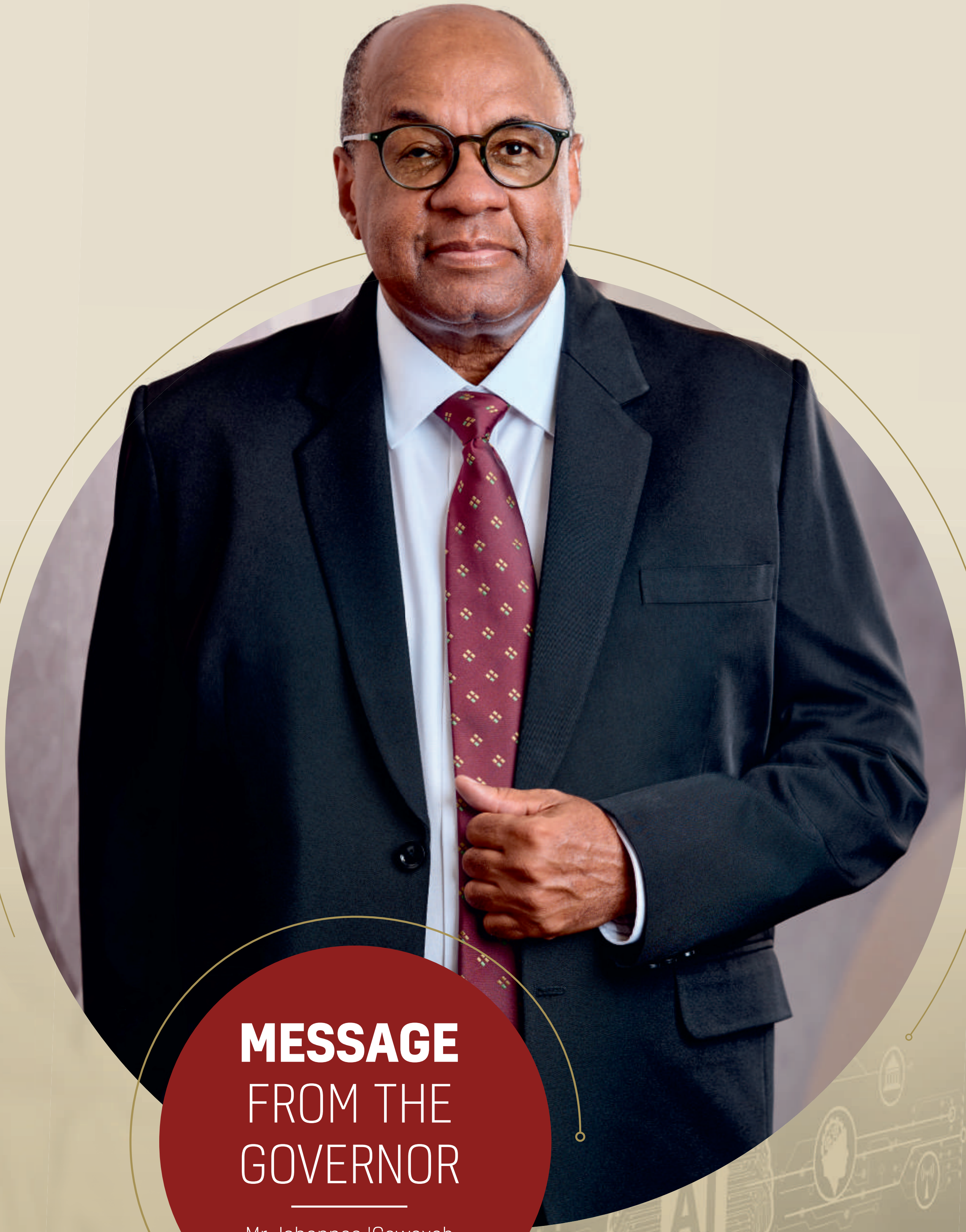

# MESSAGE FROM THE GOVERNOR

Mr Johannes !Gawaxab
Governor & Chairperson

# CREATING ENDURING MACROECONOMIC STABILITY TO SUPPORT SUSTAINABLE DEVELOPMENT

## Introduction

**It is with great honour that I present the Bank of Namibia 2024 Annual Report, in accordance with Section 67 (1) of the Bank of Namibia Act (No 1 of 2020).**

**The year 2024 has been profoundly shaped by a series of key events that have significant implications for our mandate.** Geopolitical tensions and economic fragmentation, coupled with prevailing policy uncertainties on the global stage, have created a complex landscape. Domestically, we faced the demise of the sitting President, Dr Hage G. Geingob, and subsequently welcomed Dr Nangolo Mbumba as our fourth President. Additionally, presidential and national assembly elections were held amid severe drought conditions, which were ultimately declared an emergency.

