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FOR IMMEDIATE RELEASE

BANK OF NAMIBIA ANNUAL REPORT FOR 2016

BANK OF NAMIBIA DECLARED DIVIDENDS OF N\$68.1 MILLION TO THE STATE REVENUE FUND DURING 2016

INTRODUCTION

1. **Section 52(1) of the Bank of Namibia Act, 1997 (Act no. 15 of 1997) requires the Bank of Namibia to prepare a report on the operations and affairs of the Bank during the year, annual accounts of the Bank certified by independent auditors, and a report on the state of the economy.** In view of this requirement, the Bank of Namibia has prepared its Annual Report for 2016. As customary, 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 a Theme Chapter on the topic "The impact of the decline in commodity prices on the Namibian economy post 2008". It concludes that the low commodity prices have affected the Namibian economy largely via the trade channel and Government revenue. This necessitated fiscal consolidation, which affected the construction and public administration sectors. The last section of the report presents statistical tables, which give more information on economic and financial statistics for the past five years.

OPERATIONS AND AFFAIRS OF THE BANK

2. **The section on the Operations and Affairs of the Bank provides an extensive discussion on the Bank's pursuit of its strategic objectives as guided by the Bank's legal mandate and its five-year strategic plan.** Each of the Bank's eight strategic objectives is highlighted, along with actual outcomes that indicate whether or not these

strategic outcomes were achieved. During 2016, the Bank remained committed to its strategic plan and through its dedicated staff's and the Board's collective efforts, the plan was achieved.

BANK OF NAMIBIA'S ANNUAL FINANCIAL STATEMENTS

3. The Bank's unqualified audited Annual Financial Statements reflect the financial position of the Bank, its financial performance, and cash flows for the year. The Annual Financial Statements fairly present in all material aspects the financial position of the Bank and also meet the International Financial Reporting Standards and the requirements of the Bank of Namibia Act, 1997. The financial performance of the Bank showed an improvement in 2016, when compared to the previous financial year. An improvement in the interest rate environment in certain capital markets, resulted in higher returns on the Bank's investment portfolios. This, coupled with a revised investment strategy which focused on investments in specific markets, further contributed to the improved financial performance. As in the past, the Bank prudently managed its operational costs and also declared dividends of N\$68.1 million to the State Revenue Fund during 2016.

STATE OF THE ECONOMY IN 2015

4. Global economic growth was weaker in 2016, as a result of fragile economic activity in both the key advanced economies and the emerging-market and developing economies. Global economic growth is estimated to have slowed to 3.1 percent in 2016 from 3.2 percent in 2015. Economic growth in the advanced economies moderated, while that of emerging-market and developing economies remained weak. The lower estimated growth in advanced economies was on account of weak investment and slower productivity growth. Emerging-market and developing economies were adversely affected by the sluggish growth in advanced economies, tighter financial conditions, and low commodity prices. The global financial markets were volatile in 2016, following the UK's vote to leave the European Union and the outcome of the US presidential elections. Monetary policy stances were generally accommodative in both key advanced and emerging-market economies in 2016, while inflation inched higher in the advanced economies, but it varied in emerging-market and developing economies.

