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Credit Developments and Macro-Financial Risks in Namibia

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Credit Developments and Macro-Financial Risks in Namibia
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ABSTRACT: This chapter examines the evolution of bank credit in Namibia over the past two decades. It highlights notable trends and the composition of credit growth, with a particular focus on the private sector. Additionally, it identifies potential macro-financial vulnerabilities and provides policy recommendations to mitigate associated risks. Furthermore, it underscores the importance of promoting access to credit by businesses.

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SELECTED ISSUES PAPERS

Credit Developments and Macro-Financial Risks in Namibia

Namibia

Prepared by Yumeng Gu and Lilian Muchimba[1]

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A. Introduction

1. The Namibian financial system is relatively large. As of end-2024, Namibia ‘s total banking assets amounted to 91 percent of GDP. Most Namibian banks are South African subsidiaries. The non-bank financial sector, twice the size of the banking sector, is mainly comprised of a fully funded government pension (GIPF) and other pension funds, insurance funds, and collective investment schemes. Commercial banks heavily rely on wholesale funding from non-bank financial institutions, representing 15 percent of GDP at end-2024.

2. Taking stock of Namibia’s credit developments over the past two decades reveals two salient features concerning trends and composition.

- Trends: Following an initial phase of financial deepening, Namibia's bank credit to the non-financial private sector (households and businesses) stabilized at approximately 50 to 60 percent of GDP since 2005. However, this ratio began to decline during the COVID-19 pandemic, resulting in a negative credit gap. Before the pandemic, the gap was positive.

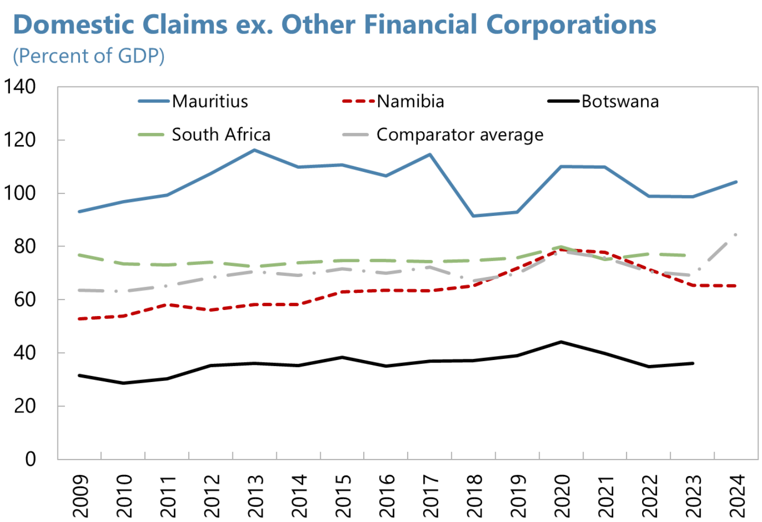
- Composition: Approximately half of Namibia's bank credit to the private sector has consistently gone to mortgages, a notably high proportion relative to the country’s level of financial development, while a growing proportion of credit has been allocated to the public sector.

B. Credit Developments: Trends and Composition

3. Prior to the COVID-19 Pandemic, Namibia experienced growth in domestic credit as a percentage of GDP from 2009 to 2019. During this period, Namibia’s credit-to-GDP ratio approached the regional average. The trend reversed after the onset of the COVID-19 pandemic, causing the ratio to dip after peaking in 2020, even though claims on public sector (in percent of GDP) rose as noted below. Since then, the ratio has been declining, underscoring the challenges in credit growth recovery in the aftermath of the pandemic.

