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**BANK OF NAMIBIA DECLARED N\$76.5 MILLION IN DIVIDENDS TO THE STATE:
BANK OF NAMIBIA ANNUAL REPORT, 2015**

INTRODUCTION

1. **The Bank of Namibia prepared and launched its Annual Report in line with Section 52(1) of the Bank of Namibia Act of 1997 (Act No. 15 of 1997).** The Report, launched on 31 March 2016, includes the operations and affairs of the Bank, the unqualified annual accounts of the Bank certified by independent auditors, and a report on the state of the economy during 2015. The Report has a theme chapter, which aims at informing the general public about the costs and benefits of Namibia's Common Monetary Area (CMA) membership. It concludes that the benefits of fixing the Namibia Dollar to the South African Rand still outweigh the costs. The Report further includes a section on the activities of the banking supervision, which focuses on the stability and soundness of Namibia's banking system.

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 the strategic and real outcomes that indicate whether or not these strategic outcomes were 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. As a result of very volatile financial markets globally, the Bank recorded a weaker financial performance in 2015, compared to the previous financial year. This is mainly due to the uncertain and volatile global capital and money markets where the Bank derives its investment returns. As such, the Bank declares dividends amounting to N\$76.5 million to the State for the 2015 financial year compared to N\$158.1 million the year before.

STATE OF THE ECONOMY IN 2015

4. **Global economic growth was weaker in 2015, as a result of fragile economic activity in the key emerging markets and developing economies.** Global growth is estimated at 3.1 percent in 2015, lower than 3.4 percent in 2014. The continuing deceleration of economic activity in the emerging and developing economies, amid weakening commodity prices are key drivers of the slower growth in 2015. The economic rebalancing in China continued, while Brazil and Russia underwent severe adjustments in the face of external and domestic challenges. In South Africa, power supply bottlenecks continued to hamper economic growth in 2015. An exception was India that experienced reduced macroeconomic vulnerabilities and domestic policy reforms. Developed economies improved in 2015, motivated by stronger domestic demand, particularly in the United States (US). Going forward, global growth is expected to rise to 3.4 percent in 2016, on the back of continued moderate recovery in major developed countries, while commodity prices are expected to stabilize.
5. **Growth in the Namibian economy slowed in 2015, driven mostly by the decline in agricultural activities, lower commodity prices, as well as, slower growth in wholesale and retail trade and construction activities.** The pace of economic growth is estimated to have slowed to 4.5 percent in 2015, compared to 6.4 percent in 2014. The prevailing drought and Foot and Mouth disease exerted pressure on growth in the agricultural sector. Growth in the construction sector also slowed during 2015, as a result of the completion of some major construction projects, especially in the mining sector. Similarly, growth in the wholesale and retail trade and transport sectors was weaker when compared to that of the previous year.

6. **Namibia's average consumer price inflation rate declined in 2015, compared to 2014, mainly due to a reduced inflation in some categories, especially housing.** The inflation rate averaged around 3.4 percent in 2015, lower than 5.4 percent in 2014. The reduction in overall inflation reflected a decrease, mainly in the inflation rate of the housing, water, electricity, gas and other fuels, which is the largest contributor as per the rebased National Consumer Price Index (NCPI).
7. **The Bank of Namibia tightened its monetary policy stance during 2015, based on the prevailing economic conditions.** In this regard, the Bank raised its Repo rate twice by 25 basis points to 6.50 percent at its February and June 2015 Monetary Policy Committee (MPC) meetings, respectively. In both instances, the decision was triggered by the rapid growth in household credit, particularly in the form of instalment credit, which was used to finance unproductive luxury goods and exerted pressure on international reserves.
8. **During 2015/16 fiscal year, government's overall deficit is estimated to have increased both in nominal terms and as a ratio to GDP.** Total government debt and loan guarantees as a percentage of GDP increased to 34.0 percent and 4.4 percent respectively, at the end of 2015 but remained within the Government set ceilings of 35.0 percent and 10.0 percent, respectively. The rise was as a result of increased spending, and marginal growth in revenue during 2015/16, compared to the previous fiscal year.
9. **Namibia recorded a positive external balance during 2015, due to significant inflows in the capital and financial account, despite the widened current account deficit.** The capital and financial account surplus was mainly due to the Eurobond issuance during the reporting period. The current account deficit, on the other hand, was attributed to the persistent strong increase in the value of imports relative to export receipts.
10. **International reserves rose significantly and remain sufficient to sustain the one-to-one link of the Namibia Dollar to the Rand.** The level of international reserves increased by 74.3 percent to N\$23.6 billion at the end of 2015, which is 5.2 times the currency in circulation, supporting the reserve adequacy ratio as per the one to one link. This level of reserves also resulted in a higher import cover of 2.8 months in 2015, from 1.8 months in the preceding year.

11. The Namibia Dollar appreciated against the Euro, on average, but depreciated against the US Dollar and the Pound during 2015, primarily due to low commodity prices and recovery of the US economy. In the course of 2015, the Namibia Dollar strengthened on average by 1.8 percent against the Euro, while weakening considerably by 17.6 percent against the US Dollar and 9.2 percent against the Pound, when compared to the previous year. The appreciation of the Namibia Dollar against the Euro was aided by the ECB's monetary expansion program, coupled with speculations of Greece exiting the Euro Zone during 2015. In contrast, the huge depreciation of the Namibia Dollar against the US Dollar was mainly supported by low commodity prices, following the weakening Chinese economy and recovering of the US economy.

ASSESSMENT OF THE BANKING SECTOR

12. Namibia's financial system, in particular, the banking sector, remained sound during 2015. The banking sector recorded persistent growth in assets and earnings with adequate capital and liquidity levels. The ratio of non-performing loans remained at relatively low levels, though it increased during the past year. There were no significant changes in the sector structure and the four major commercial banking institutions continued to dominate the sector. Going forward, the banking institutions are expected to remain sound and healthy.

CONCLUSION

The media and the public at large are encouraged to read the entire report, which summarises the macroeconomic developments in 2015 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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