is more pronounced 4 quarters ahead of the projection date, as indicated by a slightly fatter lower tail in the distribution, before showing significant improvements in the medium-to-longer term. This leads to a leftward shift in the conditional GDP growth distribution, with the 8- and 12-quarter horizons exhibiting a more normal distribution coupled with a lower GaR of 5 percent. Furthermore, the reduction in tail fatness implies lower uncertainty in long-term projections compared to near-term risks. Importantly, this highlights that downside risk to Namibia’s future GDP growth is improving in the medium to longer term, which, at present, signals no significant build-up of vulnerabilities in the near term that can materialise in the future.

(Figure BA2 3): Parametric Fit of the Conditional Distribution of Future Growth



Source: BoN

Macroprudential policy implications

Overall, the results from the quantile regressions support the view of a non-linear relationship between financial conditions and future GDP growth. Importantly, it is also evident that risks to GDP growth are more skewed to the downside than the upside, with little variability present in the higher quantiles (95th percentile) (Figure BA2 2). Greater variability in the lower quantiles indicates that economic downturns can be severe and uncertain, hence the importance of quantifying downside risks to economic growth.

The GaR model, in combination with other variables, informs macroprudential policy surveillance in several ways. Firstly, by highlighting potential downside risks, the GaR strengthens the case for pre-emptive measures. For instance, if the model indicates increased downside risks due to current financial conditions, policymakers may consider increasing capital buffers or instituting other relevant macroprudential policy measures. In the case of Namibia, as the Bank enhances its macroprudential policy surveillance, the GaR will play a key role in systemic risk assessments. Moreover, the pronounced tail risks in the GaR at the 8-quarter horizon highlight the need for rigorous monitoring of excessive leverage, combined with other macro-financial risks and, where necessary, the activation of macroprudential policy tools to mitigate downside risks to economic growth. This underscores the importance of maintaining a proactive stance in addressing financial vulnerabilities that could amplify economic downturns.

"The MOC also approved the use of the growth-at-risk model to strengthen macroprudential surveillance in Namibia. These interventions reinforce the Bank's commitment to strengthening financial system stability and broader economic sustainability."

07

CONCLUSION AND POLICY IMPLICATIONS

7. CONCLUSION AND POLICY IMPLICATIONS

Namibia's financial system remained stable and resilient in 2024 amidst moderate domestic economic conditions. The domestic economy grew moderately despite rising geopolitical concerns, policy uncertainty, and global trade tensions. The banking sector demonstrated resilience, as the sector remained profitable, well capitalised, and liquid throughout the year. Furthermore, the stress test results as depicted by the Cihák and DBBST models highlight that the banking sector remains well positioned to absorb shocks under various stress scenarios. Similarly, the NBFI sector demonstrated remarkable resilience in 2024, with aggregate assets growing faster than the prevailing inflation rate. This expansion in the sector was facilitated by favourable financial market conditions, declining interest rates, and moderating inflation that enhanced consumer purchasing power. Household debt to disposable income declined in 2024 as household income improved owing to salary increments and tax relief measures instituted by the Government. The property market has shown marginal improvements during the period under review, despite mortgage credit remaining subdued. The payment system and infrastructure remained stable and contributed efficiently to ensuring reliability in payments, thus facilitating financial system stability within the country.

Going forward, risks to the Namibian financial system are broadly expected to remain low to moderate, with risks stemming primarily from global macroeconomic environment. Overall, risks to financial stability have remained largely unchanged, with notable improvements, particularly within the banking, and NBFI sectors. Risks to financial system stability have shifted from credit risks, FATF grey-listing, and climate change to global factors such as geopolitical tensions and uncertainty in economic policies. The economic policy uncertainty includes, amongst others, tariffs that target major US trading partners and could upend trading relations, creating significant uncertainty in the global economy. Moreover, cyber risk remains could pose an acute threat to macro-financial stability through a loss of confidence. Therefore, the Financial System Stability Committee will continue to monitor risks to financial stability and, when necessary, recommend policy interventions to the MOC.

Following its assessment in December 2024, the MOC concluded that the financial system remained sound, stable, and resilient despite the prevailing macroeconomic conditions. The current active macroprudential policy tools, alongside existing microprudential measures and ongoing risk assessments, are considered sufficient for the current macro-financial environment. As such, the Committee has determined that no macroprudential policy intervention is required at this stage. The MOC will continue to closely monitor the economic and financial conditions, as well as the overall risk environment, and when warranted, take the necessary remedial macroprudential action with the tools at its disposal.

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ABBREVIATIONS

AE	Advanced Economies
AI	Artificial Intelligence
AML/CFT/CPF	Anti-Money Laundering/Combatting the Financing of Terrorism and Proliferation
BoN	Bank of Namibia
CAR	Capital Adequacy Ratio
CCyB	Countercyclical Capital Buffer
CEO	Chief Executive Officer
CMA	Common Monetary Area
DBBST	Dynamic Bank Balance Sheet Tool
DSIB	Domestic Systemically Important Bank
EFT	Electronic Funds Transfer
EMDEs	Emerging Markets And Developing Economies
EU	European Union
FATF	Financial Action Task Force
FTSE	Financial Times Stock Exchange
FY	Fiscal Year
GAR	Growth-at-Risk
GDP	Gross Domestic Product
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
LTV	Loan-To-Value
MOC	Macroprudential Oversight Committee
MPC	Monetary Policy Committee
MTEF	Medium-term Expenditure Framework
NAD	Namibia Dollar
NAMFISA	Namibia Financial Institutions Supervisory Authority
NBFI	Non-Bank Financial Institution
NII	Net Interest Income
NISS	Namibia Interbank Settlement System
NPL	Non-Performing Loan
NPS	National Payment System
NSA	Namibia Statistics Agency
NSX	Namibian Stock Exchange
PSCE	Private Sector Credit Extension
PSP	Payment Service Provider
ROA	Return On Assets
ROE	Return On Equity
RWCR	Risk-Weighted Capital Ratio
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADC-RTGS	SADC Real-Time Gross Settlement System
SARB	South African Reserve Bank
SOE	State-Owned Enterprise
US	United States
WEO	World Economic Outlook
WEOU	World Economic Outlook Update
ZAR	South African Rand

NOTES

NOTES

Bank of Namibia

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