



COMESA MONETARY INSTITUTE

COMESA Financial Stability Report - 2025



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Common Market for Eastern and Southern Africa

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ABBREVIATIONS

AfCFTA	African Continental Free Trade Area.
ACH	Automated Clearing House
CAR	Capital Adequacy Ratio
CCyB	Countercyclical Capital Buffer
CCH	COMESA Clearing House
CMI	COMESA Monetary Institute
COMESA	Common Market for Eastern and Southern Africa
COVID-19	Coronavirus Disease of 2019
EAPSS	East Africa Community's Payment and Settlement System
ECL	Expected Credit Loss
ECCS	Electronic Check Clearing System
FSAF	Financial Stability Assessment Framework
FSC	Financial Stability Committee
FSD	Financial Stability Department
FSFI	Financial Stability Framework Index
FSI	Financial Stability Index
FSIs	Financial Soundness Indicators
FSR	Financial Stability Report
FTSE	Financial Times Stock Exchange
HQLA	High-Quality Liquid Assets
IFRS 9	International Financial Reporting Standard 9
IPS	Instant Payment System
LCR	Liquidity Coverage Ratio
NBFIs	Non-Bank Financial Institutions
NSFR	Net Stable Funding Ratio
PAPSS	Pan-African Payment and Settlement System
REPSS	Regional Payment and Settlement System
ROA	Return on Assets
RTGS	Real Time Gross Settlement
S&P	Standard and Poor's
SSS	Security Settlement System
TCIB	Transaction Cleared on an Immediate Basis

FOREWORD

With increasing interconnectedness across the region, the objective of the Common Market for Eastern and Southern Africa (COMESA) is anchored in promoting free movement of goods, capital, and people. Similarly, as cross-border financial transactions expand, financial systems, including banks, non-bank financial institutions, and payment systems, need to be strengthened to ensure safe and efficient intermediation and to maintain public confidence. In this context, a robust and well-coordinated financial system that addresses stability concerns in a harmonized manner is essential. Achieving the harmonization of the macroeconomic policies stipulated in Article 4 of the COMESA Treaty will support stronger economic growth and improve the welfare of the people across Member States.

The COMESA Financial Stability Report (FSR) 2024, now in its fourth edition, is a key instrument developed by the COMESA Monetary Institute (CMI) to support financial stability in the region. The report reviews legislative and institutional arrangements, assesses macro-financial risks, and evaluates the performance of banking and non-banking sectors amid global and regional macro-financial and geopolitical shocks. It also examines emerging risks such as climate change and financial innovation. Prepared through collaboration among COMESA member countries, the report provides a comprehensive assessment of financial stability in the region, highlighting strengths, identifying vulnerabilities, and offering policy

recommendations to support informed policymaking and the harmonization of financial stability frameworks.

The report is structured into seven chapters. Chapter 1 provides an in-depth assessment of the legislative and institutional frameworks for financial stability using an enhanced index. Chapter 2 reviews global and regional macro-financial developments and associated risks to the region's financial stability. Chapter 3 assesses the performance and soundness of the banking sector and presents a Financial Stability Index for selected COMESA countries. Chapter 4 examines the risks in the non-banking financial sector and payment systems. Chapter 5 assesses financial system resilience through banking sector stress testing using a unified macro-financial scenario. Chapter 6 reviews developments in the payment systems across COMESA member countries, while Chapter 7 focuses on a thematic issue, selected by member countries, which is the sovereign-bank nexus and its implications for financial stability.



Lucas K. Njoroge (PhD)
Director – COMESA Monetary Institute

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EXECUTIVE SUMMARY

COMESA Financial Stability Assessment Framework (FSAF).

The assessment of the implementation of the five pillars of the FSAF shows notable progress in establishing financial stability frameworks across the region (i) First, from an institutional perspective, most member countries have established arrangements for financial stability oversight, typically assigning the mandate to a department within the Central Bank, and in some cases, establishing internal or multi-agency financial stability committees. However, in some countries, these departments lack full operational independence from micro-prudential supervision, research, and monetary policy departments. (ii) Second, most of the COMESA countries have adopted similar definitions of key financial stability concepts, indicating growing regional convergence in the understanding and conceptualization of macroprudential policy. Nevertheless, further work is needed to establish intermediate objectives to enhance the operational effectiveness of macroprudential policy. (iii) Third, regarding risk identification and analysis, most countries conduct systemic risk assessments using similar analytical tools, and implement stress testing exercises, primarily focusing on the banking sector. (iv) Fourth, while macroprudential policy tools have been established and are in use in many COMESA country's jurisdictions, in some countries the designated macroprudential authority lacks sufficient powers to fully deploy these tools in pursuit of policy

objectives. Finally, most COMESA member countries publish Financial Stability Reports either annually or semi-annually on Central Banks' websites. Although transparency and communication practices are improving, further progress is required to fully implement comprehensive communication and accountability frameworks.

Overall, the Financial Stability Framework Index (FSFI) for the COMESA region stands at 0.62, indicating that, on average, member countries have achieved 62% of the international best practices in establishing and implementing financial stability frameworks. Notably, eleven countries recorded scores above the regional average, reflecting a strong commitment to adopting and implementing international financial stability standards.

Global and Regional Macro-Financial Developments.

Global economic activity moderated in 2024 amid heightened geopolitical tensions, particularly in the Middle East and the ongoing Russia-Ukraine, as well as slower growth in China and rising global uncertainty. Global inflation declined further, supported by earlier monetary policy tightening and falling energy prices. Consequently, Central Banks in advanced economies began easing monetary policy.

Nevertheless, yields on benchmark bonds in advanced economies rose, reflecting persistent inflation concerns and market expectations of a slower pace of monetary easing. Commodity prices movements were mixed during the year. Crude oil prices declined due to ample global supply, while copper and gold prices increased on the back of strong demand and heightened uncertainty. Economic growth in the COMESA region also moderated, reflecting weaker global demand, depreciating exchange rates as well as other domestic factors. However, price pressures eased despite a broad-based weakening of the region's exchange rates. Yields on local currency government securities across COMESA countries were mixed, largely reflecting country-specific fiscal and monetary conditions. At the same time, public debt distress generally declined, supported by ongoing fiscal consolidation efforts. However, financial stability prospects for 2025 remain uncertain, largely due to evolving trade policies and geopolitical tensions.

COMESA Banking System Structure.

The banking system in the COMESA region displayed significant heterogeneity in both size and structure, with banking assets ranging from 14% to 383% of GDP. Mauritius recorded the highest ratio at 383% of GDP in 2024, reflecting its role as an international financial center, followed by Seychelles at 121%. Other member countries-maintained ratios between 30% and 47% of GDP, indicating a moderate degree of financial depth. Commercial banks dominate the region, accounting for approximately 97% of total banking assets, which totaled nearly

US\$10 trillion in 2024. Other types of banks played specialized roles; investment banks held about US\$221 billion, universal banks US\$51 billion, while development banks, microfinance institutions and cooperative banks contributed smaller shares, supporting inclusion and long-term financing.

Banking System Stability. The COMESA banking system is generally stable, underpinned by macroeconomic stability, ongoing financial sector reforms, and intervention by supervisory authorities to support the resilience of the financial system. The key financial stability indicators including capital adequacy, asset quality, earnings, liquidity and sensitivity to market risk generally remained within regulatory thresholds. Global exchange rates volatility affected COMESA countries, with most member countries' currencies depreciating against the US dollar. However, the pass-through effect of exchange rate on domestic economies and the financial position of banks was moderate in the region.



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A Financial Stability Index (FSI) was developed to capture the overall stability of the financial systems for selected COMESA member countries over time. Over the period 2016–2024, the index averaged 0.49, indicating a moderate level of financial stability across the region. The index improved in 2024, reaching its highest level at 0.60 in the second quarter and averaging 0.57 for the year, driven primarily by stronger banking sector performance, including improved asset quality, higher profitability, and robust liquidity positions across member countries. Favorable domestic macroeconomic conditions, including higher real GDP growth, declining inflation, better fiscal balances, and expanded private sector credit relative to GDP, also supported stability. In addition, the rise in stock market capitalization relative to GDP pointed to further development in the financial markets in the region. Country-level FSI levels in 2024 ranged from 0.43 to 0.62 across the nine countries analyzed.

Excessive credit growth has been recognized as a major systemic risk, playing a critical role in the global financial crisis of 2008. In response, the Countercyclical Capital Buffer (CCyB) was introduced as part of the macroprudential policy framework recommended by the Basel Committee on Bank Supervision aiming to strengthen the regulatory framework and mitigate the risk of future financial crises. The Basel Committee recommends using the ratio of private credit to nominal GDP as a key indicator to monitor excessive credit growth, as it has proven to be one of the most reliable early warning signals of banking crises. In addition, it advises that national regulatory authorities consider a

broad set of qualitative and quantitative indicators tailored to their domestic conditions. Analysis of the reviewed COMESA countries indicates that, based on these indicators, there is no evidence of a systemic risk buildup resulting from excessive credit growth.

Non-Banking System Stability. In the COMESA region, non-bank financial institutions (NBFIs) offer complementary services to banking, including insurance, mutual funds, microfinance, leasing, factoring, brokerage, mortgages, and pension funds, with total insurance assets reaching US\$15.8 billion and varying penetration rates. NBFI assets and activities are expanding, illustrated by 328 mutual funds, 2,174 pension funds, reflecting growing importance in the regional financial system. Financial soundness indicators show notable strengths, including high liquidity (exceeding 100% in several countries), solid retention ratio, and improving profitability. However, challenges persist, such as low investment levels in certain segments and delinquency risks within microfinance portfolios.

These developments mirror global trends of NBFI expansion and interconnectedness with banks, which heighten financial stability risks. Key risks include credit exposure, liquidity mismatches, market volatility, concentration, and solvency pressures, particularly insurance (claims coverage), mutual funds (NAV erosion), and leasing and factoring (borrower insolvency). COMESA countries are therefore encouraged to implement risk mitigation policies that promote diversification while safeguarding overall financial stability.

Financial Markets. COMESA's capital markets have shown steady progress, led by Kenya, Egypt, and Mauritius, which host the region's most advanced exchanges. Smaller markets remain relatively shallow and less liquid, but ongoing reforms and modernization efforts are gradually enhancing market depth, transparency, and investor confidence. Despite global headwinds in 2024, including tighter financial conditions and rising debt costs, COMESA equities delivered an average return of 25%, reflecting resilience and renewed investor optimism. Market development varies across the region. Egypt (227 listings), Kenya (65), and Mauritius (86) lead in breadth, while smaller markets such as Eswatini (9), Rwanda (10), and Malawi (16) continue to make steady progress. Turnover ratios highlight liquidity differences, with Malawi (0.75), Kenya (0.55), and Egypt (0.50) anchoring regional trading activity, while emerging markets pursue reforms to deepen secondary market activity. Market capitalization-to-GDP ratios range from 1.4% in Zambia to 61% in Mauritius, underscoring disparities but also indicating opportunities for growth and diversification.

Sectoral trading shows strong participation in Communications, Electronic Technology, and Finance, supported by both domestic and institutional investors. Emerging

opportunities include fintech adoption, green and sustainable finance, and regional integration, all of which can enhance liquidity, investor participation, and market resilience. Key risks include macroeconomic instability, political uncertainty, shallow markets, and exposure to global shocks. Strategic priorities should focus on strengthening market buffers, enhancing regulatory frameworks, promoting cross-border integration, and developing safe asset classes to sustain long-term stability. Overall, COMESA's capital markets demonstrate a positive trajectory. Leading markets are setting examples for growth, while emerging markets are gradually deepening, positioning the region for inclusive, resilient, and integrated financial systems.

Stress Testing the Banking Sector. This chapter includes an analysis and a survey of the stress testing approaches implemented by COMESA member countries. It concludes with the application of a unified stress testing scenario to selected banking sectors in these countries – representing about 80% of total sector assets. The scenario assumptions vary in terms of severity and are designed to assess the resilience of their banking sector and its ability to withstand shocks, as well as to evaluate the adequacy of capital to cover unexpected losses.



Image credit: Freepik.com

According to the latest published Financial Stability Reports (FSR) from some COMESA member countries, stress test results indicate that their banking sectors demonstrated resilience to disruptive shocks under various scenario assumptions. Results were generally favorable, even under severe but plausible assumptions for key economic and financial variables. The applied stress tests, conducted at the aggregate level of the largest banks in each country incorporates multiple risk types: sovereign credit risk arising from the government sector loan portfolio and the investment portfolio of government securities (treasury bills and bonds); credit concentration risk associated with top five and ten obligors and their related parties; and market risk, including interest rate and foreign exchange exposures.

The results show that capital levels in most of these banking sectors are adequate to absorb potential losses from these shocks. Post-stress CAR remained above the minimum threshold prescribed under the Basel framework, based on actual financial data as of December 2023 and 2024.

Payment System. The COMESA region's payment systems comprise both modernized national infrastructures and the Regional Payment and Settlement System (REPSS), a multilateral netting platform managed by the COMESA Clearing House to facilitate cross-border trade payments. REPSS plays a critical role in reducing transaction costs, mitigating foreign exchange risks, and enhancing financial integration. Since its launch in 2019, nine member countries, including Kenya, Egypt, Zambia, Uganda, Rwanda, Malawi,

Mauritius, Eswatini, and DRC, have joined REPSS, with transaction values reaching around US\$550 million over six years, though this remains modest compared to US\$14 billion in intra-COMESA trade.

National payment systems continue to evolve rapidly, driven by Real-Time Gross Settlement (RTGS) platforms, Automated Clearing Houses, and rapid growth in digital retail payments. Mobile money dominates retail transactions, with accounts rising from 228.9 million in 2020 to 473.6 million in 2024, supported by FinTech innovations and instant payment systems. RTGS volumes also expanded from 5.7 million in 2020 to 15.9 million transactions in 2024, highlighting the growing systemic importance of high-value payment infrastructures. The rapid digitalization of Africa has strengthened financial inclusion and innovation across the COMESA region, but it has also simultaneously amplified systemic exposure to cyber and operational risks. As the continent now processes most global mobile money transactions, threats such as ransomware, phishing, and Distributed Denial of Service (DDoS) attacks are growing, posing risks to trust, operational continuity, and interconnected financial infrastructures. Recent attacks on major payment providers globally and within the region illustrate the financial, operational, and regulatory consequences of cyber incidents, even though systemic contagion has not yet materialized.

Despite progress in the development of payment systems, structural challenges persist, including limited participation in the Regional Payment and Settlement System (REPSS) (only 9 of 21 Central Banks), reliance on foreign rather than local currencies for settlement, operational constraints in meeting real-time processing demands, and strong competition from alternative cross-border payment channels. These vulnerabilities are further compounded by rising geopolitical pressures, which risk undermining regional financial integration efforts. To safeguard financial stability, COMESA and its member countries must strengthen operational resilience and adopt harmonized regulatory and supervisory frameworks tailored to the evolving risk profile of payment systems. Priority measures include integrating cyber risk into operational and macroprudential oversight, enhancing incident reporting and response, strengthening institutional capacities, promoting regional cooperation—including through Computer Emergency Response Team (CERT) structures—accelerating REPSS modernization and ISO 20022 migration, improving data transparency and risk reporting, and establishing regional crisis management protocols. Collectively, these measures are essential to reinforce payment system integrity and sustain confidence in the region's financial architecture while supporting ongoing digital transformation.

Sovereign Bank Nexus. This chapter reviews empirical studies conducted by COMESA member countries in 2024 on one of the emerging issues for Financial Stability: The Impact of Sovereign Bank Nexus on

Financial Stability in the region. The two-way linkage between governments and domestic banks can amplify vulnerabilities in both sectors, potentially creating feedback loops that threaten financial stability

Most studies found that higher bank holdings of government securities negatively affect financial stability, as rising sovereign debt can crowd out private sector lending by reducing funds available for credit. In many cases, banks' preference for domestic sovereign debt is influenced by regulatory incentives, such as its treatment as liquid assets and the application of zero risk weights. However, some countries exhibited a weaker sovereign-bank nexus, majorly due to lower levels of domestic debt and more reliance on external debt.

The studies recommend several policy measures, including strengthening the balance sheets and governance of both banks and sovereigns, encouraging banks to diversify their asset portfolios, improving disclosure of sovereign exposure, and conducting regular stress tests, including sovereign risk scenarios. Other recommendations included limiting government guarantees to distressed banks, developing corporate bond markets to broaden investment opportunities, and maintaining prudent fiscal policies to support sustainable public finances.



CHAPTER 1

Financial Stability Legislative
and Institutional Framework of
COMESA Member Countries

1.0 Introduction



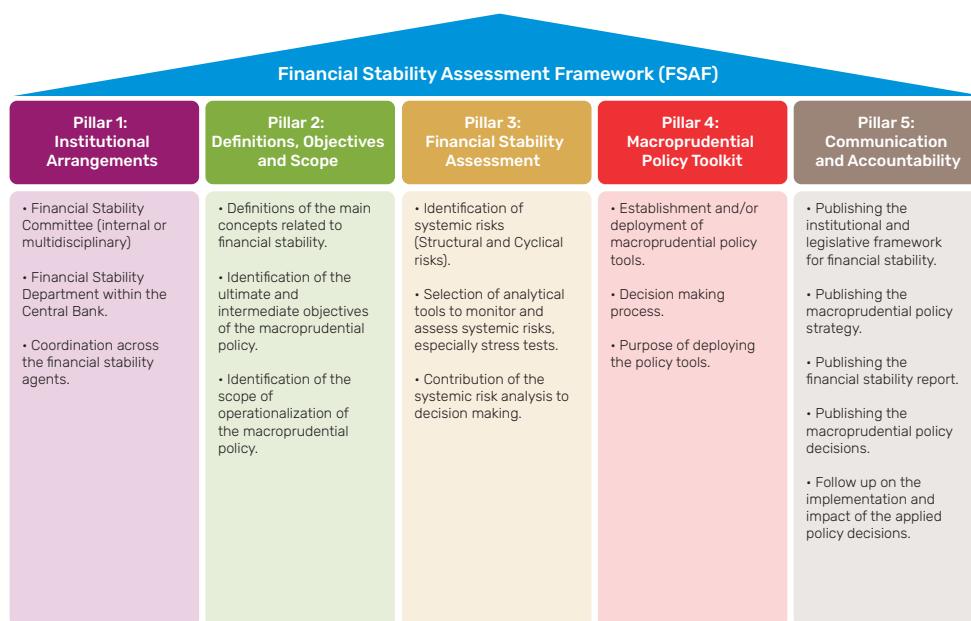
The global financial landscape is undergoing rapid change, marked by unprecedented monetary policy tightening and subsequent easing in major economies, persistent trade tensions, and increased volatility in capital flows and exchange rates. These policy adjustments have heightened uncertainty in international financial markets and accentuated the risks for regions deeply integrated into global capital flows, such as COMESA. Against this backdrop, strengthening financial stability frameworks within COMESA is both a strategic imperative and a collective responsibility. The increasing interconnectedness of regional financial markets, along with exposure to global shocks, necessitates harmonized approaches to macroprudential oversight, data sharing, and crisis response. Proactively addressing new risks, from global financial conditions and trade tensions to capital movement pressures, will equip COMESA economies to weather adverse shocks and sustain inclusive, resilient growth.

The Taskforce of the Financial System Development and Stability (FSDS) Sub-Committee revised the Financial Stability Assessment Framework (FSAF) in 2023.^{1,2} This revised framework is structured around five key pillars: macroprudential oversight monitoring, institutional frameworks, financial market infrastructure and operational resilience, crisis preparedness and resolution mechanisms, and communication and accountability. These pillars collectively ensure that member countries can identify and mitigate systemic risks, maintain robust governance and supervisory arrangements, operate resilient payment and settlement systems, prepare for and manage financial crises, and promote broad access and market development without compromising stability. The revised FSAF, which serves as the basis for assessing the frameworks implemented by the member countries, is as follows:

¹ The updated FSAF, accredited by the European Union in April 2023, was recognized for its clarity, structure, and adaptability to the varying stages of financial stability framework development among member countries. Beyond serving as a benchmark for regional policy harmonization, it also acts as a practical roadmap for operationalizing macroprudential policy, improving risk detection, and enhancing crisis-response capabilities.

² The Financial System Development and Stability Sub-Committee (FSDS), established under the CMI, has developed the COMESA Financial Stability Assessment Framework (FSAF) to determine the elements recommended to be established in the systems of the member countries to maintain financial stability, as per international best practices. The developed assessment framework aims, not only to harmonize the financial stability across the region, but more importantly, to provide member countries with a guidance for the implementation of the needed arrangements and operationalization of the relevant policy and analytical tools, that contribute to the maintenance of financial stability in each country. On the other hand, the CMI is using this framework as a reference for assessing countries progress in this field, which would generate recommendations motivating countries to develop their frameworks.

Figure 1: Pillars of the COMESA Financial Stability Assessment Framework



1.1 Assessment of the Financial Stability Framework in Selected Member Countries

Based on these five pillars, the task force developed a questionnaire, which was sent to the COMESA member countries to monitor progress in implementing the financial stability framework. Seventeen countries responded and are included in this chapter's analysis, reflecting both the status of implementation and the degree of harmonization across Member States.³

The responses showed that six have developed and adopted a formal financial stability framework, including the institutional and legislative set up, policy, analytical tools, and communication and accountability strategies. These are Egypt, Kenya, Mauritius,

Rwanda, Uganda, and Zambia. A formal framework is underway in DRC, Madagascar, and Malawi, planned for establishment by 2025-2026. In Tunisia, the Central Bank will continue strengthening macroprudential policy over the next three years as part of its strategic project to enhance risk identification, crisis management, and communication systems. In Seychelles, the Central Bank is seeking IMF support to develop its macroprudential framework and toolkit.

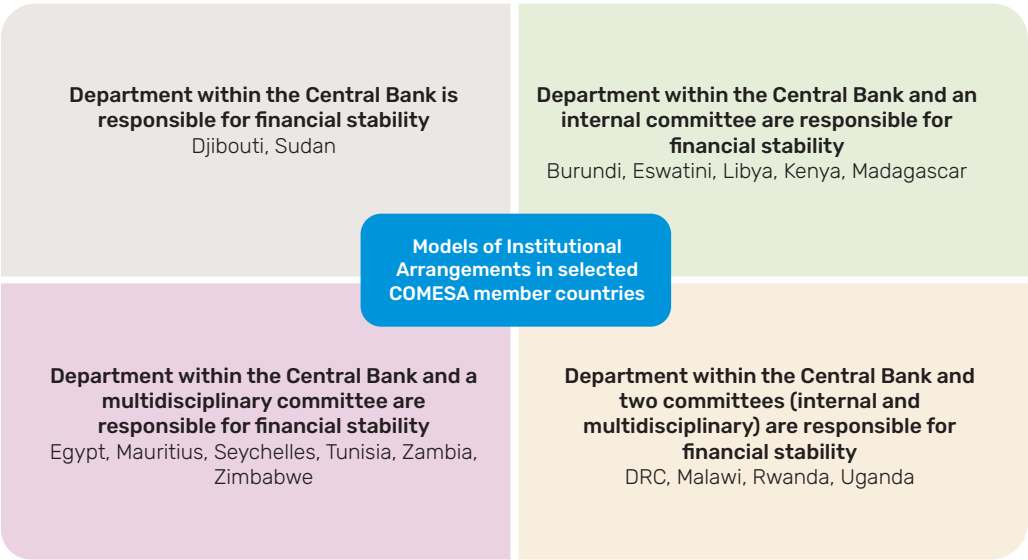
³ Countries that have responded to the questionnaire are: Burundi, Djibouti, DRC, Egypt, Eswatini, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Tunisia, Uganda, Zambia, and Zimbabwe.

1.1 Assessment of the Financial Stability Framework in Selected Member Countries

1.1.1 Institutional Arrangements

In the COMESA region, four models of institutional arrangements for financial stability can be identified, based on the presence of committees and/or departments responsible for overseeing financial stability. These models are summarized as follows:

Figure 2: Models of Institutional Arrangements in Selected COMESA Countries



1.1.2 Financial Stability Committee

Internal Committee

Nine-member countries have established autonomous internal committees responsible for financial stability.⁴ Most of these countries have both preventive and remedial mandates, covering financial stability and crisis management. In Burundi, DRC, and Malawi, however, the committees focus solely on preventive functions, including micro and macro-prudential regulation.

The internal committees are generally chaired by the Central Bank Governor, except in Malawi, where the head of the financial stability unit serves as Chair. As for membership, the committees include heads and executives of the departments responsible for the financial system. This includes micro-prudential supervision,

regulations, financial system development, financial operations, payment systems, financial inclusion, and resolutions. In most countries, membership also extends to departments responsible for monetary policy, economic research and statistics, exchange rate policy, and reserves management.

The inclusion of the economic departments ensures the coordination between the macroprudential policy and the macroeconomic policies, especially the monetary policy. For instance, the absence of these departments in the membership of the committees in Burundi and Eswatini led to the absence of coordination with the macroeconomic policies within the committee.

Figure 3: Membership of Internal Committees



⁴ Establishing an internal committee, with members representing different Central Bank's departments, ensures the coordination and consistency of Central Bank's functions, especially between macroprudential, monetary and micro-prudential policies.

Committees are established under Central Bank law or by other less formal legal instruments. In Malawi and Rwanda, the committees are anchored in the Central Bank law, while in Burundi, DRC, Eswatini, Kenya, Libya, Madagascar, and Uganda, they operate under terms of reference (TOR), the Governor’s decisions, or other internal governance frameworks.

The committees in Burundi, DRC, Kenya, Libya, Malawi, Rwanda, and Uganda meet quarterly; in Eswatini, semi-annually; and in Madagascar, annually, where the primary role is to review and approve the Financial Stability Report. During these meetings,

committees assess financial system risks and macroeconomic vulnerabilities to guide macroprudential policy.

During these meetings, committees evaluate the health and resilience of the financial institutions, financial markets, and payment systems, by analyzing main risks and vulnerabilities to determine their capacity to withstand potential shocks. Decision-making powers vary; hard-powered committees enforce policy measures; semi-hard committees issue recommendations on a comply or explain basis; and soft-powered committees serve mainly as platforms for discussions and coordination (Figure 4).

Figure 4: Power of Internal Committees



Multidisciplinary Committee

At the national level, ten COMESA member countries have established multidisciplinary committees responsible for financial stability. Most of these committees combine crisis management responsibilities and their primary role of preventive policy, except in Malawi and Mauritius. In Malawi, crisis management is currently undertaken at a micro-prudential level within a sector-specific regulatory framework, although the Reserve Bank of Malawi is proposing the inclusion of the crisis management mandate in the wider macroprudential framework.

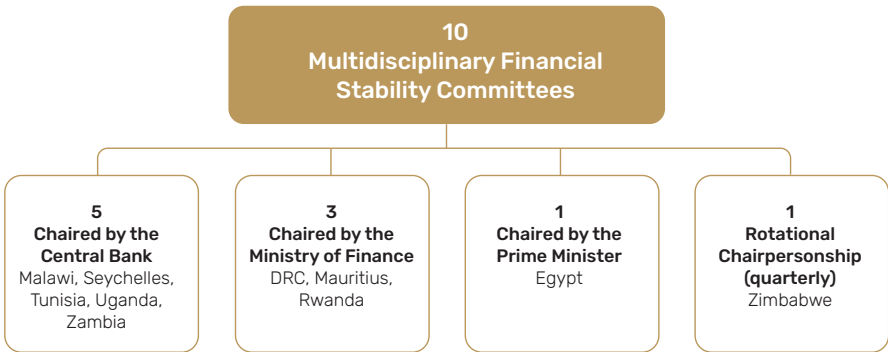
It is noteworthy that three other member countries are in the process of establishing their multidisciplinary committees. In Burundi, a memorandum of understanding has been prepared to govern the committee’s establishment. In Eswatini, the committee will become operational once the Financial Stability bill is promulgated. In Madagascar,

a draft financial stability law is under consideration at the Government Council, with two multidisciplinary committees expected to be established by 2025-2026.

Legally, these committees are established based on Central Bank laws. In DRC, Egypt, Mauritius, Tunisia, and Zambia, the Central Bank laws provide for their establishment, while in Seychelles, the Financial Stability Act (2023) stipulates the mandate, membership, and general governance. In DRC, additional regulations and terms of reference operationalize the committee.⁵ On the other hand, the committees in Malawi⁶ Uganda and Zimbabwe are established through terms of reference or memorandum of understanding, while in Rwanda, the multidisciplinary committee was authorized by the Prime Minister’s Instructions following the Cabinet approval.

Regarding the chairpersonship, multidisciplinary committees in COMESA member countries are predominantly chaired by the Central Bank, as shown in Figure 5:

Figure 5: Chairmanship of Multidisciplinary Committees



5 An agreement on the creation, organization and operation of the Financial Stability Committee in the DRC was signed on November 23, 2021, in addition to Law No. 18/027 of December 13, 2018 [article 22].

6 The Reserve Bank of Malawi Act is currently under amendment to include provision for establishing the Financial System and Stability Development Committee providing for its mandate, its functions and membership, as part of the process of formalizing the macroprudential framework. The proposed amendments have been already submitted to the legal department.

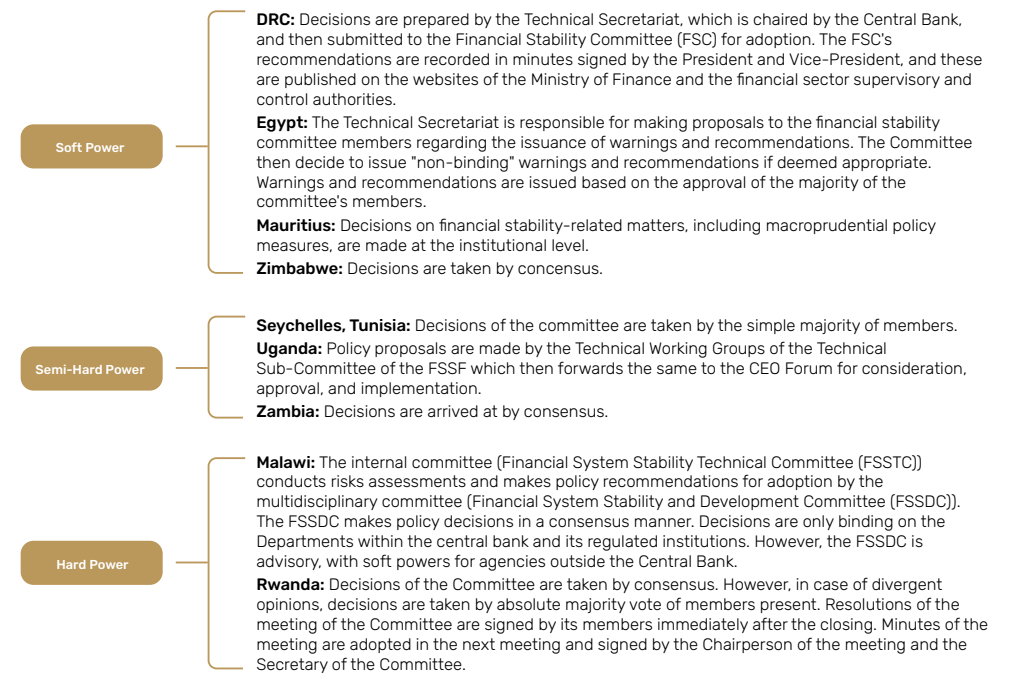
As for the membership, the multidisciplinary committees are inclusive of all financial systems regulators and stakeholders. Central Banks and the Ministries of Finance are members of all the committees. Financial regulatory authorities are also represented in DRC, Egypt, Malawi, Mauritius, Seychelles, Tunisia, Uganda, Zambia, and Zimbabwe. This broad representation strengthens coordination between macroprudential policy and macroeconomic policies, especially monetary and fiscal policies, and promotes harmonization of the macroprudential policy across the financial system, thereby reducing

potential policy leakages (e.g. outflow of financial resources from banks to non-banks due to tighter regulations on banks).

Most committees meet quarterly, including those in DRC, Egypt, Malawi, Seychelles, and Zimbabwe.⁷ In Rwanda, Tunisia, and Zambia, meetings are held semi-annually, while in Mauritius, the Financial Stability Committee meets as often as necessary and regulates its meetings and proceedings as it sees fit. In Uganda, the sub-technical committee of the Financial Sector Stability Forum (FSSF) meets quarterly, while the CEOs of the FSSF meet every six months.

As for powers, decision-making processes and types of decisions, the committees can be categorized as follows:

Figure 6: Power of Multidisciplinary Committees



⁷ The Financial System and Stability Development Committee (FSSDC) in Malawi is in process of establishment waiting for the amendment of the Reserve Bank of Malawi Act.

With the presence of two types of committees in the system, coordination takes two forms: complementary roles or mutual membership. In Malawi, the committees are complementary; the Financial Systems Stability and Development Committee (FSSDC), a multidisciplinary body, serves as a policy committee, while the Financial Stability Technical Committee (FSTC), the internal body, plays an advisory role to the FSSDC. In Rwanda, the internal committee sets the agenda in line with the responsibilities of the multidisciplinary committee, which then adopts coordinated measures to safeguard financial stability and strengthen resilience in the domestic financial system. In DRC, the internal financial stability committee prepares and reviews the

inputs for submission to the Committee of Financial Stability (CSF) secretariat, housed within the Central Bank's financial stability department, for analysis.

In Uganda, coordination of the committees is based on mutual membership. The internal Financial Stability Committee operates independently but relies on analysis conducted by the Technical Sub-Committees within the multidisciplinary committee (Financial System Stability Forum-FSSF). The Members of the FSSF are responsible for implementing agreed actions and recommendations within their respective areas, ensuring alignment across the financial sector, with regular follow-up to monitor progress.

1.1.3 Financial Stability Department

Considering the pivotal role played by the Central Banks in most of the COMESA member countries in maintaining financial stability, the Central Bank is the custodian of the financial stability mandate in all countries. Considering this, the Central Banks' laws in all countries mandate the Central Bank to maintain stability of the financial system, except in Seychelles and Libya (Appendix 1).

To enforce the law and/or align with international best practices, all COMESA member countries have assigned the mandate of maintaining financial stability to a specific entity within their institutional frameworks.⁸ In ten countries, this entity has the sole objective of safeguarding financial stability. In others, financial stability is designated as the primary objective alongside a secondary objective. However, in two Central Banks, financial stability is not the primary objective of the assigned entity.

8 In Djibouti, the organizational structure of the Central Bank is in progress of establishment. The financial stability mandate is currently undertaken by the supervisory department which is directly reporting to the Governor.

Figure 7: Objective of Entities Responsible for Financial Stability in COMESA Member Countries

Financial stability is the sole objective of the entity

Burundi, DRC, Egypt, Eswatini, Malawi, Mauritius, Sudan, Uganda, Zambia

Financial stability is the primary objective of the entity along with another objective

Kenya: (i) Financial Stability, and (ii) Inclusion Analysis.

Seychelles: (i) Financial Stability, (ii) Financial Integrity, and (iii) Crisis Management.

Rwanda: (i) Macroprudential Surveillance, and (ii) Crisis Management.

Zimbabwe: (i) Financial Stability, and (ii) Resolution and Policy.

The entity has multiple objectives

Djibouti: (i) Banking Supervision, (ii) Financial Stability.

Libya: (i) Economic Consultant to the Governor, (ii) Writing research papers and reports, and (iii) collecting and analyzing monetary and financial data.

Madagascar: (i) Ensuring internal and exchange rate stability through monetary policy, (ii) Ensuring financial stability and solidity of the financial system, and (iii) Supporting the general economic policy of the Government.

Tunisia: (i) Macroprudential policy, (ii) Regulation (iii) Secretariat of the licensing and resolution commissions.

Two groups can be distinguished based on the level of the entity in the organizational structure of the Central Bank: the first level is the highest in the Central Bank, which reports directly to the Board or Deputy

Governor, while the second level are entities housed under other larger structure of the Central Bank, which adds a layer between the unit and the Board in the reporting scheme.



Image credit: Freepik.com

Figure 8: Reporting Levels of Entities Responsible for Financial Stability in COMESA Countries

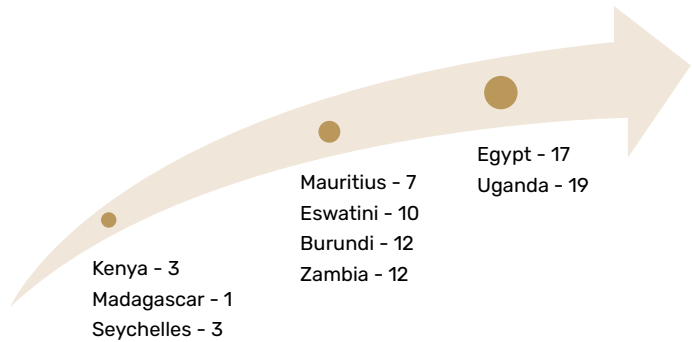
First Level Entities Reporting Directly to the Board/Deputy Governor		Second Level Entities Reporting Indirectly to the Board / Deputy Governor	
DRC	Financial Stability Directorate	Burundi	Department of Financial Stability under the Directorate in charge of Supervision and Financial Stability
Egypt	Macroprudential Sector	Kenya	Financial Sector Analysis Division under the Research Department
Eswatini	Financial Stability Unit	Libya	Financial Stability Division under the Research and Statistics Department
Mauritius	Financial Stability Division	Madagascar⁹	Financial Stability Unit under the General Secretariat of the Banking and Financial Supervision Commission
Tunisia	Financial Stability Pole	Malawi	Financial Stability Unit under the Regulation Department
Zambia	Financial Stability Department	Rwanda	Financial Stability Monitoring Department under the Financial Stability Directorate
Departments with multiple objectives		Seychelles	Financial Stability Section under Financial Surveillance Division
Djibouti	Banking Supervision Directorate	Sudan	Financial Stability Unit under Banking Regulation and Development Department
Tunisia	General Directorate of Regulation and Macroprudential Surveillance	Uganda	Financial Stability Department under the Supervision Directorate
		Zimbabwe	Financial Stability, Resolution and Policy Department under Bank Supervision, Surveillance and Financial Stability Division

The size of these entities, in terms of the number of staff, varies between small and medium-sized, compared to international practices. The best international practices recommend that a dedicated financial stability unit be adequately staffed to conduct

in-depth systemic risk analysis, develop and monitor systemic risk indicators, prepare policy proposals, and coordinate with other regulatory bodies. In practice, many countries maintain such units with 15 to 50 specialists, with a median of around 20-25.

⁹ In line with its objective of contributing to maintaining financial stability, Central Bank of Madagascar created the Financial Stability Unit in January 2013, which became the Permanent Secretariat of the internal Financial Stability Committee. In 2018, the Secretariat was attached to the General Secretariat of the Banking and Financial Supervision Commission (CSBF), responsible for micro-prudential supervision.

Figure 9: Size of Financial Stability Entities within COMESA Central Banks



The number of staff increases with the complexity of the financial system and the overall size of the institution. COMESA Central Banks have smaller units, ranging from 1-19 staff. Therefore, efforts to scale and strengthen the unit are necessary to align with global norms for an effective financial stability function.

At the operational level, and considering the multiplicity of financial stability

stakeholders, coordination is conducted between the department responsible for financial stability and other related departments within and outside Central Banks. Internally, there is coordination between monetary policy, micro-prudential policy, economic research, financial markets, financial inclusion and payment systems for different reasons, information sharing, preparation of reports, risk assessments and mitigation and coordination between policies.