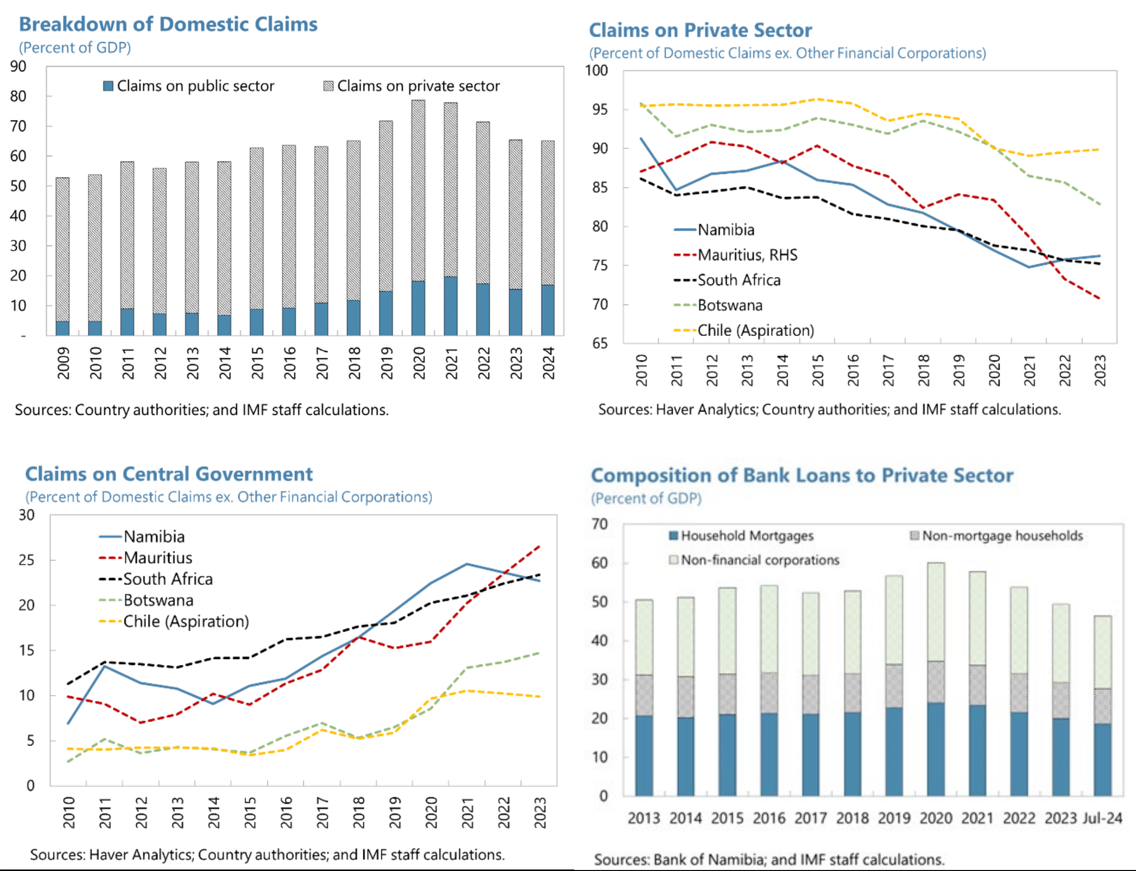
4. Since 2014, the share of credit to the public sector in total domestic credit has increased steadily to finance the budget deficit (Figure 2). Rising public current expenditures, particularly in wages and salaries, have outstripped revenue, turning the fiscal balance from a surplus of 6.2 percent of GDP in 2007 to a deficit of 4.7 percent of GDP in 2014 (Figure 3). The fiscal expansion was part of the Targeted Intervention Initiative announced in the FY2011/12 budget, which aimed at promoting job creation and fostering a more diversified economy. Claims on the public sector (in percent of GDP) rose further with the onset of the COVID-19 pandemic, coinciding with the widening fiscal deficit.

Figure 1. Domestic Credit: Comparison



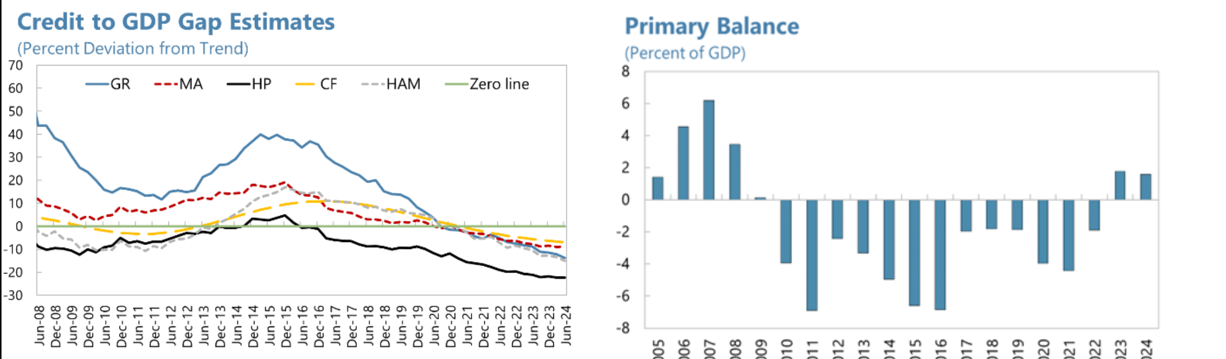
Sources: Haver Analytics; Country Authorities; and IMF staff calculations.