**The year also marks the conclusion of our three-year strategic cycle (2022-2024).** Throughout this period, we performed robustly across strategic, operational and financial dimensions. Our key activities align with our strategic themes, focusing on four purpose, stakeholder engagement, talent and transformation and achieving future-fit organisational efficiency and effectiveness. In this regard, the pillar of purpose is reflected in the decline of headline inflation, from the high levels of 6.1 percent and 5.9 percent in 2022 and 2023, respectively, to average 4.2 percent in 2024, with projections indicating a further decrease to an average of 4.0 percent in 2025. The banking system remains stable and sound, further supported by the finalisation of our Macroprudential Framework, including plans for a national Crisis Simulation exercise set for 2025.

**Regarding digital transformation, we have made notable advances in leveraging new technologies to enhance our operational and supervisory capabilities.** Our approach to stakeholder engagement has also evolved, as we strive to bolster public trust and understanding regarding the central bank's role and functions while effectively communicating monetary policy and immersing ourselves in the community.

**As we envision creating a future-fit organisation, we recognise that while the core and statutory responsibilities of the Bank of Namibia remain steadfast, the methods through which we fulfil our mandate have fundamentally transformed.** In response, we in 2022 established a new department focused on Strategy, Projects and Transformation (SPT) to facilitate this shift, fostering a culture of agility, collaboration and trust.

## Intelligent Technologies

**The emergence of Intelligent Technologies, including Quantum Computing and Machine Learning, represents a key structural transformation with significant relevance to the Bank.** Artificial Intelligence (AI) is now at the forefront of how business is conducted, as models have evolved from mere analytical tools designed for specific tasks to sophisticated generative AI systems capable of performing human-like functions.

**Within Namibia's financial sector, AI has been employed mainly to detect fraud, enhance compliance and streamline regulatory reporting processes.** AI influences the mandate of the Bank of Namibia in two fundamental ways. Firstly, as the steward of the Namibian economy, AI enhances productivity, complements skill sets, and boosts overall economic activity, promoting innovation and growth.

Secondly, the diverse application of AI within the Bank of Namibia encompasses an extensive range of operational functions, particularly in data collection and analysis, economic forecasting, payments oversight, reserves management, banking oversight, financial system supervision, currency production and communication.

**As we look to the future, it is imperative that we harness these transformative technologies to safeguard our objectives and ensure that we remain agile and responsive to the ever-evolving landscape.** While AI offers enormous opportunities, it also introduces various risks inclusive of cyber and data governance risks, and it is important that we put guard rails in place to mitigate these risks.

Elsewhere in the Theme Chapter of the Annual Report, we assess the impact of AI on our economy. The rise of AI presents both opportunities and challenges for the future of work and society as a whole. While many concerns about job displacement are valid, it is essential to recognise that AI has the potential to liberate individuals from mundane and unfulfilling tasks. Studies have shown that many people are dissatisfied with their jobs, often feeling undervalued and confined to repetitive roles for extended periods.

## Execution of the Bank's Strategic Objectives

**By the end of 2024, the Bank had made noteworthy progress, completing 98 percent of the comprehensive three-year strategic plan and meeting 95 percent of the specific goals set for 2024.** This substantial achievement can be attributed to the well-defined goals and outcomes aligned with the Bank's overarching objectives. Playing a pivotal role in these accomplishments was each department's dedication, transformation to modernise the strategy's implementation and their focus on achieving its intended impact, namely the ongoing pursuit of digital transformation to modernise the financial sector and enhance financial inclusion as listed below.