- 5. Growth of the Namibian economy is estimated to have slowed in 2016 compared to 2015, driven mostly by the decline in construction and mining activities.** Whereas earlier estimates by the Bank suggested a growth rate of 1.0 percent in 2016, preliminary data released by Namibia Statistics Agency (NSA) confirmed that GDP growth in the domestic economy slowed to 0.2 percent in 2016, from 6.1 percent in the previous year. The sluggish performance was mainly attributed to the decline in construction activities, diamond and metal ores mining, as well as slower activities in the public sector. The severe drought also negatively impacted on the agricultural sector, water sub-sector and the overall performance of the economy.
- 6. Namibia's average inflation rate increased significantly during 2016 compared with 2015, as reflected in all major inflation categories.** The inflation rate averaged 6.7 percent in 2016, higher than the 3.4 percent average registered for 2015. The increase in the overall inflation rate partly reflected higher inflation for *housing, water, electricity, gas and other fuels*, which is the largest contributor in the Consumer Price Index. Furthermore, categories such as Food and non-alcoholic beverages as well as Transport added to high inflationary pressures in 2016, while this was not the case in 2015.
- 7. The Bank tightened its monetary policy stance during 2016, to align interest rates with that of South Africa and hence sustain the one-to-one link of the Namibia Dollar to the Rand.** In this regard, the Bank raised its Repo rate twice by 25 basis points to 6.75 percent and 7.00 percent at its February and April 2016 Monetary Policy Committee meetings, respectively. Meanwhile, growth in broad money supply slowed to 4.9 percent in 2016, compared to 10.2 percent in 2015, mainly due to the decline in net foreign assets of other depository corporations, coupled with slower growth in credit extended to the private sector. Growth in credit extended to the private sector slowed to 8.9 percent at the end of 2016, having dropped from 13.5 percent in 2015, mainly due to lower demand for credit by both the corporate and household sectors.
- 8. During the 2016/17 fiscal year, Government's overall deficit improved both in nominal terms and as a ratio to GDP, mainly on account of Government fiscal consolidation efforts.** Government's overall budget deficit as a percentage of GDP is estimated to have improved to 6.3 percent in 2016/17, which is lower than the 8.3 percent recorded for the 2015/16 fiscal year. This progress was mainly attributed to the Government's consolidation efforts. Total Government debt, however, increased to 40.7 percent of GDP during the reporting period. Nonetheless, this ratio is expected to decline

to 37.7 percent over the period of the current Medium-term Expenditure Framework spanning from 2015/16 to 2017/18.

9. **During 2016, Namibia's external balance recorded a reduced surplus from a significant surplus that was registered in 2015, mainly due to decreased capital inflows on the capital and financial account.** The overall surplus was N\$0.9 billion during 2016, dropping sharply from a surplus of N\$10.0 billion in 2015. The lower surplus should be viewed as normalisation of the external balance as the 2015 position was an exception caused by a large Eurobond issue. Meanwhile, the current account deficit improved during the year under review, mainly as a result of a significant increase in export earnings relative to import payments.

10. **International reserves rose in 2016 and remained sufficient to sustain the one-to-one currency peg to the South African Rand.** The level of international reserves increased by 4.8 percent to N\$24.7 billion at the end of 2016, from N\$23.6 billion one year earlier. The latest value is 5.6 times the value of currency in circulation, supporting the reserve adequacy ratio as per the one to one link. This level of reserves resulted in an improved import cover of 2.9 months in 2016 from 2.8 months in 2015, marginally lower than the international benchmark of 3.0 months.

11. **The annual average exchange rate of the Namibia Dollar depreciated against a basket of major trading currencies in 2016, primarily due to low commodity prices, a weak economic outlook and concerns regarding political developments in South Africa.** During 2016, the Namibia Dollar weakened, on average, by 16.5 percent against the US Dollar, 16.1 percent against the Euro and by a lower rate of 4.0 percent against the British Pound, when compared to 2015. In addition, both the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) indices for Namibia depreciated on average during 2016, contributing to an improvement in Namibia's external competitiveness in the international market.

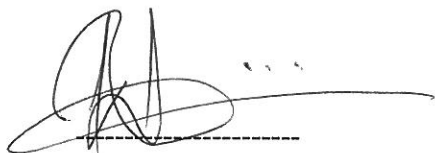
ASSESSMENT OF THE BANKING SECTOR

12. Namibia's financial system in general and the banking sector in particular remained sound during 2016. This performance was supported by adequate levels of capital, higher than the minimum threshold set by the Bank. Banking institutions have displayed positive aggregate balance sheet growth and high profitability during the reporting year. Liquidity of the banking sector, however, was under pressure during 2016. The asset quality continued to be good with very low levels of non-performing loans (NPLs) and a decline in the NPL ratio, which stood at 1.5 percent in 2016, down from 1.6 percent a year ago.

CONCLUSION

13. The media and the public at large are encouraged to read the entire report, which summarises the macroeconomic developments in 2016 and the general operations of the Bank. The Report is available upon request and can also be accessed at:

<https://www.bon.com.na/Publications/AnnualReports>.

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Lipumbu Shiimi

GOVERNOR