Figure 2. Credit Developments



5. Meanwhile, bank credit to the private sector, both as a share of total domestic credit and as a percent of GDP, has declined since the pandemic, resulting in a negative credit gap. Estimates of the credit gap based on the private sector credit per capita[1] show a similar pattern across the five methodologies used: credit gap rose in the early 2010s, peaked around 2015, and then started to fall. Four of the methods entered negative territory at the onset of the COVID-19 pandemic. By the end of the analysis period, all methodologies indicated that Namibia' credit gap was negative as of mid-2024 (Figure 3).

Figure 3. Credit Gap Estimates and Fiscal Balance

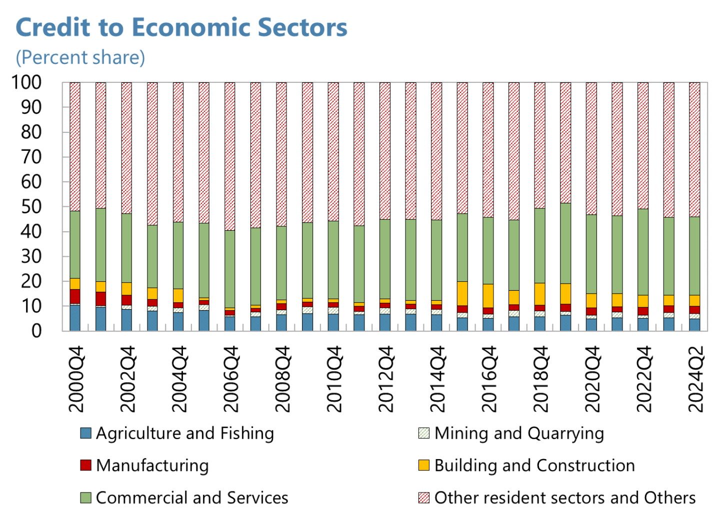


Sources: International Monetary Fund Credit Gap Tool; and IMF staff calculations.
Note: GR=Growth Rate, MA=Moving Average, HP=Hodrick-Prescott Filter, HAM=Hamilton Filter.

Sources: Country authorities; and IMF staff calculations.

6. Of the bank credit to the non-financial private sector, households have consistently accounted for more than half of the private sector credit over the past two decades. Additionally, mortgages dominate credit to households. Within lending to businesses, credit extended to the commercial and services sectors constituted approximately 30 percent of private sector credit. In contrast, credit to the tradable sector, including mining and quarrying, agriculture, and fishing, accounts for less than 20 percent of private sector credit (Figure 4).

Figure 4. Credit Share of Economic Sectors



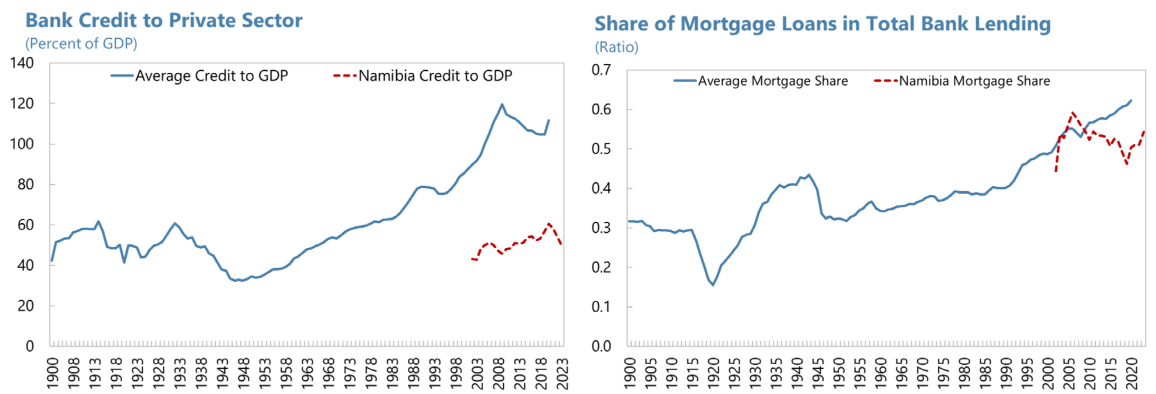
Sources: Bank of Namibia; and IMF staff calculations.

7. The high share of bank credit to mortgages is noteworthy.

[1] The credit gap estimates are calculated using the Hodrick Prescott (HP), Hamilton, and Christiano-Fitzgerald (CF) filters, along with the Growth Rate (GR) and Moving Average (MA) methods. The analysis utilizes quarterly data from 2002Q1 to 2024Q3 on real claims on the private sector per capita (expressed in constant local currency values adjusted by the CPI index). The HP trend is determined using the standard HP Filter (λ=400,000). The Hamilton Filter is applied with a forecast horizon of 20 and a regression lag of 4.

