NAMFISA
NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

Bank of Namibia

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THE JUST RELEASED *APRIL 2025 FINANCIAL STABILITY REPORT* CONCLUDES THAT THE NAMIBIAN FINANCIAL SYSTEM REMAINED SOUND AND RESILIENT IN 2024, DESPITE VULNERABILITIES ARISING FROM THE GLOBAL ENVIRONMENT.

HIGHLIGHTS:

- The Namibian financial system, which is made up of the banking and non-banking sectors, as well as the payment system and infrastructure, continued to be stable, sound and resilient throughout 2024.
- The banking sector remained well-capitalised, profitable and liquid in 2024, with notable improvement in asset quality.
- The NBFI sector demonstrated remarkable resilience in 2024, with aggregate assets growing faster than the prevailing inflation rate.
- The National Payment System and infrastructure remained stable, while efficiently contributing towards reliability in payments.
- Activity in the domestic economy expanded in 2024, although at a slower pace than in 2023 due to weak performance in the primary industry.
- Household debt to disposable income declined in 2024 as household income improved owing to salary increments and tax relief measures instituted by the Government.
- Global growth remained stable in 2024 and is projected to slow during 2025 due to increased uncertainty surrounding trade tensions and policy.
- The Bank implemented key regulatory interventions to strengthen financial sector stability and resilience.
- To reinforce the resilience of the banking sector, the Macroprudential Oversight Committee (MOC) advanced preparations and industry consultations on the countercyclical capital buffer framework.
- 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.

1. **The Bank of Namibia (the Bank) and the Namibia Financial Institutions Supervisory Authority (NAMFISA) hereby jointly release the Financial Stability Report (FSR).** The April 2025 FSR assesses the stability of the Namibian financial system and its resilience to internal and external shocks. The report further 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 assessment concludes that the financial system in Namibia remained stable, sound, and resilient, with no significant disruptions or disorderly functioning of key financial services despite the moderation of economic growth and prevailing risks. The regulatory authorities are committed to continuously monitoring the identified risks and taking appropriate and timely action going forward.

SUMMARY OF THE ASSESSMENT

2. **Global growth remained stable in 2024 and is estimated to slow in 2025.** Global GDP growth remained stable at 3.3 percent in 2024, following a prolonged and challenging period of unprecedented shocks. According to the International Monetary Fund's *World Economic Outlook 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 is projected to ease to 1.4 percent in 2025 before rising marginally to 1.5 percent in 2026. The downward revision in the US and Euro area growth outlooks, was on account of greater policy uncertainty, trade tensions and tariffs. In emerging markets and developing economies, growth is projected to slow to 3.7 percent in 2025 before slightly improving to 3.9 percent in 2026.

3. **During 2024, the Namibian financial sector remained stable, sound, and resilient amid moderate economic conditions.** The Namibian economy grew by 3.7 percent during 2024, compared to a 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. 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. Going

forward, risk emanating from macro-financial conditions will be closely monitored, and when warranted, remedial policy actions will be taken.

4. **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 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, potential trade disruptions stemming from protectionist policies and inflationary pressures arising from ongoing global conflicts could affect 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.

5. **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. The increase in household income was due to salary increments and tax relief measures instituted by the Government. Total corporate debt increased to N$191.4 billion, mainly due to mining companies securing loans from their foreign parent entities, coupled with a 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.

6. **The banking sector remained well-capitalised, profitable and liquid in 2024, with notable improvement in asset quality.** The banking sector's total assets grew by 7.1 percent, 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, declined to 5.6 percent at the end of 2024 from 5.9 percent in 2023. This was primarily driven by growth in total loans and advances, which outpaced the growth in non-performing loans, as supported by an accommodative monetary policy stance 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.

7. **The NBFI sector demonstrated remarkable resilience in 2024, with aggregate assets growing faster than the prevailing inflation rate.** The aggregate assets grew by 14.3 percent to N$474.1 billion despite global economic challenges. This expansion was due to favourable financial market conditions, 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 NBFI product demand and investment performance in 2025. Despite these challenges, the NBFI sector is expected to maintain its resilience throughout 2025. Demand for NBFI products will remain stable and 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.

8. **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.

9. **In 2024, the Bank implemented key regulatory interventions to strengthen financial sector stability and resilience.** These include the Determination on Microfinance Banking Institutions (BID-38), which established a clear regulatory framework for microfinance banks, enhancing financial inclusion while ensuring prudent operations. The Bank also implemented drought relief measures under BID-39, which became effective on 23 October 2024, requiring banking institutions to provide loan restructuring, moratoriums, and emergency funding under preferential terms. In addition, the Bank issued Circular BIA 1/5, announcing the reinstatement of the Capital Conservation Buffer and the phase-out of unaudited profits. These interventions collectively contribute to financial stability, sectoral risk mitigation, and broader economic sustainability.

10. **Overall, risks to financial stability have remained largely unchanged, with notable improvements, particularly within the banking and NBFI sectors.** Risks to financial system stability are centred around global factors such as trade measures and prolonged trade policy

uncertainty, which could affect global economic growth. Rising geopolitical tensions could also lead to 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. Moreover, cyber risk remains elevated and could pose an acute threat to macro-financial stability through a loss of confidence.

11. **Following its assessment in December 2024, the Macroprudential Oversight Committee (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. To reinforce the resilience of the banking sector, the MOC advanced preparations and industry consultations on the countercyclical capital buffer framework. In addition, the Committee approved the use of the growth-at-risk model to strengthen macroprudential surveillance in Namibia. 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.

The media and the public at large are encouraged to read the full Financial Stability Report, which can be accessed at (https://www.bon.com.na/Bank/Financial-Stability/Financial-Stability-Reports.aspx) and (https://www.namfisa.com.na/publications).

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