Figure 10: Internal Coordination of Financial Stability Stakeholders in COMESA Countries



Coordination and communication between financial stability departments and other departments within Central Banks are conducted through several channels, through meetings, reports, letters, and emails.

Figure 11: External Communication and Coordination of Financial Stability Stakeholders

Mails and letters Burundi, DRC, Egypt, Eswatini, Libya, Madagascar, Malawi, Rwanda, Seychelles, Sudan, Uganda, Tunisia, Zambia, Zimbabwe	Committees Membership Burundi, DRC, Uganda Kenya: The Financial Sector Analysis Division attends monetary policy analytical. Tunisia: The head of the Financial Stability Pole is member of the Financial Inclusion Observatory Council. Egypt: The membership of the Deputy Governor responsible for the stability of the banking sector in the Monetary Policy Committee. Malawi: The membership of the Financial Stability Unit in Monetary Policy Technical Committee (MPTC), and attends as observer in Monetary Policy Committee (MPC). Also, the departments responsible for micro-prudential supervision, markets, economic research, financial inclusion and payment system are members in Financial Stability Technical Committee (FSTC), which is chaired by the Head of the Financial Stability Unit. Rwanda: Departments responsible for monetary policy and research, micro-prudential supervision, market conduct, operations, policy and regulation, financial inclusion, and payment system are members in the Financial Stability Committee. Zambia: Departments responsible for monetary policy, markets and macroprudential policy are members in the MPC and the FSC. Also, departments responsible for micro and macro-prudential policies and payment system are members in the Supervisory Policy Committee.	Departments under the same Deputy Governor Tunisia: Departments responsible for micro and macro-prudential policies, as well as the central information unit are grouped under the Financial Stability Pole. Egypt: Micro and Macro-prudential sectors, as well as the regulation sector, are reporting to the deputy governor responsible for financial stability. Kenya: Financial Sector Analysis Division is under the Research department, and the division is in charge of financial inclusion.
Inter-departmental Meetings Burundi, DRC, Egypt, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia, Zimbabwe		
Working Groups Kenya: Departments of bank supervision (onsite and offsite), and of payment system are part of the macroprudential assessment team. Tunisia: Officials of the Financial Stability Pole participate in various discussions related to the formulation and implementation of monetary policy. Uganda: Working groups as created between financial stability, economic research, stress testing and supervision departments.		

As for other financial stability stakeholders outside the Central Bank, thirteen-member countries communicate with the Ministry of Finance, and all departments communicate with other financial regulators, when applicable. The Communication with the Ministry of Finance and other regulatory agencies, if any, is carried out as follows:

Figure 12: Channels of Internal Coordination

Objectives of Communication	• Information and Data Sharing: Burundi, DRC, Egypt, Eswatini, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Tunisia, Uganda, Zambia. • Report Preparation and Analysis: Burundi, DRC, Egypt, Kenya, Malawi, Mauritius, Seychelles, Sudan, Rwanda, Uganda, Tunisia, Zambia, Zimbabwe. • Policy Decisions: DRC, Malawi, Mauritius, Uganda.
Channels of Communication	• Mails, Letters and/or Meetings: Egypt, Madagascar, Seychelles, Sudan, Uganda, Zambia. • Meetings: Mauritius, Rwanda, Seychelles, Uganda, Zambia. • Committee: DRC, Egypt, Kenya, Malawi, Tunisia, Uganda, Zambia, Zimbabwe. • Board Membership: Egypt.

To conclude the institutional arrangements, in countries where both a department and a committee (internal or multidisciplinary) exist, the Central Bank department serves as the technical secretariat of the committee. The entity collects data and information, conducts analyses, identifies risks, presents findings to the committee for deliberation and, where

applicable for policy decisions, and prepares the minutes of meetings. This arrangement is observed in DRC, Egypt, Eswatini, Malawi, Mauritius, Rwanda, Seychelles, Uganda, and Zambia. On the other hand, in Burundi and Madagascar, the entity’s role is limited to reporting the FSR to the committee for validation before publication.

1.1.4 Definitions, Objectives, and Scope

Establishing a framework for financial stability involves clearly defining the key concepts related to it. In addition, specifying the ultimate and intermediate objectives of the macroprudential policy, along with its scope of work, enables authorities to achieve their targets effectively.

Among the 17 member countries, 13 have explicitly defined financial stability through

various laws, Central Bank policies, or financial regulatory frameworks. These countries include Burundi, DRC, Egypt, Eswatini, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Tunisia, Uganda, Zambia, and Zimbabwe, with some providing detailed statutory or policy references. An analysis of these definitions reveals two broad thematic groups:

Figure 13: Types of Definitions of Financial Stability in Selected COMESA Countries

Positive Definitions Functionality and Resilience-Oriented Burundi, DRC, Eswatini, Madagascar, Mauritius, Seychelles, Tunisia, Uganda, Zambia and Zimbabwe	Mixed or Hybrid Definitions Egypt, Malawi
Defines financial stability in terms of the financial system's ability to continue performing core functions, such as efficient intermediation of resources, risk management, payment settlement, and market operations, even under adverse conditions or shocks. Emphasize resilience, continued operation, and trust in the system as key elements, often mentioning the capacity to withstand shocks or stress events and maintain confidence.	Combines both positive and negative perspectives by acknowledging both the system's active role in economic resource distribution and payment processing and the importance of mitigating systemic risks and shocks to maintain overall trust.

Similarly, nine Central Banks have explicitly defined macroprudential policy through legal texts, Central Bank mandates, financial regulatory frameworks, or policy documents. These include DRC, Egypt, Madagascar, Mauritius, Rwanda, Tunisia,

Uganda, Zambia, and Zimbabwe. In Malawi, the development of a formal macroprudential framework is still underway, and the country therefore does not yet have a formal definition.

The dominant theme across most definitions is the management and mitigation of systemic risks as the core objective of macroprudential policy. Macroprudential policy is described as a set of tools, instruments, or measures designed to identify, limit, and manage systemic risks and vulnerabilities to safeguard the stability and resilience of the financial system. In Egypt, Eswatini, Zambia, and Zimbabwe, the emphasis is on mitigating systemic financial risk to prevent disruptions to economic activity. The focus on systemic risk and vulnerability containment aligns with the global best practices, which position macroprudential policy as a preventive mechanism against system-wide financial crises.

Regarding systemic risks definitions, 11 Central Banks have explicitly articulated the concept in legal texts, Central Bank mandates, supervisory frameworks, or financial stability reports. These include Burundi, DRC, Egypt, Eswatini, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Tunisia, Uganda, Zambia, and Zimbabwe.

An analysis of the definitions shows that systemic risk is understood as the risk of disruption or failure in the financial system—either in part or in whole—which can have serious negative consequences for financial sector stability and the broader economy. In Burundi, DRC, Egypt, Mauritius, Tunisia, Zambia, and Zimbabwe, the emphasis is on the linkage between disruption in financial intermediation or services and adverse economic outcomes. Many definitions stress how systemic risks threaten the core functions of financial intermediation, thereby transmitting shocks to the real economy.

Among the countries under analysis, the majority have explicitly adopted financial stability as an overall institutional objective, typically mandated by law, or policy frameworks. 15 countries have a clear, formal overall objective of financial stability embedded within their Central Banks or supervisory authorities' mandates. These include Burundi, DRC, Egypt, Eswatini, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Tunisia, Uganda, Zambia, and Zimbabwe.



Image credit: Freepik.com

Flowing from the overarching objective of financial stability, some African countries have articulated specific intermediate objectives for macroprudential policy, as follows:

Figure 14: Intermediate Objectives of Macroprudential Policy of COMESA Member Countries

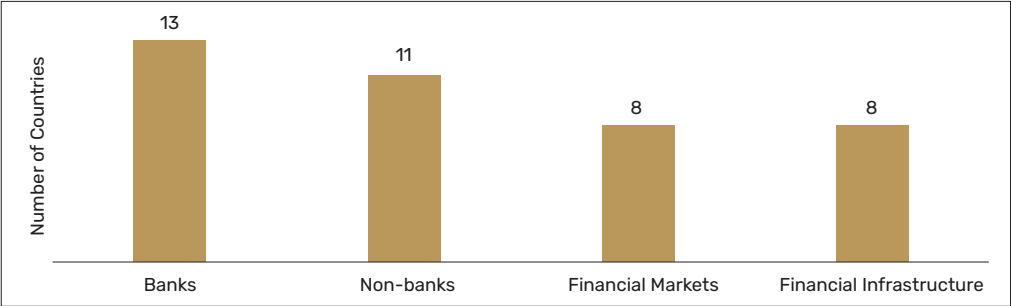
DRC	Limit excessive credit growth and leverage. Limit contagion and moral hazard. Limit the risk of dollarization.
Egypt	Mitigating risks associated with structural economic imbalances. Mitigating risks arising from maturity mismatches and liquidity shortages. Mitigate concentration risks. Mitigating risks associated with systemically important banks. Mitigating excessive risk-taking.
Rwanda	Mitigate and prevent excessive credit growth. Mitigate and prevent excessive maturity mismatch and market illiquidity. Limit direct and indirect exposure concentration. Limit excessive risk-taking by Systemically Important Institutions. Safeguard the resilience of the financial sector (Financial institutions and payment infrastructure)
Sudan	Mitigate and prevent excessive credit growth. Confine systemic risk from interconnectedness. Ensure resilience of the financial infrastructure.
Tunisia	Mitigate and prevent excessive credit expansion and leverage. Mitigate and prevent maturity mismatches and market illiquidity. Limit the concentration of direct and indirect exposures and the systemic impact of moral hazard. Strengthen the resilience of the financial sector and financial infrastructure. Limit the systemic impact of the accumulation of macroeconomic risks.
Zambia	Mitigate and prevent excessive credit growth and leverage. Mitigate and prevent excessive maturity mismatches and illiquidity. Limit direct and indirect exposure concentration. Limit the systemic impact of misaligned incentives with a view to reducing moral hazard.
Zimbabwe	Minimize the probability or magnitude of a financial crisis through procyclical feedback between asset prices and credit. Mitigate unsustainable increases in leverage and volatile funding.

Note: In Malawi, the Central Bank is in the process of developing a formal macroprudential framework, including the articulation of primary and intermediate objectives. In Mauritius and Uganda, internal intermediate objectives for macroprudential policy have been established, covering areas such as leverage, credit risk, funding and

liquidity risks, and the resilience of market structures.

The scope of operation of the macroprudential policy framework focused on the banking sector and the non-banking sector for most surveyed banks. Eight Central Banks also indicated covering the financial markets and infrastructures.

Figure 15: Scope of Macroprudential Operations in Selected COMESA Member Countries



In conclusion, under the second pillar of the framework, the majority of COMESA member countries have defined the main concepts related to financial stability. The similarities in the definitions of financial stability, macroprudential policy, and systemic risks

suggest a growing convergence across the region in the understanding and adoption of this concept. However, some member countries still need to define the objectives for macroprudential policy to ensure its effective operationalization.

1.1.5 Financial Stability Assessment

Financial stability assessment is a cornerstone of macroprudential oversight, providing a structured approach to identifying, monitoring, and mitigating systemic risks that could threaten the soundness of the financial system. Within the broader financial system stability framework, these assessments serve as an early warning mechanism, guiding policy responses to emerging vulnerabilities

and ensuring that financial institutions remain resilient in the face of shocks. By evaluating the robustness of financial institutions and markets under various stress scenarios, financial stability assessment contributes towards safeguarding and maintaining financial intermediation, market confidence, and sustainable economic growth.

The financial stability frameworks across COMESA member countries reflect a growing institutional commitment to identifying, monitoring, and mitigating systemic risks. The assessment reveals a convergence in the recognition of key vulnerabilities, the deployment of analytical tools, and the integration of stress testing into macroprudential oversight, albeit with varying degrees of maturity and sophistication.

Systemic risks are broadly categorized into structural risks and cyclical risks. Structural risks are persistent vulnerabilities embedded in the financial system’s architecture. These risks tend to evolve slowly but can amplify the impact of shocks when they materialize. Cyclical risks, on the other hand, are time-varying and often linked to the financial cycle. They build up during economic expansion and unwind abruptly during downturns.

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Structural risks: Authorities of the selected COMESA jurisdictions monitor a broadly consistent set of structural risks –

credit (leverage), funding and liquidity (including maturity mismatches), market risks (including interest rate and FX risks), concentration (large exposures), and interconnectedness.

However, each jurisdiction also incorporates context specific vulnerabilities. While monitoring frameworks are generally broad, they remain heterogeneous across countries. There is strong alignment in the risk taxonomy and tools, but clear opportunities exist to deepen quantification of interconnectedness, cross border exposures, and data on non bank financial institutions and financial markets so that indicators translate more consistently into actionable macroprudential policy decisions. Taken together, the analytics converge on a common core Financial Soundness Indicators (FSIs), composite indices, heatmaps, early warning systems, and stress tests, but depth and specialization are uneven.

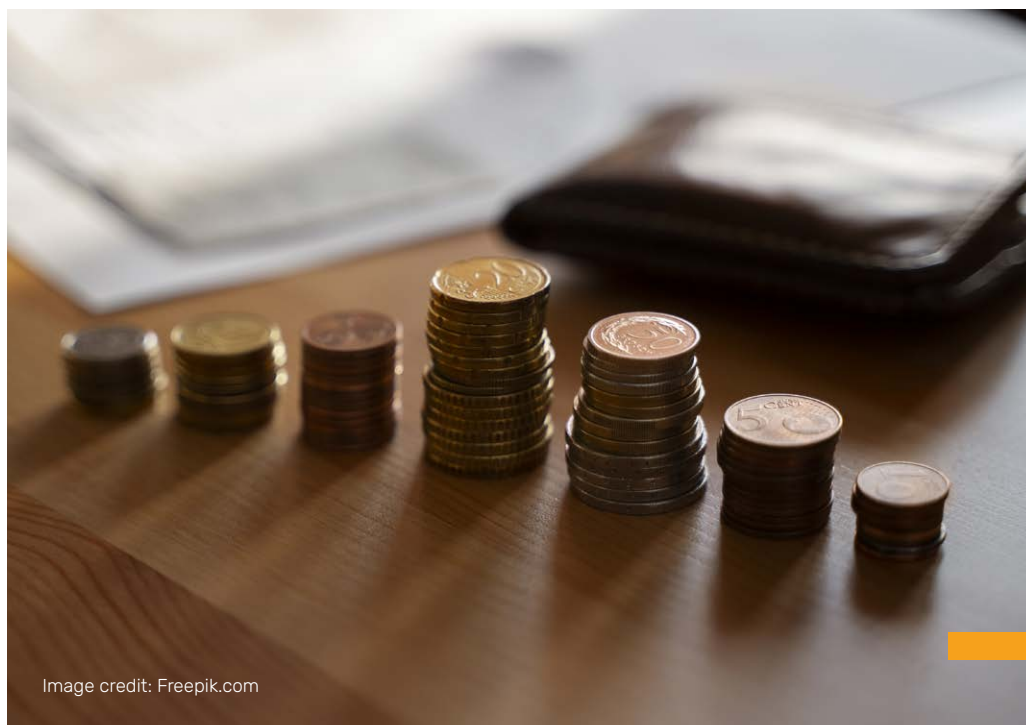


Image credit: Freepik.com

The distinct emphases include:



Egypt assesses risks through FX volatility, capital flows, borrower default, and fiscal imbalances using heatmaps, simple and composite indicators (e.g. financial stability index), early warning systems (EWS), and stress tests.



Mauritius focuses on intermediation risk, cross-border banking risk, structural funding risk, household and corporate concentration, interconnectedness, and external vulnerabilities, using FSIs, macroprudential indicators (MPIs), stress testing, a Systemic Risk Indicator (SRI), and heatmaps.



Burundi and Sudan monitor credit, liquidity, and macroeconomic risks, using lighter, more qualitative approaches including composite indices, regulatory inspections, and political risk assessments.



Kenya's framework is highly category-based (interest rate, large exposures, sectoral concentration, counterparty, liquidity) with FSIs, heatmaps, EWS, and composite indicators across each block.



Uganda presents a broader risk perimeter – adding geopolitical and economic uncertainty, real estate market risk, household and corporate debt, sovereign debt, non-bank and stock market risks, climate and ESG, and cyber and operational resilience – supported by a systemic risk indicator, bank resilience index, heatmaps, EWS, DSIBs framework, FSIs, and stress tests.



DRC focuses on concentration risk, de-risking, dollarization, and geopolitical risks, using heatmaps as the primary analytical tool.



Madagascar expands risk assessment to household and firm balance sheet, market-related risks, and payment system vulnerabilities, mainly using FSIs.



Zambia emphasizes structural vulnerabilities such as electricity deficits, low financial intermediation, dollarisation, and maturity mismatches – assessed with FSIs, heatmaps, EWS, composite indicators, and stress tests.



Tunisia monitors macroeconomic risks (growth, sectoral risk, inflation, fiscal and external sector risks), banking risks (liquidity, solvency, asset quality), and financial market risks using dashboards, heatmaps, and composite indicators.



Malawi focuses on market, FX, and operational risks, monitored through FSIs, composite indicators, and heatmaps.



Zimbabwe emphasizes network-driven systemic risk, deploying interbank network analysis and the Herfindahl-Hirschman Index (HHI) for concentration, plus a developing Financial Stability Rating Index and a cross-sector interconnectedness template.

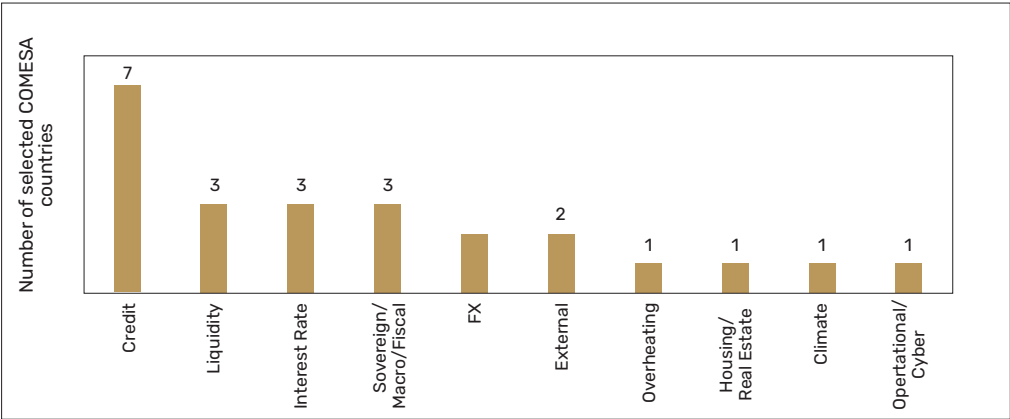
Coverage of emerging risks is still nascent across jurisdictions. Uganda incorporates climate/ESG risks, and cyber and operational resilience. Payment system and market infrastructure risks are acknowledged but not uniformly modelled, with Madagascar

providing the most descriptive coverage. Dollarization and FX balance sheet mismatches, and real sector constraints, such as electricity supply challenges in Zambia are highlighted where they are most material.

A cluster of jurisdictions (Egypt, Mauritius, Uganda, Zambia, Zimbabwe), use multi tool analytical platforms and, in some cases, network analysis and Macro-Prudential Indicators (MPIs), providing a richer assessment of concentration, funding structure, and cross border linkages. In contrast, Burundi, Madagascar, Sudan, rely largely on FSIs and qualitative assessments, which limits the ability to assess risk transmission and effectively inform policy measures.

Cyclical risks in the COMESA context focus mainly on credit and leverage cycles, liquidity and funding pressures (including maturity mismatches), interest rate and exchange rate fluctuations, and asset price cycles. Authorities in several Member States also monitor dollarization trends and capital flow volatility, as these can amplify or moderate domestic cycles.

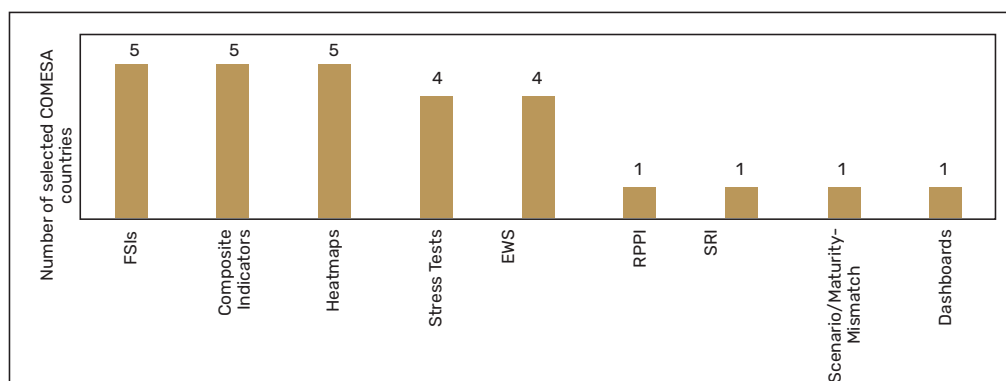
Figure 16: Cyclical Risks Monitored by Selected COMESA Countries



The analytical toolkit for cyclical monitoring is converging across jurisdictions. Key tools include FSIs, heatmaps, early warning indicators, stress tests, EWIs that show turning points, and top down stress tests, which capture the impact of cyclical conditions on solvency and liquidity. Many authorities also use financial stability indices, and market-based indicators such as spreads, term premia, and FX pressure indices.

COMESA member countries monitor risks using multiple indicators, including credit to GDP gaps, debt service ratios, wholesale funding shares, LCR and NSFR trends, house price metrics, sectoral credit growth and large exposures, FX mismatches, and capital flow proxies. These indicators help inform macroprudential policy actions, such as countercyclical capital buffers, sectoral risk weight add ons, loan to value ratio (LTV), debt to income ratio (DTI) limits, DSR caps, and liquidity buffer adjustments.

Figure 17: Tools for Cyclical Risks Monitored by Selected COMESA Countries



1.1.6 Stress Testing

This assessment highlights progress made by COMESA member countries integrating financial stability analysis into supervision. Continued collaboration and harmonization will strengthen the resilience of regional financial systems.

Stress testing is now a core tool for financial stability assessment, with most countries conducting macroprudential banking sector stress tests, although their scope and depth vary across jurisdictions:

a) Burundi: Macroprudential stress tests cover credit, liquidity, and macroeconomic risks for all banks, assessing solvency ratios, remaining liquid assets, and the impact of macroeconomic deterioration on the banking sector's overall solvency ratio. Results are published annually in the Financial Stability Report.

b) Egypt: The framework covers credit, market, liquidity, operational, contagion, and climate risks, using detailed scenario modeling and reverse stress testing. Results are integrated into policy decisions and published in the Financial Stability Report.

c) Mauritius conducts macroeconomic, sectoral, credit concentration, cross-border, and liquidity stress tests, with results informing regulatory actions such as the establishment of the Net Stable Funding Ratio.

d) Eswatini, Madagascar, and Tunisia assess credit, liquidity, and market exposures, focusing on sector resilience under severe scenarios.

e) DRC, Djibouti, and Seychelles are in the process of implementing or expanding their stress testing capabilities. While foundational elements are in place, detailed results and policy integration remain limited.

Stress testing scenarios typically include baseline, moderate, and severe shocks. Variables shocked include non-performing loans (NPLs), interest rates, exchange rates, and deposit withdrawals. For example, Malawi models adverse scenarios involving GDP contraction, interest rate hikes, and tobacco price shocks, with results showing capital buffers remain above regulatory thresholds.

Integration with Macroprudential Policy

The use of stress testing in macroprudential policy varies across jurisdictions. In Egypt, Mauritius, and Tunisia, stress test results inform regulatory actions, including capital buffer adjustments and provisioning requirements. Zimbabwe requires banks that fail stress tests to submit action plans, although its macroprudential framework is still being operationalized.

In other jurisdictions, stress tests are used mainly for risk monitoring and reporting.

Most countries publish stress test results in FSRs, while other Central Banks use the stress test results to guide discussions during multidisciplinary committees' meetings.

Key Observations and Recommendations

Convergence in Risk

Recognition. There is broad alignment in the types of systemic risks monitored, with credit, liquidity, and market risks being universally acknowledged. Climate and geopolitical risks are gaining traction.

Policy Linkage.

Strengthening the feedback loop between stress testing and macroprudential policy is essential. Countries should move toward institutionalizing stress test results in regulatory decision-making.

Capacity Building.

Technical assistance and peer learning can support countries with nascent frameworks, particularly in scenario design, model development, and cross-sectoral risk integration.

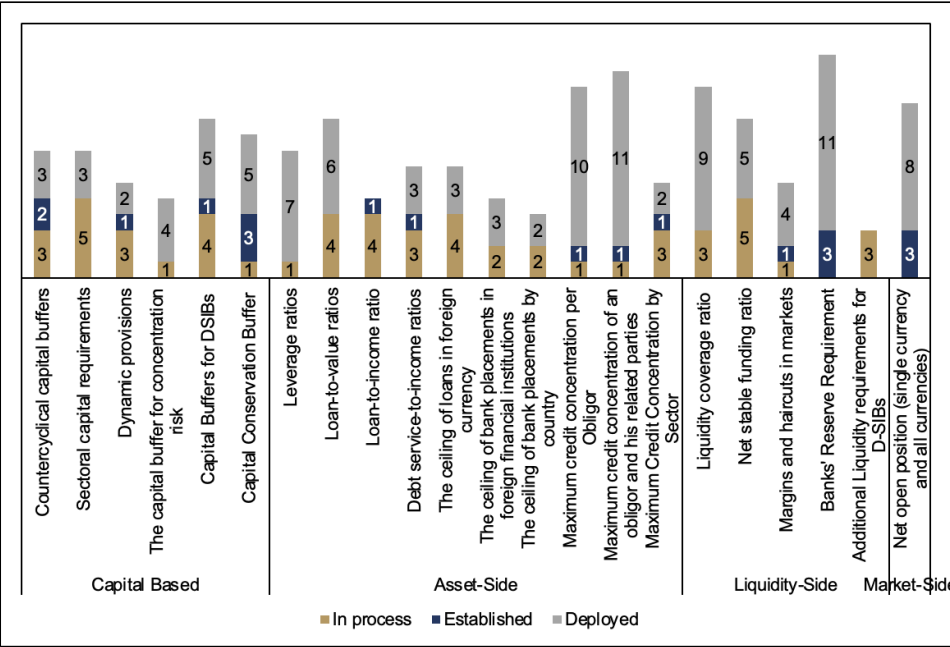
1.1.7 Macroprudential Policy Toolkit

As for the macroprudential toolkit at the disposal of the designated authority, 14¹⁰ COMESA member countries have established or deployed at least one macroprudential policy tool (Appendix 2). The most deployed tools are the capital buffers for DISBs and capital conservation buffers of the capital-based tools, the

maximum credit concentration per obligor, and that of an obligor and its related parties on the asset-side tools. As for liquidity-side tools, the most used tools are the liquidity coverage ratio (LCR) and the bank's reserve requirements. Finally, eight countries are deploying the net open position as a market risk tool.

10 Burundi, Djibouti, Libya, Madagascar, and Seychelles are countries where macroprudential policy is not yet established. Hence, there are no macroprudential policy toolkits in place. However, in Burundi, some tools are established but deployed for microprudential objectives.

Figure 18: Macroprudential Policy Tools in Selected COMESA Member Countries



Across all countries, the Central Bank is the designated authority responsible for deploying macroprudential tools, in line with the institutional arrangements that assign the Central Bank responsibility for macroprudential supervision of the financial system. However, these tools are not always applied to achieve macroprudential policy objectives aimed at safeguarding

financial stability. In many instances, they are used primarily for micro-prudential purposes, focusing on ensuring the safety and soundness of financial institutions, and/or monetary policy objectives, to maintain price stability. This indicates that some of the COMESA member countries have insufficient powers and capacity to effectively formulate and implement macroprudential policy.

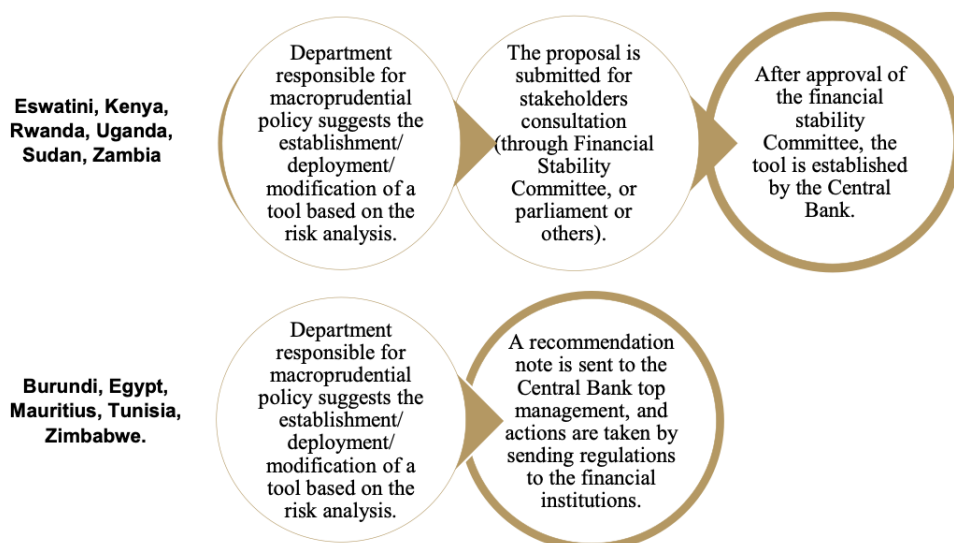
Figure 19: Tools for Macro-prudential Policy Objective and other Objectives

Tools used for Macroprudential Policy Objective Only	Tools used for Macroprudential, Micro-prudential and/or Monetary Policies Objectives	Tools used for Micro-prudential Objectives Only
Mauritius, Uganda.	DRC, Egypt, Eswatini, Kenya, Rwanda, Sudan, Tunisia, Zambia, Zimbabwe.	Micro prudential Objective: Burundi, Madagascar, Seychelles. Monetary Objective: Malawi

Notably, countries make decisions on these tools either discretionary or according to pre-defined rules. Either way,

member countries follow different processes when making such decisions, as outlined below:

Figure 20: Decision-Making Process on Macroprudential Policy



To conclude the second pillar of policy operationalization, many countries have established frameworks for the use of macroprudential policy tools, although these tools have not yet been deployed

in all countries. Moreover, designated macroprudential authorities need to be empowered to activate established tools to effectively achieve the ultimate objective of maintaining financial stability.

1.1.8 Communication and Accountability

As a newly developed policy, especially in emerging countries, communication is considered as one of the tools of macroprudential policy, that could change agents' predictions and behaviors, in its early stage of establishment, including communication with the public supports policy effectiveness and accountability. In addition to communication as an accountability tool, in some countries, financial stability authority is compelled to appear before parliament on a regular basis.

In normal times, and according to international best practices,

macroprudential authorities in member countries communicate with the public on five topics: (i) institutional and legal arrangements for financial stability on the Central Bank website, (ii) macroprudential policy strategy in a separate policy note, (iii) risk assessment in the financial stability report, (iv) macroprudential policy decisions through the minutes of committee meetings, if any, or press releases from the Central Bank's Board of Directors, or others, and (v) follow up on the implementation and impact of the policies taken through press releases, or news via the website, social media sites, or others.

In this regard, most COMESA member countries communicate on at least one of the five topics, except Djibouti, Libya, and Sudan. Most Central Banks publish Financial Stability Reports annually, semi-annually

or quarterly on their websites. However, progress towards the full implementation of a comprehensive communication and accountability strategy is still ongoing.

Figure 21: Communication and Accountability Structures in the COMESA Countries

	Burundi	DRC	Egypt	Eswatini	Kenya	Madagascar	Malawi	Mauritius	Rwanda	Seychelles	Tunisia	Uganda	Zambia	Zimbabwe
Institutional and legal arrangements	No	Yes As App.	Yes	No	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes	No
Macro-prudential Policy Strategy	No	No	Yes	No	No	No	No	Yes	No	No	No	No	No	No
Risk assessment FSR	Yes A	Yes A	Yes A	Yes A	Yes A	Yes/No	Yes Bi-A	Yes Bi-A	Yes Q	Yes A	No	Yes A	Yes Bi-A	Yes A
Risk assessment Internal Note	No	No	Yes As App.	No	Yes	No	No	Yes As App.	No	No	No	Yes Q	Yes Q	No
Macro-prudential policy decisions	No	No	Yes	No	Yes Q	No	No	Yes As App.	Yes Q	No	Yes Bi-A	Yes Q	Yes Bi-A	No
Policy Follow up	No	No	YesA In FSR	No	Yes	No	No	No	Yes	No	No	Yes Q	No	No
Note: A=Annual. Bi-A=Bi-annual. Q=Quarterly. As App.=As applicable.														

¹¹ The last publication of the Financial Stability Report Central Bank of Madagascar published their risk assessment monthly or quarterly or bimonthly or annually, depending on the context.

In addition to the five main areas of communication, some member Central Banks communicate through publishing other reports. For instance, the assessments of financial stability are also published as part of press statement and minutes of the Monetary Policy Committee meeting of the Bank of Mauritius. Similarly, in Zambia, a Systemic Risk Brief is communicated to the Monetary Policy Committee (MPC). In Seychelles, issues related to financial stability are communicated via press releases and press conferences on an ad-hoc basis as necessitated by prevailing circumstances.

As for accountability, some Central Banks in COMESA member countries appear before the relevant committees of parliament. This is the case in Eswatini, Malawi, Sudan, Rwanda, Uganda, and Zambia. Furthermore, in Tunisia, the Macroprudential Supervision and Financial Crisis Management

Committee submit an annual report on the execution of its mandate to the Assembly of the People's Representatives. This report includes the Committee's recommendations and the progress made in their implementation. The report may be published on the Committee's website.

To conclude on the financial stability framework, the analysis of the five pillars of the framework shows that there are disparities between the member countries regarding the implementation and accomplishment of the items under each pillar. For easier visualization, a quantification of these qualitative items would be needed for a comprehensive assessment of the framework. Therefore, the Financial Stability Framework Index (FSFI) is developed, taking into consideration all five pillars of the framework.

1.2 Financial Stability Framework Index (FSFI)

The Financial Stability Framework Index (FSFI) was first built and published in 2021 COMESA FSR in order to measure the progress of the implementation of the framework.¹² In line with the progress in developing the COMESA FSAF, the index comprises five sub-indices corresponding to each of the pillars of the framework. The first sub-index, "Institutional Arrangements", reflects countries' progress in establishing a multidisciplinary financial stability committee and department. The second sub-index, "Definitions, objectives and scope", rates the presence of clear definition for main financial stability concepts, and of a formal framework

for macroprudential policy, among other items. The third sub-index, "Financial Stability Assessment", reflects the identification of systemic risks and the adoption of analytical tools used by the designated authority in charge of financial stability. The fourth sub-index, "Macroprudential Policy Toolkit", rates the countries in terms of their capacity to establish and employ policy tools to address rising risks. Finally, the fifth sub-index, "Communication and Accountability", reflects the progress made by countries in terms of transparency with the public and other relevant agencies.

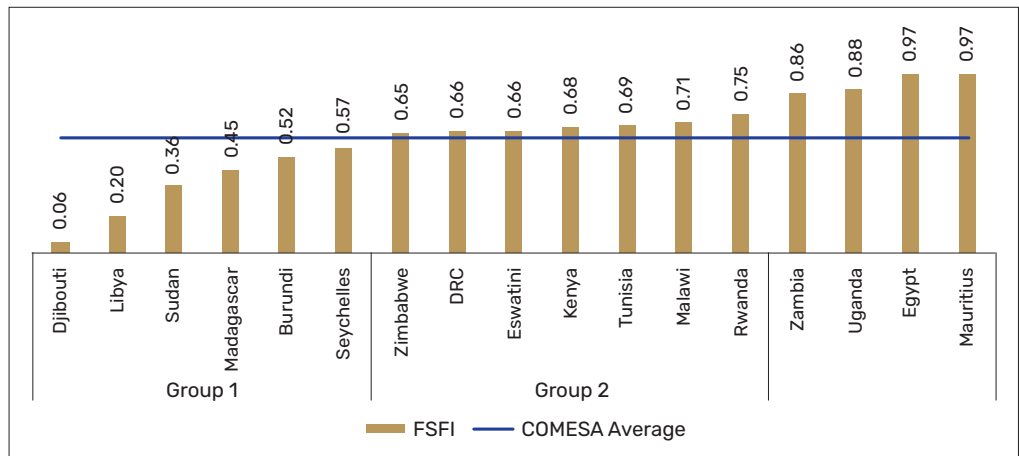
¹² The 2021 score consisted of rating the main milestones of the financial stability framework (nine items), namely, the presence of definition, systemic risk identification, formulation of a macroprudential policy framework, employment of analytical indicators, running of stress tests, implementation of policy tools, establishment of a Financial Stability Department and Committee, and publishing of FSR.

The FSFI comprises 29 elements across five sub-indicators (**Appendix 3**). The “Institutional and Legislative Framework” sub-indicator contains eight elements and carries the largest weight, reflecting the importance of establishing the infrastructure for efficient macroprudential policy. This includes creating financial stability committees and departments on a binding legislative basis, with the necessary powers to collect and analyze data, activate policy tools, and enforce decisions. Such arrangements are essential for developing and implementing a macroprudential policy that reduces the build-up of risks, mitigates their impact, maintains financial stability, and supports the financial system’s contribution to economic

growth. The remaining four sub-indicators contain 5 or 6 elements each.

To build the index for each country, each of these elements takes “1” if it is implemented in line with the FSAF and in accordance with international best practices, “zero” if it is not implemented, and values ranging from zero to one if it is implemented but needs to be modified or improved. Accordingly, the sub-indices are the sum of the points of the elements included in them, and the index reflects the average of those points, where all elements are of equal importance. The higher the index, the closer it is to 1, the more progress is made in implementing the framework, and vice versa.

Figure 22: Financial Stability Framework Index for Selected COMESA Member Countries



The FSFI for selected COMESA member countries reveals significant heterogeneity in the development and implementation of macroprudential policies and financial stability arrangements, with an average of 62%. The analysis categorizes member

countries into three distinct groups based on their framework sophistication, with scores ranging from 0.06 to 0.97, indicating substantial variation in institutional capacity and policy readiness across the region.