Figure 5 plots total bank credit to the private sector as a percentage of GDP and share of mortgage in credit to the private sector, comparing Namibia and a group of 18 advanced economies (AEs). It is evident that Namibia has reached a much higher share of credit to mortgages compared with these comparators when they were at a similar credit-to-GDP level (50-60 percent) during the first seven decades of the 20th century[2]—except during significant contractions like the Great Depression and World War II. Namibia's share of mortgage lending in total bank lending has consistently exceeded 50 percent (Figure 5).[3] This level of mortgage lending was not observed in AEs until the early-2000s, a period marked by a credit boom that saw their bank credit-to-GDP ratios approaching 90 percent and continuing to rise beyond 100 percent (Jordà, Schularick, and Taylor, 2017). Within the mortgage sector, on average 77 percent of credit is for residential purposes. In this context, an examination of Namibia's housing price dynamics could help detect potential vulnerabilities.

Figure 5. Namibia's Credit Developments: A Comparison



Note: Average credit to GDP is averaged across 18 advanced economies.

Note: Average mortgage share is averaged across 18 advanced economies.

Sources: Jordà-Schularick-Taylor Macrohistory Database; Bank of Namibia; and IMF staff calculations.

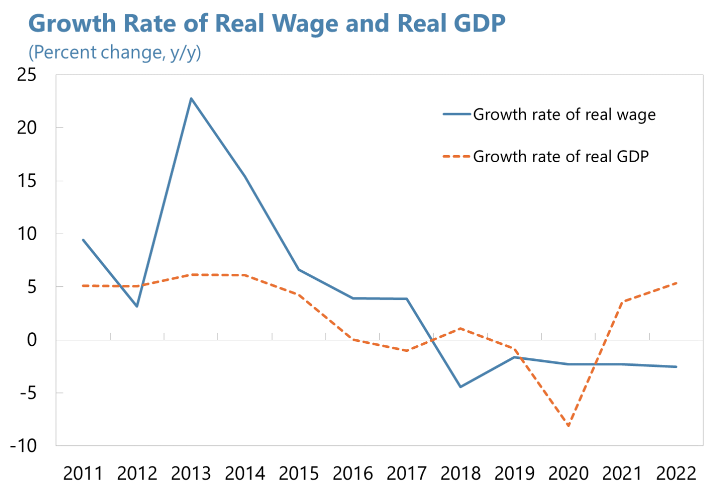
8. Structural issues largely shape housing prices in Namibia. Demographic changes and urbanization have led to unmet housing demand in Namibia, mainly due to a shortage of serviced land. Urban migration and supply constraints have driven up land and housing prices. The easing of the supply-side constraints, marked by an uptick in land delivery from 2017, has exerted downward pressure on housing prices (First National Bank Residential Property Report, December 2020). On the demand side, real wage growth in Namibia has slowed since 2013 and turned negative in 2018, as economic performance weakened, partly due to the 2015 downturn in commodity price cycles (Figure 6). The combination of demand-side challenges and the easing of supply-side constraints has contributed to downward pressure on housing prices since

[2] The average bank credit-to-GDP ratio is based on bank credit to the non-financial private sector (businesses and households) in 18 AEs, making it comparable to the metric used for Namibia. The series is reported as a percentage to GDP and then averaged across all 18 advanced economies in the sample of the Jordà-Schularick-Taylor (JST) Macrohistory Database. These countries are Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

[3] The JST's average mortgage ratios are calculated based on mortgages loans to private sector (businesses and households) relative to total bank lending. For Namibia, the mortgage ratio series is derived from credit allocation to other resident sectors; the series contains non-mortgage credits to households (accounting for less than a third) but does not include mortgage credits to businesses. An alternative series for Namibia calculates the ratios according to JST's definition but coverage only started in 2013. This shorter series also shows that Namibia's mortgage shares have remained above 50 percent during 2013-2023.

2017, despite continued credit growth until 2020. Meanwhile, the correlation between household mortgage loans and housing prices has been weak. Figure 7 illustrates that after rising rapidly since the early 2000s, the real housing price peaked in 2017 and began to decline as the housing sector entered a downturn. The correlation between mortgage (in percent of GDP) growth and real housing prices growth has been weak (0.41), and the correlation further declined in the post-2017 sample (0.26).[4]

Figure 6. Real Wages and Real GDP



Sources: Moody's Analytics; and IMF staff calculations.