**During the year under review, the Bank took bold strides in leveraging AI and Machine Learning (ML) to enhance banking supervision, strengthen financial oversight, and improve decision-making processes.** With a steadfast commitment to innovation and digital transformation, the Bank embraced cutting-edge AI-driven solutions to optimise operational efficiency and reinforce its supervisory functions. A major milestone in this journey was the creation of a Large Language Model (LLM), designed to process vast amounts of financial and regulatory data, enhance risk assessment, and streamline reporting mechanisms. Additionally, the Bank successfully deployed predictive analytics to monitor and address Non-Performing Loans (NPLs) - a development that allows for proactive intervention, risk mitigation, and a more resilient credit environment. This AI-driven system now has the capability to predict NPL trends up to four quarters ahead, ensuring timely and data-driven regulatory responses without human intervention.

**To promote the responsible development and use of AI, the Bank established a comprehensive Artificial Intelligence Policy designed to mitigate associated risks.** Recognising the rapid evolution of these technologies, the Bank remains committed to continuously enhancing its frameworks and adapting to emerging developments. Through these proactive measures, the Bank has set a benchmark for responsible and forward-thinking regulatory practices within the financial sector.

**Beyond supervisory functions, advanced data analytics have been integrated into the Bank's core operations.** Such analytics offer greater visibility, fostering a data-driven culture, and enable continuous improvement. Thus, as part of its monetary policy mandate, the Bank has automated the collection of mineral data, significantly improving the speed, accuracy, and reliability of the mineral data. This advancement has enhanced data quality, enabled real-time insights, and strengthened overall institutional efficiency. The automation of other economic data collection processes - including in respect of obtaining Balance of Payments information, real sector data, and monetary and financial statistics - is also well under way, with several projects already in advanced stages. By integrating AI-powered tools into its regulatory, monetary, and operational frameworks, the Bank is positioning itself at the forefront of technological innovation, ensuring a robust, efficient, and future-ready financial system.

## Revolutionising Government Payments: the 2024 Portal Launch

**In our ongoing commitment to enhancing service delivery and operational efficiency, the Bank proudly introduced the Government Payment Portal in 2024.** This innovative digital platform was designed to revolutionise the processing of both domestic and international payments for the Namibian Government. The Payment Portal facilitated the processing of an impressive 702 domestic payments, amounting to a substantial N$31.7 billion, along with 1,259 international payments, reflecting a total value of N$5.6 billion. By ensuring seamless, transparent and efficient transactions, the portal elevated the quality of our services and significantly contributed to improved resource allocation and overall governmental efficiency. This strategic initiative underscored our dedication to leveraging technology to drive excellence and support the Government in achieving its financial and administrative goals.

## Economic Developments

**Global GDP growth moderated slightly in 2024 compared to 2023.** In this regard, global GDP growth eased to 3.2 percent in 2024 from 3.3 percent in 2023 on the back of weak investment, sluggish productivity growth, and high debt levels. Moreover, tight monetary conditions dampened global growth, especially by impacting housing and credit markets. Growth in Advanced Economies (AEs) ticked marginally higher to 1.8 percent in 2024 compared to 1.7 percent registered in 2023, as investment remained subdued, particularly in the Euro Area. In Emerging Market and Developing Economies (EMDEs), growth remained unchanged at 4.2 percent in 2024 relative to 2023. This was ascribed to the slow pace of structural reforms, which is holding back productivity growth. Going forward, global economic growth is projected to increase slightly, albeit still below the historical average. The world's GDP growth is projected to rise by 3.3 percent in 2025. According to the International Monetary Fund's January 2025 World Economic Outlook Update, the anticipated sluggish growth was attributed to the lagged impact of tight monetary policy and increased geopolitical risks. On the other hand, AEs are anticipated to register flat growth in 2025 relative to 2024. Specifically, growth in AEs is estimated to remain unchanged at 1.8 percent in 2025, supported by a combination of country-specific dynamics as inflation pressures unwind and economic activity converges towards long-term growth levels. Growth for EMDEs is projected at 4.2 percent in 2025, remaining at the same rate as in 2024.