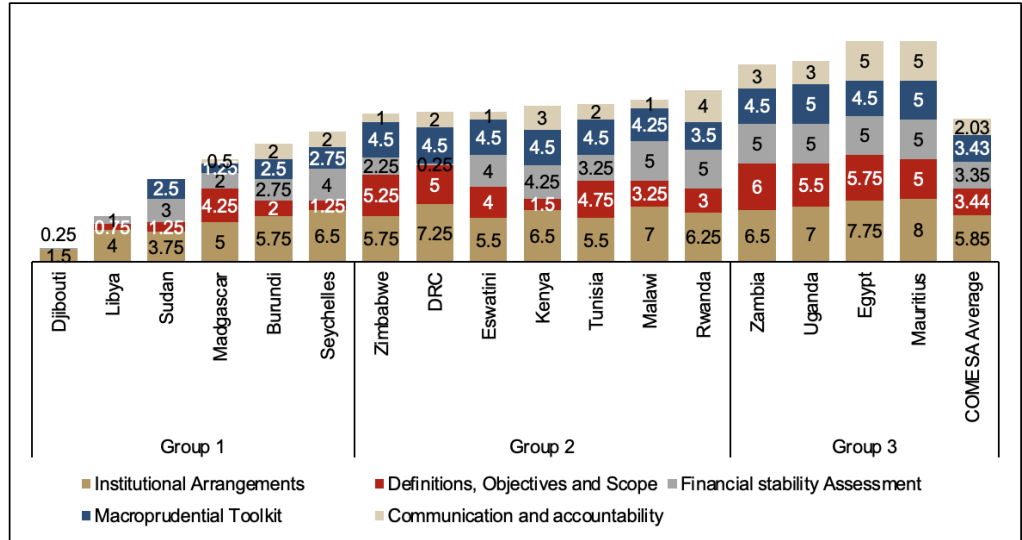
Figure 23: Status of Implementation of the FSAF based on FSFI in Selected COMESA Countries



Group 1 countries (Djibouti, Libya, Sudan, Madagascar, Burundi, Seychelles) demonstrate fundamental gaps in financial stability infrastructure, with most lacking autonomous financial stability committees, clear legal mandates, or dedicated institutional arrangements within their Central Banks. These countries exhibit minimal development

across all five assessment components. The absence of formal macroprudential policy frameworks, limited risk identification capabilities, and weak communication mechanisms severely constrain their ability to identify, assess, and respond to systemic financial risks effectively.

Figure 24: FSFI Sub-Indices for Selected COMESA Member Countries

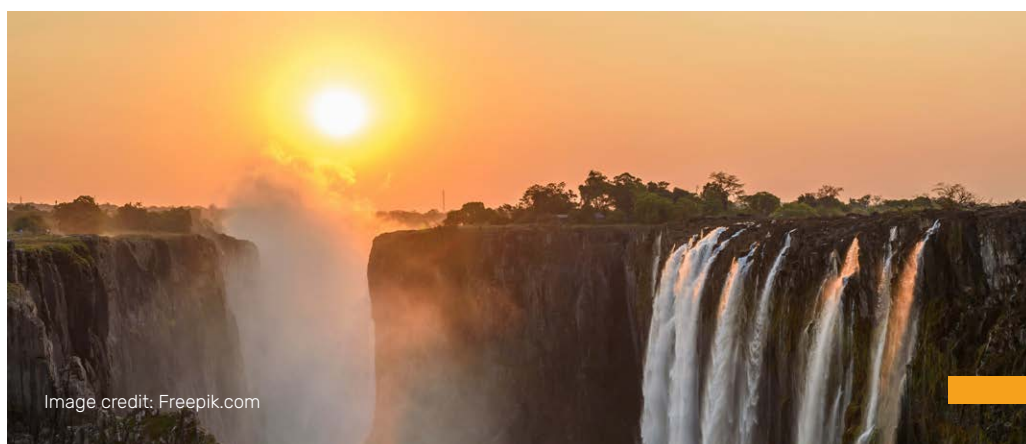


Group 2 countries (Zimbabwe, DRC, Eswatini, Kenya, Tunisia, Malawi, Rwanda) are at an intermediate stage of development, having established basic institutional foundations while progressing in operational components. They have created financial stability committees and departments with some legal backing, although coordination mechanisms and policy frameworks remain incomplete. Their financial stability assessments are developing through basic analytical tools and nascent stress testing programs, but systematic risk monitoring and policy integration remain underdeveloped. The macroprudential toolkit is mainly confined to traditional tools, while communication and accountability practices are improving through enhanced transparency and occasional reporting.

Group 3 countries (Zambia, Uganda, Egypt, Mauritius) exemplify best practices within the COMESA region, demonstrating comprehensive and well-integrated financial stability frameworks that approach international standards. These countries feature robust institutional arrangements with autonomous committees with clear

mandates, sophisticated conceptual frameworks with formal macroprudential policies, advanced assessment capabilities including regular stress testing and systemic risk identification, diversified macroprudential toolkits spanning multiple instrument categories, and comprehensive communication strategies with regular publication of financial stability reports and transparent policy documentation.

The significant disparities in financial stability framework development present major challenges for COMESA's regional integration, especially the goal of establishing a monetary union. Countries in Group 1 lack the foundational institutional infrastructure needed for effective participation in coordinated macroprudential policy initiatives, while Group 2 countries require substantial capacity building to achieve the policy sophistication needed for deeper financial integration. These heterogeneous regulatory landscapes create opportunities for regulatory arbitrage and uneven risk management across the region, potentially undermining the stability of increasingly integrated financial markets.





CHAPTER 2

Global and COMESA Region
Macro-Financial Developments

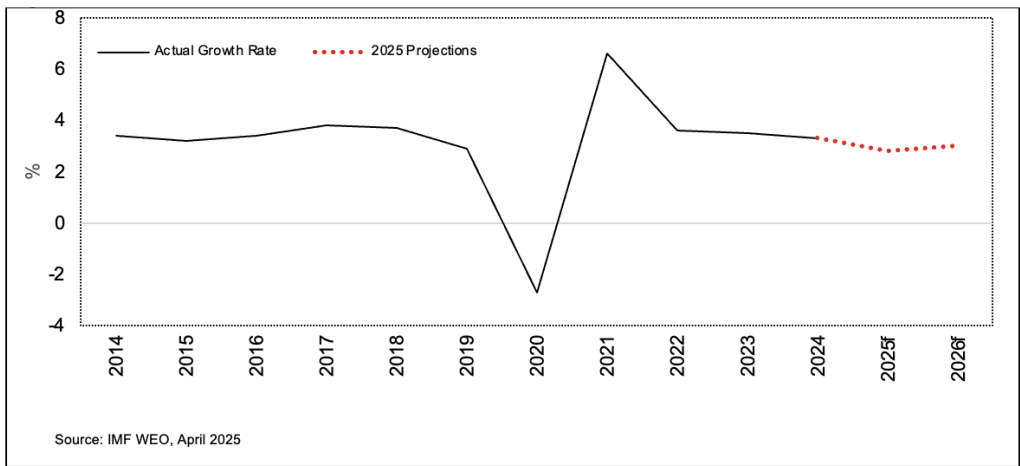


2.0 Global Economic Developments

Global economic activity remained resilient despite heightened geopolitical tensions, particularly in the Middle East, the prolonged war in Ukraine, rising global uncertainty, and slower growth in China. Global growth moderated to 3.3% in 2024 from 3.5% in 2023. Growth in advanced economies

marginally rose to 1.8%. In the US, growth was mainly driven by strong consumer spending, bolstered by a robust labor market and easing inflation. In the Euro Area, growth was underpinned by a recovery in consumption and investment as interest rates were reduced, and inflation declined.

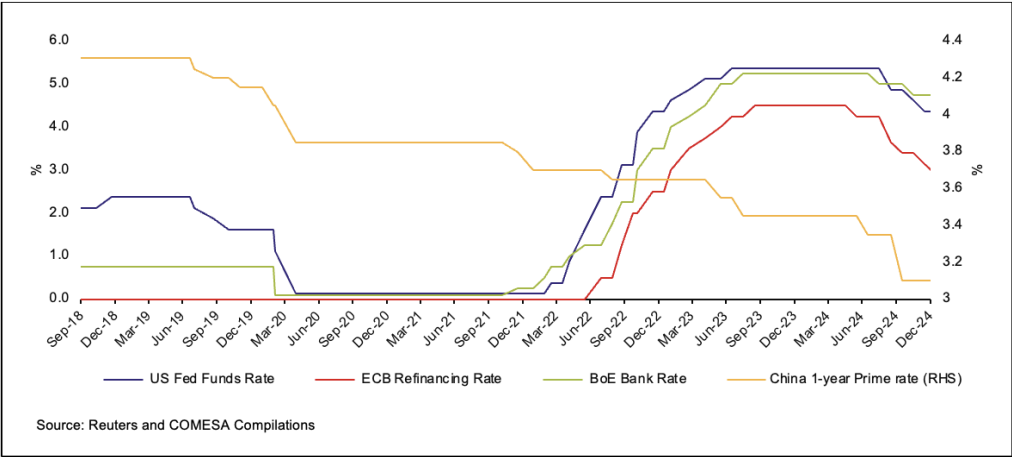
Figure 25: Global Real GDP Growth



In 2024, global inflation fell to 5.8%, down from 6.6% in 2023, driven by sustained restrictive monetary policies and lower energy prices. As inflation eased, Central Banks in advanced economies began loosening monetary policy. The US Federal Reserve cut interest rates by a cumulative 100 basis points to a range of

4.25–4.50% by the end of the year. The Bank of England lowered its Bank rate by 50 basis points to 4.75 following steady disinflation and dissipation of external shocks. Similarly, the European Central Bank cut the deposit rate by 175 basis points to 3.00% in 2024 to support economic activity.

Figure 26: Central Bank Policy Rates in Selected Economies

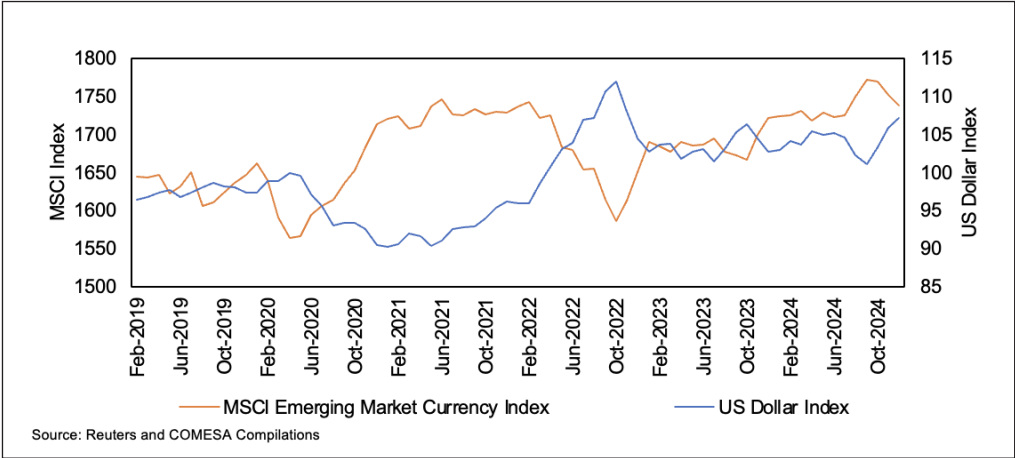


2.1 Foreign Exchange Risk

Emerging market currencies depreciated marginally as reflected by the 0.73% decline in the MSCI emerging currency index. Moderate loss reflects divergent economic

fundamentals and a stronger US dollar. Correspondingly, the US dollar index rose by 7.1% in 2024.

Figure 27: US Dollar and MSCI Emerging Market Currency Indices (monthly averages)

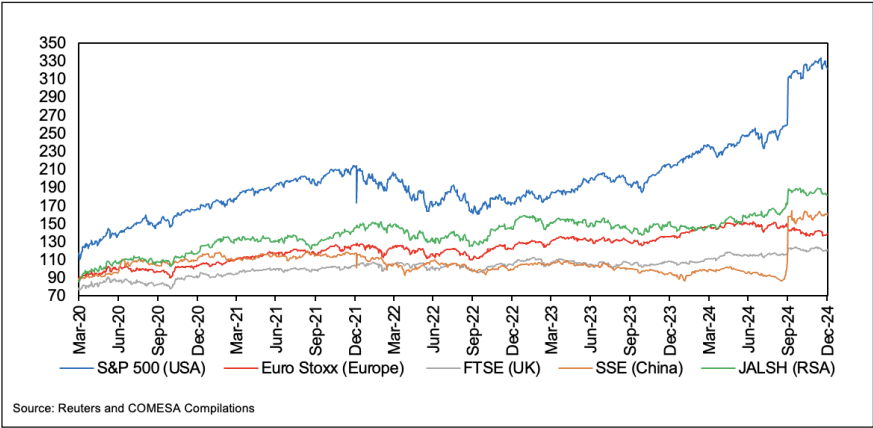


2.2 Global Share Prices

Share prices across most markets rose in 2024, with the S&P 500, FTSE 100 and Euro Stoxx 50 indices increasing by 49.2%, 11.8%, and 1.9%, respectively. In the US, gains were supported by a post-election rally in November, fueled by expectations of business-friendly economic policies from the new administration. Emerging market

equities also gained, driven by a higher global risk appetite, with the MSCI Emerging Market Equity Index rising by 7.5%. A notable contributor was Chinese equities, supported by expectations that fiscal and monetary policy measures would support economic activity.

Figure 28: Selected Global Stock Indices

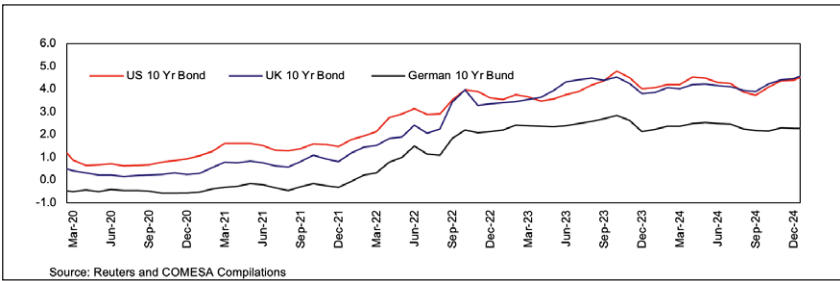


2.3 Global Bond Yields

Yields on benchmark bonds in advanced economies rose over the 12 months to December 2024, driven by persistent inflation concerns and expectations of slower monetary easing. Yield rates on 10-

year government bonds in the US, UK, and Germany increased by 37 basis points (bps), 66 bps and 15 bps to 4.39%, 4.45%, and 2.27%, respectively.

Figure 29: US, UK, and Germany 10-Year Benchmark Bond Yield Rates (monthly averages)

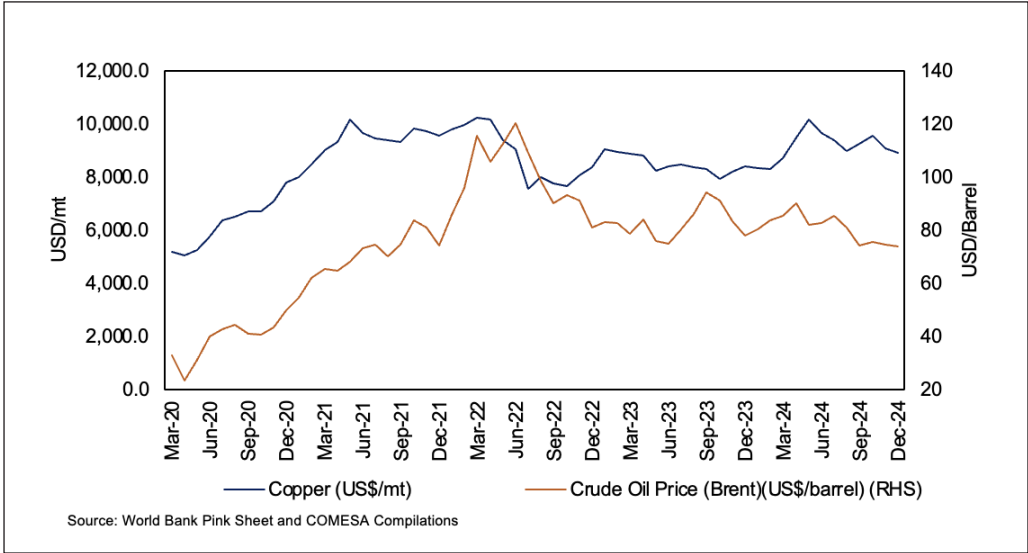


2.4 Commodity Markets

In 2024, crude oil prices declined while copper and gold rose. Crude oil prices averaged US\$80.70 per barrel, down from US\$82.62 in 2023, reflecting higher production by non-OPEC countries and weaker demand from China, due to increased adoption of electric and hybrid vehicles and liquefied natural gas. In contrast, copper prices rose

by 7.68% in 2024 to US\$9,142.14 per metric ton, due to stronger demand linked to the transition to green energy and upgrades to grid infrastructure in advanced economies. Gold prices rose to US\$ 2,388 per ounce in 2024 from US\$1,943, supported by strong demand from emerging market Central Banks and heightened geopolitical tensions.

Figure 30: Copper and Crude Oil Prices (monthly averages)

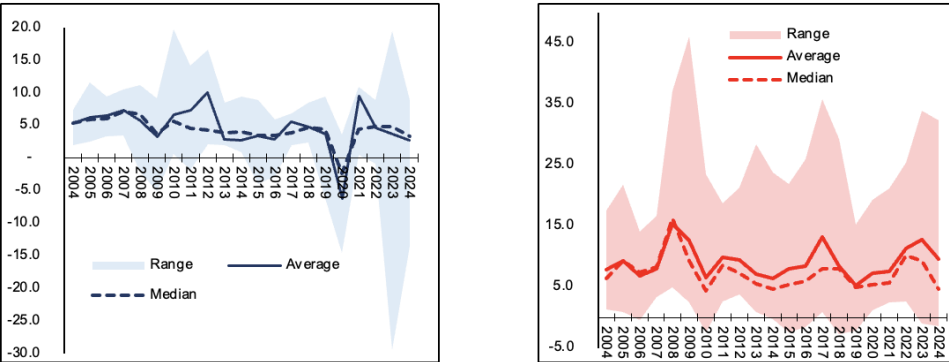


2.5 Regional Economic Developments

Economic growth in the COMESA region moderated amid weaker global demand, exchange rate depreciations, and other domestic pressures. Real GDP growth averaged 2.7%, down from 3.6% in 2023.

However, inflationary pressures eased, reflecting lower energy costs, with average annual inflation declining to 9.6% from 12.7% in the 12 months to December 2023.

Figure 31: Average GDP Growth and Inflation of Selected Countries in the COMESA Region

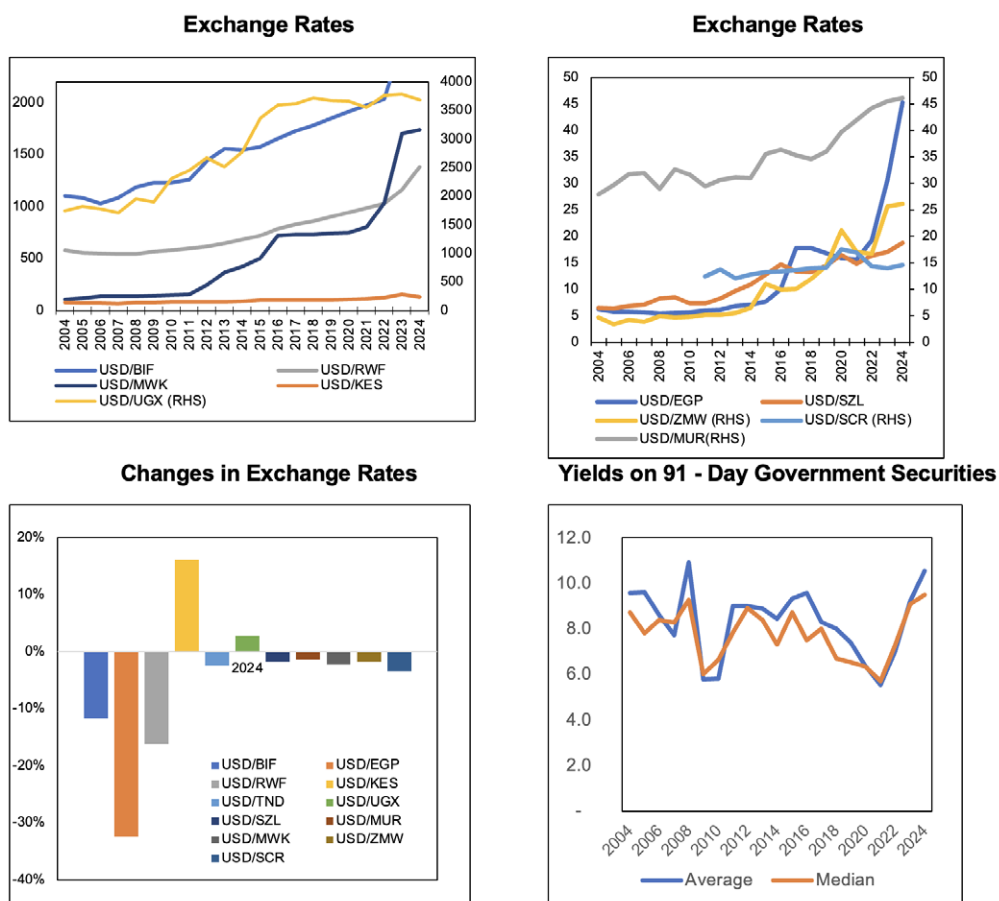


The national currencies across the region generally weakened against the dollar in 2024. The Uganda shilling was an outlier as it recorded an appreciated against the dollar. This strengthening was attributed to financial market reforms that reduced demand for the US dollars, alongside increased remittances, offshore portfolio inflows, higher export earnings, and stronger foreign direct investments.

Yields on local currency government securities across the COMESA region were mixed, with price movements largely driven by domestic factors. Overall, the region's average yield on the shorter-dated of 91-day maturity rose by 1.3 percentage points to 10.6%. This increase partly reflects broadly elevated sovereign funding costs and underlying liquidity pressures across member countries.



Figure 32: Exchange Rates Against the US Dollar in the Selected COMESA Countries

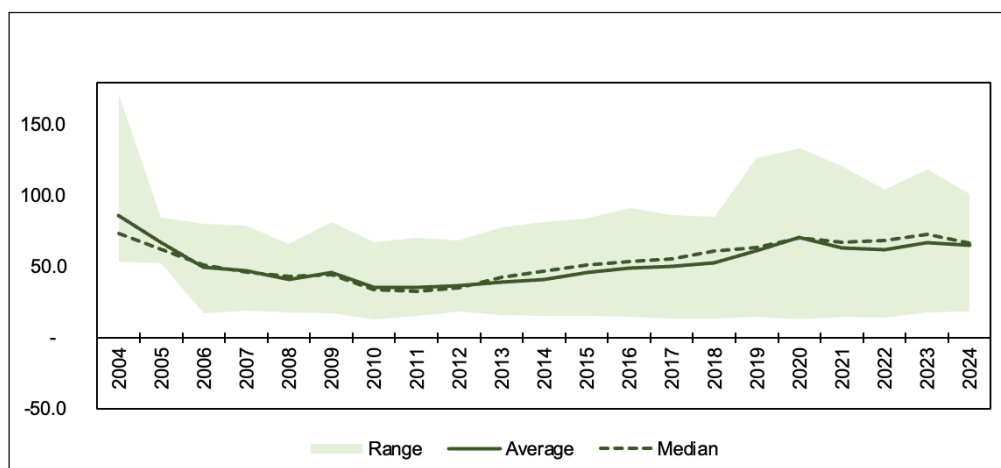


Note: USD/BIF= US dollar against Burundian Franc; USD/EGP = US dollar against Egyptian Pound; USD/KES = US dollar against Kenyan Shilling; USD/MWK= US dollar against Malawian Kwacha; USD/MUR=US dollar against Mauritian Rupee; USD/SZL = US dollar against Swazi Lilangeni; USD/UGX= US dollar against Ugandan Shilling; USD/ZMW= US dollar against Zambian Kwacha. USD/RWF = US dollar against Rwandan Franc; USD/TND = US dollar against Tunisian Dinar

Public debt levels have generally declined across the region, largely due to fiscal consolidation. The COMESA average debt-to-GDP ratio decreased by about one percentage point to 64%, following spending cuts in some

member countries, including Mauritius, Kenya and Zambia. In Mauritius, the decline in debt levels was further supported by a recovery in economic activity, driven by tourism and investments.

Figure 33: COMESA Average Debt-to-GDP Ratio



However, debt levels remain relatively high across many member countries, with potentially adverse implications for private sector activity and overall economic development. Limited access to international capital markets, largely due to elevated sovereign risk ratings, has led governments to rely more heavily on domestic markets, potentially crowding out financial intermediation. High debt-servicing costs are exerting upward pressure on lending rates,

increasing credit risk and constraining the flow of credit to businesses and households. At the same time, these costs are reducing fiscal space, limiting governments' ability to finance growth-enhancing and development-oriented programs. Elevated public debt and growing dependence on domestic financing are also heightening funding and liquidity risk, while intensifying concerns about debt sustainability.

2.6 Prospects for Macro-Financial Conditions

The growth and inflation outlook for 2025 remains clouded by uncertainty around global trade policy. Tariffs threaten to increase import costs, dampen productivity, and fuel inflationary pressures. Overall long-term growth prospects would be diminished as consumer and business confidence deteriorate. Weaker global economic activity would suppress demand for commodities, adversely affecting COMESA economies that rely heavily on commodity exports. Further,

tariffs are likely to reverse the inflation trajectory in advanced economies as costs of goods and services rise, posing a risk to the continued easing of global monetary policy. In addition, continued trade tensions and uncertainty could potentially increase global financial market volatility and affect investor sentiment. This, coupled with tighter global financial conditions, would dampen capital flows to emerging markets.

For countries in the COMESA region, this could lead to lower proceeds on commodity exports, a wider current account deficit, and upward pressures on local currencies. This may be compounded by reduced foreign aid and higher international prices on tradable inputs required in the region such as fertilizers, fuel, and other capital goods. The impact of policy uncertainty would be moderate if ongoing negotiations to ease trade tensions prove successful. In the interim, however, there appears to be lower confidence in the US dollar which has resulted in a weakening of the currency. A weaker dollar could improve portfolio inflows as investors pursue higher yields in emerging economies. The reduced value of the dollar could also ease debt service obligations for COMESA governments holding obligations denominated in US dollars, improving fiscal space.

The geopolitical tensions also continue to present headwinds to the macro financial outlook. In 2025, escalating hostilities between Iran and Israel led to a series of counterattacks, heightening concerns over regional stability. Further, continued attacks on shipping vessels by Houthi rebels disrupted merchant transit through the Red Sea, compelling shipping companies to reroute through safer, but costlier alternatives. These conflicts, including the Russia-Ukraine war, are expected to continue to weigh on food and energy prices. COMESA countries reliant on crude oil imports will therefore be vulnerable to price shocks arising from worsening geopolitics. Higher energy costs would increase demand for foreign exchange, weakening domestic currencies, and heightening inflationary pressures.

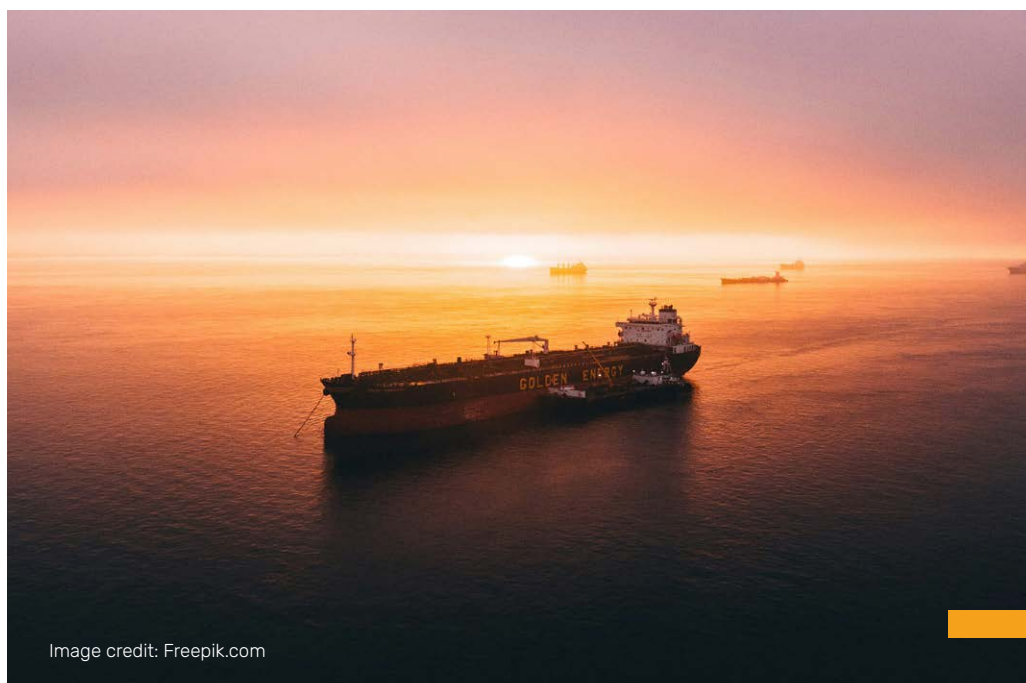


Image credit: Freepik.com



CHAPTER 3

COMESA Region Banking
Sector Analysis

The banking sector dominates the financial systems across the COMESA region, serving as the primary channel for mobilizing savings, allocating credit, and supporting economic development. The banking sector influences financial stability, liquidity conditions, credit availability, and systemic resilience of the

financial system and the economy due to its size and the linkages with the economy. Beyond resource mobilization, the sector acts as a key conduit for monetary policy and risk transmission. As a result, the banking sector influences growth and the capacity of the economy to absorb shocks.

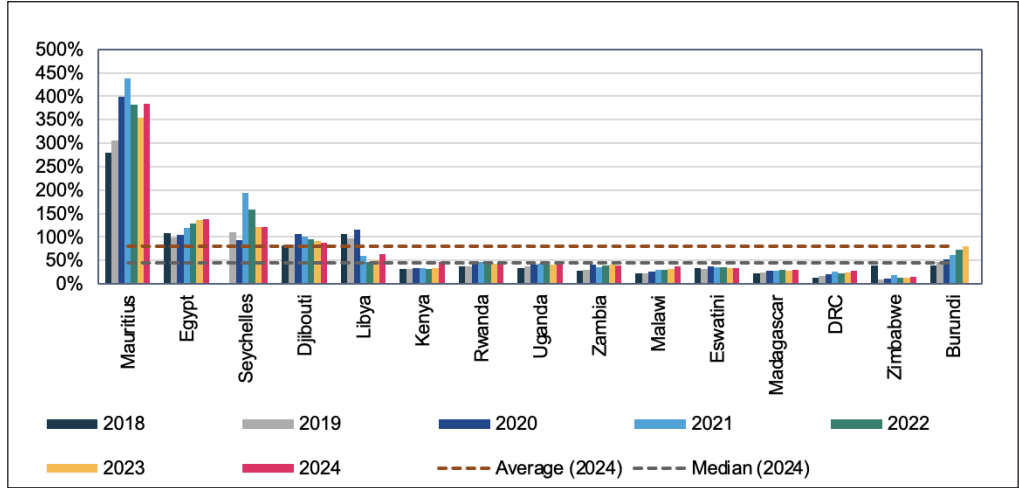
3.0 Banking Sector in the COMESA Region

3.0.1 Banking Sector Size

The importance of this sector is underscored by its size relative to the economy. Banking sector assets in selected COMESA countries ranged from 14% and 383% of GDP, averaging 80%, highlighting wide disparities in financial depth across the region. Mauritius is an outlier, with assets at 383% of GDP at end-2024 (up from 353% in 2023), reflecting its

position as an international financial center. Egypt and Seychelles also recorded relatively high banking sector depth, with assets at 139% of GDP and 121% of GDP, respectively, in 2024. In contrast, nearly half of the countries analyzed, the banking sector’s assets were below 45% of GDP.

Figure 34: Banking Sector Assets to GDP



Note: Uganda’s figures represent only commercial banks’ assets.

In 2024, banking sector assets to GDP showed mixed trends across COMESA countries. Djibouti and Libya recorded 89% and 63%, respectively, down from 92% and 52% in 2023. Kenya saw a notable rise to 47% from 35% in 2023, while Rwanda, Uganda, and Zambia ranged between 40% and 46%. Malawi, Eswatini, and Madagascar were within the 30–38%, with Malawi’s increasing to 38% from 32% in 2023. The DRC rose to 29%, nearly five percentage points higher

than in 2023, while Zimbabwe reported the lowest ratio at 14%.

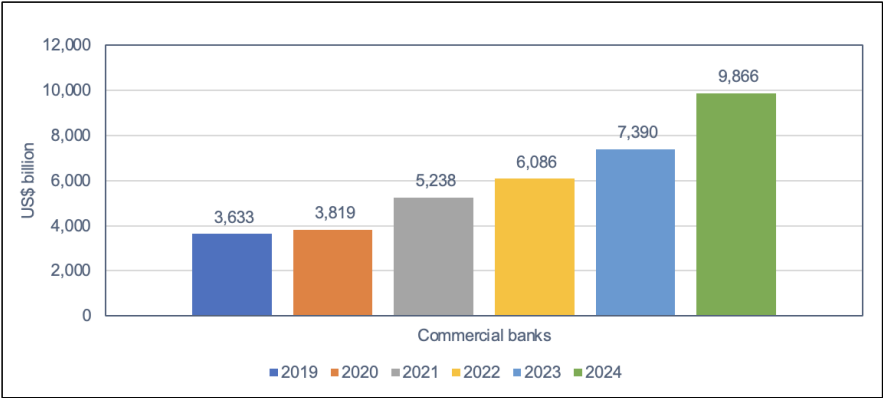
These figures underscore the banking sector’s systemic significance. A well-capitalized and efficient banking system can foster economic growth and financial inclusion, whereas vulnerabilities in large institutions can amplify macro-financial risks, particularly in highly concentrated markets.

3.0.2 Asset Distribution by Bank Types

Asset distribution across bank types further shapes the stability outlook. Commercial banks dominate, holding about 97% of total banking sector assets across 13 COMESA countries, highlighting their systemic importance and the potential impact of

shocks to these institutions on overall financial stability.¹³ In contrast, development banks and microfinance institutions play specialized roles in promoting financial inclusion and financing long-term projects, complementing the broader banking ecosystem.

Figure 35: Commercial Banks’ Assets

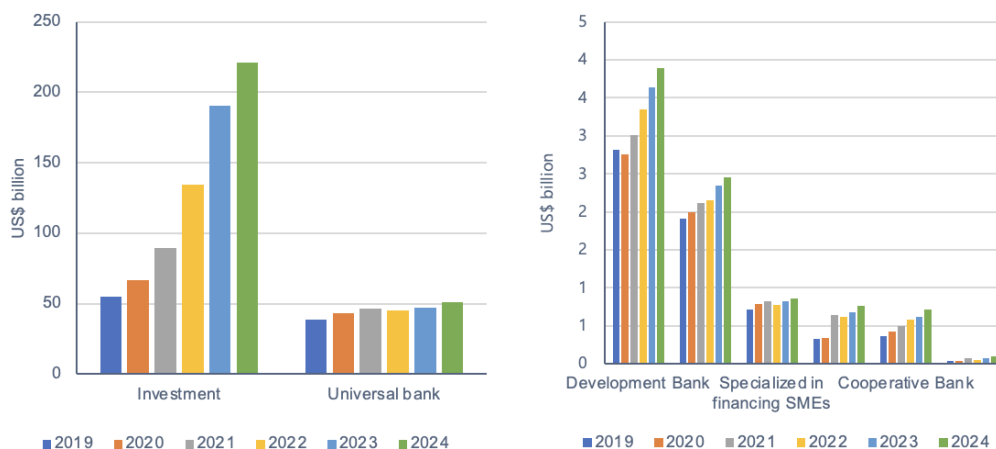


In 2024, the aggregated commercial banks’ assets grew by 33%, reaching nearly US\$10 trillion, driven by both organic growth and cross-border linkages. Other banking categories held smaller but notable asset volumes; investment banks at around US\$221 billion, universal banks at US\$51 billion, Islamic banks at US\$5 billion, development

banks at US\$4 billion, and conventional banks at US\$2 billion. Building societies and cooperative banks reported assets of US\$764 million and US\$713 million, respectively, in 2024. All categories experienced positive asset growth, reflecting ongoing efforts to expand market reach and diversify financial services.

¹³ These countries include Burundi, Djibouti, Democratic Republic of Congo (DRC), Eswatini, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Tunisia, Uganda, Zambia and Zimbabwe.

Figure 36: Asset Distribution by Banking Type



Latest trends, however, point to both opportunities and challenges. Rapid digitalization and financial innovation are expanding access and efficiency, yet they introduce new operational and cyber risks. Meanwhile, global uncertainties, ranging from commodity price volatility to climate-related shocks, underscore the importance of strong

capital buffers and liquidity management. Against this backdrop, monitoring key banking sector indicators such as capital adequacy, impairment levels, profitability, and liquidity buffers, along with relevant stress testing exercises, remain central to safeguarding regional financial stability.

3.1 Financial Soundness Indicators for the Banking Sector¹⁴

Financial Soundness Indicators (FSIs) are indicators compiled to monitor the health and soundness of financial institutions, markets and of their corporates and households' counterparts. The FSIs are based on regulatory requirements such as directives, regulations and laws, and are generally in the form of ratios derived from aggregate balance sheets and income statements of financial

institutions. The FSIs provide information on the health of financial institutions and are helpful in identifying potential stability risks to the financial system that might be missed using only micro-prudential indicators and macroeconomic statistics. This section provides an assessment of the banking sector's stability in COMESA based on data submitted by member Central Banks.

¹⁴ The number of countries included in the analysis of the Financial Soundness Indicators differs as per data availability.

Figure 37: Capital Adequacy Ratio (Total) in the COMESA Region

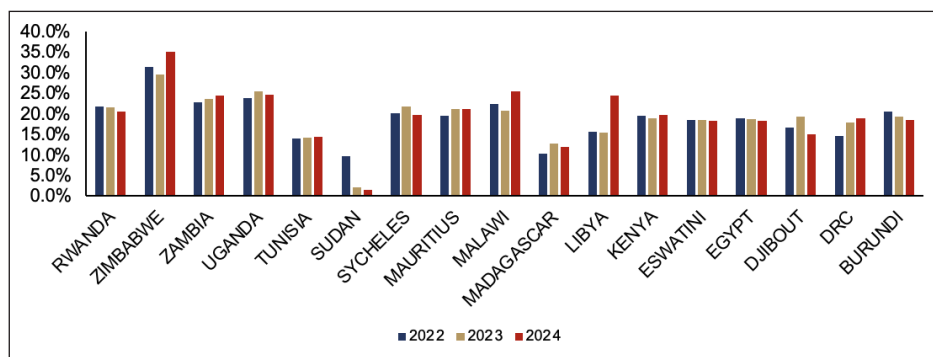
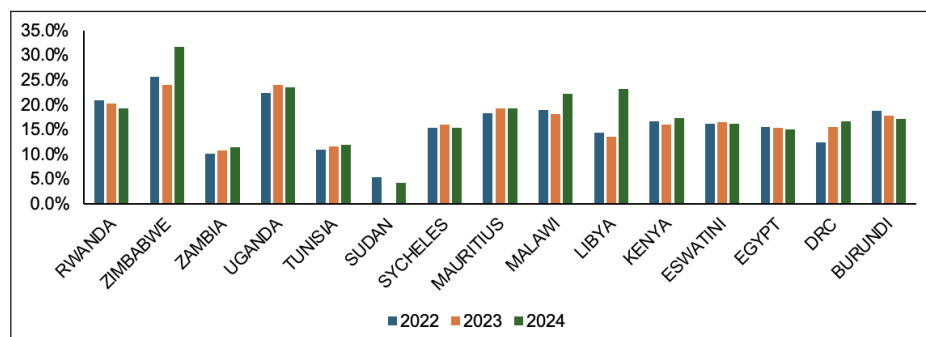


Figure 38: Capital Adequacy Ratio (Tier 1) in the COMESA Region



Source: COMESA member Central Banks

The robust capitalization of banks is largely supported by stable Tier 1 capital. Tier 1 capital represents the strongest and core portion of a bank's capital base, consisting mainly of common equity and retained earnings, and is designed to absorb losses while allowing banks to continue operating. During the year to end December 2024, Tier 1 CAR in the region ranged between 4.3% and 31.8%. Over the same period, Tier

1 CAR averaged 17.2%, well above the 8.5% minimum Basel requirement. At the country level, all member countries-maintained Tier 1 capital adequacy ratios above the Basel requirements, except Sudan, which recorded a Tier 1 ratio of 4.3%. The escalation of the geopolitical conflicts around and within the COMESA region worsened existing vulnerabilities in the financial sector.