9. **Given that mortgage accounts for half of banks' credit to the private sector, the housing sector is key to banking stability.** Household mortgage loans have contributed about half of the non-performing loans (NPLs), which have increased significantly since 2017. A slow recovery in housing prices has caused household mortgage debt to outpace asset values, resulting in higher household leverage ratios (Figure 7).[5] The decline in real wages and rising interest payments since 2022 (as the BoN started hiking the policy rate to contain inflation) may also contribute to higher household debt service payments to income ratios.[6] Despite the easing of monetary policy since mid-2024, the debt servicing burden on households remains high. The rising NPLs on banks' balance sheets since 2017 have strained profitability and likely prompted more cautious lending. Despite ample liquidity in the banking system, credit growth in the wake of the pandemic has been sluggish.

10. **The Loan-to-Value (LTV) ratios adopted by the BoN in March 2017 serve as an important mechanism for containing risks related to commercial banks' exposure to the mortgages.** Under these regulations, prospective home loan applicants for a second mortgage property were required to pay at least 20 percent of the property's market value, with the bank financing up to 80 percent. For the third and subsequent properties, down payment requirements increased progressively. However, in 2023, LTV ratios

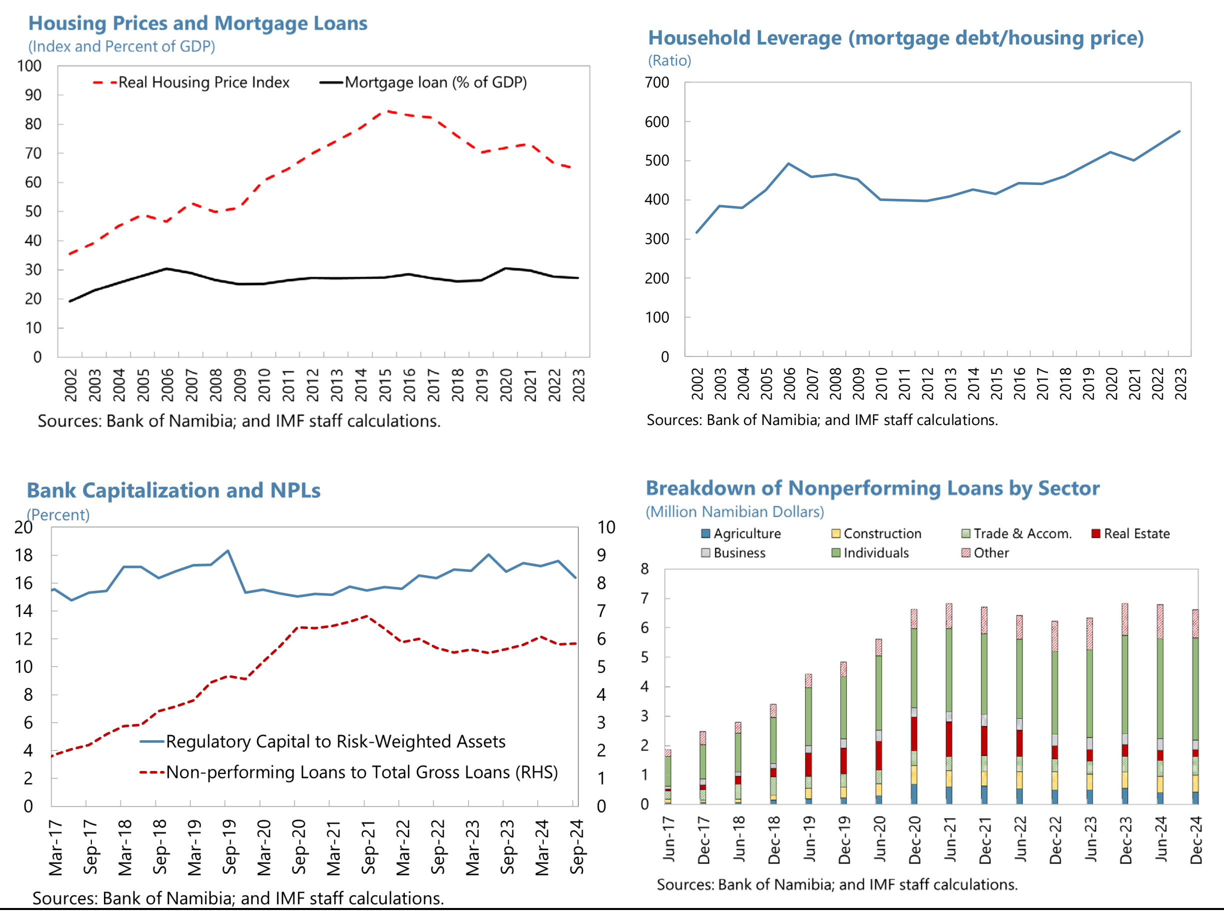
[4] Following convention in this literature, the three-year growth in credit-to-GDP (and likewise, the three-year growth in real housing price) is used to study the contemporaneous correlation. This is motivated by the empirical observation that credit expands rapidly over three to four years during credit booms (Mian, Sufi, and Verner, 2017). Many empirical studies have documented a link between the growth of credit to mortgages and construction and the associated risks to financial stability (Jordà, Schularick, and Taylor, 2016; Müller and Verner, 2024). This linkage becomes more pronounced when the rapid increase in mortgage lending coincides with rising housing prices and higher household leverage ratios (Greenwood et al. 2022). This simultaneous surge in housing prices and credit often leads to "bad credit booms," which are typically followed by deeper recessions and prolonged recoveries.