**Global headline inflation declined in 2024 relative to 2023, ascribed to moderating costs of international food and energy.** Specifically, global headline inflation moderated to 5.8 percent in 2024 from 6.9 percent recorded in 2023, largely due to a decline in the costs of energy and food supported by eased labour market pressures in AEs. Looking ahead, global headline inflation is projected to ease further to 4.2 percent in 2025 and to 3.5 percent in 2026. Upside risks to inflation remain, however. These entail potential supply-side shocks in global commodity markets, which could drive up prices particularly of food and energy products; export restrictions that may be imposed by major producers; and climate-related shocks affecting the agricultural sector.

**In line with global economic growth, real GDP in Namibia expanded further in 2024, although at a slower pace than in 2023.** The growth rate of the Namibian economy slowed to 3.7 percent in 2024 from 4.4 percent recorded in 2023, impeded by a weak performance in the primary industry, particularly the contractions in diamond and crop production. The secondary and tertiary industries, however, showed improved performances, with the growth in the secondary industry primarily driven by stronger activity in the manufacturing and construction sectors. Meanwhile the tertiary industries experienced growth led by the wholesale and retail trade sector, largely stimulated by rising income, easing inflationary pressures, mineral exploration related purchases, the adjusted tax bracket refunds and moderately lower interest rates. Other sectors, including the transport, hotels and restaurants, finance, health and public administration and defence sectors also showed strong performances, contributing to the overall tertiary industry growth.

**Inflation in Namibia eased in 2024 compared to 2023, offering some relief to consumers by ameliorating the erosion of their spending power.** Overall inflation for Namibia decreased from 5.9 percent in 2023 to an average of 4.2 percent during the year under review. This lower inflation rate was ascribed mainly to a deceleration in food and transport inflation during the year under review compared to the previous year. The decline was reflected in food categories such as bread and cereals; meat and milk, cheese and eggs. Meanwhile, the decline in transport inflation was mainly reflected in the operation of personal transport equipment reflecting softer fuel prices, which were kept unchanged and/or adjusted downwards for the greater part of the year. Conversely, inflation for food and housing inched higher in 2024, somewhat offsetting the decline in the other components of inflation.

**The Bank's Monetary Policy Committee (MPC) was gratified to witness how its consistent application of sound monetary policy culminated in a substantial slowdown of inflation in 2024 and adopted an easing policy stance in the second half of the year.** In the face of accelerating inflation, the MPC had raised its key policy rate stepwise from February 2022 to reach a plateau of 7.75 percent in June 2023. This was not unique to Namibia but aligned with that of most central banks, given the need to tame the high inflation that was ignited during 2022 by a series of supply-side shocks hitting commodity prices. As monetary policy works with lags, by 2024 this conservative policy trajectory brought about a notable decline in domestic inflation. With medium-term projections of inflation also having moderated and against the backdrop of a global monetary policy easing cycle, the MPC began cutting interest rates in August 2024 with a 25-basis-point reduction. This was followed by similar reductions in October and December bringing the Repo rate to 7.00 percent by year-end. Key considerations informing the MPC's decisions included not only the slowdown in inflation, but also the robust level of international reserves, the orderly capital flows experienced, and the pressing need to continue supporting domestic economic activity amid weak credit growth. Correspondingly, the prime lending rate that amounted to 11.50 percent at the end of 2023 was reduced to 10.75 percent at the end of 2024, bringing measured relief to borrowers.

**Growth in broad money supply (M2) remained firm in 2024, driven by a decrease in net foreign assets, whereas growth in private sector credit extension (PSCE) improved.** Growth in M2 moderated to 9.7 percent in 2024, from the growth of 10.7 percent reflected at the end of 2023. The lower growth in M2 during the period under review was mainly on the back of a decline in NFA of the depository corporations. On the other hand, the growth in PSCE rose moderately to 4.0 percent in 2024, from 1.9 percent recorded in 2023. This higher growth was due to an increase in credit extended to both the corporate and household sectors in the form of other loans, advances and overdrafts. This growth was an indication of momentum picking up in domestic demand, partly attributed to the fiscal stimulus in the form of tax refunds that came into effect in October 2024 coupled with the eased restrictive monetary policy stance which commenced in August 2024.