3.1.2 Assets Quality Indicators

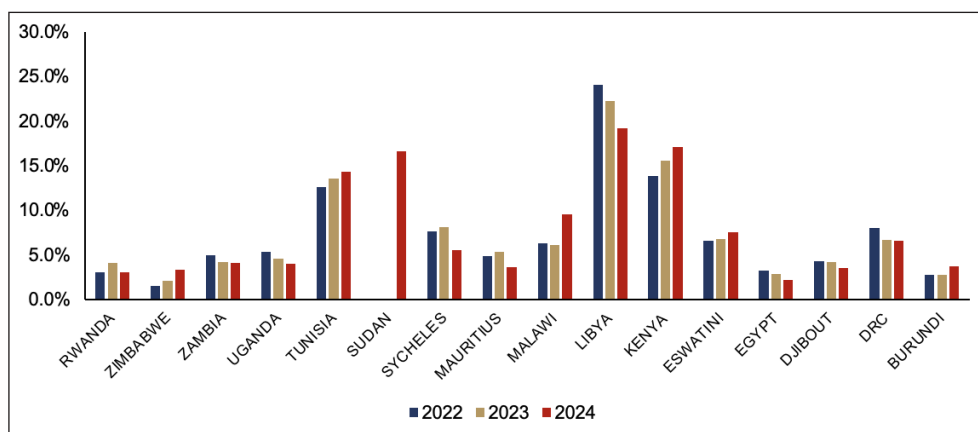
The quality of loans in the region was generally resilient to shocks. On average, the NPL ratio in COMESA stabilized around 7.3% in 2024, and in 2023. In 2024, the NPL ratio ranged between 2.2% and 19.2% compared to a range of 2.1% to 7.3% observed in 2023 among Member States. A lower ratio generally reflects better loan repayment, while a high ratio suggests borrowers are experiencing difficulties in repaying their loans, which may lead to financial losses and capital erosion.

At country level, NPLs ratio increased in Tunisia and Kenya and remained at high levels in Libya. In Tunisia, the NPL ratio increased to 14.4% in 2024 from 13.6% in 2023 due to a sluggish economic performance, tight credit conditions and adverse weather conditions. Over the same period, the NPL ratio in Kenya increased to 17.1% from 15.6% due to

a combination of factors including adverse business conditions, high cost of borrowing, fiscal consolidation and the pending government bills. Across the region, Libya had the highest NPL ratio of 19.2% in 2024. Libya's high NPL ratio was a result of fragile economic environment accentuated by political instability and poor implementation of credit and risk management frameworks.

Elsewhere, the quality of loans improved in some countries including Zambia (to 4.1% from 4.2%), Uganda (to 4.0% from 4.6%), Seychelles (to 5.5% from 8.1%), Mauritius (to 3.7% from 5.3%), Egypt (to 2.2% from 2.9%), Djibouti (to 3.5% from 4.2%) and Rwanda (to 3.1% from 4.1%). The improvement in asset quality was due to enhanced credit risk management, loans service, and write-offs in some countries.

Figure 39: Assets Quality - Non-Performing Loan Ratio in the COMESA Region



Source: COMESA member Central Banks

The ability of banks in the region to absorb potential losses from non-performing loans remains adequate. The ratio of specific provision to non-performing loans (coverage ratio), which measures the capacity of banks to absorb loan losses, increased to 67.2% in 2024 from 62.1% in 2023.¹⁶ Moving forward, banks should continue to adhere to prudent lending practices, risk management to maintain loan quality, and increase provisions in relation to credit risk.

Banks in the region remain exposed to credit concentration risk, as lending to large borrowers accounted for 87.3% of total regulatory capital of banks in the region by

end December 2024 from 94.7% in December 2023. This indicates that a significant share of bank loans is concentrated among a few large customers, increasing credit risk if these borrowers' default. Banks in the region are taking actions to diversify their risk and avoid relying on few borrowers to mitigate financial instability, especially because a default by few large borrowers can have a significant impact if their fortunes are tied to those few economic agents. Strengthened monitoring of large exposures is necessary to assess their potential impact on bank stability and ensure that adequate capital buffers are maintained to absorb potential losses arising from large borrower defaults.¹⁷

3.1.3 Earnings and Profitability

The profitability of banks in the COMESA region remained stable despite global uncertainties and subdued credit growth in most member countries. Banks continued to operate profitably with the Return on Assets (ROA), which measures how efficiently banks use their assets to generate profit, increasing to 4.2% in 2024 from 3.7% in 2023. Similarly, the Return on Equity (ROE), which indicates effectively banks use shareholders' equity to generate profits, rose to 28.2% in 2024 from 27.5% in 2023. The interest income from loans and government securities remained the primary driver of profitability across the region. In addition, the growth of non-interest income, mainly from commission fees and trading activities, also supported bank earnings.

Financial technology continued to enhance service delivery and improve operational efficiency. The costs to income ratio, which measures the proportion of gross revenues used to cover all expenses of banks, declined to 66.4% in 2024 from 69.3% in 2023. Similarly, the overhead costs to income ratio, an indicator of efficiency in managing day-to-day banking operations, decreased to 36.4% in 2024 from 38.7% in 2023.¹⁸ These lower ratios indicate improved operational efficiency, which supports stronger profitability. Improved efficiency is expected to continue underpinning bank profitability, which is an important source of increasing capital, and provides banks with buffers to absorb potential shocks.

¹⁶ The COMESA region's NPL ratio is calculated as the average of the ratios of the countries covered in the analysis.

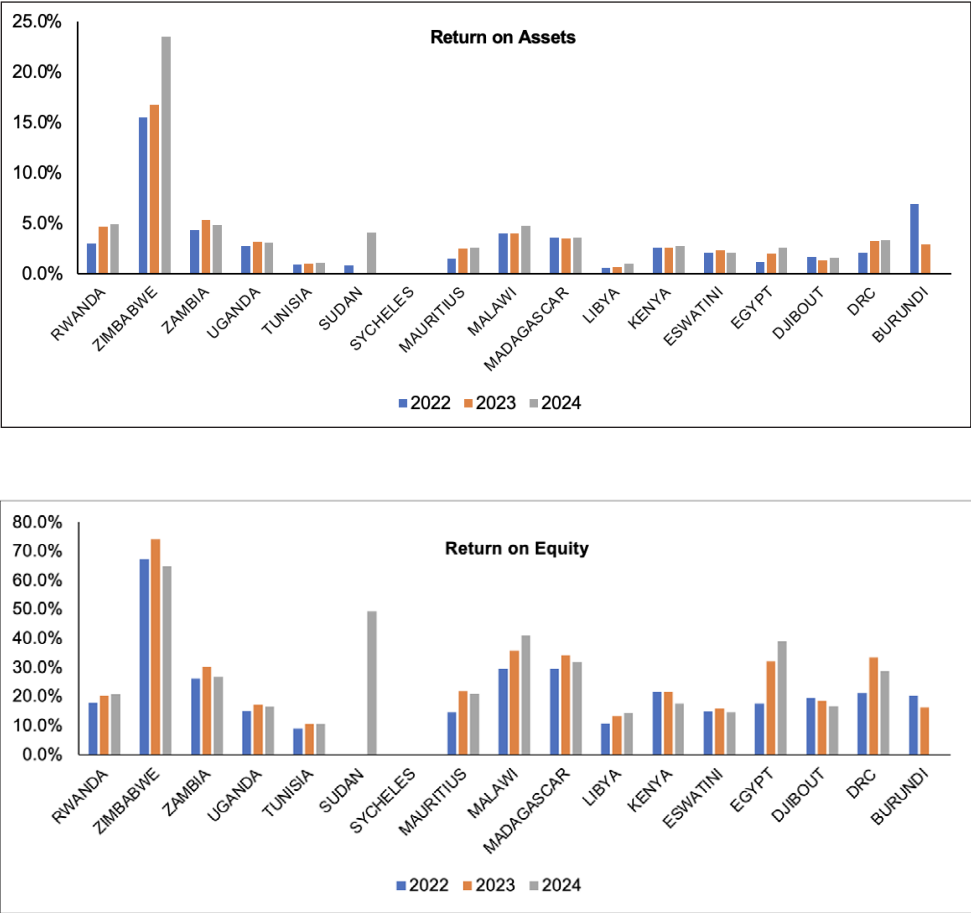
¹⁷ Large exposure refers to any exposure that exceeds a defined limit of the bank's net worth.

¹⁸ The COMESA region's ROA and ROE are calculated as the average of the ratios of the countries covered in the analysis.

Looking ahead, the profitability of banks will largely depend on the quality of loan portfolios, given that most banks in the region operate under a traditional banking model. However, risks to profitability could arise from

financial risks linked to global uncertainties, trade disruptions, climate-related shocks, and fiscal consolidation measures being implemented in some countries.

Figure 40: Profitability Ratios in Selected COMESA Countries



Source: COMESA member Central Banks

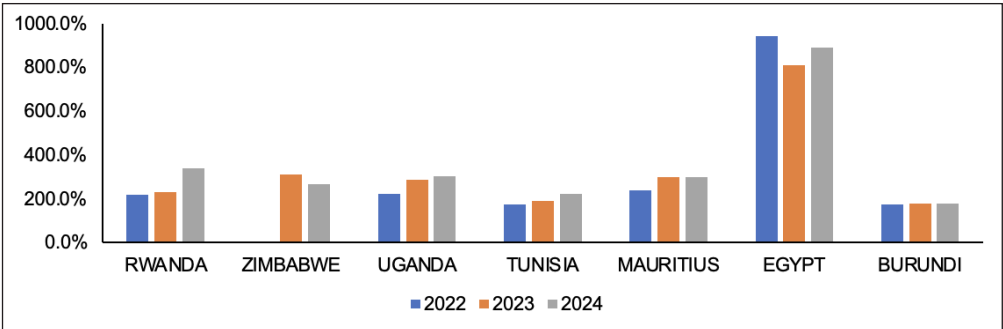
3.1.4 Liquidity Indicators

The banking sector’s liquidity buffers remained strong, reinforcing resilience to liquidity risk. As financial intermediation is the core function of banks, effective liquidity risk management is essential to ensure that banks can always meet their cash flow obligations, since any liquidity shortage could have system-wide implications. Banks are therefore required to maintain sufficient liquid assets to meet customers’ funding needs, particularly during a period of stress. During the period under review, banks maintained a stable liquidity profile for both short- and long-term maturities.

From short term perspective, the Liquidity Coverage Ratio (LCR), which measures liquid assets relative to potential cash outflows over

a 30-day horizon under severe but plausible liquidity stress scenario remained strong. The average LCR increased to 357% in 2024 from 327% in 2023, significantly surpassing 100% Basel minimum requirement. This indicates that banks hold adequate High-Quality Liquid Assets (HQLA) to withstand a sudden 30-day liquidity stress scenario. The increase in the LCR ratio reflected higher holdings of liquid assets, mainly government securities, Central Bank reserves, and cash. As in the previous year, LCR in Egypt remained the highest level in the region, reflecting strong deposit mobilization and continued confidence in the banking sector.

Figure 41: Liquidity Coverage Ratio in Selected COMESA Banks

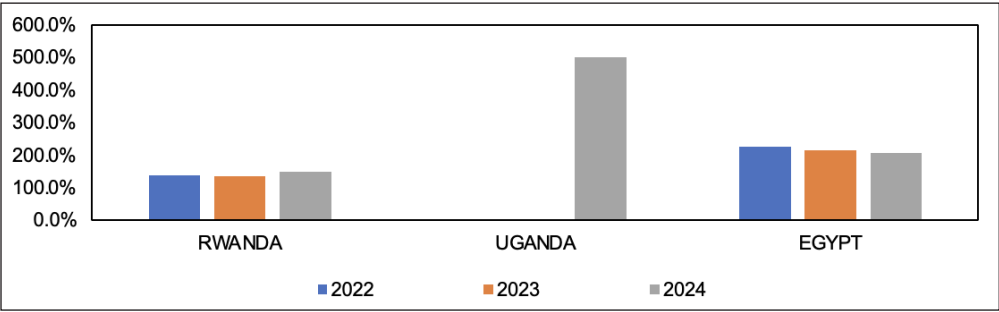


Source: COMESA member Central Banks

Banks also continued to finance their long-term assets using stable resources, and funding pressures remained minimal. The aggregate Net Stable Funding Ratio (NSFR), which compares the long-term assets of banks to their long-term liabilities was high. The aggregate NSFR for the region increased to 285% in 2024 from 175% in 2023, against

100% Basel regulatory requirement. Notably, Central Banks in four member countries (Egypt, Mauritius, Rwanda and Uganda) have implemented the NSFR according to Basel requirements, while other member Central Banks are at different stages of implementation.¹⁹

Figure 42: Net Stable Funding Ratio in COMESA Banks



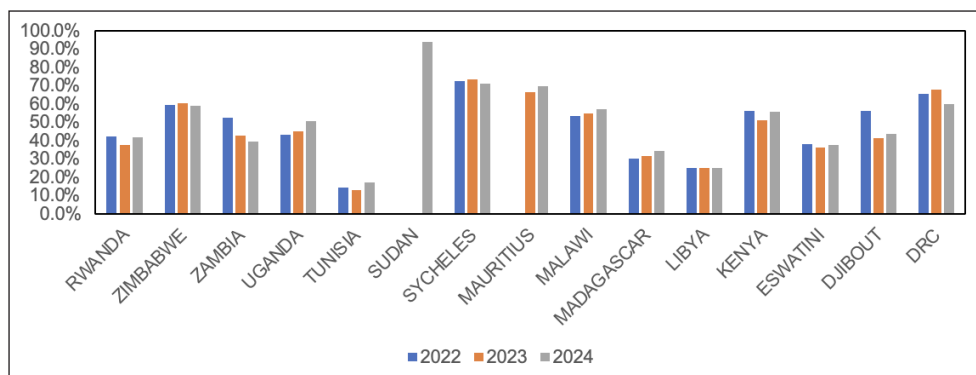
Source: COMESA member Central Banks

The liquidity ratio, liquid assets relative to customers’ deposits, remained strong across most countries during the period under review. The average liquidity ratio of the region increased to 46.3% in 2024 from 44.7% in 2023. During the same period, the loan-to-deposit ratio, which measures bank’s liquidity by comparing a bank’s total loans to its total deposits, declined to 54.4% in 2024 from 56.7% in 2023, ranging between 34.9% and 97.4%, with most countries above 50%.

There were few countries with a ratio below 50%, largely explained by the moderation of credit demand and banks’ preference for government securities over loans. Overall, banks had enough liquidity to meet customers’ demands. However, high liquidity level in the region mainly reflects increasing investment in government securities, growth of deposits, and stable loans repayment cashflows.

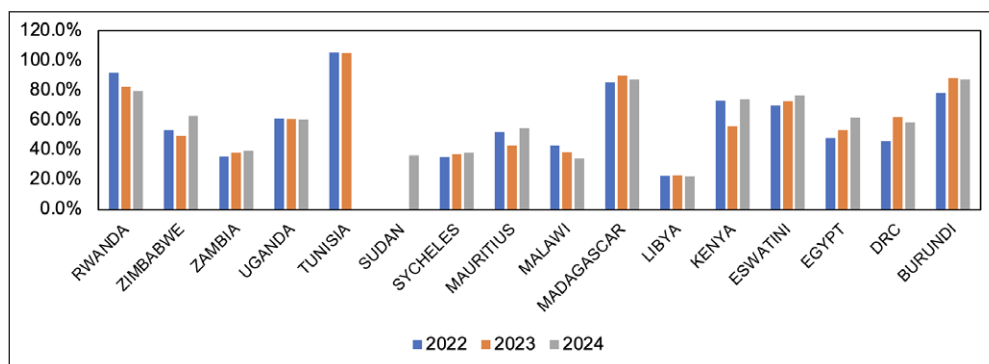
¹⁹ In Mauritius, the guidelines on NSFR were issued in June 2024 and this ratio will be reported in the next edition of COMESA FSR.

Figure 43: Liquidity Ratio in the COMESA Region



Source: COMESA member Central Banks

Figure 44: Loan to Deposit Ratio in the COMESA Region



The banking sector across COMESA countries remained resilient despite global economic uncertainties. Banks stayed adequately capitalized, liquid, and profitable due to sustained implementation of regulatory and supervisory measures and resilience of domestic economies. Credit risk remains the main concern, but banks have buffers to

absorb losses. Enhanced oversight of large borrowers is needed to reduce concentration risk. Going forward, the sector is expected to remain stable. Implementation of the Risk-Based Supervision (RBS) framework and other policy measures will strengthen the resilience of the financial systems and support regional economic growth.

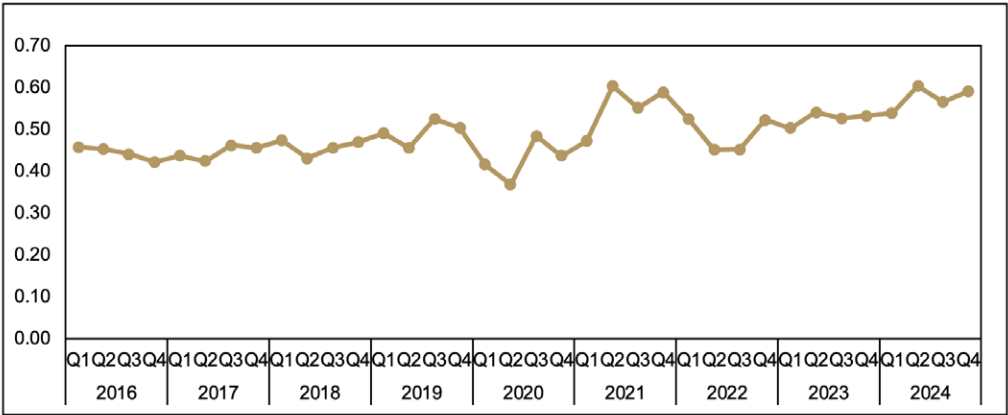
3.2 Financial Stability Index for the COMESA Region

The Financial Stability Index (FSI) is designed to reflect the overall stability of the financial systems of COMESA countries over time. The FSI captures detect vulnerabilities and potential risks in the region’s financial systems at an early stage. However, it focuses on current macro-financial conditions and associated risks to financial stability in the region.

The COMESA financial stability index averaged 0.49 over the period 2016–2024, indicating

moderate stability.²⁰ It was stable at 0.46 before COVID-19 pandemic, dropped to 0.39 in the second quarter of 2020, and recovered to 0.60 by the end of 2021. The Russia–Ukraine conflict caused a decline of the index to 0.45 in the second quarter of 2022, followed by renewed improvement, reaching 0.60 in the second quarter of 2024, and averaging 0.57 for the year. These fluctuations show the region’s resilience to various disruptions, and sensitivity to global shocks.

Figure 45: COMESA Region’s Financial Stability Index



The improvement in 2024 was largely driven by stronger banking sector performance, including higher asset quality, profitability, and liquidity across member countries. This was further supported by favorable macroeconomic conditions, notably higher

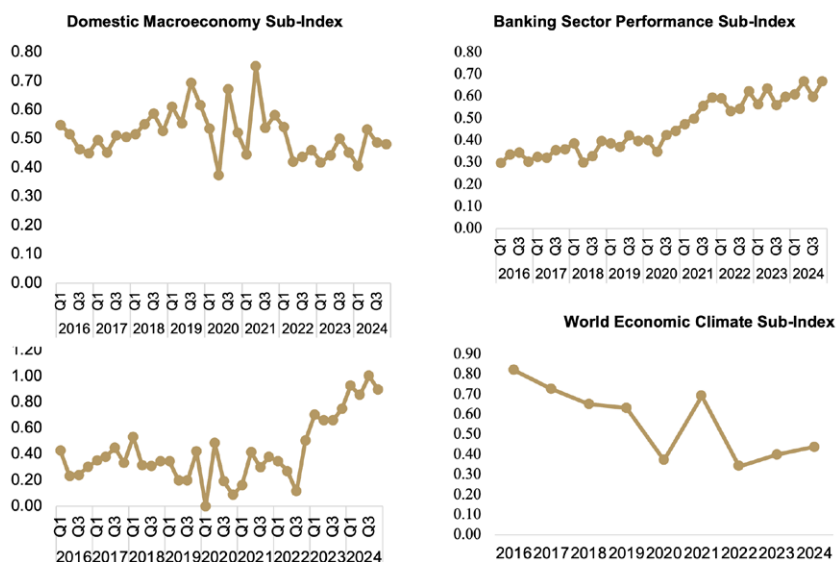
GDP growth, lower inflation, better fiscal balances, and increased private credit relative to GDP. Rising stock market capitalization to GDP ratio reflected further development in the financial markets within the region.

²⁰ The sample of countries included in the index are Egypt, Eswatini, Kenya, Malawi, Mauritius, Rwanda, Seychelles, Uganda, and Zambia as per data submitted by each member state, which differs from the sample of countries included in the analysis of the financial soundness indicators.

The Financial Stability Index for the COMESA Region

The Financial Stability Index for the COMESA Region comprises 15 variables grouped into four sub-indices, which together capture the key dimensions of financial stability. These sub-indices cover: (i) banking sector performance, (ii) domestic macroeconomic conditions, (iii) financial market developments, and (iv) the global economic environment. Collectively, they provide a comprehensive picture of the health of the region's financial systems and the broader macroeconomic environment in which they operate.^{21,22} The analysis covers 36 quarters between 2016 and 2024. For consistency, the FSI is constructed using empirical normalization. Each indicator is scaled relative to its minimum and maximum values within the analysis period, with the resulting normalized score reflecting its deviation from these limits. The overall FSI is then calculated as the average of these normalized values, scaled between 0 and 1. Higher values of the index indicate stronger financial stability.

Figure 46: Financial Stability Sub-Indices of the COMESA Region



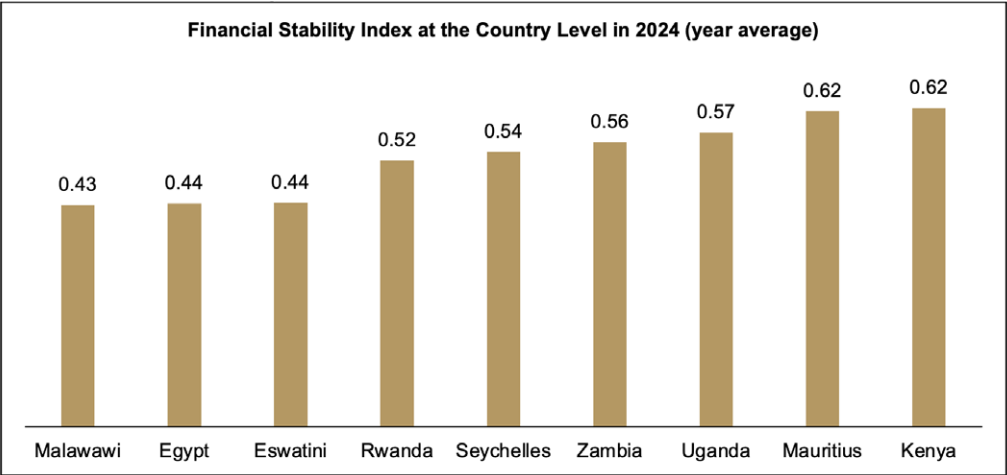
21 The banking sector performance sub-index includes Capital Base to Risk weighted assets ratio (CAR), Nonperforming Loans to Total Loans ratio, Loan Provisions to Nonperforming Loans ratio (Coverage Ratio), Return on Average Equity (ROE), Non-interest Expenses to Gross Income ratio, Liquidity in Local and Foreign Currencies. The macroeconomic conditions sub-index includes GDP Growth Rate, Headline CPI (average period), Balance of Current Account to GDP, Overall Fiscal Balance to GDP and Private Credit to GDP ratios. The financial market developments sub-index includes only the ratio of Market Capitalization to GDP and may be enhanced later depending on the data submitted by the Member States. The world economic climate sub-index includes world's GDP growth and Inflation rates (average consumer prices).

22 The world economic climate sub-index should include a country's major trading partners GDP and inflation rates weighted by volume of trade with each partner. However, due to data unavailability, world's annual GDP growth and inflation rates were used instead in the analysis.

At the country level, the FSI ranged from 0.43 to 0.62 across the reviewed nine countries in 2024.²³ Egypt, Eswatini and Malawi recorded the lowest levels at 0.4, reflecting weaker domestic macroeconomy sub-index in Egypt and Malawi and a relatively weaker banking sector performance in Eswatini.

Rwanda, Seychelles, Uganda and Zambia recorded moderate index values ranging from 0.52 to 0.57, while Kenya and Mauritius had the highest index at 0.62, largely driven by strong banking sector performance.

Figure 47: Financial Stability Index of Selected COMESA Member Countries



3.3 Credit-to-GDP Gap

Excessive credit growth was a key systemic risk during the 2008 global financial crisis, prompting the Basel Committee to introduce the Countercyclical Capital Buffer (CCyB) as a macroprudential policy tool to strengthen financial regulation and prevent future financial crises. The Basel Committee recommends using the ratio of private credit to nominal GDP as a key indicator for

monitoring excessive credit growth, as it serves as a reliable early warning signal for banking crises. Additionally, it recommends that individual regulatory bodies observe a further set of qualitative and quantitative indicators tailored to domestic conditions. The analysis for the COMESA countries shows no evidence of systemic risk buildup from excessive credit growth.

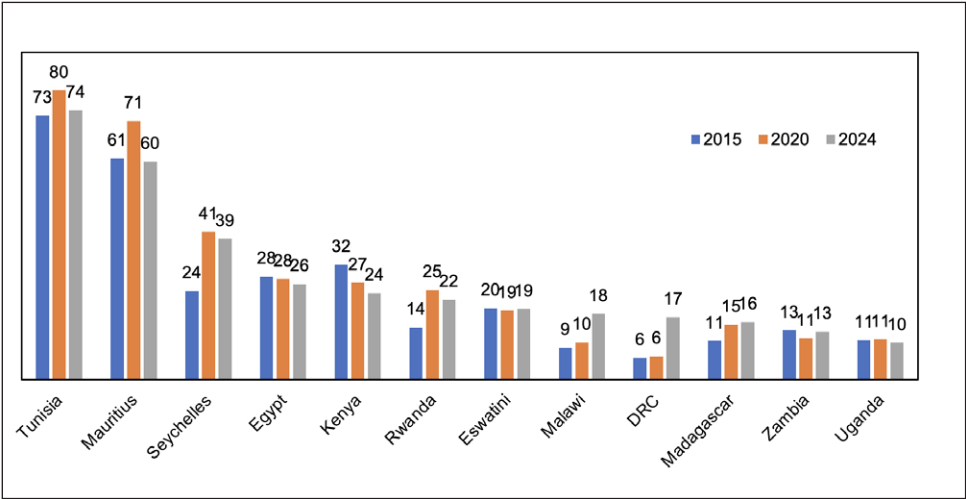
²³ The level of the aggregate and country-level financial stability may not be fully reflected in the index as some variables that represent the fundamentals of financial stability are not available for some countries.

3.3.1 Credit-to-GDP Ratio Analysis²⁴

The ratio of private sector credit to GDP varied significantly across the 12 COMESA countries in 2024.²⁵ Tunisia and Mauritius recorded ratios of 74% and 60%, respectively, while Seychelles registered 39%. The ratios for Egypt, Kenya and Rwanda averaged around 24%. Meanwhile, Eswatini, Malawi, DRC and Madagascar recorded ratios ranging from 19% and 16%. Zambia and Uganda recorded ratios of 13% and 10%, respectively.

While Tunisia and Mauritius surpassed the average private sector credit to GDP ratio for emerging market economies (58%), the other sampled COMESA countries remained below the averages for frontier markets (49%) and least developed countries (34%), during the 2010-2020 period.²⁶ However, the average private credit to GDP ratio for the selected COMESA countries has gradually increased, rising to 27% in 2024 from 26% in 2023 and 25% in 2022. This upward trend indicates a gradual expansion of credit provision to the private sector across the region.

Figure 48: Private Sector Credit to GDP Ratio of Selected COMESA Countries



24 The group of countries include Tunisia, Mauritius, Seychelles, Rwanda, Egypt, Kenya, Eswatini, Malawi, DRC, Madagascar, Zambia and Uganda. The group was chosen based on data received in the COMESA FSR questionnaire in 2024. The group varies in some parts of the analysis depending on variations in the countries' datasets.

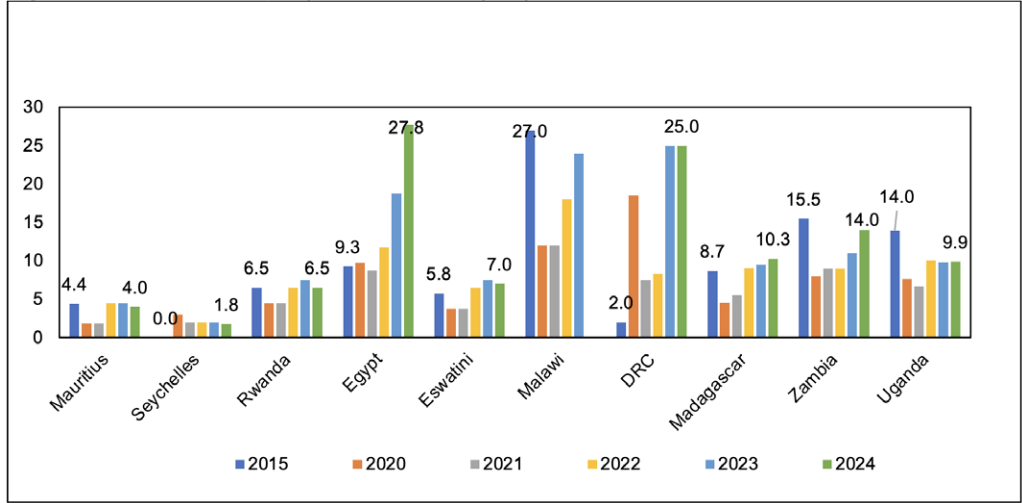
25 Private credit includes credit provided to the business (private and public) and household sectors. However, some countries do not include the public business sector in the private sector. The countries that include the public business sector are Egypt, Eswatini, Madagascar, Malawi, Tunisia and Uganda. For Seychelles, the private business sector in the chapter includes both the private and public business sectors.

26 Groups' averages were calculated according to commonly used classifications of countries.

In the post-pandemic period, trends of financial deepening across the COMESA countries have been mixed. Tunisia, Mauritius, Seychelles and Rwanda experienced a retreat in financial depth, as their private credit to GDP ratios declined from 2020 to 2024, after recording noticeable increases during 2015 to 2020. Similarly, Kenya, Egypt and Uganda also

registered post-pandemic declines but with varying degrees. These developments were largely driven by higher inflation during 2021–2024 compared to 2016–2020, alongside tighter monetary policy that resulted in higher interest rates. Consequently, private sector credit growth either slowed or increased at a pace lower than prevailing inflation.

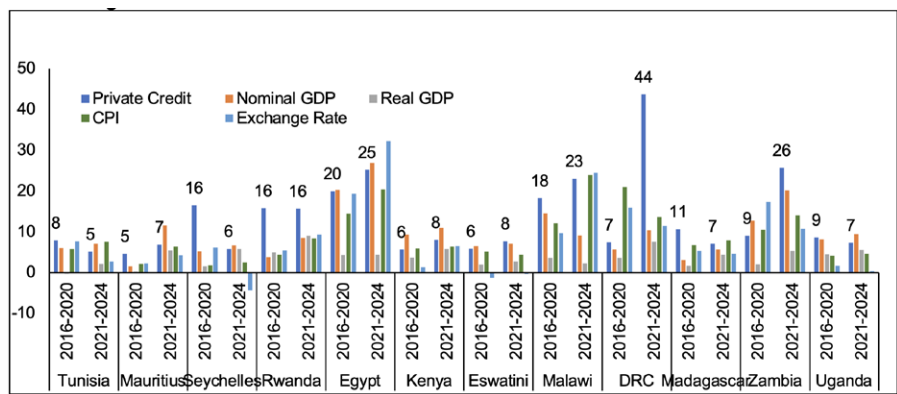
Figure 49: Evolution in Policy Interest Rates (in%) for Selected COMESA Countries



Conversely, DRC recorded financial deepening in 2024, supported by easing inflation and a recovery in economic activity. Malawi also experienced a pronounced increase in its private credit to GDP ratio in 2024 (by about 6%), despite weaker economic activity. This

was largely driven by supply shocks, that intensified exchange rate depreciation and the subsequent pass-through to consumer prices. Private sector credit growth in Madagascar and Zambia also increased in the post-COVID pandemic period.

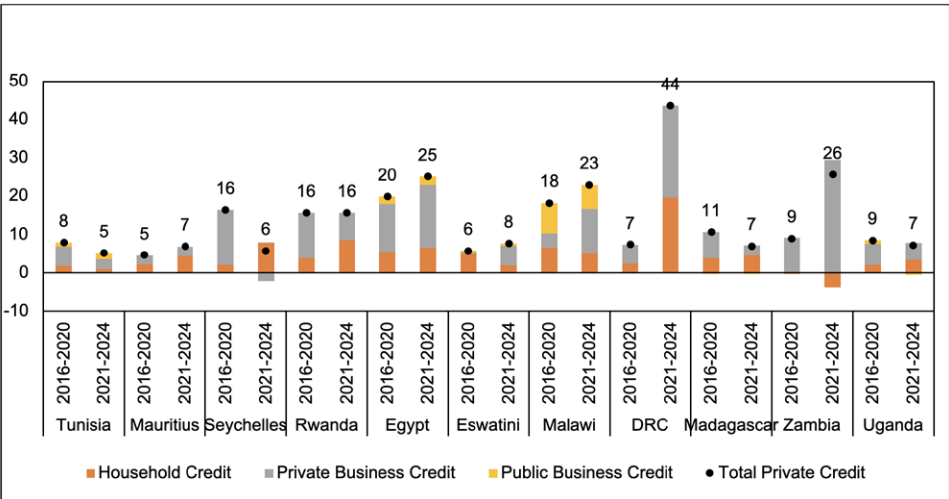
Figure 50: Average Growth Rates for Private Credit, Nominal GDP, Real GDP, CPI and Exchange Rate During the Periods 2016-2020 and 2021-2024



Regarding the drivers of PSC growth in the COMESA region, the household sector accounted for a larger share of PSC during the period 2021-2024 compared to the period 2016-2020 in Mauritius, Seychelles, Rwanda, DRC, Madagascar and Uganda. This increase occurred at the expense of credit allocated to the private business sector.

Conversely, the household sector’s share in private credit growth declined during the 2016-2020 period in Egypt, Eswatini, Malawi and Zambia, in favor of a higher share for the private business sector. In Tunisia, however, the decline occurred in favor of an increased share for the public business sector.

Figure 51: Average Growth of Private Credit and Contributions of Components during the Periods 2016-2020 and 2021-2024



3.3.2 Credit-to-GDP Gaps

Regarding the assessment of potential systemic risk related to excessive credit growth, developments in four countries were monitored by estimating the private credit to GDP gap up to the end of 2024.^{27,28}

In Mauritius, private sector credit to GDP rose to 74% in Q1 2021, largely reflecting the contraction of nominal GDP. Thereafter, the ratio declined from Q2 2021, reaching its lowest of 58.2% in Q1 2024. However, it recovered from the second quarter through the remainder of the year, supported by monetary policy easing in 2024, constituting 50 bps reduction in the policy interest rate. Consequently, the negative private credit to GDP gap narrowed to 4.4% in Q4 2024, driven mainly by credit expansion to the private business sector.

Similarly, Uganda's private credit to GDP gap narrowed after Q4 2020, supported by declining inflation. However, from Q1 2024, the gap turned negative, reaching about 0.6% in Q4 2024, due to weak performance in the business sector (including private and public). The household sector, by contrast, remained resilient, maintaining a positive credit for the GDP gap.

Egypt's private sector credit to GDP ratio began a downward trend from Q2 2022, following a pandemic-induced upturn. The private sector credit gap declined from a peak of 10.5% in Q1 2022 to 6% in Q4 2023, largely due to rising inflation and slowing private sector credit growth. During the first two quarters of 2024, private sector credit growth recovered sharply despite persistently high inflation, temporarily increasing private credit to GDP ratio. In the last two quarters of 2024, private credit growth decelerated, narrowing the private credit gap to 5.5% in Q4 2024. The narrowing was primarily driven by the private business sector, partially offset by the growing positive gap of the public business sector.

In Zambia, the private sector credit to GDP ratio has been on an upward trend since Q2 2022, following a downturn that began in Q1 2020 due to the COVID-19 outbreak. The trend continued throughout 2024, supported by growth in private sector credit, amid rising inflationary pressures. By Q4 2024, a positive credit gap of 0.9% was observed, composed of a positive gap for the private business sector and a negative gap for the household sector.

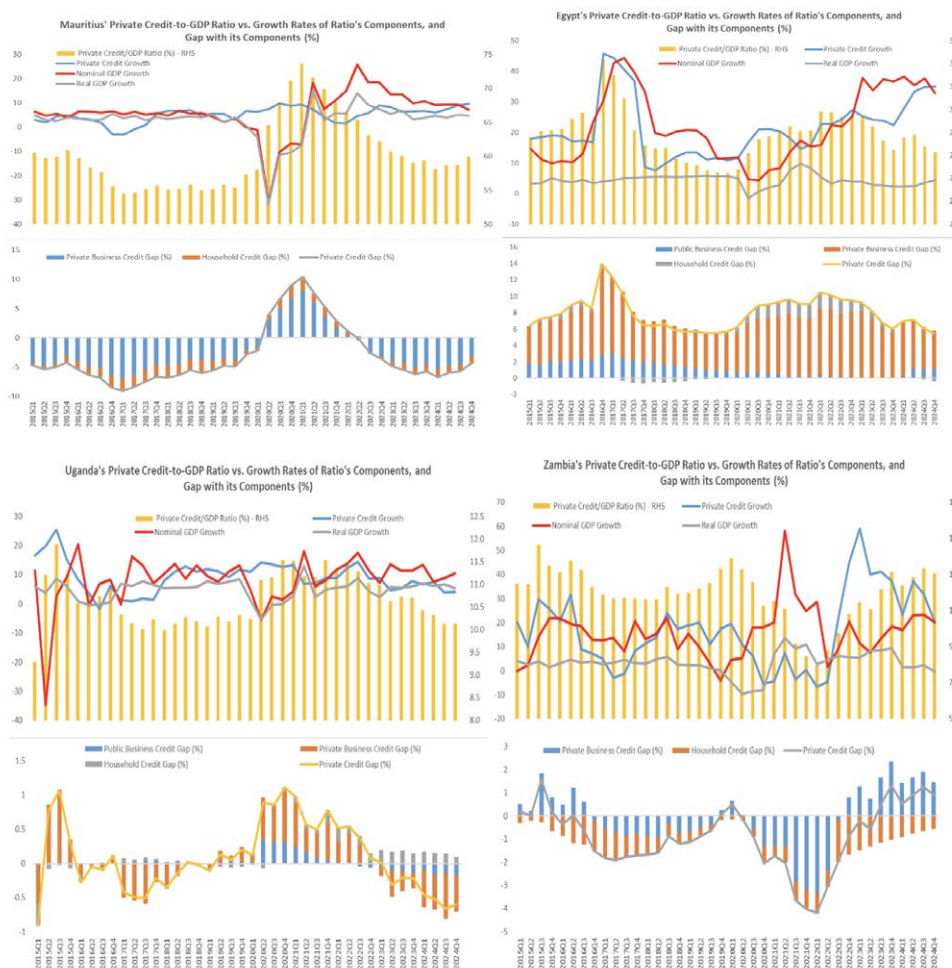
27 The countries were selected based on data submitted from the countries. The sample range is 2006:4 – 2023:4 for Mauritius, 2002:4 – 2023:4 for Egypt, 2010:4 – 2023:4 for Zambia, and 2012:4–2023:4 for Uganda.