[5] Leverage ratio is defined as the ratio of household mortgage debt to the value of residential real estate. A concerning development in the housing sector is that many market participants may have not experienced any nominal appreciation in their properties since 2017.

[6] Since most mortgages in Namibia are at variable rates, leveraged property owners are vulnerable to interest rate and income shocks, which could result in a further increase in NPLs within the banking system.

were revised to stimulate credit growth in the property market, eliminating downpayments on the purchase of both first and second residential properties.

Figure 7. Macro-financial Risks in Namibia



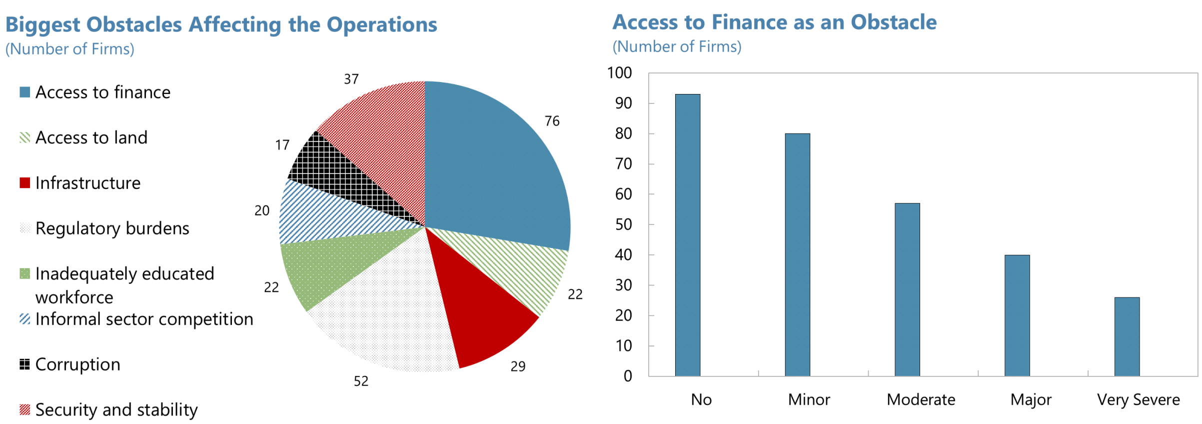
11. The high share of household mortgage and low share of credit to businesses are consistent with the lack of private-sector-led growth in the non-resource sectors. As a resource-rich country, mining companies are the largest business entities in the economy, and they often rely on intra-company loans from their parent instead of bank loans.[7] Meanwhile, the non-mining private sector faces challenges in accessing bank credit due to collateral requirements, among other factors as noted below.

12. Survey data suggests that limited access to bank credit is a significant obstacle for private sector firms. According to the World Bank's Enterprise survey conducted in Namibia in 2024, 203 out of 307 Namibian firms surveyed (or 66 percent) view access to finance as an obstacle, ranging from “minor” to “very severe”. Access to finance is the top obstacle identified by firms in the survey, surpassing other challenges such as regulatory burdens, security and stability, and infrastructure (Figure 8). Only 110 firms (or 36 percent)

[7] Bank of Namibia Financial Stability Report, April 2025.

reported having a line of credit or loan from a financial institution.[8] A simple regression analysis suggests a positive correlation between having a line of credit and experiencing sales growth, indicating that access to credit could foster growth and investment for Namibian businesses.[9] In terms of constraints, the survey shows that the most important constraint is the high collateral requirement on the demand side. On the supply side, potential constraints worth investigating include the cost of funding, regulatory and capital requirements, administrative and hedging expenses, and the assessment of borrowers' credit risks (Rule, 2015).