**The ratio of the Government's budget deficit to GDP widened during FY2024/25, leading to the rise in Government debt to GDP over the year to the end of December 2024.** Central Government's deficit for FY2024/25 widen to 3.9 percent of GDP compared to 2.4 percent deficit registered during the FY2023/24. The increase in the deficit is a result of the faster increase in expenditure compared to the rise in revenue. Looking ahead, the March 2025 Budget provides for a moderate further widening of the budget deficit to 4.6 percent of GDP in 2025/26. Meanwhile, total debt as a percentage of GDP stood at 65.3 percent at the end of December 2024, representing an increase of 1.4 percentage points from a year earlier.

**During 2024, Namibia's current account deficit widened further, while the stock of foreign reserves continued to rise in relation to 2023.** The deficit on the current account remained elevated and unchanged at 15.3 percent of GDP during 2023 and 2024. The higher current account deficit was primarily due to an increase in the merchandise trade deficit driven by higher import payments across most categories, compared to lower export earnings, particularly from diamond exports. The current account deficit, excluding hydrocarbon exploration and appraisal-related transactions widened to 5.0 percent of GDP during 2024 compared to 3.7 percent in 2023. Nonetheless, the financial account inflows were sufficient to cover the current account deficit and contribute to the accumulation of foreign reserves. Namibia's international reserves rose by 18.4 percent in 2024 to N$63.0 billion primarily due to higher Southern African Customs Union (SACU) receipts, coupled with foreign borrowing by the Namibian Government as well as the revaluation gains due to the moderate depreciation of the Namibia Dollar against major currencies. Foreign reserves translated into an estimated import cover of 4.2 months in 2024, higher than the 3.8 months of import cover recorded in the preceding year. Moreover, the Real Effective Exchange Rate (REER) appreciated marginally on an annual basis in 2024, signalling a loss in Namibian products' trade competitiveness in international markets.

**The banking sector remained resilient and sound during 2024, amidst challenging economic conditions.** Banks' capital remained strong during the year under review, which supported the balance sheet expansion and cushioned against risk. Profitability improved in 2024 relative to 2023, with both the return on assets and the return on equity exceeding the performance reported in the previous year. Furthermore, the banks' liquid asset holdings remained adequate to meet near-term obligations after they continued to record significant buffers above the prudential limits. Asset quality, as indicated by the ratio of performing to non-performing loans, showed a slight improvement from the previous year by remaining below the supervisory intervention threshold. These factors underscore the current resilience of the banking sector to macroeconomic shocks. Overall, the banking sector remained stable under the prevailing economic conditions and continued to extend credit to the real economy.

**The Non-Bank Financial Institutions (NBFIs) sector demonstrated resilience and stability throughout 2024.** The sector's assets expanded significantly, attributable to favourable global financial markets and a steady demand for NBFI products, bolstered by easing inflation rates and increased Government spending in relation to the previous reporting period. Notably, the retirement funds and long-term insurance subsectors achieved returns on investments that exceeded inflation rates in the medium-term. This positive financial market performance and steady demand contributed to these subsectors maintaining sound capital reserves and, thus, remaining solvent in 2024.

**The recent easing of monetary and fiscal policy measures, together with the existing regulatory initiatives, is expected to promote a sound financial sector going forward.** Notwithstanding, the Bank's Macroprudential Oversight Committee emphasised continuous monitoring of the identified global and domestic financial stability risks, which could adversely impact the soundness of the Namibian financial system.

## People Development and Engagement

**Reflecting on 2024, our employees have been the cornerstone of our achievements.** The Bank's successful strategy execution over the past year is closely linked to our outstanding employee engagement rate of 86 percent. This figure highlights the unwavering commitment, resilience, and adaptability of our workforce in a constantly evolving work environment.

**Our focus on continuous development has resulted in over 700 initiatives aimed at enhancing our expertise in central banking, digital fluency, and leadership.** Notably, our employees participated in prestigious leadership programmes, enabling us to fill 87 percent of leadership positions internally. This accomplishment underscores the talent we nurture at the Bank and reaffirms our dedication to providing growth opportunities. By investing in our employees' development, we aim to foster a culture of continuous learning, ensuring we have a future-ready workforce that not only grows professionally but also aligns with our values and purpose to contribute to the prosperity of all Namibians.