28 The private credit to GDP gap is estimated as the difference between the private credit to GDP ratio and its statistical trend. To estimate the statistical trend, we follow Basel's committee recommendation of using a one-sided HP filter and a smoothing parameter (lambda) 400,000 for quarterly data

To summarize, in 2024, Egypt and Uganda remained in a downturn phase for their credit-to-GDP ratios, reflecting subdued private sector credit growth. Mauritius, however, shifted to an upturn, following the easing of its monetary policy, while Zambia continued its upturn trend that began in Q2 2022. Overall, private credit growth across these countries began to regain momentum in 2024, after a few years of tightened monetary policy and elevated inflation rates.

Despite this recovery, both Mauritius and Uganda credit gaps are still in the negative territory. In contrast, Zambia's aggressive monetary policy tightening is expected to slow the elevated growth of private credit and mitigate inflationary pressures. Overall, the analysis concludes that, for these four COMESA countries, there is no evidence of systemic risk buildup arising from excessive credit growth.

Figure 52: Private Sector Credit as a Ratio of GDP





CHAPTER 4

Non-Bank Financial Institutions
(NBFIs) and Financial Markets
Analysis and Risks

4.0 Non-Bank Financial Institutions²⁹

The Non-Bank Financial Institutions (NBFIs) complement the services provided by banks by offering a diverse range of financial products and services. These include insurance companies, which provide protection to individuals, property and businesses against various risks through collection of premiums and payment of claims to the insured at the occurrence of the event. The sector also includes mutual funds that mobilize savings from individuals and institutions for investment in financial assets. In addition, the NBFIs include microfinance institutions that provide funding to individuals and firms engaged in commercial, agricultural, services, and production activities. In addition, it covers financial leasing companies, which provide asset financing for the acquisition of

machinery and vehicles. Other services within the NBFIs sector include postal activities, mortgage finance, brokerage, and factoring, among others.

Globally, NBFIs play an increasingly important role in financial intermediation and are becoming more interconnected with traditional banks, particularly in developed economies. This interconnectedness, coupled with the fact that NBFIs provide bank-like services without equivalent regulatory and risk management frameworks, has raised financial stability concerns. Risks within the NBFIs sector vary by institution type, but common vulnerabilities include credit, liquidity, market, concentration, and solvency risks.

Insurance Companies. Key risks include credit risk (insurer/reinsurer defaults impacting creditors, banks via interconnections, or policyholders); liquidity risk (inability to liquidate assets for large claims or mass lapses); market risk (exposure to asset price fluctuations, interest rate changes, re-pricing, or devaluation); concentration risk (non-diversified portfolios leading to major losses); and solvency risk (failure to meet obligations like policyholder claims).

Mutual Funds. Primary risks are market risk (broad market declines and volatility eroding net asset value (NAV)); interest rate risk (rising rates reducing bond prices/NAVs in debt funds); credit risk (issuer defaults on bonds); liquidity risk (inability to sell assets quickly for redemptions without price impact); and concentration risk (heavy exposure to specific sectors, industries, or companies).

Other NBFIs. Brokerages face insolvency (asset loss) and operational risks (system outages, cyberattacks exposing client data). Mortgage finance firms grapple with interest rate volatility, borrower defaults, property valuation swings, economic downturns, and liquidity shortages. Financial leasing centers on credit risk from lessee insolvency. Factoring involves credit risk from debtor non-payment (creating bad debt), while securitization faces interest rate risk (falling values of fixed-income products as rates rise).

²⁹ The analysis is based on data received in the COMESA FSR questionnaire in 2024. The group varies in some parts of the analysis depending on variations in the countries' datasets.

In the COMESA region, the non-banking financial activities are well diversified: from insurance activities to financial intermediation. Recently, these activities

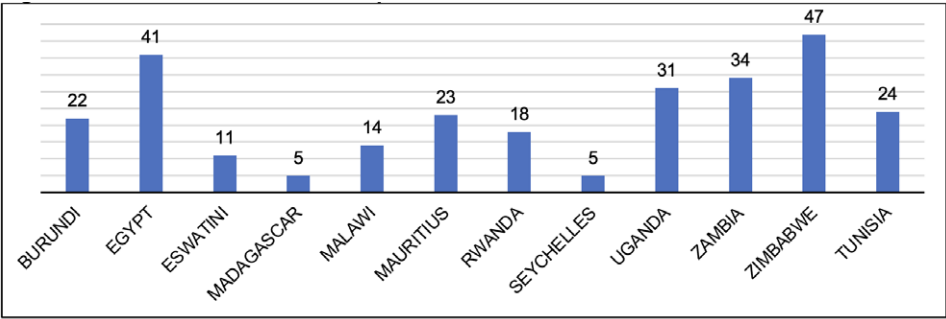
have been growing and so are the risks associated with them. Thus, COMESA Member States should address the potential risks and recommend policies to mitigate them.

4.0.1 Insurance Industry

The insurance industry provides life and non-life insurance services. In the COMESA region, insurance activity is growing in terms of assets, premiums, equity, and profitability.

Across twelve COMESA countries, almost three hundred (275) companies are operating, with many of them located in Zimbabwe and Egypt.

Figure 53: Number of Insurance Companies in COMESA Countries



Insurance companies in the region hold total assets amounting to USD 15,779.5 M, with Egypt accounting for the highest share at 45.3% of the total assets. Insurance penetration varies significantly across

member countries, reflecting differences in market development. The insurance services in Mauritius had the highest penetration ratio of 23% in 2024.

Figure 54: Distribution of Insurance Industry Total Assets in COMESA Countries

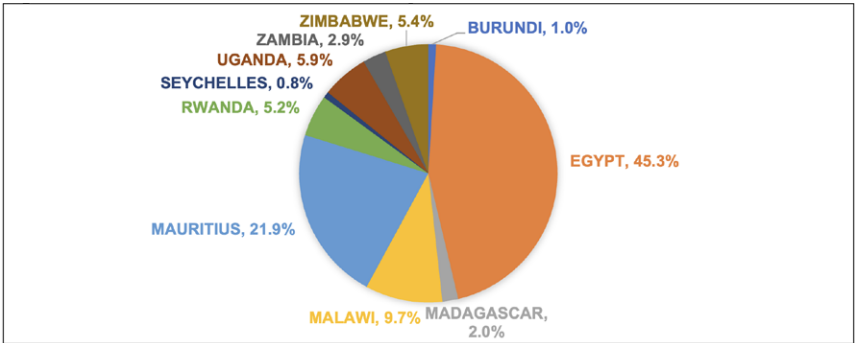
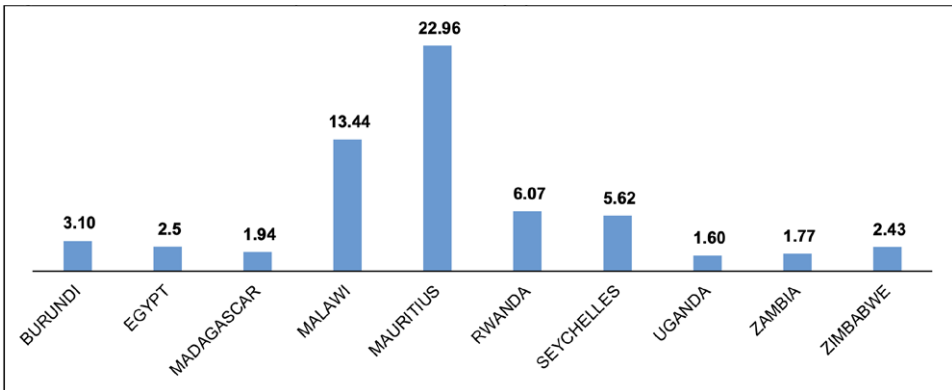


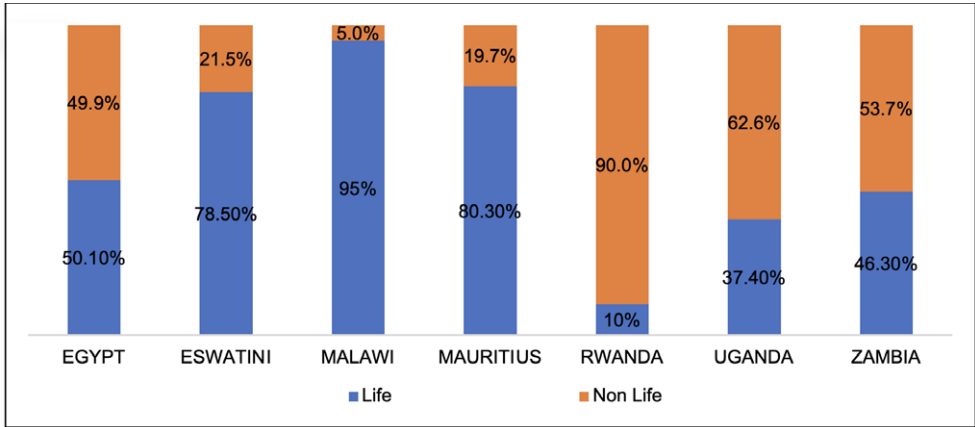
Figure 55: Penetration Rate in COMESA Countries (%)



The life insurance business has the highest share of the total insurance sector in Egypt, Eswatini, Malawi and Mauritius with 50.1%, 78.5%, 95% and 80.3%, respectively. While for

Rwanda, Uganda and Zambia, the non-life insurance activity has the highest share of 90%, 62.6% and 53.7%, respectively.

Figure 56: Share of Life/Non-life Assets in COMESA Countries

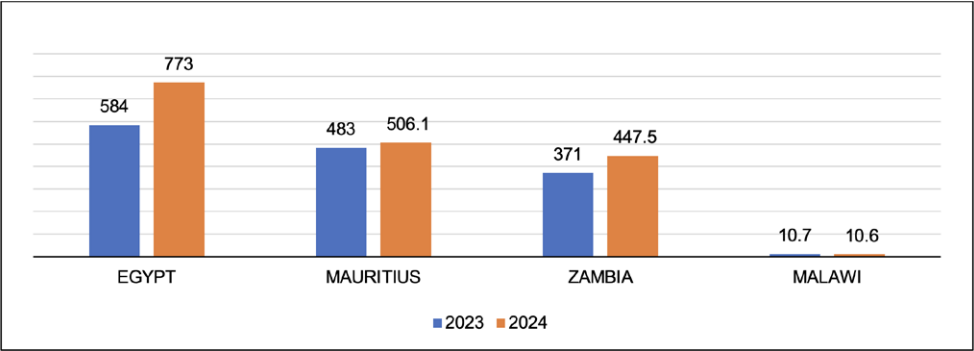


In terms of financial inclusion, the insurance density indicator reflects the level of development in the provision of insurance

services to the population.³⁰ Year on year, increases in insurance density have been observed in Egypt, Zambia and Mauritius.

³⁰ The insurance density is calculated as the average insurance premium per capita.

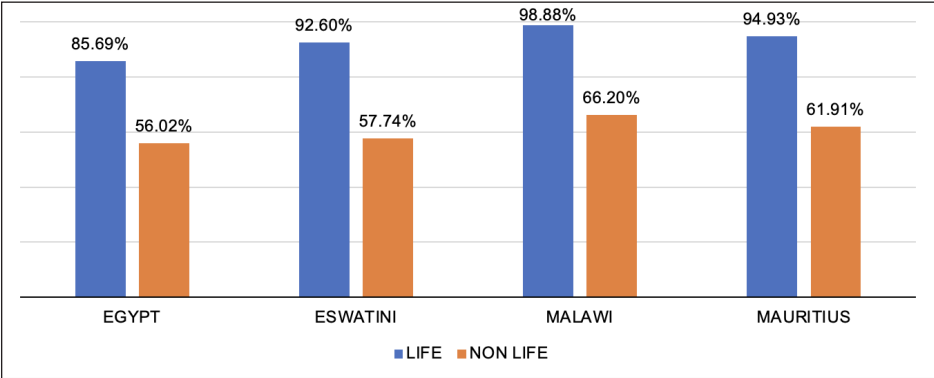
Figure 57: Insurance Industry Density in COMESA Countries (National Currency)



In terms of financial soundness indicators, first, the retention ratio measures the share of premiums retained by insurers, which indicates the level of risk retained versus the one transferred, with high ratios suggesting

a preference for keeping risk, while low ratios indicate a reliance on reinsurance. The total (life and non-life) retention rate is 66% in Egypt and 74% in Zambia. Specifically, the life insurance retention rate level is nearly 100%.

Figure 58: Retention Rate of Insurance Industry in COMESA Countries



Equity levels increased significantly in Egypt by 63.9%, Eswatini by 23.9% and Rwanda by 6.5%, but declined sharply in Malawi by -58.5%. Capital adequacy ratios also vary widely across countries, with Mauritius

recording a 12% for life insurance and 34.2% for non-life insurance, while Uganda shows much higher ratios of 273% for life insurance and 252% for non-life insurance.

Profitability indicators for insurance companies improved across the sampled countries, increasing by 83%, 14.6%, 34.4% 8%, and 0.%, respectively, in Egypt, Eswatini, Malawi, Mauritius, and Rwanda. In terms of profit composition, non-life insurance activities accounted for the largest share of total profits in Egypt, whereas life

insurance activities generated the highest share of profits in Eswatini. Additionally, the liquidity indicator in the reviewed countries remained above the recommended minimum benchmark of 100%, indicating strong liquidity positions and reflecting insurer’s capacity to price risk appropriately.

Table 1: Liquidity Ratio in COMESA Member States

Liquidity ratio	Life Insurance	Non-Life Insurance
Egypt	118.6%	185.1%
Malawi	644.6%	905.0%
Mauritius	13.9%	N/A
Rwanda	186.3%	89.0%
Zimbabwe	5%	116.0%

4.0.2 Postal and Microfinance Industry

The postal and microfinance activities are both specialized in providing low-cost bank accounts, loans, and money transfer. In some countries, the microfinance activity provides only loans, like in Egypt.

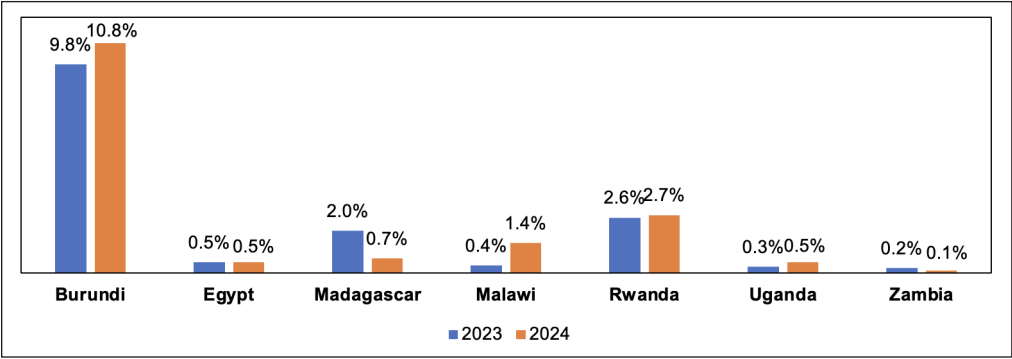
In the postal sector, Burundi’s postal activity accounted for 0.4% of the total loans in the financial system. However, with 146 offices nationwide, deposits increased by 49% on a yearly basis, and the total loans increased by 13.2% in 2024. The quality of the loan portfolio increased from 4.4% in 2023 to 4.7% in 2024.

In Rwanda, there is one postal office with total assets at USD3.9 M and with a declining penetration rate in the economy (0.03% in 2024 compared to 0.06% in 2014). Compared to the banking sector and the microfinance sector, the postal activity accounts for 0.1% of the total savings of deposit takers operating in the country.

In Egypt, the postal sector is significantly larger, with assets of USD 6.83 billion at the end of the FY 2023/2024, with a growth rate of 1.5%, and the number of post outlets diversified into 4427 offices, 130 mobile vehicles, 83 postal kiosks across the country at the end period under review. Moreover, the penetration rate recorded 2.4% in FY 2023/2024.

For the microfinance sector, activities are conducted through companies and associations with varying levels of market penetration. Funding is mainly sourced from customer deposits and equity, with assets mainly invested in loans. However, in some countries, the sector is exposed to two major risks, namely credit risk (the default of borrowers) and liquidity risk (maturity mismatch).

Figure 59: Microfinance Penetration Rate in COMESA Countries



In Egypt, microfinance institutions provide financing to medium, small, and micro enterprises, with total funding increasing to 1.58 billion USD in 2024, which is provided by companies and associations whose total assets increased to 1.65 billion USD in 2024.

The entities lend for different activities, such as agriculture, services, commercial, and production. For portfolio quality indicators, the 30-day delinquency rate stood at 4.5% for companies and 3.1% for associations in 2024.

Figure 60: Funding Portfolio in COMESA Countries (USD Million)

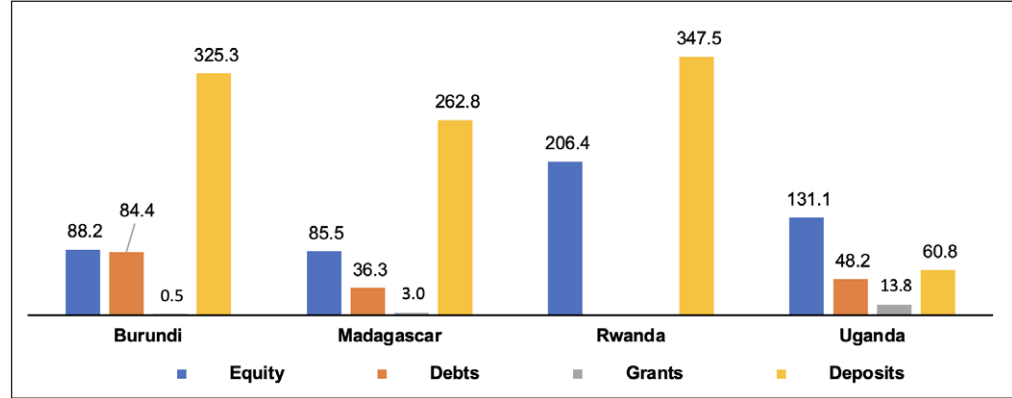
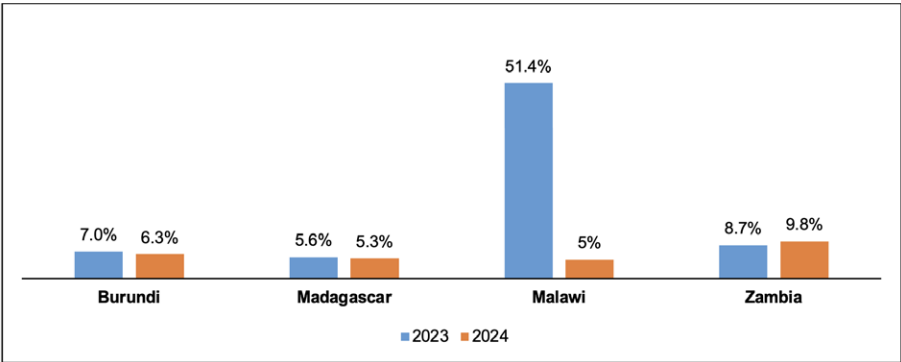


Figure 61: Portfolio at Risk with more than 30 Days of Arrears



4.0.3 Pension and Mutual Funds Industry

In the COMESA region, the collective investment industry comprises pension funds and mutual funds, with pension funds including both private and public pension funds. There are 2,157 private pension funds and 17 public pension funds in nine member countries.

Most of the private pension funds are in Zimbabwe with 967 funds and in Egypt with 671 funds. In terms of the size, the assets of private pension funds increased in six of the eight reporting countries, namely, Uganda by 30.7%, Egypt by 20%, Malawi by 19.9%,

Mauritius by 11.8%, Zimbabwe by 10.2%, and Madagascar by 4.6%. While the assets of the public pension funds increased in only two Member States out of five that reported, namely Uganda by 40.8% and Egypt by 32.6%.

In terms of the profitability, private pension funds maintained an optimal investment business model across the reviewed Member States except in Madagascar, where the level of investment was 65.5% of the total assets. Thus, the return on investment (ROI) was the lowest in Madagascar at 7.4%.

Figure 62: Net Investment in Total Assets of Private Pension Funds

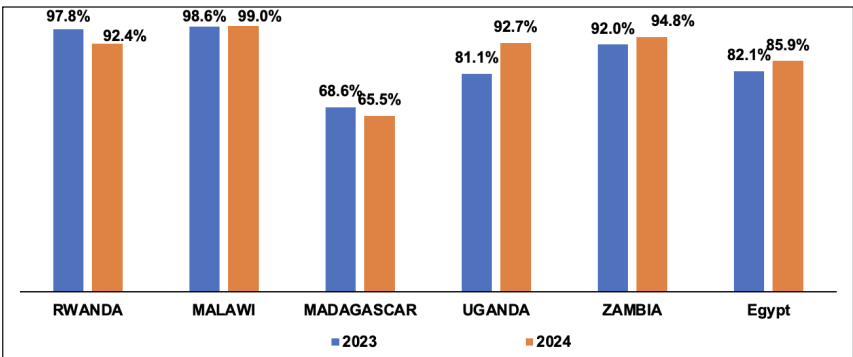
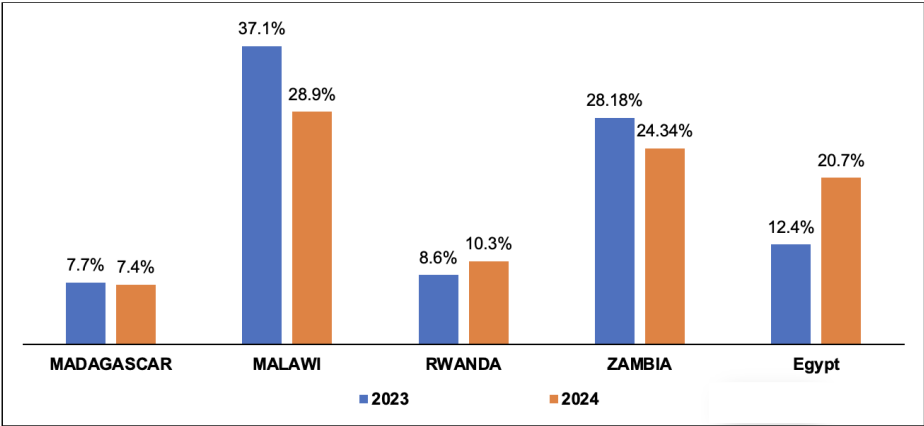


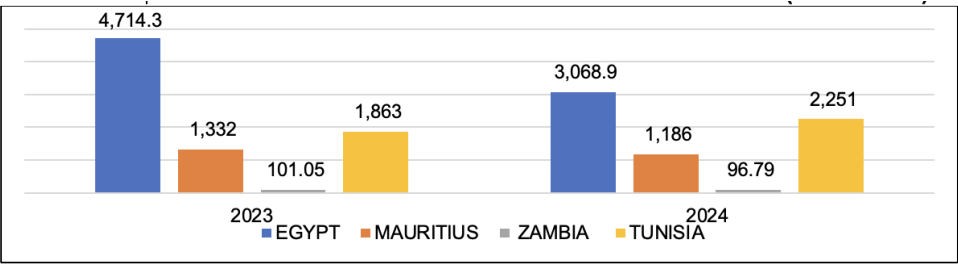
Figure 63: ROI in COMESA Member States



The mutual fund industry in the COMESA region comprises 328 funds across four Member States: Egypt, Mauritius, Tunisia, and Zambia. The sector is highly concentrated in Egypt (154 funds), and in Tunisia (127 funds). In terms of industry size, Egypt holds the largest total assets, while Mauritius recorded

the highest penetration rate with mutual fund assets equivalent to 7.9% of GDP by 2024, compared to 1% in Egypt in the same period. In Egypt, the mutual fund market includes 89 funds established by banks, 6 private equity funds, and 9 closed-ended funds.

Figure 64: Net Asset Value of the Mutual Funds in COMESA Member States (USD Million)



4.0.4 Brokerage and Money Exchange industries

The brokerage sector provides financial intermediation services and is most developed in Egypt, which accounts for 130 of the 233 licensed companies in the region, with total assets of about USD 620 million.

The money exchange sector operates across the region, but data are reported only by

Zambia and Egypt. For Zambia, there are 23 licensed companies, while Egypt has 28, with total assets of USD 45.3 million, and a penetration rate of 0.01%. Profitability in Egypt improved, with the return on equity (ROE) and the return on assets (ROA) rising to 14.5% and 12.2%, respectively.

4.0.5 Mortgage and Leasing Industries

The mortgage finance activity provides loans to individuals to purchase real estate for residential or other purposes (commercial, services, administrative). In Egypt, the sector has 25 licensed companies with a mortgage portfolio USD 651.6 million and an average repayment period of 11.1 years. Residential mortgages account for 79.6% of the total mortgage finance portfolio. Profitability improved with both return on assets and return on equity increasing to 2.3% and 15.4%, respectively.

Leasing firms finance businesses for machinery, equipment, and various

production lines. A total of 63 companies are licensed in four Member States (Egypt, Rwanda, Zambia and Tunisia) with 46 companies located in Egypt. The penetration rate is 0.10% in Zambia, 3.3% in Tunisia, and 0.9% in Egypt.

The value of leasing contracts is USD 2,340.5 million in Egypt and USD 0.02 million in Zambia. In Egypt, the “Land and real estate” account for 76.2% of total leasing finance, while “all type of vehicles” account for 10.7%. The “machinery and equipment” and “heavy equipment” account for smaller shares.

4.0.6 Factoring and Securitization Industry

Factoring provides the necessary cash flow for projects to reuse in their operations. The region has 44 licensed factoring companies, 40 of which are in Egypt. The value of discounted papers in Egypt is USD 1,467.5 million, of which 9.9% is international factoring. Total assets of the companies amount to USD 0.15 million in Rwanda, USD 92.3 million in Tunisia, and USD 32.5 million in Egypt.

Net profits of the companies amounted to USD 3.54 million in Tunisia and USD 9.5 million in Egypt, where the return on assets and return on equity was 3.9% and 18.1%, respectively.

Securitization activity transforms untradeable assets into tradeable securities. In Egypt, the total assets reached USD19 million, with a penetration rate of 0.01% and securitized bonds valued at 1.1 billion USD.



Image credit: Freepik.com

4.1 Financial Markets

4.1.1 Overview of COMESA Capital Markets

COMESA's capital markets continue progress steadily, led by the relatively developed exchanges in Kenya, Egypt, and Mauritius. While smaller markets remain relatively shallow and less liquid, ongoing reforms and modernization efforts are gradually improving depth, transparency, and investor confidence.

Despite global headwinds in 2024, such as

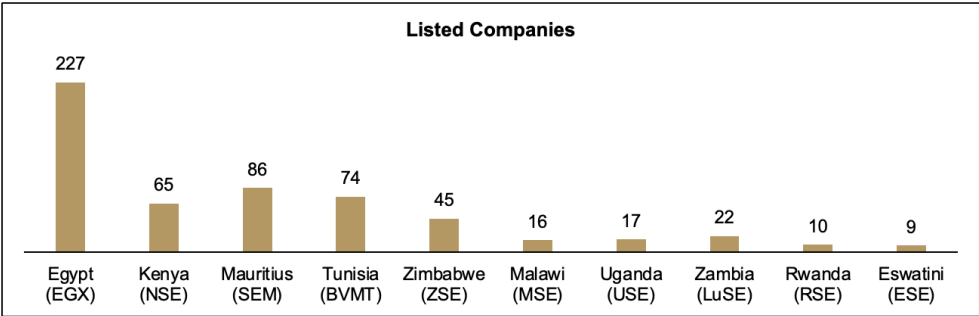
tighter financial conditions, rising debt costs, and commodity price volatility, COMESA markets were resilient. According to the IMF's April 2025 Global Financial Stability Report, emerging markets faced increased vulnerabilities; yet COMESA's equity markets recorded an average return of about 25% in 2024, reflecting renewed investor optimism and the region's untapped potential.

4.1.2 Regional Trends

Stock Market Listing. The number of listed companies across COMESA stock exchanges reflects varying stages of market development. Egypt (227), Kenya (65), and Mauritius (86) lead in listings, supporting diversified investment and stronger market resilience. Meanwhile, smaller markets such as Eswatini (9), Rwanda (10), and Malawi (16) are taking progressive steps to strengthen their exchanges, improve regulatory frameworks, and attract new listings.

These differences across markets highlight both the uneven development and the region's growth potential. While larger exchanges currently drive activity, smaller markets offer opportunities for expansion through innovation, regional cooperation, and broader access for domestic issuers, supporting a more inclusive and resilient regional capital market ecosystem.

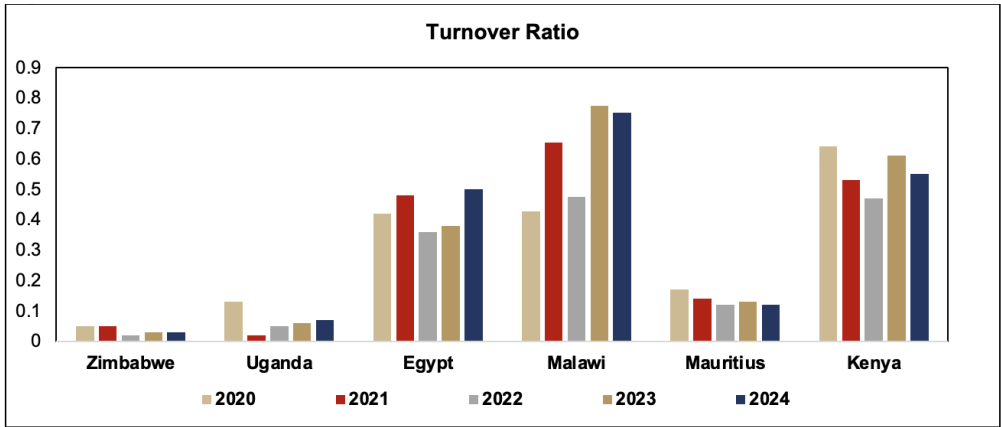
Figure 65: Listed Companies in Selected COMESA Countries



Turnover Ratios (Liquidity). Liquidity remains a cornerstone of capital market resilience, underpinning the ability of exchanges to facilitate efficient intermediation, enhance price discovery, and provide stability during periods of stress. Within COMESA, turnover ratios reflect the different stages of market development. Strong trading activity in Kenya (0.55) and Egypt (0.50) highlights their roles as key regional liquidity anchors.

In contrast, equity market liquidity remains relatively low in Zimbabwe (0.03), Uganda (0.07), and Mauritius (0.12). However, initiatives such as automation, new product development, and cross-listing are being implemented to enhance trading volumes and market depth. These developments indicate opportunities for strengthening liquidity and broadening access to capital markets. At regional level, collaboration, harmonization of trading platforms, and investor education could further increase participation and broaden access to capital markets.

Figure 66: Turnover Ratio of Selected COMESA Countries



The turnover ratio for Malawi was 0.75, indicating the most dynamic and liquid stock market within the COMESA region. This high turnover reflects strong domestic participation, particularly from institutional investors such as pension funds and insurers, and highlights the market’s growing capacity to support efficient price discovery and capital mobilization. Similarly, Kenya (0.55), Egypt (0.50), and Mauritius (0.12) show healthy trading activity, supported by stable

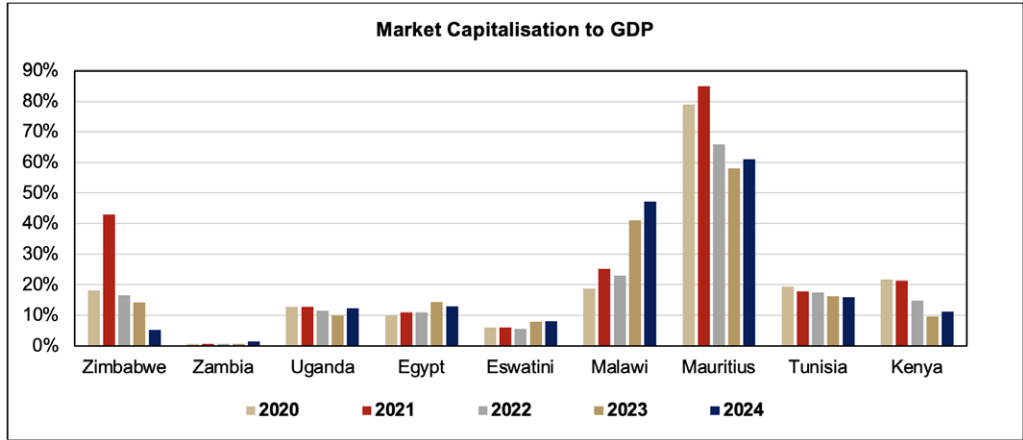
markets conditions and broadening investor engagement.

Overall, COMESA’s markets display a varied liquidity level, with hubs such as Malawi, Kenya, and Egypt anchoring stability in regional activity. Continued policy support, market modernization, and investor engagement are expected to strengthen market depth, intermediation, and financial inclusion across the region

Market Capitalization-to-GDP. In 2024, COMESA's stock markets remained resilient, as reflected by the marginal increase in capitalization-to-GDP ratios across member countries. Zimbabwe, with a ratio of 5.2%, faces structural challenges linked to currency and macroeconomic conditions, though ongoing reforms provide prospects for gradual recovery and deeper market participation. Zambia recorded a ratio of

1.4%, showing early signs of improvement as initiatives to expand listings and attract investors aim to deepen the market and reduce reliance on the banking sector. Meanwhile, Uganda, with a capitalization-to-GDP of 12% reflects a developing market with potential to strengthen its role as a complement to the banking system and support financial stability as reforms and investor engagement progress.

Figure 67: Stock Market Capitalization in Selected COMESA Countries



In 2024, COMESA's stock markets displayed various levels of development alongside promising growth opportunities. Mauritius (61%) and Malawi (47.2%) stand out as the region's deepest markets, reflecting strong domestic and institutional participation and growing resilience relative to their economic size. While concentration among a smaller number of issuers remains a consideration, ongoing efforts to diversify listings and strengthen market infrastructure are expected to enhance stability. Moderately developed markets such as Egypt (13%), Tunisia (15.9%), and Kenya (11%) are steadily deepening through policy reforms, expanding listings, and broadening market activity.

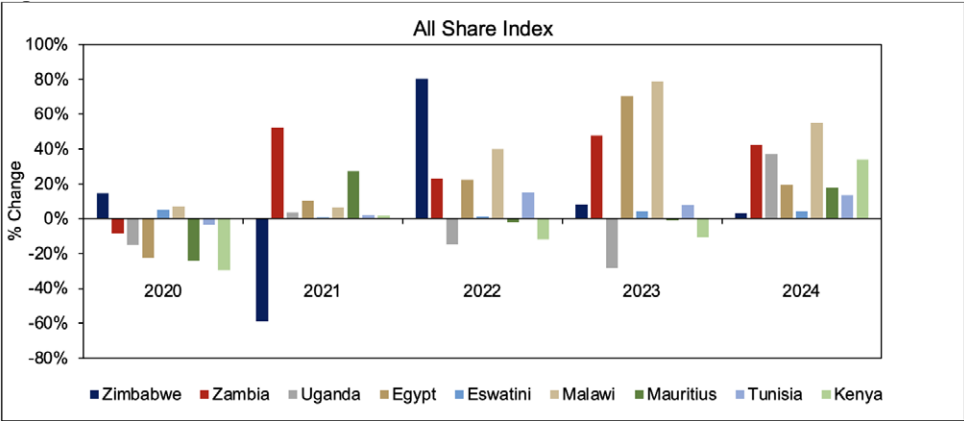
Meanwhile small markets such as Eswatini (8%) and others remain in the early stages of development, with limited listings and capital mobilization capacity. Nevertheless, reforms, increasing investor awareness, and regional integration initiatives under the AfCFTA provide opportunities to gradually improve market depth, liquidity, and intermediation.

Overall, while many COMESA markets remain below global benchmarks, the general trend points to positive momentum, with leading markets setting examples for growth, and others showing clear potential to expand, diversify, and strengthen their role as financial buffers in the regional economy.

All Share Index. In 2024, COMESA equity markets recorded an average increase of about 25% in the All-Share Index (ASI),

reflecting rising equity prices and stronger investor participation.

Figure 68: All Share Index in Selected COMESA Countries



Malawi (ASI +55.1%, turnover 0.75, capitalization-to-GDP 47.2%) and Mauritius (ASI +17.9%, capitalization-to-GDP 61%), led the region, supported by active domestic and institutional investors. Malawi’s strong trading activity reflects growing market depth and expanding domestic capital mobilization, while Mauritius continues to benefit from global integration and strong institutional participation. Both markets set benchmarks for resilience and provided positive examples of how policy and investor engagement can enhance capital market effectiveness.

Markets such as Egypt (ASI +19.4%, turnover 0.50, capitalization-to-GDP 13%), Kenya (ASI +34%, turnover 0.55, capitalization-to-GDP 11%), and Tunisia (ASI +13.7%, capitalization-to-GDP 15.9%) also showed steady progress,

with improving liquidity, broader market participation, and ongoing reforms and diversification efforts that are strengthening investor confidence

Emerging markets including Zimbabwe (ASI +3.2%, turnover 0.03, capitalization-to-GDP 5.2%), Zambia (ASI +42.5%, capitalization-to-GDP 1.4%), Uganda (ASI +37%, turnover 0.07, capitalization-to-GDP 12.3%), and Eswatini (ASI +4.2%, capitalization-to-GDP 8%) are gradually building momentum despite structural constraints and shallow market depth. Recent ASI gains signal improving investor sentiment, while continued reforms, capacity-building, and regional integration initiatives such as AfCFTA are expected to deepen liquidity and market intermediation.