Figure 8. Demand Side Constraints for Credit Growth



Sources: World Bank Enterprise Survey; and IMF staff calculations.

C. Banking Resilience

13. Despite the slowdown in credit growth since 2020, the banking system in Namibia has remained resilient. Banks remained liquid, profitable, and well-capitalized (Figure 5). Like many countries, Namibia's banking asset quality deteriorated during the pandemic. As noted previously, household mortgages continued to be primary contributors to NPLs in Namibia. NPLs peaked at 6.8 percent in March 2021, breaching Namibia's supervisory threshold, but moderated to 5.6 percent in December 2024. The moderation is on account of recent recovery in nominal credit growth, which has surpassed the growth in NPLs. Nonetheless, banks have maintained adequate capital levels, and NPLs are sufficiently provisioned to cover expected losses during the review period.

14. Meanwhile, the bank-sovereign nexus has deepened as domestic credit to the public sector more than doubled over the past decade. As noted earlier, this development corresponds with the increased government financing needs. Banks' exposure to the public sector (excluding the central bank) is above the

[8] An important caveat is that the firms surveyed by the World Bank are small, medium, and large enterprises that are formally registered. Among those that did not apply for loans, the majority indicated that they "did not need a loan, as the establishment had sufficient capital" as their primary reason. A smaller proportion of firms cited high collateral requirements as the main factor. It is reasonable to assume that the situation is more challenging for informal and micro businesses.

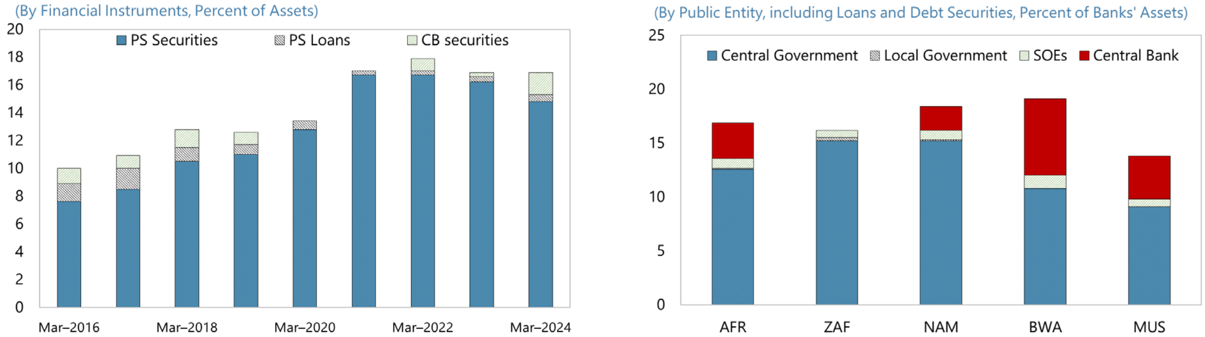
[9] Although viewing access to finance as an obstacle does not necessarily translate to genuine challenges in obtaining it—evident in Namibia, where most firms with a line of credit still report perceived access difficulties—having access to credit is associated with improved outcomes at the firm level.

African average. In comparison to countries with similar income status, Namibia's exposure is on par with South Africa but exceeds that of Botswana and Mauritius (Figure 9).[10] Relative to upper middle- and high-income countries in the Euro area, Namibia's exposure is lower than Albania, Romania, Hungary, and Poland but significantly higher than Denmark and the Netherlands, with their exposures as low as 0.4 percent (Figure 10). Non-bank financial institutions (NBFIs) also hold a significant amount of government debt. As of the end of December 2024, NBFIs held domestic debt amounting to 20 percent of GDP.[11] This increased connectedness poses a risk to the Namibian financial system.

Figure 9. Public Sector Exposure

Banks Exposure to Public Sector (By Financial Instruments, Percent of Assets)

Public Sector Bank Nexus, 2024–25 (By Public Entity, including Loans and Debt Securities, Percent of Banks' Assets)

