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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 the year 2010.

As customary, although not a statutory requirement, the Annual Report also includes a chapter dealing with banking supervision, which largely focuses on the stability and soundness of Namibia's banking system. Further, this edition also includes two box articles; the first one gives a background on the Card system in Namibia and recent developments thereof, while the other examines the monetary policy framework after the crisis.

OPERATIONS AND AFFAIRS OF THE BANK

With respect to operations and affairs of the Bank of Namibia, it is worth noting that the Bank continues to adhere to the highest standards of good corporate governance. The Bank's Annual Financial Statements are, as in the past, fairly presented in all material respects and all meet the International Financial Reporting Standards and the requirements of the Bank of Namibia Act, 1997.

ECONOMIC POLICY DEVELOPMENTS

Regarding economic policy making, the year 2010 will be remembered as a year of hope and progress, as the gloomy and uncertain economic outlook that prevailed during the crisis improved. The financial system in Namibia remained relatively resilient against the contagion impact of the crisis. However, notwithstanding good progress made, significant and fundamental weaknesses still persist. The high unemployment rate, lack of skills and productivity, poverty and income inequalities continue to haunt this country.

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The Bank is aware that it cannot tackle these challenges single-handedly. In this regard, the Bank in its efforts to contribute to economic development within the broader context of Financial Sector Strategy took a step and adopted financial inclusion as a key strategic objective to help improve access to financial services for the majority of the population. As a result, a new Division dealing exclusively with financial inclusion was recently created. The Bank's quest for financial inclusion will be addressed through various initiatives, including the protection of consumers through regulating bank fees and charges, financial education campaigns, provision of an enabling environment, drafting of a second tier banking legislation, amongst others.

Further, the finalization of the draft Namibian financial sector strategy is underway and is scheduled to be finalized by the second half of 2011. The Strategy will be used as a guiding document for the development of the financial sector in Namibia, which would be the ultimate strategy to achieve the objectives of the financial sector as contained and envisaged in the various policy documents such as the Financial Sector Charter, NDP3 and Vision 2030.

ASSESSMENT OF THE BANKING SECTOR

As shown in the report on the activities of the Banking Supervision Department, it is worth noting that the banking sector during 2010 was in a better shape than feared, as the domestic economic recovery gained momentum. The banks were more than adequately capitalized, remained sufficiently liquid and the quality of assets were sound. The year under review also saw the promulgation of the long awaited Banking Institutions Amendment Act, 2010. This was a notable milestone since the new Act includes provisions permitting the establishment of branches of foreign banking institutions, which is envisioned to stimulate local competition among banking institutions. Further, the Namibia Interbank Settlement System continued to provide real-time settlement to all banking institutions and the clearing house. In addition, the Bank authorized MobiCash Payment Solutions (Pty) Ltd in 2010, aimed at reaching the unbanked communities to have access to financial services.

ASSESSMENT OF THE GLOBAL ECONOMY IN 2010

The global economy is estimated to have recovered to 5.0 per cent during 2010 from a contraction of 0.6 per cent registered in 2009. This was mainly on the back of increased activities in the manufacturing and trade sectors. The unprecedented scale of the policy interventions undertaken by Governments during the early stage of the crisis has undoubtedly helped stabilize financial markets, thereby boosting momentum to the global recovery.

The policy response, however, weakened during 2010, and is further expected to be much less supportive during 2011, especially as widening fiscal deficits and rising public debt may undermine the support for further fiscal stimulus. Many Governments, particularly those in developed countries, are already shifting towards fiscal consolidation. This would adversely affect global economic recovery during 2011 and 2012. The financial weaknesses in key financial institutions and high unemployment rates in major developed economies will also negatively affect the global recovery and pose risks for world economic outlook. In this regard, the IMF in its latest World Economic Outlook projected growth of world output to slow to 4.4 per cent in 2011 from 5.0 per cent during the previous year.

ASSESSMENT OF THE NAMIBIAN ECONOMY IN 2010 AND THE OUTLOOK FOR 2011

Unlike what was reported in the previous Annual Report, the Namibian economy rebounded in 2010. The domestic economy is estimated to have expanded by 4.6 per cent in 2010 compared to a contraction of 0.7 per cent in 2009. Growth in the real sector accelerated, mainly as a result of good performance in export-oriented sub-sectors, in particular that of diamond mining.

The expansion in the mining sector was mainly driven by improved global demand for mineral products, leading to improved export earnings from these products. Similarly, the wholesale and retail trade as well as public administration and defence sectors expanded. These gains emanated from increased consumer demand due to accommodative monetary and fiscal policies pursued over the last two years. The secondary industry, mainly driven by the construction sector, also posted a favourable performance compared to a contraction recorded in the previous year. In contrast, over the same period, the tertiary industry moderated due to slowed growth in some of the sub-sectors of the industry.

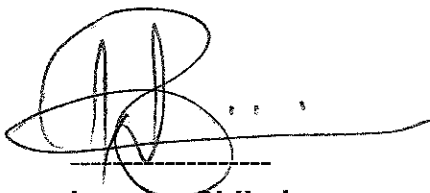
On the positive side, the annual rate of inflation in Namibia continued declining to 3.1 per cent in December 2010, far lower than the 7.0 per cent in December 2009. This has partly restored the level of disposable income of Namibian households. However, inflationary pressures are foreseen in 2011 going forward, due to rising international food and crude oil prices. Furthermore, the Bank of Namibia continued lowering its Repo rate during 2010, reaching 6.0 per cent in December 2010, and the lowest rate ever since the establishment of the Bank in 1990.

Both businesses and individuals responded positively to the more accommodative monetary policy environment, as reflected in increased demand for credit in virtually all credit categories. At the same time, due to prudent fiscal policy, Namibia's total debt as a ratio to GDP declined to 14.2 per cent, well below Government's debt target of 25.0 per cent of GDP.

Looking ahead, economic growth in the domestic economy is expected to be broad-based, with all industries expected to contribute positively to growth in 2011.

CONCLUSION

In conclusion, given the Namibian economy's dependence on the world market, the key downside risks to the domestic economic outlook remain the uncertainty regarding the sovereign debt crisis in the Euro area, the sluggish growth in the advanced economies and the strong Namibia Dollar, which could reduce export earnings. In addition, as alluded to earlier, it needs to be pointed out that the economy still faces many challenges, including the high level of unemployment, income inequality, and shortages of skilled labour. Concerted efforts should, therefore, be devised to address these challenges to enable the country to achieve its development goals.

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Ipumbu Shiimi
GOVERNOR