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## **PRESS RELEASE STATEMENT**

**FOR IMMEDIATE RELEASE**

### **THE BANK OF NAMIBIA ANNUAL REPORT FOR 2011**

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#### **INTRODUCTION**

Section 52(1) of the Bank of Namibia Act, 1997 (Act No. 15 of 1997) requires the Bank of Namibia to prepare its 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 2011. As customary, although not a statutory requirement, the Report also includes a chapter dealing with the activities of the Banking Supervision, which largely focuses on the stability and soundness of Namibia's banking system. Furthermore, this edition includes the Theme Chapter on the topic "Enhancing access to finance through an improving land-tenure system in the communal area of Namibia" as well as three box articles. The first box article gives the background on the reasons behind the issuance of the Eurobond, the process followed and the outcome of the issuance. The second box article summarises the findings and recommendations which emanated from the Bank's 13th annual symposium on the topic "Housing in Namibia". The third box article explains how illegal financial schemes could pose a danger to the participants and affect the Namibian economy.

#### **OPERATIONS AND AFFAIRS OF THE BANK**

The Operations and Affairs of the Bank provides an extensive discussion on the Bank's pursuit of its strategic objectives as guided and propelled by our legal mandate and the five-year strategic plan. Furthermore, the Bank's Annual Financial Statements are fairly presented in all material respects and all meet the International Financial Reporting Standards and the requirements of the Bank of Namibia Act, 1997. This is a confirmation that the Bank continues to adhere to the highest standards of good corporate governance. Moreover, in line with its dividend policy, the Bank will contribute about N\$60 million to

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state revenue during the 2012/13 fiscal year, higher than the N\$53.6 million during the previous financial year. This will go a long way in supporting Government revenue, especially at the time Government has acted decisively to pursue expansionary fiscal policy in order to address key development challenges, such as high unemployment and poverty.

### **ECONOMIC POLICY DEVELOPMENTS**

The Bank continues to fulfil its role as an advisor to the Government by providing policy advice on economic and fiscal issues. In this regard, a number of research activities and other projects were undertaken, including Improving Competitiveness in Namibia, Fiscal Position Paper, participation in the formulation of the National Development Plan (NDP4) and Medium Term Expenditure Framework (MTEF) as well as Monetary Policy and Financial Stability reviews. Furthermore, another study carried out in 2011 worth mentioning was to evaluate the Namibian Housing Market: Opportunities and Constraints, which had the objective of looking at the reasons for the significant increase in house prices and assessing whether this was accompanied by similar changes in the underlying economic fundamentals. This study served as the main basis to the Bank's 13<sup>th</sup> Annual Symposium during 2011, which deliberated further on the findings and recommendations of the study.

Following the Bank's announcement of its envisaged strategic focus at its Annual Stakeholder Address in October 2010, the Bank committed itself to earnestly look at the aspect of financial inclusion in Namibia during 2011. This came as a result of the Bank realizing the major role of financial inclusion in facilitating the efforts, policies, and strategies of achieving the ideals of an industrialised Nation by 2030 as per the National Vision. As such, the Bank embarked upon a financial inclusion agenda in 2011 which aims to ensure that the Namibian financial system provides access to finance to the bottom of the pyramid and SMEs. This financial inclusion agenda is being pursued as part of the development agenda under the wider Financial Sector Reform Strategy. The Strategy has been finalised and is expected to be launched during the first half of 2012. The Bank also co-funded the FinScope 2011/12 Survey aimed at measuring the extent of financial inclusion in Namibia, amongst others. Preliminary results from this survey indicate that the percentage of the financial excluded population has come down significantly in 2011 compared to 2007.