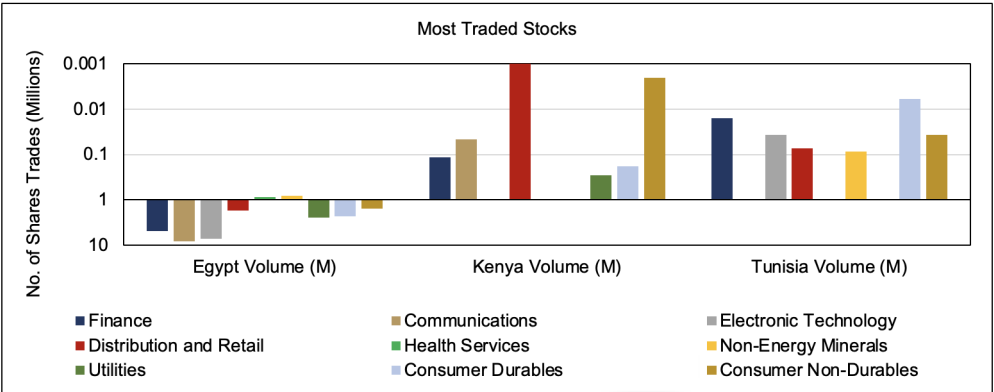
Overall, COMESA capital markets demonstrated resilience in 2024 and showed strong potential to expand their role in mobilizing long-term savings and

investment. Although disparities remain, leading and moderately developed markets are strengthening their contribution to regional economic development.

Most Traded Sectors. Regional trading activity across Egypt, Kenya, and Tunisia reflected a healthy and optimistic market outlook, with notable sectoral diversity. The Communications sector recorded the highest trading volume at 8.23 million shares, largely supported by digital sector growth in Egypt. Electronic Technology followed with 7.19 million shares, highlighting

sustained investor interest in innovation and tech-oriented firms. The Finance sector accounted for 4.98 million shares, reflecting continued confidence in financial services. Other notable sectors included Utilities (2.79 million), Consumer Durables (2.53 million), and Energy Minerals (2.02 million), indicating strengthening industrial and energy-related investments.

Figure 69: Most Traded Stocks in Selected COMESA Countries



Additional activity in Distribution and Retail (1.83 million), Consumer Non-Durables (1.59 million), and Health Services (0.86 million) points to increasing diversification. Emerging participation in Health Technology (0.87 million) and Transportation (0.43 million)

also signals growing investor confidence in essential and innovation-driven sectors. Overall, these trends highlight deepening market integration, sustained resilience, and positive growth prospects across COMESA's evolving capital markets.

4.1.3 Emerging Opportunities

FinTech & Digital Transformation. Kenya, Egypt, Mauritius³¹, and Rwanda are emerging as regional leaders in digital innovation, leveraging mobile trading platforms and fintech ecosystems to broaden market participation. These developments improve accessibility, boost liquidity, and diversify investor bases beyond traditional institutional players. With strengthened investment in regulatory oversight and risk management, digitalization is expected to support deeper, more efficient, and resilient financial systems.

Green and Sustainable Finance. Kenya, Egypt and Mauritius³² are leading the region in issuing green bonds to finance renewable energy and climate-resilient infrastructure. These instruments are attracting growing interest from global ESG investors, expanding funding sources, and complementing traditional debt. The development of sustainable finance strengthens long-term market stability by aligning investment with climate and development goals. Over time, ESG-driven investments are expected to enhance market resilience, providing a stable base of funding while supporting sustainable growth. Effective reporting and monitoring frameworks will further reinforce investor confidence and market integrity.

Regional Integration (AfCFTA). The African Continental Free Trade Area (AfCFTA) offers COMESA countries an opportunity to strengthen cross-border capital market linkages, through cross-listings, harmonized regulations, and integrated clearing systems. Greater regional integration can improve liquidity, attract larger institutional investors, and reduce market fragmentation, ultimately fostering more resilient and efficient regional markets.



Image credit: Freepik.com

³¹ Mauritius is positioning itself as a regional FinTech hub through regulatory innovation, digital banking frameworks, and Central Bank-led initiatives such as the Digital Rupee (CBDC) pilot. These efforts aim to enhance financial inclusion and attract cross-border investment. Mauritius is actively building a FinTech hub and digital ecosystem: (a) The Bank of Mauritius Innovation Hub (Innov8) fosters fintech development and collaboration with global partners. (b) Initiatives include Regulatory Sandbox Licenses, digital banking guidelines, and a pilot rollout of a Digital Rupee (CBDC). (c) Mauritius ranks among the top African jurisdictions for financial market sophistication and digital readiness, supported by its Digital Mauritius 2030 Strategic Plan.

³² Mauritius is emerging as a sustainable finance hub, with green bond issuances, ESG frameworks, and dedicated guidelines to align with international standards. These initiatives support climate goals and attract ESG-focused investors. Mauritius has made significant strides: (a) Issued its first green bond in 2022, followed by additional listings on the Stock Exchange of Mauritius (SEM). (b) Adopted a Sustainable Finance Framework aligned with global principles (Green Bond Principles, Sustainability-Linked Loan Principles). (c) Launched the SEM Sustainability Index (SEMSI) and published guidelines for sustainable bonds to prevent greenwashing.

4.1.4 Risks & Vulnerabilities

Macroeconomic Instability. While inflation, fiscal deficits, and currency volatility pose challenges in some countries in COMESA, they also create opportunities to strengthen policy frameworks, enhance investor confidence, and build resilience. Economies such as Zimbabwe, Zambia, and Egypt can leverage structural reforms and targeted interventions to improve macroeconomic stability and attract long-term investment.

Shallow Markets. Many COMESA markets still record market-capitalization-to-GDP ratios below global averages, reflecting untapped growth potential. Expanding listings, encouraging institutional participation, and developing domestic investor bases can deepen markets, strengthen resilience, diversify funding channels, and complement the banking sector in absorbing shocks.

Political Risk. Developments in Zimbabwe and Tunisia require close monitoring. Strengthened governance, transparency, and institutional reforms could gradually support attracting investor confidence and stable capital inflows.

Global Shocks. Exposure to commodity price swings, global interest rates, and geopolitical developments present risks but also incentives for diversification. By strengthening risk management tools and broadening investor bases, COMESA markets can enhance resilience and integration with global financial systems.

4.1.5 Global Trends and COMESA Spillovers

Global financial conditions, including tighter liquidity and geopolitical uncertainties, highlight the importance of resilient domestic markets. While shallow and illiquid markets may face challenges from external shocks, these dynamics also encourage the development of buffers, improved market infrastructure,

and regional coordination. With strengthened risk management, diversified investor bases, and strategic policy interventions, COMESA markets can convert these global trends into opportunities for growth, deeper integration, and increased systemic resilience.

Relevance for COMESA Capital Markets

Equity Market Volatility. COMESA stock exchanges could experience spillover volatility due to stretched global valuations. More liquid and integrated, such as Kenya and Egypt, are most exposed to external portfolio flows. A global risk-off episode could reverse recent ASI gains. Shallow markets including Zambia, Eswatini, and Uganda, are disproportionately affected as thin liquidity amplifies price swings. While global valuations may create spillover effects, COMESA stock markets with higher liquidity and integration are able to absorb external portfolio flows. These markets show resilience through diversified participation and active trading, offering opportunities to maintain gains even in risk-off periods. On the other hand, smaller markets have opportunities to deepen by enhancing investor participation and gradually strengthening systemic buffers.

Sovereign Debt Pressures and Investor Sentiment. High fiscal deficits highlight the need for robust policy frameworks. Malawi and Mauritius, with strong capitalization-to-GDP ratios of 47% and 61%, respectively,

demonstrate resilience and can function as stabilizing anchors. Their performance indicates that sound equity markets and diversified participation can sustain investor confidence despite debt pressures.

NBFIs and Contagion Channels. Pension funds and insurers strengthen market depth and stability. While global deleveraging may temporarily affect liquidity, well-capitalized NBFIs sustain market participation and support stability. Expanding institutional investor bases in markets such as Eswatini and Zimbabwe can further strengthen resilience.

Geopolitical and Global Shock Amplifiers. Geopolitical developments influence sentiment but also highlight the importance of proactive risk management. Fragile markets can build adaptive capacity through strategic reforms, improved infrastructure, and deeper regional integration, turning potential shocks into opportunities to reinforce investor confidence and market resilience.

Image credit: Freepik.com



4.1.6 Strategic Implications for COMESA

Strengthen buffers and resilience: Deepen markets and diversify investor bases across COMESA countries to reduce reliance on volatile external flows.

Advance regulatory frameworks: Strengthen oversight of NBFIs and improve crisis-preparedness to better absorb market spillovers.

Promote integration: Leverage cross-border listings under the AfCFTA to spread risk, increase liquidity, and reduce market fragmentation.

Expand safe asset classes: Develop local sovereign bond markets with transparent issuance practices and lower dependence on external financing and mitigate shocks.





CHAPTER 5

Stress Tests: Experiences From
Selected COMESA Countries

5.0 Introduction

Stress testing is a forward-looking risk management tool used by financial institutions and supervisors to assess the impact of potential risks on the financial system, individual banks, or specific portfolios. Stress tests are designed to explore what may occur in a range of situations, including exceptionally severe but plausible circumstances. The scenarios are based on historical experience, data analysis, and expert judgement. The output from stress tests helps regulators monitor financial stability, formulate policy decisions, and identify major risks facing regulated entities.

Stress tests cover key risk categories, including credit, market, concentration, sovereign, liquidity, operational, and contagion risks. They are conducted under baseline, moderate and severe scenarios, each defined by different assumptions regarding the magnitude of shocks. These assumptions are used to assess the impact of the assumed shocks on profitability, capital adequacy, and liquidity in the banking and non-banking financial sectors.

Since the GFC, stress testing has become an essential component of macroprudential analysis. Macroprudential stress tests evaluate the resilience of the banking system by capturing potential feedback loops and spillovers across institutions and markets, often using top-down approaches. The results support proactive policy measures aimed at mitigating the buildup of systemic risks within the financial system such as measures targeting credit demand e.g. debt to income and loan to value ratios, capital surcharges,

or liquidity requirements, the risk-weight add-on, and calibration of the countercyclical capital buffer. Stress tests also serve as early warning indicators to identify potential weaknesses of the system and contribute to the development of recovery plans by outlining the corrective measures required to restore financial soundness in the banking sector and mitigate the impact of severe assumptions.

The importance of stress testing has grown further as financial institutions face evolving risks beyond traditional credit and market exposures. Geopolitical shocks, cyber incidents, and climate-related disruptions are increasingly recognized by regulators as potential systemic threats that can propagate rapidly across financial systems. Consequently, modern stress testing frameworks incorporate scenarios that capture these tail risks, nonlinear interactions, and prolonged shocks. By embedding such forward-looking analyses, banks not only meet supervisory expectations but also strengthen their capital adequacy, liquidity planning, and overall resilience.



Image credit: Freepik.com

Considering the efforts of COMESA Monetary Institute (CMI), COMESA member countries, developed their macroprudential analytical toolkit to include stress testing, to simulate the effect of plausible potential macro-financial shocks on the stability of the whole financial system. This chapter reviews stress testing approaches implemented by COMESA

member countries. It concludes with the application of a single stress scenario to selected banking sectors within the region. The assumptions vary in terms of the degree of severity, for the purpose of assessing the resilience and ability of these banking systems to withstand the assumed shocks in terms of capital adequacy.

5.1 Macro-Stress Testing Experiences of COMESA Member Countries³³

Within the financial stability framework index developed by COMESA member countries, the macroprudential toolkit constitutes a key pillar for monitoring and mitigating systemic risks. Among these tools, **macroprudential stress testing** has become an important instrument for financial stability analysis across COMESA countries. Macro stress tests assess the resilience of the banking systems to adverse macro-financial shocks – such as economic contractions, exchange rate volatility, and fiscal imbalances – by simulating their potential impact on solvency and liquidity indicators. In the COMESA region, this analysis is particularly relevant given the region's exposure to climate-related risks, commodity price fluctuations, and external financing vulnerabilities. By identifying system-wide vulnerabilities and interlinkages, macro stress tests support Central Banks and supervisory authorities to identify emerging risks, calibrate prudential buffers, and inform policy responses in a timely manner. As member countries continue to refine their stress testing frameworks, these tools are increasingly integrated into forward-looking surveillance and contingency planning efforts, reinforcing the region's commitment to safeguarding financial stability.

In 2025, COMESA member countries conducted stress tests to assess the resilience of the financial sector to shocks. Most countries now conduct macro-level stress tests on a regular basis, either annually or bi-annually, focusing on credit, liquidity, market, and contagion risks. These exercises are increasingly integrated into national financial stability frameworks and policy decision-making processes.

Responses to the 2025 questionnaire and analysis of the recent Financial Stability Reports suggest that banking sectors across the region remain generally resilient to the adverse shocks modelled under severe but plausible scenarios. While stress testing frameworks vary across jurisdictions, the results generally indicate soundness, with some country-specific weaknesses emerging under extreme stress scenarios. The following table provides a comparative overview of macro stress testing practices and outcomes across selected COMESA member countries (Additional information on micro-stress tests implemented by COMESA member countries are available in Appendix 4).

³³ This section focuses only on macro stress-tests, i.e. applied to the banking sector as whole, not on institutional level. Therefore, the countries implementing micro-stress tests are not included in this subsection. Notably, the Reserve Banks of Malawi and Zimbabwe are working on developing a macro stress-test. Some other countries are not included as the last published FSR is in 2022 or earlier, these are DRC, Madagascar, and Rwanda.

Table 2: Macro Stress Tests Implemented by COMESA Member Countries

Country	Frequency	Coverage	Type of risks	Source
Burundi	Annually	All Banks	Credit	FSR 2023
Egypt	Annually	Largest 10 banks representing 80% of the banking sector	Credit, concentration, market, liquidity, operational, direct contagion, and climate change	FSR March 2024
Eswatini	Annually	All Banks	Credit and liquidity	FSR June 2024
Kenya	Semi-annually	All Banks	Credit, concentration, bond repricing, liquidity cyber-security, climate change, foreign exchange, and interest rate	FSR 2024
Mauritius	Bi-annually	All Banks	Credit, and market	FSR December 2024
Tunisia	Once in 2021 and 2022	11 largest banks	Credit	2025 Questionnaire
Uganda	Annually	Banks	Credit and market	2025 Questionnaire
Zambia	Annually	Banks	Credit, market, profitability and liquidity	2025 Questionnaire

A summary of the macroprudential stress tests conducted across the COMESA region is provided below.³⁴



Burundi

The Central Bank of Burundi conducted macroprudential stress tests to assess the resilience of the banking sector to adverse macroeconomic shocks.

Table 3: Macro Stress Tests for Burundi

Risk Factor	Simulation Assumption	Solvency Impact
Foreign Exchange Reserves	Halved from 8-year average	-2.05% (from 19.3%)
Fiscal Balance	Tripled deficit from 8-year average	-4.27%
Inflation	Tripled inflation from 8-year average	-4.26%

The results indicate that the sector is vulnerable to deteriorations in key macroeconomic indicators, particularly fiscal and inflationary pressures. While the initial

solvency ratio is 19.3%, the simulated shocks could significantly reduce this ratio, pointing to potential systemic fragility under extreme conditions.

³⁴ The summary of the stress tests provided in this chapter relies either on the latest FSR publication of the respective country or on the country's reply to the 2025 questionnaire. The source is mentioned for each country.



Egypt

The Central Bank of Egypt (CBE) conducted macroprudential stress testing using scenario analysis applied to the 10 largest banks, representing 80% of the banking sector's total assets in December 2024. The analysis assessed the impact of systemic risks on bank solvency, while liquidity stress tests in local

and foreign currencies were conducted for the entire banking sector. Macro-financial risk scenario included assumptions on changes in external sector conditions, monetary policy, sectoral economic performance, government fiscal performance, and sovereign credit ratings.

Systemic Risk Resulting from Sovereign Exposures

Sovereign credit risk: Under the macro-financial scenario, characterized by weaker fiscal performance and a potential sovereign credit rating downgrade, expected credit losses (ECL) were estimated in line with IFRS 9 requirements.

Market risk from sovereign exposures: The impact of higher interest rates was assessed through the revaluation of government bonds using the present value method, based on upward shifts of the yield curve.

Liquidity risk resulting from sovereign exposures: Liquidity stress tests were conducted on the LCR in both local and foreign currencies. The scenarios assumed higher haircuts on selected high-quality liquid assets and increased deposit outflows over a one-month horizon. Additional assumptions were applied to cash flows and deposit runs to evaluate the adequacy of liquid assets in covering potential cumulative liquidity gaps after applying haircuts to government securities and balances with banks.

Sensitivity stress testing for credit and concentration risk resulting from government securities' investment portfolio in local currency: Stress tests were conducted to assess sovereign credit risk and concentration risk associated with investments in government securities in local currency. The analysis followed proposals by

the Basel Committee on Banking Supervision to review the preferential regulatory treatment of sovereign exposures by applying higher risk weight add-ons to government securities in local currency. For the concentration risk, additional risk weights were applied progressively to tiers exceeding the ratio of claims on sovereign entities to tier 1 capital.

Macroeconomic Systemic Risk

Corporate and household credit risk: For credit risk of large corporates and small and medium-sized enterprises, the decrease in weighted average portfolio risk rating was assumed. Besides this, the default of a proportion of the portfolio of loans granted to micro-enterprises was assumed, as well as a proportion of the consumer loans portfolio and mortgage for personal housing, was assumed to be among the “substandard” category of non-performing loans.

Market risk related to foreign exchange: The analysis assessed the impact of local currency depreciation on the net open positions in foreign currencies.

Sensitivity stress testing for credit concentration risk in the corporate loan portfolio, corporate credit risk in foreign currencies, and market risk: Credit concentration risk in the corporate loan portfolio was evaluated by assuming the default of the largest 3, 5 and 10 obligors in each bank. Market risk was assessed using repricing gap analysis, to estimate the direct impact of a higher interest rate shock on banks’ expected losses or profits.

Cybersecurity sensitivity stress testing: Higher losses from cyber-attacks were assumed due to the increased reliance on electronic financial services. The impact of this assumption on the banking sector’s solvency was measured using the standardized approach.

Contagion systemic risk: Direct contagion risk from NBFIs to the banking sector was evaluated by assuming failure of the non-banking financial institutions to meet a proportion of their obligations to banks. In

addition, contagion risk within the banking sector stems from the interconnectedness between banks in the interbank market. The matrix of net interbank bilateral exposures has been used to measure the direct contagion risk, under the assumption that some banks fail to pay their obligations to other banks.

Climate change systemic risk: Stress tests were applied to measure the potential impact of climate risks on the banking sector, including physical and transition risks. The CBE used two scenarios for measuring climate change risks that may impact the banking sector in the short term, for a period of one year. In this case, the corporate credit portfolio stress tests were conducted, assuming a decrease in the weighted credit rating for a proportion of the portfolio of loans and credit facilities. With respect to market risk for sovereign exposures, the effect of assumed changes in interest rate was assessed through the revaluation of government bonds.

Reverse stress testing: These tests aimed to identify scenarios that would reduce the capital adequacy ratio to its regulatory minimum, as well as to determine haircuts on some liquid assets that result in a decrease in the average liquidity ratios in local and foreign currencies to the prescribed regulatory limits.

Stress test results: Overall, the results indicate low or moderate solvency and liquidity risks in local and foreign currencies, suggesting the banking sector can absorb all losses from the assumed shocks. Declines in average liquidity ratios may result from applying significantly high haircuts to government securities in the numerator of the ratio, which highlights the financial resilience of the banking sector.



Eswatini

Macroprudential stress testing was implemented to assess the resilience of the Eswatini banking sector against adverse

hypothetical scenarios. The stress tests focused on two primary vulnerabilities: credit risk and liquidity risk.

Credit Risk

Loan migration scenario: A uniform shock was applied to simulate deterioration in asset quality, where performing loans migrate to non-performing status. The results show that:

- 24.7% of performing loans would need to become non-performing for the first bank's capital adequacy ratio (CAR) to fall below the 8.0% regulatory minimum.
- This was better than the 21.3% threshold reported in 2022, indicating improved resilience.
- Post-shock metrics were determined at: 10.6% for Capital Adequacy Ratio, and 30.1% for high capital buffers.

Default by largest borrowers: The capital adequacy and NPL ratios for the banking sector following the shock are 10.2% and 32.1%, respectively. The resilience of the banking sector to this shock could be attributed to the already high levels of capital held by banks. Assuming default by the largest borrowers and a 100.0% provisioning requirement (the 'loss' category for loans), the results showed that the 8.0% minimum regulatory capital adequacy requirement is breached by the first bank after default by the top five largest borrowers.

Liquidity Risk

Simulated bank run: The Bank conducted a stress test for liquidity, in which case a simple bank run was simulated. The resilience of banks to such a risk from a liquidity perspective was assessed by the number of days banking institutions would be able to withstand a drain on their liquidity without having to resort to external support. The results revealed that liquid assets of the first bank would be depleted after eight (8) days of distress, assuming a daily withdrawal rate of 5.0% on demand and savings deposits and 2.5% on term deposits.

Sudden withdrawal by systemic largest depositor: Eswatini banking system’s largest depositor has holdings with two banks. The depositor may decide to withdraw from both banks and invest elsewhere, which may affect the banks’ liquidity positions. The results show that one bank will breach the regulatory minimum liquidity requirement if this scenario unfolds. In addition, the banking sector’s average liquidity ratio is expected to fall to 24.7% from 30.9% in case the scenario materializes. This emphasizes the need for banks to manage funding concentrations.



Kenya

The May 2025 stress test assessed the impact of rising NPLs, new core capital requirement of KSh 3.0 billion, and potential cyber-attacks on banks’ core capital by December 2025. This annual stress test assessed the banking sector’s resilience under hypothetical but plausible shock scenarios, calibrated from prevailing economic conditions, a projected decline in new lending amid rising NPLs,

and the increase in core capital from KSh. 1 billion to KSh. 3 billion. The impact of these shocks was measured in terms of capital shortfalls – the additional capital required to meet the minimum regulatory requirements and the number of banks not meeting the minimum capital requirement if the scenarios materialized.

Credit Risk Stress Tests

(a) Baseline/Uniform stress test: Shocks were calibrated from historical NPLs, reflecting economic policy, and lending conditions in May 2024 stress test.

Table 4: Stress Tests Assumptions and Results for Kenya

Assumptions	Results
NPLs increase by: 10.2% (baseline)	Under severe scenario, core CAR drops from 14.1% to 13.0%. 9 banks fail and require KSh18.8 billion in capital.
17.2% (moderate)	Sectoral concentration is minimal, but provisioning shortfalls increased
28.9% (severe)	from 4 banks in 2022 to 6 in 2023 due to reduced profit.

(b) Event-based Stress Test I: Based on Economic, Financial and Policy Environment. This scenario evaluated the impact of a challenging business environment, tight financial conditions, tight monetary and fiscal policies, and declining households and firms' incomes, thus reducing their ability to service existing loans and/or take up new loans, contributing to faster growth in NPLs. These shocks can be transmitted through: Overall increase in NPLs; sectoral NPLs increase; and defaults by top borrowers per bank (1, 2 and 3 top borrowers per bank default under baseline, moderate and severe scenarios, respectively).

The results demonstrated that:

- Under the severe scenario, 7 banks require KSh 27.6 billion in additional capital.
- If the top 3 borrowers' default, KSh 239 billion is needed across the sector.
- Tier I banks are most exposed, accounting for 89.4% of the shortfall.

(c) Event-based Stress Test II: New Core Capital of KSh. 3 billion by December 2025. This test assessed whether banks could meet the new core capital requirement (KSh. 3 billion by December 2025) using retained earnings alone. Under a severe scenario with a 27.4% rise in NPLs, 12 small (tier III) banks would need KSh 19.8 billion in additional capital within six months. This shortfall is improved compared to earlier projections and underscores the pressure on smaller banks to find alternative ways to recapitalize or restructure to comply.

Cyber Risk Stress Test: This stress test evaluated the resilience of the banking sector to cyber threats, including Malware, web application, Botnet/DDOS and system

misconfiguration. The test assumed an annual cost of attacks of KSh. 20 billion, with a probability of successful cyber-attack estimated at 5%, plus or minus 2 standard deviations. Under the different scenarios, losses were projected at KSh. 32.8 million in the baseline, KSh. 2.1 billion under moderate scenario, and KSh. 2.9 billion under severe scenario. These losses increase operational costs and reduce revenue, which in turn leads to a decline in capital. In severe scenarios, the impact is significant enough that some banks could fall below the minimum regulatory requirements.



Image credit: Freepik.com



Mauritius

The stress test assessed the resilience of the banking sector under an assumed economic downturn, using three scenarios: a baseline scenario with 5% growth, a moderate scenario with no growth, and a severe scenario with a 3% economic contraction. The shocks primarily affect banks through credit risk, with market risk considered in the augmented scenario. The impact on the banking system would be measured on solvency – that is, whether banks have adequate capital buffers to withstand the shocks.

The augmented scenario adds interest rate and exchange rate shocks to the baseline and moderate scenarios of macroeconomic shocks. The first set assumes an interest rate cut with a depreciation of the currency, while the second set assumes an interest rate increase with a lower degree of exchange rate depreciation. These hypothetical scenarios test the sector's capacity to withstand multiple shocks and do not represent any expected event.

Table 5: Stress Test Assumptions and Results for Mauritius

Scenario and assumptions	Results
<i>Macroeconomic Scenario</i> Simulated economic downturns: Baseline: +5% growth Moderate: 0% growth Severe: -3% contraction	All banks maintained post-shock CAR above regulatory minimums. 17 out of 18 banks had CAR above 15% in the severe scenario.
<i>Augmented Macroeconomic Scenario</i> baseline and moderate scenario combined with interest rate and exchange rate shocks: Set 1: -200bps rate cut + 3–6% depreciation Set 2: +200bps rate hike + 2–4% depreciation	All banks were resilient in both sets. Rate cuts absorbed due to positive net interest rate sensitive assets. FX depreciation had minor impact due to low net open FX exposure.



Tunisia

The Central Bank of Tunisia conducted stress test exercises in 2020 and 2021 to evaluate the resilience of the 11 largest banks over a three-year horizon (2021–2023). The goal was to assess their ability to withstand

ongoing economic and financial challenges, including political uncertainty, social tensions, exposure to sovereign risk, and the withdrawal of support measures to economic agents.

Approach

- Combined top-down and bottom-up methodology.
- Sensitivity tests applied to key variables.
- Risk assessed: solvency/credit risk.

Scenarios: Two scenarios were simulated:

1. Baseline Scenario:

- Assuming economic recovery from 2022.
- Aims to control inflation and reduce the budget deficit.
- Private sector risk increases due to the end of loan maturity extensions and return to normal classification and provisioning standards.

2. Severe Scenario:

- Assuming continued economic slowdown.
- Significant pressure on monetary and fiscal balances.
- Elevated risk to the private sector.

Key Indicators: The indicators used included:

- Profitability
- Non-performing loans ratio
- Solvency ratio

Results

The banking sector remains resilient under both scenarios, provided that:

- A prudent dividend distribution policy is maintained.
- Latent risks are adequately covered.
- Central Bank of Tunisia strengthens its capacity to monitor systemic risks.
- Support measures are targeted to vulnerable sectors (construction, tourism, and real estate development).



Uganda

Uganda’s Central Bank conducted macroprudential stress tests to assess the resilience of the banking sector to adverse macroeconomic shocks. The goal was to evaluate the sector’s ability to absorb risks and inform macroprudential policy decisions.

The tests were applied to all banks in the sector to assess their resilience to credit risk and market risks (interest rate and foreign exchange). Core Capital Adequacy Ratio (CAR) was used as the key metric across all risk categories.

Table 6: Stress Test Results for Uganda

Shocked Variables	Scenarios simulated	Results
Credit risk: Non-performing loans (NPLs)	Decline in GDP growth rates	Most banks were found to have sufficient capital buffers to withstand the simulated shocks.
Interest rate risk: Net interest margin	Rise in inflation	
FX risk: Net exposure	Depreciation of the Ugandan Shilling (UGX)	
	Increase in interest rates	



Zambia

The Bank of Zambia conducts macroprudential stress testing to assess the resilience of the banking sector to various financial and macroeconomic shocks. The results inform macroprudential policy decisions, including

the calibration of capital buffers. The test was applied to all banks in the sector to assess their resilience to credit risk, liquidity risk, solvency, profitability risk, and market risk (interest rate and exchange rate volatility).

Table 7: Stress Test Results for Zambia

Variables of interest	Results
Credit risk: NPL ratio Liquidity risk: Loan-to-deposit ratio Solvency risk: Capital Adequacy Ratio (CAR) Profitability: Return on Assets (ROA) Market risk: Exchange rate volatility	The main outcome cited is that the results are published in the FSR. However, the stress test results have directly informed macroprudential policy decisions, such as setting the Countercyclical Capital Buffer (CCyB) at 0%.

5.2 Application of Stress Tests to Some Banking Sectors in the COMESA Member Countries ³⁵

Stress testing was applied to banking sectors in the COMESA countries based on one scenario across all countries, with varying severity. The shocks emanate from negative repercussions of the global and Middle East region’s geopolitical tensions with continued disruption of global supply chains.³⁶ Scenario analysis was conducted at the macro level of the largest banks in the banking sector, including banks that represent about 80% of the sector’s assets. The stress testing framework incorporated

several risk types including sovereign credit risk of the government sector credit portfolio and the financial investment portfolio in government securities in domestic currency, concentration risk, and market risk from interest rate and foreign exchange movements. The implemented stress tests aimed to assess the resilience of the largest banks in some of the COMESA member countries in terms of adequacy of their capital to cover unexpected losses.

³⁵ Stress test implementation for COMESA member countries in this section is based on the data provided by some countries as per COMESA FSR Survey, 2024.

³⁶ The assumptions of the stress tests were applied following the Basel Committee’s proposal to review the preferential treatment of claims on sovereign entities through applying risk weight add-ons on those claims. As well, the stress tests were conducted depending on the hypothetical assumptions that were used in FSAPs exercises.

Table 8: Stress Test Scenario to the Banking Sector Across Selected COMESA Countries

STRESS TEST SCENARIO	Rising uncertainty regarding economic policies, particularly trade and fiscal policies, has the potential to constrain investment and slow economic growth. concerns regarding the outlook for future returns, together with ambiguity over perspective tax policies, could increase corporate caution in undertaking new investments or scale back expansion plans, which could ultimately contribute to a slowdown in overall economic activity.
	The growing threat of protectionist measures, such as the imposition of tariffs, poses a risk to global supply chains by creating new trade barriers. These actions may undermine the efficiency of international trade, lead to higher production costs and increased prices for consumers, and prompt retaliatory measures from trading partners, reflected in higher default rates in the corporate credit portfolio of banks, and higher probability of default at the level of the top obligors in the banking sector, thereby higher credit and concentration risks.
	Persistent geopolitical and regional conflicts are exerting upward pressure on the prices of essential commodities, raising the risk of inadequate supply both in terms of quantity and affordability which precipitate in a global economic recession. Emerging markets are vulnerable to changes in trade policies and currency fluctuations which could lead to capital outflows from African emerging economies, increasing pressure on domestic currencies amid higher levels of uncertainty, rising interest rates, and thus higher market risk.
	Continued rising debt service costs are exposing some African developing countries, especially low-income countries, to sovereign risk. Thus, a decline in investors' confidence in the government's ability to pay back its obligations, which may result in a downgrade of the country's credit rating, thereby higher sovereign credit risk, a decline in the liquidity of government securities and the depreciation of their value, beside bank runs.

Sovereign credit risk stress tests aim to measure the potential expected credit losses resulting from the high probability of default by sovereign entities. This includes exposure to government securities held by banks as well as loans extended to the government sector. As for credit concentration risk, stress tests are conducted by assessing the impact of the hypothetical default of the bank's top five and ten obligors – and their related parties – on the banks' required provisions and hence their capital adequacy ratio (CAR).

The market risks stress test aims to assess the banks' resilience to face adverse changes in interest rate and exchange rate. The impact of interest rate risk was assessed using time-to-repricing buckets. Different interest rate sensitive assets and liabilities are grouped together in different buckets depending on their time-to-repricing. This analysis only

deals with the direct effect of interest rate risk. Banks are usually exposed to a rise in interest rates because they are performing maturity transformation. In case of banks that display a negative time-to-repricing gap, i.e. liabilities are repriced faster than assets. This leads them to lose interest income when interest rates rise.

The direct effects of exchange rate risks were assessed based on the banks' net open foreign currency positions. The implied gains or losses on these positions were computed as the product of the net open position and the expected change of the domestic currency exchange rate in each of the scenarios. The positive net foreign exchange position of banking system implies that the banking system experiences direct market gains in the case of a local currency depreciation.

5.2.1 Sovereign Credit Risk

Within the framework of the applied scenario, the increase in sovereign credit risk was reflected in higher default rates for

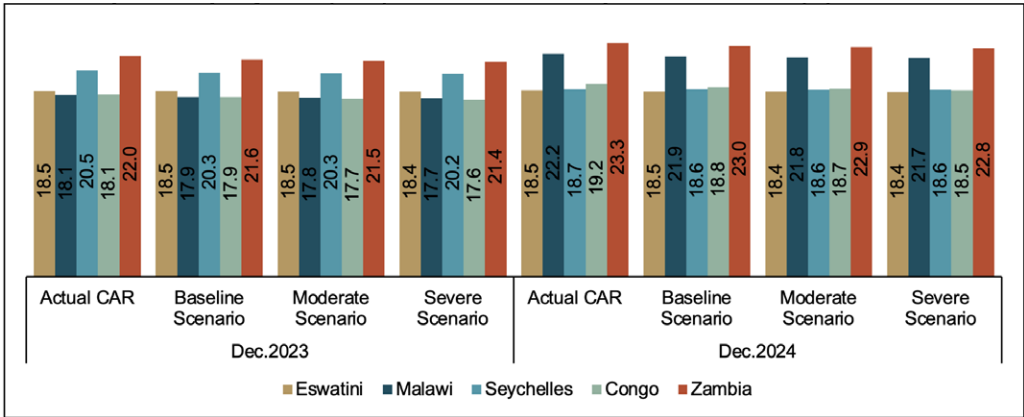
government sector loan portfolio as well as its investment portfolio in the form of treasury bills and government bonds.

5.2.2 Loan Portfolio Sovereign Credit Risk

Within the framework of the applied scenario, it was assumed that 10% of the performing loans in the government sector credit portfolio would be defaulted in the baseline scenario, 20% in the moderate scenario, and 30% in the severe scenario, and shift to the non-performing category “substandard”. As a result, corresponding provisions of 20% and 3% of the non-performing loans and performing loans would be required in Eswatini, Malawi, Seychelles, DRC and Zambia in December 2024 compared to December 2023.

The results show that the banking sector in the five countries maintain sufficient capital buffers to absorb losses resulting from the default of a proportion of the government sector performing credit portfolio under the three scenarios. The post-stress CAR remains above the Basel regulatory minimum based on actual data in December 2023 and 2024. However, under the severe scenario as of December 2024, CAR declined by 0.1% in Eswatini, 0.5% in Malawi, 0.1% in Seychelles, 0.7% in DRC and 0.5% in Zambia.^{37,38}

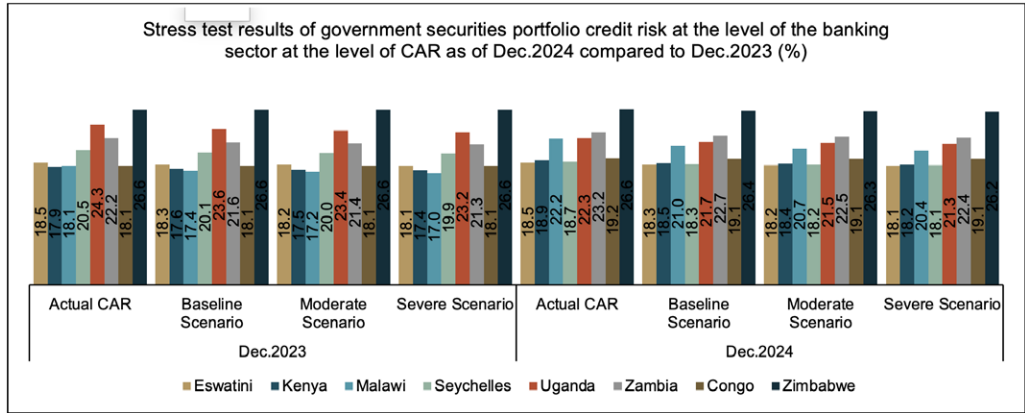
Figure 70: Stress Test Results of Loan Portfolio Sovereign Credit Risk in the Banking Sector at the Level of Capital Adequacy Ratio (CAR) as of Dec.2024 Compared to Dec.2023 (%)



37 The banking sector here stands for the aggregate position of the top banks that represent about 80% of banking sector assets.

38 At 10.5%.

Figure 71: Stress Test Results of Investment Portfolio Sovereign Credit Risk of Selected COMESA Countries



On the other hand, it was assumed that the net non-performing loans and credit facilities of the government sector portfolio classified under the irregular category “substandard” would increase by 5%, 10% and 15% under the baseline, moderate and severe scenarios, respectively. These increases would require corresponding provisions of 20% in the banking sectors of DRC and Malawi.³⁹ The results indicate that capital is adequate to

absorb losses arising from the increase in government sector non-performing credit portfolio in the banking sectors in the two countries. Under the severe scenario, CAR declined by 0.2% in Malawi, while no impact was observed in the DRC. The absence of impact in the DRC reflects the relatively high level of provisions already maintained by banks based on the data for 2023 and 2024.

5.2.4 Credit Concentration Risk

Stress tests for concentration risk were conducted at the level of the largest credit obligors and their related parties. The tests assumed the default of 5% of the performing credit portfolio of the top five obligors and their related parties under the baseline scenario, 10% in the moderate scenario, and 15% under the severe scenario. These exposures were assumed to migrate to the non-performing classified as “substandard”, requiring the formation of corresponding provisions of

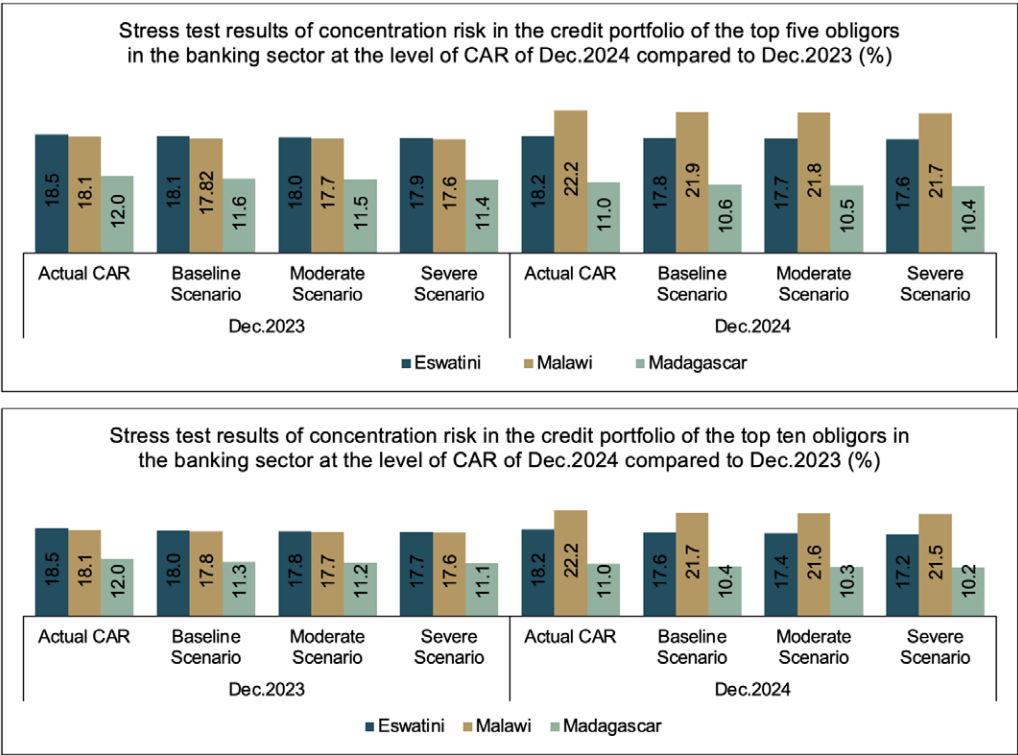
20%. It was also assumed that provisions for the remaining performing portfolio for the top five obligors would be maintained at an average of 3%. The analysis was conducted at banking sector level in three countries (Eswatini, Malawi and Madagascar), based on data for December 2024 compared to December 2023. These assumptions were also applied to the performing credit portfolio of the top ten obligors and their related parties for the same three countries.