## The Bank's Financial Performance

**The Bank's financial performance increased slightly in 2024 in relation to 2023.** Operating profit declined slightly by 1.3 percent, from N$1.025 billion in 2023 to N$1.011 billion in 2024, driven by normal operating expenses. The Bank's total assets increased by N$9.32 billion, from N$61.92 billion in 2023 to N$71.25 billion in 2024, mainly due to an uptick in investments on the back of SACU revenues, while higher-than-expected diamond sales and growth in deposits attributed to improved liquidity.

**The Bank remains dedicated to financial stability and sustainability, as reflected in its prudent dividend distribution and profit appropriation.** Reserves designated for distribution increased by 16 percent year-on-year, from N$956.9 million in 2023 to N$1 107.2 million in 2024. The Bank will therefore distribute a dividend of N$720 million (2023: N$511.5 million) to the Government for 2024. Allocations of N$70 million were made to the Building Fund Reserve to develop the Bank's new office building in Windhoek and N$9.7 million to the Training Fund Reserve for associated interventions.

**Operating profit**

↓ 1.3%

2023
N$1.025 billion

2024
N$1.011 billion

**At the core of this transformation is a commitment to responsible innovation - expanding financial access, unlocking economic potential, and ensuring Namibia's digital and green economies are built on trust and resilience.** Progress flourishes where regulation is pragmatic, leadership is bold, and innovation is nurtured. Namibia is ready to shape a financial future where innovation is not only encouraged but also embedded in the nation's economic blueprint.

**This approach holds true for the broader economy as well.** Smart and streamlined regulation has the potential to revitalise the business environment, improving operational efficiencies and leading to significant gains in productivity. This is especially important for a country facing issues such as unemployment and poverty, which require innovative thinking rather than just small, incremental changes. A reimagined regulatory framework can play a crucial role in enhancing the ease of doing business and reinvigorating the overall business climate.

## Looking Ahead

**As the global financial landscape evolves, the convergence of AI, fintech, and sustainable finance is reshaping economies, unlocking new opportunities, and redefining economic transformation.** For Namibia, this intersection offers a chance to leapfrog traditional barriers, drive financial inclusion, and lead in digital payments, green finance, and responsible innovation. However, ensuring a regulatory environment that fosters growth without being overly restrictive or lax is crucial. Regulation, like a balanced ecosystem, should enable progress while maintaining stability. Overly rigid policies risk stifling innovation, while excessive leniency can create vulnerabilities. The key lies in crafting adaptable, forward-looking regulations that allow financial institutions, fintech innovators, and sustainability-driven enterprises to thrive securely.

**Namibia stands at a new horizon harnessing AI and modernising financial services.** Predictive analytics, automation, and machine learning are transforming risk assessment, fraud prevention, and financial stability. Digital payments are broadening financial access, while green finance is mobilising capital toward sustainability. Yet, these advancements require an enabling policy framework, one that aligns with global best practices but remains tailored to Namibia's unique landscape. To this end, Namibia is designing smart, fit-for-purpose regulations that encourage responsible innovation through regulatory sandboxes for fintech experimentation, AI-driven oversight models, and the integration of sustainability into financial supervision. At the same time, building institutional capacity is essential. Regulators, policymakers, and industry leaders need to develop deep expertise in emerging financial technologies, AI ethics, and digital risk management. By investing in skills development and forging global partnerships, Namibia will remain agile in an increasingly digital economy.

## Concluding remarks

**As we embrace 2025 and beyond, the Bank of Namibia is poised to navigate an evolving financial landscape with a proactive and future-ready approach.** Anchored in our statutory mandate, our 2025-2027 strategy sets a clear path toward a smarter central bank, a more inclusive and resilient financial system and embracing a diversified economy. With digital and cultural transformation as enablers, this strategy is not just a vision but a commitment to delivering tangible progress and creating enduring macroeconomic stability.

Key initiatives emanating from this strategy for delivery over the next three years include Namibia's first Fast Payment System, issuing commemorative currency, reviewing the current banknotes and coins, modernising our headquarters with cutting edge facilities – (money museum, Knowledge Centre, Auditorium, and Innovation Hub) - launching Retail Bonds and implementing a Central Securities Depository (CSD) in collaboration with the Namibian Stock Exchange.

With a strong foundation and dynamic roadmap, the Bank is ready to turn the vision into action, ensuring prosperity for Namibia on the back of enduring macroeconomic stability.

**Johannes !Gawaxab**
Governor