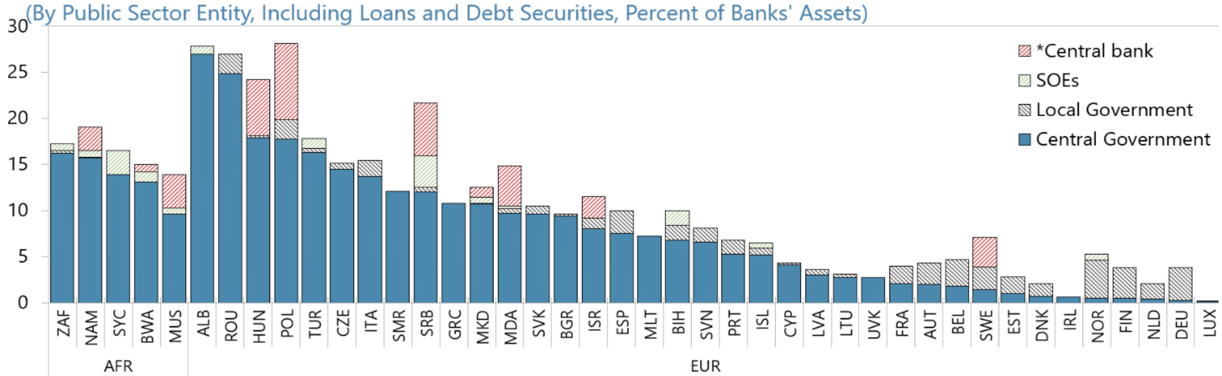


Sources: IMF, MFS Database; and IMF staff calculations. Last Update: August 14, 2024.

Sources: IMF, MFS Database; and IMF staff calculations. Note: Central bank excludes deposits. Last Update: August 14, 2024.

Figure 10. Public Sector Exposure: Comparison
(December 2024)

Public Sector-Bank Nexus
(By Public Sector Entity, Including Loans and Debt Securities, Percent of Banks' Assets)



Sources: IMF MFS; and Dehmej (2025).

[10] African countries with an upper middle-income status.

[11] At the end of December 2024, total domestic debt (comprising Treasury bills and Government bonds) was 51 percent of GDP. Out of this 51 percent, Depository corporations held 14 percent of GDP and NBFIs held 20 percent of GDP. Data on NBFIs holdings of government debt was sourced from NAMFISA.

D. Policy Recommendations

15. To assist in managing risks associated with the credit cycle, the Bank of Namibia (BoN) should continue enhancing its macroprudential toolkit. The countercyclical capital buffer (CCyB) framework is set to be implemented in the last quarter of 2025, allowing for capital accumulation during credit booms to be released during downturns.[12] Given that Namibia is a small open economy exposed to structural vulnerabilities, a positive-neutral CCyB could enhance banking resilience.[13] Namibia's vulnerabilities to external and commodity price shocks and a fixed exchange rate underscore the need for a resilient financial system. Additionally, structural vulnerabilities such as banks' reliance on wholesale NBFI financing and significant exposures to the sovereign make it essential to have releasable capital that can be used to sustain credit growth in the face of negative shocks.[14] BoN should also consider implementing targeted measures, such as a systemic risk buffer for sovereign exposures that surpass a certain threshold. BoN should also conduct a further analysis of the structure of exposures in both banking and trading books to ensure appropriate risk weights.[15]

16. Given the large share of credit to the housing sector and existing vulnerabilities, BoN should reverse the elimination of downpayments on first and secondary residential properties. Maintaining minimum lending standards is crucial for preventing future NPLs. In addition to stock-based measures, the BoN should also consider collecting data on flow measures such as debt-to-income (DTI) ratios and debt service-to-income (DSTI) for new property buyers. This data would be valuable for analysis and the formulation of targeted borrower-based macroprudential measures.

17. In light of the limited credit to private business, the authorities are rightly promoting access to financing while safeguarding financial stability. As Namibia seeks to diversify its economy and foster private sector-led growth, it is important to develop solutions that support sound lending to non-financial corporations, where credit availability remains relatively limited. Conducting further studies to identify constraints hindering businesses in accessing credit would be critical for designing and implementing effective policies. Such analysis could also shed light on the key drivers of Namibia's credit cycles, which will become increasingly important as the economy diversifies and transitions to being more driven by the private sector. In turn, this would lead to a stronger interconnection between credit and business cycles.

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[12] Bank of Namibia Financial Stability Report, April 2025

[13] In line with the recommendations of the IMF TA on Macroprudential Policies and Systemic Risks

[14] A crucial consideration is that there must be demand for credit that would otherwise go unmet due to banks' capital requirements. Furthermore, banks ultimately need to view lending as profitable based on their assessment of risks. In Namibia, the Capital Conservation Buffer (CCoB) was relaxed for a two-year period in response to the COVID-19 Pandemic in April 2020. The relaxation was later extended. However, slow credit growth during the period suggests banks' lack of willingness to use the temporarily relaxed capital requirement to supply credit.

[15] As highlighted in the IMF's technical assistance on systemic risks and macroprudential policies in Namibia.

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