³⁹ It was assumed that required provision rate for the outstanding NPLs portfolio before increase is 50%.

The results of the concentration stress test indicate that banks have adequate capital buffers to absorb losses resulting from the default of a proportion of the credit loans to top obligors in the banking sector in the three countries, under the three scenarios. In most cases, the post-stress CAR remained above the minimum regulatory threshold under the Basel framework based on actual data in December 2023 and 2024. However, in Madagascar, the regulatory standard was

not achieved in December 2024 because the actual CAR of one bank included in the analysis was below the regulatory minimum of 10.5%. Under the severe scenario related to the default of the top five obligors, CAR declined by 0.6% in Eswatini, 0.5% in Malawi, and 0.6% in Madagascar. Under the severe scenario related to the default of the top ten obligors, CAR declined by 1% in Eswatini, 0.7% in Malawi and 0.8% in Madagascar.

Figure 72: Stress Test Results of Credit Portfolio Concentration Risk in the Banking Sector



5.2.5 Market Risk

Stress tests for market risk include both interest rate risk and foreign exchange risk. For interest rate risk, it was assumed that the interest rate would rise by 1% under the baseline scenario, 2% under the moderate scenario, and 3% under the severe scenario, using data for time to repricing gaps at the level of the banking sector in six countries (Eswatini, Malawi, Seychelles, Zimbabwe, Uganda and Zambia) in December 2024

compared to December 2023. Foreign exchange risk stress test was applied by assuming depreciation of the value of domestic currencies in the eight countries (Eswatini, Seychelles, Zimbabwe, Zambia, Uganda, Madagascar, Malawi and DRC) against foreign currencies at rates of 10%, 15%, and 20%, under the baseline, moderate, and severe scenarios, respectively, using the net open foreign currency positions.

5.2.6 Interest Rate Risk

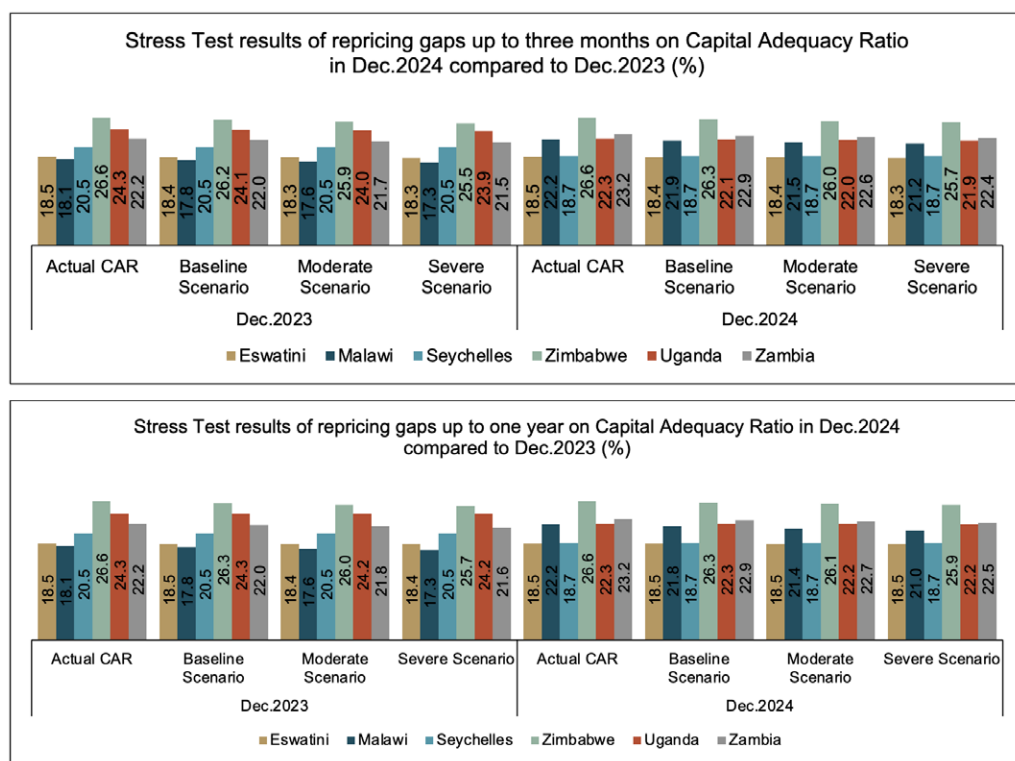
Interest rate risk stress test was performed based on the cumulative repricing gaps in both short-term (up to 3 months) and medium-term (up to 1 year) buckets. The banking sector in the countries under stress – except for Seychelles – exhibited negative repricing gaps in the short and medium-term buckets. As a result, increase in interest rates under the three scenarios lead to a decline in CAR.

in interest rates. In all cases, the post-stress CAR remained above the minimum threshold recommended under the Basel framework based on actual data for December 2023 and 2024. Under the severe scenario related to repricing gaps of up to three months as of December 2024, CAR declined by 0.2% in Eswatini, 1% in Malawi, 0% in Seychelles, 0.9% in Zimbabwe, 0.4% in Uganda and 0.8% in Zambia. Under the severe scenario related to repricing gaps of up to one year, CAR declined by 0.1% in Eswatini, 1.2% in Malawi, 0% in Seychelles, 0.7% in Zimbabwe, 0.1% in Uganda, and 0.7% in Zambia.

The results of the interest rate stress tests indicate that banks maintain adequate capital buffers to absorb losses arising from increases



Figure 73: Stress Test Results of Interest Rate Risk in the Banking Sector in Selected COMESA Countries



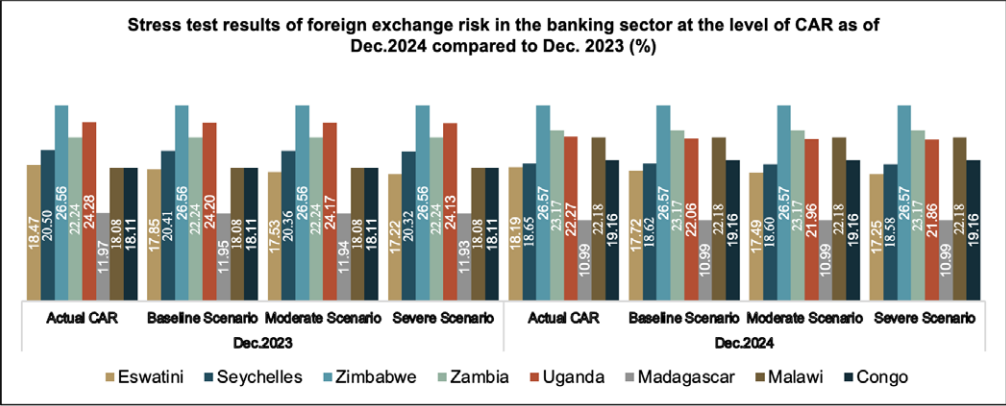
5.2.7 Foreign Exchange Risk

The banking sector in the countries included in the stress tests - except Zimbabwe, Zambia, Malawi, DRC and Madagascar (in Dec.2024 only) recorded deficits in their net open foreign currency positions. As a result, they would incur losses in the event of a depreciation of the domestic currency, under the three scenarios.

The results of foreign exchange stress tests indicate that banks maintain adequate capital buffers to absorb losses resulting

from domestic currency depreciation. Under the three scenarios, the post-stress CAR remained above the minimum threshold set under the Basel framework, based on actual data for December 2023 and 2024. However, under the severe scenario as of December 2024, CAR declined by 0.9% in Eswatini, 0.1% in Seychelles, and 0.4% in Uganda.

Figure 74: Stress Test Results of Foreign Exchange Rate Risk in the Banking Sector in Selected COMESA Countries



5.3 Conclusion

Stress testing is considered one of the key forward-looking analytical tools of both micro- and macro-prudential policy in financial systems. It is used to identify the vulnerabilities and risks at both institutional and system-wide levels. In this chapter, a unified macroeconomic scenario was applied at the aggregate level of the largest banks in selected COMESA member countries – representing about 80% of the banking sector’s assets– to assess their resilience, particularly in terms of the adequacy of their capital to absorb unexpected losses.

The stress testing results show capital levels are generally sufficient to absorb

losses arising from shocks related to sovereign credit risk for government sector loan portfolio and the investment portfolio of government securities, including treasury bills and bonds. The analysis also covered credit concentration risk associated with the top five and ten obligors and their related parties, as well as market risks stemming from interest rate and foreign exchange movements. Overall, the post-stress CAR for most banking sectors in the assessed countries remained above the minimum level required under the Basel framework, based on actual financial data as of December 2023 and 2024.



CHAPTER 6

Payment Systems in the
COMESA Region



Payment systems are a critical pillar of the financial system architecture in the COMESA region, facilitating the smooth and secure transfer of funds across households, businesses, financial institutions within the domestic economies, as well as the countries of the region. Their operational integrity directly influences the stability and resilience of the broader financial system. Disruptions in payment systems, whether arising from technical failures, cyber threats, or liquidity constraints, can generate systemic risks, weaken market confidence, and impair the transmission of monetary policy. The smooth functioning of payment systems thus underpins confidence in the financial system, ensures the effective transmission of monetary policy, and enables the settlement of cross-border and domestic financial transactions.

Regional payment system platforms such as COMESA's Regional Payment and Settlement System (REPSS), East Africa Community's Payment and Settlement System (EAPSS) and the Southern African Development Community's (SADC) Transaction Cleared on an Immediate Basis (TCIB) are not only settlement channels but also enablers of cross-border trade and integration. By reducing barriers to cross borders transactions, through improved accessibility and lower costs, efficient payment systems act as a catalyst for expanding intra-regional trade and by extension, economic growth. A robust and resilient payment infrastructure within the COMESA region not only mitigates systemic vulnerabilities, but also reinforces trust in the financial system, supports regional integration and development, making it a key area for policy focus and investment.

The payment systems influence financial stability and systemic risk through:

a) Systemic Importance: Payment systems are financial market infrastructures (FMIs) under international standards, and disruptions in their operations can trigger liquidity shortfalls, amplify counterparty risks, and undermine trust in both financial institutions and markets.

b) Risk Transmission and Contagion: Failures or inefficiencies in payment systems can quickly spread, affecting banks, businesses, and households. Payment system risks such as settlement risk, operational risk, or cyber risk can magnify shocks in times of crisis, making robust oversight and risk monitoring indispensable.



Including payment systems in financial stability assessments enables policymakers to evaluate not only the soundness of banks but also the resilience of the broader financial network that underlies all other markets. Such analysis provides a more comprehensive picture of systemic resilience, highlights emerging risks (including digital and cyber

threats), and ensures that regional financial integration is built on a robust and stable foundation. It also highlights progress toward compliance with international Principles for Financial Market Infrastructures (PFMI). As such, the assessment of financial stability in COMESA would be incomplete without an explicit focus on payment systems.

6.0 COMESA Payment Systems Overview

The payment systems in COMESA region comprise national systems and a Regional Cross-border Payments System – Regional

Payment and Settlement System (REPSS), managed by the COMESA Clearing House (CCH).

National Payment Systems in COMESA Member Countries

Across COMESA member countries, national payment systems differ in structure but generally follow a common trend of

modernization and digitization, particularly through Real-Time Gross Settlement (RTGS) and digital retail payments platforms.

Core National System Components. Most countries have implemented or are upgrading key payment infrastructure components including:

- **Real-Time Gross Settlement (RTGS) System:** Used for large-value, time-critical interbank payments. Many countries, such as Zambia Interbank Payment and Settlement System (ZIPSS) and others, have been upgrading their RTGS systems, often migrating to the ISO 20022 messaging standard to enhance data quality, efficiency, and interoperability.

- **Automated Clearing House (ACH):** Processes high-volume, low-value retail payments like cheques, direct debits, and credit transfers (e.g., salary payments).

- **Securities Settlement System (SSS):** Facilitates clearing and settlement of government securities and other financial instruments.

Digital Innovation and Retail Payments. The most dynamic area in the national landscape is digital retail payments, driven by mobile money and FinTech innovation.

- **Mobile Money:** Countries like Egypt, Kenya (M-Pesa) and Uganda have led in mobile money, which is now a dominant retail payment method and a major driver of financial inclusion.

- **Instant Payment Systems (IPS):** Several countries have launched or are developing instant payment systems (Fast

Payment Systems) to enable real-time retail transactions (P2P, P2M).

- **FinTech Growth:** The region's fast-growing FinTech sector offers alternative digital payment solutions such as e-wallets and QR code-based payment, particularly in high-growth countries like Egypt, Kenya and Mauritius.

Table 8: Country-Specific Payment Systems and REPSS Participation

Country	Payments Landscape	REPSS Participation
DRC	A developing payments market with a focus on improving infrastructure for cross-border trade.	Operational
Egypt	Has a developed financial sector and is a major economy in COMESA. Leader in digital retail infrastructure, including RTGS, which is integrated with other regional Arab payment systems such as BUNA. In addition, it operates a modern instant payment system, which is interoperable with other financial systems.	Operational
Eswatini	Participating in regional financial integration efforts, including REPSS.	Operational
Kenya	Leader in mobile money (M-Pesa) and digital retail. It has a modern RTGS system and a vibrant FinTech ecosystem.	Operational
Malawi	Working to modernize its national payment system infrastructure.	Operational
Mauritius	A financial hub with a sophisticated and well-regulated payment system.	Operational
Rwanda	Implementing various digital financial initiatives to boost financial inclusion and trade efficiency.	Operational
Tunisia, Somalia	They have been engaged by the CCH for admission into REPSS.	Admission process
Uganda	Strong penetration of mobile money. Focus on interoperability between mobile money operators.	Operational
Zambia	ZIPSS (RTGS) has been a focus for modernization, including migration to ISO 20022 messaging.	Operational
Zimbabwe, Burundi, Djibouti, Sudan	Central Banks have been reported as being in advanced stages of preparation to go live on REPSS.	In Preparation/Advancing

COMESA Regional Payment and Settlement System (REPSS)

The COMESA regional payment systems landscape continues to evolve, driven by increasing adoption of digital financial services and infrastructure modernization at both regional and country levels. Based on the latest data, key trends observed across member countries include:

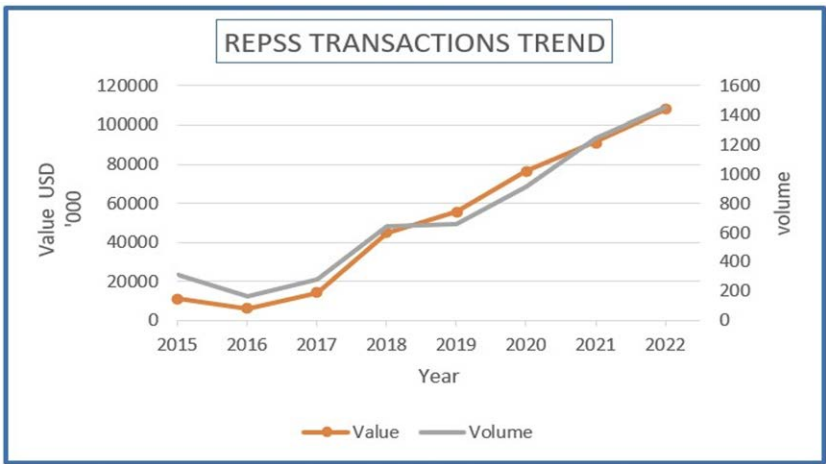
REPSS plays a systemically important role in COMESA’s financial architecture by facilitating secure, efficient, and cross-border payments among member countries using local currencies. As a regional mechanism, REPSS enhances financial integration, reduces reliance on correspondent banking relationships, and mitigates foreign exchange risks. Its smooth functioning is essential for maintaining liquidity, supporting trade, and ensuring confidence in regional financial markets. Any disruption or inefficiency in REPSS could have cascading effects across

participating economies, underscoring its critical role in safeguarding financial stability within the COMESA region.⁴⁰

Since 2019, nine COMESA member countries, namely, DRC, Egypt, Eswatini, Kenya, Malawi, Mauritius, Rwanda, Uganda, and Zambia, have adopted REPSS with the rest of the COMESA countries expected to join the system in due course. REPSS operates through Central Banks and settles transactions in a multicurrency environment, mainly using the US Dollar or Euro.

Transaction values have grown steadily from US\$ 388 Million by end 2022 to US\$ 550 million over 6 years. However, this remains far below intra-COMESA trade that recorded US\$ 14 billion in 2024, indicating limited usage by commercial banks and the need to examine barriers to wider adoption.

Figure 75: Value and Volume of Transactions Processed through REPSS



Source: COMESA Clearing House <https://www.comesa.int/comesa-clearing-house/>

40 Please visit <https://www.comesa.int/comesa-clearing-house/> for more information about REPSS and its operations.

Obstacles that REPSS is Facing and Remedial Recommendations

Limited Participation and Coverage.

Not all COMESA Central Banks are active participants. Out of the 21 COMESA member countries, only 9 Central Banks participate in REPSS, reducing its effectiveness as a regional payment utility. Lack of universal participation makes the system less attractive to banks. The main reason for non-participation is institutional and technical readiness, which needs to be addressed to enhance broader Central Banks participation.

Foreign Exchange Constraints. Although REPSS was originally designed to support local currency transactions, potential exchange rate risks concerns led to the adoption of a settlement model using US dollars and Euros, with the Bank of Mauritius serving as the settlement bank. This structure works for traders and citizens with access to hard currency, limiting inclusivity. To address this, the CCH is developing a Digital Retail Payment Platform that enables instant, affordable and efficient cross-border payments in local currencies. This is currently being piloted along the Malawi-Zambia corridor.

Operational and Technical Limitations.

REPSS was designed as an end-of-day net settlement system for trade transactions. While it remains fit for this purpose, the payments landscape continues to evolve rapidly, with increasing demand for real-time or near-instant payments. Integration with modern, API-driven banking and mobile money platforms is already being explored.

Visibility to Users. By design REPSS relies on commercial banks to channel payments through the system. Bank customers are typically unaware of the underlying payment infrastructure, provided the payment is successfully processed. As a result, the decision to use REPSS rests largely with commercial bank. It is therefore recommended to explore alternative ways to get the trader to have say; in addition to having a strong value proposition for banks to channel payments through REPSS.

Competition from Alternatives. New entrants, such as regional mobile money operators are offering alternative cross-border payment channels which are instant and, in some cases, available 24/7. Collaboration with such alternatives is key to leverage on each other's strengths.

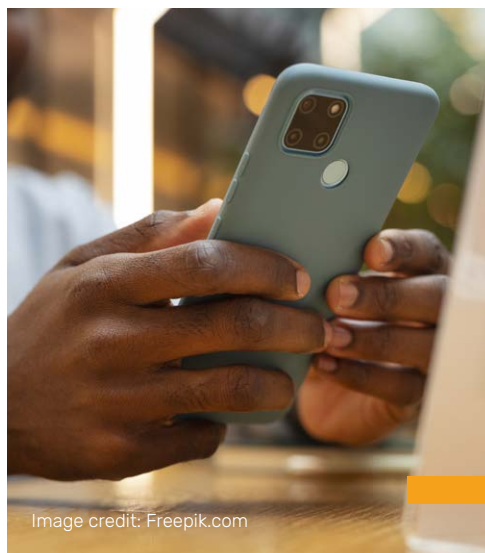


Image credit: Freepik.com

Future Development of REPSS and Efforts by COMESA Clearing House

CCH is upgrading REPSS and migrating to ISO 20022 message standard to align with international best practices, add enhanced features, modernize REPSS, and improve interoperability with other systems.

Efforts to increase usage through awareness have had limited success, prompting consideration of additional strategies such as collaboration not just for interfacing with other systems but adding value to the product offering. A credit facility has been considered through the Trade and Development Bank, a COMESA Institution, although the modalities for its implementation will need to be revisited.

Following the signing of a cooperation agreement between CCH and Afreximbank 2025, CCH is working on interfacing the REPSS and Pan-African Payment and Settlement System (PAPSS). The interface is expected to give an option for instant settlement functionality to REPSS. Once interfaced, new markets outside of COMESA will be accessible allowing payments through REPSS to banks outside of COMESA. A Trade Finance Facility will be considered for disbursement through the platform.

6.1 Growing Adoption of Financial Technologies: Dominated by Mobile Payments

Various digital technologies supporting payment systems have expanded significantly across the COMESA region. Mobile wallets remain the most widely adopted financial technology, used in 14 out of 14 countries that provided data with strong growth in countries such as Djibouti, Ethiopia, Egypt, and Zambia **(Appendix 5)**. For example, mobile payment accounts in Djibouti increased from 5,732 in 2021 to 142,681 in 2024, while Egypt's mobile wallet accounts rose from EGP25.23 million in 2021 to EGP50.44 million over the same period. Ethiopia also recorded strong growth, rising to 129.3 million accounts in 2024, from

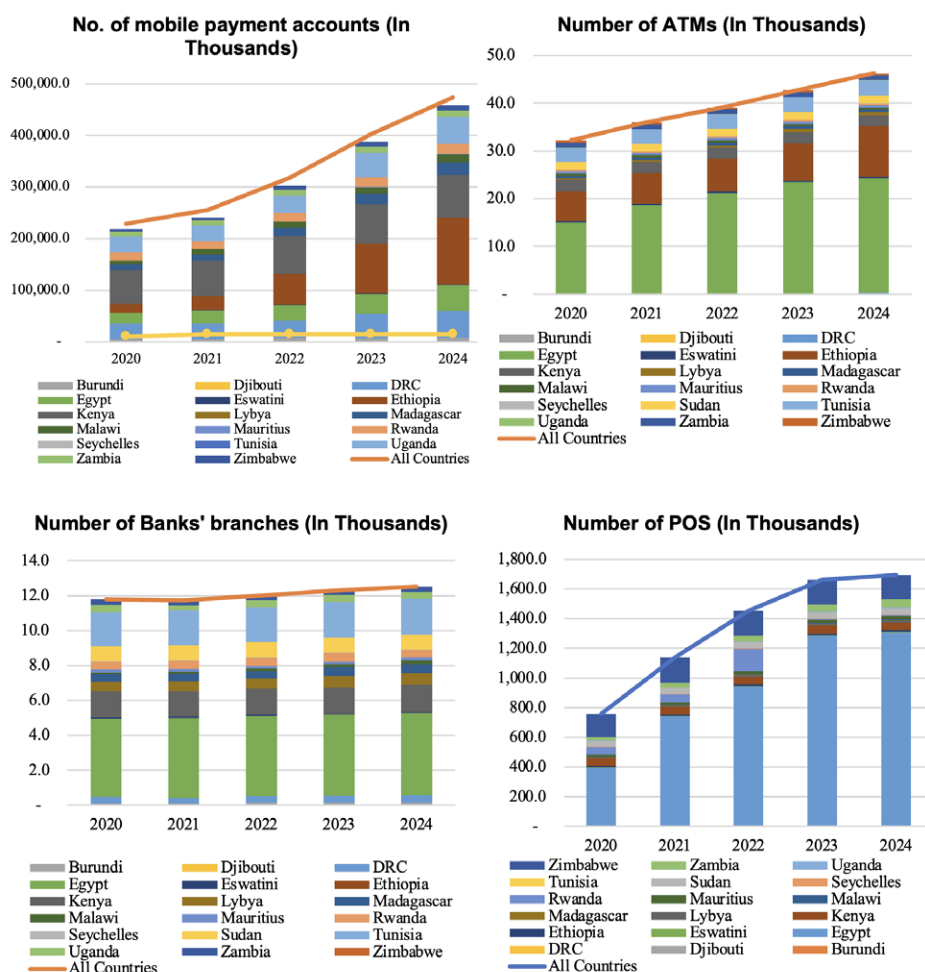
27.2 million in 2021. Ethiopia, Kenya, and DRC have the largest number of mobile accounts. However, in terms of adoption coverage, Kenya had widest adoption with 1,460.7 mobile accounts per every one thousand people, followed by Rwanda at 1,403.4. Other forms of financial technologies including Cloud Computing and Blockchain are gaining traction, with 6 and 5 countries respectively, reporting usage (Appendix 5). Digital Currencies, crowdfunding and other forms of technologies including mobile internet banking, remain less prevalent, with only a few countries indicating adoption.

Table 9: Digital Payment Technologies (Amounts in Thousands)

	2020	2021	2022	2023	2024
Mobile payment accounts	228,958.6	255,582.9	317,881.3	402,934.8	473,592.7
Settlement for RTGS	5,669.5	12,193.5	14,213.8	15,490.5	15,927.6
Number of ATMs	32.2	35.9	39.1	42.8	46.2
Banks' branches	11.8	11.7	12.0	12.3	12.5
Number of POS	758.5	1,137.4	1,451.5	1,663.1	1,692.7

Source: Authors' compilation of data submitted by member counties.

Figure 76: Number of Payment Accounts, ATMs and Bank Branches in the COMESA Countries



Payment infrastructure continues evolving, dominated by Real-Time Gross Settlement (RTGS) and Electronic Check Clearing Systems (ECCS)

RTGS systems are operational in nearly all member countries (13 out of the 18 countries that provided data). This has supported high-value interbank transactions, with RTGS transaction volumes increasing to 15.9 million at end of 2024, up from 12.2 million in 2021. Kenya and Egypt reported RTGS volumes exceeding 8 million and 2.5 million in 2024, respectively. However, RTGS volumes of a few countries, including Burundi, Djibouti,

Ethiopia, Malawi, and Zimbabwe, rose steadily, peaking in 2023 before slightly declining in 2024 (Appendix 5). Meanwhile, Credit Information Bureaus and Electronic Check Clearing Systems are present in several countries, enhancing credit transparency and payment efficiency, respectively. Public Credit Registries and Collateral Registries are still under development or partially implemented in many jurisdictions.

Figure 77: Total Settlement for Real-time Gross Settlement (RTGS)

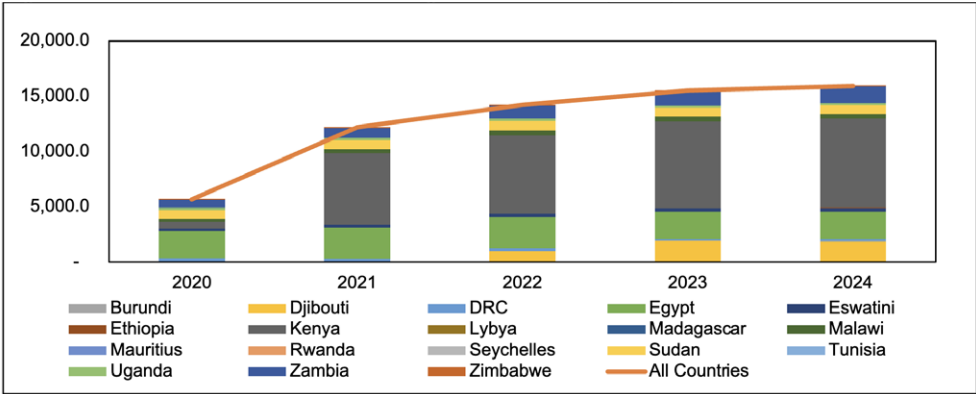
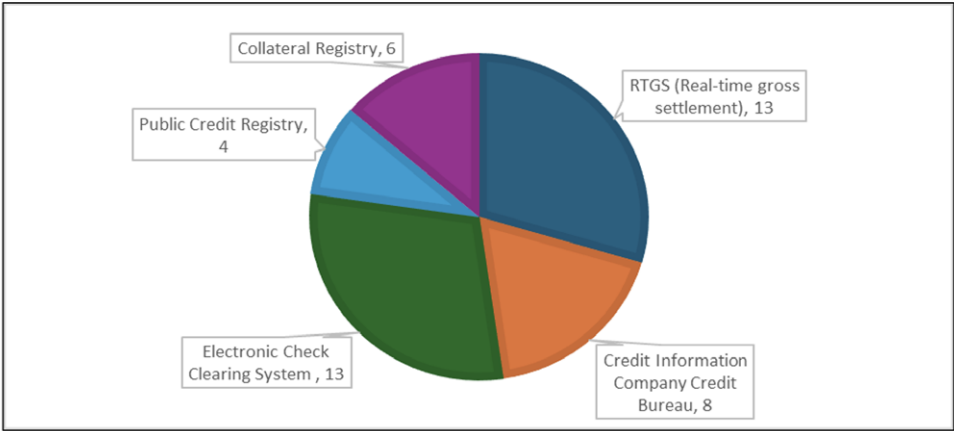


Figure 78: Infrastructure Availability in Eighteen of the Twenty-One-Member Countries



6.2 Risks to the Payment Systems

The payments sector is vulnerable to systemic risks that have regional and national economic consequences. Globally, cybercrime losses have already surpassed USD 8 trillion and are projected to reach USD 10.5 trillion by 2025⁴¹. Given these trends and the evolving landscape, payment systems in the region are exposed to both inherent and emerging risks that may disrupt their smooth functioning. These risks include:

Settlement risk: In high-value platforms such as RTGS, increasing transaction volumes and values require enhanced oversight to ensure adequate safeguards. Key concerns include fraud risks linked to endpoint vulnerabilities and liquidity shortfalls among participating institutions, which may delay payment settlement. Addressing these risks is vital for ensuring reliable and timely completion of payments and reinforcing user trust in the finality and irreversibility of settlement instructions. Also, settlement risk can lead to liquidity shortfalls and delayed payments. This not only disrupts financial flows but can also undermine confidence in the finality of transactions, amplifying credit and liquidity risks across institutions.

Systemic contagion risk: The operations of payment systems involve a network of closely linked participants (banks, non-bank institutions, real sector operators, among others), making it a potential channel for systemic disruptions arising from vulnerability in one participant in the payment system network. The ability of counterparties in the network to fulfil their settlement obligations on time is central to the system's

stability. A failure by one participant to meet its obligations can cascade through the network, potentially triggering broader financial instability. Operational disruptions at systemically important institutions or infrastructures can impair the provision of vital services, including payments and settlements, with immediate effects on households and businesses.⁴²

Geopolitical risks: Rising geopolitical tensions and geoeconomic divisions are creating new challenges. Many countries are increasingly seeking to localize payment infrastructure such as domestic processing of card payments and similar digital transactions, to reduce reliance on external systems. These developments are slowing the progress toward regional payment system integration and accelerating the shift toward nationally controlled platforms, as nations globally and within the region fear the potential effects of other nations using critical digital payment infrastructure or services to achieve political or economic goals.

⁴² See the Bank of England's analysis on how operational risks at systemically important financial institutions or infrastructure can trigger systemic risks: <https://www.bankofengland.co.uk/financial-stability-paper/2024/operational-resilience-in-a-macroprudential-framework>

Operational failures: As payment systems are increasingly utilizing digital and related technologies, operational challenges stemming from sporadic IT connectivity challenges, network availability, power outages, system failures, cybersecurity threats and fraud, can affect both high volume and retail digital financial services.⁴³ An operational disruption can ripple through the financial system, potentially triggering broader consequences such as unavailability of critical financial services, cascading failures due to increased interconnectivity between financial institutions and technology providers, which facilitates contagion and systemic risk across the ecosystem financial instability, or diminished trust among stakeholders.⁴⁴

Operational failures—stemming from cyber-attacks, IT outages, or third-party service disruptions—pose a growing threat. Recent incidents, such as the July 2024 global IT outage and cyber-attacks on the International Commercial Bank of China (ICBC), demonstrate how vulnerabilities in common technologies or service providers can simultaneously affect multiple institutions.

If these risks are not adequately managed, they can disrupt the provision of critical financial services, impair market functioning, and erode public trust—ultimately threatening financial stability.



Image credit: Freepik.com

⁴³ Common attack vectors include phishing, spear-phishing, ransomware, and distributed denial of service (DDoS), often propagated via email or social media.

⁴⁴ IMF (2024), Global Financial Stability Report, P.82

6.3 Existing and Recommended Regional Mitigation Measures

Strengthening operational resilience, enhancing oversight, and fostering regional cooperation are essential to mitigate risks and safeguarding the integrity of payment systems. As financial cooperation within the COMESA region, the stability and resilience of both national and regional payment systems remain critical for maintaining public trust, reducing systemic risk, and ensuring uninterrupted financial flows. COMESA and member countries have put in place measures to ensure operational resilience of regional and member payment systems, respectively, as any disruption in these systems could have widespread implications for liquidity, settlement risk, and overall financial stability across member countries.

For example, to mitigate contagion systemic risks, the Central Banks and relevant payment

system regulators within the region regularly evaluate and enforce risk management strategies, including the provision of intraday liquidity support to reduce counterparty defaults and exposures that may have cascading impact on other players in the payment system network. Further, to mitigate idiosyncratic liquidity and credit risks, regulators in the region have adopted pre-funded RTGS systems and fully backed electronic money frameworks to ensure fully funded transactions.

In response to growing cybersecurity challenges, the role of the regulator is to ensure the robustness and resilience of digital financial services, while also fostering innovation and supporting the sector's development. This role could be structured around:

- Strengthening the regulatory and supervisory framework while ensuring compliance with international standards, including promoting a principle-based approach—that is, a framework guided by core principles rather than rigid rules—in order to balance regulatory flexibility with prudential requirements, as well as integrating cyber risk into the broader operational risk framework and supervisory assessments (for example, Madagascar's Banking Law No. 2020-011 formally incorporates cybersecurity into the management of operational risks);
- Establishing reporting procedures and a standardized rapid notification mechanism to facilitate timely and effective responses to cyber incidents;
- Building the capacity of supervisory authorities in line with rapid technological advancements, and raising awareness among financial system stakeholders about their critical role and the associated security responsibilities;
- Ensuring that business continuity and management systems comply with best practices and international standards, to prevent contagion and enable the rapid restoration of essential services;
- Promoting regional and international cooperation by participating in global exercises and encouraging the establishment of interbank certs (Computer Emergency Response Teams), as well as sharing relevant data for effective incident management; and
- Effectively integrating cyber risk into macroprudential policies.

COMESA and member countries should also consider the following additional policy actions:

- There is a need to establish a harmonized regulatory framework and supervisory standards across member countries to ensure consistent oversight of payment systems. While COMESA has provided guidelines for Financial Stability Assessment for member countries, payment systems demonstrate unique characteristics and risks that require a comprehensive framework and guidelines to strengthen risk mitigation measures.
 - Member countries should improve transparency and data reporting for payment systems and oversight. COMESA should facilitate development of standardized reporting mechanisms for transaction volumes, values, and risk indicators e.g. utilization and availability of systems, pen-tests, incident reports and others, to support timely monitoring and informed policy decisions and enhance public confidence.
- The region should consider establishing regional crisis management and resolution frameworks for payment systems to ensure the continued payment systems and related functions during periods of financial stress or geopolitical disruptions, which may render services outsourced from providers outside the region unavailable.

Table 10: Regulatory Framework and Supervisory Standards for Payments Systems in COMESA

Regulatory Framework and Supervisory Standards for Payments Systems in COMESA
Current Status
Treaty and Policy Anchors: The COMESA Treaty and related monetary cooperation frameworks provide a legal foundation for establishing and operating cross-border payment systems.
Central Bank Mandate: All Member States recognize Central Banks as the primary overseers of payment systems, and at the regional level they collaborate through COMESA Clearing House (CCH) and the Committee of Governors.
Growing Standards Alignment: International benchmarks are increasingly referenced in national and regional discussions. Efforts such as the migration to ISO 20022 messaging standards reflect a move toward harmonization.
Regional Coordination Platforms: Central Bank working groups and technical committees provide for dialogue, experience sharing, and policy coordination on payment systems.
Key Gaps
Absence of a Regional Oversight Framework: While Member States oversee domestic systems, there is no formal, binding supervisory framework at COMESA level to jointly monitor and supervise regional payment infrastructures.
Legal Fragmentation: Settlement finality, netting rules, e-money recognition, and collateral arrangements differ across Member States, creating uncertainty for cross-border operations.
Uneven Implementation of International Standards: Not all jurisdictions have fully embedded PFMI or other supervisory standards. Some are ahead of others.
Limited Regional Risk Monitoring: Data on operational performance, liquidity usage, settlement delays, and incidents are not systematically aggregated or reported at regional level.
Cyber and Operational Resilience Gaps: Region-wide requirements for cyber resilience, joint testing, and coordinated incident management are not yet institutionalized. At the last COMESA Central Banks Annual Governors Symposium (2024), one of the calls to action was to work collaboratively on issues of Cyber security in the financial sector.



CHAPTER 7

Impact of Sovereign Bank Nexus
on Financial Stability in the
COMESA Region

This chapter reviews empirical studies conducted by COMESA member countries in 2024 on a key emerging issue for Financial Stability – The Impact of Sovereign Bank Nexus on Financial Stability in the region.

7.0 Introduction

The sovereign-bank nexus has significant implications for financial stability, as the financial positions of banks and sovereigns are closely interconnected. This interdependence can amplify vulnerabilities in both sectors and generate adverse feedback loops (IMF 2018). On one hand, bank exposure to government debt has increased, largely driven by rising public borrowing and widening fiscal deficits, following major shocks such as the Global Financial Crisis of 2008 and COVID-19 pandemic. Elevated sovereign indebtedness may, in turn, constrain the ability of governments' capacity to respond effectively to financial sector distress. On the other hand, the failure of financial institutions often requires government intervention,

transmitting banks' credit and liquidity risks to the sovereign balance sheet. As a result, the sovereign-bank nexus has become an increasing concern for policymakers.

This chapter provides insights into the risks from the sovereign-bank nexus and their implications for financial stability in the COMESA Member countries⁴⁵. Section 2 defines the sovereign-bank nexus and outlines its transmission channels. Section 3 presents stylized facts on the nexus in the COMESA member countries. Section 4 summarizes key findings from empirical studies conducted by Member countries. Section 5 proposes policy recommendations to mitigate related risks while Section 6 provides the conclusion.

