



Bank of Namibia

Press Release Annual Report 2008

Registered Office

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PRESS RELEASE

INTRODUCTION AND PURPOSE OF PRESS RELEASE

In terms of the provisions of the Bank of Namibia Act, 1997 (Act No 15 of 1997), the Bank of Namibia is required to prepare the Bank's annual accounts, certified by independent auditors, a report of the Bank's operations and affairs during the year, and a report on the state of the economy. In view of this requirement, the Bank of Namibia has prepared its Annual Report for the year 2008 together with the Quarterly Bulletin for the fourth quarter of 2008. As is customary, although not a statutory requirement, the Annual Report also includes a chapter dealing with banking supervision to assess the stability and soundness of Namibia's banking system.

OPERATIONS AND AFFAIRS OF THE BANK

With respect to *Operations and Affairs* of the Bank of Namibia, it is worth noting that during 2008 the Bank continued to adhere to the highest standards of good corporate governance. In this regard, of particular importance is the fact that the Bank of Namibia fully complies with International Reporting Standards and the requirements of the Bank of Namibia Act. Moreover, external independent auditors gave the Bank a non-qualified statement of its financial statements for 2008. Other issues worth noting on the Operations of Affairs of the Bank during 2008 are: the official launch of the Bank of Namibia's monetary policy framework, which outlines the salient features of the conduct of monetary policy in Namibia; and a significant increase in the country's official reserves, which prompted the Bank to revise its strategic asset allocation aimed at deriving a more awarding risk return asset profile.

ECONOMIC POLICY DEVELOPMENTS, INCLUDING THE IMPACT OF THE GLOBAL ECONOMIC CRISIS ON NAMIBIA

Regarding economic policy making, the year 2008 was a challenging year for policymakers world-wide, and Namibia was certainly no exception. Without any doubt, the most important challenge was how to deal with the impact of the global economic crisis. This challenge persists with us until today. It is not clear how long it will take for the world economy to recover. Some analysts predict a modest recovery by the end of this year, while others that are less optimistic predict a recovery only much later. What is clear is that no economy in the world will be able to escape the full impact of the global economic crisis. The world is simply too integrated for that to happen. However, in the case of Namibia we are fortunate, as demonstrated in this annual report, to have entered the financial crisis with a well regulated banking sector and sound macro-economic fundamentals.

ASSESSMENT OF THE BANKING SECTOR

As shown in the Report, Namibia's banking sector, supported by a well regulated environment and little foreign exposure, has been sound, as reflected in more than required capital adequacy ratios, sufficient liquidity and low non-performing loans in relation to total loans. Moreover, the Bank of Namibia continuously strives to improve the regulatory environment of commercial banks to meet the highest international standards. In this connection, the Bank made significant strides with the Basle II project, by achieving key mile stones. It is envisaged that our supervisory regime will be fully compliant with the Basel Core Principles for effective Banking Supervision by 2010. As the licensing authority of banking institutions in Namibia, the Bank undertakes to ensure that only sound banking institutions are permitted to operate in the country. In this regard, four applications for banking licenses were received during 2008, with only 1 of them granted a six month provisional license that ran until the end of the first quarter of 2008.

ASSESSMENT OF THE ECONOMY IN 2008

Notwithstanding the global economic crisis, the Namibian economy performed fairly well in 2008, with GDP growth estimated at 2.7 percent although, it is a deceleration from 4.1 percent in 2007. In part, supported by strong SACU receipts, the surplus on the overall balance of the balance of payments reached a record high of N\$6.3 billion in 2008, pushing Namibia's international reserves to more than 4 months of important coverage. At the same time, due to prudent fiscal policy, Namibia's total debt declined to below 20 percent as a ratio of GDP, providing the country with some fiscal space to deal with the impact of the global economic crisis in the medium term. On the negative side, influenced by exogenous factors such as high international crude oil and food prices and a weaker domestic currency, the Namibian economy continued to be battered by persistent high inflation during the large part of 2008, eroding the disposable income of Namibians. This notwithstanding, the Bank of Namibia decided to keep its Repo rate unchanged for the large part of 2008, informed by the assurance that there was no threat to the sustenance of the currency peg, which requires that domestic currency in circulation should be fully backed by international reserves. During the year under review, there was a noticeable slowdown in domestic demand indicators, especially towards the end of the year as reflected in growth of credit extended to the private sector, motor vehicle sales and buildings plans passed and completed. This prompted the Bank of Namibia to ease monetary conditions towards the end of the 2008 in the form of 50 basis points reduction in the Repo rate.

THE MEDIUM TERM OUTLOOK

Looking ahead, it is expected that the full brunt of the global economic crisis will be felt in 2009 with a modest recovery possible by 2010. In this connection, the export oriented industries, which include mining, tourism and travel, are expected to be worst affected. Due to the slump in commodity prices, output of the mining sector is expected to contract significantly in 2009. The only exception would be uranium mining where a positive growth rate is still forecasted at this point in time. Through back and forward linkages, the secondary and tertiary sectors are also expected to perform below par when compared to historical averages. Overall, economic growth

is expected to slow to about 1 percent in 2009. The recently tabled expansionary budget would, however, provide some support to domestic demand in the medium term.

CONCLUSION

In conclusion, the economic crisis should also be viewed as an opportunity to address longer-term structural issues of the Namibian economy. These include, but are not limited to: the stubbornly high unemployment rate through launching of labour intensive public sector works especially in rural areas; the further upgrade of our physical infrastructure, including road networks, and energy and water supply to be better positioned to take advantaged when the global economy recovers; review of our business climate with a view to making the environment more friendly for business in Namibia; and a careful review our social programs aimed at improving efficiency and ensuring that the targeted people are reached.

Tom K. Alweendo
GOVERNOR