## **ASSESSMENT OF THE BANKING SECTOR**

The banking sector remains sound, profitable and well capitalised. In this regard, all banking institutions reported capital in excess of minimum regulatory requirements, and conforming to all other regulatory limits. During 2011, the Bank confirmed that the Namibian banking system was largely resilient to external shocks throughout the global financial crisis and continued to remain stable and sound. The low interest rate environment also continued to be favourable towards borrowers, with non-performing loans expected to remain at their lowest. Although uncertainties remain a challenge globally, no immediate fears exist locally for a weakening in the asset quality, profitability or capital position of domestic banking institutions. Furthermore, the year under review saw the Bank finalising the drafting of the Determination for Banking Groups which will guide the prudential aspects to be adhered to by the controlling companies of such groups. Furthermore, statutory returns and instructions for completion for Consolidated Banking Groups that will drive the reporting by these groups were also finalised.

## **ASSESSMENT OF THE GLOBAL ECONOMY IN 2011**

After recovering in 2010, the global economy has weakened and became more fragmented in 2011. Concerns of financial turmoil and a possible second recession were challenging the global arena. In this regard, most economies around the globe showed lacklustre performance, resulting in an estimated global growth of 3.8 percent during 2011 from 5.2 percent in 2010. Key sources of the weakness in global growth, among others, were the ongoing sovereign debt crisis in the Euro area, fiscal and labour market challenges in the US, as well as capacity constraints in Japan caused by the Fukushima incident. Moreover, global aggregate demand had already been affected by persistent unemployment and austerity measures undertaken in major developed economies. Looking ahead, projections by the IMF and the World Bank indicate that global growth will continue to slow in 2012, especially if the problems affecting advanced economies are not resolved. Key Central Banks in the advanced economies broadly maintained an accommodative monetary policy stance during 2011 to provide the necessary accommodative space for economic activities, as well as to mitigate the impact of the recession. On the contrary, a number of emerging market economies implemented monetary policy tightening during most part of 2011, aimed at curbing inflationary pressures which

emerged from increased international food and fuel prices. The prices for the majority of commodities increased during 2011 compared to 2010 as a result of robust demand from the emerging market economies, increasing world population, and the demand for food intended for use in biofuel production.

### **ASSESSMENT OF THE NAMIBIAN ECONOMY IN 2011**

Owing to the openness of the Namibian economy, the slump in global demand adversely affected the performance of the domestic real sector. Domestic economic indicators have not shown sustained growth during the year. In this regard, growth is estimated to remain below 4.0 percent for 2011, from a higher growth of 6.6 percent in 2010, held back in part by some difficulties in the mining sector during the year, and the weak global outlook. While inflation has been on the rise, it has remained low and has not posed an immediate threat to price stability. Against this background, the Bank decided to maintain an accommodative monetary policy stance to continue supporting the slow recovery of the domestic economy.


On the fiscal front, Government continued to pursue an expansionary policy, borrowing more from both domestic and international markets in order to stimulate economic growth and job creation. In this regard, total debt stock of the Government as a percentage of GDP increased to 26.8 percent at the end of 2011 from 15.9 percent at the end of the previous year. This ratio, however, remained within the Government's medium-term debt target of 35 percent of GDP. The overall balance of payments recorded a noticeable surplus during 2011, a turnaround from the significant deficit in 2010. Furthermore, the stock of international reserves held by the Bank recorded a substantial increase of 42.5 percent, to N\$14.6 billion at the end of 2011, which represented 3.8 months of import cover.

### **CONCLUSION**

Looking forward, the domestic economy is expected to pick up in 2012 as a result of increased uranium production, infrastructural development (owing partly to TIPEEG), increased production at Ohorongo cement factory and the re-opened copper mines. Key challenges for the Namibian economy, however, remain the high level of unemployment,



poverty as well as income inequality. The increase in downside risks, owing to the expected slowdown in the world economy also continues to threaten the outlook of the domestic economy. The projected slowdown on the global front could hurt Namibia's export-driven sectors, such as agriculture, fishing, mining, as well as, tourism. Concerted efforts should therefore continue to be devised to address such challenges, thus enabling Namibia to achieve its development goals including Vision 2030.



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