7.1 Definition of Sovereign Bank Nexus and its Channels

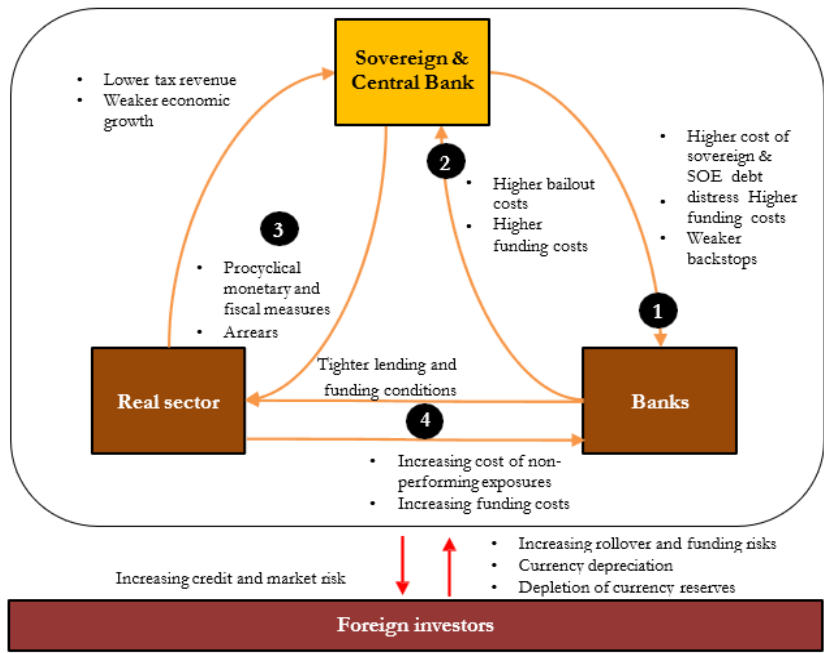
The sovereign-bank nexus refers to the two-way relationship and risk transmission between a country's government or sovereign and its domestic banking sector (World Bank, 2024). According to the IMF (2024), the nexus operates primarily through banks' holdings of domestic sovereign debt, which transmits sovereign risk to banks' balance sheets, especially where banks hold substantial volumes of government securities. The link is further reinforced by the expectation that governments will provide support to banks during periods of financial distress. This interdependence can create adverse

feedback loops, whereby stress in one sector weakens the other.

Banks and sovereigns are connected through multiple interacting channels. Feyen and Zuccardi (2019) conceptualize the nexus as operating through two direct channels, namely, banks' direct exposure to the sovereign and the presumption of government support to troubled banks, and two indirect channels, namely, fiscal and bank interactions with the real economy. Together, these channels interact and generate feedback loops.

⁴⁵ This chapter is based on empirical studies conducted by the following COMESA Member Countries: DRC, Egypt, Eswatini, Kenya, Malawi, Rwanda, Uganda and Zambia.

Figure 79: The Sovereign Bank Nexus: Channels of Exposure



Source: Feyen and Zuccardi (2019)

Sovereign exposure channel: According to IMF (2024), this channel refers to the mechanism through which banks' holdings of domestic sovereign debt transmit sovereign risk to banks and vice versa. It becomes particularly significant when banks have high exposure to government securities. In such cases, increased government borrowing and widening fiscal deficits can weaken the health of the financial system, and in extreme circumstances, raise the risk of sovereign default. This channel is also referred to as a direct exposure channel because any change in the market value of government debt instantly affects the banks' financial health.

Banks' significant exposure to government debt makes their balance sheets sensitive to changes in sovereign risk. COMESA member

countries apply International Financial Reporting Standards (IFRS), although implementation levels vary. Under these regulations, mark-to-market accounting requires financial assets to be valued at their current market prices rather than purchase prices. As a result, any decline in the market value of government bonds and securities must be reported immediately as a loss. This means that financial stress from sovereign debt is promptly reflected in banks' balance sheets as a loss. Furthermore, under IFRS 9 Financial Instruments, banks are required to incorporate sovereign credit risk into their balance sheet assessments. In case of sovereign default, government securities must be revalued, directly affecting banks' capital and financial positions.

Beyond sovereign risk, banks also face credit, interest rate, and refinancing risks, which can reduce income, increase costs, and limit funding access. Although COMESA Member countries have not experienced a sovereign default, the 2022 case of Ghana, when the

government defaulted and implemented the Domestic Debt Exchange Program (DDEP), revaluing government securities at 0% interest for a year, illustrates demonstrates how sovereign distress can rapidly transmit to the banking sector through this channel.

a) Safety net channel: This is the transmission of risk from banks to sovereigns through fiscal costs arising from bank resolution and public support measures, as governments often guarantee banks during systemic crises. Laeven and Valencia (2018) refer to this as the safety net channel, where government intervention in banks with distress increases public debt due to bailouts. Farhi and Tirole (2015) note that banks often maintain high exposure to risky sovereign debt, anticipating government bailouts or forbearance in the event of sovereign default. Such guarantees can create moral hazard risk, reducing banks' incentives to manage risks and encouraging riskier ventures, thereby increasing the likelihood of bank failure.

b) Macroeconomic channel: The health of banks and government both influence and are influenced by overall economic activity. This involves the transmission of shocks from sovereigns to banks and vice versa, through the effects of macroeconomic conditions on fiscal positions and bank asset quality (IMF 2014). During periods of government stress, public spending declines, and economic growth slows down. Reduced aggregate demand strains businesses, which can increase non-performing loans and negatively affect banks. This creates a feedback loop, where a weak economy weakens both fiscal and banking system balance sheets, reducing credit availability, and further suppressing economic growth.

7.2 Stylized Facts About the Sovereign Bank Nexus in COMESA Member Countries

Sovereign exposure to banks varies across the region:

a) Over the past decade, domestic banks in many emerging markets and developing economies have significantly increased their holdings of government debt. For instance, between 2012 and 2023, the exposure of domestic banks to domestic sovereign debt rose by 35% across all emerging markets

and developing economies (David Marfo-Ahenkorah et al 2025). Similarly, evidence from COMESA Member countries indicates a marked increase in banks' holdings of domestic sovereign debt.

b) Over the same period, some COMESA Member countries have experienced a significant rise in public debt relative to GDP.

Table 11: Government Debt to GDP Ratio for COMESA Member Countries (%)

Country	2022	2023	2024
Burundi	68.3	47.2	43.2
Comoros	28.2	28.7	30.8
DRC	16	17.8	18.49
Djibouti	38.3	35.4	33.3
Egypt	88.5	95.9	90.9
Eswatini	40.7	37.3	36.4
Ethiopia	46.9	38.7	32.3
Kenya	67.8	73	65.6
Madagascar	50	52.7	50.4
Malawi	75.5	86.1	74.4
Mauritius	73.9	76.4	82.9
Rwanda	60.9	63.4	67.2
Seychelles	60	55.3	57.8
Sudan	186.8	259.7	272
Tunisia	82.9	82.3	83.7
Uganda	50.2	50.2	51.8
Zambia	99.5	129.1	114.9
Zimbabwe	82.9	82.5	83.1

Source: IMF World Economic Outlook Database, April 2025, and 2024 COMESA questionnaire.

As seen in the table above, Zambia's debt-to-GDP ratio increased sharply from 16% in 2011 to 114.9% in 2024, largely due to higher government spending and the unexpected economic impact of Covid-19 pandemic. In contrast, Uganda's debt- to-GDP ratio stood at 51.8% in 2024, with the government taking steps to shift its debt profile towards longer maturities and reduce exposure to high interest obligations. Other COMESA Member countries with relatively high debt ratios include Egypt at 90.9%, Tunisia at 83.7% and Zimbabwe at 83.1%. Meanwhile, the DRC recorded debt-to-GDP ratio of 18.49%, reflecting its limited reliance on domestic

borrowing and greater use of external concessional financing.

c) Across the COMESA region, commercial banks' investment in government debt has grown significantly as a share of their total assets. In Uganda, this share rose from 16% in 2011 to 30.3% in 2025, with some banks reporting holdings exceeding 50%. In Eswatini the ratio increased from 28% in 2018 to 54% in 2023. In Kenya, the commercial banks hold over 40% of the country's domestic debt. This rising exposure to government securities has strengthened the link between sovereigns and domestic banks across these countries.

d) Liquidity and capital regulatory requirements across COMESA Member countries appear to reinforce the link between sovereigns and banks. For example, most banking liquidity regulations allow government debt instruments to be classified as Liquid Assets when computing the Liquidity Coverage Ratio under Basel rules,

as well as the overall Liquidity ratio. These liquid assets are assigned a risk weight of 0%. In addition, capital may be invested in government securities. Combined with banks' reluctance to lend to the private sector due to rising credit risk, these regulations incentivize the holding of government debt and may discourage riskier investments.

7.3 Findings from Empirical Studies

All the empirical studies conducted by COMESA Member countries focused on the direct channel of the sovereign bank nexus, and the possible impact of sovereign debt on the banks' financial health.

a) All the studies showed that the sovereign-bank nexus significantly affects bank stability. High sovereign exposures tend to weaken the stability of the banking system by lowering key stability indicators, such as the Z-score. In Kenya, evidence shows that greater holdings of government securities negatively affect financial stability.

b) The studies showed that rising public debt is associated with reduced banking sector stability in Egypt, Kenya, Zambia and Malawi. In Kenya, an increase in public debt lowered the Z-score by 2.01%, indicating a decline in banking stability. Higher debt also increases the share of national income allocated to debt repayment. In Malawi, analysis indicated a strong negative relationship between banking stability and sovereign exposure. In Egypt, macro-financial stress tests indicated low to moderate solvency and liquidity risks in both local and foreign currencies. Under different macro financial scenarios, the ten largest banks maintained capital adequacy ratios above the Central Bank of Egypt's minimum requirement of 12.5%, and liquidity coverage ratios remained within the

minimum regulatory requirement of 100%. However, reverse stress test suggested that a significant deterioration in credit portfolio quality could push capital adequacy below the minimum, while average liquidity ratios in local and foreign currencies may decline if significantly high haircuts are applied to government securities in the event of a material climate event.

c) Several studies have found that an increase in the sovereign debt can reduce the funds available for banks to lend to the private sector, creating a crowding out effect. Banks tend to prefer holding government securities, which offer higher returns and lower risk compared to private sector lending. Evidence from Kenya shows that this preference makes lending to the private sector appear riskier for banks, thereby reducing private-sector credit and posing a threat to macroeconomic and financial stability. Similarly, studies in Eswatini and Uganda concluded that higher holdings of government securities can negatively impact financial stability through the crowding-out effect.

d) The findings of some of the studies show that regulatory frameworks influence sovereign debt. Ratios such as liquidity coverage requirements and capital adequacy rules encourage banks to invest in government securities. For example, in Uganda, the Capital Requirement Regulations (2005, 2010, 2022) increased banks' paid-up capital, which could initially be invested in liquid assets. Since banks' holdings of domestic debt are often shaped by regulatory incentives, preferential treatment of domestic sovereign debt, through considerations like risk weights, large exposure limits, market risk, and credit risk mitigation, can affect these investments (IMF, 2022).

e) On the contrary, the studies find a weak sovereign-bank nexus in certain countries, particularly Rwanda and DRC. This is largely attributed to low domestic debt and greater reliance on external debt. In the study for Rwanda, the analysis showed that banks' holdings of government securities had negligible coefficients (-0.001 to 0.002) across models, implying relatively limited exposure of banks to domestic sovereign debt. Similarly, in the DRC study, a classic VAR model indicated the existence of a link between sovereign risk and bank risk; however, the magnitude of this relationship was not strong enough to threaten the resilience or stability of the financial system, mainly because banks' sovereign exposures remain low.

7.4 Recommendations

All empirical studies concluded that the sovereign-bank nexus affects financial stability, with the magnitude of the impact largely determined by the level of banks' exposure to sovereign debt. The following recommendations emerged from the empirical analyses conducted by the COMESA member countries.

a) Strengthening the balance sheets and governance structures of both banks and sovereigns is essential in mitigating related risks. While such measures may not completely sever the nexus, stronger fiscal buffers, prudent public debt management and improved debt sustainability frameworks can lower the likelihood sovereign-induced banking distress. At the same time, enhanced capital buffers and robust prudential oversight increase banks' resilience and reduce the probability of banking sector stress spilling over to the sovereign.

b) Central Banks may consider policy measures to limit excessive concentrations in sovereign bonds. These could include introducing positive risk weights and setting exposures limits, where feasible. These measures can improve financial stability and market efficiency, but should be designed to minimize their procyclical effects, while encouraging diversification into other assets such as corporate loans, thereby reducing systemic risk. In addition, disclosure of sovereign holdings would strengthen market discipline.

c) Regular stress testing should incorporate scenarios involving sovereign default or significant devaluation of sovereign debt to flag risks of overconcentration and encourage banks to diversify. This gives a clear picture of the possible impact of the sovereign bank nexus and allows for measures to be put in place that would curb and avoid these risks.

d) Governments should restrict provision of implicit and explicit guarantees for banks in distress so that they are well-targeted to ensure that the link between banks and the sovereign is not over stretched. This also requires enhancing the financial safety net and implementing new reforms such as establishment of a resolution fund. It weakens the safety net channel whereby banks no longer seem to have unconditional backing by the state.

e) There is a need to develop and deepen corporate bond markets to provide banks with more opportunities to invest in non-government securities, promoting

diversification of their assets and in turn reducing the sovereign bank nexus.

f) Fiscal authorities should safeguard public finance sustainability through prudent budgetary policies that align both domestic and external borrowing with the country's repayment capacity, considering export revenues and economic growth prospects. Sound fiscal management lowers sovereign risk and reduces reliance on government support mechanisms, thereby weakening the safety net channel of the nexus.

g) Policies aimed at moderating the sovereign-bank nexus should adopt a holistic point of approach. Given the fundamental functions that sovereigns and banks play in an economy, the nexus between the two may not be eliminated but should be managed to contain systemic risk. Moreover, reforms should address multiple transmission channels simultaneously, as focusing on a single channel may generate unintended consequences in others.

7.5 Conclusion

The sovereign-bank nexus has a significant impact on financial stability; however, the degree of risk varies across COMESA member countries. While some countries exhibit low levels of sovereign exposure, others demonstrate stronger linkages that pose potential threats to financial stability.

Addressing these risks requires reducing sovereign debt to sustainable levels, promoting asset diversification within the banking sector, and strengthening regulatory and supervisory frameworks through a coordinated and holistic approach.

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Appendix

Appendix 1: Financial Stability Mandate in COMESA Member Countries' Central Banks Laws

Burundi	Article 6 of the Central Bank Status: By its statutes, the B.R.B. has as its fundamental mission the definition and implementation of a monetary and exchange policy. To this end, it ensures the maintenance of monetary stability and the pursuit of a credit and exchange policy conducive to the harmonious development of the country's economy (art. 6 of law No. 1/34 of December 2, 2008).
Djibouti	Law No. 118/AN/11/6th L of January 22, 2011, and Law No. 119/AN/11/6th L – BCD: The Central Bank's overall mission is to ensure the stability of the national currency and the proper functioning of the banking and financial system.
DRC	Organic law No.18/027 of December 13, 2018: The Central Bank of Congo is mandated to define and implement the strategic policy framework in monetary policy, financial stability, and exchange rate policy.
Egypt	Article 7 of the Central Bank and the banking sector law no. 194-2020 authorizes the Central Bank of Egypt to set and implement macroprudential policy for the banking sector.
Eswatini	Central Bank of Swaziland Order, 1974 Section 4 (g): to supervise banks, credit institutions, and other financial institutions to the end of promoting a sound financial structure.
Kenya	The mandate and objects of the Central Bank of Kenya are provided for under Sections 4 and 4A of the Central Bank of Kenya (CBK) Act, which set out the Bank's objects as follows: i. To formulate and implement Monetary Policy directed to achieving and maintaining stability in the general level of prices. ii. To foster the liquidity, solvency, and proper functioning of a stable market-based financial system. iii. To support the economic policy of the Government, including its objectives for growth and employment.
Madagascar	Article 5 of Law no. 2016-004 of 29 July 2016 stipulates that, without prejudice to the first objective, the Central Bank contributes to financial stability and solidity of the financial system of the Republic of Madagascar.
Malawi	Section 4(1) of the Reserve Bank of Malawi Act provides that "The Primary objective of the Bank shall be to maintain price and financial stability. Section 4(2) reads "In case of conflict between price and financial stability, the price stability objective shall take precedence."
Mauritius	By virtue of section 4(2)(b) of the Bank of Mauritius Act 2004, the Bank of Mauritius is mandated to ensure the stability and soundness of the financial system of Mauritius. In addition, effective August 5, 2021, the Bank of Mauritius was formally designated as the macroprudential authority of Mauritius as per Section 5(1)(ba) of the Bank of Mauritius Act 2004.
Rwanda	The National Bank of Rwanda (NBR) was established in 1964 to issue the Rwandan currency named Franc Rwandais (Frw). Over the years, the role of the NBR has evolved. The current Law N°48/2017 of 23/09/2017 as amended to date, confers a clear mandate on the NBR with a mission of ensuring price stability and a sound financial system. Price stability is achieved by conducting appropriate monetary policy in the interest of a stable macroeconomic environment, while financial stability is achieved by regulating and supervising the financial system.
Seychelles	Financial Stability Act 2023.
Tunisia	The mandate is to contribute to the maintenance of financial stability (law n°2016-35, article 7)
Uganda	Article 5 (and 4): Powers of the bank. Subject to the Bank of Uganda Act, the bank shall have all the powers pertaining to a legal person and may do all things necessary for better carrying out its functions [Article 4(j) -supervise, regulate, control, and discipline all financial institutions]
Zambia	Bank of Zambia, 2022, Sections 5(1), 31 (2) (3) (4) The Bank of Zambia (BoZ) is the Central Bank of the Republic of Zambia and derives its functions and powers from the Bank of Zambia Act, No.5 of 2022, and the Banking and Financial Services Act, Chapter 387 of the Laws of Zambia. The Mission Statement of the Bank is to achieve and maintain price and financial system stability to foster sustainable and inclusive economic development.
Zimbabwe	As per the Reserve Bank of Zimbabwe Act [22:15] section 6 (c), the Reserve Bank's functions are to foster the liquidity, solvency, stability and proper functioning of Zimbabwe's financial system.

Appendix 2: Macprudential Policy Toolkit in COMESA Member Countries

	Burundi	DRC	Egypt	Eswatini	Kenya	Madagascar	Mauritius	Malawi	Rwanda	Seychelles	Sudan	Tunisia	Uganda	Zambia	Zimbabwe
Capital-Based Tools															
Countercyclical capital buffers	D	E	-	P	P	-	-	E	-	-	-	P	D	D	-
Sectoral capital requirements	-	P	D	P	P	-	D	D	-	-	-	-	P	P	-
Dynamic provisions	-	P	-	E	D	-	-	-	-	-	-	D	-	P	D
The capital buffer for concentration risk	-	P	D	-	D	-	D	D	-	-	-	-	-	-	-
Capital Buffers for DSIBs	-	E	D	P	P	-	D	-	D	-	-	P	D	P	D
Capital Conservation Buffer	-	D	D	E	D	-	D	-	D	-	-	P	D	E	-
Asset-Side Tools															
Leverage ratios	-	D	D	P	D	-	-	-	D	D	-	-	D	-	D
Loan-to-value ratios	-	P	-	P	-	-	D	P	D	D	D	D	D	P	-
Loan-to-income ratio	-	P	-	E	-	-	-	P	-	-	-	-	P	P	-
Debt service-to-income ratios	-	P	D	E	-	-	D	P	-	-	-	D	D	-	-
The ceiling of loans in foreign currency	-	P	-	P	-	-	-	-	D	-	P	D	D	P	-
The ceiling of bank placements in foreign financial institutions	-	D	D	P	-	-	-	-	D	-	-	-	-	-	-
The ceiling of bank placements by country	-	P	D	P	-	-	-	-	D	-	-	-	-	-	-
Maximum credit concentration per Obligor	D	D	D	E	D	-	D	-	D	-	D	D	D	D	D
Maximum credit concentration of an obligor and his related parties	D	D	D	E	D	-	D	D	D	-	D	D	D	D	D
Maximum Credit Concentration by Sector	E	P	D	P	-	-	-	P	D	-	-	-	-	-	-
Liquidity-Based Tools															
Liquidity coverage ratio	D	D	D	-	-	D	D	D	D	-	-	D	D	P	D
Net stable funding ratio	P	P	D	-	-	D	D	D	D	-	-	-	D	P	P
Margins and haircuts in markets	E	-	-	D	D	-	-	D	D	-	-	-	D	-	-
Banks' Reserve Requirement	D	E	D	D	D	-	D	D	D	D	D	D	D	E	D
Additional Liquidity requirements for D-SIBs	P	E	-	-	-	-	-	-	-	-	-	-	-	-	-
Market-Based Tools															
Net open position (single currency and all currencies)	-	E	D	-	D	-	D	D	-	D	-	D	D	E	D

Note: **P=** Tool in process of establishment. **E=** Tool established and ready for deployment in case of risk.

D= Tool deployed.

Appendix 3: Financial Stability Framework Index (FSFI) Components

Sub-index	Items
Institutional Arrangements	- Presence of an autonomous financial stability committee - Legal Basis of the Committee - Mandate of the committee and coordination with macroeconomic policies - Presence of a financial stability department - Focus on financial stability objective - Location of the department in Central Bank hierarchy - Coordination with departments within the Central Bank - Coordination with agencies outside the Central Bank
Definitions, Objectives and Scope	- Formal Macroprudential policy framework - Financial Stability definition - Macroprudential policy definition - Systemic risk definition - Intermediate objectives - Scope of macroprudential policy
Financial Stability Assessment	- Identification of systemic risks - Use of analytical tools - Stress test implementation - Publication of the results - Policy decisions based on assessment results
Macroprudential Policy Toolkit	- Establishment and employment of capital-based tools - Establishment and employment of asset-side tools - Establishment and employment of liquidity-side tools - Establishment and employment of market-side tools - Objective of tools deployment
Communication and Accountability	- Institutional and legal arrangements (Central Bank's Website) - Macroprudential Policy Strategy (policy document) - Systemic risk assessment (Financial Stability Report) - Policy decisions (records of meetings) - Follow up on the implementation and impact of the policies

Appendix 4: Examples of Micro Stress Tests Implemented by COMESA Member Countries

Macroprudential stress testing evaluates individual institutions' resilience to specific risk factors. It often uses sensitivity analysis and reverse stress testing to identify vulnerabilities.

Country	Scope	Risks Assessed	Methods & Shocks	Key Findings
Burundi	15 credit institutions	Credit, liquidity	Provisioning, NPL migration, deposit withdrawals	Several institutions failed under severe shocks
Ethiopia	Banks	FX, liquidity	FX depreciation (10–30%), top depositor withdrawal	One bank failed FX test; 20 banks failed liquidity test
Malawi	Banks	Credit, liquidity, interest rate, FX, income	Sectoral NPLs, deposit runs, rate changes, income declines	Sector resilient to individual shocks; vulnerable to combined stress
Mauritius	Banks	Sectoral credit, concentration, liquidity, cross-border	Impairment rates, borrower defaults, deposit runoffs	All banks resilient except one non-systemic bank
Tunisia	11 largest banks	Solvency/credit	Solvency ratio, NPL ratio, profitability	Stress tests informed provisioning and dividend policies
Zimbabwe	Banks	Credit, interest rate, liquidity, FX	NPL migration, borrower defaults, deposit runs, FX shocks	Some banks failed under major shocks; FX shocks improved CARs



Burundi

Burundi's Central Bank conducted microprudential stress tests on 15 credit institutions to evaluate their resilience to credit and liquidity risks.

Credit Risk: All shocks were applied under a severe scenario:

Shock Type	Assumption	Impact
Provisioning Readjustment	Provisioning increased by 1.5x	5 institutions failed
Proportional NPL Increase	50% of performing loans migrate to NPLs; 75% provisioning	3 institutions failed
Sectoral Deterioration	30% deterioration across all sectors; 75% provisioning	3 institutions failed
Large Debtor Deterioration	3 largest debtors per institution deteriorate; 75% provisioning	7 institutions failed (2 had highly concentrated portfolios)

The results show that seven credit institutions out of fifteen do not resist this shock. Two credit institutions had a very concentrated credit portfolio.

Liquidity Risk: Simulated sustained deposit withdrawals over 5 consecutive days:

Deposit Type	Daily Withdrawal Rate
Current deposits (local currency)	15%
Current deposits (foreign currency)	10%
Term deposits (local currency)	3%
Term deposits (foreign currency)	1%

The liquidity stress test results demonstrated that:

- All institutions resisted for 2 days except one.
- By day 4, one more failed.
- By day 5, 5 institutions failed the liquidity stress test.



Ethiopia

The National Bank of Ethiopia (NBE) conducted stress tests to assess the resilience of the banking sector against adverse hypothetical scenarios.

Credit Stress Test: The National Bank of Ethiopia (NBE) conducted a credit risk stress test over a 12-month horizon under baseline, moderate, and severe scenarios. The baseline assumes stable nonperforming loans (NPLs)

at 3.9% with favorable economic conditions. The moderate scenario projects NPLs rising to 10% due to possible domestic or external shocks, while the severe scenario projects NPLs increasing to 30%.

Results show that banks are resilient under moderate shock, and under the severe shock the sector's aggregate capital adequacy ratio (CAR) would remain well above the 8% minimum, at 12.3%. However, four banks would fall below the requirement, needing 6.5 billion birrs in capital (4.8% of risk-weighted assets). This represents significant improvement compared to last year, when 12 banks could have failed. Large systemic banks and most recently converted small banks remain adequately capitalized under all scenarios, indicating no systemic credit risk for the sector.

Foreign Exchange Stress Test: Following FX regime reform in July 2024, the birr depreciated from around 57 to approximately

117 per USD (over 100%). The NBE simulated a 10%, 20% and 30% additional depreciation of the birr. Results demonstrated that the banking sector CAR remains above 8% in all scenarios, with only one bank failing under the 30% depreciation scenario.

Liquidity Risk Stress Test: The liquidity risk stress test simulated a sudden full withdrawal by the top 10 depositors in each bank, an extreme but illustrative scenario, especially given the presence of large state-owned enterprise deposits. 20 banks would fail to meet minimum liquidity requirements under this stress, up from 18 banks in June 2023. This indicated increased sensitivity to liquidity risk over the 2023-2024.

As part of its mitigation measures, revised NBE directives aim to reduce credit concentration and improve liquidity resilience through:

- Large Exposures Directive, which limits exposure to large borrowers.
- Related Party Transaction Directive, which tightens criteria and limits for related party exposures.

In conclusion, Ethiopia's banking sector shows:

- Improved resilience to credit shocks.
- Heightened sensitivity to liquidity stress.
- Strong systemic stability under FX shocks.

While individual banks may face vulnerabilities, particularly under severe credit and liquidity scenarios, the sector as a whole remains robust. Continued regulatory reforms are expected to further strengthen resilience.



Image credit: Unsplash.com



Malawi

The Registrar of Financial Institutions conducted a stress testing exercise of the banking sector using data as at end June 2024. The stress testing exercise utilized the Cihak Model to evaluate the resilience and vulnerabilities of institutions in the banking sector to potential shocks arising from credit, liquidity, interest rate, foreign exchange rate,

Credit Risk Stress Test: This shock aimed to evaluate the banking sector's resilience to defaults within various economic sectors. It simulated increases in NPLs across sectors under minor, moderate, and major shocks. The results of the test demonstrated that the industry had sufficient capital to absorb minor and moderate shocks as core capital ratio remained above the regulatory benchmark at 12.9% and 11.0%, respectively. This notwithstanding, the sector succumbed to the major shock scenario as core capital ratio reduced to 7.5%, thereby in breach of the regulatory limit. Individually, five banks sustained core capital ratios above the 10.0% limit in the minor shock scenario, three banks in the moderate shock scenario and two banks were resilient in all the three shocks scenario.

Large Borrower Default: This stress test simulated the successive default of the top five borrowers, while assuming a 50.0% impairment provisioning rate on new NPLs.

and income risks. The scenarios for these shocks were derived from historical data on key financial soundness indicators while taking into consideration macro-economic environment. The impact was measured against capital, earnings and liquidity positions.

The exercise revealed that the sector would remain resilient up to the successive default of the top four borrowers as core capital reduced to 10.4%. Thereafter, the sector's core capital ratio would decline to 9.7% following the successive default of the top five borrowers. Only three banks showed resilience individually by reporting core capital ratios above the 10.0% regulatory minimum across all shock scenarios.

Liquidity Risk Stress Test: This stress test simulated two shock scenarios namely: haircuts to liquid assets while measuring the impact on liquidity ratios; and simulation of deposit runs at different rates and measuring the number of days banks would stay afloat before exhausting all its available liquid assets. The severity of shocks was applied progressively at both bank-specific (BS) and system-wide (SW) level.

Liquidity Risk Shock	Minor		Moderate		Major	
	Systemic	Bank Specific	Systemic	Bank Specific	Systemic	Bank Specific
Haircuts						
Cash	0%	0%	0%	0%	0%	0%
Cheques	10%	5%	20%	15%	25%	20%
Balances with RBM	0%	0%	15%	10%	20%	15%
Local Registered Stock	20%	10%	35%	25%	50%	40%
Nostro	10%	5%	20%	15%	25%	20%
Interbank	20%	10%	30%	15%	50%	20%
Short-term investments	10%	5%	15%	10%	20%	15%
Bills of Exchange	10%	5%	15%	10%	20%	15%
Deposit Run	10%		20%		30%	

Source: Reserve Bank of Malawi

Impact of Hair-Cuts on Liquidity Ratio: The sector was resilient to this shock as liquidity ratios remained well above the prudential limit of 25.0% in system-wide and bank-specific major shock scenarios at 41.9% and 44.9%, respectively. Individually, seven banks were resilient to this shock as they sustained liquidity ratios above the prudential limit in all shock scenarios.

Impact of the Deposit Run: This shock scenario was designed to assess the ability of the sector to survive a daily liquidity drain following sudden deposit withdrawals by customers without resorting to external liquidity support. Daily deposit run-off rates were set at 10.0%, 20.0% and 30.0% for minor, moderate and major shock scenarios, respectively and were simulated with corresponding hair-cuts with results measured against a benchmark survival period of five days.

The stress test results revealed that the sector would only survive a minor shock of 10% deposit run. On an individual basis, six banks met customer demand for deposits in the minor case scenarios at bank specific level and system-wide scenario. After that, only one bank survived the moderate shock

scenario in both system-wide and bank specific cases while no bank survived the major shock scenarios. In conclusion, the Malawi banking sector shows resilience to individual shocks but is vulnerable to combined stress scenarios.



Mauritius

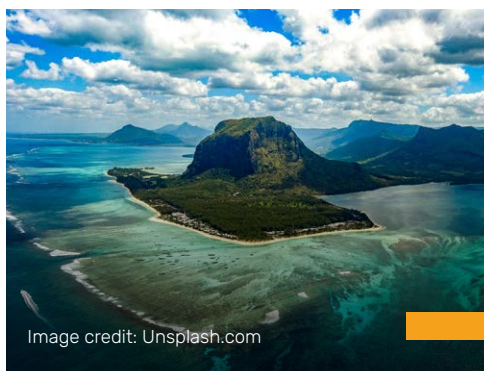
Sectoral Credit Shock: The sectoral credit sensitivity stress test assesses the capacity of the banking sector to sustain asset quality deterioration in seven major credit portfolios. The shocks assume additional impairment in the performing credit portfolio of: (i) 4% in the baseline scenario, (ii) 8% in the moderate scenario, and (iii) 12% in the severe scenario. The shocks were applied on the portfolios of the Agriculture, Manufacturing, Wholesale and retail trade, Construction, Accommodation and food services, Real Estate and Housing sectors. The results showed that all banks remained resilient across all scenarios both in June 2024 and December 2024.

Credit Concentration Shock: Credit concentration risk was assessed by evaluating the hypothetical cumulative default of the top ten largest borrowers for each bank. Under the baseline scenario, it was assumed that the single top borrower from each bank would default on its performing loans. The moderate and severe scenarios heighten the intensity of the shock and consider defaults by the top five and top ten borrowers for each bank, respectively. Based on June 2024 data, all banks held adequate capital buffers to endure the three hypothetical shocks. Forecast for December 2024 shows that banks would still be able to sustain the shocks.

Cross-Border Credit Risk Stress Test: The Bank assessed the capacity of the banking sector to sustain hypothetical shocks on its cross-border portfolio. The stress test evaluated credit risk using scenarios based

on NPL levels in selected jurisdictions where credit facilities were extended. These jurisdictions accounted for around 80% of total cross-border credit facilities. The average historical impairment ratio in each jurisdiction set the baseline shock level, with moderate and severe scenarios amplifying this ratio by 1.5 times and 2 times, respectively. The stress test results demonstrated resilience of the banking sector to withstand the shocks applied in all scenarios. All banks registered post-shock CAR above their respective regulatory requirements.

Liquidity Stress Test: The liquidity stress test assesses the resilience of the banking sector to an exodus of deposits held by households, corporates, GBCs and non-residents. The liquidity stress test results, using aggregate data for June 2024, displayed the robustness of the liquidity buffers of all banks in Mauritius, except for one bank with a small market share which exhibited vulnerability in all three scenarios. The implementation of the Net Stable Funding Ratio (NSFR) further strengthens systemic stability.



Deposit outflows (in per cent)	Household and Corporate	GBC and Non-resident
Baseline		
Rs	10	20
FX	25	25
Moderate		
Rs	20	30
FX	35	40
Severe		
Rs	30	50
FX	45	50

Source: Bank of Mauritius



Madagascar

Risk Factor	Simulation Assumption
Macroeconomic	Decline in real GDP, sector-specific provisioning, increased lending rates, reduced commission income.
Credit	Loan quality migration, provisioning for non-resident exposures.
Market	Exchange rate depreciation/appreciation, rise in funding costs.
Liquidity	Deposit outflows (10% and 20%), short-term liabilities outflows (10% and 20%).
Operational	Destruction of 30% of non-financial assets.

Results:

- Across all risk categories, stress scenarios led to a decrease in solvency and liquidity ratios.
- Under severe economic stress, some banks showed signs of vulnerability, indicating potential systemic risks.



Tunisia

The Central Bank of Tunisia conducted microprudential stress testing spanning its 11 largest banks to assess solvency/credit risk only. The variables shocked included solvency ratio, NPL ratio and profitability. Stress test findings contributed to macroprudential policy decisions:

- Activation of tools such as stricter rules for collective provisioning.
- Reinforcement of prudent dividend policies.
- Results are presented in the Financial Stability Report (FSR) and reported to the board.



Zimbabwe

Zimbabwe’s financial regulators conducted macroprudential stress tests to assess the resilience of commercial banks and building societies against a range of financial shocks. The tests focused on credit, interest rate, liquidity, and foreign exchange risks, with results informing supervisory engagement and future macroprudential

policy. Zimbabwe’s Central Banks included commercial banks and building societies in its stress test, which covered credit risk, interest rate risk, foreign exchange risk and liquidity risk. Capital Adequacy ratio and liquidity coverage ratio were respectively used to assess the solvency and liquidity shocks.

Variables and level of shocks	Scenarios
Credit: NPLs, default of largest borrowers Interest rate: Rate increases of 10%, 20%, 30% Liquidity: Daily deposit withdrawals of 5%, 15%, 25% over 5 days FX: Currency depreciation/appreciation of 20%, 40%, 60%	Credit shocks: Migration of performing loans to NPLs at 10%, 25%, 40% Counterparty concentration: Default of top 1, 3, and 5 borrowers Sectoral shocks: Agriculture, manufacturing, and household loans stressed Liquidity: Simulated deposit runs and asset availability FX: Exchange rate shocks applied to USD exposures

The results concluded:

- **Credit Risk:** Most banks showed declining CARs under stress, with some falling below regulatory thresholds. Bank 6 and Bank 5 showed negative or near-zero CARs under major shocks.
- **Interest Rate Risk:** Mixed results; some banks (e.g., Bank 5 and Bank 10) showed improved CARs under rising rates due to asset revaluation, while others deteriorated.
- **Foreign Exchange Risk:** FX shocks generally improved CARs due to valuation gains on USD assets. All banks remained resilient under FX stress.



Appendix 5: Payment System in the COMESA Region

Financial techniques per country

	Cloud Computing	Blockchain	Crypto-Currencies	Digital Currencies	Mobile Wallet	Crowdfunding	Others
Burundi	-	-	-	Yes	Yes	-	-
Djibouti	-	-	-	-	-	-	-
DRC	Yes	Yes	-	-	Yes	-	-
Egypt	-	-	-	-	Yes	-	Yes ⁴⁶
Eswatini	Yes	-	-	Yes	Yes	-	-
Ethiopia	-	-	-	-	Yes	-	Yes
Kenya	-	-	-	-	Yes	-	-
Libya	-	-	-	-	Yes	-	-
Madagascar	-	-	-	-	-	-	-
Malawi	-	-	-	-	Yes	-	Yes
Mauritius	-	-	-	-	Yes	-	-
Rwanda	-	-	-	-	-	-	-
Seychelles	Yes	-	-	-	Yes	-	-
Sudan	-	-	-	-	-	-	-
Tunisia	-	Yes	-	-	Yes	Yes	-
Uganda	Yes	Yes	-	-	Yes	-	-
Zambia	Yes	Yes	Yes	-	Yes	Yes	-
Zimbabwe	-	-	-	-	Yes	-	-

Number of mobile payment accounts (In Thousands)

	2020	2021	2022	2023	2024
All Countries	228,958.6	255,582.9	317,881.3	402,934.8	473,592.7
Burundi	4,642.6	4,801.9	7,566.5	6,964.6	7,602.1
Djibouti	-	5,732	22.2	69.1	142.681
DRC	31,237.6	31,237.6	33,718.2	46,888.7	52,365.5
Egypt	19,753.0	25,228.9	30,373.8	39,353.7	50,441.8
Eswatini	568.8	615.2	776.2	681.1	716.7
Ethiopia	17,100.0	27,200.0	59,600.0	96,000.0	129,310.0
Kenya	66,010.0	68,030.0	73,120.0	77,260.0	82,430.0
Libya	-	-	-	-	-
Madagascar	10,720.4	11,918.9	15,807.1	20,293.3	24,272.8
Malawi	7,574.5	10,651.8	12,157.0	12,678.8	16,176.6
Mauritius	153.3	144.4	152.9	207.6	274.7
Rwanda	15,701.3	15,360.0	16,628.0	18,771.2	20,007.0
Seychelles	-	-	-	-	-
Sudan	10,450.4	15,153.9	15,153.9	15,153.9	15,153.9
Tunisia	-	-	0.2	0.3	0.3
Uganda	31,237.6	31,237.6	33,718.2	46,888.7	52,365.5
Zambia	8,607.5	9,867.4	11,246.7	12,924.9	12,328.8
Zimbabwe	5,201.7	4,129.5	7,840.3	8,798.8	10,004.6

⁴⁶ Instant Payment Network and National Cards Tokenization Platform.



COMESA MONETARY INSTITUTE

C/O Central Bank of Kenya-Institute of Monetary Studies (CBK-IMS)

P.O Box 65041-00618 Noordin Rd, Off Thika Highway, Nairobi, Kenya

Tel: +254 787 40826 | Fax: +254-20-801878

Email: CMI@comesa.int | Web: www.cmi.comesa.int